C(67) 141 - Nationalised Transport Industries - Proposed Price Increases. Memorandum by the Minister of Transport

142 - Theatre Censorship. Memorandum by the Secretary of State for the Home Department

143 - Proposed Medicines Legislation: Draft White Paper. Memorandum by the Minister of Health

144 - A National Loans Fund. Memorandum by the Chancellor of the Exchequer


146 - Report of the Committee on Ministerial Publication. Note by the Lord Chancellor

147 - Inducement Payments for Teachers in Certain Scottish Schools. Memorandum by the Secretary of State for Scotland

148 - Public Sector Prices. Note by the Secretary of the Cabinet

149 - The Oil Situation. Memorandum by the Minister of Power

150 - Middle East: Current Situation. Memorandum by the Secretary of State for Foreign Affairs

151 - Beagle Aircraft Company. Memorandum by the Secretary of State for Economic Affairs

152 - House of Commons Procedure. Memorandum by the Lord President of the Council

153 - Industrial Expansion Bill: Draft White Paper. Note by the Minister of Technology

154 - Divorce Law Reform. Memorandum by the Lord Chancellor

155 - The Queen's Speech on the Prorogation of Parliament. Note by the Lord President of the Council

156 - The Queen's Speech on the Opening of Parliament. Note by the Lord President of the Council

157 - Composition and Powers of the House of Lords. Note by the Lord Chancellor

158 - Industrial Expansion Bill: Draft White Paper. Memorandum by the Secretary of State for Economic Affairs

159 - Approach to Europe. Note by the Secretary of the Cabinet

160 - The Queen's Speech on the Prorogation of Parliament. Note by the Secretary of the Cabinet

161 - The Queen's Speech on the Opening of Parliament. Note by the Secretary of the Cabinet
C(67) 162 - Rhodesia. Note by the Secretary of the Cabinet

163 - Public Expenditure: Long-Term Financial Assistance for Overseas Students. Memorandum by the Chancellor of the Exchequer

164 - Age of Majority. Memorandum by the Lord Chancellor

165 - Fuel Policy: Draft White Paper. Memorandum by the Minister of Power

166 - Public Expenditure. Memorandum by the Chancellor of the Exchequer

167 - Nationalised Industries: Draft White Paper. Memorandum by the Chancellor of the Exchequer

168 - Industrial Expansion Bill: Draft White Paper. Memorandum by the Secretary of State for Economic Affairs

169 - South Arabia. Memorandum by the Secretary of State for Foreign Affairs

170 - Railway Policy: Draft White Paper. Memorandum by the Minister of Transport
25th July, 1967

CABINET

NATIONALISED TRANSPORT INDUSTRIES -
PROPOSED PRICE INCREASES

Memorandum by the Minister of Transport

The First Secretary's paper C(67) 137 proposes a basic change in, or at least a temporary suspension of, what has hitherto been a cardinal principle of government policy. The PESC proposals for the transport bloc, as well as the price policy for the public sector, have been conducted on the basis of containing spending by reducing deficits and of securing a commercial return on investment. I accept that price increases in the nationalised industries, dealing as they do with basic services, have a special significance for prices and incomes policy, particularly over the next few months. I agree, too, that we should take an overall look at the situation. However, since an obligation has been placed on me to make my contribution to the reduction of public expenditure, I must draw my colleagues' attention to the following facts.

British Railways

2. The Railways Board (BRB) could not be under heavier pressure than they are already to increase efficiency. In the short term I have been personally urging the Chairman to do all he can to cut down the growing deficit. For the longer term, the Study by the Joint Steering Group under Mr. John Morris provides the biggest opportunity ever presented for putting the railways on a sounder economic basis. Discussions on pay and efficiency are also being held by the Minister of Labour and my own Department is in constant touch with the Board about the development of particular productivity schemes.

3. During the last five years the Board's manpower has fallen by 32 per cent., the number of stations by 43 per cent., of freight wagons by 43 per cent., and of locomotives by 53 per cent. They have budgeted to reduce their working expenses in 1967 by £18 million over 1966 (at constant wage and price levels). Yet, largely because of the falling off of heavy freight traffic, the deficit continues to mount and may be some £20 million more than we budgeted for in the Vote Estimate (£128 million). This increased loss would fall directly on the Exchequer and thus diminish our ability to improve our social and other programmes. I have therefore been pressing the Chairman of the Railways Board to take all the measures possible to improve the situation, including raising charges where possible.
4. The Board’s proposed increase in charges of which they have notified me under "early warning" procedure are:

(i) charges for parcels and sundries
(ii) coal charges
(iii) basic passenger mileage rate.

In the annex there are fuller details of these three proposals. The proposed increases are expected to bring in increased revenue of £7.6 million in a full year. They are, therefore, increases of vital significance in containing the rise in the deficit.

London Transport Board

5. London Transport (LTB) too is now in deficit. Outturn this year is expected to show a deficit of at least £11 million; next year it would be £13 million without a fares increase. Their fares increase proposals could yield about £8½ million increased revenue in a full year.

6. Passenger fares in London (LTB and BRB) are subject to control by the Transport Tribunal in accordance with statutory procedures. The Tribunal is required to have regard to the criteria laid down in prices and income legislation. In February, 1967, I asked the Chairmen of LTB and BRB to defer applications to the Tribunal. They have, therefore, already waited nearly six months, and the Tribunal proceedings (which include public hearings) take a long time. Therefore, London Transport fares cannot in any event go up for another six months - i.e. next January at the earliest.

7. My Department is working closely with LTB in their efforts to increase productivity by the extension of one-man bus operation, automatic fare collection (rail and bus) and re-organisation in their workshops. Even more important, there is the present intensive Review (with London Transport) of the Board’s activity by a Directing Group under my Joint Parliamentary Secretary, Mr. Stephen Swingler. The Group already have comprehensive material from Consultants and are now preparing their Report.

BRS (Parcels) Ltd.

8. The Transport Holding Company (THC) has a statutory duty to act like a commercial undertaking and is well aware of the need to offset rising costs by increased productivity and is making every effort to do so. The Parcels Company measures the output of every driver and targets are set for individual rounds and depots, against which performance is compared, and adjustments are constantly being made to maximise the output of vehicles and drivers. Similarly a close watch is kept on productivity of platform staff. The number of different types of vehicles operated is being reduced, so increasing productivity in workshops. The result of a thorough analysis of the relationship between maintenance and replacement costs pressed on THC by my Department will in time make an increasing contribution to better utilisation of the fleet and greater economy of operation.
At the Government's request the Company reduced its proposed increases in 1965 from 6 per cent to 4 per cent. A further proposed increase was frustrated by the Standstill a year ago.

The result of the freezing of prices immediately after a substantial wage increase, and other rises in costs, and of a temporary fall in traffic occasioned by the general slackening in trade, has been a loss in profits of over £3 million over the last two years or so; and the rate of return on capital employed is, before tax, down from 21 per cent in 1964 to a forecast 5 per cent in 1967. This makes it impossible to plough back profits on a sufficient scale to make a reasonable contribution to the proportionally large scale new investment needed for an expanding but labour intensive industry in which increases in productivity will greatly depend on new investment. The present proposal is for price increases averaging \(7\frac{1}{2}\) per cent - without it the Company will only be able to expand by borrowing from the Exchequer (which, by adding to the interest burden, will further increase their costs).

**New Machinery**

The nationalised industry departments have over the last few years made great improvements in the way in which they oversee and influence the efficiency of their operations. I do not suggest that they have done enough. Investment control could be tightened up and in my own Department we are actively seeking to develop and improve our existing techniques. In any case, where the industries are in deficit as are British Railways and London Transport, I have set up special and most detailed investigations. The THC of their own accord re-organised their road haulage undertakings and substantially improved their efficiency. Nevertheless, I would of course welcome new ideas which can further help us to improve the Board's efficiency and will examine with interest any proposals the Department of Economic Affairs may put forward. But it will undoubtedly take a considerable time to devise new machinery, nor could it influence the need for the increases in charges now asked for by the transport undertakings.

I ask my colleagues to agree that in the absence of any short-term modifications of government policy, we must accept:

(i) the increases in charges proposed by BRB in Annex I;

(ii) that LTB should apply to the Transport Tribunal for increases in charges (paragraph 5 above); and

(iii) that BRS (Parcels) Ltd. should increase their charges by an average of \(7\frac{1}{2}\) per cent.

B. A. C.

Ministry of Transport S.E. 1.

25th July, 1967
ANNEX

1. Revised Scale of Charges for Parcels and Sundries

(a) The last increase was 10 per cent in January 1966. Since then costs have increased by approximately 6 per cent, and the sundries service has continued to make a heavy loss (£25 million in 1966).

(b) The proposed increases will range from 2½ per cent to 7½ per cent (with smaller increases on the more profitable long hauls) with an average of 5 per cent and an estimated yield in a full year of £2.5 million.

(c) These increases take into account the competitive position in relation to BR, and there should be no resultant loss of traffic from rail to road.

2. Revised Scale of Charges for Coal and Coke

(a) The last increase was 5 per cent in January 1966. Since then there has been an increase in cost of approximately 6 per cent, and the traffic made a loss of £10 million in 1966.

(b) The proposed increases will range from 2½ per cent to 10 per cent according to size of consignment and operating pattern. The aim will be to encourage the more economic train-load operation.

(c) The average effect will be about 9d. per ton, and the yield in a full year approximately £2.5 million.

(d) Large industrial users (e.g., Central Electricity Generating Board, Imperial Chemical Industries, Portland Cement) have individual contracts with escalation Clauses and so will not be affected by this revised Scale.

3. The Revised Scale of Ordinary Passenger Fares

(a) The basic passenger fare of 3.25d. per mile (second class) and 4.87d. per mile (first class) was fixed in February 1965. Since then the Board has absorbed considerable increases in costs, including the 3½ per cent pay rise of October 1965 and the 3½ per cent pay rise of March 1967.

(b) The proposal is to increase the fare to 3.4d. (second class) and 5.27d. (first class) an increase of 5 per cent and 8 per cent respectively. This means a widening of the differential between the first and second class from 50 per cent to 55 per cent, a trend which the Railways Board regards as commercially desirable.

(c) Allowing for a 2 per cent passenger resistance the estimated yield in a full year would be £2.8 million.

(d) The Board also propose to experiment with surcharges above the standard passenger fare on certain routes and trains, just as elsewhere they offer discounts and reduced rates. This flexibility of approach is vitally necessary in a very competitive field.

(e) "Tapered" fares over 200 miles would be increased proportionately, but there would be no reduction in the amount of taper.
CABINET

THEATRE CENSORSHIP

Memorandum by the Secretary of State for the Home Department

The Joint Select Committee on Censorship of the Theatre presented its report last month (see copy attached to H(67) 76). Its principal recommendation is that the Lord Chamberlain’s censorship powers should be abolished and not replaced by any other pre-censorship provisions; and that stage plays should be put on the same footing as books and other publications, the Obscene Publications Acts being adapted for the purpose.

The recommendation was unanimous and has commanded public support to a marked degree. The Home Affairs Committee agreed on 19th July that we should accept it.

If my colleagues endorse the decision of the Home Affairs Committee, I should like to announce our decision before the Recess. I attach a draft of what I shall say.

There are a number of points which have yet to be studied on the adaptation, for the purposes of the theatre, of the law covering books and other publications. In particular, the Committee directed its attention to the provisions that would be required in England and Wales and gave us no guidance for Scotland. I propose in due course, in consultation with the Secretary of State for Scotland, to put further proposals to my colleagues dealing with these points. They are, however, consequential on the main recommendation that there should be no pre-censorship and we need not be inhibited from making it known now that we accept the main recommendation in principle.

I ask the Cabinet to endorse the decision of the Home Affairs Committee that the broad principle of the main recommendation of the Joint Select Committee should be accepted and that this decision should be announced in Parliament before the Recess.

R. H. J.

Home Office, S. W. 1.

25th July, 1967
QUESTION FOR ORAL ANSWER ON THURSDAY, 27th JULY, 1967

Mr. G. R. Strauss (Lambeth, Vauxhall): To ask the Secretary of State for the Home Department, whether he will now introduce legislation to implement the conclusions of the Joint Select Committee of the two Houses on Theatre Censorship.

DRAFT ANSWER

The Government intend at a suitable opportunity to introduce legislation to give effect to the general principle of the Joint Select Committee's recommendations; and in particular to abolish the Lord Chamberlain's censorship powers without replacing them with any other form of pre-censorship of stage plays. The Lord Chamberlain welcomes the Government's decision but in the meantime he will of course continue to discharge his duties under the existing law.
CABINET

PROPOSED MEDICINES LEGISLATION;
DRAFT WHITE PAPER

Memorandum by the Minister of Health

In accordance with the decision of the Home Affairs Committee on 27th July with the agreement of the Joint Parliamentary Under-Secretary of State for Scotland and the Joint Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food, I circulate for the information of the Cabinet a draft White Paper on the forthcoming legislation on the safety, quality and description of drugs and medicines. The Secretary of State for Scotland, the Minister of Agriculture, Fisheries and Food and I are anxious to publish this as early as possible in September so as to give the various interests affected as long notice as possible of the Government's broad intentions. I should be grateful therefore if members of the Cabinet could let me have by 29th August any observations that they wish to make on the draft, with a view to its being presented as a Command Paper about 7th September and published on the following day.

2. This will be a statute of major importance to the firms and professions affected, an important piece of public health legislation and an essential contribution to consumer protection. Our intention to introduce legislation as soon as possible to modernise the law relating to the safety, quality and description of drugs and medicines was announced in Parliament in June, 1965 shortly after the Home Affairs Committee agreed that a Bill should be drafted. But the interests affected are as yet unaware of the extent to which the Government intend to follow or depart from the proposals on which they were invited by the previous Government to comment in August, 1964. The Bill has a place in the main programme for the 1967-68 Session, and will be ready for introduction early in the Session.

3. Legislation on this subject is urgently required and widely expected; if the United Kingdom joins the European Economic Community it will be imperative. The "pharmaceutical revolution" of the last 30 years introduced powerful and valuable new medicines that have superseded most of the traditional medicines, but they have given rise to new problems for which our existing legislation was never designed. Safeguards of the kind proposed already apply in Canada and other Commonwealth countries, the U.S.A., France, Germany and other European countries. Judging by the comments received on the 1964 proposals we expect that the legislation will command general support in the industry and the professions, and be politically uncontroversial, though as is usual with Bills of this kind, we may expect amendments in Parliament directed at probing points of detail.
4. The proposed Bill will apply to both human and veterinary drugs, and be capable of extension to cover specified medical devices such as implants of metal and plastic, catheters, syringes and surgical dressings. It includes a licensing scheme for marketing, importation, manufacture and wholesaling of drugs and medicines, the purpose of which is to provide the statutory basis for (a) safeguards in relation to the toxicity testing of new drugs before clinical trial, and the assessment, before they are marketed for general use, of their safety in relation to their efficacy; and (b) provisions to secure adequate quality control in the course of manufacture. Other safeguards will apply in relation to distribution, retail sale and supply of drugs. New powers will be included for regulating the labelling of drugs and their promotion to the public and to the medical, dental and veterinary professions, including provisions aimed at restraining therapeutic claims that are misleading or not supported by data relating to the pharmacological properties of a drug or results observed in its clinical use. In future the poisons law, for which the Home Secretary, advised by the Poisons Board, is responsible, will apply only to non-medicinal uses of substances.

5. The legislation will apply to the whole of the United Kingdom and responsibility for the operation of the regulatory powers, including licensing, will be shared by the Agriculture and Health Ministers. The Government of Northern Ireland has approved of the legislation in principle. The Ministers will have the support of a professionally independent advisory Medicines Commission and associated expert committees.

6. The White Paper describes the reasons for legislating, the broad scope of the Bill and the general pattern of its implementation but does not go into every detail that will have to be covered by the Bill. It is not intended to start a new round of consultations by inviting comments on the proposals since they represent the Government's firm intentions, following careful study of numerous comments on proposals previously circulated to the professions, trade associations and other interests.

7. The staff now engaged in administering the voluntary screening of new drugs and in assembling reports of suspected adverse reactions for the Committee on Safety of Drugs, together with those engaged on the existing licensing scheme under the Therapeutic Substances Act, will suffice to meet the basic staffing needs of the Ministers under the new licensing system and to service the Medicines Commission and the associated advisory committees. The main expansion will occur in relation to the provisions for general enforcement, chiefly in relation to quality control and regulation of labelling and advertising. On the assumption that the new powers will be administered with the general support of the industry and professions and that frequent litigation will be unnecessary, we estimate the additional staffing requirements when the controls are fully operative - say in 1970 or 1971 - at about 80 persons, of whom about two-thirds would be professional or technical (about 10 doctors, 16 pharmacists, and a few other graduate scientists together with associated technicians), including the staff who
will come over from the British Pharmacopoeia Commission. The estimated additional annual cost to the Health Departments inclusive of accommodation, office services etc. is £350,000 and to the Agriculture Departments £40,000. To some extent the cost would probably be offset by licence fees. Consideration will also have to be given later to the need for additional laboratory facilities, mainly for quality control; the above estimate does not take account of this.

K. R.

Ministry of Health, S. E. 1,

9th August, 1967
FORTHCOMING LEGISLATION ON THE SAFETY, QUALITY AND DESCRIPTION OF DRUGS AND MEDICINES

Introduction

1. On 14th June, 1965 and again on 25th April, 1966 the Minister of Health stated in the House of Commons in reply to Questions that the Government intended to introduce legislation relating to medicines. This paper describes in broad terms the reasons for the legislation, its scope and the general manner in which it will operate.

2. In 1962, after the devastating effects of thalidomide became known, there was widespread anxiety about the absence of safeguards to ensure that new drugs should not be put on the market before every possible step had been taken, in the light of current medical and scientific knowledge, to bring harmful side effects of otherwise valuable new drugs to the notice of doctors, who would then be able to weigh the risks against the expected therapeutic benefit.

3. A review of existing medicines legislation by officials of the Health Departments and the Home Office was already in progress. This had followed a report by the Poisons Board to the Home Secretary in 1959 which expressed the view that further legislation should be introduced urgently to provide for control over certain potent medicines which might involve serious risk if widely used in self-medication. The Board considered that such drugs would be more appropriately controlled
by legislation specifically related to medicines and administered by the Health Ministers than under poisons legislation. Later in the same year the Interdepartmental Committee on Drug Addiction (under the chairmanship of the late Lord Brain) in an interim report recommended that drugs having an effect on the central nervous system and liable to produce physical or psychological deterioration should be restricted to supply on prescription, subject to the advice of an independent expert body. Since then, as an interim measure pending new legislation, the Home Secretary's powers under poisons legislation have, so far as applicable, been used for this purpose.

4. But the problem went deeper than this. At the time of the thalidomide affair the only drugs whose marketing was controlled were those in the limited range that needed to be licensed by the Health Ministers under the Therapeutic Substances Act 1956 (mainly sera, vaccines, injectable antibiotics and certain hormones and enzymes). As regards the marketing of drugs in general, in a debate in the House of Commons on 8th May, 1963 the present Minister of Health, then of course speaking on behalf of the Opposition, put it this way: "The House and public suddenly woke up to the fact that any drug manufacturer could market any product, however inadequately tested, however dangerous, without having to satisfy any independent body as to its efficacy or its safety".

5. Following the thalidomide affair a joint sub-committee under the chairmanship of Lord Cohen of Birkenhead was set up by the English and Scottish Standing Medical Advisory Committees to consider the situation. It recommended that the responsibility for the experimental laboratory testing of new drugs before they were used in clinical trials should remain with the individual pharmaceutical manufacturer; that it was neither
desirable nor practicable that at this stage of their
evaluation the responsibility for testing drugs should be
transferred to a central authority; and that there should
be an expert body to review toxicity data of new drugs, and
the results of clinical trials. It stressed that the
safety of a drug was relative and depended on its toxicity,
as revealed in laboratory tests and in clinical use, in
relation to its efficacy. It also emphasised the
importance of other aspects of drug safety, e.g. control
of quality, control of sale over the counter, labelling of
containers, use of approved names (i.e. non-trade names),
regulation of therapeutic claims, arrangements for controlling
which would require legislation. Though the Sub-Committee
was not set up to design new legislation, it nevertheless
advised that legislation relating to the safety and
efficacy of drugs and to those other matters was
urgently required. In the meantime the majority of
the Committee recommended the institution of a voluntary
system of screening of drug toxicity data and the collection
of reports of adverse reactions to drugs in clinical use.
This led to the appointment by the then Health Ministers of
the Committee on Safety of Drugs under the chairmanship of
Sir Derrick Dunlop, which has been working since the
beginning of 1964.

6. The voluntary system has had the full support of the
pharmaceutical industry and the medical and pharmaceutical
professions, but the Government considers that the provision
of statutory backing for these safeguards would give greater
reassurance and should not be further delayed.
7. The Committee on Safety of Drugs itself in its Annual Report for 1965 said that whilst the Committee had not been hampered by lack of statutory powers, thanks to the co-operation of manufacturers, it believed that the arrangements should be given permanence within the framework of legislation. It welcomed an assurance given by the Minister in Parliament that the aim would be to maintain under future legislation the scope for flexibility and the exercise of professional responsibility which the Committee's experience had shown to be necessary.

8. Since taking office in October 1964, the Minister of Health, in conjunction with the other Ministers concerned, has carried forward the review of medicines legislation in the light of the comments received from many bodies and interests on proposals for legislation relating to drugs and medical devices for human use circulated for comment by his predecessor in August and September, 1964, and of replies to a request by the Minister of Agriculture, Fisheries and Food in July 1965 for views on the extension of similar safeguards to veterinary drugs and devices.

9. The review confirmed the view that the "pharmaceutical revolution" of the last 30 years, by introducing powerful and valuable new medicines which have superseded most of the traditional medicines, has given rise to new problems for which our existing legislation was never designed. The need for greater safeguards has been recognised in many other countries too, and controls similar in aim to those now proposed have already been introduced into the laws of Canada and other Commonwealth countries, the United States, France, Germany, the Netherlands, the Scandinavian countries,
and others. Under the Treaty of Rome the countries of the European Economic Community are actively engaged in preparing directives in relation to their medicines legislation, one of which is already in force. In the event of the United Kingdom joining the European Economic Community legislation would be needed before such directives could be implemented here.

Scope of the proposed legislation

10. The legislation now proposed will introduce either substantial changes or entirely new provisions where the existing law is inadequate in relation to the various aspects of "safety" mentioned in the Report of the Joint Sub-Committee referred to in paragraph 5 above; these will cover:-

(1) statutory safeguards in relation to toxicity testing of new drugs before clinical trial, and assessment of safety in relation to efficacy in the light of the results of such testing and trial before marketing;

(2) new statutory safeguards to ensure adequate quality control of drugs including measures to secure conformity with official standards or approved manufacturers' specifications;

(3) additional safeguards in relation to distribution and retail sale and supply of drugs;

(4) revised safeguards as regards description, labelling and advertising of drugs, including provisions to restrain therapeutic claims that are not supported by data relating to the pharmacological properties of a drug or results observed in clinical use;

(5) analogous safeguards in relation to medical devices.

5.
11. The legislation will be applicable to drugs and devices for both human and veterinary use. The proposals have been accepted in principle by the Government of Northern Ireland; the Bill will therefore apply throughout the United Kingdom. It will contribute to "consumer protection" in two respects: first, it will improve the provisions designed to secure that the product supplied to the customer is what he asked for and that he is not misled by description and labelling of the product or unsupported therapeutic claims; and second, it will ensure so far as possible that the professions can rely on the purity and efficacy of the substances that they prescribe, supply and use in treating disease in man and animals, and be fully informed about the properties, desirable and undesirable, of these substances, so that they can exercise their professional judgment in the light of this knowledge.

12. The responsibility for the control measures will lie with the Health and Agriculture Ministers of the United Kingdom. They will be exercised by the Health Ministers alone, the Agriculture Ministers alone, or by all according to whether the safeguards to be applied relate to human aspects, veterinary aspects, or both. Where a risk to human health arises in relation to a veterinary drug the Health and Agriculture Ministers will be jointly responsible. As a consequence, the provisions in the existing poisons legislation, for which the Home Secretary at present is responsible in Great Britain and the Minister of Home Affairs in Northern Ireland, will no longer apply to medicinal aspects of substances now in the respective Poisons Lists.
The Medicines Commission and expert committees

13. In the exercise of their functions (including their functions as licensing authority) the Health and Agriculture Ministers will need expert advice and support over a wide field. The functions can be grouped under a number of broad headings any of which may be directed at human or veterinary aspects, for instance:

(a) advice relating to specifications, safety and efficacy,
(b) the drawing up of pharmacopoeial standards, common names etc.,
(c) functions relating to the monitoring of adverse reactions,
(d) corresponding functions relating to devices;

There will also be a need for advice of a broader kind in connection with matters of policy relating to the general purposes of the Act, on the pattern of expert committees, and on important technical points of principle not covered by any expert committee.

14. A Commission, to be known as the Medicines Commission, will be constituted - to advise the Ministers on matters of policy relating to the general purposes of the Act, to make recommendations regarding the pattern of expert committees appropriate for giving advice to the Ministers on functions or groups of functions referred to in broad terms in the preceding paragraph and on the committees' terms of reference, to advise the Ministers or an expert committee, on a reference from either, on important technical points of principle arising in connection with the licensing system and to undertake such other advisory functions as are not for the time being within the scope of an expert committee. The Commission will be charged with considering representations from applicants for, or holders of, licences or clinical or field trial certificates who are aggrieved by a proposal of the licensing authority, as a result...
of advice received from an expert committee in relation to the safety or efficacy of the drug or to the adequacy of its specification to maintain its quality, to refuse, revoke or suspend a licence or certificate.

15. The Commission will arrange for the preparation of the British Pharmacopoeia or appoint a body (analogous to the British Pharmacopoeia Commission) to do so.

16. If the Commission wished, as it well might, to recommend the appointment of separate expert committees for human drugs, for veterinary aspects and for devices it would be able to do so. It would be open to it to recommend to Ministers the names of persons knowledgeable in the relevant field, whether members of the Commission itself or not, who would in the opinion of the Commission be suitable for appointment to particular expert committees. After considering the Commission's advice and consulting appropriate organisations the Ministers will set up expert committees undertaking functions or groups of functions. The expert committees carrying out functions relating to safety and efficacy and specification of drugs, and relating to devices will advise the licensing authority direct in relation to the licensing or restriction on the sale or supply of particular products.

17. The Commission will not deal with non-medicinal aspects of substances which are controlled as drugs. In relation to these the Poisons Boards of Great Britain and Northern Ireland will continue to discharge their present functions, advising the Home Secretary and the Minister of Home Affairs respectively.
18. The Commission will be kept to a reasonable size and be appointed by the Ministers after consultation with appropriate organisations. Appointment will not be on a representational basis, because this would inevitably produce an unwieldy body, possibly without a proper balance of membership. The organisations to be consulted are expected to number 20 or more, amongst which are the Royal Colleges in England and Scotland (including the Royal College of General Practitioners and the Royal College of Veterinary Surgeons), the General Medical and Dental Councils, the Pharmaceutical Society of Great Britain, the Medical and Agricultural Research Councils, the Royal Institute of Chemistry, British Medical, Dental and Veterinary Associations, the Association of the British Pharmaceutical Industry, the Proprietary Association of Great Britain and the Association of British Manufacturers of Agriculture Chemicals.

19. Accommodation and secretarial services and staff to enable the Commission and any expert committee to carry out their functions will be provided, and the Ministers will have powers to make provision in respect of any laboratory services required in connection with any of these functions. In relation to the functions of the Commission or of an expert committee the staff in question will act in accordance with the instructions of the Commission or committee.
Drugs and Medical devices subject to control

20. The drugs concerned are substances and preparations for use in diagnosing, treating or preventing any ailment in man or animal (including poultry and game birds) or in modifying physiological functions in man or animal, however administered.

21. The medical devices concerned are articles capable of having mechanical or physical, rather than chemical or biochemical, effect on the human or animal body, either by contact with or action upon the body, intended for the prevention, diagnosis or treatment of any ailment, or forming part of a piece of apparatus which has such an effect.

22. The controls will not, however, automatically apply to substances and articles marketed for non-medicinal use even though they could be put to medicinal use. But the Ministers will have power by statutory instrument to list substances and articles of this kind which should be subject to control as medicines or medical devices. This method would be used to bring within the scope of the legislation, where expedient, such products as toilet articles, cosmetics, household disinfectants, antiseptics or sterilising agents not intended to be applied to the body, foods and dietary supplements, any of which may be used in connection with therapy or contain substances with therapeutic uses, and also articles used by patients themselves (e.g. diabetics) to take diagnostic tests.
23. Devices will be brought under control only gradually. Those for human use most likely to be affected at a fairly early stage include:

(a) implants of metal or plastic (e.g. shunts, valves, synthetic arterial grafts, pacemakers),
(b) equipment for the introduction or extraction of fluids or substances into or from the human body (e.g. transfusion and perfusion equipment, syringes, catheters, dialysis systems, needles),
(c) surgical dressings,
(d) materials used in conservative orthodontic and prosthetic dentistry,
(e) certain classes of items offered for sale as "sterile".

24. The general framework for control in relation to safety and efficacy and quality will be provided by a licensing system, associated with independent professional advice from expert committees and the Medicines Commission. This will supersede the licensing requirements of the Therapeutic Substances Act 1956 and Part II of the Diseases of Animals Act, 1950, but not the licensing and registration provisions of the Drugs (Prevention of Misuse) Act, 1964 or the Dangerous Drugs Act, 1965, which are designed for a different purpose as safeguards against diversion of drugs to illicit channels and against social evils resulting from abuse.
Licensing

25. Since safety, efficacy and quality must be the same throughout the United Kingdom it is envisaged that licensing will be handled in one place where the advice of the expert committees can be most conveniently focussed. Authority for licensing will rest with the Health and Agriculture Ministers. Authority for licensing will rest with the Health and Agriculture Ministers.

26. A licence will be required for the marketing, importation or manufacture of, or wholesale dealing in, drugs, with appropriate requirements for each activity, and in the case of sale or supply for the purpose of clinical or field trial a certificate or some similar form of authority will be required, in order to ensure that appropriate toxicity testing has taken place before the trial begins.

27. The marketing and importing licences will be the primary licences that give the statutory backing to the safeguards of safety, efficacy and quality appropriate to particular drugs. A manufacturer's licence will normally relate to facilities, equipment, and expertise for the processes he is equipped to carry out. Before being able to manufacture a particular drug however a manufacturer will need to hold a licence to market that drug or to manufacture for a person or company who holds one. A manufacturing licence will however, not be required by a doctor or dentist to make up a preparation for one of his patients or by a veterinarian to make up a preparation for an animal, flock or herd for the treatment of which he is responsible. A pharmacist too will not require a manufacturing licence for dispensing a preparation. All these practitioners are acting within their professional competence. There will be provision for other exemptions, for instance, for the re-export of drugs exactly as they are imported, or, in the case of nurses and midwives, for breaking bulk and repacking of drugs in the course of their professional activities.
29. The particulars to be supplied to the licensing authority in support of applications for marketing and importing licences, or for clinical or field trial certificates, are expected to be on the lines of those now requested by the Committee on Safety of Drugs or, in the case of veterinary drugs, by the Veterinary Sub-Committee of the Advisory Committee on Pesticides and other Toxic Chemicals. A primary licence or a clinical or field trial certificate would normally be issued when the licensing authority is satisfied, on the basis of the particulars supporting the application, that there are no considerations affecting the safety and efficacy of the drug in relation to the proposed claims, indications, dosage or route of administration, that in the light of current medical and scientific knowledge would justify its withholding from sale or supply or from the proposed trial; and that the standards for or the specification of the drug are adequate to produce a product of consistently satisfactory quality. In the sphere of safety and efficacy and specifications the services of the expert committees will be most important. Efficacy by comparison with other drugs for the same indication will not be a determining factor in relation to the issue of a licence. Efficacy will be taken into account in relation to the drug's toxicity, and to the question whether the evidence supplied supports the claims to be made for the drug. The applicant must show that the conditions and premises where the drug is to be manufactured, stored and distributed (including arrangements for quality control) are likely to be suitable for the production of a product complying with those standards or specifications. In the case of a manufacturer's licence, the applicant will have to show that he has the capacity and facilities for carrying out the drug manufacturing operations specified in the licence. Wholesale dealers will have to show that the arrangements for the storage and distribution of the drugs covered by their licence...
are likely to be adequate to maintain their quality until delivered. It will be possible to include provisions in a licence or certificate in relation to safety, efficacy and quality, manufacturing premises, plant, equipment, lay-out, supervisory personnel, and storage and distribution as appropriate.

30. Whenever the licensing authority issues a marketing or importing licence the particulars, including attached provisions, will be notified to the appropriate expert committee. This is an important safeguard, designed to secure flexibility of administration while providing for the expert committee opportunities to exercise their independent professional responsibility. It ensures that the safety and efficacy committee is aware of all new drugs and formulations being put on the market. It would be entitled to call for and review the data received from the applicant, and if it thought fit, recommend a variation of the attached conditions or the revocation of the licence. In practice it is most unlikely that a licence for a drug with a new principle would be issued without prior reference to the committee.

31. It will not be practicable to license all existing drugs before the licensing system for new drugs and formulations starts. There will therefore be temporary provisions to enable products effectively on the market before the appointed day for the beginning of licensing of new drugs to continue without a licence until they can be brought under the licensing scheme later. It is envisaged that after that later date licences for such products would first be given as of right on the furnishing of relatively simple particulars of identification.

Variations

32. A licence will remain valid only as long as the particulars supporting the application remain relevant. Variation of licence conditions might follow an application
from the holder or might be the result of a review initiated by the licensing authority.

**Refusal, revocation or suspension**

33. It is envisaged that a licence or certificate (other than an initial licence of right) may be refused and any licence or certificate may be revoked or temporarily suspended if, after taking account of advice from the Commission or the appropriate expert committee, it appears that the considerations in paragraph 29 are not, or are no longer, satisfied, or that the specification of the drug is not, or could no longer be regarded as, satisfactory.

34. Refusal, revocation or suspension of a licence or certificate will also be permissible on a number of other grounds, e.g. if the character of the product no longer accorded with the particulars which formed the basis of the licence or if the particulars were found to be false, or if any licensing conditions were not complied with, or if the conditions of manufacture, storage or distribution were found to be inadequate to maintain the quality of the drug or device.

35. Where the grounds for a proposed refusal, revocation or suspension of a licence (as described in paragraph 33) involve the exercise of professional judgment in relation to safety, efficacy or specification, prior reference of the case for advice to the appropriate expert committee would be obligatory, subject to the possibility, in the case of a licence-holder, of a temporary suspension meantime if there appeared to be imminent serious risk. Where the committee gives advice adverse to the applicant or licence-holder, the licensing authority before issuing its formal decision will notify him and give him the opportunity of making representations to the Medicines Commission. In certain cases the applicant or licence-holder may be given a further right to be heard by 15.
the licensing authority. If the latter formally refuses or revokes the licence it must give a reasoned decision and the applicant or licence-holder would have a right of appeal on a point of law to the High Court in England and Wales and the corresponding Courts of Scotland and Northern Ireland. A right to be heard by the licensing authority, to a reasoned decision, and to appeal on a point of law to the High Court etc., would also attach to a proposed refusal, suspension or revocation on the grounds mentioned in paragraph 34.

36. Licences and certificates are to have a limited period of validity and be renewable, but not transferable. If a drug is not marketed within two years of being licensed the licence could be revoked; a decision to withdraw a drug from the market or from clinical or field trial would also have to be notified.

37. The licensing authority will be authorised to charge fees in connection with applications for licences or certificates or for their variation, and for the issue of any document for presentation by an exporter to the appropriate authority of a country other than the United Kingdom certifying the status on the United Kingdom market of particular products or whether they have been licensed for export.

Confidentiality

38. There will be provision on the lines of that in the Food and Drugs Acts for securing the confidentiality of information supplied to the licensing authority or the committees, apart from matters where disclosure is necessary for the purpose of enforcement.

General

39. In these licensing proposals the experience of the Committee on Safety of Drugs during the past three years has been heavily drawn upon. The introduction of a statutory licensing system with sanctions necessarily involved making detailed requirements, mainly in subordinate legislation, with regard to particulars to be supplied, the conditions to be satisfied, licensing conditions and the circumstances in which licences can be refused or revoked, but the intention is to retain the flexible administration that has been so effective under the voluntary scheme.

40. The expert advisory committees that will be associated with the licensing scheme will succeed the Committee on Safety of
Drugs, the statutory advisory committee under the Therapeutic Substances Act, 1956, and the Veterinary Sub-Committee of the Advisory Committee on Pesticides and other Toxic Chemicals will be broadly comparable in character and their secretariat and the licensing staff will be integrated. Applications, though technically made to the licensing authority, would be handled by staff serving the expert committees, and there is no reason why communications between them and the staff of applicants should not be as flexible as they have been under the voluntary system or why applications should be handled any less expeditiously than submissions to the existing committee. Any legislation must provide for offences, legal proceedings and penalties, but with the co-operation and mutual confidence that the Government expects to be a feature of the operation of the new system legal proceedings should be exceptional. Thus it would still be possible to ask firms to consider withdrawing an application or a product from the market if safety considerations made it advisable, without formal rejection in the first case or issuing a mandatory revocation in the second (though a voluntary withdrawal would be followed by an amendment of the licence).

41. In relation to quality control in manufacture the aim of the new provisions is to ensure that essential quality checks, such as are now the regular practice of the best manufacturers, will be built into the manufacturing process by all. The traditional reliance, now 100 years old, on the testing of samples taken in a retailer's premises to see whether they are "of the nature substance or quality demanded by the purchaser" cannot ensure this.

Retail sale and supply of drugs

42. The present law relating to the retail sale and supply of drugs is far from comprehensive in its scope or application. Its starting point is the assumption, now clearly inadequate in relation to modern drugs, that drugs are ordinary commodities, whose sale can take place anywhere and be left to the ordinary commercial pressures of the market except for a few where there are risks of accident or abuse, criminal misuse, or risks to the
community as a whole, and consequently that safeguards need only be applied to a limited list of substances.

43. This basis however takes too little heed of the risks for the individual inherent in uncontrolled medication with modern drugs. The marketing every year of several scores of new and often potent drugs has in fact led many pharmaceutical manufacturers of their own volition to market many modern drugs only through pharmacies. The reason is that they are primarily intended to be supplied on a practitioner's advice and a pharmacy is a business which sets out to sell a wide range of drugs and medicines under the supervision of a pharmacist, specially qualified to exercise a proper professional discretion over the sale and supply of drugs to the public. For historical reasons retail pharmacies are known to the law as registered premises of an authorised seller of poisons. It is time the law began to use more appropriate expressions, such as "registered pharmacies" and "persons authorised to conduct a pharmacy", and to reflect the fact that drugs and medicines are not ordinary commodities and, except for defined ranges that are suitable for self-medication by the public or for use by owners of animals, should be sold only at premises where a pharmacist is in charge, or by a doctor, dentist or veterinarian. "Authorised seller of poisons" will in future relate to sellers of non-medicinal poisons.

44. As, however, the conditions that now need to be satisfied to "sell poisons" (Sections 8-11A of the Pharmacy and Poisons Act, 1933 and corresponding provisions in Northern Ireland) are in general appropriate to selling a full range of drugs it is intended to carry them over with few modifications. The registration authority for pharmacies in Great Britain will continue to be the Pharmaceutical Society and in Northern Ireland the appropriate Government Department. The provisions of section 19 of the Pharmacy Act, 1954, and corresponding
provisions in Northern Ireland, regulating the use of titles, emblems and descriptions such as "pharmacy", "pharmaceutical chemist", "dispensing chemist", will need to be aligned to the new situation.

45. In addition to persons authorised to conduct a pharmacy, who will, ipso facto, be able to sell veterinary drugs at registered pharmacies, a new class of "authorised sellers of veterinary drugs", who will need to be registered by the appropriate Agriculture Minister, will be defined in respect of retail dealing in those veterinary drugs, which, though not limited to sale or supply on prescription, are unsuitable for general sale.

46. Doctors and dentists will be able to sell or supply drugs to their patients or to a person having the care of such patients, and a veterinarian will be able to do so to a person having the care of an animal, flock or herd under treatment by him.

47. Retail sale of drugs to the public will, with some important exceptions, be limited to registered pharmacies. The exceptions will permit prepacked drugs for human use listed by the Ministers for general sale to be sold at any shop. Prepacked veterinary drugs not restricted to veterinary prescription could be sold at places other than shops, but (unless listed for general sale) only by authorised sellers of veterinary drugs (also, of course, at a pharmacy). Animal feeding stuffs manufacturers will also be able to sell or supply veterinary drugs to farmers mixed with animal feeding stuffs in accordance with a prescription from a veterinarian for the treatment of a particular animal, flock or herd. (This does not of course detract from a feeding stuffs manufacturer's right to mix other drugs and feeding stuffs by virtue of holding a manufacturer's licence).
48. Ordinary counter-sales of herbal remedies which do not contain drugs restricted to prescription will be permissible outside registered pharmacies at a shop and provided that they are produced solely by drying, crushing or comminuting plants (but not by using any other process except tablet making, pill making or compressing), or are a mixture of such a product and water. In addition, herbal remedies, by whatever process they have been made up could be supplied at the premises on which they have been made up if they are being directly sold or supplied to an individual who has gone there for treatment; and in these circumstances a licence would not be required for the process of making up.

49. The drugs on general sale will be listed in orders made by the Health Ministers (in the case of veterinary drugs jointly with the Agriculture Ministers), having taken account of any advice from the appropriate expert committee. They will be drugs where the hazard to health, the risk of misuse, or the need to take special precaution in handling is small and where wider sale would be a convenience to the purchaser.

50. The Health Ministers (in the case of veterinary drugs jointly with the Agriculture Ministers), will need powers to list in statutory orders drugs or classes of drugs to be sold or supplied only by, or on a prescription from, a doctor, dentist or veterinarian. For certain exceptional categories of specified drugs sale or supply could be only by doctors, dentists or veterinarians specially authorised in relation to such categories of drugs, where the sale or supply is for the purpose of treatment by or in accordance with their directions; or only at pharmacies, under the authority of a prescription from such a practitioner. This provision is intended to apply only to radioactive drugs and to such other drugs as may be listed in regulations, the Ministers
being obliged first to obtain and take account of the advice of the appropriate expert committee, as justifying exceptional safeguards such as special technical knowledge on the part of the prescriber.

51. It is also contemplated that it should be possible to require that in the course of distribution certain categories of drugs are sold only to persons entitled to sell them to others, and to regulate the circumstances in which samples of drugs on the general sale list, herbal remedies etc., might be distributed to the public.

52. Ancillary regulations would relate to various matters, such as supervision of dispensing by a pharmacist, the safe keeping of drugs, and the keeping of records.

53. The Health Ministers (in the case of veterinary drugs jointly with the Agriculture Ministers) will have power by statutory instrument to prohibit the sale or supply of a drug. Except when a temporary prohibition should take effect immediately because of apparent serious risk to health, the Ministers will be required first to obtain and consider the advice of the appropriate expert committee.

54. Provisions similar in effect to, and in substitution for, those in the Food and Drugs Acts relating to the adulteration of drugs, the sale, advertisement, etc., of adulterated drugs, and the protection of purchasers in relation to the nature and quality of the drug demanded will be included. The legislation will make provision for securing compliance with the standards laid down in monographs in the British Pharmacopoeia, the British Pharmaceutical Codex, the British Veterinary Codex, the European Pharmacopoeia, or of any future "official" compendium (i.e., prepared under the aegis of the Medicines Commission).
55. There is in the present law no provision relating to the observance of sanitary conditions, cleanliness and other proper practices in connection with the keeping, transportation, sale and supply of drugs, (and, if necessary, devices), or for the treatment and disposal of any drugs that are found to be defective or unfit for sale or supply. This will be remedied by regulations enforceable in courts of summary jurisdiction. In serious cases the Court will be given power, analogous to powers now existing in England and Wales in relation to food premises, to make an order disqualifying the use of these premises or place of sale for the sale of drugs for a period of up to two years; there will be powers of similar effect in relation to Scotland and Northern Ireland.

56. The sale and supply of devices would not be associated with registered pharmacies or other premises in the way proposed for drugs. But powers will be sought under which devices could be required to comply with standards in the British Pharmacopoeia or other compendia, and the sale or supply of specified devices could be restricted to prescription and by persons authorised to sell or supply such devices, or prohibited altogether.
Labelling, description and identification

57. The labels of the immediate containers of drugs and of outer packages and any accompanying leaflets or package inserts will be subject to requirements under regulations that would make it possible to require a label to contain specified information, which should also be reproduced in any accompanying leaflet.

58. The labelling requirements will vary in content and range according to the description or class of drug and the circumstances in which it is sold or supplied. For instance, the name of the licence holder, particulars of the composition of the drug, directions for use and any necessary warnings or precautions would normally have to be shown in all cases, together with any special labelling requirements under the licence. Information about other matters, for instance, potency, or the date of manufacture or expiry, will be necessary only for certain groups of drugs. The normal requirements would be capable of being modified to deal with the practical problems arising in relation to dispensed medicines or where the supply is in small containers, such as injectable materials made up in single dose containers. Soluble containers, such as capsules, would be regarded as part of the drug itself. The regulations could cover the form or manner of labelling, so as to ensure that the specified information was given due prominence. There is no intention of preventing due prominence being given to a trade name.

59. The sale, supply or possession for the purposes of sale or supply, of any drug (including samples) bearing a label which falsely described the drug or is calculated to mislead as to its nature, substance, quality, effects or the purposes for which it is intended to be used or ought not
to be used will be prohibited. Similar provisions will apply to any leaflet intended to accompany a drug. There would be a defence where a person could not reasonably have ascertained that the label or leaflet in question was of such a character. A "third party" defence on the lines of that provided for in the Food and Drugs Acts would be available where the false or misleading labelling was the fault of a third party, and not of the person selling or supplying the drug.

60. Requirements could be made with respect to the character of containers (for instance, their strength, or the material to be used for particular types of drugs) and their identification (for instance, by colour, special markings or shapes, such as vertical fluting) and with respect to identifying requirements for particular drugs or categories of drugs (e.g. by colour, or shape or by bearing distinctive identifying markings).

61. The publication, or display by any means, including radio or television of advertisements or making of oral statements calculated to promote the use of a drug, which falsely describe it or are likely to mislead as to its nature, quality, indications, contra-indications, or effects associated with its use, or which make claims going beyond those covered by the provisions of the licence will be prohibited; and since the licensing provisions bear on the primary licence holder the initiation of advertisements without his authority would be prohibited. There would be a defence where any person could not reasonably have ascertained that the advertisement or statement was of the character described above; or that, being a person whose

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business it is to publish or arrange the publication of advertisements, he received the advertisement for publication in the ordinary course of business.

62. The Ministers will be able to make regulations specifying drugs or classes of drugs all advertising of which will (subject to stated exceptions) be prohibited, or specifying particular purposes for which (again subject to stated exceptions) drugs should not be advertised, or specifying particular expressions which should not be used in advertisements labels or leaflets, if in their view such a prohibition would be in the interests of the health or safety of the public.

63. These regulations will replace and extend, as necessary, for reasons of safety or public health, existing provisions prohibiting advertisements for remedies for venereal diseases, cancer and other serious diseases listed in the Pharmacy and Medicines Act, 1941 and the corresponding statutory provision in Northern Ireland. The exceptions would permit promotional information to be directed to special groups such as the medical and pharmaceutical professions.

64. Requirements could also be made with respect to the content, format and manner of presentation of advertisements for drugs. The object is to ensure that those to whom the advertisement is directed are given adequate information about the drug. The range of information to be given would vary according to the nature of the drug, the medium being used for the advertisement and the type of person (e.g., professional or lay) to whom it is addressed.

65. Provision will be made so as to secure that before a drug is promoted to a doctor, dentist or veterinarian by
direct mailing or by medical representatives he must have been provided by the promoter within a specified period beforehand (in order to ensure that it is up to date) with an objective summary, probably in the form of a standard size of data sheet, of essential reference particulars about the drug conforming to provisions in the licence.

66. The licensing authority would be able to call for copies of advertising material and data cards which were being used, or had been used within the specified period.

67. Provisions relating to the labelling or advertising of devices would be similar in scope to those for drugs, but specific requirements would be applicable only to specified devices or classes of device.

The British Pharmacopoeia and other compendia

68. The responsibility for the publication and keeping up to date of the British Pharmacopoeia will be transferred from the General Medical Council to the Health Ministers. It is envisaged that the work of the British Pharmacopoeia Commission will be carried on by the Medicines Commission or by an expert committee set up on their advice. Other "official" compendia could be prepared under their aegis and published in the same way, and the Agriculture Ministers could have corresponding powers to publish on the veterinary side. Within the scope of the British Pharmacopoeia and other future official compendia will be descriptions of, standards for, or other notes on, drugs, devices, and certain other articles.

69. It is not intended to prohibit the publication by other bodies of similar compendia, such as the present British Pharmaceutical Codex or the British Veterinary Codex, but as the scope of the compendia prepared under the aegis of the Commission widens, the scope of other compendia might diminish. Provision will also be made to fulfil international obligations that require the United Kingdom Government to secure that agreed monographs (for instance those to be included in the European Pharmacopoeia, to which the European Pharmacopoeia Convention applies) are adopted as official standards in the U.K.

Enforcement

70. The Ministers, whose duty it will be to secure adequate enforcement of the Bill will enforce parts of it directly. Where enforcement is made the duty of other bodies, Ministers will have such reserve powers as may be necessary.
71. The measures on which reliance will chiefly be placed for securing adequate quality control of drugs or devices will be applied by the central Departments through the licensing scheme, at the stage of marketing, manufacture or wholesale dealing. Checks at the retail stage will still be required and sampling at all stages will need to be co-ordinated. In relation to sampling at the retail stage for analysis and the enforcement at the retail stage of the relevant provisions relating to composition, labelling and description, including advertising, they could arrange for the Pharmaceutical Society or the local authorities who are now responsible for enforcing the composition, labelling and description provisions in the Food and Drugs Acts (at present known as "food and drugs authorities"), to have the duty of enforcing them locally. It is contemplated that the initial arrangement in Great Britain would be for the Pharmaceutical Society to enforce these provisions at registered pharmacies, and possibly in relation to authorised sellers of veterinary drugs, and for "food and drugs authorities" (the county or county borough health authorities in Northern Ireland) to enforce them in relation to other premises and places (i.e. where only "general sale list" drugs may be sold or supplied). The initial arrangements could be reviewed from time to time, e.g. in the event of major changes in the pattern of English local authorities' functions arising out of the current review by the Royal Commission on Local Government.

72. It seems right to confer responsibility for local enforcement of provisions relating to cleanliness and hygiene at shops, premises and other places where retail dealing takes place (except registered pharmacies and places where an authorised seller of veterinary drugs is functioning) on the local authorities who enforce food hygiene provisions. Many of the premises concerned would also be food premises, to which food hygiene requirements apply; the provisions in relation to drugs would not be more exacting than those
applicable to food premises. At pharmacies and in the case of authorised sellers of veterinary drugs where in both cases more specialised requirements are likely to be required, especially in relation to storage, and, in the former case, the dispensary, the responsibility for enforcement would be with the appropriate ministers with possibilities of delegation. Because of practical problems arising in relation to vehicles the application of the requirements to premises and to the transportation of drugs may have to be effected on a rather different basis. Enforcement in relation to civilian hospitals and similar institutions and in relation to practitioners will not be delegated.

3. The Pharmaceutical Society in Great Britain and the appropriate Government Department in Northern Ireland would be the enforcing authority for the registration of pharmacies, the use of unauthorised titles, etc., and the provisions regulating the sale and supply of drugs by retail. In Great Britain the Society has been responsible for a very long time for enforcing analogous provisions under the Pharmacy and Poisons Acts, and it is appropriate that the professional body should undertake this task.

4. Provisions requisite for the purposes of enforcing the Bill will be included, for instance, right of entry and inspection, the procuring, by purchase or on reasonable payment, of samples, the production of appropriate books and documents, the seizure and holding of articles liable to forfeit under the Bill and documents relating to them which may be required in proceedings. Where corresponding provisions exist in the Food and Drugs Acts, which are already applicable to drugs and are familiar to local authorities and retailers, they will in most cases be an appropriate basis for these provisions.

5. Samples procured by a "food and drugs Authority" (the county or county borough health authority in Northern Ireland) would,
as now, be submitted to the public analyst for the area in which they were procured. Samples procured on behalf of a Government Department or the Pharmaceutical Society might be submitted for analysis or other examination to any laboratory that appears to the appropriate Minister to be qualified to carry out these functions. The Health or Agriculture Ministers would be able to make provision for such laboratory services and facilities as appear to them requisite in connection with any of their functions under the Bill. This would enable a Minister to make arrangements with a public analyst or with any "food and drugs authority" for samples to be examined by the analyst or at the authority's laboratory on such payment as may be agreed, or to provide any necessary central laboratory facilities.

Legal Proceedings

76. A requirement to give 14 days' notice to the appropriate Minister of forthcoming proceedings by the Pharmaceutical Society or a "food and drugs authority" (the county or county borough health authority in Northern Ireland) in relation to composition, labelling or description would give the Minister the opportunity to make suggestions for avoiding multiple prosecutions in respect of the same drug or article. This will not apply in Scotland where prosecutions, in accordance with the normal practice, will be the responsibility of the appropriate criminal authority. In addition to imposing penalties, the court would be able to order the forfeit of any article in relation to or by means of which a proved offence was committed. A "third party defence" will be made available in appropriate cases.

Other provisions

77. These would include a provision relating to compensation for loss or diminution of emoluments to local government officers in relation to changes in the functions of their employing authority and to employees of the General Medical Council engaged on the British Pharmacopoeia in consequence of any discontinuance of such work following the transfer of the General Medical Council's obligation to the Ministers.
78. Before making regulations (other than those broadly reproducing existing regulations) the Ministers will be obliged to consult such organisations as appear to them appropriate as being representative of the interests substantially affected.

79. A good many of the detailed provisions described above will be in statutory regulations, because circumstances may necessitate the requirements to be varied. As in all legislation of this kind applying to activities of almost infinite variation the enabling powers must be wide if the complexities of manufacture, sale and supply are to be properly covered. The Ministers' intention is not to impede the industry unnecessarily or to hamper doctors, dentists, veterinarians or pharmacists in the practice of their professions. The flexibility of the powers is intended to meet the wide variety of circumstances that can arise. The Ministers are confident that the effect of the legislation will be to enhance the standing of our pharmaceutical industry and that it will operate to the benefit of the consumer, irrespective of whether he is supplied under the National Health Service or not.

80. It is the Government's expectation, judging by the general tenor of the observations received on the earlier proposals, that legislation on the lines now to be introduced will command widespread support.
A NATIONAL LOANS FUND

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

Review of public sector borrowing arrangements

In my Budget speech this year I explained that, though I was budgeting for a surplus of ordinary revenue over ordinary expenditure of £642 million, the Exchequer would be left with an overall borrowing requirement of £938 million because of the need to borrow to finance Consolidated Fund lending, mainly to nationalised industries and local authorities but also to other public and private bodies. So as to forestall criticism of the size of the borrowing requirement I emphasised that it was large this year because public investment would be rising at a considerable rate, but that in the current economic circumstances large borrowing by the central Government would not mean that an excessive level of total demand would be generated. In order to illustrate the significance of the borrowing requirement, I introduced a new table in the Financial Statement on the capital transactions of the public sector. I expressed the hope that the new presentation in the Financial Statement would help to remove misunderstanding, and I went on to say:

"I have also been considering whether the time is coming to consider changes of substance. Is it necessarily the best arrangement that so much of the borrowing requirement of local authorities and public corporations is financed in the first instance by the Exchequer? The present arrangements have grown up as a series of ad hoc responses to particular situations over a long period of years. I think that the time has come to take stock of the suitability of the present arrangements in the contemporary world, and I have therefore put a review in hand. This will take some time and I will report my conclusions to the House in due course."

2. Sophisticated observers and critics of course understand the significance of the Exchequer borrowing requirement in our present arrangements, but there is no doubt that some observers, overseas as well as at home, do not fully appreciate the fact that the Exchequer borrowing requirement is not a revenue deficit, and thus misinterpret the significance for our economy of the relatively large Exchequer borrowing requirements of recent years. An alteration in public sector borrowing arrangements which took some public sector financing outside the Exchequer would not change the reality of the
amount and economic significance of the total public sector borrowing
requirement, and in that sense the objective in our review of public
sector borrowing arrangements has been to achieve a presentational
rather than a real change. But the presentational change would have
real significance because the existing presentation is open to
misinterpretation, and thus can inhibit decisions which would have
real and beneficial effects. It can also be detrimental to confidence
in our economic position and policies.

3. This is particularly apparent in the arrangements for
financing local authorities. At present about 30 per cent of the
longer-term borrowing requirements of local authorities is financed
by Exchequer money lent through the Public Works Loan Board
(PWLB) and the rest has to be raised from the market. While we
should not necessarily want to eliminate all local authority borrowing
from the market, at any rate in the immediate future, it would
be convenient from the point of view of market management to be
able to provide more of the local authorities' requirements from
centrally raised funds and so to reduce the extent of their dependence
on the market. The Government are indeed committed (under a
White Paper issued in October 1963 (Cmd. 2162), but endorsed by
ourselves) to a policy of increasing the proportion of local authority
borrowing requirements raised via the PWLB. We have fallen
behind in our progress towards that objective, because local authority
borrowing has increased faster than we expected and because the
level of Exchequer issues to the PWLB had already reached by 1965
the level which in 1963 was not expected to be reached until 1967-68.
I have refrained from making more money available to local
authorities through the PWLB not exclusively because of market
considerations but also because of the effect that increased Exchequer
issues to the PWLB would have on the figure of the Exchequer's
borrowing requirement which is published in the Budget.

4. In the course of the review there has been a close examination
of the possibility of establishing a new agency to provide finance
for nationalised industries and local authorities, or of encouraging
the development of a new co-operative financial institution to finance
local authorities, on lines suggested by the National Board for Prices
and Incomes in their report on Bank Charges (Cmd. 3292,
paragraph 92). For reasons which are explained in an annex to this
memorandum I do not believe that a new agency or institution would
provide us with the right solution to the difficulties with which we
are trying to deal. I am therefore commending to my colleagues
a different proposition. I believe that this would provide a means
by which all our objectives can be met, but with considerably less
alteration to present administrative arrangements and disturbance
for market management and much less elaborate legislation than a
new agency or institution would require.

A National Loans Fund

5. This proposition is for the institution of a new Government
fund, separate from the Consolidated Fund and the Exchequer,
which could be called the National Loans Fund. The argument on
which this is based is that the volume of lending undertaken by the Government is now so great, the range of bodies receiving loans is now so wide, and the volume of market borrowing carried out by the Government is, therefore, so large, that the time has come to deal with the borrowing and lending transactions of the Government separately from other financial transactions of the Government, which reflect mainly activities and policies for which the Government is directly responsible. Under this proposal, where the Government was acting mainly as a financial intermediary and there was no question of final expenditure falling upon the Central Government the transactions involved would be taken out of the Consolidated Fund and out of the Exchequer and concentrated in the new National Loans Fund. The Treasury would be responsible for the new Fund just as they are responsible for the Consolidated Fund. The Treasury would account for the National Loans Fund separately from the Consolidated Fund, and the National Loans Fund would have its own cash account at the Bank of England, separate from the Exchequer.

6. The Treasury would have power to issue out of the Fund the sums required for advances by Ministers to nationalised industries and other public or private bodies and for loans by the Public Works Loan Board to local authorities. To preserve the principle that the new Fund was a financial intermediary and that there was no question of any final expenditure falling upon the Central Government otherwise than as voted by Parliament, sums issued out of the Fund for lending to nationalised industries, local authorities and other public bodies would need to be lent on terms which would recoup the capital lent and the cost to the Government of borrowing an equivalent sum for a comparable period in the market. Any Government loans which did not comply with those conditions would have to be issued out of the Exchequer probably as a charge to voted monies.

7. The National Loans Fund would also become the source from which cash deficits in the Exchequer (whether seasonal or otherwise) would in the first instance be met. The Treasury would have power to issue out of the Fund the sums required to meet excesses of payments over receipts of the Exchequer; and to transfer surpluses of ordinary revenue over ordinary expenditure out of the Exchequer to the Fund. The arrangements between the Exchequer and the Fund would be such as to ensure that the costs of servicing debt incurred by the Fund in order to finance the Exchequer continued to fall upon the Consolidated Fund.

8. The Local Loans Fund would be wound up and its assets (outstanding loans to local authorities) transferred to the National Loans Fund. Existing Exchequer loans to nationalised industries and other public bodies would be transferred to the National Loans Fund. The existing National Debt would be charged to the National Loans Fund, and provision would be made to ensure that the Exchequer recouped the Fund for the cost of servicing existing debt which was not backed by interest-bearing assets in the form of
outstanding loans to nationalised industries, local authorities and other public bodies. The Treasury would have power to issue from the Fund sums required for the repayment of maturing Government debt.

9. The concentration in the new Fund of all the transactions in which the Government acts as a financial intermediary would provide an opportunity for the long overdue tidying-up and rationalisation of the Treasury's borrowing powers. The existing borrowing powers of the Treasury, scattered over a great many different Acts of Parliament, would all be replaced by a general power to the Treasury to borrow in such manner as they thought fit for the purpose of providing any money which the Treasury was empowered to issue from the Fund, and a requirement to pay all the proceeds of such borrowing into the Fund. The limits on the Treasury's powers to borrow would thus be determined by the limits set upon their powers to issue from the Fund, which would all be defined in separate legislation: e.g., the limits on borrowing powers of nationalised industries and the limits on PWLB lending laid down in successive Public Works Loans Acts (though this might provide an opportunity for simplifying the procedure for obtaining Parliamentary sanction for raising the limits on PWLB lending).

10. The new Fund would be subject to audit by the Comptroller and Auditor-General. The Treasury would be required to present to Parliament annual accounts of the Fund. The removal of lending and borrowing transactions out of the Consolidated Fund and the Exchequer into the new Fund would necessitate a reform of the Exchequer accounts (also long overdue) with repeal of the existing statutory requirements (including "the line") and their replacement by new provisions suited to the situation of the Exchequer after the Fund had been set up.

11. The borrowing operations of the Fund would be managed in much the same way as the borrowing operations of the Exchequer are managed at present, and the processes of management of the money market and gilt-edged market would be largely unaffected.

12. No new body would be created. Responsibility for the transactions of the Fund would rest upon the Treasury. No change would be required in the statutory provisions or the administrative arrangements for issuing loans to nationalised industries and local authorities, though administrative and accounting arrangements in the Treasury and in the Bank of England would need some adjustment.

13. The channelling of public sector borrowing through the Fund would not be intended to affect the scale of public investment undertaken. To the extent that local authorities enjoyed access to the Fund instead of having to raise money elsewhere they would no doubt benefit in lower interest charges; but it would not be intended (neither would it be expected) that this would induce them to borrow and invest larger total amounts and so create additional calls on the resources absorbed by public expenditure. The present
methods of controlling local authority investment, which are exercised mainly through Departmental programming of major services such as Housing and Roads, and by the issue of loan sanctions for Miscellaneous Services, would not be in any way affected.

Effects on local authority financing

14. Decisions on the objectives in the field of local authority financing and in particular on the rate of progress in achieving a higher proportion of local authority financing through the PWLB would depend on considerations of markets and market management and would not be inhibited by presentational considerations connected with the Exchequer accounts. There would be no statutory impediment to financing local authorities 100 per cent from the Fund through the PWLB; it would be for separate consideration how far and how fast it was desirable to go in that direction. The first step might be to allow an immediate and significant increase in local authority access to the PWLB, coupled with a declaration of intention steadily to increase rates of access to the Board thereafter, with the minimum disturbance to local authorities, market sources and the Government. If it was subsequently found desirable to finance the whole of local authority borrowing from the Fund, the Treasury would be able to borrow for the Fund on whatever combination of instruments seemed appropriate from time to time, including short-term deposits as well as the more traditional gilt-edged securities and Treasury Bills.

Conclusion

15. This proposal would achieve the objective of taking the great bulk of Consolidated Fund lending and all the resulting borrowing out of the Exchequer, and would thus remove the inhibitions on policy which their inclusion in the Exchequer accounts sometimes creates. But the change would have more significance than that. It would carry with it as a necessary corollary a reform of the existing accounting arrangements and borrowing powers; the effect would be to put these arrangements and powers on a basis which reflected the realities of to-day rather than the financial orthodoxy of the middle of the 19th century. This would in my view be the main advantage, and indeed the main public justification, for the change. The proposal would represent a radical departure from existing conventions and practices in public finance in this country, and in particular a departure from the principle, by which Government finance has been governed for a hundred years or more, that the proceeds of all revenue and all borrowing should be paid into and all issues for whatever purpose should be made out of a single Consolidated Fund.

16. I should like to be able to take advantage of the benefits of this improvement in our financial arrangements in preparing and presenting my Budget for the financial year 1968-69. Much further work needs to be done on the detail of these proposals and on the preparation of legislation. I hope, therefore, that my colleagues will
agree that this work should now go ahead, with a view to the preparation of legislation to be introduced early in the next session, so that we can bring the new National Loans Fund into being from the beginning of the financial year that starts on 1st April, 1968.

L. J. C.

Treasury Chambers, S.W.1,

ANNEX

PUBLIC SECTOR BORROWING ARRANGEMENTS

ALTERNATIVES TO A NATIONAL LOANS FUND

A new statutory agency

Consideration has been given to a proposal that a new agency should be set up to take over the financing of the bodies which at present receive Consolidated Fund loans and itself to undertake the necessary borrowing from the market. It was assumed that this agency should be so constituted that it would be enabled to finance the whole of the local authorities' borrowing requirements, including those now met by market borrowing as well as those met by borrowing from the Public Works Loan Board. Such an agency could, of course, borrow only on Government credit and with a Government guarantee; it would in effect be a gilt-edged borrower.

2. The establishment of such an agency would imply the setting up of a new statutory body, itself lending direct to nationalised industries and local authorities and thus taking over the statutory duties and administrative functions now carried out by the Ministers responsible for the nationalised industries and by the Public Works Loan Board in issuing advances to the ultimate borrowers and in collecting payments of interest and repayments of capital from them. This would be likely to require additional staff as well as more complicated administrative arrangements, since the Ministers concerned would probably need to retain some control over the advances made by the new agency. Moreover it would create formidable problems if the Treasury and a new agency were borrowing independently in the market; the agency would therefore have to assume responsibility for the borrowing required to finance the Exchequer's seasonal deficits.

3. The setting up of an agency would thus involve a good deal of change in existing legislative and administrative arrangements which would be unnecessary for the purposes which it is desired to achieve, and would add substantially to the length and complexity of the legislation that would be required. There would be some danger of conflicting responsibilities; but, more important, our examination of the possibility of a new agency has suggested that
the functions which it would perform are so central to the exercise of Government that it would be wrong in principle, as well as inconsistent with the real situation which it is desired to preserve, that Ministers should delegate these functions to a separate and independent statutory body.

4. The establishment of an agency would not confer any facilities for or advantages in borrowing from the market which would not be available to the Treasury borrowing for the proposed National Loans Fund. Nor would there appear to be any greater presentational gain from transferring Government borrowing and lending transactions to a new agency than from transferring them to the proposed National Loans Fund. The conclusion is, therefore, that as compared with a National Loans Fund a new agency would not confer any additional benefits or advantages that would justify the additional legislation and administrative change that it would require.

A co-operative financial institution

5. Consideration has also been given to proposals which have been canvassed in several quarters, and which have recently received the backing of the National Board for Prices and Incomes in their report on Bank Charges (Cmd. 3292, paragraph 92), for a co-operative financial institution, borrowing from the market under Treasury guarantee and lending to local authorities. This would of course be only a partial solution to the problem: such an institution would relieve the Exchequer of local authority financing but not of the financing of nationalised industries and other public bodies. It would be raising very large sums of money, of the order of £2,000 million a year if it took over all the borrowing requirements of local authorities; it could raise these sums only if it borrowed under Treasury guarantee. It would thus be a gilt-edged borrower, and the monetary authorities would be deeply concerned with the methods, terms and timing of its borrowing from the point of view of market management.

6. There is no reason to suppose that such an institution would be able to attract savings that are not attracted into gilt-edged and local authority debt to-day. The problems that came up when nationalised industries raised stock issues in the market would come up in still more acute form and over a wider area. From the point of view of market management such an institution would be tolerable only if it were completely under the control of the monetary authorities. This would inevitably imply an obligation on the central Government to see the institution through by making funds available to it from the Exchequer when it was prevented by the monetary authorities from raising money in the market. The creation of such an institution would not therefore remove the risk of some liabilities falling upon the Exchequer in respect of the financing of local authorities. Moreover, an institution thus completely dominated by the central Government would commend itself to local authorities no more than other forms of financing by the central Government: perhaps less, because it would have the
appearance of independence without the reality, and would offer them no significant advantages as compared with borrowing from the Public Works Loan Board.

Nationalised industry market borrowing

7. Consideration has also been given to the possibility of reverting to the arrangement whereby nationalised industries raised their requirements by the issue of Government-guaranteed stocks. It is, however, clear that the reasons why that arrangement was abandoned in 1956 (which were described in the Report of the Radcliffe Committee on the Working of the Monetary System (Cmnd. 827) paragraphs 86 and 87) are no less valid to-day than at that time, and that the difficulties which such issues would create for market management would be even greater now than then, because the amounts required have grown. A return to such an arrangement could not therefore be recommended.
The Ministerial Committee on the Powers of the House of Lords was appointed in accordance with the conclusions of the Cabinet at their meeting on 28th June, 1966 (CC(66) 32nd Conclusions, Minute 2) with the following terms of reference:

"To work out proposals for the abolition of the power of the House of Lords to withhold consent to subordinate legislation subject to affirmative or negative resolution, and to delay the passage of Bills; and to arrange for the preparation of the necessary legislation."

At that meeting the Cabinet also decided that the question of the composition of the House of Lords should not be reopened in this connection.

2. The Ministerial Committee have considered proposals accordingly, and our conclusions, so far as we have been able to take them, are set out in the Annex to this memorandum.

3. The Committee have, however, also reached the conclusion that legislation, which was limited to dealing with the powers of the Lords over legislation, would be unsatisfactory in itself and open to criticism by our own supporters as well as by the Opposition. The most important objection to the proposal to deal with powers only is that, despite the restriction which it would impose on the formal powers of the Lords to obstruct Government legislation, it would almost certainly result in greater delay to the Government's programme of legislation as a whole than is likely to result if the Lords' powers are left as they are. So long as the Opposition have their present majority in the Lords, the achievement of the Government's legislative programme depends entirely on the co-operation of the Opposition in that House. At present that co-operation is forthcoming because the Lords know that they exist on sufferance. If we now embark on controversial legislation which deals only with the powers of the Lords over legislation (and hence appears to license the Lords to use such powers as are left to them), this co-operation will inevitably be affected and our legislative programme

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will suffer accordingly. Further, we should be inhibited from developing the functions of the Lords as a revising and scrutinising chamber, complementary to the Commons, in order to improve the effective working of Parliament as a whole; indeed the measures proposed would be retrograde in their effect, since they would deprive the Lords of all their functions in relation to subordinate legislation. Finally, we should be embarrassed by the amendments which the Opposition would seek to make to widen the scope of the legislation by including changes in the composition of the House of Lords.

4. It is, therefore, the Committee's considered view that there is no satisfactory way of dealing in isolation with the Lords' powers over legislation and that if the Lords' powers only can be dealt with, we must advise that there should be no change in this Parliament. There are, however, other aspects which I should wish to develop orally to the Cabinet.

G.

House of Lords, S. W. 1.

31st August, 1967
ANNEX

ABOLITION OF THE POWER OF THE HOUSE OF LORDS TO DELAY THE PASSAGE OF BILLS AND TO WITHHOLD CONSENT TO SUBSEQUENT LEGISLATION

1. Abolition of the power of the House of Lords to delay the passage of Bills

1. Under the Parliament Act 1911, as amended by the 1949 Act, if a Public Bill (other than a money Bill) is to become law in the face of the Lords' use of their delaying powers, it must be passed by the Commons in two successive Sessions and a minimum interval of one year must elapse between Second Reading in the Commons in the first Session and Third Reading in the Commons in the next. It must reach the Lords at least one month before the end of the two successive Sessions, and is presented automatically for Royal Assent, unless the Commons direct to the contrary, if the Lords reject it for the second time. For this purpose if the Lords do not pass a Bill either without amendment or with amendments which are all acceptable to the Commons they are held to have rejected it.

2. The Ministerial Committee on the Powers of the House of Lords have considered various methods for reducing or abolishing this delaying power, but have concluded that the effective choice lies between two alternatives -

(1) The first method (Scheme A) is to replace section 2 of the Act of 1911 by a new provision under which a Bill sent up to the Lords at least three months before the end of the Session, and either rejected by the Lords or not passed by them at the end of three months, could be submitted for Royal Assent without the concurrence of the Lords on a resolution to that effect passed by the Commons. The period of three months would be exclusive of adjournments. Under this Scheme the whole process would be
concluded in the space of one Session; the Lords would have three months in which to pass any Bill sent up to them, and could be given more time (by delaying the passing of the Commons resolution) in the case of Bills sent up early in the Session. If the Bill was passed by the Lords with amendments, only those acceptable to the Commons would be included in the Act as submitted for Royal Assent.

(2) The second method (Scheme B) is to remove the compulsory minimum interval of one year which must elapse under the present Parliament Acts between Second Reading in the Commons in the first Session and Third Reading in the Commons in the next. This would simply involve the repeal of the proviso to subsection (1) of section 2 of the Act of 1911. Under this Scheme a Bill rejected by the Lords (including a Bill passed by them with amendments to which the Commons do not agree) could be passed into law by closing the Session and opening a fresh Session in which the Bill would be passed again by the Commons. If the Bill itself was urgent, the new Session need be of little more than one month's duration.

3. Scheme A. While Scheme A has presentational advantages and in the face of it would appear to be the simpler method of removing the delaying power of the Lords over legislation, whether during or at the end of a Session, it is arguable on the other hand that its very effectiveness and ready availability are obstacles to its adoption. At present a large volume of legislation is passed expeditiously through the Lords, who are willing to deal at short notice with Bills which are urgently needed for administrative reasons; even on major controversial measures they have not been prepared to force the Government to use the existing Parliament Acts. The Government depend entirely on the co-operation of the Lords in maintaining the present flow of legislation and there is no power to impose a guillotine. The adoption of Scheme A would be likely to disturb present working relations. The Lords would be working under a continuing threat and, since the new machinery could be invoked more easily and with less disturbance than the present Parliament Acts, the Lords might be less unwilling to press their opposition, not only to major controversial measures, but also to other Government Bills, or at least to avail themselves of the full period allowed to them for the passage of such measures with consequent delay to the Government's legislative programme. Further, if the Lords were to be allowed as long as three months to consider Bills, the Government would have to obtain Third
Leading in the Commons by the beginning of May, if not earlier, in order to be sure of getting measures enacted by the end of a normal Session; this disadvantage could be reduced by shortening the period of three months allowed to the Lords, but any such shortening would be criticised as unreasonably limiting the time needed to consider major Bills, and would be likely to disturb general working relations even further.

4. Scheme B. This scheme at first sight appears to be less attractive as it seems less convenient to operate in practice—it would involve closing the Session and passing an obstructed Bill through all its stages in the Commons in a new Session before sending it to the Lords which might appear heavy handed. But in the view of the Committee this apparent difficulty of operation is not a conclusive argument against the scheme. Precisely because its use would be dramatic and possibly prejudice the continued existence of the Lords, they would be unlikely to force the issue just as they have been reluctant to do so under the Parliament Acts as they stand. Constituting as it would a more remote threat than Scheme A, it would be less likely to disturb present working relations. Further, the aggregate minimum time allowed to the Lords under this scheme (a total of two calendar months, one in each Session) would be less than under Scheme A, so that it would be possible under Scheme B to deal with Bills sent up late—even at the end of June or, in extreme circumstances, July. (Though a period as short as this might be considered objectionable in any new scheme, it could be defended in the context of a limited amendment of the Parliament Acts which did not affect the total time for which the Lords must be in possession of a Bill.) Finally, since a Bill limited to dealing with the powers of the Lords over legislation can only be presented as affecting a relatively small measure of reform, Scheme B has the advantage of great legislative simplicity.

5. On the other hand, Scheme B has the disadvantage that financial and other essential Parliamentary business imposes certain limitations upon the times at which a prorogation and an extra Session would be practicable. Prorogation would be likely to be impossible in the month of July and would be difficult between March and June. In effect, the open periods for starting the new Session would be November to February, and the normal time of adjournment for the summer recess. If prorogation took place early in the Session and was followed by another short Session designed to secure the enactment of the disputed Bill in the minimum time, the effect on the remainder of the Government's legislative programme as planned for the original Session could be serious, especially if the Lords were unwilling in the circumstances to co-operate in special arrangements for carrying over other unfinished business. However it should usually be possible to defer prorogation for the purposes of applying Scheme B until near the normal end of the Session, when the least inconvenience would be caused because most, if not all, of the legislative business would be finished. If the primary objective is to secure the enactment by the
normal end of the Session of a Bill rejected or obstructed by the Lords, Scheme B is as effective as Scheme A. On balance, and primarily because it would be less likely to have a disturbing effect on working relations with the Lords, the Committee consider that Scheme B is preferable to Scheme A in the context of a measure limited to dealing with the powers of the Lords over legislation. We have had a one clause draft for a Bill prepared to give effect to this scheme.

Application to particular types of Bill

6. The present Parliament Acts do not apply to Bills introduced in the House of Lords. There would, in any event, be difficulties in devising a scheme to limit the powers of the Lords to reject or delay such Bills. In practice, however, the Government is unlikely to introduce in the Lords a major controversial measure on which the Lords would be likely to take such action. There is of course the risk of the Lords refusing to agree to Commons' amendments of a Lords' Bill. Express provision to deal with this situation would not be compatible with Scheme B, but, if the case arose, the situation could be met under Scheme C by introducing in the Commons the original Bill as amended by the Commons.

7. Section 2 of the Parliament Act does not apply to Bills to extend the duration of a Parliament, to Private Bills and to Provisional Order Confirmation Bills, but it does apply to Public Bills introduced by Private Members and to Hybrid Bills. The Committee do not consider that any change is required in these respects and, in any event, under Scheme B it would be undesirable to complicate an otherwise simple measure by making specific reference to a particular type of Bill.

II. Abolition of power to withhold consent to subordinate legislation

8. There are two alternatives here. The first and more drastic is to amend all the existing enactments which confer on both Houses power to block subordinate legislation (whether by passing a resolution for annulment or by rejecting a motion for approval). The amendment would simply transfer to the House of Commons alone the powers hitherto enjoyed by both Houses, and would of course be coupled with a decision to confer these powers on the House of Commons alone in any future enactment providing for Parliamentary control over delegated legislation.

9. This proposal would not necessarily involve any alteration in existing (or future) obligations to lay subordinate legislation before both Houses. It would remain open to the House of Lords accordingly to debate subordinate legislation, but such debates would have persuasive force only.
Even so, this alternative might be considered unduly drastic having regard
to the fact that the Lords do not in practice carry negative resolutions
against the Government nor refuse Government motions for approval. Moreover
it would mean the end of the scrutiny of subordinate legislation by the
Special Orders Committee (at all events in its present form) which exercises
a useful function in the case of orders requiring affirmative approval, thus
involving a net loss in the attention paid by Parliament to the content of
subordinate legislation which could not be made up in the Commons without
placing additional burdens on the time of Members of that House.

10. The Committee therefore considered the other alternative, namely, to
limit the existing powers of the Lords in respect of subordinate legislation
so as to ensure that the will of the Commons should prevail notwithstanding
rejection of such legislation by the Lords. Such a system would be more
consistent with the philosophy of the Parliament Acts in the field of
legislation proper. Under this alternative the powers of the Lords over
statutory instruments which are at present subject to a negative resolution
passed in either House would be limited by providing instead that annulment
of such instruments should be subject to a negative resolution passed in
both Houses. This would leave the Lords with their existing power to pass
a negative resolution, but such a resolution would be ineffective unless
concurred in by the Commons. In respect of statutory instruments requiring
affirmative resolution, it might be provided that a resolution of the
House of Commons approving an instrument should have effect as if passed by
both Houses, if the House of Commons so direct, whether by the same or by a
subsequent resolution. In the case where the Commons dealt with an
affirmative resolution before it was taken in the Lords, it would thus be
open to the Commons to direct that the instrument should be treated as if
passed by both Houses, so that any subsequent rejection of the instrument
by the Lords would be ineffective. Such precautionary action might be
necessary if conflict with the Lords was known to be likely in a particular
case, or had become likely as a general rule in consequence of strained
relations between the two Houses. However, invocation of these powers by
the Commons would be controversial and time-consuming and, in the atmosphere
engendered by new Parliament Act legislation, the Lords would be likely to
reject Orders in circumstances where they at present accept them. The
Committee do not, therefore, consider that it would be satisfactory to leave
the Lords even with the restricted powers suggested in this alternative.
II. The difficulty of devising satisfactory arrangements for dealing with statutory instruments is a further illustration of the more general difficulties inherent in any measure which is confined to dealing with the powers of the Lords over legislation and does not extend to reform of their composition. In the absence of such reform, the Committee concluded that they could only choose the first alternative, which would transfer to the House of Commons alone the powers hitherto enjoyed by both Houses in relation to statutory instruments, but they came to this conclusion with reluctance. This alternative would require further examination in detail with a view to ascertaining what enactments, other than the Statutory Instruments Act, require separate amendments and with a view to drawing the line between subordinate legislation to which the new provision should and should not apply. A distinction should no doubt be drawn on lines similar to the distinction between public Bills and other Bills, and there is a borderline case (not yet examined) in the field of orders subject to special procedure under the Statutory Orders (Special Procedure) Act 1945.

III. Summary of Conclusions

12. On the assumption that the powers of the Lords to delay legislation are to be abolished but that there is to be no substantial change in the present composition of the House of Lords and no other alterations in its field of operations, the Committee's conclusions are —

(1) that the proviso to Section 2(1) of the Parliament Act 1911 should be repealed, thus abolishing the existing limitation whereby a Bill rejected by the Lords in two successive Sessions may not be presented for Royal Assent under that Section unless one year has elapsed between Second Reading in the House of Commons in the first Session and the passage of the Bill by that House in the second Session.

(2) that existing enactments, which confer on both Houses power to block subordinate legislation should be amended so as to transfer to the House of Commons alone the powers hitherto enjoyed by both Houses.
CABINET

REPORT OF THE COMMITTEE ON MINISTERIAL PUBLICATION

NOTE BY THE LORD CHANCELLOR

I circulate for the consideration of the Cabinet the attached Report of the Committee on Ministerial Publication which was appointed in February 1967 to consider "the rules and conventions governing the Ministerial use of official material otherwise than for current official purposes; and to make recommendations for any changes in these rules and conventions which appear to be required in order to maintain the principles of confidentiality and collective responsibility in the conduct of Government business". The Committee's conclusions and recommendations are summarised in paragraphs 23 and 24 and the guidance which we recommend should be given to Ministers is set out in Annex B in the form of an additional section to be added to the memorandum "Questions of Procedure for Ministers" (C (P) (66) 5).

The Committee's recommendations are unanimous, except on the question, discussed in paragraphs 14 to 16, whether Ministers should be asked to give an undertaking to accept, after discussion, any requests which the Secretary of the Cabinet thinks it necessary to make for the deletion or alteration of passages in the manuscript of their memoirs.

I invite the Cabinet to come to a conclusion on this question and to approve the recommendations in paragraph 24 of the Report.

G.

House of Lords, S.W.1.
1st September, 1967.

REPORT OF THE COMMITTEE ON MINISTERIAL PUBLICATION

Introduction

1. The Cabinet agreed on 26th January, 1967, that it would be desirable to study the present conventions about the publication of memoirs by Ministers (CC (67) 3rd Conclusions, Minute 1). By
direction of the Prime Minister a Committee under the chairmanship of the Lord Chancellor consisting of the Home Secretary, the Minister without Portfolio (Mr. Gordon Walker) and the Attorney-General were appointed on 14th February with the following terms of reference:

"To consider the rules and conventions governing the Ministerial use of official material otherwise than for current official purposes; and to make recommendations for any changes in these rules and conventions which appear to be required in order to maintain the principles of confidentiality and collective responsibility in the conduct of Government business."

The Lord Privy Seal was added to the Committee on 5th May.

2. Section I of our report deals with the question of principle: is it necessary that restraints should be placed on the freedom of Ministers and junior Ministers to publish accounts of their experience in office either in memoirs or in other work? We think that some restraints are necessary. We consider in Section II the restraints imposed by the law, which we regard as ineffective except in relation to disclosure of important secrets. In Section III we consider the existing practice and conventions on the publication of memoirs and other work, the arrangements for the clearance of manuscripts and the custody of documents, and we make recommendations on how these conventions should be clarified and operated. Section IV summarises our conclusions and recommendations.

I. SHOULD RESTRAINTS BE OBSERVED IN THE PUBLICATION OF MINISTERIAL MEMOIRS?

3. We think it would be generally agreed that some reticence is necessary about the conduct by a Government of their day-to-day business, but with this we are not concerned. We are concerned with the point where day-to-day business passes into history; and here the interests of history and those of Government appear to be in conflict. The personal recollections of the participants in affairs are the stuff of which history is made. They convey the reality of the political life of a period as no collection of official documents can by its nature do. Official documents are by design and intention objective, factual, impersonal; but the historian is concerned not merely with facts and events, but with the reaction to them of the people who carried the responsibility for Government. He needs their subjective account of how matters appeared to them, of how affairs were in fact handled and how the inter-action of personalities and opinions, the tension between conflict and loyalty, influenced the determination of a Government's policy.

4. Our system of Government on the Cabinet model, with its doctrine of collective responsibility, is concerned, on the other hand, to maintain a structure of custom and convention which will contain fissiparous tendencies and enable a group of people to reconcile their inevitable differences on incidentals so as to direct their energies to the achievement of a common purpose on fundamentals. It is
essential to this end that Ministers should be able to enjoy "absolute frankness in private relations and full discussion of all matters of common interest. . . . Decisions freely arrived at should be loyally supported and considered as decisions of the whole Government" (Joseph Chamberlain). Or, as Gladstone put it, "in Cabinet differences of view can be stated and if need be argued and then advisedly surrendered with a view to a common conclusion." This implies a high degree of confidence and mutual trust amongst colleagues in the Government; for Ministers will not feel free to discuss frankly and to surrender their personal and departmental preferences to the achievement of a common view, nor can they reasonably be expected to abide by a common decision, if they know that the stand they have taken and the points they have surrendered will sooner rather than later become public knowledge. If the soundness of Cabinet government depends on this mutual confidence, its basis can be eroded by the disclosure of what has passed within the confidential relationship.

5. But these considerations do not require silence to be observed for ever; the question arises at what interval from events disclosure of what kinds ceases to be harmful. This is largely a matter of judgment; and while the disclosure of the course of discussion at any one Cabinet meeting, or a frank account of the relations of any one former Minister with his colleagues in the Government may not do much harm, except perhaps to the feelings of those concerned, if it became the practice for disclosure to be made while those concerned were still active in political life and the issues between them were still a matter of lively controversy, the frankness essential to relationships among serving Ministers might well be destroyed.

6. The problem, then, is to strike a tolerable balance between the degree and nature of disclosure and the length of time that has elapsed since the events, bearing in mind that, if restraints are too tight and the periods too long, much of the valuable raw material of political history, and hence of our accumulated political experience, may cease to be produced; while, if the periods are too short and the restraints ineffective, memoir writing will in time change the system which it prematurely records.

II. THE BACKGROUND OF LAW

7. The law affecting publication by Ministers and related matters may be summarised as follows:

(a) The Official Secrets Acts

The Official Secrets Acts forbid any person who has had in his possession, or has had access to, any note, document or information by reason of holding office under Her Majesty or has had such note, document or information entrusted to him in confidence by a person holding such office:

(i) to communicate the document or information to any person other than one to whom he is authorised to

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communicate it or to whom it is in the interests of the State his duty to communicate it; or

(ii) to retain it when he has no right to retain it or to fail to comply with the directions of a lawful authority to return it.

It is an offence for a person to whom a document or information is communicated to receive it if he knows or has reasonable ground to believe that the communication was in contravention of the Acts, unless he can show that it was communicated to him against his wishes.

These provisions apply to information passed orally and to copies of documents, diary entries or tape recordings containing such information. A Minister or former Minister who publishes information which he has obtained by reason of office may be committing a criminal offence unless he has been authorised to disclose the information, as may a publisher who receives information, the disclosure of which he knows to be unauthorised. A former Minister who without authority retains possession of an official document may also be committing an offence. The consent of the Attorney-General, or, in Scotland, the Lord Advocate, is required under the Acts before a prosecution can be instituted. The principal considerations which he would take into account would be the possible damage to national security or to international relations caused by an unauthorised disclosure, whether the Government had had an opportunity of preventing disclosure, whether the information was harmless because of the lapse of time since its origin, and whether it was the current practice to authorise Ministers or former Ministers to make similar disclosures.

(b) Common Law

The High Court may grant an injunction to restrain a person who has obtained information through a fiduciary and confidential relationship with another person from disclosing that information without authority. Ministers have a confidential relationship with the Crown: and, although the point has never been tested, we think that the court could grant an injunction to prevent a Minister or former Minister from publishing without authority information obtained by reason of his office and that they could similarly restrain, for example, a publisher. The fiduciary relationship which is the basis of this jurisdiction does not depend on the Privy Counsellor's oath, the legal (as distinct from the moral) force of which may be in some doubt. The foregoing refers to the common law of England, but in Scotland the common law position is very similar.

(c) Public Records Act

Section 5 of the Public Records Act 1958 provides that documents deposited in the Public Records Office in London shall not (with some exceptions) be available for public
inspection until they have been in existence for a stated period which, after the end of 1967, will be 30 years or such other period as the Lord Chancellor may, in particular cases, direct. A similar rule is observed by practice in the case of documents deposited in the Scottish Record Office in Edinburgh. If there were a disclosure after that period of information contained in a document deposited in either of these Offices, it could not be said to be a breach of the Official Secrets Acts or of the fiduciary relationship with the Crown, because disclosure would, by implication, have been authorised.

8. While the prohibitions in the Official Secrets Acts apply to Ministers and former Ministers as to others, they are for practical purposes enforceable against them only in the event of disclosure or threatened disclosure of material damaging either to national security or to other important national interests. To take proceedings in other circumstances might well do more harm than it would prevent, since the public would be liable to suspect that the Government of the day were trying to conceal some political scandal or otherwise to save themselves from embarrassment. Proceedings by way of application for an injunction would be almost equally unattractive. The fact that they had been brought would inevitably become known, while their substance would remain secret, thus intensifying public suspicion and ensuring a ready market for the book if the author decided to publish in another country.

III. THE PRESENT CONVENTIONS

9. In the past reliance has been placed on convention rather than on the formal provisions of the law. This appears to be partly because of the limited practical efficacy of the legal prohibitions, partly because the legal prohibitions are so wide that they cannot be interpreted literally in their application to Ministers, whose whole official life is concerned with the receipt of information which is formally covered by the Acts although much of it is trivial. Reliance on convention also derives partly, we think, from the fact that much of the material which it would be undesirable for Ministers to publish prematurely does not consist in any literal sense of information, secret or otherwise, which has come to them as Ministers: it consists of the record of their own observation and assessment of their colleagues’ opinions, policies, strengths and weaknesses as experienced in the close personal relationships to which colleagues in the Government are inevitably committed. Premature publication of this type of material may be damaging not because the material is in its essence secret, but because of the position of the author. Publication by a former member of a Government may be a breach of the confidence which Cabinet government requires, as we indicate in paragraph 4, to subsist between Ministerial colleagues. The material acquires its secret character mainly because it is concerned with that relationship. From this
point of view the premature publication of domestic details about the inner life of a Government with its changing balance of opinion and influence might be no less damaging than publication of information about our relations with a foreign Power; and the convention therefore relies less on law than on a sense of what is right and proper.

10. We have been informed that the present conventions are as set out in Annex A. They deal not only with publication by former Ministers of autobiographical and other work, but with access to official records for autobiographical purposes; with the surrender and removal of official documents when leaving office; and with the safeguarding of official papers already in private collections. We think that they are too imprecise in some particulars and that they need to be supplemented on certain matters with which they do not at present deal. We comment on these points in what follows.

General

11. We think it is not made sufficiently clear to Ministers that the Official Secrets Acts apply to them, as to others who acquire information in their official capacity, but that they may be able to obtain authority for the publication of information which might otherwise be regarded as covered by the Acts. They should also be made aware of the considerations which, apart from the law, require a proper degree of reticence from those who have shared responsibility for government. For both reasons a former Minister who intends to publish a book dealing with or derived from his own experience as a member of the Government should give notice of his intention and endeavour to obtain authority for publication. We recommend that a statement to this effect should be given to a new Minister (including junior Ministers) on taking office and should be embodied, with a statement of the whole body of relevant conventions, in the memorandum "Questions of Procedure for Ministers" which is circulated at the beginning of every new Administration. The current edition is C (P) (66) 5. We attach as Annex B a proposed new section.

Publication and clearance of manuscripts

12. We recommend that Ministers and former Ministers should send manuscripts disclosing information or repeating knowledge gained as Ministers (whether purely autobiographical or not) to the Secretary of the Cabinet before the work is set up in print. We further recommend that this rule should be reinforced by requiring Ministers on taking office to sign a document:

(i) acknowledging that the Official Secrets Acts apply to them;

(ii) undertaking that when they leave office they will not carry away any official documents, defined as administrative and departmental records belonging to Her Majesty* except, with the permission of the Secretary of the Cabinet,

* Public Records Act, 1958, Schedule 1, paragraph 2 (1).
copies of papers (other than those classified “TOP SECRET”) with which they have had a particularly close personal association;

(iii) undertaking to submit appropriate manuscripts to the Secretary of the Cabinet as above.

When a Minister leaves office this document should be produced to him as a reminder of his undertakings and of the facilities available to him for obtaining authority for the publication of material otherwise covered by the Official Secrets Acts and for the removal of copies of departmental papers with which he has been particularly closely associated (see paragraph 18).

13. We have been unable to reach agreement on whether to add to the document a further point, namely an undertaking to accept any suggestions the Secretary of the Cabinet may make for deletion or amendment of a manuscript. Three of us considered that this should not be included; two that it should. We are agreed that the purpose of the submission of manuscript is threefold: to secure formal authority for the publication of material the unauthorised publication of which would be a breach of the Official Secrets Acts; to enable the author to be warned if what he proposes to publish would endanger security (which he may not himself be in a position to judge); and to give an opportunity for the author’s attention to be drawn to passages which appear to be in breach of the conventions and to the harm which their publication may do to our system of government and to public confidence in it. We are also agreed, having considered various alternatives (for example, an all-party group of Privy Counsellors or a committee consisting of the Prime Minister of the day, his predecessor(s) in office, the Attorney-General and the Leader of the Opposition), that the appropriate person to consider manuscripts is the Secretary of the Cabinet. He serves not only the Government in office, but successive Governments. He is therefore well suited to discharge a responsibility for the continuing soundness of the system of government under which each successive Administration operates and for the observance of the conventions which safeguard it. He is in a position to consult (and advise) both the Prime Minister of the day and the Prime Minister of the Government in which the author served; and he can ensure that any harm which publication might involve either to security or current international relations is assessed by the appropriate departments. Our disagreement is on the question whether a former Minister should be required to accept proposals put to him by the Secretary of the Cabinet for the deletion or amendment of passages in his manuscript and to sign an undertaking on assuming office binding himself in advance to do so.

14. The three members of the Committee who oppose a binding undertaking believe that in practice former Ministers will accept the great majority of the proposals put to them and will not wish deliberately to prejudice the security of the country, the conduct of
its international relations or the basis of Cabinet government. But in so far as these—and particularly the third—are matters not of fact but of judgment or of taste, the majority of the Committee think that the author should have the right, having discussed the matter fully with the Secretary of the Cabinet, in the exceptional case in which he considered the Secretary's requests oppressive, to accept the risk of prosecution and to publish. There should be no ultimate censorship except the law of the land. They consider it important that the possibility of publishing dissenting opinions should not be excluded. Furthermore, they regard it as unreasonable and unrealistic to expect a Minister on leaving office to bind himself to accept a form of censorship at an unknown future date and in unknown circumstances when the character of the Government and the relationship of the Secretary of the Cabinet to it may be wholly other than they are to-day.

15. The two members who believe that a Minister should be asked to undertake to amend his manuscripts in accordance with the proposals of the Secretary of the Cabinet, consider that as the fact of having been a Minister confers a peculiar interest and value on his autobiographical work so also it imposes a peculiar obligation. The law itself requires him to obtain authority for the publication of information which he acquired in his official capacity as a Minister. He could be restrained from publishing without authority by an injunction issued by a judge: this he would presumably accept. But in the view of these members the Secretary of the Cabinet is better placed to give or withhold authority than a judge; he could discuss disputed points with the author and would insist on a deletion or amendment only if there were real risk to security or to the current Government's international relations or to the maintenance of the doctrine of collective responsibility. He would moreover be in a position to assess, as an individual author would not, the cumulative effect of disclosures which though not seriously harmful individually might over a series of publications weaken the basis of Cabinet government, and public confidence in it. Moreover, an author who considered the requests for amendment oppressive could lay his case before the Prime Minister and the Leader of the Opposition. The minority therefore consider that the judgment of the Secretary of the Cabinet should be accepted; and that since there can be no wholly effective legal sanction Ministers should place themselves under the moral sanction of a prior undertaking to accept it.

16. The two members draw attention to the fact that, while we have been considering the questions we have been asked to consider, the serialisation of extracts from Mr. Nutting's book were published and that it contains much information obtained by him and entrusted to him in confidence as a Minister and which he was not authorised to publish. They feel that this information is used as evidence to support his case that the Suez episode was one of the most disgraceful incidents of British history—arranging for Israel to attack Egypt so that we could then seize the Suez Canal under guise of an intervention to stop a war which we had ourselves helped to arrange, and that the
publication makes it clear to the world, including the Arab world, what the British did 11 years ago. Now, with our oil supplies in danger, the much fuller description has been published in the book containing many passages in full which Mr. Nutting had been asked by the Secretary of the Cabinet not to publish. The publication both of the extracts and of the book contravenes the provisions of the Official Secrets Acts, and though in the circumstances of the particular case the Attorney-General decided that it would not be in the public interest to institute criminal proceedings, it might well be that in a future case of an unauthorised publication by a Minister or an ex-Minister prosecution would be justified and indeed necessary in order to protect the public interest. The two members feel that this example illustrates the danger of saying in Annex B: “You should pay attention to what the Secretary of the Cabinet says but of course you are not even under a moral obligation to accept what he says.”

Writings other than memoirs

17. We have considered whether whatever arrangement applies to autobiography as such should apply also to works for which the author has drawn on knowledge gained by reason of having served as a Minister. The line here is difficult to draw. In a sense the whole of an author’s knowledge and experience forms a basis for his subsequent writing, but it is possible to distinguish cases where knowledge acquired as a Minister forms a background from those where it supplies the substance of the book. The publication of studies, for example, of the structure and day-to-day working of the central machinery of government or comparing the Cabinet and Presidential systems, would be the more valuable for being written out of the first hand experience of former Ministers; but they could also be an occasion for the sort of discussion which, as we have indicated in Section I and paragraph 9 of this report could be harmful to our political life. This type of disclosure ought to be avoided no less in works on Government or political theory than in autobiography. Clearly Ministers cannot be asked to submit all their subsequent writings to the Secretary of the Cabinet and we think that reliance must be placed on their own judgment to decide which of them raise considerations similar to those raised by memoirs and to regard them as being covered by the undertaking referred to in paragraph 12. In some instances it may be impracticable to submit manuscripts in advance, for example, where newspaper articles, lectures or broadcasts are commissioned at short notice; but in writing these former Ministers should bear in mind the obligations of reticence which rest upon them as such.

Custody of official papers

18. Since 1934 it has been the rule that Ministers on leaving office should return to the Cabinet Office all Cabinet documents except, where there has been no change in the political party forming the Government, those required for current administration. In October 1964 outgoing Ministers were asked in addition to leave behind them any other official documents including copies. We think that Cabinet documents should be returned to the Cabinet Office and that other official papers, which we define in the terms
of the Public Records Act 1958 as “administrative and departmental records belonging to Her Majesty” should be left behind to form part of the departmental archives which will eventually be deposited in the Public Record Office. A Minister should be free to remove his purely private correspondence, notwithstanding that some of this may refer to official business; and we think that the existing rule should be modified to the extent of permitting a Minister to take with him a copy of any departmental document (other than one classified “TOP SECRET”) with which he has had a particularly close personal association, either because he drafted it himself or because it was drafted on his instructions in such a way as to reflect his personal views. A Minister’s private papers will eventually form a useful source of material for historians and we think that they would be impoverished if they did not contain some reflection of his immediate personal contribution to the formation of policy. We recognise that the class of papers we have in mind is difficult to define and we therefore consider that a Minister should take with him copies of departmental papers only with the agreement of the Secretary of the Cabinet who would naturally consult the permanent head of the Department in question. This would ensure some uniformity of practice and would afford an opportunity for the Secretary of the Cabinet to advise the Minister on the safe custody of these papers which, in so far as they contain copies of official documents, should not be made available to the public until the corresponding official records are also opened for public inspection.

Diaries

19. We do not think that Ministers could or should be forbidden to keep diaries; and we cannot in practice distinguish between a diary kept in manuscript and one recorded on tape, but we think that Ministers who keep diaries, or collect diary-life material, as a basis for subsequent authorship should bear certain considerations in mind. Ministers traditionally refrain from taking notes of Cabinet meetings but it would be possible for a Minister with a retentive memory to record subsequently an almost verbatim account of the discussion on a particular topic. The knowledge that one or more Cabinet colleagues may be recording either in a diary or on tape, a full account of confidential discussions in Cabinet and elsewhere is likely to inhibit the spontaneity and frankness of discussion which we consider important to the conduct of Cabinet government. There is, moreover, one difference between diary and tape recordings—namely that the latter have to be typed, and this constitutes a potential risk both to security in the narrow sense and to the confidentiality of Government business. Private transcription of tape recordings is not necessarily subject to the precautions that can be taken to preserve the secrecy of official material and control the number of copies made. We recommend that the risks inherent in keeping diaries or diary-material should be drawn to the attention of Ministers; that they should make the typist who transcribes this material aware of the provisions of the Official Secrets Acts; and that diaries and diary-like material whether in manuscript or on tape and transcription from tape should be kept under secure lock and key.
Contracts

20. The existing conventions are silent about the propriety of entering into contracts with publishers while holding office. It is, however, a principle of public life that Ministers must so order their affairs that no conflict arises, or appears to arise, between their private interests and their public duties. It is also a well-established rule that Ministers should not accept gifts or services which would place them under an obligation to a commercial undertaking. Part of the difficulty of the whole problem of Ministerial publication lies in the fact that the publication of memoirs can be extremely profitable both for the publisher and for the author; and where publication follows shortly after the author has held office it may also be true that the extent of the profit is directly related to the frankness of his disclosures, not necessarily of State secrets in the strict sense but of confidential gossip and personalities. Ministers should avoid putting themselves in a position where it may be thought, whether justifiably or not, that they are preparing, while in office, to make money out of the positions which they have held and the confidential information which they have acquired.

21. We recommend that Ministers should not, while in office, enter into a contract with a publisher for any work based directly on Ministerial experience. This limitation would apply from the present time; we do not think that Ministers who have already entered into such a contract need be required to seek to have it cancelled or modified.

22. Our terms of reference do not require us to consider the rules applying to the memoirs of military commanders; but since we have been informed (in the statement in Annex A) of the reasons why greater latitude was allowed in the use of official information in memoirs dealing with the two world wars of this century we wish to place on record that we do not consider that any greater latitude should be given to military commanders writing about their conduct of operations in war than is allowed to Ministers defending their conduct of affairs in time of peace.

IV. CONCLUSIONS AND RECOMMENDATIONS

23. We are agreed that Ministers are not given sufficient guidance at present on the considerations they should bear in mind in collecting material for, and publishing, work which depends on knowledge acquired in their official capacity. We have therefore made a number of recommendations for providing such additional guidance as seems to us necessary. We recognise that former Ministers in publishing autobiographical material must have regard to considerations of national security. Apart from this, the problem seems to us to be one of maintaining a reasonable balance between on the one hand the need in our system of government to maintain mutual confidence among Ministerial colleagues and on the other the value of the contribution which political memoirs can make to
an effective and informed parliamentary democracy (paragraphs 3–6). This is not an easy balance to strike, since the relative weight which should be given to these considerations is largely a matter of personal and political judgment and will depend in varying degrees on the amount of time that has elapsed since the events in question. We have concluded therefore that guidance should be given in two forms: in the form of a written statement which Ministers will see while in office and in the form of advice on manuscripts before they are submitted to the publishers. We are agreed that the appropriate person to advise on the manuscript (as well as to give authority for publication for the purposes of the Official Secrets Acts) is the Secretary of the Cabinet. We did not find it possible to agree, however, on whether or not Ministers should be required to give an undertaking to accept any suggestions the Secretary of the Cabinet may make for deletion or amendment. (The considerations on either side are set out in paragraphs 14–16.) Notwithstanding a difference of view on this point we believe that if our recommendations are accepted, useful guidance will be given to future Ministers. They will find conveniently in one place a statement of the law and conventions that govern publication of material acquired in their official capacity and the collection and custody of autobiographical material, and on the procedure to be followed before publication.

24. We recommend that:

(1) On taking office, Ministers should be given a statement setting out the considerations, legal and otherwise, governing the collection and publication of material based on knowledge acquired in their official capacity. This statement should be embodied in the memorandum “Questions of Procedure for Ministers” (paragraph 11 and Annex B).

(2) Before publication, manuscripts of memoirs should be sent to the Secretary of the Cabinet, so that authority can be given for publication of material which might otherwise be covered by the Official Secrets Acts and the author’s attention can be drawn to passages which appear to be in breach of the conventions (paragraph 12). Other publications, which seem to former Ministers to raise similar issues, should be treated in the same way, unless considerations of time render this impracticable (paragraphs 12 and 16).

(3) On taking office, Ministers should be required to sign a document:

(i) acknowledging that the Official Secrets Acts apply to them;

(ii) undertaking that they will not carry away official documents when they leave office except, with the
permission of the Secretary of the Cabinet, copies of papers (other than those classified “TOP SECRET”) with which they have had a particularly close personal association; and

(iii) undertaking to submit manuscripts to the Secretary of the Cabinet as in (2) (paragraph 12).

(4) On leaving office, Ministers should be shown the document in (3) and asked to sign a statement that they have observed undertaking (3) (iii) above (paragraph 12).

(5) The security risks inherent in keeping diaries or diary-material should be drawn to the attention of Ministers, who should ensure that any typist transcribing the material is aware of the provisions of the Official Secrets Acts and that any such material is kept securely (paragraph 19).

(6) Ministers should have regard to the advice of the Secretary of the Cabinet on the custody of any copies of official documents which they have been permitted to take away on leaving office (paragraph 18).

(7) While in office, Ministers should not enter into a contract with a publisher for any work based directly on Ministerial experience; this limitation should apply from the present time (paragraph 21).

ANNEX A

PRESENT CONVENTIONS ON PUBLICATIONS, CLEARANCE OF MANUSCRIPTS AND CUSTODY OF DOCUMENTS (see paragraph 10)

Publication of memoirs and biography

1. It has long been recognised that an individual who has carried personal responsibility for the management of public affairs is entitled after he has left office to defend his record and his reputation, whether directly in memoirs or an autobiography or indirectly by an “official” biography undertaken by his son or by a historian commissioned by his family. Hence:

(a) it is generally accepted that Ministers need not refrain from keeping a private diary;

(b) a former Minister may “refresh his memory” by consulting:

(i) departmental papers dating from the period when he was in charge of the Department, and

(ii) Cabinet (including Cabinet Committee) papers circulated to him while in office (in the case of
an official biographer, such papers as his subject originated); and

c) as a corollary of (b) a research worker assisting a former Prime Minister who is in poor health has occasionally been given access to papers other than those of particular secrecy, subject to an undertaking that official material will be used only for the purpose of the autobiography and an acknowledgement that the Official Secrets Acts apply.

2. If a former Minister (or his official biographer) takes advantage of the opportunity to consult Cabinet papers or his intention otherwise becomes known, he is asked to submit his manuscript to the Secretary of the Cabinet for clearance before sending it to the publisher or signing a contract for publication and to accept such suggestions for amendment or deletion as may be made. If necessary the Secretary of the Cabinet consults the Prime Minister of the day and the Prime Minister of the Administrations in which the former Minister served or the current Leader of his Party. In considering manuscripts, regard is normally had to:

(i) considerations of national security;

(ii) any risk that disclosure would embarrass the Government in office in their current relations with foreign Powers;

(iii) the maintenance of confidential relationships by avoiding in particular (a) the disclosure of differences of view between Ministers, or between Ministers and their named advisers, and (b) the use of direct quotation or close paraphrase from official, and particularly Cabinet, documents within the closed period (which would be liable to provoke a demand for publication of all the relevant papers).

Authors are asked to delete material which is objectionable under any of these heads (bearing in mind in relation to (iii) that disclosures of differences become less objectionable with the passage of time). In the absence of an effective sanction, reliance is placed on persuasion and the good sense of the author who will often discuss the manuscript with the Secretary of the Cabinet with a view to reaching agreement.

3. Greater latitude was allowed in the use of official information deriving from the periods of the two Great Wars of the present century, for various reasons:

(a) Military commanders are open to public criticism for their conduct of operations and can reasonably claim a right of reply. It has seemed unreasonable to deny the same facility to their political superiors.
(b) Wartime administration raises problems which are of special public interest—and analysis of them may point valuable lessons for the future.

(c) In both wars there have been coalition Governments—and less reason therefore to fear that disclosure of Ministerial discussion will lead to political embarrassment.

(d) Disclosures relating to war periods, when the world is divided between allies and enemies, involve less risk of embarrassment in relation to foreign Powers.

(e) Official war histories are published well in advance of the 50-year period.

Publications other than memoirs and autobiographies

4. A Minister is precluded while holding office from the practice of journalism, though not from contributing an occasional article to a newspaper for the purpose of supplementing other means of informing the public about the work of his Department. He is not precluded from publishing writing of a literary, historical, scientific, philosophical or romantic character. In so far as he wished, for the purpose of writings of a non-biographical kind, to draw on knowledge and experience acquired as a Minister, for example in an academic treatise on Government, he would not be entitled to any special access to papers; but the considerations of law and principle relevant to autobiography would apply to him. He would be expected not to disclose official information or the private discussions of Ministers with one another or with named advisers. But there is no general requirement or even understanding that he should submit his manuscript for clearance (although a Minister has on occasion been asked to do so).

Custody of official documents

5. Government documents are the property of the Crown. Since 1934 it has been the rule, promulgated by successive Prime Ministers, that Ministers on relinquishing office should return to the Cabinet Office all Cabinet documents except for those required for current administration, which should be handed to their successors (assuming no change in the political Party in office). A special exception was made to this rule in 1945 in the circumstances of the war-time Coalition Government, when Ministers were permitted to retain War Cabinet memoranda and other documents of State which they wrote themselves. After the election of October 1964 outgoing Ministers were asked not only to return all Cabinet and Cabinet Committee documents but also to leave behind them any other official documents, including copies.

6. Ministers have in the past made collections of papers, which included originals or copies of official documents such as minutes passing between themselves and senior officials, correspondence with colleagues about proposals under consideration between them, drafts of Cabinet memoranda, telegrams, notes on departmental meetings
and so on. The Law Officers advised in 1934 that “once any
document is initialled for any official purpose it becomes an official
document and the property of His Majesty’s Government”. Many
of the documents in collections of this kind are therefore Crown
property. They may also be public records, subject to the Public
Records Act and therefore required, if not destroyed, to be lodged
in the Public Records Office. Some of them may raise questions of
security.

7. In relation to collections already in being there has been
a natural reluctance to insist on the extraction and return of official
material, including Cabinet papers. It has therefore been the practice
to permit official documents to remain in the collection provided that
the holder enters into suitable arrangements for the continued safe
custody of the documents on the following general principles:

(a) Where an institution, such as a University or College library
is asked to accept responsibility for a collection which
includes documents to which the 50-year rule applies,
it should accept them only on the understanding that it
is given discretion by the donor to withhold from public
inspection such parts of the collection as it would be
contrary to the public interest to disclose.

(b) In exercising this discretion the Institution should be guided
by the Cabinet Office or the relevant Government
Department.

(c) Cabinet papers should be segregated and no access permitted
without prior consultation with the Cabinet Office.

(d) Access to any official documents should be conditional on the
person concerned giving a written undertaking that, if he
wishes to publish anything based on such material, he will
submit his manuscript in draft, before submitting it to
a publisher, for official scrutiny and will accept any
amendments or omissions that may be required in the
public interest.

If a collection is in the hands of Trustees, the Trustees are asked
to observe similar safeguards and to ensure that any official documents
are not disposed of without the consent of the Prime Minister of
the day. Consideration is currently being given to the use of the
Lord Chancellor’s power under section 4(1) of the Public Records
Act to designate places in which substantial private collections of
official and semi-official papers are kept as “places of deposit” for
the purposes of the Act. Conditions can be attached to this
designation to ensure that any Government documents in the
collection are kept in proper custody, are not made available to
public inspection until the end of the appropriate closed period, and
conversely that the public are given access to papers which would
be open to inspection were they in the Public Records Office.
ANNEX B

DRAFT PASSAGE FOR INCLUSION IN A MEMORANDUM “QUESTIONS OF PROCEDURE FOR MINISTERS” FOR INSERTION AFTER SECTION XVIII OF THE DOCUMENT ANNEXED TO C(P)(66) 5 (see paragraphs 11 and 24)

XVIII. PUBLICATION AFTER LEAVING OFFICE OF MEMOIRS OR OTHER WORK BASED ON MINISTERIAL EXPERIENCE

General considerations

86. A Minister by accepting office also accepts certain obligations, both legal and moral, which remain with him after he has ceased to be a Minister. These include the obligation of reticence about matters which he has learned or observed in his official capacity. A Minister who after leaving office wishes to publish work, whether autobiographical or not, which draws on knowledge acquired in his official capacity should bear in mind the following:

(a) Disclosure without authority of information which he obtained by virtue of his office may involve a breach of the Official Secrets Acts and of the fiduciary relationship in which Ministers stand to the Crown.

(b) Disclosure of official information may also embarrass the Government of the day in their relations with foreign powers and possibly endanger national security.

(c) Apart from legal considerations, the maintenance of the Cabinet system of government depends on frankness and mutual trust among colleagues in the Government. “In Cabinet differences of view can be stated and if need be argued and then advisedly surrendered with the view to a common conclusion” (Gladstone). Ministers may feel less free to participate in this process of reaching a common mind if the stand they have taken and any surrenders made are likely thereafter to become public knowledge. Consequently disclosure of discussions in Cabinet and of private consultations among Ministers can do grave harm to the foundation on which the system rests. It is accordingly incumbent on former Ministers to observe a proper reticence in writing of their experiences in office.

(d) By convention Ministers do not publicly disclose the advice they have received from officials or the views of individual officials since to do so might undermine confidence in the impartiality of the Civil Service or compromise the usefulness of an officer liable to service abroad for employment in particular posts.
The need for reticence decreases with the passage of time. Former Ministers should be more reticent the nearer they are to the events described; and they should have regard to whether former colleagues to whom they are referring are still active in public life.

87. Authority for the publication of material which might otherwise be regarded as covered by the Official Secrets Acts can be obtained by submitting manuscripts to the Secretary of the Cabinet who is responsible for giving formal authority for the purpose of the Acts and has a duty to warn the author if what he proposes to publish would endanger national security or seriously embarrass the Government of the day in their relations with foreign Powers. He may also take the opportunity of drawing the author's attention to passages which appear to be in breach of the conventions governing the confidential relations between Ministers, their colleagues and their official advisers. If necessary the Secretary of the Cabinet consults the Prime Minister of the day and, where appropriate, the Prime Minister of the Administrations in which the author served.

88. Ministers are asked on taking office to give an undertaking to submit manuscripts of relevant work which, after leaving office, they propose to publish to the Secretary of the Cabinet before it is set up in print. They should allow adequate time for the consideration and, if necessary, amendment of the manuscript. They will be able, if they wish, to discuss the Secretary's comments with him and they should in general (be bound by pay full attention to) his suggestions for the deletion or amendment of material.

89. The considerations which apply to autobiographical work apply also to work which draws similarly on knowledge gained by reason of service as a Minister, such, for example, as academic works on aspects of government. If a Minister is in any doubt as to whether his undertaking covers a particular project he should seek the advice of the Secretary of the Cabinet. The obligations of reticence apply also to articles, lectures and broadcasts and, while the prior submission of texts of this character to the Secretary of the Cabinet may be rendered impracticable by considerations of time, former Ministers should consult him if they are in any doubt about the propriety of using material derived from their Ministerial experience.

Collection of autobiographical material

90. On leaving office Ministers should surrender all Cabinet and Cabinet Committee papers including copies. They should not take away original departmental papers. These fall within the definition in the Public Records Act 1958 of administrative and departmental records belonging to Her Majesty and will in due course be deposited in the Public Record Office. They may keep purely personal correspondence and, subject to obtaining the permission of the Secretary of the Cabinet, who will consult the permanent head of their Department, they may if they wish take copies of
departmental documents (other than those classified "TOP SECRET") with which they have had a particularly close personal association, either because they drafted them themselves or because the documents explicitly reflect their personal views on policy. A Minister who takes copies of official documents is personally responsible for seeing that such copies are kept in secure custody, are not disclosed to persons who would not be entitled to access to the corresponding official papers and are not disposed of without appropriate safeguards while the corresponding official documents are closed to public inspection. The Cabinet Office will be glad to advise on custody and on arrangements which have been made for the preservation of existing collections of former Ministers in Universities and other institutions.

Diaries

91. Ministers are not precluded from keeping diaries, though they should not make and take away notes of Cabinet meetings. If they do keep a diary, either in manuscript or on tape, they should remember that the knowledge that Cabinet colleagues may be making a full record of confidential discussions among Ministers in Cabinet and elsewhere is likely to inhibit the spontaneity and frankness which is important to the conduct of Cabinet government and that the mere existence of such records, particularly if kept on tape, constitutes a potential risk both to the security in the narrow sense and to the confidentiality of Government business. If a Minister employs a typist to transcribe either manuscript or tape he should make her aware of the provisions of the Official Secrets Acts which will apply to her and should see that both the original and the transcription are kept under secure lock and key.

Contracts

92. In accordance with the principle that Ministers should so order their affairs that no conflict appears to arise between their private interests and their public duties and that they should not place themselves under an obligation to any commercial undertaking, Ministers should refrain while in office from entering into a contract with a publisher for any work based directly on Ministerial experience.
5th September, 1967

CABINET

INDUCEMENT PAYMENTS FOR TEACHERS IN CERTAIN SCOTTISH SCHOOLS

Memorandum by the Secretary of State for Scotland

There is an issue concerning incomes policy which I feel I must bring before my colleagues now; it relates to the introduction of a limited scheme of inducement payments to teachers in schools in Scotland which are seriously affected by a shortage of staff. The matter has been considered by the Ministerial Committee on Prices and Incomes, and I have the concurrence of the First Secretary, as Chairman of the Committee, in taking it to Cabinet.

2. At their meeting on 3rd August, the Ministerial Committee accepted in principle my proposals for a scheme of inducement payments and agreed that there should be an immediate announcement of this, but took the view that they should not be implemented except as part of the general revision of Scottish teachers' salaries due from April, 1968. The ground for this view is that the credibility of our prices and incomes policy would be called in question if we were seen to be offering special additional payments to certain teachers during the currency of the present salary settlement for Scottish teachers which is not due for revision until April, 1968. I believe on the other hand that there are powerful arguments for my going ahead now and introducing the scheme from 1st October, 1967 and that these outweigh any possible risk of damage to our incomes policy.

3. My proposals for a scheme of inducement payments are based on the recommendations of a Committee under the Chairmanship of Dame Jean Roberts set up in 1965 to consider means of bringing about a more equitable distribution of teachers in Scotland, where areas such as Glasgow, Lanarkshire and Renfrewshire are very badly affected by the teacher shortage. The setting up of the Committee followed the failure of two attempts by the previous Government in 1963 to introduce a special allowance for teachers in certain parts of the greater Glasgow area.

4. The Committee's central recommendation was that an additional allowance of £100 per annum should be paid to teachers in schools designated as schools seriously affected by staffing shortage. This is the essence of the scheme I propose to adopt. The designation of schools would be limited in such a way that not more than 4,000 teachers (10 per cent of the teaching force) would receive the additional allowance. The cost, at £0.4 million a year, is equal to rather less than 1 per cent of the total salary bill. (The Roberts Committee also recommended payment of travelling allowances to teachers in designated schools and this would increase the overall cost somewhat, but I am not proposing specific provision on travelling expenses at present.)
5. In my view there are compelling reasons for introducing the scheme of inducement payments from 1st October, 1967 and not leaving the matter to be dealt with in the next general revision of Scottish teachers' salaries. These are, very briefly -

(a) It is essential for me to take action to improve the distribution of teachers and to ease the situation in those schools which are acutely affected by staffing shortage - and to be seen to be doing so now. In March this year some 4,500 pupils were receiving only part-time education. I am satisfied that my proposals will bring about a substantial easement in the problem areas.

(b) I am under the strongest criticism on our failure to take any action on the Roberts Report - in our hands since April, 1966 and published in July, 1966. My position has been made even more difficult by our acceptance of the arbitration award on teachers' salaries in England and Wales.

(c) Proposals have been advanced in the Burnham Committee for additional allowances for "priority schools" in England and Wales as going some way towards meeting one of the Plowden Council's recommendations. While these proposals are rather different from mine, essentially they are directed to the same end. Agreement may well be reached on them within the next month or two. My position will be impossible if action on Plowden, published in January, 1967, overtakes action on Roberts, published six months earlier.

(d) We have declared our intention to see additional expenditure incurred on school premises in under-privileged areas. Many of the schools in these areas are very badly placed for staff, and in most cases an improvement in staffing is a more immediate priority than improvement of the buildings themselves. A policy which concentrates on the buildings but does nothing for staffing can hardly expect to commend itself to public opinion - least of all with the Roberts Report before us for well over a year and nothing whatever done on it.

6. There is a further practical point which I cannot ignore. I shall have to bring into being in the course of October the new salaries negotiating machinery for which the Remuneration of Teachers (Scotland) Act provides. With the new machinery in being I shall cease to hold the controlling position which I now have in matters of this kind. If I go ahead now, I can introduce the scheme of inducement payments at my own hand and in the form which is likely to be most effective. If I delay, in line with the view of the Ministerial Committee, then there is no assurance that any scheme can be introduced since the whole matter will be caught up in negotiations for the general revision of salaries, and any resultant scheme may be more costly and less effective than I would like to see.
7. I do not underestimate the considerations of incomes policy which led the Ministerial Committee to conclude that any scheme of inducement payments should be proceeded with only as part of the revision of salaries from April, 1968. I cannot think, however, that such risk as there may be of damage to the prices and incomes policy outweighs the considerations that I have mentioned in paragraphs 5 and 6 above. The issue is not just a marginal one of timing as between October, 1967 and April, 1968: it affects our whole standing in relation to Scottish affairs. I must therefore ask my colleagues to agree that I should go ahead with the scheme of inducement payments from 1st October.

W. R.

Scottish Office, S.W.1.

4th September, 1967.
PUBLIC SECTOR PRICES

Note by the Secretary of the Cabinet

The attached report by officials on public sector prices, already circulated as SEP(67) 59, is for consideration by the Cabinet on Thursday, 7th September.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

5th September, 1967
Introduction

1. On the 27th July, Ministers considered three papers dealing with public sector prices and nationalised industries' performance following on the end of the period of severe restraint, (CC(67) 53rd Meeting, Item 4). It was decided that individual increases would be deferred pending a full study by officials of the general principles of pricing and target fixing in nationalised industries, the application of these principles to individual cases, the best method of public presentation of increases and the desirability of establishing machinery to promote efficiency and cost reduction.

2. The present paper is the required study. The paper makes general proposals for a change in the degree of information available to Ministers in connection with efficiency and cost reduction. The paper also recommends the adoption, generally, of the practice of announcing the period for which individual prices will be expected to remain unchanged where prices have to be increased. Finally, proposals are made for the handling of the present price increase proposals and for linking them to a proposed new White Paper on Nationalised Industries.

Pricing and Investment Policies

3. The financial objectives set for nationalised industries have in themselves no particular economic significance. They are meaningful insofar as they reflect, for a given industry, the results to be expected from the right pricing and investment policies. Financial objectives are intended to express in a simple way the results which an efficient undertaking should achieve over a period of years; and so to provide a basis for the industry's commercial decisions and a yardstick of its performance. Thus the financial objectives should always flow from pricing and investment - not vice versa.

4. The objectives (which are usually expressed as a given rate of return on capital) vary according to the circumstances of the industry. They allow for any social obligations falling on the industries and reflect their different trading conditions and the composition of their assets.

* A list of the objectives at present set or under discussion is at Annex 'A'.

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Pricing Policy
5. Although the Government have no statutory power to direct nationalised industries as to what they should charge for particular goods or services, it expects them to base their pricing policy on certain broad principles. Thus, the public utilities are not expected to charge prices which would maximise their surpluses, since this would amount to using them as an instrument of taxation. Equally, they must avoid keeping prices so low in relation to costs as to create artificially a demand that could only be satisfied by further unremunerative investment. Resources would then have to be diverted from more productive uses.

6. In general, nationalised industries are expected to cover their total costs, including service of capital and depreciation at replacement cost; and to achieve some surplus, which varies from industry to industry. But it is not enough simply to achieve a prescribed rate of return overall. This could, for example, be done by massive cross-subsidisation of unprofitable services which, insofar as it amounted to a tax on consumers of other services, would be as objectionable as a subsidy from general taxation. A sound pricing policy requires that the prices of individual goods and services should reflect the costs involved in supplying them and the effect of demand in the market. In applying this principle, nationalised industries are expected to take into account that when there is spare capacity, short run marginal costs (i.e. the extra cost of raising output in the short run) are likely to be relevant; and that in the long run, the main consideration should be the industries' long run marginal costs - that is, the cost of supplying, on a continuing basis, those services and products whose separate costing is a practical proposition. The application of prices and incomes policy to public sector prices is dealt with in detail in Annex B.

Investment Policy
7. In assessing new investment, the nationalised industries are required to show that it is consistent with Government policy and will either yield a satisfactory financial return or be justifiable in terms of the wider costs and benefits involved. Investment programmes must be framed in the light of the Government's policy for the sector (fuel, transport, etc.) concerned.

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**Nothing in these principles will prevent the nationalised industries, in any situation where they have excess capacity, from seeking business at a price below total cost so long as the business makes a contribution to fixed charges. The industries are, of course, free to pursue this course of action already and are encouraged to do so. Off-peak tariffs are practical examples of its application.**
The nationalised industries have certain statutory duties to meet demand, and they have to undertake some social obligations on which a full commercial return cannot be expected. But except where investment is justified on wider social grounds, they are treated as commercial bodies and are expected to contribute to an efficient allocation of resources by including in their programmes only those projects which provide a satisfactory rate of return. The rate of return which new investment will earn with rational pricing policies is in fact a prime instrument of control.

8. The industries are expected to use suitable investment appraisal techniques. In most cases these are discounted cash flow techniques, which were chosen after discussion with Departments, the industries and experts in academic and industrial circles. The current test rate, which sets the minimum return to be expected from a project undertaken on commercial grounds is 8 per cent which is broadly consistent with the pre-tax rate sought by large private firms on low-risk investments.

Advantages of the present system

9. This system of financial objectives based on sound pricing and investment policies has considerable merits. It lets the industries know what is expected of them by the Government, and serves both as an incentive and discipline for management and as a standard by which success or failure over a period of years may be judged. It distinguishes clearly between economic and social ends; and encourages a rational use of resources. Moreover it gives the Government sufficient control to ensure that investment, etc., is tailored to national planning requirements, without interference in day to day management. It is thus readily defensible to the Select Committee on Nationalised Industries, the Prices and Incomes Board, etc. To abandon the present system under which objectives are related to investment and prices, and prices to costs, would therefore have serious disadvantages, both presentational and for resource allocation and management accountability.

10. The financial objective system also gives the Government a perspective of the degree of self-financing which can be expected from the industries. If prices and investment, as reflected in the financial objective, are right the result is a demand on resources which should in principle be met. If however prices are artificially held down, then, given the position that the level of savings is fixed and that savings and taxation must together cover investment, the ability of the industries to finance their investment would be reduced and the difference would be bound to be reflected in the form of increased taxation. In addition demand might be artificially stimulated leading to further uneconomic investment that would also have to be financed by additional taxation.

-3-
11. In this context it must be remembered that the figures are very big. A decline of only 1 per cent in the earning power of the total net assets of the nationalised industries means an increase of £110 million to be found by the Government which is nearly equal to 6d. on the standard rate of income tax. Over the last few years the nationalised industries have as a whole financed about half their new investment from internal sources and about half from borrowing. This year the proportion of self-financing has fallen to around 40 per cent and borrowing on present forecasts will be up by about £140 million to the unprecedentedly high figure of £950 million. In this connection it is relevant that the report on the medium term prospect which was used as a basis for the recent public expenditure decisions (C(67)137) assumed a rise in nationalised industries surpluses based on the investment and pricing principles outlined above, of £200 million a year by 1970/71.

IMPROVEMENT OF THE SYSTEM

12. None of this is however to say that the system of financial objectives cannot be improved. The Government has already decided that nationalised industries' objectives should in future reflect more definite and explicit assumptions about the pricing and investment policies to be adopted and this has been taken into account in recent discussions about new objectives for the Post Office, Electricity and Gas.

13. It is not enough, however, for the nationalised industries to pay attention as the objectives now being evolved require, to the proper relationship of prices to costs. It is at least equally important that they should keep the level of costs under continuous and critical review. The new method of fixing objectives tries to take account of this by relating the objective not only to sound pricing and investment policies but also to a progressive improvement in efficiency and productivity over the target period. But there is no agreed basis for estimating what the rate of this improvement ought to be or for measuring progress towards it. Moreover the appropriate criteria may vary with circumstances.

Scope for improvement

14. As general industrial experience shows, there are no exact bases on which efficiency can be measured or compared from firm to firm. But techniques in this field, as in that of investment appraisal, are developing and improving, and nationalised industries should be expected to make use of the best possible methods, so that their managements may judge how effectively they are tackling the problem of cost-reduction. Their use of agreed
systems of measurement, appropriate for each particular case, but with such
degree of conformity and comparability as can be established, would enable
the responsible Department to review with the managements their progress in
this field. A good deal is already done on these lines by the industries
and is used in Departments' discussions with them, but there is room for
improvement and the responsible Department must have sufficient information
to form a judgment of an undertaking's performance in this direction for such
purposes as settling financial objectives, assessing the competence of
management and scrutinising borrowing requirements.

15. Some means of judging the scope for cost-reduction is also needed in
the context of prices and incomes policy. In this the nationalised
industries are, broadly, subject to the same requirements as the private
sector (See Annex B). The criteria for price increases in force since 1st July
recognise that increases may be justified in certain circumstances, but in
every case require prior effort to offset the need for increases by reductions
in costs. A nationalised industry invoking one of these criteria must
accordingly be prepared to demonstrate to the satisfaction of the Minister
concerned that everything possible has been done to absorb the unavoidable
increases in costs.

16. A responsible Department's ability to judge the cost-effectiveness of
a nationalised undertaking is of special importance when that body operates
in semi-monopolistic conditions and is not subject to the full pressure of
the market. As the National Board for Prices and Incomes point out in their
report on electricity and gas tariffs\textsuperscript{9}, it is easier in such circumstances
than it would be in a more competitive situation for a Board which has been
unable to control costs to achieve its financial objective simply by raising
prices. It is, therefore, desirable that responsible Departments should be
in a position to form an opinion of the scope for cost-reduction in any given
case.

\textsuperscript{9}Sml. 2962, paragraph 79.
CRITERIA OF PRODUCTIVITY AND COSTS

17. No Board should be without the sort of indicators which the chief executive of a large industrial group would apply in reviewing the efficiency of the companies within the group; and these indicators should be applied so that difficulties are anticipated before they occur and performance standards regularly tightened. The responsible Department should be in a position to satisfy itself that the system is being so used.

Type of system required

18. Techniques for examining costs and securing improvements in productivity are well established and in varying degrees are widely used both in public and private industry. They cover what are known as performance indicators, the follow-up of the effect of investment on operating costs, and specific inquiries into particular broad areas of costs and expenditure.

19. Performance indicators are needed to cover all the main activities of an undertaking and can be grouped under the following headings: sales, operating costs, maintenance costs, research and development, profit, current assets, total assets and return on investment. Annex C describes in more detail some indicators which fall under these headings. Usually the trend of the indicators is more important than the individual figures, particularly the trend of variations between forecasts and actuals. The successful application of this system calls for a progressive tightening of standards of performance by means of targets of cost reduction set by the undertaking for itself.

20. It is important that management should be able to verify that when large new investment has been undertaken, with cost reductions in view, the revenue budgets and performance standards of the undertaking are adjusted to take full account of the effects the investment is intended to produce. Otherwise the realisation of prospective benefits advanced in justification of the investment cannot be measured.

21. Many Boards already have good working tools for cost control and financial planning and in some cases these have been highly developed. In other cases Departments are aware of deficiencies and are taking steps with their industries to repair them. In our view the time has come to make it plain to the Chairman of all the Boards that they
have a duty in this field to satisfy the responsible Minister that they have instituted, and are using, an up-to-date system of cost-control on the lines sketched out above. It will be important to emphasise that this requirement is not intended to alter in any way the Board's responsibility for management decisions; and that its purpose is not to enlarge the field of Ministerial accountability for the nationalised industries' operations, but rather to enable Ministers to carry out their existing responsibilities effectively.

22. Departments are always entitled to ask for information, and in this instance for enough information to judge whether the Boards are making a genuine effort to control and reduce costs. In most cases this should not give rise to any difficulty; the Boards concerned are already accustomed to give the responsible Departments a great deal of information and to discuss it freely with them. In some cases, however, the Boards may, for historical or other reasons, be particularly sensitive about a possible diminution of their own responsibilities for management, a subject on which they rightly hold strong views. Provided the essential requirement of a properly used internal control system is achieved, there seems no reason to lay down a uniform pattern and the amount of information to be handed over in any given case can be left to the responsible Department to work out with the Board concerned. Similarly, it will be for individual Departments to consider whether to introduce any changes in their own organisation in order to make full use of the information supplied by the Boards.

An outside efficiency audit?

23. It has often been suggested, from both inside and outside government, that an "efficiency audit unit" would be a useful solution. Such a unit, appropriately staffed, would examine the industries' systems of cost control and performance indicators, make comparisons, suggest improvements, and report to the Boards, to the Government, and where possible to the public. At first sight this idea has a good deal of attraction: it would enable a body of expertise to be built up, and the unit would in time be able to make useful comparisons between the methods, standards and results of different industries in similar fields. In addition the existence of such an independent efficiency audit would to some extent protect Ministers from criticisms of interference in, and responsibility for, poor performance in the nationalised industries.

*The French have a body with somewhat similar functions - the "Commission de Verification des Comptes"; but we understand that this has had little impact.*
There are, however, cogent objections to this proposal. First, the amount of work involved in any detailed examination of the activities of the fourteen nationalised industries is enormous, and any such unit could not possibly supplant the many special studies done both internally and by management consultants. It could, therefore, be no more than a broad monitoring body. But this is precisely the role which the responsible Departments, in consultation with the central economic Departments, must play. The responsible Ministers are answerable to Parliament on broad matters of policy and have the statutory duty of appointing Board members and approving investment programmes. They cannot abdicate from these responsibilities and to superimpose another body to monitor the industries' activities would blur the responsibility and create confusion.

For these reasons the better solution is to ensure that the responsible Ministers have available all the information they need to discharge their functions. The best line of advance now seems to be for Departments to develop further the enquiries they already make on costs and productivity, towards a system of the type outlined in paragraphs 17-22 above. In this way it should be possible to build up a comprehensive picture of the progress which the industries are achieving and to concentrate attention on those areas where further improvement seems overdue. At the same time industries should be encouraged to make public the steps they are taking to ensure higher productivity and, where it would not impair their competitive positions, their cost reduction targets.

**IMMEDIATE PROBLEMS**

The introduction of the control system described in the previous section would be evidence of the Government's intention to ensure that price increases by the nationalised industries are kept to the minimum. It should also help to induce a greater degree of cost-consciousness in the public sector. It will not, however, have any immediate impact on prices.

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*The various academic and practical arguments both for and against an Efficiency Audit Commission were fully aired before the Select Committee on the NI's.*
27. There are currently a number of outstanding proposals for increases in prices or charges in the public sector awaiting decisions by Ministers. These cover a varied range of goods and services, and involve the Post Office, London Transport, British Railways, the gas industry and Her Majesty's Stationery Office. The reasons for the proposals are examined in detail in Annexes D and E. In all cases the proposals can be said to be consistent with the current principles of prices and incomes policy; the economic case for making the increases appears to be strong; and they are urgently needed. This does not mean that they could all be made immediately. The date of operation in most cases is governed by the need for independent examination by NEPT (Post Office charges); reference to statutory consultative bodies (e.g. gas prices); or approval by a price regulating body (e.g. LTB). Thus, in practice, if the increases were approved now they could not take effect simultaneously but, by a natural process of phasing, would be spread over the year from October 1967. Most increases would, however, fall in the first six months. This phasing would not, however, prevent the proposed increases from attracting extensive criticism over the next few weeks as soon as the preliminary procedures in each case (e.g. issue of new tariffs by BRS (Parcels) Ltd., reference to Consultative Councils, Transport Tribunal) were started.

28. The freeze and the period of severe restraint have delayed, for varying periods, proposals for price changes and this has led to the present accumulation of proposals (the current electricity increase is of a piece with those now before Ministers). We have examined the forward position and there is no reason to expect further major price increases from the big nationalised industries in the next twelve to eighteen months. Indeed in the case of those where prices attract most attention there is a prospect of falling long run costs as a result of improved productivity and the massive investment programmes which have been undertaken in these fields; and the increases now approved (electricity) or proposed (gas and the Post Office) might last considerably longer than 18 months.

*The special case of the proposals by the British Transport Docks Board, among other employers of port labour, for increases in charges for work carried out by registered dockers is explained in Annex D. It is not discussed in this paper.
29. Nonetheless the reception given to the forthcoming increase in electricity prices shows how much care will have to be taken in the presentation of any further increases approved if widespread public irritation and the impression that the Government is ignoring its own prices and incomes policy are to be avoided. The public reaction to price increases in the nationalised industries is not entirely rational. The press tends to exaggerate their economic importance (Annex G relates nationalised industries' prices to general domestic and industrial costs and prices); and the general public blames Ministers for not exercising the control over the nationalised industries which they are widely, though wrongly, believed to possess.

30. Against this background we have examined various possibilities. We do not suggest that approval for the present increases should be arbitrarily withheld. This would simply transfer the burden of cost increases from the consumer to the taxpayer without doing anything to increase efficiency, and might cause long-term damage to the sense of managerial responsibility in the industries concerned. In some cases legislation would probably be required to pay subsidies since industries would be in breach of their statutory duty to break even.

31. We have considered the possibility of making it a condition of present approval that no further proposals for increases would be entertained from these industries including electricity until the end of 1968. This would have the advantage of simplicity, but it would create the impression that a further round of increases would occur at the beginning of 1969.

32. A better course would be to consider the circumstances of each industry. In approving any particular increase the assumptions on which it is based will have been examined. These should be made public and the period for which the increase is expected to last should be quite clearly stated.

This would have a number of advantages -

(i) It would in many of the cases now under consideration mean that a future period of stability extending beyond 1968 could be expected and announced.

(ii) The forward expectation of stability would help planning generally especially in other sectors of industry.

(iii) The announcement of future expectations would give the nationalised industries a powerful long-term incentive to tackle the problem of cost control, and might well lead to an improvement on past performance.
Such a course of action would be consistent with the system of financial control of the industries described earlier in this paper and with the prices and incomes policy. If exceptional circumstances arose which appeared to the industries to make a price increase necessary during the allotted time the onus would be on them to satisfy Ministers that some entirely new factor had to be taken into account.

33. There is a further problem of presentation. Proposals by individual nationalised industries for increases in their prices or charges tend not only to attract publicity, as noted in paragraph 29, they tend to do so on more than one occasion. It is thus important that the first publicity that the possibility of increases receives, should put the need for these, and the Government’s decision to accept them, in proper perspective. The first occasion for publicity about proposed increases usually takes place well in advance of the operative date and frequently in circumstances outside the direct control of the Government, e.g. when proposals are referred to a consultative or price regulating body.

34. Where increases by a number of nationalised industries are concerned, as in the present case, it seems essential that the initial publicity should not be left to the unco-ordinated efforts of the Boards concerned. On this occasion the Government might themselves take the initiative in making an announcement. This could cover all the impending increases as well as the proposal to refer the case for increases in Post Office charges to the NECI. (No time need in fact be lost since it might be possible for the NECI to do preliminary work before this reference is publicly announced.)

35. All these considerations inevitably point to some slight delay in authorising the batch of increases which are now proposed. We recognise that this will give rise to difficulty in some cases but we consider that this must be accepted in the interests of erasing an impression of unconsidered haste and conflicting Government policies. We consider that Ministers will need to discuss with the Chairmen of the Nationalised Industries the development of the passages dealing with efficiency and cost effectiveness in the proposed White Paper on Nationalised Industries with a view to incorporating the arrangements proposed in paragraphs 17-22 above. Ministers would at the same time discuss with the Chairmen firstly the method of expressing publicly the future expectations about price stability in each industry and secondly the nature of a general announcement on Government initiative. The object of these discussions would be to clear the ground for a package deal which we think could be made public in late September or early October. The package would consist of -
(a) The new proposed draft White Paper on nationalised industries explaining the Government policy, relating financial control of nationalised industries to pricing policy and dealing with efficiency and cost effectiveness.

(b) A general Government announcement about increased charges and why they had been approved and -

(c) Statements related to each industry's circumstances, outlining the assumptions on which changes in price were based and the future period for which prices were expected to be stable.

The package would thus consist of positive proposals for reducing costs and containing prices in nationalised industries and a proper explanation of why increases in charges were necessary in some cases.

Conclusions and Recommendations

36. (a) The present batch of price increase proposals now before Ministers should be the last for some while. All the individual price increases appear consistent both with prices and incomes policy and with the financial obligations of the industries. Nonetheless, the impact of these increases, if they are announced and introduced piecemeal, is bound to lead to widespread public criticism.

(b) Accordingly it is proposed that Ministers should defer approving any announcement of the current proposals for a few weeks pending -

(i) Expansion of the proposed White Paper on the nationalised industries linking the financial system of control as it has evolved and the prices and incomes policy so as to incorporate the proposals for efficiency and cost effectiveness outlined in paragraphs 17 to 22 above.

(ii) Agreement on the time periods for which prices for each of the industries are expected to remain stable and on the anticipated future movements of costs and prices with a view to stating these publicly. (Cases where future falls in price are expected will need to be brought out).

(iii) Negotiation with the Chairmen of the nationalised industries to reach agreement on (i) and (ii) above and on the content of a general statement by the Government.
(c) The action proposed in sub-paragraph (b) above should be completed in time for the Government to present in late September or early October a package deal consisting of -

(i) an explanation of its policies towards the nationalised industries highlighting the need for productivity, cost control and efficiency.

(ii) Announcement of approval of some proposals for necessary price increases.

(iii) A public statement about the future anticipated trend of costs and prices in these industries and how long prices may be expected to remain stable in each case.

(d) At the same time, and on the basis of the White Paper, Departments would proceed to consult with their industries on the development of suitable cost control systems and indicators of efficiency.
### NATIONALISED INDUSTRIES: FINANCIAL OBJECTIVES

<table>
<thead>
<tr>
<th>Industry</th>
<th>Objective</th>
<th>Period Covered</th>
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<tbody>
<tr>
<td>Electricity Boards</td>
<td>average</td>
<td>1962-63 - 1966-67 (E)</td>
</tr>
<tr>
<td>(England and Wales)</td>
<td>12.4% gross (A)</td>
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<tr>
<td>SSEB</td>
<td>12.4% gross (A)</td>
<td>1962-63 - 1966-67</td>
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<tr>
<td>NSHEB</td>
<td>(see footnote C)</td>
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<tr>
<td>Gas Boards</td>
<td>average</td>
<td>1962-63 - 1966-67 (E)</td>
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<tr>
<td></td>
<td>10.2% gross (A)</td>
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<tr>
<td>Post Office</td>
<td>6% net (B)</td>
<td>1963-64 - 1967-68</td>
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<tr>
<td>ECAC</td>
<td>12½% net (B)</td>
<td>1966-67 - 1969-70</td>
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<tr>
<td>EEA</td>
<td>6% net (B)</td>
<td>1963-64 - 1967-68</td>
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<tr>
<td>British Railways</td>
<td>to break even after interest and depreciation including £10 million a year to cover the difference between depreciation at historic cost and replacement cost (P)</td>
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<tr>
<td>London Transport Board</td>
<td>(see footnote D)</td>
<td>1963-67</td>
</tr>
<tr>
<td>National Coal Board</td>
<td>to break even after interest and depreciation including £10 million a year to cover the difference between depreciation at historic cost and replacement cost (P)</td>
<td></td>
</tr>
</tbody>
</table>

A target for the British Airports Authority will be discussed shortly.

**Notes**

A. Before interest and depreciation.

B. Before interest but after historical depreciation.

C. As an interim measure the NSHEB agreed to apply such tariff increases as would give a similar percentage increase in revenue as the tariff increases applied by the SSEB.

D. LTB's objective was to earn an average balance of revenue of £1 million a year, after interest and depreciation at historic cost. This was equivalent to 5 per cent net. LTB's target is however in abeyance in view of the Board's financial position.

E. The Minister of Power announced on 19th December 1966 in answer to a Parliamentary Question (Col. 232-233) that the objectives to these two industries would continue in 1967-68.

F. The NCB were relieved of their objective temporarily in April 1965 but this has now been revived and will continue in 1967-68.
ANNEX B

APPLICATION OF PRICES AND INCOMES POLICY TO PUBLIC SECTOR PRICES

The prices and charges of the nationalised industries are subject to the power of the Secretary of State under the Prices and Incomes Act 1966, to refer any question of prices to the National Board for Prices and Incomes and, in addition (with the exception of certain industries whose prices are regulated by statutory bodies) to the powers in force for twelve months from 12th August 1967, to require statutory notification of proposed increases, temporary standstills and, in certain circumstances, reversion of price increases. Apart from these powers, Ministers have no statutory control over their prices. Under informal arrangements in force for many years, however, it was customary for the appropriate Minister to be consulted in advance about substantial changes in prices. These arrangements are now formalised by the inclusion of the principal prices and charges of the nationalised industries in the arrangements for early warning of increases in prices of economic significance.

2. Successive White Papers on the prices and incomes policy have made clear that the principles of the policy apply to both public and private sector prices. The nationalised industries are accordingly expected to have full regard to the criteria for prices behaviour applicable on a voluntary basis to industry as a whole. Although Ministers have attached considerable importance to individual proposals being seen to have full regard to the criteria and, on occasion, to particular increases likely to have a specially severe impact on the economy being temporarily deferred, the policy has not in general been applied more stringently in the case of the nationalised industries. To do so and allow the prices of the nationalised industries to get significantly out of line with costs would lead both to a waste of national resources and to heavy increases in the amounts having to be provided by the Exchequer for new investment and, in the case of industries in deficit, by way of deficit grant. There was, however, in practice a temporary departure from this general policy during the period of standstill and severe restraint, in that the co-operation of the Chairmen of the nationalised industries in refraining from any increases in prices or charges during this time was sought.
3. There is in general no basic incompatibility between the economic and financial considerations governing pricing decisions by the nationalised industries and the principles of prices and incomes policy, with the emphasis in both cases on the need to achieve a more effective control of costs and improvements in efficiency.

4. The criteria for price increases, which have been in force since 1st July (the same as those in force prior to the standstill), recognise broad circumstances in which price increases are unavoidable. The first three of the criteria are concerned with circumstances in which increases in labour, non-labour or capital costs per unit of output cannot be offset by reductions in other costs. A nationalised industry invoking one or other of these three criteria must, accordingly, be prepared to demonstrate to the satisfaction of the Minister, to whom early warning of proposed price increases has to be given, that everything possible has been or is being done to absorb increases in costs that are unavoidable.

5. The fourth criterion, i.e. that after every effort has been made to reduce costs the enterprise is unable to secure the capital required to meet home and overseas demand, is not directly applicable to the nationalised industries who look to the Exchequer to meet their residual capital requirements (and, indeed, revenue deficits in certain cases). The fact that a target is not being met and that the industry is unable to get back on target without a price increase is not a justification in itself. What is relevant is that if revenue has fallen below the level required by rational pricing policies, this will produce the undesirable effect of attracting too many resources to the particular industry. This may well show itself in the form of a fall in the self financing ratio and an increase in the burden on the Exchequer. In such circumstances, an increase in price may be justified, this being the nearest analogy to the inability of a private firm to raise capital.
1. In many large private groups the Chief Executive relies upon cost and performance indicators in order to review the efficiency of individual companies in the group, to identify potential difficulties and trouble spots before they occur and ensure that the companies pay due regard in their planning to changing tastes and other market conditions.

2. There is some analogy between the way the Chief Executive of a large group in the private sector controls the performance of his individual companies and the systematic review of costs and performance of the nationalised industries as advocated in this memorandum. This annex outlines (a) the type of indicators commonly used by industrialists in the private sector and which are relevant for control of the nationalised industries, (b) necessary follow up investigations on large capital projects, and (c) specific inquiries needed occasionally to reinforce the monitoring system.

3. The indicators outlined below are of a general nature and will therefore apply differently according to the nature of the particular nationalised industry concerned: some indicators covering certain aspects of performance will be more relevant to one nationalised industry than another. Nevertheless as far as possible it is desirable to avoid dissimilarity of treatment so that some degree of comparability between Boards can gradually be built up. In most cases the important thing will be the trend over a period of time rather than the absolute level of the indicators, and also how actual performance has differed from expectation. Thus the most useful form of presentation for the indicators would probably be:

   (a) a graph showing the trend over the past five years,

   (b) performance in the period just ended compared with the forecast at the beginning of that period, and

   (c) a forecast for the period about to begin.

4. Much of the data for the nationalised industries is readily available. Where data for the past is not readily available or where compilation would be too expensive trends would have to be established as time goes by. In order to make a review of performance effective it will be necessary for responsible departments to ensure that each Board has an efficient internal cost-control system and that proper use of that control system as a management tool is made by the Board.
5. Performance Indicators

(a) **Sales**: covering total sales and a breakdown over the principal markets and principal products or services.

(b) **Operating Costs**: as far as possible separate figures should be given for expenditure which is fixed and for that which would vary with fluctuations in output and sales; it would also include

(i) the levels of manpower in the main personnel groups, such as operating, maintenance and administration;

(ii) labour productivity - e.g. output per manshift in the case of the coal industry;

(iii) the level of plant utilisation;

(iv) the yield of output obtained from the principal raw materials used;

(v) the utilisation of any supplies or services which form a significant part of the operating costs, such as electric power per unit of output in the steel industry.

(c) **Maintenance Costs**: including the relationship between maintenance expenditure and the gross value of capital assets being maintained, and (where appropriate) the relationship between maintenance costs and output - e.g. aircraft maintenance costs in relation to route miles flown.

(d) **Research and Development**: possibly sub-divided between the main areas of study.

(e) **Profit**: before and after deductions for interest and depreciation and tax, both earned and forecast.

(f) **Current Assets**: analysed between debtors, stocks (including raw materials, work in progress and stores items), and cash and other liquid assets.

(g) **Total Assets Employed**: including fixed and current assets.

(h) **Return on Investment**: the relation between profit earned and gross assets calculated as above.

Follow up on large Capital projects

6. To ensure that investment is as profitable as it appeared to be when it was authorised it is necessary to ensure that the savings usually anticipated in the investment appraisal (i.e. which go toward the expected return on the new investment) subsequently materialise in practice. Thus there is a need for responsible Departments to see that the nationalised Industries introduce new budgets and standards which reflect satisfactorily their approved investment decisions. This need also exists where changes occur between the approval of a capital project and its completion.
7. Without this follow-up of the financial and economic effects of capital investment there is a danger that some Boards will tend to be over-optimistic in preparing their investment plans, thus causing an undesirable misallocation of resources in the economy. Follow up, or back-checking as it is sometimes called, would identify where over-optimism has occurred in the past and if over-optimism has been habitual on the part of certain Boards it may well suggest that Departments should discount it when examining the current investment plans of those Boards.

Specific Inquiries

8. On occasion specific aspects of the operation of a nationalised industry may merit special investigation, especially if the trend of a particular indicator is seen to be falling below expectation. Some of the more obvious possibilities where inquiries in depth may be called for are given below:

(a) more detailed analyses of sales and market shares;
(b) progress in eliminating unprofitable products and services;
(c) ensuring that targets for reducing costs exist and are being achieved;
(d) examining whether expenditure budgets have been altered so as to reflect changed market circumstances;
(e) assessing rates of stock turnover (the cost of carrying stocks is, on average, about 15 per cent per year of the value of the stock carried); and
(f) examining the relation between the value of outstanding debts and the level of sales.
ANNEX D

PUBLIC SECTOR PRICES

APPLICATION OF THE GENERAL PRINCIPLES EXAMINED IN THE
INQUIRY TO PROPOSED INCREASES IN PRICES Awaiting Decision

PRICES OF HMSO PUBLICATIONS

1. Effects have been given to the increases in the price of HMSO publications approved at the meeting on 12th July of the Sub-Committee on Prices and Incomes (PI(67)13th Meeting, Item 3, Conclusion (11)).

A decision is required on the outstanding proposal to increase the prices of all editions of Parliamentary Debates by 50 per cent.

The loss on sales of this publication is customarily subsidised. The subsidy has, however, now grown to about £120,000 annually as a result of increases in costs since the last price increase in 1962 and the growing volume of Parliamentary business. The proposed increase of 50 per cent in prices would reduce the loss by 16.2/3 per cent, from £120,000 to £100,000.

HMSO are engaged in a continuing process of achieving improvements in efficiency but there is no possibility of reducing the annual loss other than by a price increase. In the circumstances, the price increase proposed would be consistent with the principles of prices and incomes policy. As it is customary to give Parliament advance notice of an increase, the necessary announcement and the effective date could not be before Parliament reassembles on 23rd October.

BRITISH ROAD SERVICES (PARCELS) LIMITED CHARGES

2. A decision is required on proposals for increases in charges, averaging 7½ per cent, for parcels carried by BRS (Parcels) Limited - a subsidiary of the Transport Holding Company. Increases averaging 5 per cent were originally proposed in June 1966, but were held up because of the standstill.

3. A financial target has not been fixed for the THC, but they are required to operate as if they were a company engaged in a commercial enterprise. Since 1964, the return on capital employed by BRS (Parcels) Limited has declined from 21 per cent to 5 per cent, as a result of unavoidable cost increases and a fall in traffic occasioned by the general slackening in trade. The proposed increases in charges are designed to bring the return on capital to 14½ per cent. Although this would be below the rate in 1964, and also below the rate obtained by the THC's biggest competitor in the private sector, the THC do not think that anything more is achievable in the present competitive situation.

(1)
4. The last price increase was made in 1965, when the Government agreed to an increase of approximately 4 per cent instead of the 6 per cent proposed at that time by the company. Since 1965 there has been an unavoidable increase in costs, of about 5 per cent overall, in such items as fuel, vehicle licences, insurance, supplies, rent and rates, etc. In the same period, despite every effort to offset rising costs by increased productivity, there has been an increase of 8.6 per cent in staff costs. In 1966 the company were caught by the prices standstill before they were able to increase their prices to take account of a substantial wage increase earlier in the year.

5. The THC and its subsidiaries have made, and are making, very considerable efforts to improve productivity. The Holding Company have reorganised their road haulage undertakings and substantially improved their efficiency. BRS (Parcels) Limited measure the output of every driver and set targets for individual rounds and depots against which performance is compared. Adjustments are constantly being made to maximise the output of vehicles and drivers and close watch is kept on the productivity of loading staff; productivity in workshops will benefit from the reduction being made in the number of different types of vehicles operated. Current measures by the THC to increase productivity include a thorough analysis of the relationship between maintenance and replacement costs, which should result in better utilisation of the fleet and greater economy of operation.

6. In this expanding but labour-intensive industry improved productivity will itself depend very largely on the scale of new investment, but the current rate of return on capital is too low for the company to plough back profits on a sufficient scale to make a satisfactory contribution to investment. In view of the unavoidable increases in costs that cannot be absorbed and have already been borne for a considerable period and the inability of the company to make an adequate contribution to its capital requirements, the proposed increases in charges can be regarded as consistent with the principles of prices and incomes policy. The increases once approved would take effect about 6-8 weeks later.

LONDON FARES (BRITISH RAIL AND LONDON TRANSPORT BOARD)

7. Two fares increases for the London Transport Board and British Rail in London have been held up for a considerable time. They are:

(a) an increase from 3d. to 3½d. a mile for certain journeys over 10 miles, yielding £200,000 a year to British Rail; the consequential increase for London Transport would yield £7,000 a year;

(b) withdrawal of concessionary season tickets for young employed people, yielding £400,000 a year for British Rail, and £120,000 a year for LTB.
These two proposals, approved by the Transport Tribunal in July 1966, were deferred because of the standstill have continued, following the end of the period of severe restraint, to be held up pending decisions about proposals for a major fares increase.

3. Proposals for a major fares increase for London Transport (with consequential increases by British Rail) were originally put forward at the end of 1966. The Boards however withheld applications to the Transport Tribunal at the Minister of Transport's request. During the course of this year revised proposals have been produced, and when London Transport are authorised to go to the Tribunal they are likely to propose Underground and Green Line fares scales in multiples of 6d. and with fares stages generally of 2-5 miles; a minimum 6d. fare (1 mile) for the buses, increasing by 3d. per mile up to 13 miles and by 6d. a mile thereafter; and 7-9 per cent increases for most season tickets. These increases would yield about £8.5 million a year for London Transport.

9. The British Rail consequential increases have not been worked out in detail, but would probably yield more than £1 million a year.

10. If the new proposals go forward, neither LTB nor BR will implement separately the proposal at (a) above, which will be incorporated in the new scales.

11. The increases for the LTB are necessary mainly because of their large and increasing deficits. For the years 1966-68 the total deficit will be about £30 million, of which only £16 million is covered at present by Parliamentary powers for Exchequer grant. The deficit in 1968 would be reduced from £33 million to about £24.5 million if the fares increase could come into effect by 1st January 1968, but given the lengthy procedures involved in an application to the Transport Tribunal it seems increasingly unlikely that the increases could be introduced as early as this.

12. The justification for the increases in terms of prices policy is similar to that for British Rail. The Board have made considerable progress with many productivity measures, some short-term and some long-term. There is also a Joint Review in progress (Ministry, Board and independent members) similar to the BR Joint Steering Group, which will be making recommendations about a wide range of matters affecting the Board. It is already clear from these and other studies that the Board must get their charges more closely into line with their costs, and that the longer the proposed increases are delayed the more difficult it will be to achieve this.
A number of proposals by the British Railways Board for other increases in fares and charges are currently held up. The total yield (including the London proposals mentioned above) would be approximately £9 million in a full year. Details of the proposals other than the London ones are as follows.

**Countrywide Fares and Charges**

14. British Railways wish to revise the scale of charges for parcels and sundries. The proposed increases range from 2½ per cent to 7½ per cent, with an average of 5 per cent, and are intended to cover an increase in costs of 6 per cent since the last increase in the scale in January 1966. The sundries service has continued to make a heavy loss (£25 million in 1966) in spite of drastic reduction in the number of depots and rationalization of facilities. The increases proposed take into account the proposed charges structure of British Road Services (Parcels) Ltd. (see above) and it is not expected that there will be any loss of traffic from rail to road. The aim is to bring the new scale into effect from the end of October 1967. The estimated yield in a full year would be approximately £2·3 million.

15. It is proposed to revise the scale of charges for coal and coke. There have been increases in costs of approximately 6 per cent since the last revision of the scale in January 1966 and in spite of an extensive programme of depot concentration and the introduction of improved handling methods, the traffic made a loss of £10 million in 1966. The proposed increases range from 2 per cent to 10 per cent, and the aim is to encourage the more economic train load operations, while imposing more realistic charges on some of the unprofitable traffic, particularly that in individual wagon loads. Large industrial users (e.g. CEGB, ICI, Portland Cement) have individual contracts with escalation clauses and will not be affected by this revised scale. BRB would like to bring the increases into effect gradually over a period of about three months. The estimated yield in a full year is approximately £2·3 million.

16. It is also proposed to revise basic rates of ordinary passenger fares outside London: the second class fare would be increased from 3.25d to 3.4d per mile (a rise of 5 per cent) and the first class fare from 4.87d to 5.27d (a rise of 8 per cent). The increases cover the part that cannot be absorbed of increases in costs since the rates were last revised in February 1965. These cost increases included 3½ per cent.
pay rises in October 1965 and March 1967. The Board also propose to experiment with surcharges above the standard passenger fare on certain routes and trains, just as elsewhere they offer discounts and reduced rates. This flexibility of approach is vitally necessary in a very competitive field. It will take between six and eight weeks before the new rates could be brought into effect, and allowing for a 2 per cent passenger resistance the estimated yield in a full year would be £2.8 million.

Other Increases

17. The increases in countrywide fares and charges referred to in paragraphs above were notified to the Minister of Transport under early warning arrangements. In addition, the Railways Board are planning to make certain minor and selective increases in other charges (e.g. car parking fees, Pullman charges, motorail charges, freightliner rates on certain routes, and in 1968 the withdrawal of reduced rates for summer mid-week travel). Early warning is not required for such increases and the Board were told by the Minister of Transport that they could go ahead. They were subsequently, however, asked to defer action following the Cabinet meeting of 27th July, until a general policy on prices in the public sector had been agreed.

18. If approval is given to the withdrawal of concessionary season tickets for young employed people in the London area (see paragraph 6(b)), British Railways would intend also to withdraw the concession outside London; this would yield £250,000 per annum.

19. The BRB case for making these increases is strong. It now seems probable that, largely because of the shortfall in freight revenue, the deterioration in the finances of the Railways Board in 1967 will be very substantial. Present forecasts are that the deficit will be at least £15 million more than was budgeted for in the vote estimate (£128 million).

20. The Railways Board have been under very heavy pressure from the Ministry of Transport to do all they can to increase efficiency and to contain the deficit. Pay and efficiency negotiations between the Board and the unions under the Minister of Labour, initiated by the Prime Minister in 1966, are now in a very advanced stage. A Joint Steering Group appointed by the Minister and the Chairman of BRB has been carrying out a detailed review of almost every aspect of railway management, and the Board themselves are examining every possible way of further reducing working expenses. However the original budget for 1967 envisaged economies at

(5)
the rate of £18 million a year, and although this is currently being achieved, it is not easy to find further sources of saving. The Board have already achieved manpower reductions during the last five years of over 32 per cent, and there have been even greater reductions during the same period in the number of stations (down by 43 per cent), locomotives (down by 53 per cent), railway wagons (down by 43 per cent) and other operational expenses.

21. As a result of these economies BRB have succeeded in absorbing a large part of their increases in wage costs during the past few years, but it seems clear that further increases in productivity alone will not solve the Board's problems and that the Board have no alternative but to make these increases in fares and charges. The Railways Board are of course operating in an intensely competitive market, both in passenger transport and in freight, so that there is no fear of their exploiting a monopoly position. The price increases proposed seem fully justified against the first and second criteria for prices and incomes policy where cost increases exceed capacity to absorb them. Moreover, as the industry is unable to meet any of its own capital needs, the raising of increased revenue from fares and charges can be justified against the fourth criterion, namely that after every effort has been made to reduce costs the enterprise is unable to secure the capital required to meet home and overseas demand.

GAS PRICES
22. The proposals for early increases in gas prices are complex and are examined separately in Annex E.

POST OFFICE CHARGES
23. The Prices and Incomes Committee on 26th July agreed that the Postmaster General's proposals for raising additional revenue of £30 million a year from posts and £35-£40 million from telecommunications should be referred to the National Board for Prices and Incomes (PI(67) 17th Meeting, Item 2). This would involve increases in telecommunications charges in April 1968 and in postal charges in the autumn of 1968. The reference has not yet been made pending a decision on the financial objective for the period after 31st March 1968 to be taken following consideration by Ministers of the present study by officials. As it is intended that the case for the proposed increases in Post Office charges should be investigated independently by the National Board for Prices and Incomes, and as this investigation will inevitably have regard to the progress made and substantial work and studies in hand to improve efficiency in the provision of Post Office services, the justification for the increases against the current criteria is not examined in this memorandum.
SUMMARY AND RECOMMENDATIONS

1. The problem of gas prices falls into three parts:
   (a) The general financial position of the industry.
   (b) The additional costs the industry is incurring on account of the Middle East crisis.
   (c) The special position of the South Eastern Board.

2. This note examines each of these aspects in turn, sets out the choices open to Ministers, and makes recommendations as follows:
   (a) The financial position of the industry is weak and justifies a price increase. Of three alternatives, officials recommend Ministers to choose the middle course, that is, an increase of 5% on average.
   (b) The gas industry is incurring heavy additional costs as a result of the Middle East crisis. It is recommended that the industry impose an immediate surcharge of about 25% on the price of gas (over and above the basic average increase of 5%), making a total recommended increase of about 7½%. The Middle East Surcharge would be removed when the industry has recouped its additional costs in full, but would need to be charged over a longer period than that of the crisis.

3. Officials believe that this solution would most nearly meet the conflicting aims of policy, and, with suitable presentation, would be more acceptable to the public than would the alternatives.

4. If Ministers agree to a general price increase, it should be announced as soon as possible in order to affect demand, and hence naphtha requirements, this winter.

5. The following recommendations are also made:
   (c) Gas coke prices should be increased from 1st November so far as market conditions permit.
   (d) In view of special circumstances, the South Eastern Gas Board's proposed price increase should be approved, even if the recommendations on a general price increase are not accepted by Ministers.
   (e) A new financial objective for the industry, related to medium-term prospects, should be formulated.
whatever decisions on gas prices are taken, care will be needed in handling the public announcement of the price increase (see paragraphs 26-36 of the main paper). To a large extent the public presentation will depend on the choices taken by Ministers, and it is recommended that this question should be considered later by officials in the light of the decisions to be made by Ministers on the nature and scale of increases in gas prices.
THE GENERAL FINANCIAL POSITION OF THE INDUSTRY

The urgent question is the level of the gas industry's earnings for this year and next. Even ignoring temporary factors (III below), the present financial position of the industry is weak. The industry as a whole will have expected a surplus of only £1 m. this year in relation to a turnover of £540 m., and a deficit (after paying interest and depreciation) of £7 m. next year (1967/68). Even if it were decided that, because of the special factors mentioned below, Boards should be expected to do no more than break even in present circumstances, a number of Boards would have to raise prices soon. The industry is required to put anything to reserves the increases required would be larger and more extensive. At present, and quite apart from the costs of the Middle East, 6 Boards, i.e., all except the Scottish, South Eastern, West Midlands and Southern Boards, wish to increase prices as soon as possible by amounts ranging from 4 1/2 to 8 per cent, but the size of the increases actually proposed will depend on the guidance the Boards are given as to the financial performance to be required of them.

At surplus (if any) should the industry be aiming at in present circumstances?

1. The industry's present financial objective, originally fixed for the period 1962/67, and temporarily continued for the year 1967/68, is 10.2 per cent including depreciation. This is equivalent to 6.2 per cent after depreciation (compared with 6.6 per cent for electricity). The Government has stated its intention that this objective should be progressively assimilated with that of electricity, for which no new financial objective has yet been agreed.

2. The question of the temporary financial objective that the gas industry should now aim at raises in an acute form the clash between considerations of resource allocation and accounting costs. The gas industry while part way through one revolution, the change from coal-based to oil-based gas, is faced with another, the change to natural gas. This is already involving it in very substantial capital expenditure on distribution mains and further heavy expenditure will begin to be incurred next year on the conversion of consumers' appliances. Converting the industry to natural gas is expected to cost well over £1,000 m. in the next five years. The capital charges from this investment (including deferred charges from conversions) will begin to fall on the industry's costs immediately and thus worsen its financial position before substantial benefits begin to flow from North Sea gas.
0. It is arguable that from the economic standpoint these costs should be paid by future consumers rather than present consumers, otherwise prices will give the wrong signals to consumers choosing between competing fuels.

Optimal resource allocation requires prices to follow the trend of long-run marginal costs and to take account of the substantial reduction in gas supply costs expected when North Sea gas arrives in quantity. This would help the industry to achieve the rapid expansion in its market that will be necessary if all the available natural gas is to be absorbed in the early 1970s. On this view a reasonable compromise between considerations of long-run marginal cost and of financial propriety would be achieved if the gas industry were required to break even in 1968/69 or at the most to maintain its existing target.

Nevertheless, if this increased market is to be achieved, there is from the financial standpoint a strong case for raising prices immediately, because the Board's finances will undoubtedly deteriorate further during the period of transition to natural gas. The industry's long-run costs are at present unknown and the absence of profit now will not necessarily be offset by increased profits later, because some of the benefit of lower costs may have to be passed on to existing as well as new consumers, if the natural gas is to be absorbed. The rapid expansion of the industrial market will involve offering gas to large consumers at very low prices so that while the expansion of demand is taking place, there will be a substantial loss of revenue amounting to several million pounds a year for a Board with a large existing industrial load. Boards may be unable to pursue the necessary expansionist policy if they enter the natural gas era in a weak financial position, and to this extent, a price rise now will help rather than hinder absorption.

Could the industry achieve a satisfactory financial performance without price increases?

12. Whatever decision is taken about the level of financial performance the industry should aim at, the question arises of how far it could achieve that

The recent draft White Paper on Financial and Economic Objectives sets out the principles as follows:

"It is therefore desirable that prices, in addition to recovering costs, should be reasonably related to costs at the margin and should be designed to promote the efficient use of resources within industry .... In the long run the main consideration would be the cost of supplying, on a continuing basis, those services and products whose separate costing is a practical proposition, i.e. long-run marginal costs." (1975, paragraph 22).
level without price increases. While the industry is showing substantial improvements in efficiency and is extending its use of modern management techniques, there is no way by which the industry's progress in this direction could be suddenly speeded up so as to obviate the need for the price increases now required.

3. Even with the use of modern management techniques it is possible that some boards may not maintain a sufficiently vigorous determination to pursue every opportunity to reduce costs and increase efficiency. Though some reduction may prove possible when particular proposals are being scrutinised, however, they are unlikely to be sufficient to affect substantially the average price increase required for the industry as a whole.

4. In practical terms and leaving aside the effects of the Middle East, there are three broad choices open:

(a) to increase the industry's financial objectives to 6.8 per cent net so as to achieve a surplus of £25 m. This would entail an Exchequer financing of 72 per cent of the investment in 1968/69 and an average increase in price of 7.5 per cent;

(b) to maintain existing objectives (10.2 per cent gross, 6.2 per cent net) for a further year so as to achieve a surplus of £16 m. This means an Exchequer financing of 75 per cent in 1968/69 and average price increases of 5.2 per cent;

(c) to allow the industry to cover depreciation and interest only, that is a 5 per cent net return. This would mean Exchequer financing rising to 80 per cent net and average price increases of 2 per cent.

These are averages, and for individual Boards there would be variations.

5. The choice taken should achieve a proper balance between the conflicting goals of, on the one hand, a strong financial position to meet the problems of change and expansion over the next few years; and on the other, conformity with present prices and incomes policy and the achievement of the best possible use of resources with expansion of the market. The Departments concerned believe that the best balance between these conflicting objectives would be achieved by adopting choice (b) above. At the same time the present dilemma underlines the necessity of formulating a new objective for the gas industry relating to medium term prospects (this is necessary for electricity also);
This will take some months. In the meantime, developments in the Middle East have complicated the situation.

If the average rise in gas tariffs if choice (b) were adopted, and if as is proposed in paragraph 25 below, a 2% surcharge were also made in respect of the increased costs arising out of the Middle East crisis, would be about 7 1/2%.

In different Boards, the average increase would lie between 4 1/2% and 8 1/2%.

The opportunity would also be taken to remove existing discrepancies in tariffs which have resulted in the prices charged to particular types of consumer not always fairly reflecting the costs of supply. This means that for domestic consumers in general, the rise would average 10.5%. For the bulk of consumers, the range of increases would lie between 5% and 15%, and there would be special cases lying outside this range. For instance, in the extreme case of the consumer whose consumption is so small as to render supply completely uneconomic, the cost could be doubled. On the other hand, for large industrial consumers would get small reductions rather than increases.

Coke Prices

V. In addition to raising gas prices a number of Boards also propose to increase coke prices, in most cases from 1st November. To apply the principles of prices policy, as set out in successive White Papers, to a joint product such as coke, one must first establish what is meant by the cost of production. Where, as with gas, the main product can be produced in two ways, the involving a by-product and the other not, the "cost of production" of the by-product is properly regarded as the price at which it needs to be sold to equate the costs of the two methods of making the main product. On this basis coke is at present being sold far below its "cost of production" and it would be reasonable for Boards to seek increased revenue from coke where market conditions so permit. To the extent that they are able to do so, the gas price increases they will need in order to achieve the financial objectives set for them will be smaller.

*This extreme case is of the consumer who has, probably, a single appliance which is used only occasionally, and who therefore uses only one or two therms a quarter. There are very few such consumers. A consumer with, for example, only a gas heater, which is in fairly regular but not constant use, would not be faced with a bill of more than 18% higher, at most, than before.
II THE ADDITIONAL COSTS THE INDUSTRY IS INCURRING ON ACCOUNT OF THE MIDDLE EAST CRISIS

18. In addition to the weak financial position already described, the gas industry is at present incurring substantial additional costs as a result of the Middle East Crisis. These consist not only of the additional 2d. a gallon in the cost of its supplies, but also the cost of all the expedients that the industry is having to adopt to mitigate the consequences of the shortage of supplies. The best estimate that can be made at present is that the total additional cost would amount to about £25 m. over the current financial year. This estimate takes no account of the possibility that the surcharge on oil may have to be increased. The gas industry has proposed that its additional costs should be met by an immediate surcharge of 8 per cent on the price of all gas, and that the other price-increases proposed (apart from those of the South Eastern Board and coke) should be deferred until the industry's financial position following the end of the crisis can be foreseen more clearly. The industry has proposed an equal increase for all Boards, because it is its intention to share the additional cost between Boards as far as practicable, so that the most efficient distribution of the available supplies of gas is not impeded by financial considerations.

19. The gas industry is not alone in facing additional costs on account of the Middle East. The oil industry, which is of course in a special position, has already been allowed to pass on additional costs. The Government has sought to persuade other industries faced with increased oil bills to absorb these costs as far as possible, but an industry that could not do so could justifiably claim the right to raise prices. Following a recommendation by the N.B.P.I. the Government has accepted a surcharge on cement prices on account of increased oil costs. The gas industry is in no position to absorb its cost increases by eating its profits, since it is, apart from the Middle East crisis, doing little better than breaking even. A surcharge, passed on at a time the additional costs are being incurred, is in accordance with the principle that prices should reflect costs. As the N.B.P.I. pointed out in somewhat similar circumstances in their report on the Scottish Gas Board (Cmnd. 2862) "a temporary surcharge .... would indicate to consumers that it arose from short-term .... difficulties and ought not therefore to enter into their calculations for taking long-term fuel decisions."
There are three possible ways for the industry to recover the substantial additional costs it is incurring as a result of the Middle East situation:

(a) an outright Exchequer grant.

(b) a temporary surcharge to recover the Middle East costs more or less as they are incurred, leaving the permanent price increase to be introduced when the surcharge goes (this is the gas industry's suggestion).

(c) a surcharge of about 2%, added to a basic price increase of 5%, so that the Middle East costs would continue to be recouped for some time after the Middle East situation returns to normal.

In evaluating these alternatives the following considerations are relevant:

(a) An Exchequer grant would put the burden on the taxpayer. This could lead to pressure for similar treatment for other interests hit by the Middle East crisis, in which case it would be difficult to find reasonable grounds for discriminating in favour of the gas consumer.

(b) A surcharge which would be removed later would not be inconsistent with the expected long term trend of gas supply costs, nor with recent decisions on prices and incomes cases; also, a surcharge added to a basic price increase would tend to postpone some decisions to convert to gas this winter when the gas industry may well face an acute supply problem because of the shortage of naphtha feedstock.

(c) On the other hand, to superimpose a relatively high surcharge (designed to recoup the full Middle East costs as they are incurred) on the basic price increase, which officials consider justified, would almost certainly be unacceptable on prices and incomes grounds.

(d) As far as public presentation is concerned it should not be too difficult to justify a surcharge because the causes are easily understood by the public. On the other hand the gas industry's suggestion of a relatively high surcharge subsequently replaced by a permanent price increase would require two sets of price increase announcements perhaps within a few months of each other and would be highly unwelcome at the present stage of development of prices and incomes policy.
and (e) If a surcharge is introduced it would be necessary to ensure that
Boards subsequently remove it after the Middle East costs have been
recouped.

22. In the light of these considerations Ministers are recommended to choose
course (c) - a surcharge of about 2% - as being the best means to recoup the
Middle East costs falling on the gas industry, since it would
(a) reduce the full impact of Middle East costs (which could otherwise
be heavy) on the gas consumer next winter.
(b) avoid the need for two sets of price announcements,
and (c) (together with the basic price increase) discourage some conversions
to gas next winter.

Thus the idea of spreading the Middle East costs over a longer period has
considerable merit, even though it may never be possible to recover the whole
of these costs because gas prices to industry will have to come down well before
the end of that period to expand the market.

IV THE SPECIAL POSITION OF THE SOUTH EASTERN BOARD

23. The South Eastern Board is a special case, in as much as it first proposed
a price increase in June 1966. It was held up by the standstill and period of
severe restraint, and has now been held up further while the wider question of
nationalised industry prices has been under consideration. For various reasons
Government action has already imposed an excessively long delay for which there
is no statutory authority. The Board made a deficit of £2.7 m. last year and
expects to make a similar deficit this year, even without taking account of
additional Middle East costs. The Board has represented strongly that Government
action is preventing it from fulfilling its statutory duty to balance its books
taking one year with another.

24. The Board's proposed increase of about 8 per cent is intended to yield a
rate of return about equivalent to its present financial objective. Whatever
decision is taken about financial objectives for the industry as a whole, this
Board needs an increase and needs it urgently. In view of the heavy losses to
its reserves over the past 18 months, the increase proposed is in no way
excessive, nor should it impair the Board's ability to absorb North Sea gas.
In view of these facts, and of the long delay to which the Board has already
been subjected, it is recommended that Ministers should now agree that this Board
would put its prices up as soon as possible. The precise form of the increase will depend on the decision taken on exceptional Middle East costs.
PUBLIC SECTOR PRICES

CHARGES BY THE BRITISH TRANSPORT DOCKS BOARD

1. Proposals have been received from many employers of labour at the ports, including the British Transport Docks Board, for increases in charges for work carried out by registered dock workers. These proposals are the result of increases in labour costs consequential on the introduction from 18th September of the scheme for the decasualisation of dock labour. In deciding to implement this scheme, Ministers took account of the estimate that labour costs would increase by an average of 16 per cent over the country as a whole.

2. There is a wide variation in the increases proposed by the various harbour authorities and other employers of dock labour who have submitted proposals so far. The range is from 4 to 35 per cent and in two cases higher. A number are about 25 per cent to 30 per cent. The increases proposed by the British Transport Docks Board average 16 per cent although, as in the case of the other employers of dock labour, there are substantial variations.

3. It is not expected that either the British Waterways Board or the Port of London Authority will propose any increases in charges at this juncture.

4. The British Transport Docks Board do not cover a major part of the port industry in this country. Moreover, they are not the only employer of registered dock workers in their own ports; in the case of nine of the Board’s fifteen ports, separate proposals for increases have been submitted by private employers. In the circumstances, it does not seem practicable to deal with the proposals for higher charges by the British Transport Docks Board in the context of the present review of the general principles governing public sector prices and separately from the proposals by private employers.
Annex G

The Impact of Nationalised Industry Price Increases

Private Budgets

1. The effects of an increase in nationalised industry prices on the Retail Price Index is relatively small. In the index the goods and services of the industries have an aggregate weight of 8-9 per cent. The table below shows the weights of various sectors. (Air fares are not in the index.)

<table>
<thead>
<tr>
<th>Retail Price Index, January 1967 Weights (Total 1,000)</th>
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<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Gas</td>
</tr>
<tr>
<td>Coal and Coke</td>
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<tr>
<td>Rail Fares</td>
</tr>
<tr>
<td>Nationalised Bus Fares (approximately)</td>
</tr>
<tr>
<td>Postage</td>
</tr>
<tr>
<td>Telephones</td>
</tr>
</tbody>
</table>

2. Thus the effect of a 10 per cent rise in prices in all these sectors would be to raise the retail price index as a whole by almost exactly one point, i.e. three quarters of one per cent.

Industrial Costs

3. Using 1963 input/output figures, it is estimated that approximately 6 per cent of total industry inputs are purchases from the nationalised sector. (Gas, electricity, coal, rail, road, communications.) The impact of a 10 per cent increase in prices would be to raise industrial costs by approximately three quarters of one per cent. (This figure includes a multiplier effect of coal prices on gas and electricity but does not take account of similar multipliers which occur elsewhere.)

4. The effects on particular industries would vary widely from the average. Fuel and/or transport cost increases would be of relatively greater importance to, for example, the iron and steel, chemicals, cement and construction industries. For other industries the effects would be far less significant.
12th September, 1967

CABINET

THE OIL SITUATION

Memorandum by the Minister of Power

Supplies

The Khartoum conference of Arab states removed on
1st September the ban on oil supplies destined to the United Kingdom,
United States of America and West Germany. This decision will not
affect overall supplies to Europe which, as long as the Suez Canal
remains closed, are limited by tanker capacity and may be increased
only by the opening of the "Tapline" from Saudi Arabia to Syria or the
resumption of exports from Nigeria. It will however assist companies
in the most economic programming of tankers and supplies, and so far
as the United Kingdom is concerned it should enable us to obtain crude
oils better suited to the United Kingdom refineries. A further gain to
the United Kingdom will arise when exports of natural gas from Algeria
are resumed, which we expect shortly.

2. In spite of the closure of the Canal there should be enough tankers
to meet Europe's oil needs in the coming winter but at high cost.
However the supply prospects will continue to be insecure so long as
there is no settlement between Israel and the Arabs, and each Arab state
endeavours to obtain maximum financial advantage from the current
situation.

United Kingdom stocks

3. My Oil Industry Emergency Committee has just produced its
first estimates of stocks and supplies over the coming winter as a whole,
based on the main assumptions of closure of the Suez Canal throughout
and of no Nigerian supplies. The Committee further assumed that the
Arab ban would continue, but it has since indicated that the forecasts
will not be changed significantly by the removal of the ban which will
principally ease manufacturing problems in the United Kingdom and
perhaps give a slight improvement in naphtha supplies.

4. The overall stock figures for the period from the start of the
crisis until March, 1968 are attached as Table I. Company-owned stocks
began the crisis at 15.3 million tons and dropped by 2.4 million tons
(15 per cent) to their lowest point at 7th August. They have since started
to rebuild. By 4th September they had reached 13.9 million tons and by
end September they are estimated to total 15.1 million tons, 1.5 million tons (10 per cent) below normal for the time of year. With less than the usual seasonal stock rundown forecast for the last quarter of the year, by end December the difference between normal stocks and the forecast level of 14.7 million tons is only 5 per cent. By end March stocks are estimated to be down to 12.4 million tons, just over a million tons below normal but well above the minimum operational levels even if there is a cold winter. These estimates represent a satisfactory prospect in overall terms.

**Particular products**

5. More detailed stock estimates, product by product, are attached as Table II. Two-thirds of the shortfall on normal stock levels at end September is shared equally between naphtha, where special measures are being taken, and the "other products" group where no problems have arisen or are expected. Stocks of the other main products are estimated at little below or at normal levels and present no difficulties. The shortfall on normal at end December repeats this end September pattern.

6. Owing to the loss in production of naphtha when crude oil supplies in general were cut earlier in the crisis, and so long as unsuitable crude oils have to be used, all the special measures being taken to deal with naphtha still seem likely to be necessary. However, there can now be greater confidence that the naphtha demand and supply gap can be closed, and this will be helped further when the supply of Algerian natural gas is resumed. I intend to keep a very close watch on the naphtha situation.

**Temporary Surcharge**

7. From mid-August onwards the individual oil companies sent to my Department revised cost figures in support of additional surcharges. By 1st September my Department had examined the situation in depth and had prepared a paper for discussion with other Departments. Then the Arab destination ban was removed and companies have been asked to re-examine supply prospects and costs in the light of the changed circumstances. The companies' computer exercises are not complete, and thereafter there will be discussions with my Department which will take several days.

**Conclusion**

8. The oil supply position for the coming winter is now reasonably secure, except in the case of naphtha, on which special measures are in hand. In view of the improvement in stocks, we can now afford to relax some of the precautionary measures which have been taken in preparation for rationing. There remains a possibility that a further temporary surcharge will be needed to cover the oil companies' increased costs. I shall be consulting my colleagues about this in the light of further discussion with the industry.

R. W. M.

Ministry of Power, S. W. 1.

12th September, 1967
## TABLE I

<table>
<thead>
<tr>
<th>Actuals</th>
<th>Product from crude oil stocks</th>
<th>Total</th>
<th>Number of weeks' supply forward</th>
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<td>13.4</td>
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*Latest previous forecast, made two weeks earlier.*

11th September, 1967.
### Monthly Product Supply Position.

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</table>

(1) Total stocks are the product stocks plus the product equivalent of the crude oil stocks.
(2) [Latest previous estimate forecast on 23rd August, 1967.](#)
(3) The assessment of naphtha stocks makes no allowance for the special measures being taken to reduce naphtha usage.

11th September, 1967.
13th September, 1967

CABINET

MIDDLE EAST: CURRENT SITUATION

Memorandum by the Secretary of State for Foreign Affairs

Arab/Israel

During August the parties to the dispute and the other powers principally involved were taking stock. The Israel position has if anything hardened. The Israel Government insist that they will accept a change in the present situation only in the context of a peace settlement negotiated directly with their Arab neighbours. On the other side, however, there is evidence that for the time being at any rate, President Nasser has put his weight behind the "moderate" Arab governments and that he might like to mend some fences with the West. Although the Arabs maintain their formal position of total non-recognition of Israel, the "moderates" appear at least tacitly to accept that Israel is here to stay.

United Nations Aspects

2. We have learned this week that the Americans do not expect the Russians to reply to their approach about a draft Security Council resolution on the lines they agreed with Mr. Gromyko in July, before Mr. Gromyko reaches New York next week. But from informal exchanges (which seem to be borne out by Lord Caradon's contacts in New York) their impression is that the reply is likely to be rather negative, probably mainly as a result of the response the Russians have had from the Arab States. They may now back the unacceptable Tito proposals, at least as a starting position.

3. Talks are to be held in London tomorrow, Thursday, with Mr. Eugene Rostow of the State Department. Thereafter, we shall have to consider whether, as Lord Caradon now thinks, we should encourage the non-permanent members of the Council to take the initiative.

Yugoslav Proposal

4. President Tito has approached us and others with proposals for a settlement on the basis of -

(a) as a starting point, Israeli withdrawal from territories occupied since 4th June;

(b) a Four-Power or Security Council guarantee of the security and 4th June borders of all the states in the area;
(c) freedom of navigation through the Straits of Tiran pending a decision of the International Court;

(d) a subsequent effort to tackle the refugee and Suez Canal problems.

These proposals are objectionable to us in that they drop the direct connection which we regard as essential between Israeli withdrawal and the ending of belligerency by the Arabs, and postpone a solution of the Canal problem. Furthermore, the Israeli Government has rejected them as a basis for discussion. The degree of co-ordination of Yugoslav and Soviet views is not clear.

The Arab Refugees

5. Despite strong representations from us, from the Americans, from U Thant and from the International Red Cross, the Israelis refused, apart from minor concessions, to extend the 31st August deadline for the return to the West Bank of those Arabs who fled across the Jordan during and after the hostilities. By the time those who are covered by the Israeli concessions have returned, approximately 20,000 refugees will have been re-admitted, but more than 100,000 who asked to return will have been kept out. Israel's rejection of applications for return to the Jerusalem area and to the Jericho camps may signify that they are thinking in terms of a long stay on the West Bank and wish to limit their own refugee commitment there. Mr. Gussing, who is looking into the refugee problem on behalf of the United Nations Secretary-General, is expected to report in the near future. His report may give some pointer as to what form an international contribution to settlement of the refugee problem should take. The Israel Government's Commission on refugees is also expected to report soon and there have been indications in the Press that the Israeli line in UN discussion on refugees might be "more accommodating".

Jerusalem

6. The report of Mr. Thalmann, whom the Secretary-General appointed to look into the situation in Jerusalem, confirms that the Israelis have ignore the United Nations resolutions and have maintained measures which in effect have incorporated the formerly Jordanian part of the City into Israel. They have shown no willingness to go back on their public stand that the question of Jerusalem is not negotiable. Mr. Thalmann's report indicates that although the Arabs in Jerusalem would be prepared to co-operate with a military occupation regime they are opposed to civilian incorporation into the Israel State. They regard this as a violation of international law which prohibits an occupying power from changing the legal and administrative structure in an occupied territory.

7. Although the Israelis have shown anxiety about the possibility that the United Nations might call for sanctions against them on the question of Jerusalem, their latest communication to the United Nations Secretary-General evades the issue of compliance with the two General Assembly Resolutions calling on Israel to rescind the measures of 28th June. It indicates readiness to negotiate only on an "appropriate expression of the special interest of the three great religions in Jerusalem" and suggests that this is the only basis of international interest in the City's status.
8. So far the Egyptians have given no sign that they would be willing to take any action that would detract from the "political, practical and psychological effects" of the principle that there will be no clearance of any part of the Canal in advance of an Israeli withdrawal. There have been indications that they would be satisfied with less than a full withdrawal from the Sinai Peninsula, but even in that event the re-opening of the Canal would not extend to the shipping of Israel. The Israelis for their part are likely to hold rigidly to the line that they will not withdraw until the Egyptians abandon their claim to belligerency and open the Canal at least to their trade. Although many countries, for example India, have expressed grave concern at the Canal's closure, none of them has shown willingness to try to bring substantial pressure to bear on the Egyptians (or the Israelis) independently of action at the United Nations or by the United States and USSR.

9. In these circumstances it would be unwise to count on an early opening of the Canal. The most hopeful course of action lies probably in the encouragement of a comprehensive Resolution in the Security Council on the lines of the Gromyko draft.

United Kingdom/United Arab Republic Relations

10. Apart from the general indication following the Khartoum Summit that President Nasser might wish to mend some fences with the West, there has been a particular move towards Britain in the shape of an article by the Editor of Al-Ahram in the London Sunday Times on 11th September. He wrote that it was time for a genuine dialogue to begin, as between equals, between the United Arab Republic and the United Kingdom.

11. The United Arab Republic authorities have also announced their intention to resume the payment of pensions to former British servants of the Egyptian Government, and on 4th September they notified BOAC of the restoration of its staging rights in Cairo.

Oil

12. As a result of the resolutions adopted at the Khartoum Summit conference most of the Arab oil producing states have lifted the embargo on exports to the United Kingdom, the United States and West Germany. Algeria has not yet announced the raising of the embargo but has informed the companies concerned that the export of liquefied natural gas to the United Kingdom may be resumed. Syria, across whose territory the Iraq Petroleum Company's pipelines from Northern Iraq pass and where one of the IPC's terminals is situated, has not yet agreed that exports to the United Kingdom, United States and West Germany may be resumed. Nor have exports from Tapline (the pipeline from Saudi Arabia to Lebanon) been restarted; the delay is due to a dispute between Aramco and the Saudi Government over the level of posted prices at the Mediterranean.
13. Meanwhile the Kuwait Government are already pressing the Kuwait Oil Company (50 per cent BP, 50 per cent Gulf Oil Corporation) for a rapid increase in production, and, hence, in revenue in order to enable them to meet their new financial commitments arising out of the Khartoum Summit. Iran, too, is pressing the companies to ensure that there is no sudden drop in the increase in exports (which resulted from the Arab oil embargoes) and that the present exceptionally high level of oil take should be taken as the base-line in deciding future increases.

14. The lifting of the Arab oil embargo has had very little effect on the United Kingdom except insofar as there is now once again a greater variety of sources on which we can draw. In balance of payments terms the overall position of BP and Shell is affected very little. The Suez Canal remains closed and the transport crisis, which is the largest item in the effect on our balance of payments, is still acute.

G.B.

Foreign Office, S.W.1.

13th September, 1967
In December, 1966 (CC(66) 65th Conclusions, Minute 5), the Cabinet agreed, having reviewed the earlier decision of July, 1966, to take over the assets of the Beagle Aircraft Company, to proceed with the acquisition. The financial implications of the proposal before the Cabinet were based on a plan to develop and produce four types of light aircraft: two variants of the single-engined 2-4 Seat Pup, the twin-engine 4-6 seat B 222 and the twin-engined 6-7 seat B 206. It was estimated that the programme would require cash subventions from public funds totalling £3.2 million in the first five years to 1970-71 and that thereafter there would be a positive cash flow. Beagle have now submitted a revised programme and new financial estimates which show a working capital required totalling £4.5 million to 1970-71 with a positive cash flow thereafter. The difference is largely due to a shortfall in B 206 sales and to the inclusion of new variants of the Pup and of the B 206. In the current financial year Beagle will need some £1.25 million as compared with the £0.56 million forecast at the time of the Cabinet decision. A full review of the Beagle programme and of results to date has therefore been undertaken by the Ministry of Technology, with the result shown at the Annex to this paper.

2. The Minister of Technology's conclusion in the light of this review is that it would be right to continue to support the Beagle programme in spite of the so far disappointing sales of the B 206 and the extra financial support which will be required. His reasons may be summarised as follows:

(a) It was realised last December that it would not be easy for Beagle to penetrate into the world light aircraft market and that, even if all went well, it would be several years before the Government could expect a return on its investment. This is still the position and the Minister of Technology does not consider that the overall financial prospects of the company have changed so markedly as to warrant reversing so recent a Cabinet decision.

(b) Short-term fluctuations in cash flow are only to be expected. The programme should be considered as a whole taking one year with another. Although a large cash subvention is now required in the short term, Beagle still expect to achieve a positive cash flow in 1970-71. The rate of return on a discounted cash flow basis over 13 years is, on the expectation of higher profit margins on sales, now estimated to be 4.6 per cent as against the 4 per cent at the time of the Cabinet decision.
The only respect in which Beagle's performance has so far fallen short of the expectations is in the low level of sales of the 3 206, the only project so far in production. Nine months is too short a period in which to judge long-term trends. (A single large order such as that under negotiation with the South African Government for 30 aircraft would transform the situation). Against this should be set the very encouraging reception which the Beagle Pup has received since its first flight in April. The Pup has already been chosen by the Harle College of Air Training to meet its basic trainer requirement, there is a good chance of an order for 50 from the Swiss Air Force, and it has aroused widespread interest from flying clubs and private flyers.

The Government has already put nearly £2 million into the company, i.e., over a quarter of the total cash requirement, and, if we did not go through the purchase of the company, we should, under the terms of our agreement with Pressed Steel, have to make good any difference between the agreed purchase price of £1 million for the assets and the price they would fetch on realisation by Pressed Steel. This difference cannot now be quantified.

The decision to acquire the company has been announced to Parliament and has been reaffirmed on several occasions. The Government's proposed acquisition of the company has also been widely reported in the Press. It has also been mentioned to the Confederation of British Industry (CBI) recently in connection with the proposed Industrial Expansion Bill. Withdrawal at this stage would be embarrassing politically: and it might lead to some unemployment.

At the time of the Cabinet decision it was recognised that new and efficient management was the key to financial success. It was implicit in that decision that the new management would have to be appointed and given a fair trial over a reasonable period before any considered reassessment of Beagle's prospects and performance could be made. After a long search, a suitable candidate has been found for the post of Managing Director and he is keen to take the job on.

The Cabinet's decision to acquire Beagle was taken on wider considerations than that of the likely return on the Government investment. Beagle should make a useful contribution to the balance of payments. The company's turnover in 1971 is expected to be some £5 million of which far the greater part will go in export and the rest will be import savings. The Cabinet also considered it important that this country should maintain a stake in the very large and growing world market of light aircraft and recognised that Beagle provided the only chance of doing so. If Beagle fails, we will be out of the light aircraft market for the foreseeable future.

Beagle's prospects of success did not depend on any major penetration of the United States market. Their sales target of between 400 and 600 aircraft a year had to be considered in relation to an annual world market of 12 to 15,000 aircraft a year and a non-United States market of upward of 4,000. Beagle were only now beginning to try to sell the 3 206 to the United States. It had so far been sold in six countries (excluding the United Kingdom). It had also been sold in South America where it had attracted considerable interest and where
it was widely held that it was a better aircraft than its United States counterpart. They had also been sold to Australia which was another promising market as was South Africa which wanted to take 30 aircraft (this order is dependent upon American authority to re-export the American Continental engine). The world demand for light aircraft was increasing by as much as 10 to 15 per cent a year. Other countries were entering the market as manufacturers and it would be unthinkable for the United Kingdom to back out only nine months after the announcement of its decision to go on.

3. The Minister of Technology's proposals have been discussed in the Ministerial Committee on Industrial Policy where there was a broadly equal division of opinion for and against the continuance of the Government's support for the Beagle programme on the lines proposed by the Minister of Technology.

4. The arguments for abandoning the programme are as follows:

(a) The estimates of the subventions the Government requires to make in Beagle have risen considerably since the proposition was first considered by Ministers. In July, 1966, when the Ministerial Committee on Economic Development agreed that the Government should seek to acquire the assets of Beagle the cash subventions required to be made to the company up to 1970-71 were estimated at £2.5 million, and the rate of return on the investment (assuming the purchase price originally proposed of £1.455 million) was estimated at 6.2 per cent over 13 years. In December, 1966, when the Cabinet endorsed the July decision the subventions required had increased to £3.2 million and the likely rate of return had dropped to 3 per cent over 13 years on the July assumptions, or 4 per cent over 13 years assuming a reduced purchase price of £1 million (which was subsequently agreed with Pressed Steel the owners of Beagle). The estimated cash subventions required have now risen to £4.5 million although the likely rate of return is estimated at 4.6 per cent over 13 years assuming higher profit margins on Beagle's sales. To support the Beagle programme at such a low rate of return would represent a waste of resources.

(b) The advantages of the project have always been marginal from the Government's point of view, and the low level of B 206 sales since the Government's decision to acquire Beagle must weaken confidence in the prospects of the company's eventual success.

(c) The sales of the B 206 having fallen below expectation, it must now be doubtful - although sales forecasts are admittedly unreliable - whether enough aircraft will be sold to produce a positive net cash flow in 1971-72 as the revised financial estimates for the company suggest. There can be little hope of success unless the aircraft are sold in significant numbers in the North American market, which accounts for some 70-80 per cent of the world market for light aircraft. But the United States industry has the advantage of large-scale production, and Beagle aircraft would have to overcome heavy transport and tariff charges in North America (as well as the competitive effect of their rivals' established after-sales service facilities). The odds against overcoming these handicaps must be considerable.
(d) The Government will incur greater criticism by continuing to back a project whose prospects seem to be deteriorating than by withdrawing from it before the commitment becomes too heavy.

(e) The Government's communications with the Trades Union Congress (TUC) and the CBI on the proposed Industrial Expansion Bill has suggested that the powers would be used to improve the efficiency and the profitability of promising companies, and that the economic return on every project to be supported would be carefully appraised to establish its prospects of long-run profitability. It might be damaging to the credibility of this policy if the Government were seen to be backing the Beagle project.

5. In the absence of any consensus of opinion in the Ministerial Committee on Industrial Policy I am referring this question to the Cabinet who will wish to consider, in the light of the arguments, whether it would be right to continue to participate in the Beagle programme on the revised basis proposed by the Minister of Technology.

P.S.

Department of Economic Affairs, S.W.1.

18th September, 1967
In the programme submitted to the Ministry of Aviation in November 1966, two variants were proposed, a club and a trainer aircraft, with launching costs estimated at £323,000 and a peak output of 150 a year. There was to be a margin of £200-400 on each aircraft depending on the type, with a break even point of about 2,000 aircraft sometime after 1980 (allowing for profit on sales of spares).

The estimated launching costs for these two variants have now risen to £1.0 million following a re-assessment of the design costs and of the allowance made for high initial production costs; and proposals have been made for a third, larger, variant, with a total production for all variants of 200 a year. Present and previous estimates compare as follows -

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<tr>
<th>Variant</th>
<th>November 1966</th>
<th>April 1967</th>
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<tr>
<td>B.121-100 (Club)</td>
<td>£572</td>
<td>£765</td>
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<tr>
<td>B.121-150 (Trainer)</td>
<td>£251</td>
<td>£254</td>
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<tr>
<td>B.121-180 (4 seat)</td>
<td>-</td>
<td>£389</td>
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<td></td>
<td>£823</td>
<td>£1,408</td>
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The Ministry of Technology has been through Pup production costs in some detail with the company, and it has been agreed that equipment fit should be somewhat reduced but that prices should be maintained at about the same level, giving bigger margins as follows (November 1966 figures in brackets) -

<table>
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<tr>
<th>Standard (Equipped) Manufacturing Cost</th>
<th>November 1966</th>
<th>April 1967</th>
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<tbody>
<tr>
<td>121-100</td>
<td>£3,370 (£3,710)</td>
<td>£4,500 (£4,545)</td>
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<tr>
<td>121-150</td>
<td>£4,095 (£4,600)</td>
<td>£5,550 (£5,750)</td>
</tr>
<tr>
<td>121-180</td>
<td>£5,505 (£-)</td>
<td>£7,500 (£-)</td>
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With these improved margins and a production rate of 200 a year, break-even would be achieved on sales of about 1,800 aircraft by 1978 (allowing for profit on spares continuing thereafter). If average sales prices could be increased by some £250 an aircraft, break-even could be achieved on sales of about 1,400 aircraft some two years earlier.
5. In fact, it may not be possible to increase selling prices, since the basic production cost of the Pup is already for the most part higher than that of rival American aircraft, which have the advantage of production in considerably greater numbers. This is not necessarily the final determining factor since different types of aircraft in this category, though prima facie comparable, tend to sell in reasonable numbers over a fairly wide price bracket (as with motor cars), and sales of 200 a year by Beagle would represent only some 3 per cent of the world market (7,000 aircraft in this class were sold last year). The Pup's aerobatic capability, good handling characteristics and exceptional cabin width may also prove strong selling points.

6. More recently, to improve the economics of the operation, Beagle have proposed that the production rate should be stepped up to a peak of 400 B.121's a year by 1970-71, bringing the break-even date forward to 1974. Sales at this level would require a 3 per cent penetration of the North American market (which accounts for some 80 per cent of world sales), and a rather larger penetration elsewhere. While this level of sales is not impossible, it will not be easy for Beagle to secure even 3 per cent of the American market because their aircraft must enter the United States over a tariff barrier (currently 10 per cent, reducing to 5 per cent) and must bear transportation charges, together amounting at present to over £1,000 even on the cheapest variant. There are, however, potential military sales of the trainer version and on balance the sales target of 400 a year is not regarded as unreasonable given vigorous and firm direction of the programme; in particular it will call for an energetic sales organisation and a responsive dealer/distributor network which Beagle are only now in the process of building up. The eventual size of the programme can only be decided in the light of sales experience. The many expressions of interest that have been received, including a promising prospective order from the Swiss Air Force, and the decision of the College of Air Training to order 22 Pup-150's, are encouraging signs.

7. To sum up on this project, the programme for the two smaller variants appears fully sound, experimental flying of the prototype is going well and has so far revealed no major snags, and there are the beginnings of a genuine market interest reinforced by the firm prospects of the College of Air Training order. The introduction of the larger version, the B.121-180, into the programme will be determined in light of the development of the market for the two smaller versions.
8. Development of this 6 seat touring/executive aircraft selling at about £50,000 had already been largely completed before the Government's decision to buy Beagle. The provision for outstanding launching costs made in the November 1966 programme has been reduced from £0.3 million to £0.2 million. A total of 42 aircraft will have been delivered by 31st August 1967, including 22 'Bassets' for the Royal Air Force. Thirteen were delivered to the civil market in 1966-67 against a programme of 33. This shortfall has led to a build-up of stocks and a reduction in income, resulting in a need for working capital in excess of estimates. The current level of orders remains disappointing.

In their revised proposals Beagle have suggested a slightly less ambitious production plan based on achieving a peak rate of 50 a year in 1971-72, instead of the 60 a year proposed earlier. Fifty a year would represent up to 25 per cent of the world market for this type of aircraft.

9. This may still prove highly optimistic, and the company's progress in selling the B.206 will have to be kept under close review. The position would be significantly improved if Beagle were to secure an order from South Africa (perhaps for some 30 aircraft) which has been in view for several months. The order is dependent on American authority to re-export the (American) Continental engines to South Africa. This authority has been sought and the prospect of securing it seems to have improved in recent weeks. Until the future of this potential order is clear, the Beagle plan to produce no more than 20 aircraft in the current year is the maximum which should be contemplated.

10. For introduction about 1970, Beagle have proposed a substantially improved version of the aircraft (B.206 III) at an estimated launching cost of £0.7 million. Almost 100 of these aircraft would have to be sold to recover this. This proposal is still being considered by the Ministry of Technology, and no decision has yet been taken. It is not certain that the sales prospects of the B.206 would be sufficiently improved to justify the investment involved.

11. The November 1966 programme provided for launching the B.242 (a twin-engine 4-6 seater) at an estimated cost of £770,000; for deliveries to commence in 1969-70; and for production to reach a peak of 120 aircraft a year in 1972-73. Beagle have not yet put forward to the Ministry of Technology any specific B.242 proposal.
and in their latest programme they have set the project back by over a
year to reflect this lack of progress. However, they have also reduced
the estimated launching costs (by £338,000 to £422,000) and have assumed
that production will build up from first delivery in 1970-71 to 120 a
year by 1973-74. This reduction in launching costs is based on an
assumption that the aircraft will have much in common with the B.121;
revised estimated manufacturing costs (reduced by £2,670 to £11,700)
and selling price (reduced by £3,500 to £16,500) reflect this thinking.

12. It is important that Beagle should come to an early conclusion about
the design concept of the B.242; an independent market study to aid
this is being considered.

13. The November 1966 programme required subventions from public funds
totalling £3.2 million over five years. Beagle’s revised plans
(including the launching of two new projects - B.121-180 and B.206/III)
and updated estimates of expenditure and receipts involve subventions
totalling about £4.5 million, or about £2.6 million excluding the new
projects. If peak production rate of the B.121 were doubled to 400
aircraft a year by 1970-71, as Beagle propose, the required subventions
would amount to some £4.6 million. The respective cash flow estimates,
which all contain contingency provision of about £0.9 million are as
follows -

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<td>1967-68</td>
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<td>1968-69</td>
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<td>1969-70</td>
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<tr>
<td>1970-71</td>
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<tr>
<td>TOTAL NEGATIVE CASH FLOWS</td>
<td>-3,173</td>
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<td>-4,406 (REV. 4,500)</td>
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Conclusions
14. The longer-term production rates in the Beagle programme are to be
regarded as no more than provisional targets, production commitments being
undertaken progressively as sales experience shows them to be justified;
the case for launching a new version of the B.206 has to be examined; a
decision has still to be taken whether to proceed with a 180 h.p. variant
of the B.121; and a design concept (with its associated estimated costs)
hast yet to be worked out for the B.242. Nevertheless it is considered
that there is sufficient information to enable a view to be taken in the
general programme.
The Ministerial Committee on Parliamentary Procedure have had under review:

(a) The impressive body of proposals for modernising House of Commons procedure contained in the first six reports of the Select Committee.

(b) The experience gained from our two Sessional experiments - morning sittings and Specialist Committees.

In this memorandum I seek agreement of the Cabinet to the proposals which the Ministerial Committee recommend as a result of this review.

1. PUBLIC BILL PROCEDURE

2. Finance Bill

The most important change relates to the Finance Bill. During this Session we operated the compromise voluntary timetable backed with a residual sanction recommended in the Select Committee's Fourth Report. In presenting this to the House, however, I made no secret of our view that the final solution should be to send the Committee Stage to a Grand Committee upstairs. The Ministerial Committee recommend that this proposal should be adopted for the 1967-68 Session. Allowing for the extended Report Stage which will be required it should still save six or seven long days on the floor of the House.

I am discussing the detailed arrangements for the Grand Committee with the Chief Whip and the Financial Secretary. One point which has already emerged has a more general application. Since a variety of Departmental Ministers may be called upon to explain particular clauses the proposal is that any Minister should be free to attend and speak at any meeting of the Grand Committee, though not to vote. In standing committees this right is at present available only to Law Officers. It seems to the Ministerial Committee that there would be advantage - particularly to Scottish and Welsh Ministers - if this new rule were to apply to all standing committees, and I propose to proceed accordingly.
In paragraph 17 of their Sixth Report the Select Committee said that the facilities for voluntary timetabling of committee and report stages should be strengthened. Timetables should when necessary be drawn up by steering committees under the chairmanship of the Standing Committee Chairman or Mr. Speaker, as appropriate. Whilst they favour the retention of the traditional guillotine as the Government's ultimate weapon the Select Committee think that these arrangements should be supported by a procedure, comparable with the one agreed last May for the Committee Stage of the Finance Bill.

The Ministerial Committee commend this proposal.

The Ministerial Committee would also accept the recommendations in paragraphs 20-21 that the reports of Second Reading Committee proceedings should be bound up with the following day's Commons Hansard; and in paragraph 26 that if a Bill has been referred to a Second Reading Committee or the Scottish Grand Committee it should be possible, subject to safeguards, to remit the report stage to that Committee.

The Select Committee recommend in paragraph 27 of their sixth report that Third Reading should be taken without debate, and should follow immediately on Report, unless a six-month or reasoned amendment has been tabled over the names of at least six members.

This recommendation could give us an appreciable saving in time on the floor of the House. The Ministerial Committee are in favour of accepting it.

We propose at last to get rid of the nonsensical rigmarole at present used for putting amendments. In future the question will be put in the simple form "That the amendment be made".

I propose to accept the extension of the terms of reference of the Select Committee on Statutory Instruments recommended by the Select Committee in paragraphs 29-31 of the Sixth Report:

(a) That the Committee should consider all Statutory Instruments and not merely those subject to an affirmative or negative resolution.

(b) That they should be empowered to report on drafting defects as well as defects of vires.
II: OTHER PROCEDURE RECOMMENDATIONS

8. Standing Order No. 9

In their Second Report the Select Committee recommended:

(a) That the Speaker should have discretion to allow a matter raised under the Standing Order to be debated on the day after it is raised.

(b) That he should be specifically exempted from any obligation to give reasons for allowing or refusing such a debate.

Some doubt has been felt in the Ministerial Committee as to whether recommendation (b) might not make it too easy for a Speaker to give in to the demand for a debate under SC9; and the suggestion has been made that whilst he should be freed of the burden of past rulings he should nevertheless give his reasons for rejecting future motions. On the other hand the present Speaker is on record as saying before the Select Committee that this would simply build up an equally restrictive body of precedent for the future; and recommendation (b) was subsequently pressed by the Conservatives. I think we shall be wise to accept the Select Committee's recommendation as it stands.

The Select Committee also proposed, in paragraph 2 of the Second Report, that the Opposition should be able to select up to four half-days from their 29 Supply days for urgent debates. The value of this to the Opposition is marginal and it might produce minor difficulties of timing. On the whole, however, the Ministerial Committee are in favour of accepting it.

9. Power to accept Closure on Report

At present only the Speaker may accept a closure Motion; and this is very burdensome. The Chairman of the Select Committee on Procedure has proposed to me that, for Report Stages only, the House might be invited to extend this power to the Deputy Speaker. The Ministerial Committee commend this.

10. House Officers' Dress

The Clerk to the Commons would like his staff to be relieved by resolution of the House of the obligation to wear wigs and gowns, which is not an ancient tradition but a relatively modern innovation. Opinion is divided on this with the Speaker and, I believe, certain senior Opposition Members against the change. The Ministerial Committee recommend that the Clerks should be freed from the obligation to wear either wigs or gowns except on ceremonial occasions such as the Opening of Parliament. On this matter much turns on the present views of the Speaker and if the Cabinet agree I will pursue discussions with him along the lines of the Ministerial Committee's proposal.
III: FUTURE OF SELECT COMMITTEE ON PROCEDURE

11. Now that it has completed its massive work on Public Bill Procedure I had hoped that the reappointment of the Select Committee next Session would be unnecessary. But the Ministerial Committee feel that there are two more topics the Select Committee should consider.

The first, which relates to the shortage of time for private Members' legislation, has been pointed up this Session by the social significance of two at least of the Bills considered. In view of the strong feeling that more time should be given to private Members' Bills I propose as an interim measure that in 1967-68 six of the 12 days normally allocated for motions should be made available for Bills. The 16 days so provided will be divided equally between second readings and remaining stages. Subsequently the Committee should make an urgent report on the whole use of private Members' time.

The second topic, which is important but not urgent, relates to the annual Parliamentary timetable. This has not been reviewed for a very long time. Would modern convenience be served by five terms and five holidays instead of the present four? If so should the long Summer Recess be shortened so as to extend the others? I have considered many schemes for improvement but find that they are all impracticable unless we are prepared to consider them in relation (a) to the timing of the Party conferences and (b) to the Finance Bill timetable. I suggest that the Select Committee should be asked to take this as their second subject next Session.

IV: HOURS OF SITTINGS

12. Since last February we have had as a Sessional experiment regular morning sittings each Monday and Wednesday. As the Annex to this memorandum shows, they have enabled the Government to get a remarkable amount of secondary business through at very little cost in time. But owing to the resolute determination of the Opposition to frustrate the experiment by deliberately prolonging business on the evening of a morning sitting we cannot claim that we have attained our stated objective of reducing the pressure of late night business on our hard-working whole-time Members. Moreover they have on occasion brought the staff of the House under almost unendurable strain.

13. The Ministerial Committee considered three possibilities for our next Session:

(a) To abandon morning sittings and revert to previous practice. This would be a poor posture for a Government intent on modernising Parliament. It would also be a breach of the commitment we made to our own backbenchers that in planning the timetable of the House we would swing the balance of advantage so as to favour the whole-time Member against those who earn another living in the morning and so prefer a late start, even if it involves our whole-time Members in frequent late-night sittings.
(b) We could 'go the whole hog' by starting every day at, say, 10.00 a.m. and finishing at 6.00 p.m. or 7.00 p.m. But the Ministerial Committee found that this would not only make for great difficulty in the conduct of Cabinet and Ministerial business but would seriously disrupt proceedings in standing and select committees. In addition it was thought that such an arrangement would fail to satisfy our provincial backbenchers who would rather have their evenings occupied.

(c) We could introduce a new kind of suspension of the sitting, enabling the Government to stop a late night sitting and to substitute a morning spill-over whenever it thought necessary. In this way we could replace the regular scheduled Monday and Wednesday morning sittings by occasional morning spill-overs, for the most part when report stages are being taken in early summer. The new motion for suspension would be moved without notice and decided without debate. When business was running late, therefore, and the business managers felt that it should be concluded without the rigours of an all-night sitting, it would be the normal routine for the Whip to move "that the sitting be suspended until 10.00 a.m. tomorrow".

14. The Ministerial Committee have decided to recommend proposal (c). Under this procedure I believe that all-night sittings will normally be limited to a small number of traditional occasions (for example, the Report Stage of the Finance Bill and the Consolidated Fund Bill) while always remaining available if they are forced on us by obstructive tactics. I do not expect that Ministerial attendance at the resumed debate would be required so often as to interfere substantially with normal work.

15. In order to improve the efficacy of this new arrangement the Ministerial Committee also recommend that-

(a) The time for debating affirmative resolutions after 10.00 p.m. should be limited to 1½ hours. (This is effectively the procedure which applies to prayers against orders subject to negative resolution). The more important affirmative resolutions could still be brought on for debate in the afternoon but debate would not then continue after 10.30 p.m. Orders which were insufficiently important to be brought on before 10.00 p.m. would be subject to the time allowance of 1½ hours.

(b) It should not be permissible to call for counts after 10.00 p.m. at times when the House is considering affirmative resolutions, prayers against negative resolution orders or adjournment motions.

(c) Standing Orders should be so revised that, if the suspension of the sitting until the following morning were moved, the half-hour adjournment debate could take place on that motion.

V: SPECIALIST COMMITTEES

16. In considering proposals for the next Session the Ministerial Committee recognise that the number of Specialist Committees to be appointed is severely limited by the manpower available to serve them - in particular by the number of Clerks already allocated to Select Committees. Although the new staffing structure recently approved will, in the long run, improve the supply of committee clerks, the
appointment of new committees in 1967-68 must depend on eliminating
the overlap between, for example, the work of the seven Estimates
Sub-Committees and that of the new Specialist Committees. I have
received an assurance from the Chairman of the Select Committee on
Estimates that he will consider a reduction in the number of his
sub-committees and I am also pursuing the question with the informal
steering committee which the Chairmen of Select Committees have
recently set up. The proposals which follow are subject to a satisfactory
outcome of these discussions:

(i) The subject committee on Science and Technology should be
reappointed.

(ii) The Departmental committee which this Session has been studying
the Ministry of Agriculture should be replaced by a committee dealing
with those activities of the Department of Education and Science and the
Scottish Education Department which are not already within the purview
of the Select Committee on Science and Technology.

(iii) Providing a number of practical details can be worked out
successfully, the Foreign Secretary would welcome a new committee
dealing with foreign affairs. I would welcome Cabinet agreement in
principle to this project.

(iv) The proposals for the Industrial Expansion Bill include a
suggestion that specific proposals for Government intervention in
industry could on occasion be submitted to a select committee. Our
plans for an expansion of Specialist Committee work should therefore
include provisional allowance for this project.

(v) The project for pre-legislation committees which was mentioned
by the Prime Minister in the debate on the Address has now been warmly
welcomed by the Select Committee on Procedure. The Ministerial
Committee recommend that there should not be a separate specialist
committee for this but that an ad hoc committee should be established
to consider the desirability of legislation in particular fields. They
propose that the first ad hoc enquiry should be into the question whether
there should be a statutory restraint on the invasion of the privacy of
the citizen.

SUMMARY OF RECOMMENDATIONS

17. I therefore invite the Cabinet to agree that steps be taken:

(i) To transfer the committee stage of the Finance Bill to a Grand
Committee upstairs (paragraph 2).

(ii) On public Bills generally, to implement the recommendations in
the sixth report of the Select Committee that there should be timetabling
of committee and report stages; that Second Reading Committee Bills
should be able to be sent back to that committee for report stage; that
third readings should normally be formal, and that the procedure for
putting amendments should be simplified (paragraphs 3 to 6).
(iii) To authorise the Select Committee on Statutory Instruments to consider the drafting as well as the vires of all statutory instruments (paragraph 7).

(iv) To implement the main recommendations in the Select Committee's second report on Standing Order No. 9 (paragraph 8).

(v) To authorise the Deputy Speaker, as well as the Speaker, to accept a closure motion on report (paragraph 9).

(vi) To allow the clerks of the House to dispense with wig and gown except on ceremonial occasions (paragraph 10).

(vii) To reappoint the Select Committee on Procedure specifically to consider first, the use of private Members' time; and secondly, the arrangement of the Parliamentary year (paragraph 11).

(viii) To introduce, in place of scheduled morning sittings, an arrangement whereby late evening business could be pushed over to the following morning (paragraphs 12-15).

(ix) To have in the 1967-68 Session specialist committees covering science and technology; the work of the Education Department; foreign affairs; industry, and (as an ad hoc investigation) the scope for legislation on privacy (paragraph 16).
MORNING SITTINGS

In 44 morning sittings since the beginning of February the following business has been obtained:

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(On a motion by the Liberal Party about independent television)
INDUSTRIAL EXPANSION BILL: DRAFT WHITE PAPER

Note by the Minister of Technology

The draft White Paper on the Industrial Expansion Bill at annex has been amended in the light of discussion in the Ministerial Steering Committee on Economic Policy and I now circulate it for consideration by the Cabinet.

2. I seek the authority of my colleagues to publish the White Paper in this form at a convenient date following consideration of the Government's proposals by the National Economic Development Council on 9th October, subject to any amendment which may appear desirable in the light of that discussion, after consultation with the Secretary of State for Economic Affairs.

A.W.B.

Ministry of Technology, S.W.1.

27th September, 1967
The Government's industrial policy is directed to stimulating and encouraging the efficient use of national resources, both in the public and the private sectors. In the Government's view, the success of this policy depends on the development of a close working partnership between the Government and private industry. It is generally recognised here and in other advanced industrial countries that, although competitive market forces can act as a powerful spur to efficiency, they cannot in modern circumstances be relied upon automatically to bring about the optimum allocation of our industrial resources. Over the years there has been a steady growth in the scale and variety of Government support to the private sector. The Government believe that the rapid advance of technology and the increasing force and complexity of international competition demand still closer and more flexible cooperation between industry and Government.

Existing Partnership between Government and Industry

Such co-operation is not new. In the past, direct Government support for specific projects in the private sector has been given to older and less profitable industries, like cotton and shipbuilding, facing particularly difficult problems of adjustment to changed market conditions; and to industries meeting some special national purpose, such as defence or regional development. More recently, the Government have provided finance for new and technologically advanced projects where the potential benefits to the economy were greater than the returns which the companies concerned could expect to receive in the short-term. The programmes of assistance to computer and micro-electronics development are...
Another kind of special action, amplified by the Ministry of Technology's pre-production orders of machine tools, is to facilitate the introduction of advanced equipment which is likely to be profitable, but which appears to prove too much risk for the customer until there has been experience of the new equipment. Here the Government is reducing the marketing risk for the producer and the innovation risk for the customer.

This has taken place at a time when Government and both sides of industry have been concerned to evolve effective methods of economic planning. Within this setting industrial policy has concentrated first on providing a series of measures designed to shift resources of manpower and capital from less to more productive employment and to even out the geographical distribution of industrial activity; and secondly, on providing assistance for structural change. Measures have been taken to encourage investment in modern plant and machinery in the manufacturing, private mining and quarrying and construction industries; to increase the benefits available to industrial enterprise in development Areas; and to support technological research and development in civil as well as in defence industries.

In particular, the resources of the NRDC have been enlarged as to enable it to support the development and exploitation of commercially promising projects within its scope. The IRC has been set up to promote, and where necessary to finance, the structural changes which modern technology and international competitive conditions require. At the same time the Minister of Technology has been given authority to engage in or support research and development and to further the application of the results. These various powers have been used to good advantage in the help given by the NRDC in the development of the aircraft, by the IRC to reorganisation within the computer industry...
industry and by the Minister of Technology in setting up the theme for pre-production orders for machine tools.

But it has become clear over the last year or so that these powers are not enough to enable the Government to take the quick and varied action needed to secure the expansion and fuller development of our industrial capabilities. This weakness has emerged from the Government's consideration of stimulating points in the economy and of counter cyclical action in industry.

A main purpose of the Ministry of Technology from the start is to identify key points of growth and to bring about a more rapid application of advanced technology. The Ministry has wide powers to support research and technological development but the scope for exploiting the results is more limited. If the Government are to play their full part in the industrial expansion and technological development now makes possible, they must be able to operate more directly and more flexibly in support of industry to help overcome obstacles in production and marketing as well as in research and development. In the wider context of the reorientation of research and development policy, the Government raisers that there should be closer links between Government research establishments and industrial companies which can exploit and market the results of research. On occasion the Government may need to establish a new industrial capability by themselves or in association with others.
It is vital that companies should sustain their investment programmes which are designed to provide for a future growth demand, at times when demand is not growing. Any decline in the level of industrial investment may lead to drastic falls in orders in the investment goods industries. As a result, the industries concerned may have to reconsider their expansion and development plans. If these are cut back and the employment of engineers and skilled manpower reduced, the capacity of the industries to meet investment demand when it eventually recovers will be inadequate. If investment is to be sustained and expanded, means must be found to support demand in key sectors up to some agreed level and the Government must have power to act quickly to provide the necessary support by the appropriate means. The need for action of this kind in the machine tool industry has recently been under discussion and within existing powers it has been possible to help by increasing the pre-production order scheme. But more far-reaching measures to assist investment in this or any other industry run up against the difficulty that they require legislation. We shall find similar difficulty in introducing measures to remove obstacles to rapid expansion when demand is high.

In addition to its main task of industrial rationalisation, there will be cases with which the IRC can help through the development of individual enterprises. The Government have close
regular contacts with the Corporation and intend to use its utilities to the full. There will, however, be cases involving industrial development where action by the IRC will not be possible. For example, the amount of money involved may be too large, or there may be a need for long term public participation arising from Government industrial or social policy. The aircraft industry and the shipbuilding industry are examples and considerations of this kind could arise in schemes for international industrial and technological groupings. The Government must therefore be able to take direct initiatives, in partnership with industry, to promote the growth and modernisation of the economy.

The further development of the Government's positive role as partner with industry is therefore creating new needs for legislation to deal with particular situations. Already, in the absence of new general legislation, several separate Bills would be required to cover the needs of the aircraft industry. Further legislation may also be needed to amend the Shipbuilding Industry Act in the light of experience of the reorganisation, and to enable the development of aluminium smelting on which the Government are considering proposals. Parliamentary authority may also be required to enable Government to promote further developments arising from the industrial experiments proposed at the Prime Minister's National Productivity Conference last June.

The Government are not concerned solely with projects held up for lack of legislative authority. The economic situation requires that the Government should seek out opportunities for helping industry to grow and develop in the national interest, and the Government are indeed turning attention to the prospects of promoting future export growth by assisting development in industries...
The export prospects warrant it. The Government want to make it clear to industry that where a company is on the point of making a successful breakthrough in development, production or marketing, but is held up for lack of funds, the Government will be ready to consider helping it over this hurdle and would have the power to be able to act quickly when the company and the Government have agreed the necessary action. If this understanding exists, more projects will come forward for Government support which at present would require specific legislation.

Industrial Expansion Bill

What is needed is a faster and more flexible Parliamentary procedure for implementing the Government's side of its partnership with industry and a closer and more effective Parliamentary supervision over Government policy towards the private sector. Indeed, unless this is provided there is a real risk that the question of the Parliamentary timetable could seriously delay the production of measures designed to strengthen and support industry.

The Government therefore propose to introduce legislation to empower the Minister of Technology and other Ministers with responsibilities for industries to provide direct assistance to industrial projects designed to promote efficiency, to create, extend or sustain productive capacity or to support technological advance. Under the Bill which the Government have in mind the Minister concerned, with the consent of the Treasury, would be empowered to give financial support to projects falling within defined purposes of the Bill. In the case of the Minister of Technology this would be a widening of the scope of his powers under the Science and Technology Act 1965 for carrying on or supporting scientific research or the dissemination of the results of scientific research, and under the Civil Aviation Act 1949 to support the design, development and production of civil aircraft. As a new Bill would enable the Minister to support the design, development and production of other products in addition to civil aircraft.
Under such a Bill expenditure by way of loan or grant could be undertaken without further application to Parliament apart from the normal supply procedure. But special provision would be made for proposals involving commitments of uncertain amount or duration, as in the guaranteeing of loans and the underwriting of risks, the subscription or purchase of equity capital. In such cases the Minister concerned would be required to define the particular proposals in a scheme to be laid before Parliament and to obtain its approval of the House of Commons before proceeding with them. It is envisaged that schemes under the Bill will provide for the proposed acquisition of the Breguet Aircraft Company Limited, which has already been agreed with the industrial interests concerned, for the financing of Her Majesty's Government's share of the production of Concord and, subject to the conclusion of negotiations now in progress, for the purchase of a Government shareholding in the aircraft industry.

5. The role of Parliament in the evolution of a closer partnership between Government and industry is of critical importance. Parliament will need to play a fuller part than it has so far done. The proposed Bill will provide the opportunity for Parliament to discuss the statutory framework within which the partnership could develop. The procedure proposed for obtaining Parliamentary approval for projects involving Government sharing of risk would provide opportunity for these schemes to be debated. Further than this Parliament will need to keep under review the development of industrial policy to be sure that it is moving in the right direction and that the new responsibilities given to Ministers under the Bill are exercised effectively and within the time-scale required by the pace of industrial event. With these Parliamentary needs in mind the Government will submit to Parliament suggestions for the establishment of a new Select Committee to be concerned with the Government's activities in the private sector of industry.
In the Government's view the basis for cooperation with private industry is a common interest in industrial excellence and commercial success. A successful private sector is essential if higher standards of living, improved social conditions and a healthy balance of payments are to be achieved. The Government wish to support those enterprising managements which are striving to meet the challenge of growing competition at home and in world markets, and to maintain and improve the efficiency and profitability of their companies.

Government support for industrial projects can be justified in terms of their effect on economic growth and the balance of payments although the return to the individual firm may not appear large enough or certain enough to justify its management in undertaking a particular project on its own. In such cases the Government are able to take a longer view based on the concept of profitability to the economy as a whole. They can introduce into the calculation the benefits which can be expected to accrue to other parts of the economy, but which may not show up in the assessment of the financial return made by the company considering the particular project. This does not mean, however, that the provision of Government finance for projects in the private sector should be subject to any less stringent examination than that applied to private investment or that in the nationalised industries. The economic return on every project will be carefully appraised to establish its prospects of long run profitability.

The Bill will not confer any powers to acquire shares in any industrial undertaking otherwise than by voluntary agreement. Nor would it confer any other compulsory powers either directly or indirectly.
indirectly, and the Government have no intention of compelling a
firm to take part against the wishes of its management. This
would clearly not accord with the purpose of launching successful
projects. It is inherent in this policy that the Government
should be selective in the support they give within the private
sector, and the Government recognise that there may be concern
lest they give preference to firms in which they have shareholdings.
Though they have no such intention, they propose to discuss with
industry whether any safeguards are needed on this score. The
powers to assist industry would of course be exercised with due
regard to the Government’s international obligations.

Conclusion

19. In the Government’s view the proposed measure is both
necessary and urgent if schemes for industrial expansion are not
to be delayed. The Bill will provide the framework for a further
stage in the development of Government’s partnership with industry
for the encouragement of increased investment and more rapid
application of modern technology.
5th October, 1967

CABINET

DIVORCE LAW REFORM

Memorandum by the Lord Chancellor

At their meeting held on 26th September the Home Affairs Committee invited me to bring before the Cabinet the proposals which I had submitted to the Committee for reforming the divorce law. My colleagues will remember that last summer a Group set up by the Archbishop of Canterbury under the chairmanship of the Bishop of Exeter published, under the title of "Putting Asunder", a report containing detailed proposals for the reform of this branch of the law. The essence of these proposals was to substitute for the current rule, whereby (with one exception) a decree of divorce can be obtained only on the proof of a "matrimonial offence", a rule whereby the sole ground for divorce would be "breakdown of marriage". At my request, the Law Commission examined "Putting Asunder" and submitted to me a report on the proposals made by the Archbishop's Group; that report, entitled "The Field of Choice", was published last autumn (Cmd. 3123) and both reports figured largely in a subsequent debate in the House of Lords on 23rd November, 1966. Since then the subject has also been considered by the Scottish Law Commission, whose recommendations are set out in "The Grounds Considered" (Cmd. 3256).

2. When "The Field of Choice" was published it was immediately apparent that there were considerable differences between the views of the Archbishop's Group and those of the Law Commission, but subsequent consultations between the two bodies have led to those differences being resolved. I am now satisfied (as is the Law Commission) that it would be feasible to put into legislative form proposals which would be acceptable in principle to the Archbishop's Group and which would be workable in practice. These are, in substance, the proposals which (in a purely personal capacity) I recommended in a speech last summer which attracted some attention. They do not differ in essentials (though they do in form) from the recommendations made for Scotland in "The Grounds Considered". I must emphasise that, although the Archbishop's Group is satisfied with what I am now proposing, the Church as a whole has not been consulted and is not committed; nor has the Archbishop of Canterbury expressed personal support.

3. The essence of the matter is that, while adhering to their view that the sole ground of divorce should be "breakdown of marriage", the Archbishop's Group have accepted the need to retain the "undefended divorce" in which the petitioner can obtain a decree speedily and without any probing into the history or prospects of the marriage.
This concession on their part meets the fundamental criticism of "Putting Asunder" made by the Law Commission in "The Field of Choice", which is generally considered to be well-founded. What is therefore now proposed is that the court should grant a decree only if satisfied that the marriage had irretrievably broken down. No marriage should be treated as having broken down irretrievably unless the court was satisfied that

(i) the respondent had committed adultery and the petitioner found it intolerable to continue or resume cohabitation; or

(ii) the conduct of the respondent had been so intolerable that the petitioner could not reasonably be expected to continue or resume cohabitation; or

(iii) the parties had ceased to cohabit for a continuous period of at least two years and the respondent either -

(a) had deserted the petitioner, or

(b) did not object to the grant of a divorce; or

(iv) the parties had ceased to cohabit for a continuous period of not less than five years.

There should be a procedure to ensure that a respondent's decision not to object to the grant of a divorce had been taken freely and with a full appreciation of the consequences.

4. The court should be required to refuse a divorce if satisfied that, having regard to the conduct and interests of the parties and the interests of the children and other persons affected, it would be wrong to dissolve the marriage notwithstanding the public interest in dissolving marriages which have irretrievably broken down. The court would also be required to refuse a divorce until satisfied that the arrangements made for the care, upbringing and support of the children were satisfactory or the best that could be devised in the circumstances; and that, where the respondent had applied for financial relief, equitable financial arrangements (or the best that could be devised in the circumstances) had been made for the respondent or that no such arrangements should be made. The court would have power to refuse a divorce if the petitioner had attempted to deceive the court.

5. In accordance with the present law, it is proposed that no petition for divorce should be presented without leave of the court within three years from the date of the marriage. In every case the solicitor acting for a petitioner should be required to certify whether or not he had discussed the possibility of reconciliation and had brought to the petitioner's attention the names of appropriate persons and marriage guidance organisations qualified to assist in effecting a reconciliation. If the court at any stage had reason to believe that reconciliation might be affected, it should have power to adjourn for not more than three months to enable this possibility to be explored.
6. There is little difference of substance between what is here proposed for England and Wales and what the Scottish Law Commission have proposed for Scotland, though the form of the proposals is different. The only distinctions of any importance are that it is not proposed that Scotland should adopt the rule (which has never applied in Scotland) that in general there should be no divorce within three years of marriage; that the Scottish Law Commission does not propose that the court should be under a general duty to refuse a decree if satisfied that in all the circumstances it would be wrong to dissolve the marriage; and that it is not proposed that there should be any provision in Scotland for a compulsory reconciliation procedure.

7. The measure of agreement which has now been reached between all those who have given careful consideration to problems which have for many years seemed intractable is most encouraging. I have no doubt that there is today a wide measure of support for these proposals, although a number of my colleagues on the Home Affairs Committee are of the opinion that they are likely to prove controversial in some quarters. I believe that the time has come when we should take a positive step forward by having a Bill drafted by Parliamentary Counsel which would give effect to the proposals I have described.

8. The Committee did not think it would be appropriate to embody these proposals in a Government Bill, but were of the opinion that, subject to the approval of the Cabinet, I should take steps to have a Bill drafted by Parliamentary Counsel for introduction by a Private Member, it being clearly understood that the Government would remain strictly neutral and that there would be a free vote for both Ministers and backbenchers. The Committee were of the opinion that any question of making Government time available for such a Bill could better be considered after Second Reading when we should know what measure of support in Parliament it was likely to attract. Accordingly, if my colleagues approve, I propose to invite Parliamentary Counsel attached to the Law Commission to draft a Bill embodying the proposals outlined in this paper. Although the Law Commission is already engaged in examining the whole question of financial relief in matrimonial causes, I do not think that this need in any way involve holding up the Bill: financial relief raises difficult technical questions and the inclusion of the necessary comprehensive provisions could well make the Bill too complex for a Private Member to handle. In my view, it would be sufficient if (as I have suggested above) provision were made empowering the court to refuse a decree unless satisfied that appropriate provision had been made for the respondent.

9. The Home Affairs Committee also considered the question of including in the Bill provisions relating to Scotland. While it is obviously desirable to keep the divorce laws of both countries in step, inclusion of Scottish provisions might make the Bill too difficult for a Private Member and, in any event, the existing legal differences between the two countries may lead to the conclusion that separate legislation would anyhow be preferable. The Home Affairs Committee's conclusion was that we need not come to any final decision at this stage, but that we should, in the first place, put in hand the drafting of English legislation and that in due course I should consult with the Secretary of State and the Lord Advocate about the question of including comparable Scottish provisions. Subject to the views of my colleagues, I agree that we should adopt this course.
10. I therefore invite my colleagues to agree that —

(a) I may be authorised to arrange for Parliamentary Counsel attached to the Law Commission to draft a Bill embodying the proposals set out above, to be handed to a Private Member.

(b) The Government's attitude should be one of neutrality and the question of making Government time available for the Bill should be considered in the light of the degree of support shown for it on Second Reading.

(c) The question of including in the Bill provisions relating to Scotland should in due course be further considered in consultation between Scottish Ministers and myself.

G.
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Lord President of the Council

I circulate, for the consideration of the Cabinet, the draft of The Queen's Speech on the Prorogation of Parliament.

R.H.S.C.

Privy Council Office, S.W.1.

6th October, 1967
THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I were glad to welcome to this country the President of Pakistan. We also welcomed the State Visits paid by the Federal President of the Republic of Austria, by His Majesty King Hussein of the Hashemite Kingdom of Jordan and by His Majesty King Feisal of Saudi Arabia.

2. My Husband and I had the great pleasure of being present at the celebration of Canada's centenary in Ottawa and of visiting Canada's International Exhibition at Montreal.

3. My Government have played a full part in the varied activities of the United Nations.

4. My Ministers have continued to seek progress towards disarmament and in particular an international treaty to prevent the spread of nuclear weapons. My Government have signed the Treaty governing the exploration and use of Outer Space.

5. My Ministers welcomed the restoration of good relations between Indonesia and Malaysia. They have also constantly sought means of bringing peace to Vietnam.

6. My Government have applied for membership of the European Economic Community, European Coal and Steel Community and European Atomic Energy Community. The closest consultation has been maintained with the Governments of the Commonwealth, the European Free Trade Association and the Republic of Ireland.

7. My Government have continued to play their full part in the North Atlantic Alliance and are co-operating in the study of its future tasks. Contacts with the Eastern European countries have been further developed.

8. My Government made strenuous efforts to prevent the outbreak of war between the Arab States and Israel. When hostilities nevertheless began, they worked unceasingly at the United Nations to bring about a cease-fire; and they have been continuously active in seeking a lasting settlement.

9. The Award which I made for the arbitration of a frontier dispute between Argentina and Chile has strengthened My Government's friendly ties with both countries.

10. An Act has been passed to provide for the relinquishment of My sovereignty over Aden, Perim and the Kuria Muria Islands.

11. It was with great pleasure that I welcomed to London in September, 1966 the Heads of Government or their representatives from the Member Countries of the Commonwealth.
12. Four of our overseas territories became independent within the Commonwealth in the last eighteen months - British Guiana (as Guyana), Bechuanaland (as Botswana), Basutoland (as Lesotho) and Barbados. Five of our West Indian territories assumed a new status of association with the United Kingdom. Constitutional discussions were held with others of our territories.

13. My Government have greatly admired the fortitude and steadfast spirit of the people of Hong Kong in recent months.

14. My Government have continued to seek by all practicable means to bring about a return to constitutional rule in Rhodesia.

15. My Government have concluded a supplementary Trade Agreement with New Zealand.

16. My Government have continued to provide a high level of aid to less developed countries.

17. My Ministers have played an important part in international discussions to strengthen the World Monetary System. My Government warmly welcome the agreement on special drawing rights which was reached by the International Monetary Fund.

18. My Government played a full part in achieving a successful conclusion of the Kennedy Round of trade negotiations, which will bring about a greater reduction in tariffs and other barriers to trade than any previous negotiations.

19. Acts have been passed to continue and modernise the legislation relating to the regular, reserve and auxiliary forces. My Government have completed the far-reaching examination begun in 1964 of the nation's defence needs in the next decade.

MEMBERS OF THE HOUSE OF COMMONS

20. I thank you for the provision which you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

21. In spite of a slackening in the growth of world trade and disturbances in the Middle East and elsewhere, My Government have made progress in restoring the balance of payments.

22. In pursuit of their endeavours to promote efficiency and high productivity in all parts of the country My Government have introduced more positive incentives for investment and have set up an Industrial Re-organisation Corporation. My Government have introduced a Selective Employment Tax designed to redress the balance of taxation between services and manufacturing industry.

-2-
23. A Regional Employment Premium has been introduced to help manufacturing industry in Development areas. This constitutes a major addition to My Government's other measures to improve the economic strength of these areas.

24. Acts have been passed to reinforce the voluntary observance of the standstill of prices and incomes and of the voluntary "early warning" system and to ensure a smooth transition at the end of the standstill. My Government welcome the increasing participation of management and unions in the operation of the policy.

25. Legislation has been enacted providing for the introduction of a DecIMAL Currency System in 1971.

26. Legislation has been passed to assist the shipbuilding industry to compete in world markets.

27. Public ownership of the main part of the steel industry has been restored.

28. The Docks and Harbours Act, and measures to end the system of casual employment, have provided the basis for greater efficiency and improved relations in the docks.

29. An Act has been passed to require the public disclosure of more information by companies, including the disclosure of political contributions, and to strengthen the supervisory powers of the Board of Trade over insurance companies.

30. An Act has been passed to enable data processing services and facilities to be provided by the Post Office.

31. My Government have set up a Meat and Livestock Commission and a Central Council for Agricultural and Horticultural Co-operation.

32. Legislation has been passed dealing with the safety of goods vehicles, and with persons driving while affected by alcohol or drugs or while disqualified.

33. Improvements have been completed in the arrangements under which family doctors practise in the National Health Service.

34. Legislation has been passed to improve control over drug addiction.

35. Continued progress has been made with the reorganisation of secondary education on comprehensive lines, and practical measures taken to prepare for the raising of the school-leaving age.

36. New and vigorous steps have been taken to increase the output of teachers; and new machinery has been enacted for settling the remuneration of teachers in Scotland.
37. An Act has been passed to create a new Ministry of Social Security and to replace national assistance with a scheme of Supplementary Benefits. Provision has been made for improvements in pensions and benefits.

38. Legislation has been passed to establish a more generous system of Exchequer subsidies for certain housing; to assist persons of modest means in buying their homes; to provide for leasehold reform; and to establish a Land Commission.

39. An Act has been passed to reorganise and increase Exchequer assistance to local authorities and to relieve the domestic ratepayers.

40. Legislation has been passed to reorganise water supply in Scotland and to establish a Countryside Commission for Scotland.

41. An Act has been passed providing for the appointment of a Parliamentary Commissioner for Administration.

42. I have appointed Royal Commissions to carry out reviews of local government in England, outside Greater London, and in Scotland, and another to review the system of Assizes and Quarter Sessions. My Government have made proposals for the reorganisation of local government in Wales.

43. An Act has been passed making further provision for the free use of the Welsh language in public business in Wales and Monmouthshire.

44. In fulfilment of an agreement entered into with other European countries, an Act has been passed to help prevent unauthorised broadcasting at sea.

45. An Act has been passed which makes substantial reforms in the penal system and the procedure of the criminal courts in England and Wales.

46. Further progress has been made in the systematic reform of the law; under the impetus given by the creation of the Law Commissioners, twelve Acts consolidating sections of our statute law, and an Act repealing many obsolete statutes, have been passed.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

47. I pray that the blessing of Almighty God may attend you.
Cabinet

The Queen's Speech on the Opening of Parliament

Note by the Lord President of the Council

I circulate for the consideration of the Cabinet a draft of The Queen's Speech on the Opening of Parliament.

2. The draft contains firm commitments to introduce legislation on the following subjects:

International Development Association
Industrial Expansion
National Loans Fund
Mines and Quarries (Amendment)
Transport
Vehicle Registration and Licensing
Post Office Reorganisation
Planning
National Parks and Access to Countryside
Agriculture
Protection of Consumers
Restrictive Trade Practices
Medicines
Health and Welfare Services
Family Allowances
Social Work Services (Scotland)
Race Relations
Immigration Appeals
Gaming
Justices of the Peace
Law Reform (family law, property law, law of evidence)

3. Some references will have to be considered later in the light of events, for example the Middle East, and of policy decisions which have not yet been taken. These are indicated by square brackets.

R.H.S.C.

Privy Council Office, S.W.1.

6th October, 1967
MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I look forward with pleasure to the State Visit of the President of the Republic of Turkey to this country and to our own approaching visit to Malta.

2. My Government will continue to play an active part in the constructive efforts of the United Nations to assure a peaceful and stable world.

3. My Ministers will continue their efforts to achieve progress on arms control and disarmament, and especially on an agreement for the non-proliferation of nuclear weapons.

4. My Ministers will seek to use all available means to achieve a negotiated settlement of the conflicts in Vietnam.

5. My Government will continue to work through the United Nations for a just and lasting settlement in the Middle East.

6. My Government look forward to the early opening of negotiations to provide for Britain's entry into the European Communities. The closest consultation will be maintained with Commonwealth Governments, the Governments of the European Free Trade Association and the Republic of Ireland.

7. My Government will continue to participate actively in the North Atlantic Alliance as an essential factor for European security. At the same time they will work for improved East-West relations. They will also continue to support Britain's other alliances for collective defence.

8. During the coming Session, My Government intend to bring the peoples of South Arabia to independence.

9. My peoples in the remaining dependent territories will continue to be helped to achieve further constitutional advance.

10. The people of Hong Kong will continue to receive the full support of My Government.

11. My Government will continue to seek by all practicable means to achieve an honourable and just settlement in Rhodesia.

MEMBERS OF THE HOUSE OF COMMONS

12. Estimates for the public service will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. The principal aim of My Government's policy is the achievement of a strong economy. This should combine a continuing surplus on the balance of payments sufficient to meet our international obligations and to maintain the strength of sterling with a satisfactory growth of output and with full employment.

-1-
14. Measures will continue to be taken to stimulate growth in the development areas.

15. Legislation will be introduced to enable help to be given to industry so as to increase the rate of expansion of productive capacity and promote technological advance.

16. In co-operation with management and unions My Government will continue to develop an effective policy for productivity, prices and incomes.

17. A Bill will be introduced to establish a National Loans Fund and to amend the law relating to Government borrowing and lending and to Exchequer Accounts.

18. Legislation will be introduced to implement recommendations of the Tribunal appointed to enquire into the tragic disaster at Aberfan.

19. Legislation will be brought before you to provide for the better integration of rail and road transport within a re-organised framework of public control, to promote safety and high standards in the road transport industry, to strengthen the powers of local authorities to manage traffic, and to re-organise the nationalised inland waterways with special emphasis on their use for recreation and amenity.

20. A Bill will be introduced to establish a central system of vehicle registration and licensing.

21. Legislation will be brought before you to convert the Post Office from a Department of State to a public corporation.

22. My Government will introduce a Bill to modernise the town and country planning system in England and Wales and another to provide for the establishment of a Countryside Commission for England and Wales, to empower local authorities, with Exchequer assistance, to create special areas for leisure and recreation in the countryside and to improve the law governing public access.

23. My Government will introduce legislation to enable increased compensation to be paid to tenant farmers whose land is needed for development, to safeguard the welfare of farm animals, especially those reared by intensive methods, and on other agricultural matters.

24. Legislation will be introduced to strengthen and amend the law on restrictive trading agreements and misleading trade descriptions.

25. A Bill will be introduced to provide comprehensive new arrangements in Great Britain for ensuring the safety and quality of medicines, whether for human or animal use; and another to enable improvements to be made in the country's public health and welfare services.

26. A Bill will be put before you to increase the level of family allowances.

27. Legislation will be introduced to reorganise the social work services in Scotland.
28. Steps will be taken through the Council for Scientific Policy to expand and improve arrangements for scientific research and to encourage the international exchange of scientists in Europe.

29. Further progress will be made in the development of comprehensive secondary education, in the establishment of polytechnics, and in developing further education to meet needs arising from the Industrial Training Act.

30. Measures will be taken to accelerate the improvement of schools in socially deprived areas.

31. My Ministers will continue to accord a high priority to the supply of teachers.

32. Legislation will be introduced to extend the scope of the Race Relations Act and to give Commonwealth citizens and aliens rights of appeal against decisions taken in the administration of immigration control.

33. Legislation will be introduced to reform the law on gaming and to establish a strict control over gaming clubs and gaming machines.

34. My Government will carry forward their comprehensive programme of reforming the law particularly in the fields of family law, and the position of Justices of the Peace. They will also submit for consideration proposals on property law and the law of evidence.

35. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.
Dear Private Secretary,

The Secretary of the Cabinet has asked me to send you the enclosed copy of a paper (C(67) 157) which is to be taken by the Cabinet on Thursday, 12th October, 1967, but which will not appear on the Agenda. The paper is being given a very restricted circulation; this copy is for your Minister's personal use and should be returned immediately after the meeting to Mr. V. C. Budgen at the Cabinet Office.

Yours sincerely,

(Signed) D. GRUFFYDD JONES
9th October, 1967

CABINET

COMPOSITION AND POWERS OF THE HOUSE OF LORDS

Note by the Lord Chancellor

I attach a report on the composition and powers of the House of Lords by the Ministerial Committee.

G.

Lord Chancellor's Office, S.W.1.

6th October, 1967
Composition and powers of the House of Lords

We were invited by the Cabinet to put forward proposals for reforming the composition, powers and functions of the House of Lords (CC(67) 54th Conclusions, Minute 5).

2. Our proposals are:

(i) That the power of the Lords to delay legislation should be restricted and their power be abolished to withhold consent to subordinate legislation against the will of the Commons,

(ii) That the hereditary basis of the Lords should be eliminated, thereby avoiding an in-built majority for any Party,

(iii) That the Government of the day should be able to secure a reasonable working majority over both Opposition Parties,

(iv) That the reformed House of Lords should develop as a part of a modern Parliamentary structure complementing but subordinate to the will of the Commons and with its functions and services more closely and efficiently integrated with those of the Commons.

3. While we must be prepared if necessary to over-ride opposition we believe that because these proposals involve major constitutional changes, they can best be worked out in the course of negotiation. Moreover, legislation which, while achieving our essential objectives, did not have to be forced through under the Parliament Acts, would avoid a disturbance of present working relations with the Opposition in the Lords which might threaten our legislative programme over a period of a year or more.

4. Such consultation with the Opposition could, however, only satisfactorily proceed on the basis of a firm announcement of our intention to legislate. We therefore recommend that a passage should be included in The Queen's Speech on the Opening of the new Session in the following terms:

"Legislation will be introduced to reduce the powers of the House of Lords and to eliminate its present hereditary basis, thereby enabling it to develop within the framework of a modern Parliamentary system."

5. In Appendix I we set out our proposals for restricting the powers of the Lords over legislation. The scheme outlined in Appendix II represents the limit to which we think we should go in meeting the views of the Opposition Leaders. It would follow from the announcement in The Queen's Speech of our intention to legislate that, if negotiations with the Opposition broke down, we should be free to proceed with our own legislation.
APPENDIX I

Proposals for restricting the Power of the Lords over Legislation

Powers over Bills

As recommended in their report to the Cabinet annexed to C(67) 145, the Committee propose the removal of the compulsory minimum interval of one year which must elapse under the present Parliament Acts between Second Reading in the Commons in the first Session and Third Reading in the Commons in the next. This would simply involve the repeal of the proviso to sub-section (1) of section 2 of the Act of 1911. Under this scheme a Bill rejected by the Lords (including a Bill passed by them with amendments to which the Commons do not agree) could be passed into law by closing the Session and opening a fresh Session in which the Bill could be passed again by the Commons. If the Bill itself was urgent, the new Session need be of little more than one month's duration.

Subordinate Legislation

In their previous report annexed to C(67) 145, the Committee recommended, on the assumption that the composition of the Lords remained unchanged, abolition of the power of the Lords to withhold consent to subordinate legislation. If, however, the composition of the Lords were changed as proposed, the Committee would wish to reconsider their previous recommendation with a view to enabling the Lords' scrutinising function to be developed, while at the same time preventing them from rejecting subordinate legislation against the will of the Commons.
A Plan for Reform of the Lords

Introduction

In their report last August (C(67) 145) the Ministerial Committee said that there appeared no satisfactory way of dealing in isolation with the Lords' powers; and that if consideration of composition and functions were to be excluded, it would be better to leave well alone. Their reasons were, briefly, as follows:

(a) In the present situation (in which the House of Lords is effectively deterred from using its powers by the magnitude of the powers themselves) an alteration of powers alone might lead the Lords to abandon the restraint with which they treat controversial Commons' legislation.

(b) The introduction of legislation dealing only with powers would almost certainly lead the Opposition to propose amendments as to composition.

(c) So limited a measure might inhibit the development of the Lords as a revising and scrutinising chamber working as an integral part of a bicameral legislature.

Case for Reforms

2. The Ministerial Committee have further considered whether it would be expedient to allow the House of Lords to continue as it is. They are against this for the following reasons:

(a) The Government are committed in their Election Manifesto to the reform and modernisation of Parliament. "They cannot fulfil this promise unless the composition and function of the Lords are so changed as "to reinforce the democratic element in modern Government".

(b) Notwithstanding the view expressed in paragraph 1 there remains some risk to a Labour Government from a House of Lords in its present form, both as regards Bills (particularly in the last year of a Parliament) and as regards subordinate legislation to which the Parliament Acts do not apply; and the Manifesto categorically states that there will be legislation to deal with the Lords' powers of delay.

(c) There is strong evidence that both the Conservatives and the Liberals are working on proposals for the reform of the composition and functions of the Lords. If the Government do not take the initiative at present available to them to reform the Lords, the other Parties will take the initiative from them.

The Ministerial Committee have therefore concluded that there would be much to be gained, and nothing to be lost, by the Government's taking the initiative in the coming Session.
Desirability of a Consensus

3. It is clearly desirable that a constitutional reform of such weight as is now proposed should proceed by consensus; or at any rate that the proposals should command some degree of acquiescence by the Opposition Parties, if not their active support. There is reason to believe that a considerable measure of agreement could be reached on a "two-tier" system as described in the following paragraphs.

4. These proposals are therefore expressly designed to describe the result which might emerge from negotiation, without necessarily ruling out other kinds of reform. The statement proposed for the Queen's Speech in the covering memorandum would leave us free, if negotiations broke down, either to proceed unilaterally with the scheme we now propose or adopt some other solution.

Proposals for Reform

5. In outline, the scheme would at once deprive the hereditary peerage of effective power in the House of Lords. The exclusion would be total as regards future recruitment from the hereditary peerage. Existing hereditary members would be excluded from voting, but permitted to attend and speak. Effective power would be concentrated in a newly appointed voting House. This voting House, composed essentially of Peers of first creation, would be so arranged as to give the Government a working majority over the two main Opposition Parties. But the House would still include in its membership those independent-minded individuals of distinction whose contributions, though occasional, are of undoubted excellence; for example, scientists and similar specialists.

6. The scheme that the Committee now recommend is as follows. All Peers of first creation (whether they have been created Life Peers or hereditary Peers) would be offered the voting writ. An examination of the individual circumstances of Peers of first creation has suggested that a considerable number would not be prepared to accept the obligations of a voting Peer. Many of them, especially amongst the Conservatives, are elderly and scarcely ever attend, while others can find time to do so only on occasion. It would be open to them to refuse the voting writ and to opt instead for a speaking writ. Those who undertook the obligations of a voting writ would be expected to attend frequently and play a full part in the increased work of a reformed House more closely integrated with, and complementary to, the House of Commons. There would be a retirement age (probably around 75) for voting Peers.

7. For the reasons given in paragraph 6 it is likely that it will be necessary to supplement the number of voting Peers of first creation, both to enable them to fulfill the functions required of them and to ensure the retention as voting Peers of a number of the better hereditary Peers, mostly Conservatives, who attend regularly. All hereditary Peers thus chosen would be made Life Peers so that they could sit and vote by virtue of appointment and not by hereditary right. It would be for the Party leaders on the invitation of the Prime Minister to make recommendations to him for these appointments.
Though these additions from the ranks of the hereditaries would be likely to include a number of the more valuable and assiduous members of the Lords, they would still be only a small minority of present Peers by succession. The question then remains whether to grant a speaking writ to the remaining hereditary Peers for their lifetime only. Though it can be argued that the inclusion of hereditary Peers is not an essential part of a two-tier scheme it is a means by which "power" could be more painlessly removed from hereditary Peers. The right to speak would also keep, as members of the House, a number of distinguished individuals who would be unlikely to attend regularly. It could greatly help to ensure a speedier and easier passage of the reform, without a major political battle and the consequent waste of Parliamentary time.

A number of points of detail arise in connection with a major reform of the Lords. For example, there is the representation of Bishops and Law Lords. It is possible to accommodate them (perhaps on a reduced scale) within the scheme. Other questions include administrative arrangements, pay, procedure and of course the form of the necessary legislation. These are under study by Ministers and officials.

Functions of Procedure

It is impossible to consider a meaningful reform of composition without also considering changes in functions and procedure. The object is to improve the efficiency of Parliament and to relieve the Commons of some of its routine work by enabling the Lords to carry a heavier Parliamentary load, particularly in the less controversial fields of legislation. More Bills of secondary importance might start in the Lords and it might even be possible to devise a system whereby all stages of certain Bills need not be taken in both Houses; for example, Law Commission Bills might be taken first in the Lords and only briefly in the Commons, with very limited debate there (cf. Consolidation Bills). Possibly the Lords could also shoulder more routine work on subordinate legislation and private legislation. Some of these suggestions may however have to wait upon negotiation between the two Houses after the reformed Lords has been constituted.

Powers

If functions are to be so transferred, the Government will need to be reasonably sure of getting its business through, and therefore to have a small working majority over the Opposition Parties. But since the Cross Benchers in practice rarely vote (and when a few do, they either break even or tend to support the Government of the day) it is considered unnecessary to have an automatic majority of the whole House, which could be difficult to defend and less conducive to a responsible attitude in the House.
12. In theory, however, the Opposition Parties, together with Cross Benchers and perhaps even a few Party rebels, might combine to reject Government proposals. It is therefore necessary to further secure the position of the Government, particularly in the last year of a Parliament. While the Government could in the last instance enforce its will by "swamping" (with the new composition it is unlikely that many new creations of Peers would be required), the year's delay enjoined by the present Parliament Act should still be removed. The Commons could then pass the Bill again over the heads of the Lords in a new Session which could follow immediately. Similarly, as suggested in Appendix I, the Commons should have the power to over-ride the Lords on subordinate legislation. These sanctions should give the Government sufficient control to ignore the theoretical capacity of a reformed House of Lords to thwart the will of the Commons.

**Conclusion**

13. There is an opportunity for reform and the words in the Manifesto enjoin it on us. The Opposition are undoubtedly considering reform and could produce proposals of a much less attractive kind than these. On the other hand they will rightly fear that they would lose heavily if they did not enter into negotiation. Whatever they might hope to save, it would be only the shadow, for we should not give way on any major issue of substance.

14. The effect of our proposals would be that the hereditary Peers would immediately and totally lose their legislative power and would be eliminated from Parliament altogether after a transitional period. At the same time the powers of the Lords would be so reduced that the elected majority in the Commons could always prevail. The House of Lords, thus reduced, could play a fuller and more useful complementary role to the Commons, while in no sense being a rival in power or authority.
11th October, 1967

CABINET

INDUSTRIAL EXPANSION BILL: DRAFT WHITE PAPER

Memorandum by the Secretary of State for Economic Affairs

I was asked at Cabinet on 28th September (CC(67) 57th Conclusions, Minute 4) to prepare, in consultation with colleagues, a redraft of the White Paper on the Industrial Expansion Bill.

2. The version now attached has been agreed between officials of the Departments directly concerned except for the fact that the Office of the Lord President were unable to send a representative to attend the official drafting meetings; they have seen the working papers.

3. There are three passages in the draft White Paper which appear in square brackets and which record points where Ministers are known to have reservations or special interests. The Chancellor would like to see a reference in paragraph 1 to a "vigorous market economy". In paragraph 14 we have to decide what, if anything, we wish to say about the possibility of establishing a Select Committee to deal with matters arising under the new legislation. The square brackets in paragraph 13 draw attention to my own doubts about the wisdom of accepting a commitment to put to Parliament every case involving equity participation, however trivial the circumstances.

4. Since it was last discussed by the Cabinet the Industrial Expansion Bill has been discussed at a meeting of the National Economic Development Council (NEDC). This may have opened the way for the adoption of a more constructive attitude by the Confederation of British Industry (CBI).

5. At NEDC Ministers agreed to give further consideration to the role that the Industrial Reorganisation Corporation (IRC) could play in the administration of cases arising under the new legislation. It is important that we should clear our minds on the relationship between IRC and the Bill before we reach the Second Reading stage. In co-operation with the Ministry of Technology I shall arrange further consultations with Sir Frank Kearton and shall report back. Provided the Cabinet's decision on the timing of publication permits, paragraph 9 of the White Paper should be looked at again in the light of my talks with IRC.
6. At NEDC it was suggested that when the Government wished to acquire an equity interest, they might consider the establishment of a subsidiary company designed specifically to carry out the project which was the object of Government assistance; the Government shareholding would then be in the stock of the subsidiary only. Ministers welcomed this as a constructive suggestion and Press reports have underlined this as an important element in a possible compromise with CBI. I do not think we need spell out this point in the White Paper.

7. At NEDC Ministers offered to consider the possibility of establishing advisory machinery to supervise the arrangements made under the legislation with a view to ensuring fair conditions of competition between assisted firms and other companies in the private sector. A very brief reference to this is included in paragraph 16.

8. The Cabinet will wish to consider timing of the publication of the White Paper. As there are now a number of further important points to be pursued I would favour some delay in publication.

F.S.

Department of Economic Affairs, S.W.1.

10th October, 1967
Introduction

Our national industrial policy is directed to promoting the efficient use of resources both in the public and private sectors. The success of this policy requires the maintenance of a close working relationship between the Government and industry. A vigorous market economy and a successful private sector are essential if a satisfactory rate of economic growth - permitting higher standards of living and improved social conditions - coupled with a healthy balance of payments are to be achieved. At the same time it is generally recognised here and in other advanced industrial countries that, although competitive market forces are a necessary spur to efficiency and provide an essential basis of investment decisions and the allocation of resources, they cannot by themselves be expected in every circumstance to secure national economic objectives and the optimum use of resources, because of the possible divergence between social and private costs and benefits. For this reason, there has been a steady growth in the scale and variety of Government measures affecting the private sector, whether by the use of financial incentives to influence investment decisions in certain broad directions, or by support for particular projects. The rapid advance of technology and the increasing problems presented by the scale of international competition are now giving rise to new needs in industry which call for a still more flexible response by the Government.

2. Government and private industry have a common interest in industrial excellence and commercial success. Government policy is designed to facilitate the efforts of those enterprising managements which are striving to meet the challenge of technical change and competition in world markets and to maintain and improve the efficiency and profitability of their companies. In general such companies can be expected to rely on their own resources, augmented by general schemes of fiscal incentives, or to command support from commercial sources or existing financial institutions. Nevertheless, the Government must be equipped to provide further measures of support where this is necessary to secure the realisation of wider economic benefits.
Existing partnership between Government and Industry

3. Such co-operation is not new. In the past, direct Government support for specific projects in the private sector has been given to older and less profitable industries facing particularly difficult problems of adjustment to changed market conditions; and to industries meeting some national purpose, such as defence or regional development. More recently, the Government have provided finance for new and technologically advanced projects where the potential benefits to the economy were greater than the returns which the companies concerned could expect to receive in the short term. The programmes of assistance to computer and microelectronics development are examples of this approach. Another kind of special action, exemplified by the Ministry of Technology's pre-production orders for machine-tools, is to facilitate the introduction of advanced equipment which is likely to be profitable, but which appears to involve too much risk for the customer until there has been experience of the new equipment. Here the Government is reducing the marketing risks for the producer and the innovation risk for the customer.

4. This has taken place at a time when the Government and both sides of industry have been concerned to evolve effective methods of economic planning. Within this setting industrial policy has been concentrated first on providing a series of measures designed to shift resources of manpower and capital from less to more productive employment and to even out the geographical distribution of industrial activities; and on providing assistance for structural change. Measures have been taken to encourage investment in modern plant and machinery in the manufacturing, extraction and construction industries; to increase the benefits available to industrial enterprise in Development Areas; and to support technological research and development in civil as well as in defence industries.

5. In particular, the resources of the National Research and Development Corporation (NRDC) have been enlarged so as to enable support the development and exploitation of commercially promising projects within its scope. The IRC has been set up to promote, and where necessary to finance, the structural changes which modern technology and international competitive conditions require. At the same time the Minister of Technology has been given authority to engage in or support research and development and to further the application of the results. These various powers have been used to good advantage as in the help given by the NRDC in the fields of data-processing and antibiotics, by the IRC to reorganisation within the electronics industry, and by assistance from the Minister of Technology to automation schemes.
5. But it has become clear over the past year or so that these provisions are not enough to enable the Government to take the action needed to further their policy of seeking to ensure that necessary investment in the interest of the expansion of our industrial capabilities is not held back.

7. A main purpose of the Ministry of Technology from the start was to identify key points of growth and to bring about a more rapid application of advanced technology. The Ministry has wide powers to support research and technological development but the scope for exploiting the results is more limited. If the Government are to play their full part in the industrial expansion which technological development now makes possible, they must be able to operate more directly and more flexibly in support of industry to help overcome obstacles in the field of production and marketing as well as in research and development. In the wider context of the reorientation of research and development policy, the Government consider there should be closer links between Government research establishments and industrial companies which can exploit and market the results of research so that they should be able to draw more effectively on the resources of these research establishments; on occasions also, the Government may need to establish a new industrial capability by themselves or in association with others.

8. One of the problems facing the national economy is that investment programmes need to be sustained to provide for the future growth of demand. Any decline in the level of industrial expansion may lead to disproportionate falls in orders in the investment goods industries. As a result, the industries concerned may have to reconsider their expansion and development plans. If these are cut back and the employment of engineers and skilled manpower reduced, the capacity of these industries to meet investment demand when it eventually recovers will be inadequate. If the Government is to be in a position to support investment at these times, it must be able to take steps, in addition to action under the Investment Grant scheme, to provide the necessary assistance to appropriate key sectors of industry. The need for action of this kind in the machine-tool industry has recently been under discussion but within existing powers it has been possible to help only by increasing the pre-production order scheme. Experience has shown that other measures of support, whether for this or other important sectors of industry, could not be speedily implemented when the time came because of the need to seek legislation in each case.
The need for further development of the partnership

6. But it has become clear over the past year or so that these provisions are not enough to enable the Government to take the action needed to further their policy of seeking to ensure that necessary investment in the interest of the expansion of our industrial capabilities is not held back.

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The main task of the IRC is to promote industrial reorganisation, although it may, if requested to do so by the Secretary of State for Economic Affairs, contribute to the development of individual enterprises. The Government have close and regular contacts with the Corporation and intend to use its facilities to the full and to seek its advice wherever appropriate. There will, however, be cases involving industrial development where action by the IRC will not, for one reason or another, be suitable. For example, there may be a need for long-term public participation arising from Government industrial or social policy, particularly regional policy, which the IRC would not normally consider appropriate to its role. The reorganisation of the shipbuilding industry is an example of an operation which has already required powers outside those conferred on the IRC, and measures relating to the aircraft industry provide a further example, where, in the absence of general enabling powers, the Government would expect to seek specific authority from Parliament by means of separate Bills.

10. The further development of the Government's positive role as partner with industry is therefore creating new needs for legislation to deal with particular situations. Already, in the absence of new general legislation, several separate bills will be required to cover the needs of the aircraft industry. The Government is considering proposals for the development of an aluminium smelting industry in Britain. This is a further example of the type of project which, under present arrangements, would require separate legislation.

11. But the Government are not concerned solely with legislative authority for proposals which have already been worked out or are under negotiation. They are also concerned to be able to respond promptly to further needs as they emerge. It is important that, in exploring further possibilities, especially those holding promise of future export growth, neither Departments nor companies should be deterred by the fear that opportunities to implement projects might be lost because of the delays involved in securing separate legislation. In such cases, where a successful break-through in development or production which is of particular value for the economy can be realised, but where for special reasons adequate funds are not available from the company's own resources or through commercial channels, there should be no doubt about the Government's ability to supplement these sources of finance.
An Industrial Expansion Bill

12. What is needed is a faster and more flexible procedure for implementing the Government's side of its partnership with industry. The Government therefore propose to introduce legislation to authorise the Minister of Technology and other Ministers with responsibilities for industries to provide direct assistance to industrial projects designed to promote efficiency, to create, expand or sustain productive capacity or to support technological advance. The Minister concerned, with the consent of the Treasury, would be empowered to give financial support which might according to circumstances take the form of loans, grants, guarantees or the purchase of equity shares, to projects falling within the purposes of the Bill. For the Minister of Technology this would be a widening of the scope of his powers under the Science and Technology Act, 1965, to carry on or support scientific research or the dissemination of the results of scientific research, and under the Civil Aviation Act, 1949, to support the design, development and production of civil aircraft. The new Bill would enable the Minister to support the design, development and production of other products, in addition to civil aircraft.

13. The role of Parliament in the evolution of a closer partnership between Government and industry is of critical importance. In order to ensure that schemes within the scope of the Bill are subject to proper scrutiny by Parliament, the legislative proposals will include provisions designed to enable them to consider the specific use made of these new powers in all cases of economic importance and, in any event, in all cases involving equity participation. In such cases the Minister concerned would be required to define the particular proposals in an Order to be laid before Parliament and to obtain the approval of the House of Commons for proceeding with them. It is envisaged that Orders under the Bill will provide for the proposed acquisition of the Beagle Aircraft Company Limited, which has already been agreed with the industrial interest concerned, for the financing of Her Majesty's Government's share of the production of Concord and, subject to the conclusion of negotiations now in progress, for the purchase of a Government shareholding in the aircraft industry.

14. The Government will also submit to Parliament suggestions for the establishment of a new Select Committee to be concerned with the Government's activities in the private sector of industry.
Operation of the New Powers

15. The Bill will not confer any compulsory powers either directly or indirectly, and the Government have no intention of compelling a firm to take part against the wishes of its management. For the Government to use compulsion would clearly not accord with their purpose of launching successful projects in partnership with private industry. It follows that the Bill would not confer any powers to acquire shares in any industrial undertaking otherwise than by voluntary agreement.

16. The Government are considering the form of machinery which will be required for evaluating projects to be supported under the Bill. They recognise that there may also be a need for some additional machinery to ensure that firms assisted under the Bill do not secure an unfair advantage over their competitors. The Government will consult industry about this.

17. The provision of Government finance, under the Bill, for projects in the private sector should not be subject to any less stringent examination than that applied to investment in the private sector or in the nationalised industries. The economic return on every project will be carefully appraised to establish its prospect of long-run profitability. It is inherent in the policy outlined in this White Paper that the Government should be selective in the support that they give within the private sector. The Government recognise that there may be concern lest they give preference in procurement policy etc. to firms because they have shareholdings in them, or use their shareholding to interfere in the day to day management of a company. This is not the purpose which the Government would have in mind in acquiring shareholdings as part of schemes of industrial development under the Bill. The Government recognise that it may, nevertheless, be helpful to discuss with industry whether any particular safeguards are needed. The powers to assist industry would of course be exercised with due regard to the Government's international obligations.

Conclusion

18. In the Government's view the proposed measure is both necessary and urgent if schemes for industrial expansion are not to be delayed. The Bill will provide the framework for a further stage in the development of Government's partnership with industry for the encouragement of increased investment and more rapid application of modern technology.

Department of Economic Affairs, S.W.1.
10th October, 1967
CABINET

APPROACH TO EUROPE

Note by the Secretary of the Cabinet

I circulate for the information of the Cabinet, in accordance with CC(67) 58th Conclusions, Minute 2, the full text of the speech by the Minister of State, Foreign Office (Lord Chalfont) in the Consultative Assembly of the Council of Europe at Strasbourg on 26th September, 1967.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

11th October, 1967
TEXT OF SPEECH BY MINISTER OF STATE FOR FOREIGN
AND COMMONWEALTH, LORD CHALFONT IN THE CONSULTATIVE ASSEMBLY OF COUNCIL OF
EUROPE AT STRASBOURG ON SEPTEMBER 26TH.

PRESIDENT,

I NEED HARDLY SAY IT IS A GREAT PRIVILEGE FOR ME TO BE ABLE TO
ADDRESS THIS ASSEMBLY THIS AFTERNOON.

I COME TO THIS ROSTRUM, AS I DO TODAY TO SPEAK OF OUR
HOPES AND OUR ASPIRATIONS FOR THE UNITY OF EUROPE, IS BOUND TO
ADD TO THE IMPORTANCE OF THIS ASSEMBLY OVER THE PAST
YEARS. HOW MANY PASSIONATE ARGUMENTS AND DEBATES HAS THIS
CHAMBER HEARD AND HOW MANY GREAT EUROPEAN IDEAS - A THOUGHT TO
THE PROPER HUMILITY.

OF COURSE NO SINGLE DEBATE, NO SINGLE SPEECH WILL OF ITSELF
AFFECT THE COURSE OF EVENTS, BUT ALL OF US, I THINK, AS WE TAKE PART
IN THE PROCEEDINGS OF THE CONSULTATIVE ASSEMBLY HAVE A SENSE
WE ARE CONTRIBUTING IN SOME SMALL WAY TO ONE OF THE GREAT
UNITARIAN MOVEMENTS IN THE LONG HISTORY OF OUR CONTINENT.

THINK WE HAVE EVERY RIGHT TO BELIEVE THAT THESE MIDDLE DECADES
OF THE 20TH CENTURY WILL BE LOOKED UPON BY THOSE WHO COME AFTER US
AS A SPECIAL, A VERY PECULIAR AND A VERY FORMATIVE TIME. IT MAY
BE THAT THE ESTABLISHMENT OF THE COMMUNITY AND OUR PRESENT
EACHINGS AND SEARCHINGS FOR A WAY OF BRINGING OUR COUNTRIES TOGETHER
WILL STAND OUT IN THE RECORD OF HISTORY AS SOMETHING EVEN
MORE SIGNIFICANT THAN THE CATAclySMIC WARS OUT OF WHICH
THE EFFORTS SPRANG. MEN MAY YET SAY "THAT IS WHEN IT HAPPENED,
THAT IS WHEN IT BEGAN, THAT IS WHEN THE FOUNDATIONS OF PEACE AND
PROSPERITY WERE FIRMLY LAID".

BUT, WHATEVER THE VERDICT OF HISTORY, IT IS SURELY TRUE THAT OUR
HOPE AND OUR ENDEAVOURS TODAY IN WESTERN EUROPE WILL BE
REMEMBERED IN THE FUTURE AS PART OF A MUCH LARGER, AND A MUCH
WIDER PICTURE. AND WE MUST SEE IT IN THAT WAY TOO.

WHEN WE LOOK AT THE TURMOIL AND THE CONFLICT IN THE REST OF THE
WORLD, OUR AFFAIRS HERE IN EUROPE MAY SEEM AT FIRST TO GIVE LITTLE
CONCERN.

SINCE THIS ASSEMBLY LAST MET THERE HAS BEEN A CONFLAGRATION IN
AFRICA, FIGHTING IN THE CONGO AND NIGERIA, PERPETUAL
VIOLENCE IN CHINA, TERRORISM IN HONG KONG, VIOLENT CHANGE IN SOUTH
AFRICA, AND THE WAR IN VIETNAM GRINDS MERCILESSLY ON.

BUT EVEN THIS CATALOGUE OF BLOOD AND MISERY IS NOT THE WORST OF
AFFLICTIONS. VIOLENCE AND UPHEAVAL ARE ONLY THE BOLDER BRUSH
STROKES IN A BROADER AND MORE TERRIBLE CANVAS.

BILLIONS OF OUR FELLOW MEN LIVE LIVES WITHOUT HOPE.
THEIR CONSTANT COMPANIONS ARE POVERTY, HUNGER, FEAR AND
HUNGER. THE POPULATION INCREASES ALARMINGLY IN COUNTRIES WHERE
MEN, WOMEN AND CHILDREN DIE NOT IN HUNDREDS, BUT IN
SANDS: THERE ARE TOO FEW DOCTORS TO CURE THOSE WHO SUFFER TOO
FEW TEACHERS TO DISPERSE THE MISTS OF APATHY AND IGNORANCE. THESE
ALL PROBLEMS OF A DESPERATELY INADEQUATE TECHNICAL AND INDUSTRIAL
DEVELOPMENT.

THE CONTRAST WITH OUR OWN CONTINENT OF EUROPE IS TOO GLARINGLY
OBVIOUS. WE OCCUPY A PRIVILEGED AND SHELTERED CORNER OF A WORLD
GROWS DAILY MORE DISORDERED AND MORE WRETCHEDLY UNHAPPY.

I THINK THAT WE IN EUROPE CAN CLAIM SOME CREDIT — PERHAPS NOT
MUCH — FOR THE WAY WE REACT TO THIS TRAGIC GULF BETWEEN THE RICH
AND POOR OF OUR WORLD. WE DO WHAT WE CAN — BY AID AND TECHNICAL
BY DIPLOMACY AND BY COUNSELS OF REASON. WE COULD INDEED DO
LESS WITHOUT DENYING ALL THAT OUR COMMON EUROPEAN CIVILISATION
STANDS FOR.

YET WE MUST ALL HAVE FELT I THINK HOW LITTLE WE SEEM TO ACHIEV
IN SPITE OF ALL OUR EFFORTS, AND WE KNOW QUITE WELL WHY THIS IS
ONE OF THE REASONS IS SIMPLY THAT IN A WORLD WHICH IS
INCREASINGLY DOMINATED BY TWO OR THREE SUPER-POWERS; OUR INDIVI
AND LARGELY UNCOORDINATED EFFORTS IN WESTERN EUROPE — REALLY DO
FOR VERY LITTLE.

EUROPE DIVIDED IS MERELY AN AGGREGATE OF GOOD INTENTIONS. EURO
UNITED WILL BE A POWER FOR PEACE, AS MR EDELSON SAID EARLIER
TODAY WE MUST NOT REPEAT THE MISTAKES OF THE PAST.

IT IS WHEN WE COME TO CONSIDER HOW TO ACHIEVE THIS UNITED EURO
THAT OPINIONS BEGIN TO DIFFER. BUT EVEN HERE THE OVERWHELMING
MAJORITY OF US ARE OF ONE MIND: WHAT REMAINS IS TO CONVINCE
THOSE, WHO AT PRESENT SEEM CONTENT TO LEAVE EUROPE DIVIDED.

ONE OF THEIR ARGUMENTS, SO FAR AS THE ACCESSION TO THE
COMMUNITIES OF MY COUNTRY IS CONCERNED, IS THAT BRITAIN IS NOT YET
SUFFICIENTLY EUROPEAN — THAT WE STILL CLING TO THE VESTIGES
OF OUR IMPERIAL PAST AND THAT WE CONDUCT OUR AFFAIRS IN STRONG ANGL
SAXON ACCENTS. I THINK IT IS TIME, MR PRESIDENT, TO PUT THIS
HERESY TO REST.

ALL THE GREAT COUNTRIES OF EUROPE, MY OWN AMONGST THEM, HAVE
UNDERGONE VAST AND FUNDAMENTAL CHANGES IN THIS CENTURY. IN THE
YEARS FOLLOWING 1914-18 THE STRENGTH AND POSITION OF THE GREAT
COUNTRIES OF WESTERN EUROPE HAD ALREADY BEGUN TO DECLINE IN
RELATION TO THOSE OF OTHER GREAT POWERS.

THEN THERE FOLLOWED THE SECOND WORLD WAR. THE EFFORT WHICH VE
INTO THAT SAPPED THE LIFE-BLOOD OF MY COUNTRY, AS IT DID THE LIFE
BLOOD OF OUR NEIGHBOURS. YET, IN A WAY — AND THIS IS SOMETHING TO
BE REMEMBERED — BRITAIN EMERGED A FITTER, IF A LEANER COUNTRY.
I AM THINKING PARTICULARLY OF THAT REMARKABLE PERIOD AFTER THE WAR
WHEN, IN THE SPACE OF A FEW YEARS, WE COMPLETELY RE-FASHIONED
THE SOCIAL STRUCTURE OF OUR COUNTRY AND LAID THE FOUNDATIONS OF
THE SOCIAL DEMOCRACY WHICH BRITAIN IS TODAY.

THE PERIOD AFTER THAT, FROM 1947 RIGHT UP TO THE PRESENT
DAY, HAS SEEN US HEAVILY ENGAGED IN THE PROGRESSIVE TRANSFORMATION
OF A WORLD EMPIRE, AND IN HELPING, AS BEST WE CAN FROM OUR
LIMITED RESOURCES, THE INDEPENDENT STATES WHICH HAVE EMERGED.

AT THE SAME TIME, WE PLAYED OUR PART IN DEFENDING THE FREE WORLD
AGAINST ASSAULT FROM WITHIN AND FROM WITHOUT. IN MALAYA, IN
KOREA, AND PERHAPS MOST NOTABLY, IN EUROPE ITSELF, WE HAVE
CONTRIBUTED FULLY TO THE COMMON CAUSE.

BUT NOW IT IS Plain FOR ANYONE TO SEE THAT THE TRANSITIONAL
PHASE WHICH HAS MARKED THESE PAST 20 YEARS IS ENDING, THE
PROCESS OF DE-COLONISATION IS ALMOST COMPLETE, AND THERE HAS BEEN
A PREDICTABLE CHANGE IN OUR DEFENCE POLICIES. IN JULY WE ANNOUNCED
A DRAMATIC REDUCTION OF OUR MILITARY COMMITMENTS EAST OF SUEZ, AND
MADE CLEAR THAT OUR FIRST PRIORITY WAS THE SECURITY OF EUROPE
WITHIN THE GENERAL FRAMEWORK OF THE WESTERN ALLIANCE.
Last, but most important, we decided to apply to join the European Communities.

Should like this Assembly to understand just what decision reflects in terms of public opinion and attitudes Britain. You had a powerful example of it during the debates here in January when one after another British Member of Parliament, whatever his party affiliation, spoke of our hopes for Britain as part of Europe. A few months later, at the British House of Commons came to debate the Government's decision to apply for membership of the Communities, there was overwhelming support for it—and the Government motion won the best majority recorded in our Parliament on a major issue since days of the war-time coalition.

That is worth pondering on. The unity of purpose, the single mindedness and determination which Britain showed in the war is something which the rest of Europe knows well. The spirit which helps us in Britain today is exactly the same.

Britain is now a country which after a long period of weighing arguments, has turned decisively towards her European neighbours. Who suggest that we are still in some way un-European, our interests and our ambitions lie elsewhere, have failed entirely to understand the very fundamental changes that I have been describing.

Let there be no doubt about it. In the past there may have been equity and indecisions, and again the blame here lies not with political party another, but now we have made our choice. We have thrown in our lot with the rest of Europe. We want to cut, in Europe, and with other Europeans, our common destiny—this means our political as well as our economic destiny.

Britain has made it abundantly clear since the end of the war that she has a role to play in the search for greater unity in Western Europe: her membership of this Council is one evidence of this, and we have also devoted much effort to trying to achieve lasting settlement between our half of Europe and the countries of Eastern Europe.

No one country has a monopoly of these efforts to break down barriers between the two halves of our continent. But, if a passionate and objective critic were to mine the record, I think he would find that Britain has been diligent as anyone, and certainly as successful, in promoting understanding between East and West. I say this in no unkind spirit.

In the same way Britain has worked as hard as any other country searching for a way to bridge the divisions in our own half of Europe.

Now we want to take this process further, as the Foreign Secretary Mr. George Brown said in that statement he made to the Ministers of the Six last July, the decisive considerations for in applying for membership of the European Communities have been political.

As I suggested earlier on, this is an age when power and influence lie, perhaps out of all proportion, in the hands of the six states—America, Russia—and soon no doubt so of that world will lie too in the hands of China. It is to me unthinkable that Europe should be relegated to a tame or minor role. Not because we want power for its own sake, it is rather that with its skills and her wealth and her wisdom, Europe has the capacity to play a constructive role in the world. And if we do not play that role we can be certain that the world will be an unhappier, possibly a more dangerous place for all of us to live in.
WHAT WE WANT TO DO IS TO ESTABLISH A REAL IDENTITY FOR EUROPE IN THE WORLD. WE THE EUROPEANS HAVE A POINT OF VIEW TO EXPRESS. WE KNOW IT. LET US COME TOGETHER AND MAKE OUR VOICE HEARD, NO ONE WILL LISTEN TO US WHILE WE ARE DIVIDED.

I BELIEVE THAT WITHIN OUR WESTERN ALLIANCE TOO THERE IS A DEFINITE EUROPEAN CONTRIBUTION TO BE MADE.

AND IN ALL THIS - IN WORKING FOR A RECONCILIATION WITH EASTERN EUROPE, HAVING A POSITIVE VOICE IN THE ALLIANCE, PLAYING A LEADING PART IN SHAPING THE WORLD OF THE FUTURE - EUROPE HAS MUCH TO GAIN FROM THE CONTRIBUTION WHICH BRITAIN CAN MAKE. WE BELIEVE OUR FRIENDS IN EUROPE RECOGNISE THIS. WE HAVE THE EXPERIENCE, THE DRIVE, THE ESSENTIAL LINKS WITH A GREAT VARIETY OF COUNTRIES OUTSIDE EUROPE. ALL OF THESE WILL ADD STRENGTH AND CONFIDENCE TO OUR UNITED COUNCILS. I MAKE NO APOLOGY FOR Sounding THE TRUMPET IN THIS WAY. WE SHALL GO ON DOING SO WHILE THERE ARE still PEOPLE WHO BELIEVE THAT EUROPE CAN BE MADE WITHOUT US. BUT, MR. PRESIDENT, IT IS NOT FALSE MODesty WHEN I SAY THAT WHAT WE IN BRITAIN REALLY WANT IS THAT THE TRUMPET WE HEAR SHOULD BE THAT OF A UNITED EUROPE.

WHAT I HAVE BEEN SAYING MR. PRESIDENT, IS THAT BRITAIN CAN MAKE A GREAT POLITICAL CONTRIBUTION TO A UNITED EUROPE IF WE ARE ALLOWED TO DO SO. TOO OFTEN THE ARGUMENT IS ABOUT THE ADVANTAGES THAT WILL COME TO BRITAIN FROM ENTRY INTO THE COMMON MARKET. TOO Seldom do we CONCENTRATE on THE OTHER SIDE OF THE COIN - WHAT WE IN BRITAIN CAN DO FOR EUROPE. IT IS WORTH REFLECTING FOR A MOMENT ON WHAT BRITAIN WOULD BRING INTO THE EUROPEAN COMMUNITY. I HAVE ALREADY MENTIONED OUR POTENTIAL POLITICAL CONTRIBUTION. BUT, POLITICAL POWER AND INFLUENCE REST, IN THE LAST ANALYSIS, ON ECONOMIC STRENGTH. I DO NOT WANT TODAY, TO REMIND AGAIN THE FAMILIAR AND GENERALLY ACCEPTED ARGUMENTS FOR A CONTINENTAL MARKET IN EUROPE TO MATCH THE ECONOMIC POWER OF THE SUPER-STATes. THIS MUCH I THINK IS COMMON GROUND. BUT, I DwELL ON THE FACT - ALTHOUGH IT IS A VERY IMPORTANT FACT - THAT IN THE FAST THREE YEARS WE IN BRITAIN HAVE MADE GREAT STRIDES IN RECOVERING FROM A HIGHLY UNFAVOURABLE BALANCE OF PAYMENTS POSITION. I WOULD LIKE TO CONCENTRATE ON THE OTHER SIDE OF THE COIN - WHAT BRITAIN WOULD BRING INTO THE EUROPEAN COMMUNITY.

WHAT I BELIEVE TO BE AN IMPORTANT KEY TO EUROPEAN ECONOMIC GROWTH AND THEREFORE TO EUROPEAN POLITICAL POWER - THE DEVELOPMENT OF TECHNOLOGY-BASED INDUSTRIES. THE NOTABLE AND WELCOME INITIATIVES OF M. HARMEL AND SIGNOR FANFANI HAVE MADE ALL OF US AWARE OF THE GREAT IMPORTANCE OF WHAT MY OWN PRIME MINISTER HAS CALLED THE POOLING OF THE TECHNICAL INVENTIVENESS OF BRITAIN AND OTHER EUROPEAN COUNTRIES, TO ENABLE EUROPE ON A COMPETITIVE BASIS TO BECOME MORE SELF-RELIANT. WE IN EUROPE MUST LIVE ON OUR OWN KILLS. EUROPE STILL HAS THE INVENTIVE GENIUS WHICH HELPED TO MAKE IT THE FIRST MAJOR INDUSTRIALISED AREA OF THE WORLD. EVEN UNITED STATES EXPERTS CALCULATE THAT SINCE NINETEEN FORTY-FIVE NEARLY SIXTY PER CENT OF ALL MAJOR TECHNOLOGICAL INNOVATIONS IN THE WORLD ORIGINATED IN EUROPE, AND HALF OF THESE WERE MADE IN THE UNITED KINGDOM. IN THE UNITED KINGDOM WE PUT ENORMOUS EFFORT INTO MAINTAINING THE EDUCATIONAL BASE UPON WHICH THIS INVENTIVENESS HAS BEEN BUILT. OUR EFFORT IN RESEARCH AND DEVELOPMENT AS A PERCENTAGE OF OUR NATIONAL INCOME APPROACHES THAT OF THE UNITED STATES. YET IT IS CLEAR THAT THE FRUITS OF OUR RESEARCH AND DEVELOPMENT HAVE OFTEN GONE ELSEWHERE, PARTICULARLY TO THE UNITED STATES, THOUGH OF COURSE, LETS BEYOND THE STAGE OF RESEARCH AND DEVELOPMENT. IT BELONGS TO THE STAGE AT WHICH INVESTMENT DECISIONS HAVE TO BE TAKEN. IN MANY TECHNOLOGICALLY ADVANCED INDUSTRIES THERE IS A RESEARCH AND DEVELOPMENT THRESHOLD - A LEVEL OF EFFORT BEYOND WHICH INVESTMENT DECISIONS HAVE TO BE TAKEN. THE LEADERS OF INDUSTRIAL ENTERPRISES MUST NOT FALL IF THEY ARE TO KEEP UP WITH THE LEADERS. THE VERY LARGE EXPENDITURE NEEDED TO CROSS THIS THRESHOLD MAY BE NOT SUCH AS ENTERPRISES WHICH OPERATE ON A VERY LARGE SCALE CAN AFFORD TO INTRODUCE A NEW PRODUCT. THEREFORE, LARGE SCALE INVESTMENT IN NEW MACHINERY, IN TOOLS AND IN MARKETING ARRANGEMENTS. THE ABILITY TO TAKE SUCH A DECISION DEPENDS UPON THE ANTICIPATED DEMAND, AND THIS IN TURN
Upon the size and homogeneity of the market, open to the prospective producer. Decisions of these kinds cannot be made by those who do not have immediate and untramelled access to large industrially developed markets. The moral is plain. So far as once-based industry is concerned, Europe must create one giant, homogeneous, industrially developed market to achieve and maintain a position in which she will be able to compete on anything like equal terms with the United States and with the Soviet Union. If we do not do this together, we shall drift individually into a position of permanent and irreversible industrial inferiority.

The creation of an enlarged economic community will of course itself lead immediately to the technological results that we need also action by governments to clear away barriers. The realisation by industry of the potentialities of the enlarged market. Within an enlarged European economic community would be the aim of the British Government to work with their partners for the creation of the infrastructure upon which deep industry could build. We would look for the acceleration of efforts to achieve common industrial standards, performance criteria and certification and testing systems. We would seek to evolve a "European Patent", that is to say a system for protecting inventions and providing for their licensing as well as protection of other forms of industrial property on a European basis. This of course is an area where great strides have already been made in the Council of Europe. We would also seek to promote the establishment of truly European companies and of a European scientific and technical data service to support them.

If governments in this and other ways can build such an infrastructure on a European basis. within a large homogeneous market, cooperation of economic forces together with the drive and application of European businessmen will achieve most of what we think of as the "technological community". Still there will remain areas in which government ownership, control or major influence will mean that it is government, either alone or in partnership with industry, which will be called upon to respond to the new situation.

For instance, we believe that one of the aims of the expanded community, as of the existing communities, would be to continue towards the harmonisation of national energy policies directed towards the achievement however elusive it may seem now, of a European energy policy. This would of course have to take into account the place of nuclear power in the European energy market in the future. From an assessment of this market we could draw the outlines of a European nuclear power programme. To the fulfilment of a programme of this kind the United Kingdom would be in a position to contribute all the fruits of its equipment work and experience in the nuclear power field. Leading work in things like the advanced gas-cooled reactor, steam-generating heavy water reactor and the fast breeder reactor. For the industrial realisation of a European programme we would undoubtedly be the formation of European consortia and a network of licensing arrangements could be built up. Creating a basis on which industry would be capable of taking advantage of these newer and wider horizons.

Next we believe that it is possible and fruitful to consider the establishment of a European aviation industry. This would be based on the existing research, development, design and manufacturing capacity in Europe. We should be able to build up a viable industry based on a strong co-ordinated European demand. The creation of such a demand would of course mean a major harmonisation of civil aviation, in particular the harmonisation of charging policies, and also this is a matter I think we need to take much more seriously - we would have to have a good deal of co-ordination over defence procurement.
ANOTHER EXTREMELY IMPORTANT AREA TO BE CONSIDERED FOR CO-OPERATION IS THE COMPUTER INDUSTRY. THE BRITISH GOVERNMENT HAVE DONE A GREAT DEAL OF WORK ON COMPUTERS AND THE FRENCH AND GERMAN GOVERNMENTS HAVE ADVANCED A GREAT DEAL TOO. WE WOULD, I THINK, WANT TO SUGGEST THAT GOVERNMENTS AND INDUSTRIES SHOULD GET TOGETHER FOR INSTANCE TO TRY TO REACH AGREEMENT ON COMPUTER SPECIFICATIONS AND REQUIREMENTS FOR THE SEVENTIES. A BILL IS NOW BEFORE THE BRITISH PARLIAMENT UNDER WHICH THE POST OFFICE IN MY COUNTRY WILL BE ABLE TO PROVIDE A NATIONAL DATA PROCESSING SERVICE, AND HERE PERHAPS WE HAVE THE NUCLEUS OF A EUROPEAN DATA PROCESSING SERVICE, THIS OF COURSE WOULD NEED TO BE CONDUCTED ON THE BASIS OF COMPATIBILITY, COMPATIBLE COMPUTERS, COMPUTER LANGUAGES, MEMORY SYSTEMS AND ACCESS AND PRINT-OUT FACILITIES. FROM THE POINT OF VIEW OF TRANSMISSION FACILITIES THIS CO-OPERATION COULD BE SEEN AS AN EXTENSION OF THE COMPATIBLE TELEGRAPH, TELEPHONE AND TELEPRINTER SERVICES THAT ALREADY EXIST IN EUROPE.

IN BRITAIN WE HAVE THE FIRST COMPUTER SYSTEM IN WHICH INTEGRAL CIRCUITS ARE USED THROUGHOUT. AS MANY OF YOU WILL KNOW, THIS NEW TECHNOLOGICAL COMPONENT IS CREATING AND WILL CONTINUE TO CREATE A REVOLUTION IN THE SPEED AND POWER OF COMPUTERS THEMSELVES, AND THIS IS ANOTHER ASPECT IN WHICH WE THINK WE SHALL BE LOOKING FOR EUROPEAN CO-OPERATION.

ONE OF THE BEST KNOWN AND MOST FASCINATING TECHNOLOGICAL DEVELOPMENTS TO COME FROM THE UNITED KINGDOM IN THE PAST TWENTY YEARS HAS BEEN THE HOVERCRAFT. THIS IS ANOTHER INDUSTRY BASED ON THE MOST ADVANCED TECHNOLOGY WHICH OUGHT CERTAINLY, TO BE EXPLOITED ON A EUROPEAN BASIS. MOST PEOPLE STILL THINK OF HOVERCRAFT ONLY IN TERMS OF RIVERS, LAKES AND INLAND WATERS BUT THEY HAVE A GREAT MANY MORE APPLICATIONS THAN THIS, PARTICULARLY INTERESTING PERHAPS IS THE HOVERTRAIN, IN WHICH OUR FRIENDS IN FRANCE HAVE MADE SIGNIFICANT ADVANCES, AND WHERE PERHAPS THE LINEAR INDUCTION MOTOR, WHICH HAS BEEN FURTHEST DEVELOPED IN THE UNITED KINGDOM, COULD FIND A PARTICULARLY APT USE.

I HAVE QUOTED A FEW EXAMPLES OF MAJOR DEVELOPMENTS IN THE ADVANCED SCIENCE-BASED INDUSTRIES IN WHICH GOVERNMENTS MIGHT PLAY A PART TO SUPPLEMENT THE MUCH GREATER EFFORTS WHICH INDUSTRY ITSELF WOULD CERTAINLY MAKE, IF THEY WERE GIVEN THE RIGHT MARKET CONDITIONS AND VIGOROUS ACTION BY GOVERNMENTS TO HARMONISE THEIR POLICIES AND CREATE A REAL EFFECTIVE INFRA-STRUCTURE, AND I AM SURE THAT A NUMBER OF OTHER EXAMPLES COULD EASILY BE QUOTED. THE DEVELOPMENT AND UTILISATION OF NUMERICALLY CONTROLLED MACHINE TOOLS FOR EXAMPLE IS A MATTER IN WHICH OUR MINISTRY OF TECHNOLOGY ARE PLAYING A NOTABLE PART. THIS PERHAPS COULD BE THE STARTING POINT FOR EUROPEAN COLLABORATION IN THE WHOLE FIELD OF PROCESS CONTROL ENGINEERING. A NUMBER OF OTHER IDEAS WOULD CERTAINLY EMERGE FROM CLOSE CO-OPERATION BETWEEN THE INDUSTRIAL RESEARCH ASSOCIATIONS WHICH ALREADY EXIST IN A NUMBER OF EUROPEAN COUNTRIES WITH GOVERNMENT SUPPORT. IN SOME CASES THE FORMATION OF EUROPEAN-WIDE INDUSTRIAL RESEARCH ASSOCIATIONS MIGHT WELL BE A FIRST, NATURAL STEP.

I HAVE TRIED IN A BRIEF SPACE TO ADD A LITTLE TO WHAT HAS ALREADY BEEN SAID ON A GREAT SUBJECT. WHAT IS AT ISSUE HERE IS NOTHING MORE OR LESS THAN EUROPEAN INDEPENDENCE. AS MY PRIME MINISTER HAS SAID THE ONE WAY FOR EUROPE TO BECOME SUBSERVIENT TO OTHERS IS TO BECOME DEPENDANT ON THEM FOR THE MOST ADVANCED INDUSTRIAL AND TECHNOLOGICAL INVENTIONS. EUROPEAN COUNTRIES CAN ONLY ACHIEVE A REAL STANDING IN WORLD AFFAIRS IF WE WORK TOGETHER NOW WITHIN A SINGLE MARKET TO DEVELOP OUR TECHNOLOGY, AND THE LOGIC OF A EUROPEAN TECHNOLOGY DEMANDS A EUROPEAN POLITICAL COMMUNITY WITHIN WHICH INDUSTRY CAN OPERATE EFFICIENTLY FOR THE COMMON GOOD.

IT WAS JUST EIGHT MONTHS AGO, MR. PRESIDENT, THAT MR. WILSON ADDRESSED THIS ASSEMBLY. MANY OF YOU HEARD THAT SPEECH, AND MANY, BOTH HERE IN STRASBOURG AND THROUGHOUT EUROPE, WERE I KNOW DEEPLY IMPRESSED BY IT. IT WAS CLEAR AND IT WAS POSITIVE. IT REVEALED
Sincerity of purpose and the vigour of execution with which you intend to approach this new phase in overcoming the continuing divisions in Europe. Much has happened since then. I think it right to say that we—
and believe in the unity of Europe—have made good progress. It is clear that there is still a long road ahead. But the statesmen and merchants of Gloom have proved wrong. Europe, in the move again. We know where we are going. And we know we shall get there, sooner or later. For us, and for life as a whole, the sooner the better.

The months immediately ahead will be crucial. The decision is no doubt well known to everyone here, but let me in conclusion briefly summarise them.

We applied for membership of the three European Communities. May, and I think it worth repeating, that we applied under Article Two, Three, Seven of the Treaty of Rome for full membership. Nothing less is of any interest to us.

In accordance with the treaties, our application, and those of Denmark, the Irish Republic and Norway, have been remitted to the European Commission for an opinion. That opinion, we understand, will be available to the Council of Ministers of the six at the end of this month. The Council is expected to discuss it in meetings in October, and we for our part fully hope and expect that those discussions will result in an invitation to begin negotiations.

I know that there are some who say this is an unrealistic hope. These same people, Mr. President, a year ago were full of scepticism about Britain's ability to accept the terms of Rome and make a clear and clean application to become member of the E.E.C. We know how wrong those sceptics have been. Theirs are counsels of timidity and despair, of counsels of timidity and despair. Europe, has never heeded counsels of that sort. Europe will not do so now. They are the voices of those with faith in the future of Europe.

But it is one thing to set out, and it is another to arrive. I do not say categorically that our efforts will be crowned with success, of course not. We have made our application clearly and unambiguously. It is now for the six to answer.

But this much I can say, speaking for Britain alone. We belong to the heart, in the living centre of Europe. If we kept out for the sake of a false view of the destiny of our nation, or for any other reason— we shall not give up and go. We shall persist until more imaginative counsels prevail. Shall, as my Prime Minister has said, not take no for an answer.

We have said, and I say it again, here, that the best and most hopeful future for our country and our people is as an integral part of a strong and united Europe. But let no-one believe it if we are compelled to, Britain will not be able to manage some other way. We have the skills, we have the expertise, we have the courage, and we have the vision. As a nation, we have risen to the challenge of adversity, and we can do so again.

But, my friends, this is not the path that we want to take. Not here, but the whole of Europe, would be diminished by such a decision to our present endeavours. Even to speak of failure this adventure is to realise how totally unacceptable it is.

I think it is important that we should understand why it is acceptable. The decisions to be made in the next few months will be made by Governments, that is right and proper, but behind those Governments, in the six or in Britain and our other partners in E.E.A., applying for membership with us, are our people, and it is at the level of the ordinary citizen of Europe, that the son has already been taken, whether they are our
AND EFFACING THEIR NEW COMRADESHIP THE
ANGRY WITH SOCIAL AND INTERNATIONAL INEQUALITY,
OF THE COMMON MARKET IS STILL GREAT BRITAIN, IT IS NO
JOIN THE OR
OF THE PEOPLE THE LONE AND VIVID HISTORY OF GREAT BRI
HAPPENED IN ENGLAND.
OUR ROLE IN THE WORLD WILL DEPEND NOT UPON ANY ACHIEVE
THE PEOPLE OF WHATEVER POLITICAL PARTY, ARE NOW AS
GOVERNMENT AND
DEFENCE AS WELL, AND
FIELD OF ARMAMENT,,
WE WANT TO RESPOND TO THE RESPONSIBILITY OF THE
GLOBAL BATTLEFIELD, IT THREATENS TO BECOME THE
IN OUR DESIRE FOR EUROPEAN UNITY WHATEVER MISGIVES
ARMAMENT,,
WE WANT TO RESPOND TO THE RESPONSIBILITY OF THE
BECOMES A PROSPEROUS AND PEACEFUL FAMILY OF NATIONS, INSTEAD OF
WE WANT TO RESPOND TO THE RESPONSIBILITY OF THE
INDUSTRIALLY RICH COUNTRIES OF THE WORLD FOR
THE
THE LIQUIDATION OF THE COLD WAR,, THE ESTABLISHMENT OF FULL AND FRIENDLY RELATIONS WITH THE COUNTRIES OF EASTERN EUROPE... WE WANT TO PUT AN END TO THE ARTIFICIAL BARRIERS THAT RUNS THROUGH THE MIDDLE OF OUR CONTINENT,, WE WANT TO CONTROL ARMAMENTS AND MAKE A SERIOUS BEGINNING TO THE PROCESS OF DISARMAMENT,, WE WANT TO RESPOND TO THE RESPONSIBILITY OF THE INDUSTRIALLY RICH COUNTRIES OF THE WORLD FOR THE DEVELOPMENT OF THOSE THAT ARE POOR,, AND WE WANT TO CREATE A WORLD IN WHICH THE GREAT ADVANCES OF SCIENCE ARE USED TO ENSURE THAT THE WORLD BECOMES A PROSPEROUS AND PEACEFUL FAMILY OF NATIONS, INSTEAD OF THE GLOBAL BATTLEFIELD, IT THREATENS TO BECOME.
WE FIRMLY BELIEVE THAT THE BEST FUTURE FOR ALL OF US IN EUROPE LIES IN UNITING OUR EFFORTS, ECONOMICALLY, POLITICALLY AND IN THE FIELD OF DEFENCE AS WELL, AND THAT A START IN THIS DIRECTION MUST BE MADE NOW BEFORE ITS TOO LATE, BY ENLARGING THE EUROPEAN COMMUNITIES TO EMBRACE BRITAIN AND THOSE OF OUR E.U.T.A. PARTNERS WHO ARE READY TO JOIN.
TO YOU, MR. PRESIDENT, AS THE GUARDIAN, SO TO SAY, OF THE EUROPEAN SPIRIT WHICH INSPIRED THE FOUNDERS OF THIS COUNCIL OF EUROPE (AND THERE WERE NOT A FEW BRITONS AMONG THEM) I WOULD SAY THIS.
BRITAIN IS READY AND WILLING TO PLAY HER FULL AND RIGHTFUL PART IN BUILDING A WIDER, MORE POWERFUL, AND MORE INFLUENTIAL EUROPE OF THE FUTURE.
WE HAVE SET OUT OUR OFFER PLAINLY AND DIRECTLY.
IT IS NOW FOR THE SIX TO MAKE THEIR REPLY.
CABINET

THE QUEEN'S SPEECH ON THE PROROGATION OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate herewith a revised draft of The Queen's Speech on the Prorogation of Parliament. In this draft account has been taken of the points which were raised in the Cabinet's consideration of the first draft on 11th October, 1967 (CC(67) 56th Conclusions, Minute 3).

(Signed) BURKE TREND

Cabinet Office, S.W.1.

16th October, 1967
THE QUEEN’S SPEECH ON THE PROROGATION OF PARLIAMENT

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

1. My Husband and I were glad to welcome to this country the President of Pakistan. We also welcomed the State Visits paid by the Federal President of the Republic of Austria, by His Majesty King Hussein of the Hashemite Kingdom of Jordan and by His Majesty King Faisal of Saudi Arabia.

2. My Husband and I had the great pleasure of being present at the celebration of Canada’s centenary in Ottawa and of visiting Canada’s International Exhibition at Montreal.

3. My Government have played a full part in the varied activities of the United Nations.

4. My Ministers have continued to seek progress towards disarmament and in particular an international treaty to prevent the spread of nuclear weapons. My Government have signed the Treaty governing the exploration and use of Outer Space.

5. My Ministers welcomed the restoration of good relations between Indonesia and Malaysia. They have also constantly sought means of bringing peace to Vietnam.

6. My Government have applied for membership of the European Economic Community, European Coal and Steel Community and European Atomic Energy Community. The closest consultation has been maintained with the Governments of the Commonwealth, the European Free Trade Association and the Republic of Ireland.

7. My Government have continued to play their full part in the North Atlantic Alliance and are co-operating in the study of its future tasks. Contacts with the Eastern European countries have been further developed.

8. My Government made strenuous efforts to prevent the outbreak of war between the Arab States and Israel. When hostilities nevertheless began, they worked unceasingly at the United Nations to bring about a cease-fire; and they have been continuously active in seeking a lasting settlement.

9. The Award which I made for the arbitration of a frontier dispute between Argentina and Chile has strengthened My Government’s friendly ties with both countries.

10. An Act has been passed to provide for the relinquishment of My sovereignty over Aden, Perim and the Kuria Muria Islands.

11. It was with great pleasure that I welcomed to London in September, 1966, the Heads of Government or their representatives from the Member Countries of the Commonwealth.
12. Four of our overseas territories became independent within the Commonwealth in the last 18 months - British Guiana (as Guyana), Bechuanaland (as Botswana), Basutoland (as Lesotho) and Barbados. Five of our West Indian territories assumed a new status of association with the United Kingdom. Constitutional discussions were held with others of our territories.

13. My Government have supported the people of Hong Kong whose fortitude and steadfast spirit they have greatly admired in recent months.

14. My Government have continued to seek by all practicable means to bring about a return to constitutional rule in Rhodesia in accordance with the multiracial principles approved by Parliament.

15. My Government have concluded a supplementary Trade Agreement with New Zealand.

16. My Government have continued to provide a high level of aid to less developed countries.

17. My Ministers have played an important part in international discussions to strengthen the World Monetary System. My Government warmly welcome the agreement on special drawing rights which was reached by the International Monetary Fund.

18. My Government played a full part in achieving a successful conclusion of the Kennedy Round of trade negotiations, which will bring about a greater reduction in tariffs and other barriers to trade than any previous negotiations.

19. Acts have been passed to continue and modernise the legislation relating to the regular, reserve and auxiliary forces. My Government have completed the far-reaching examination begun in 1964 of the nation's defence needs in the next decade.

MEMBERS OF THE HOUSE OF COMMONS

20. I thank you for the provision which you have made for the public services.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

21. In spite of a slackening in the growth of world trade and disturbances in the Middle East and elsewhere, My Government have made progress in restoring the balance of payments.

22. In pursuit of their endeavours to promote efficiency and high productivity in all parts of the country My Government have introduced more positive incentives for investment and have set up an Industrial Re-organisation Corporation. My Government have introduced a Selective Employment Tax designed to redress the balance of taxation between services and manufacturing industry.
23. A Regional Employment Premium has been introduced to help manufacturing industry in development areas. This constitutes a major addition to My Government's other measures to improve the economic strength of these areas.

24. Acts have been passed to reinforce the voluntary observance of the prices and incomes policy. My Government welcome the increasing participation of management and unions in the operation of the policy.

25. Legislation has been enacted providing for the introduction of a Decimal Currency System in 1971.

26. Legislation has been passed to assist the shipbuilding industry to reorganise itself so as to become more competitive in world markets.

27. Public ownership of the main part of the steel industry has been restored.

28. The Docks and Harbours Act, and measures to end the system of casual employment, have provided the basis for greater efficiency and improved relations in the docks.

29. An Act has been passed to require the public disclosure of more information by companies, including the disclosure of political contributions, and to strengthen the supervisory powers of the Board of Trade over insurance companies.

30. An Act has been passed to enable data processing services and facilities to be provided by the Post Office.

31. My Government have set up a Meat and Livestock Commission and a Central Council for Agricultural and Horticultural Co-operation.

32. Legislation has been passed dealing with the safety of goods vehicles, and with persons driving while affected by alcohol or drugs or while disqualified.

33. Improvements have been completed in the arrangements under which family doctors practise in the National Health Service.

34. Legislation has been passed to improve control over drug addiction.

35. Continued progress has been made with the reorganisation of secondary education on comprehensive lines, and practical measures taken to prepare for the raising of the school-leaving age.

36. New and vigorous steps have been taken to increase the output of teachers; and new machinery has been enacted for settling the remuneration of teachers in Scotland.
37. An Act has been passed to create a new Ministry of Social Security and to replace national assistance with a scheme of Supplementary Benefits. Provision has been made for improvements in pensions and benefits.

38. Legislation has been passed to establish a more generous system of Exchequer subsidies for certain housing; to assist persons of modest means in buying their homes; to provide for leasehold reform; and to establish a Land Commission.

39. An Act has been passed to reorganise and increase Exchequer assistance to local authorities and to relieve the domestic ratepayers.

40. Legislation has been passed to reorganise water supply in Scotland and to establish a Countryside Commission for Scotland.

41. An Act has been passed providing for the appointment of a Parliamentary Commissioner for Administration.

42. I have appointed Royal Commissions to carry out reviews of local government in England, outside Greater London, and in Scotland, and another to review the system of Assizes and Quarter Sessions. My Government have made proposals for the reorganisation of local government in Wales.

43. An Act has been passed making further provision for the free use of the Welsh language in public business in Wales and Monmouthshire.

44. In fulfilment of an agreement entered into with other European countries, an Act has been passed to deal with unauthorised broadcasting at sea.

45. An Act has been passed which makes substantial reforms in the penal system and the procedure of the criminal courts in England and Wales.

46. Further progress has been made in the systematic reform of the law; under the impetus given by the creation of the Law Commissions 12 Acts consolidating sections of our statute law, and an Act repealing many obsolete statutes, have been passed.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

47. I pray that the blessing of Almighty God may attend you.
THE QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT

Note by the Secretary of the Cabinet

I circulate herewith a revised draft of The Queen's Speech on the Opening of Parliament. In this draft account has been taken of the points which were raised in the Cabinet's consideration of the first draft on 11th October, 1967 (CC(67) 58th Conclusions, Minute 4).

(Signed) BURKE TREND

Cabinet Office, S.W.1.

16th October, 1967
1. My Husband and I look forward with pleasure to the State Visit of the President of the Republic of Turkey to this country and to our own approaching visit to Malta.

2. My Government will continue to play an active part in the constructive efforts of the United Nations to assure a peaceful and stable world.

3. My Ministers will continue their efforts to achieve progress on arms control and disarmament, and especially on an agreement for the non-proliferation of nuclear weapons.

4. My Ministers will seek to use all available means to achieve a negotiated settlement of the conflicts in Vietnam.

5. My Government will continue to work through the United Nations for a just and lasting settlement in the Middle East.

6. My Government look forward to the early opening of negotiations to provide for Britain's entry into the European Communities. The closest consultation will be maintained with Commonwealth Governments, the Governments of the European Free Trade Association and the Republic of Ireland.

7. My Government will continue to participate actively in the North Atlantic Alliance as an essential factor for European security. At the same time they will work for improved East-West relations. They will also continue to support Britain's other alliances for collective defence.

8. During the coming Session, My Government intend to bring the peoples of South Arabia to independence.

9. My peoples in the remaining dependent territories will continue to be helped to achieve further constitutional advance.

10. The people of Hong Kong will continue to receive the full support of My Government.

11. My Government will continue to seek by all practicable means to bring about a return to constitutional rule in Rhodesia in accordance with the multiracial principles approved by Parliament.

MEMBERS OF THE HOUSE OF COMMONS

12. Estimates for the public service will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

13. The principal aim of My Government's policy is the achievement of a strong economy. This should combine a continuing surplus on the balance of payments sufficient to meet our international obligations and to maintain the strength of sterling with a satisfactory growth of output and with full employment.
Further measures will be taken to stimulate economic advance in the development areas and to promote a more even distribution of employment in all regions, as a means to national expansion.

Legislation will be introduced to extend My Government's powers to assist financially in the modernisation and technological advance of industry and in the expansion of its capacity.

My Government will continue to work with management and unions to promote an effective policy for productivity, prices and incomes.

A Bill will be introduced to establish a National Loans Fund and to amend the law relating to Government borrowing and lending and to Exchequer Accounts.

Legislation will be introduced to implement recommendations of the Tribunal appointed to enquire into the tragic disaster at Aberfan.

Legislation will be brought before you to provide for the better integration of rail and road transport within a reorganised framework of public control, to promote safety and high standards in the road transport industry, to strengthen the powers of local authorities to manage traffic, and to reorganise the nationalised inland waterways with special emphasis on their use for recreation and amenity.

A Bill will be introduced to establish a central system of vehicle registration and licensing.

Legislation will be brought before you to convert the Post Office from a Department of State to a public corporation.

My Government will continue to develop policies to secure a rising programme of housebuilding and better housing conditions for the people. For England and Wales a Bill will be introduced to modernise the town and country planning system and another to establish a Countryside Commission, and to provide for greater opportunities for leisure and recreation in the countryside.

My Government will introduce legislation to enable increased compensation to be paid to tenant farmers whose land is needed for development, to safeguard the welfare of farm animals, especially those reared by intensive methods, and on other agricultural matters.

My Government will seek powers to take provisional action against dumping in accordance with the code which was agreed in the Kennedy Round of trade negotiations at Geneva.

Legislation will be introduced to strengthen and amend the law on misleading trade descriptions.

A Bill will be introduced to provide comprehensive new arrangements in Great Britain for ensuring the safety and quality of medicines, whether for human or animal use; and another to enable improvements to be made in the country's public health and welfare services.
27. A Bill will be put before you to increase the level of family allowances.

28. Legislation will be introduced to reorganise the social work services in Scotland.

29. Steps will be taken through the Council for Scientific Policy to expand and improve arrangements for scientific research and to encourage the international exchange of scientists in Europe.

30. Further progress will be made in the development of comprehensive secondary education, in the expansion of higher education, including the establishment of polytechnics, and in developing further education to meet the needs arising from the Industrial Training Act.

31. Measures will be taken to accelerate the improvement of schools in socially deprived areas.

32. My Ministers will continue to accord a high priority to the supply of teachers.

33. Legislation will be introduced to extend the scope of the Race Relations Act.

34. Legislation will be introduced to reform the law on gaming.

35. My Government will carry forward their comprehensive programme of reforming the law particularly in the fields of family law, and the position of Justices of the Peace. They will also submit for consideration proposals on property law and the law of evidence.

36. Other measures will be laid before you.

MY LORDS AND MEMBERS OF THE HOUSE OF COMMONS

I pray that the blessing of Almighty God may rest upon your counsels.
CABINET

RHODESIA

Note by the Secretary of the Cabinet

I attach a memorandum by the Secretaries of State for Foreign and Commonwealth Affairs, covering a note by Officials, which was considered by the Defence and Oversea Policy Committee on Wednesday, 18th October, 1967. The Secretary of State for Commonwealth Affairs will report the Committee's discussion orally to the Cabinet.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

19th October, 1967
RHODESIA

Memorandum by the Secretary of State for Foreign Affairs and the Secretary of State for Commonwealth Affairs

The attached paper by officials contains a thorough reappraisal of the Rhodesian problem. We asked them to examine critically the prospects for our present policies and all conceivable alternatives.

2. This seemed the right moment to do so. Our most recent initiative, the Alport mission, appears to be running into the sand. The visit to Africa by the Commonwealth Secretary, promised by the Prime Minister at the time of the Alport mission is due to begin on 25th October.

3. We have to face the fact that economic sanctions have not so far brought about the necessary political change and there is no immediate prospect that they will do so, while South Africa continues to support the Rhodesian economy.

4. In Rhodesia itself we have to reckon on the possibility of the declaration of a Republic, which might drive the Governor into retirement and make any subsequent constitutional settlement more difficult. In addition we face difficult decisions in our arms policy towards South Africa which are closely linked with our approach to the Rhodesian problem.

5. This is an uncomfortable position which is doing damage to both our political reputation and our balance of payments. We therefore commissioned this enquiry to find out if there were any ways to cut the Gordian knot.

6. The Officials’ Paper considers a wide spectrum of conceivable courses from the use of force at one end to settling on whatever terms we can get from Smith at the other. We believe both these extreme courses must be ruled out.

7. The political and practical arguments against the use of force remain overwhelming and indeed are stronger now than when they were originally rejected. In any case the end result of an attempt to solve the problems in this way given the racial tension which exists in Africa cannot be foreseen.

8. An alternative course to force is a major intensification of sanctions to the point of facing economic confrontation with South Africa and Portugal. There is no reason to revise our view that this would impose a severe and unacceptable degree of damage on the British economy.

9. At the other end of the spectrum, settlement on any presently available terms from the Smith regime would involve the surrender of our declared principles and the breaking of our public pledges. It would split the country, probably break up the Commonwealth and certainly harm our reputation throughout the world.
10. We therefore recommend that the right course is to persevere with our existing policy, that is (a) maintain sanctions (and where practicable secure increased effectiveness in their application) and (b) maintain also our posture of readiness to reach an honourable settlement in accordance with our principles.

11. In doing so we ought to recognise certain realities. Sanctions can be made to bite more effectively in a number of ways at present being studied (e.g. Commonwealth pressure to bring third countries up to our level; travel and passports, etc.) but given the South African gap there can be no major intensification that will produce swift results.

12. We may therefore be in for a long haul, though equally we ought not to rule out that if we show the will and determination to stick by our stated policy and maintain even limited sanctions the certainty of prolonged isolation and the difficulty of obtaining serious development capital may bring about a weariness amongst the Rhodesian Europeans and a willingness to come to acceptable terms.

13. But if this does not happen over the next year or so we may have to accept that the Rhodesian problem will turn into one of that number of international problems with which we have to live without a foreseeable solution. There is fortunately some evidence that a number of Commonwealth and other countries are beginning to accept that both force and economic confrontation with South Africa are out for us; we should be able to meet the remaining pressure on us in these directions provided we make it clear that we are standing firm on our principles. But here too we should have to accept that the fact of our responsibility for Rhodesia would make the indefinite continuance of the present deadlock much more uncomfortable for us to live with than are those other insoluble international problems for which, though we may have great interests at stake, we do not have the same degree of direct responsibility.

14. While maintaining this position we ought to stand ready wherever the opportunity offers to explore the possibility (analysed in the Official Paper) of the South African Government being willing to put pressure on the Smith regime to reach any form of settlement which would accord with our basic principles.

15. Nor would we wish to rule out in the longer run, despite its dangers and difficulties, the possibility, also examined in the Officials’ Paper, of divesting ourselves of sovereignty over and special responsibility for Rhodesia (perhaps by means of transferring them to the United Nations).

G. B.
G. T.

Foreign Office, S. W. 1.

16th October, 1967
RHODESIA
(Note by Officials)

THE PRESENT SITUATION

It is nearly two years since the illegal declaration of independence; it is getting on for a year from the imposition of mandatory sanctions by the Security Council; and there is widespread and growing disbelief in the effectiveness of sanctions, now or in the foreseeable future, in producing the necessary political change in Rhodesia.

2. Sanctions have succeeded in reducing Rhodesia's exports from £165m in 1965 to a current annual rate of about £90m. As a result they have also caused a fall in the general level of economic activity in Rhodesia of about 15%. But the effect over the economy has been uneven and in general the Europeans there are in no danger of suffering any great hardship. The further impact of the existing sanctions on Rhodesian trade is likely to be small, although the effects of the decline which has already occurred will result in some further contraction in economic activity. One reason why sanctions have not had a greater impact is, of course, the refusal of South Africa and Portugal to apply even the mandatory sanctions at all; the inability of some of Rhodesia's African neighbours (especially Zambia) to cut off trade with Rhodesia altogether; and the somewhat lax manner in which some countries are policing their traders' behaviour, especially over minerals purporting to originate in Rhodesia's neighbours rather than in Rhodesia itself. The last of these factors has probably done more damage by the encouragement it has given both Rhodesians and the outside world to believe that sanctions are not working than by its actual assistance to Rhodesia's export earnings, useful though that undoubtedly is.

3. It is in this field that our own efforts to secure a stricter application of sanctions are chiefly exerted. The efficacy of /those
those efforts is likely to diminish with time unless the
governments concerned believe that a strict application of
sanctions would bring about a solution of the Rhodesian problem.
In the whole it seems unlikely that the decline in Rhodesian
economic activity will continue indefinitely and within the next
year or so it is possible that the Rhodesian economy will begin
to pick up again. Development will be held back but there is
little prospect of economic breakdown.

3. All reports indicate that most Europeans in Rhodesia are
growing increasingly bitter against Britain, and that events in
other parts of Africa have intensified their fears of what would
happen in Rhodesia if majority rule came about. Against this
background, it is clear that the great majority of the European
population in Rhodesia, whatever their views on the wisdom of the
illegal declaration of independence, are firmly with the regime
in resisting the pressure of sanctions and in refusing to give
up "independence" except in order to have it promptly recognised
by us on terms which would put off majority rule for a considerable
time, if not for ever.

4. Meanwhile opinion among the Rhodesian Europeans is evidently
shifting to the right, and this process is likely to be
accelerated by the terrorist incursions from the north. Some time
next year - perhaps in the spring - the regime may declare a
Republic. This would have no legal validity, but it would make
the regime even less willing than before to agree to the kind of
settlement we could accept. It would also probably be the
occasion of the Governor's retirement from the scene, supposing
that he had stuck to his post until then, and this would remove
one of our potential assets in Salisbury and increase the
technical difficulty of restoring constitutional government. In
addition, the declaration of a republic might lead some at least
of the judges to accept the regime as the de factor or even the
dejure government of Rhodesia. It is possible that some of the

/Europeans
Europeans who at present acquiesce in the regime's policies would be repelled by the declaration of a republic, and as a result be more inclined to oppose the regime than hitherto, though on past form we cannot expect that they would express their disagreement very effectively. On balance, we do not think that time is on our side.

MR PRESENT POLICIES

We have been following two separate but related policies. One has been to seek by means of sanctions to weaken the determination of the Europeans in Rhodesia to maintain their "independence" in the hope that new leaders would appear. The other has been to pursue the possibility that, as a result of that process, we can reach an agreed settlement with the present regime consistent with the principles we have laid down. Within the limits we have had to set, neither policy has been sufficiently successful to solve the problem. The refusal of South Africa and Portugal to co-operate in the sanctions policy has meant that sanctions have failed to exercise decisive pressure on Rhodesia. Our attempt in the "Tiger" talks to secure an agreed settlement produced an outline solution which would probably have been acceptable to a majority of the Europeans; but the right-wing minority had enough influence on the regime - both in the Cabinet and through the party caucus - to engineer its rejection. Since then the regime's position has evidently hardened against such a settlement. For example, in the exchanges that have taken place since Lord Alport's visit, we have been trying to find out what were the changes in the "Tiger" constitutional proposals which Mr. Smith told Lord Alport he thought should be made; the regime have declined even to give any indication of their views on that point unless we first agree to abandon Nibmer and clearly would only agree to our killing a test of acceptability of an independence constitution if this were done while they remained in power.
Although these two policies are logically compatible and indeed inter-dependent, there has been in practice a tendency for each to weaken the impact of the other. It is true that the effect of sanctions in halting development and economic expansion in Rhodesia has helped to make some of the Europeans desirous of a settlement, but this has not been sufficient to make them want one on terms we could accept; and sanctions have also had the effect of making most Europeans in Rhodesia, even those politically opposed to the illegal declaration of independence, feel that they must stand together against outside pressure. At the same time, our attempts to reach an agreed settlement with the regime have tended to give the impression to those Europeans in Rhodesia who, like the Governor, believe that an agreed settlement is essential, that there is more chance of reaching one by pressing us to make concessions than by pressing the regime to do so.

**COURSES WE COULD CONSIDER**

1. In the following paragraphs we examine the following courses of action:

   1. At one extreme, to make an all-out attempt to bring about the fall of the regime:
      (a) by the use of force; and/or
      (b) by a major intensification of sanctions, including their extension as necessary to South Africa and to Portuguese territory;

   2. At the other extreme, to negotiate a settlement with the regime on such terms as they would agree to;

   3. To persevere on our present lines;

   4. To attempt to secure South African support in pressing on Mr. Smith and his less extreme supporters a settlement which we could accept;

   5. To accept that no solution of the problem is available to us and to seek instead to divest ourselves of our special responsibility.
responsibility for Rhodesia, and perhaps to transfer the problem to the United Nations.

**FORCE**

Except in special circumstances such as a general breakdown in public order in Rhodesia requiring the use of British troops to restore it, and making their introduction at the Governor's invitation possible, with a secure point of entry and no opposition from the Rhodesian armed forces, Ministers have always in the past ruled out the use of force. This has been because of the political difficulties which its use would cause, and because of the practical difficulties of providing the large forces required and of mounting such an operation. We consider that the considerations, both political and practical, which have ruled out the use of force in the past are even stronger now, nearly nine years after the illegal declaration of independence. There is also the point that if, despite everything, we did use force, and in effect went to war against the regime, we should be left to deal afterwards with the problems of a country with a broken economy, hostile Europeans and a lawless African community. Nor could we be sure of what the South African attitude would be, or that of the Portuguese or of the African countries on which we should depend for bases.

**INTENSIFICATION OF SANCTIONS**

So long as the Rhodesians can use South African and Mozambique ports as channels for the exports of embargoed commodities and also for imports (particularly of oil), the effectiveness of sanctions cannot be sufficiently increased to bring about the result we are aiming at. Even if we could close off the Mozambique ports, the effectiveness of sanctions would not be sufficiently increased so long as South African ports remained available. The South Africans have repeatedly made clear that they are not prepared to shut off this channel for Rhodesian trade. The only way to close it would, therefore, be by some
off embargo on South African trade as well. In a recent
letter Lord Caradon has reported that there would not be
sufficient support in the Security Council at the moment for
resolutions calling for a United Nations blockade of Mozambique
or a trade embargo against South Africa. Even if the necessary
resolutions could be passed in the Security Council, it is by no
means certain that they could be implemented in practice. On
the other hand there could be no doubt that any effort we might
make in this direction would do serious damage to our own
economic position. Accordingly, this course also must be ruled
out as a means of achieving a settlement of the Rhodesia problem.

SETTLEMENT ON TERMS ACCEPTABLE TO THE REGIME

1. In present circumstances, the only sort of settlement we
would expect to make with the regime as at present composed is
which involved:

(a) immediate legal independence without majority rule;
(b) very probably some derogation from the "Tiger"
constitutional proposals such as would make possible
the slowing down of the progress towards majority
rule after independence;
(c) the holding of a Test of Acceptability while the
illegal regime remained in power;
(d) the reduction of the Test of Acceptability to a
formality calculated to produce an answer favourable
to what was proposed (a fair test would almost
certainly produce a negative answer).

In other words, the existing regime would only settle on terms
which could not be reconciled with our principles. A settlement
such as they might agree to would have grave effects on our
relations with the rest of the Commonwealth and on our position
in the United Nations. We could not even feel any assurance that
it would in fact relieve us of the Rhodesia problem, since the
Security Council might well pass resolutions insisting on the
amendment of mandatory sanctions against Rhodesia. This
also is one which we could not adopt.

PARA 3: WITH OUR PRESENT POLICIES

1. Failing the adoption of any other course, we should be
with the necessity to persevere with our present lines of
policy. Although in the immediate future this might prove less
agreeing than any available alternative, it could hardly be a
permanent policy and we must reckon on its becoming increasingly
difficult to maintain. It carries with it a considerable risk
of finding ourselves eventually forced at the United Nations
into a "confrontation" with South Africa. And even short of
this, it would involve us in a continuous process of irritating
governments of countries (the U.S.A., Japan, West Germany etc.)
with friendship we need elsewhere, by nagging at them over the
implementation of a sanctions policy of whose success they are
becoming increasingly sceptical. A protracted continuation of
this process, as the sanctions policy becomes less credible to
other governments, might cause us such embarrassment that we
should eventually have to abandon it and adopt one of the other
courses outlined above. Nevertheless, unless and until we decide
to adopt some other course, we shall in any case have to pursue
our present policies, and they are not in fact necessarily going
to fail. There are certainly Europeans in Rhodesia who realise
that the country's development is being blocked by sanctions, and
that the resulting unemployment among the urban and rural Africans
will present an increasingly serious problem. And there are some
signs that suggest that the Rhodesia Front might yet split over
issues such as the declaration of a republic and the "final break"
with Britain. These issues are being approached by Mr. Smith
and his colleagues with great caution; but they might yet find
it too difficult to keep both their moderate and their right-wing
supporters satisfied. The pursuit of our present policies
must be represented as leading by planned stages to an
acceptable settlement in the foreseeable future; but equally it
impossible to say that it offers no prospect at all of bringing about a situation in which, perhaps with South African support, the composition and attitude of the regime might be changed so as to make an agreed settlement possible. Against this must be set the possibility that, particularly if a republic were to be declared, the difficulties in the way of restoring legality would be increased rather than diminished by the passage of time.

While following this course we should do what we could to ensure other countries to apply mandatory sanctions with a vigour equal to our own. But we should not allow ourselves to be pressed into extensions of sanctions which would be ineffective when judged by the impact they would have on Rhodesia. In order to help resist pressure from Commonwealth African Governments and others for us to use force (though there is some evidence that some Commonwealth African leaders are now less inclined to press for this than before) or for substantial extensions of sanctions, it would be important to reassure them that we were not going to abandon our position on Nibmar or otherwise do a deal with the regime at the Africans' expense. It would help to reassure them if we could make clear that we were not attempting to seek a negotiated settlement with the illegal regime by refusing, for example, to continue the limited contacts which we have had with the regime since Lord Alport's visit. To take this line would be likely to discourage the Governor - perhaps to the point of resignation - and to consolidate European opinion in Rhodesia still more firmly against us, and possibly to weaken resistance in Rhodesia to the declaration of a republic. On the other hand, it might do something to strengthen the effect of sanctions on European thinking in Rhodesia by showing that we were really serious, and that the regime had not succeeded in making us run after them for a settlement.

**Possibility of Securing South African Support**

3. The South African Government have attempted to exert a stabilizing influence on the regime, in favour of a settlement on "rider" lines and against, for example, the declaration of a republic.
republic. But they have never yet been willing to put any strong pressure on the regime although they have available the leverage with which to do so, in the extent to which Rhodesia's ability to maintain adequate economic activity in spite of sanctions depends on South African channels of trade. We do not believe that, so long as the regime as at present composed holds power in Rhodesia, the South African Government would be prepared to exert the very strong pressure that would be needed to bring them to agree to a settlement which would be fully consistent with our Six Principles (let alone Nkrumah). H.M. Ambassador at Pretoria has commented that what the South African Government want to see is a negotiated compromise settlement; that is, one which is acceptable to the Rhodesian Europeans as well as to us, and which consequently would not expose the South African Government to attack from their own predominantly pro-Rhodesian supporters for having helped to bring it about. This implies something very like immediate independence. H.M. Ambassador has further drawn attention to the possibility that the South Africans and the white Rhodesians will draw closer together; he points out that the sending of South African police to Rhodesia, and the infiltrations which led to it, has already brought them closer together, and has hardened their attitudes and heightened their emotions. However, during a conversation between the Foreign Secretary and Dr. Muller in New York on 22 September, in the course of which they had discussed what the South African reaction would be to an embargo on supplies of oil to Rhodesia through Mozambique, and the intervention of South African police in Rhodesia, Dr. Muller remarked that both these problems would disappear if there were a satisfactory settlement of Rhodesia. The British Government had appealed to the South African Government to use their influence with the Rhodesians and Mr. Brown was well aware of the South African Government's reaction. The South Africans were as genuinely interested in a solution as the British Government. Dr. Muller wondered whether
whether the time had not come for the British Prime Minister to tell Mr. Vorster how far the British Government would be prepared to go. Mr. Vorster might then be prepared to take this up with the Rhodesians. There are indeed considerations which should carry weight with the South Africans in favour of their using their influence on behalf of a solution which they would regard as defensible from their point of view. The chief of these is the importance they must attach to having a stable and peaceful country on their northern border, and to being free of the political and diplomatic embarrassments resulting for them from the illegality of the regime in Rhodesia. The continuance of white domination in Rhodesia is not a prime South African interest, provided that it does not come to an end so quickly, or in such circumstances, that the country's stability is endangered. A further point of some importance to South Africa would be that, even though so far experience of the application of sanctions to Rhodesia has not been such as to encourage those who would apply them also against South Africa's apartheid policy the sooner the use of sanctions in Southern Africa came to an end the better for the South Africans.

APPROACHES THAT MIGHT BE DISCUSSED WITH THE SOUTH AFRICANS

a) Postponement of Independence

14. In a memorandum of which a copy is attached at Annex, Mr. Malcolm MacDonald has suggested that a settlement to which the South Africans might be prepared to give their support would take the following general shape:

(i) no independence before majority rule;

(ii) no majority rule for at least ten to fifteen years (the minimum period in which it could have been expected to come about on the "Tiger" basis);

(iii) provisions to ensure that after the attainment of majority rule the white minority had a just share in the country's government.
During the period of progress towards majority rule a great effort would have to be devoted to the acceleration of African educational and social advancement, in which Britain and other friendly countries would need to take part. There would also have to be some guarantees that progress towards majority rule did in fact take place, and this might involve - at least for a period - a British military force stationed in Rhodesia to ensure against a second I.D.I. and possibly some limited form of effective British control in certain fields of policy: e.g. education and social development (there has of course never been such control in Rhodesia before).

5. Such a settlement would disappoint the African nationalists in Rhodesia, who are and would remain insistent on a prompt movement to majority rule and independence; but it should be possible to win positive support for it from Commonwealth Governments in Africa and to get them to exert their influence on the Africans in Rhodesia and to persuade them to use only constitutional methods; and perhaps also to put a stop to the entry of guerrillas from further north. Such support from African Governments might help to convince the South Africans of the advantages that would accrue from such a settlement, and provide an incentive to use their influence in its favour. On the other hand, the Europeans in Rhodesia would be strongly opposed to such a settlement, and it cannot be expected that Mr. Smith would accept responsibility for it unless Rhodesia were in a really difficult position as a result of continued and intensified sanctions, and this were the only way in which he could hope to continue as "Prime Minister"; even then he would probably refuse.

6. A settlement on the lines just described, if it could be secured, is probably the only one that could be fully reconciled with our principles and with our Nibmar declaration. But, apart from the difficulty of securing it, such a settlement would
itself present us with some significant problems. In particular, it would mean the continuation of our direct responsibility in Rhodesia for the full period of progress to majority rule. If we maintained an effective political and military "presence" there in order to guarantee that the settlement was actually carried out, we should be involved in considerable expense and potential difficulty, and we should certainly be under constant pressure at the United Nations and from local African nationalists to accelerate progress to majority rule beyond what was safe. We should not escape such international embarrassments if we left the implementation of the settlement to the Rhodesians themselves: indeed, we should then have to face ten to fifteen years of responsibility for Rhodesia in the United Nations and elsewhere without decisive power to affect the course of affairs in that country. In either case, it would be open to doubt whether so long a preparatory period before majority rule as the ten to fifteen years aimed at would be adhered to in practice, and certainly the South Africans would be likely to fear that the preparatory period would not be as long as this.

17. But whatever the merits or demerits of such a solution, H.M. Ambassador at Pretoria has expressed the view that the South African Government would not be prepared to put pressure on the Rhodesians to accept a solution on these lines, although they would acquiesce if the Rhodesians were to accept it. We believe he is right.

18) The "Tiger" proposals

18. Another possible solution for which we might seek active South African support would be the proposed "Tiger" settlement, complete and unamended, and including the provisions in the Tiger Working Document for the return to legality, a broad-based Interim Government etc. This seems to be the furthest that we could ourselves go towards the regime's position; indeed it would present us with the two major difficulties of our Nibmar declaration.
declaration and the probability that a reliable test of acceptability might well show that the suggested settlement was not in fact acceptable to the people of Rhodesia as a whole. From the point of view of the South Africans, an attempt to make the regime accept this settlement would presumably be less difficult than an attempt to make them accept one based on Nibmar. The right-wingers of the Rhodesia Front, inside and outside the cabinet, would no doubt be strongly opposed to it, but given active South African support and with the assistance of the Governor it might be possible for Mr. Smith to free himself from them, particularly if he came to believe that they might otherwise decide to discard him. Experience of Mr. Smith's character does not encourage us to believe that he would be prepared to act in this way. Even if he were ready and able to do this he would still have to face the possibility that the test of acceptability might produce an unfavourable result, leaving him with a choice between the loss of independence and a second illegal declaration of independence in circumstances in which the right-wingers would regard him as having become a traitor to Rhodesia. He might therefore argue in reply to any South African pressure for his agreement to a solution of this kind that he could only agree if he had an assurance that the test of acceptability would be held in such a way as to put a favourable answer beyond reasonable doubt. This would obviously present us with a grave difficulty.

4. Independence but with some continuing British responsibility

Yet another approach which has been suggested as being difficult for Rhodesia to reject and offering a real prospect of obtaining South African support is one which would involve the recognition more or less at once of Rhodesian independence and reliance on constitutional guarantees and entrenched provisions, but possibly coupled with arrangements which would leave with us some responsibility for ensuring that the guarantees and entrenched provisions were observed. It is not easy to see how
could be provided for, but in any case this approach has
least as many dangerous as helpful points. By retaining some-
proportion of the responsibility we might be able to claim that we had
not departed from our Hibmar pledge. But if the arrangements
were in any means to carry out the responsibilities we should be
claiming, there would be no real independence for Rhodesia so
that Mr. Smith would reject the whole idea and the South Africans
would be unwilling to put pressure on him in its favour. On the
other hand, to retain responsibility without having the means to
influence events would merely perpetuate our present embarrassments.

Considerations affecting Timing

Thus, none of the suggested courses based on securing
effective South African support would be at all easy to achieve,
even if achieved at all. There are also
difficult problems over timing if we decided to seek any solution
these lines. Any pressure exerted by the South Africans or
the regime towards a settlement would have more chance of success
after the experience of a further period of sanctions and the
other disadvantages of international non-recognition, there had
an extra cause in the composition and attitude of the regime. But,
extraneous to the danger that other governments might not
sustain long enough with a sufficiently strict application of
sanctions, there is the possibility - referred to in paragraph 4
- that, while we were waiting for sanctions to produce the
desired effect, the regime would declare a republic. Even though
its declaration was legally invalid, it would make the return to
sanity even more difficult to bring about, both because of the
incredibility of the regime to retrace their steps after
what they would have regarded and represented as a final
triumph with Britain, and because of the probability that the
Supreme War (and possibly some at least of the judges) would have
taken up the struggle on behalf of constitutional rule. One
sequence would be to discourage the South Africans from

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tempting to help, Our own policies would probably have an
effect on the regime's decision whether or not to declare a
republic. By keeping the way open to negotiations for an agreed
settlement we might strengthen the position of those in the regime
who wished to delay such a declaration. But at the same time we
might be weakening the psychological impact of sanctions on
Rhodesians, while also making the African Governments more
suspicious of our true intentions.

ABDICTING OURSELVES OF OUR SPECIAL RESPONSIBILITIES

1. Unlike the courses examined above, the object of this
course would not be a definite solution of the Rhodesia problem,
but the reduction of our responsibility for it to a level at
which it was no greater than that of any other member of the
United Nations, except insofar as we are a permanent member of
the Security Council. To divest ourselves completely of any
particular responsibility for Rhodesia we should need to abandon
or to transfer to someone else our sovereignty over the territory.
This would require an Act of Parliament; and would, incidentally,
create difficult citizenship problems.

2. This course is feasible, though there are serious
difficulties about it which are described below. However
skilfully executed, it would almost certainly be regarded as a
major diplomatic defeat and, unlike other steps in decolonisation
in modern times, would be a confession of failure. (Palestine
is not a parallel, since in that case there was already a League
of Nations mandate).

3. If it were decided that, notwithstanding these difficulties,
we should attempt to divest ourselves of responsibility for
Rhodesia, we should want to transfer this responsibility to the
United Nations rather than leave both sovereignty and responsibility
as it were dangling in mid-air. The best way of achieving this
would be to try to promote a situation in which the United Nations
gradually accustomed themselves to the doctrine that they, and
not we, must ultimately be responsible for solving the Rhodesia problem. This would be extremely difficult. The United Nations have consistently taken the line that the Rhodesian problem is primarily the responsibility of the administering power. The Secretary General referred to this specifically in his annual report published last month. Even on sanctions U Thant takes the view that the major responsibility rests with the United Kingdom. If we were to transfer responsibility for Rhodesia directly to the United Nations, we should have to take all possible steps to change the present views of the Secretary General and indeed of many members of the United Nations. We should also have to think very carefully how best to persuade the United Nations to agree that Rhodesia should become a trust territory and what would be the constitutional implications involved. Alternative but even less attractive ways of achieving the same object would be a simple unilateral abandonment of sovereignty or a transfer of sovereignty to a Rhodesian Government in exile.

2. Unilateral abandonment of sovereignty might be held to confirm the claim of the illegal regime to recognition by other states, since our action would mean that, by implication, the Smith regime was admitted to be the effective authority in Rhodesia which, under our own doctrine of recognition, ought then to be recognised generally as the Government of Rhodesia. A transfer of sovereignty to a Government in exile, assuming that one could be formed, would be a step which would appear to lack validity and would be inconsistent with our normal criteria for recognition. While there might be some endorsement of this step, it would be more widely criticised as a device to enable us to escape from our embarrassments.

3. An attempt gradually to transfer responsibility to the United Nations would undoubtedly be criticised strongly by other members before it had any chance of success. It would be a reversal
reversal of our insistence hitherto that Rhodesia is a British responsibility and would be likely to provoke deep suspicions. It could withstand these. But if it succeeded, we should be likely to find ourselves faced with pressure in the United Nations for courses of action, either against Rhodesia or against South Africa, which we could not take but which it might in logic and politically be embarrassing to oppose. We could notify the United Nations that if certain courses, unacceptable to us, were proposed, we could not take part in them. But sooner or later we might well be faced with a choice of vetoing or "going along with" (by abstaining or voting in favour) a Security Council resolution prescribing unacceptable action.
I have the temerity to suggest for consideration a possible (but perhaps unattainable by negotiation with Smith) solution to the Rhodesian problem. It is a result of my consideration of this baffling question in the light of discussions I have held during the last several months with various authorities - African and otherwise - in West, East, Central and Southern Africa, excluding Rhodesia itself.

2. Before mentioning its main features (in paragraph 10 below) I should comment on certain relevant matters. In my telegram No. 21 sent from Rome on 29 June I wrote about NIBMR, saying that there is no chance of the African Governments in the Commonwealth (or a majority of other Commonwealth Governments for that matter) being persuaded in any circumstances to agree to a change in H.M.G.'s undertakings given at the last Commonwealth Conference that if the Smith regime in Rhodesia rejected the final offer then about to be made to it, the British Government would withdraw all previous proposals for a constitutional settlement, and "in particular would not thereafter be prepared to submit to the British Parliament any settlement which involves Independence before majority rule". This is a fact which we cannot ignore.

3. Perhaps I might make some further observations on it. In my judgment the significance of H.M.G.'s declaration of NIBMR has been exaggerated out of all proportion to its real importance by some newspaper and other commentaries in Britain and Rhodesia. For example, it is often suggested that when H.M.G. made their announcement of NIBMR this was something new - a radical change in the Government's policy. It was of course nothing of the kind. It merely stated specifically what had been virtually...
been virtually - though not absolutely - implied in the oft-repeated statements by both the present Labour and the previous Conservative Governments that any solution to the Rhodesian problem must be consistent with the Five (later Six) principles, including the Fifth. This Fifth Principle laid down that any settlement must be acceptable to the people of Rhodesia as a whole. Of course this matter could not be prejudged; if the Fifth Principle as such were still applicable, a decision as to what type of constitution would be acceptable to those people as a whole would have to be left to a Royal Commission - or some other appropriate means of making a fair and free test of their opinion - to judge in the circumstances of the time. It is possible that such a test would show that the people were ready to accept a constitution granting independence before majority rule - but that always has been, and still remains, unlikely in the extreme. Lord Alport's recent investigation of the situation in Rhodesia showed that this is certainly the position today. As Mr. Bowden told the Commonwealth High Commissioners at a meeting of the Commonwealth Sanctions Committee in July, Alport reported after his return to London that whereas the Europeans in Rhodesia were "overwhelmingly" behind Smith in rejecting NIMBR, "a large majority of the Africans, supported by the minority non-European communities, held the principle of NIMBR to be unassailable". If that is true now with Sithole, Nkomo and other Nationalist Leaders still locked-up, with no freedom of the press in Rhodesia, and with no active political campaigning permitted there, we must presume that this opinion would be greatly strengthened with those conditions all reversed during a fair and free test. It seems clear that Smith himself is fearful of this; for if he were as confident as he declares himself to be that the
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...be that the Rhodesian people as a whole really approve of independence being seized by or granted to a white minority government, he would welcome instead of opposing the appointment of an impartial Royal Commission to investigate the matter.

1. Therefore H.M.G.'s declaration of NIBMR almost certainly stated categorically what it had consistently announced in effect in the Fifth Principle. Moreover, if we were now to abandon NIBMR as such, and to return to the Fifth Principle, the change could be prevaricatory, and add to our difficulties rather than reducing them in Rhodesia. The modification of our undertaking to the Commonwealth Conference on this point might lead Smith and his rebel colleagues to assume that H.M.G. would be ready to accept the findings of some unfair and unfree test of the opinion of the people of Rhodesia as a whole - such as the judgment of the collective African Chiefs who are in the pay of the illegal regime. Smith and Co might therefore suppose that if they could re-negotiate with us a constitution of the "Tiger" type granting Independence before majority rule, they could count on H.M.G. submitting this to Parliament. And if a truly fair and free test afterwards showed that a majority of Rhodesians were opposed to that Constitution, and H.M.G. therefore refused to recommend it to Parliament, they would say we had acted dishonestly with them - and the last state in Rhodesia would be worse than the first.

5. Another misconception about NIBMR seems to be common in the press and some other quarters. It is often suggested that NIBMR is the major obstacle to an early agreement with Smith and his regime. This is not the case. The manner of their rejection of the comprehensive "Tiger" proposals demonstrated that - if NIBMR as such were to be abandoned -
The whole procedure for a return to legal government in Rhodesia is at least as great an obstacle to a settlement with them; and this has been confirmed by Alport’s study of the situation and by the more recent exchanges of messages with Smith. The members of the illegal regime are opposed to -

(a) giving up their powers to a legal broad based representative Government with whom H.M.G. would then negotiate a possible constitution;

(b) the appointment of a Royal Commission (or any alternative arrangement) to make a proper test of Rhodesian opinion as a whole on whatever constitution might be negotiated with that Government;

(c) the release of political detainees, the ending of censorship of the press, and the establishment of free constitutional political discussion and campaigning before the Royal Commission starts its work.

Probably there are other major obstacles to a settlement as well, such as the substance of the amendments which Smith told Alport that he and his colleagues wish to see made in the "Tiger" constitution. NIBMR is therefore far from being the only obstacle to agreement with Smith and Co in their present mood.

It sometimes even seems to be suggested in public comment that NIBMR is in any case a wrong policy. Again, this of course is not correct. I stated in paragraph 3 of my Savingram No. 21 the two important considerations - one of principle and the other of practice - which make the African Governments in the Commonwealth (and no doubt most of the other Commonwealth Governments too) feel strongly that NIBMR is right: and if we are honestly realistic we cannot disagree with them. First, ever since the white minority government in South Africa was granted
granted Independence more than fifty years ago, with many unfortunate consequences, it has been a fundamental principle of the Commonwealth that Independence should be granted only to previously dependent countries where the Government command the support of a majority of the population. Second, the practical results of that grant of Independence to a minority government in South Africa — such as the promulgation of the policy of "apartheid" and related acts — have destroyed any prospect of the African members of the Commonwealth consenting to Independence being yielded to a similar minority racist administration in Rhodesia. It is unbelievable that any guarantees of "uninterrupted progress to majority rule" which might be written into a Constitution granting Independence in the meantime to such a minority government in Rhodesia would be respected; those guarantees would probably not be worth the paper they were inscribed on in the hands of such obviously untrustworthy men as Ian Smith and many of his associates. The result of any such deal would therefore be that we abandoned the 4,000,000 black Africans in Rhodesia to a similar fate to that which has befallen their fellows in South Africa.

7. It is unthinkable that the Independent African Governments in the Commonwealth would ever agree to what they would regard as a gross betrayal of their fellow Africans in Rhodesia. If we were to raise any such possibility in a Commonwealth Conference they would therefore feel compelled to oppose it — and we would lose the support of our good friends among them like Kenyatta and half-a-dozen others as well as of our bitter critics like Kaunda. Moreover, the force of their case on this issue would undoubtedly gain them the support of a great majority of the other members of the Commonwealth, including not only the Asian and Caribbean but also the Canadian representatives.
representatives. If we then ignored the opinions of that majority, and proceeded to abandon NIBMR not only in breach of our undertaking given at the last Commonwealth Conference but also in defiance of our partners' freshly expressed views, this could deal a mortal blow to the Commonwealth.

8. I wrote in my "Supplementary Note on NIBMR" of 15 July (not circulated to all) that although there is no chance of getting our African partners in the Commonwealth to agree to an abandonment of NIBMR, it is not impossible that, if in a year or two's time our policy of economic sanctions were demonstrably not working sufficiently effectively to gain us an outright victory against the rebels, they might then be ready to acquiesce in such an abandonment — provided they were satisfied with our interpretation of the Fifth Principle.

On further reflection I do not think this thought is worth pursuing. The discussion of any suggestion on our part that NIBMR should be put aside would cause such bitter, suspicious argument that it would not be worth suffering unless we were to gain some substantial advantage in return. No possibility of that would exist. Presumably our proposal would be that the Fifth Principle should again be substituted for NIBMR; but, as I have pointed out above, there is in fact almost certainly no difference between the practical results of the one and the other. Moreover, to satisfy themselves that any acquiescence by them in the casting aside of NIBMR would be justified, the African members (no doubt supported by several others) would seek to insist of guarantees about the method to be employed for the implementation of the Fifth Principle which would ensure that no difference existed between the two.

9. I therefore think it would be a mistake to ask a Commonwealth Conference to reconsider this issue of NIBMR.
Then - if we should not contemplate modifying NIBMR, and if it is one of the present obstacles to agreement with the regime - is an honourable solution to the Rhodesian problem impossible of achievement? I suggest that it is not, and that at a later stage we might be able to secure a settlement based on the following major elements:

(i) no Independence before majority rule;
(ii) no majority rule before another ten or fifteen years; but a gradual, peaceful progress towards it throughout that period;
(iii) proper constitutional provisions to ensure that after the attainment of majority rule the white minority in Rhodesia has a just share in the country's government.

I understand from Mr. Bowden's public statements on the subject that the provisions of the "Tiger" constitution would have brought majority rule in 10 or 15 years. In that case, if this constitution were amended so that Independence came after the completion of the process instead of before it, the requirements in (i) and (ii) above could thereby be satisfied.

I believe such a settlement would be acceptable to:

(a) the British Government, Parliament and people;
(b) all the African Governments in the Commonwealth (and therefore also to the other Governments in the Commonwealth and to an overwhelming majority of the members of the United Nations);
(c) the Government of the Republic of South Africa (and so to the Portuguese authorities responsible for the administration of Mozambique and Angola).

The only question - and of course, a big and important question - is whether it could be made acceptable to the people of Rhodesia, both the whites and the blacks. If we persist firmly in our policy of enforcing the maximum practicable economic sanctions
(short of escalation against South Africa) and every other pressure against the rebel regime, this may not be impossible — provided we can gain discreet assistance from the Government in South Africa and of the African Governments in the Commonwealth in "selling it" to the white minority and the African majority there respectively.

2. If we stand by NIBMR without qualification, I feel fairly confident that at least a substantial majority of the African Governments in the Commonwealth would agree to a settlement on the lines suggested in paragraph 10 above. I think that such leaders as Kenyatta, Obote, Ankrah, Jawara, Banda, Seretse Khama and Jonathan would now accept that a transition period of 10 or perhaps even 15 years before majority rule would be reasonable; and I feel that this could be made agreeable to Nyerere. In that case Juxon-Smith and whoever is the Nigerian leader would presumably agree. Kaunda might wish for a shorter period of transition; but he would probably fall in with the views of such a large majority of his African colleagues. Of course, these African leaders could not expose themselves to the criticism they would face if they consented to a settlement which stated in specific public terms that majority rule would not be attained in Rhodesia for 10 or 15 years; but for other reasons it will in any case be better to avoid giving figures. A formula could be used to the effect that the new Constitution provided for a steady, uninterrupted advance to majority rule — and our Commonwealth African partners would know (and agree) privately that the constitutional provisions meant that in practice a transition period of 10 or 15 years would ensue.

3. I expect that the same solution would be acceptable on its merits to Mr. Vorster and his colleagues in the South African Government. It seems that they privately accept that majority
nis inevitable in Rhodesia at some time in the not very remote future. That being so, they are concerned to ensure if possible two things: first, that the period of transition is as long as is practicable; and second, - and very important to them - that during the interim period law and order prevail in Rhodesia. As regards the first, probably they would regard a period of 10 to 15 years as reasonably satisfactory in the face of present-day political circumstances. As regards the second, they might well welcome (and be ready to make concessions for) a settlement which carried the agreement of the African governments in the Commonwealth, because they would then hope that there was a good chance of those governments' influence being used to persuade the African Nationalists in Rhodesia to conduct themselves peacefully and constitutionally throughout the transition years. They must greatly fear that if (on the other hand) our Rhodesian settlement is unacceptable to those African Governments, many of them and their colleagues elsewhere in Africa, aided by the Communist powers, will do everything they can to stir up violence in Rhodesia - next door to the Republic. This must be a consideration of major, and perhaps decisive, importance to the South Africans, since they need a peaceful "buffer" state between them and the Independent African countries further north during the next several vital years whilst they are trying to develop a workable policy of reasonably neighbourly relations with those countries.

It would be of the greatest help if we could secure a Rhodesian settlement which is acceptable both to the Independent Black African Governments north of Rhodesia and to the white South African Government further south, because they might then give us real assistance in securing a favourable answer to the important question: can this solution be made acceptable to the Rhodesians themselves, both blacks and whites? As regards

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As four million Africans, I expect that initially the nationalists among them would demur at such a long period of trans-

NATIONALISTS to majority rule as 10 or 15 years. Nevertheless, if the African Governments in the Commonwealth regarded this as a reasonable proposal, they would exert their collective influence to persuade those Nationalists to agree; and I believe they would succeed. Most of them in any case feel critical of the Nationalists because of the present split in their movement between ZANU and ZAPU, and because of their refusal throughout the last several years to employ constitutional methods of political progress under the 1961 Constitution. Other recent events elsewhere in Africa have made many of them inclined in their hearts to be more realistic and less emotional than has sometimes been the case; and if we will take them into our confidence, and discuss the problem frankly with them as Commonwealth partners, I think we could get them into a mood to assert their views on those Rhodesian Nationalists.

5. Then what about the Europeans in Rhodesia? That is a more difficult situation. They are politically tough people who have declared illegal independence, and who have a very strong desire not to be forced to abandon it. Moreover, their obstinate attitude has naturally been further strengthened by the grim, unhappy events which they know are happening in some independent countries already under African majority rule - and they remain deliberately blind to the more encouraging developments in other such countries. Nevertheless, if we pursue economic sanctions and other pressures to a point where life becomes very uncomfortable indeed for them, a significant portion of them may be ready to change their minds. And if Mr. Vorster and his Government were then disposed to use their influence secretly with them in favour of the solution suggested in paragraph 10 above, this could be of decisive help. Such a
Jttlement would in any case give the white Rhodesians certain valuable assurances, and it would protect their interest as much as it is possible to do so in the face of the facts of the second half of the Twentieth Century - if only they would see an enlightened view of their own self-interests!

Perhaps it would be worth while discussing this problem and possible solution very informally and tentatively with Mr. Muller or Mr. Vorster and their advisers at some appropriate time in the near future. Our Ambassador in South Africa will be able to express a view on this; I am not competent to do so.

Recognise all the difficulties involved arising from the African Ministers' extreme reluctance - because of possible embarrassment to themselves in their own internal political situation in South Africa - to appear to be putting anything like pressure on the rebellious racialist regime in Rhodesia. Nevertheless, perhaps we could induce them to consider sympathetically our suggestion, and to try to exert their influence discreetly but effectively on the Rhodesians at some right moment. We could point out to them that this sort of settlement could establish a peaceful evolution of affairs in that land throughout the next several years, whereas a solution less satisfactory to the black African Governments further north could stimulate a growing resort to violence as the means of settling inter-racial problems throughout the African continent, with very grave results for South Africa.

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17. I am sending copies of this memorandum to our High Commissioners in Bathurat, Freetown, Accra, Lagos, Kampala, Nairobi, Lusaka, Zomba, Gaberones and Maseru, our Ambassadors in Pretoria and Washington, and our Representatives in the U.K. Mission in New York, Dar es Salaam and Salisbury.

Nairobi.
6 September, 1967

Malcolm Macdonald
Cabinet

Public Expenditure: Long-Term Financial Assistance for Overseas Students

Memorandum by the Chancellor of the Exchequer

My colleagues will recall that following decisions taken in November, 1966 (CC(66) 5 8th Conclusions, Minute 4) inviting further consideration of certain proposals for reducing public expenditure I approved increases in the fees of overseas students undertaking higher and further education courses in this country.

2. A number of short-term measures (including the setting up of a hardship fund) have been introduced to assist existing students. In addition, Her Majesty's Government is meeting the extra cost for both present and future students financed from Exchequer funds.

3. The Committee on Overseas Development has discussed the possibility of a longer-term scheme to help students not financed by Her Majesty's Government who will be embarking on courses of higher and further education here in the future. The general view of the Committee is that a scholarship scheme, estimated to cost £500,000 a year when in full operation, should be instituted.

4. Treasury Ministers are not opposed in principle to such a scheme although they cannot accept that it should be regarded as an interim arrangement with the possibility of future expansion.

5. However, it is proposed that the scheme should be financed by the provision of additional funds outside the aid ceiling. Treasury Ministers are opposed to this (and reserved their position in the Overseas Development Committee) on two grounds.

6. First, this is a form of aid. Assistance to overseas students is a recognised and well-established part of the existing aid programme. If we wish to do more in this way, we have to do less in others. The limitations we have to place on public expenditure programmes require this process of adjusting priorities and the future composition of the aid programme is not so rigidly predetermined as to rule out such an adjustment.

7. Second, we cannot afford a straightforward addition to the aid programme. The current exercise on public expenditure has already highlighted the difficulty of keeping down expenditure in 1970-71.
8. If agreement cannot be reached on the use of normal aid money an alternative arrangement would be to transfer an appropriate sum from the education block to the aid block. This would be on the basis that there would be no net increase in the total of the Votes and no encroachments on the estimated long-term saving of £5 million a year which was mentioned in the public announcement in December, 1966. For the purposes of illustration this would involve, in the case of the education block, a reduction of £500,000 in the agreed public expenditure survey figure for 1970-71 after adjustments have been made to accommodate the extra cost of the open university.

Recommendation

9. I invite my colleagues to agree with me that, if we proceed with the proposed scholarship scheme -

(a) The cost should be met from within the basic aid programme.

(b) Failing that, the money should be found by an appropriate transfer from the education block to the aid programme,

L. J. C.

Treasury Chambers, S.W.1,

18th October, 1967
AGE OF MAJORITY

Memorandum by the Lord Chancellor

At their meeting on 13th October the Home Affairs Committee invited me to submit to the Cabinet my proposals for implementing the Report of the Committee on the Age of Majority which was published last July (Cmnd. 3342) and which has attracted a good deal of attention. The Latey Committee, with my full approval, gave a wide interpretation to its terms of reference and dealt in its Report with most of the branches of the law by which special provision is made in regard to persons under 21, apart from the provisions of the criminal law and the voting age, which, strictly, is a matter for the Speaker's Conference. With the voting age is linked the lower age for liability to jury service, which the Home Affairs Committee agreed in 1965 should be reviewed if a change is made in the voting age.

2. On the major question, whether the age of full legal capacity should be reduced below 21, the Latey Committee was divided. The majority of nine, which included the Chairman, Mr. Justice Latey, recommended a reduction to 18 for all purposes other than those mentioned above. Two members of the Committee, however, thought that the age of majority should remain at 21 and that parental or court consent to marriage and the wardship jurisdiction of the Chancery Division should continue until that age, and that persons under 21 should be able to claim relief from harsh or oppressive contracts to which they had become parties. As regards the changes proposed in relation to persons under the age of 18 the Committee was unanimous.

3. The reasons of the majority of the Committee for recommending a reduction in the age of full legal responsibility to 18 rested on their belief that most young people today mature earlier than in the past and that by 18 most of them are ready to assume full responsibilities and would profit by doing so and that this would in its turn benefit the community as a whole. The views of the majority on this aspect of the enquiry are fully set out in Part I of the Report, which I hope my colleagues will agree is very readable. Although the minority of the Latey Committee disagreed with the majority on the general question of the age of full responsibility, they nevertheless agreed with them in thinking that young people over 18 should be able to acquire a legal estate in land and make wills disposing of their property. For all
practical purposes, therefore, the minority view was confined to the need for a person between the ages of 18 and 21 to obtain parental or court consent to marriage and the continuance of the wardship jurisdiction until 21, notwithstanding that the judges of the Chancery Division were unanimous in thinking that the age for this purpose should be reduced to 18.

4. The majority recommendation in favour of reducing the age of full responsibility to 18 has received a wide measure of support in the Press and elsewhere and the Home Affairs Committee was in favour of accepting it. My colleagues thought, however, that the Cabinet should have an opportunity of considering the matter, not only because of its general social importance but because of the repercussions which acceptance of the majority recommendation may have on the age for the Parliamentary franchise. I understand that this is a matter on which the Speaker's Conference is likely to report within a few months. The Government will be pressed to announce their views on the Latey recommendations when the Report is debated in Parliament in November (notice has already been given of a motion in the House of Lords) but I do not think that acceptance of the majority recommendation need embarrass us in regard to the voting age, although it may well strengthen our hand if we decide to reduce the age for that purpose to 18.

5. As I have said, the Latey Committee's recommendations as regards persons below the age of legal majority were unanimous. In the important field of infants' contracts, the Committee thought that the present state of the law was plainly unsatisfactory and ought to be reviewed by the Law Commission. For this purpose the Committee made a number of proposals for changes in the law which they thought that the Law Commission might usefully be invited to consider, and this is something which I should propose to invite the Commission to do as soon as an opportunity arises.

6. The Latey Committee made a number of recommendations about the powers of the High Court and the magistrates' courts when dealing with wardship and children's cases. (There is a summary of recommendations at page 126 of the Report.) They thought that, pending any more radical reorganisation of the family jurisdiction of the High Court, the Divorce Division should be given concurrent jurisdiction with the Chancery Division in wardship and adoption cases and those under the Guardianship of Infants Acts. I should like to see this recommendation implemented as soon as possible, as well as recommendations (18) and (22), which concern the further powers which the High Court ought to have in wardship and similar proceedings. But I do not think it would be appropriate to deal at present with the recommendations (19), (20), (21), (24) and (25) for giving wider powers to the magistrates' courts. So far as maintenance orders are concerned, these are matters which are already being considered by the Law Commission as part of their review of the law relating to financial relief in matrimonial proceedings, on which I hope it will be possible to legislate in the 1968-69 Session. Recommendation (21), about extending the powers of magistrates to make supervision orders, is a matter which would probably be better dealt with in the Children's Bill which I understand the Home Secretary is hoping to introduce in the same Session.
7. The Committee did not deal with the age (at present 21) above which it is not possible for a person to be adopted, but if the age of majority is to be reduced to 18 it would be anomalous not to make a corresponding change in the Adoption Act, 1958 so far as England and Wales are concerned. The Home Secretary agrees with this, but the Secretary of State for Scotland has not yet decided whether or not a similar change should be made for Scotland, to which the Adoption Act applies at present, but with which the Latey Committee was not concerned.

8. The Latey Report also contains some recommendations about boy entrants into the Armed Services to which effect can be given by regulations and which do not need legislation. These are now being considered by five of my colleagues who have been invited to report back to the Home Affairs Committee. The Recommendations (40) and (50) about reducing the age of majority for fiscal purposes, and about the need to amend section 36 of the Friendly Societies Act, 1896, are matters for the Treasury, by whom they are now being considered.

9. I hope, therefore, that the Cabinet will agree with the Home Affairs Committee that we ought to legislate as soon as possible to give effect to the majority recommendations of the Latey Committee.

G.

Lord Chancellor's Office, S.W.1,

20th October, 1967
Cabinet

Fuel Policy: Draft White Paper

Memorandum by the Minister of Power

I attach the draft of a White Paper on the Government’s fuel policy. This is designed to fulfil a twofold purpose. First, it is intended to describe our fuel policy as a whole, which was recently approved by Ministers, following the intensive interdepartmental examination of the issues involved which has been conducted over the last year or so. Second, it is to be regarded as the prospectus for the Coal Industry Bill which is to be introduced early in the new Session. This Bill will raise the National Coal Board’s borrowing limit and will seek Parliamentary authority for the new measures of short-term assistance to the coal industry which are described in paragraphs 117 and 126 to 129 of the draft White Paper. The Board’s present borrowing limit is expected to be reached by the end of this year. The Bill will therefore need to be law by Christmas; and, in order to allow time for it to pass through all its stages, the Bill and the White Paper will need to be published by about 13th November.

2. The draft White Paper has been revised in the light of discussion in the Steering Committee on Economic Policy. The Committee suggested that, having regard to the extent of our dependence on oil supplies from foreign sources, I should strengthen the point made in the draft White Paper that fuel policy would be kept under continuing review. I have now given this point greater prominence in paragraph 6 of the introductory chapter; and I would also invite my colleagues to note what is said in the final paragraph of all (paragraph 136).

3. My colleagues also asked for the omission of references formerly in paragraphs 80 and 91 to the presumptive case, in the longer term, for reducing the level of the oil tax; and for the rewording of the final sentence of paragraph 101 to say only that, subject to the re-examination of the security of oil supplies which is now in progress, no greater discrimination against oil should prove necessary. These changes, which I have agreed with the Foreign Secretary, have now been made, together with consequential amendments in paragraph 93 and in Paragraph 15 of Appendix I.

4. Explicit reference is now made in paragraph 81 to the criteria which the nationalised industries should adopt in pricing and investment policies, as set out in the forthcoming White Paper on the Economic and Financial Objectives of the Nationalised Industries.
5. A new paragraph (paragraph 125) has been included to describe the proposed measures of assistance for areas worst hit by colliery closures.

6. My colleagues suggested that a popular version of the White Paper should be prepared, as was done when the National Plan was published. Arrangements for this are in hand.

7. I invite my colleagues to approve the draft White Paper for publication in the week commencing 13th November.

R. W. M.

Ministry of Power, S.W.1.

23rd October, 1967
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<td>Manpower and investment requirements of the energy sector, 1966, 1970 and 1975</td>
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FUEL POLICY

PART I. INTRODUCTION

1. The discovery of natural gas in the North Sea is a major event in the evolution of Britain's energy supplies. It follows closely upon the coming of age of nuclear power as a potential major source of energy. Together, these two developments will lead to fundamental changes in the pattern of energy demand and supply in the coming years; and it is the prospect of these changes that has caused the Government to re-examine fuel policy. A review was needed, not to re-examine the policy objectives set out in the White Paper of October, 1965, (Cmd. 2798) which still stand, but to re-assess the balance between the available primary fuels (coal, oil, nuclear power, and natural gas), and to set the framework for the most beneficial development of our energy supplies.

2. Britain's primary fuel use is about 300 million tons of coal equivalent a year; by 1970 it may be about 310 million tons, and by 1975 about 350 million tons. A decade ago coal supplied 85 per cent. of our primary fuel, and oil most of the remainder. Today we are still basically a two-fuel economy but oil's share has grown to 37 per cent. of the total and coal's share has dropped to under 60 per cent.

CHART 1
PATTERN OF PRIMARY FUEL CONSUMPTION IN THE UNITED KINGDOM

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal</th>
<th>Oil</th>
<th>Natural Gas</th>
<th>Hydro-Electricity</th>
<th>Nuclear &amp; Hydro-Electricity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>84.9%</td>
<td>14.6%</td>
<td>0.5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>1966</td>
<td>58.7%</td>
<td>37.5%</td>
<td>4.8%</td>
<td>3.4%</td>
<td>0%</td>
</tr>
</tbody>
</table>

There is no shortage of either coal or oil in the ground, but whereas for coal we need not look beyond our own borders, for oil we are at present wholly dependent on foreign sources. This presents problems.

3. The pattern of availability and supply is changing. The quantity of natural gas already found in the North Sea is sufficient to replace town gas completely in the course of a few years and, at the right price, to bring about a major expansion of the market for gas. Nuclear power has emerged from its early experimental stage into a proven and increasingly competitive source of energy, with supplies of uranium and plutonium sufficiently assured to place no limitation on its further expansion within the foreseeable future. Though the predominance of coal and oil as primary fuel sources will con-
tinue for many years to come, they will in the future be competing for the market with nuclear power and natural gas. We are moving from a two-fuel to a four-fuel economy.

4. The Government’s aim is to see that our growing energy requirements are supplied in the way which yields the greatest benefit to the country. Policy for the fuel sector must therefore have regard to economic and social policy in other fields. In particular, the Government must ensure, through fuel policy, that national considerations which individual consumers do not take into account in choosing between competing fuels are given their due weight among the factors determining the pattern of fuel supply and demand. Such national considerations include security of supply, the efficient use of resources, the balance of payments, and the economic, social and human consequences of changes in the supply pattern.

5. In the fuel industries, as in other large modern industries, it is necessary to plan the provision of resources in plant, men and management years before there is any certain knowledge of what the conditions of supply and demand will be. These decisions concern not only the fuel industries themselves but also the Government, because of the important role that the fuel sector plays in the economy as a whole. More particularly, the Minister of Power (in the case of electricity in Scotland, the Secretary of State) has statutory responsibilities for the development plans of the nationalised fuel industries, whose annual capital investment is of the order of £1,000 million. By the nature of this investment, the decisions which must be taken in the next year or two will affect the energy pattern for many years ahead; for example, a new power station takes five or six years to build and may have a working life of thirty years or more. Forecasting based on economic analysis is, therefore, central to fuel policy, and for this review the Government have sought to establish the best possible quantitative basis. They have had to look not merely at the prospects for the next three or four years, but a decade or so beyond.

6. The fuel industries are undergoing rapid technological and economic changes, the results of which cannot at present be definitely assessed. The effect of external factors on the security of our supplies of imported fuel has also to be taken into account. The Government’s aim has been to lay down long-term policy guidelines which can be modified and adjusted in response to new developments and to provide a coherent framework within which specific decisions can be taken as the need for them arises. Within this context, future decisions need to be based on up-to-date information; there will be periodic revision of the relevant economic analyses and estimates in the light of changing circumstances; and the Government will keep policy under continuing review. Thus, if present forecasts prove wrong—as in some respects they certainly will—there is scope for adjustment from year to year.

7. It is the prospective balance between the primary fuels which is most affected by the major developments in the energy sector. They have direct and important implications for the present secondary fuel industries—electricity and gas—which are covered in this White Paper. But a number of other aspects of fuel policy mainly affecting the secondary fuel industries are being studied separately.
8. The White Paper is thus mainly concerned with policy for the primary fuels. Part II describes recent developments and assesses prospects for each of the four primary fuels in turn. Part III draws together and analyses these developments and sets out the Government's policy.

9. Throughout the review, the Minister of Power has been greatly assisted by the co-operation and advice of the managements of the fuel industries—the oil companies as well as the nationalised industries. In addition, the Minister has consulted his Energy Advisory Council, on which trade unions and industry generally are represented as well as the fuel industries.
PART II. RECENT DEVELOPMENTS AND THE PROSPECTS FOR THE 1970’s

2. NATURAL GAS

The Present Town Gas Industry

10. We possess a well-developed town gas industry which is already expanding fast under the impetus of major technological change in methods of gas production and improvement in gas appliances. Sales are increasing at a rate of nearly 10 per cent. a year and are expected to exceed 4,000 million therms this year. In recent years the traditional methods of making gas from coal have been rapidly superseded by oil-reforming processes and, by this year, planned gas production was about two-thirds from oil and only one-third from coal. This change was accepted by the Government on account of its important savings in cost.

11. Under the Continental Shelf Act, 1964, North Sea gas has to be offered to the gas industry if it is to be supplied for use as a fuel, so that the Gas Council and Area Gas Boards have the task of bringing this new primary fuel into use. Coming at a time of rapid expansion and technological change in the industry, it brings the prospect of even faster growth and change.

Discovery of North Sea Gas

12. Drilling for oil and gas in the United Kingdom sector of the North Sea began on 26th December, 1964, with a well on the Dogger Bank, and the progress since then has been impressive. Gas was first found by the British Petroleum Company Ltd. (B.P.) 45 miles east of the Humber in the autumn of 1965 and supplies from this find began to flow into the natural gas pipeline system in July, 1967. Four important gas fields have now been discovered (see map overleaf)—in some of the fields it may be that two or more separate gas reservoirs will be identifiable:

<table>
<thead>
<tr>
<th>Field</th>
<th>Groups</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Sole</td>
<td>B.P.</td>
<td>45 miles east of the Humber</td>
</tr>
<tr>
<td>Leman Bank</td>
<td>Shell/Esso, and Gas Council/Amoco</td>
<td>30 miles north-east of the Norfolk coast</td>
</tr>
<tr>
<td>Indefatigable</td>
<td>Gas Council/Amoco and Shell/Esso</td>
<td>55 miles north-east of the Norfolk coast</td>
</tr>
<tr>
<td>Hewett</td>
<td>Arpet and Phillips</td>
<td>15 miles north-east of the Norfolk coast</td>
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</tbody>
</table>

Gas has been found in other places but it remains to be seen whether these other discoveries are commercially exploitable. The search continues; up to the end of September, 1967, 54 exploration wells had been completed or were being drilled by 15 different licensees.

* Paragraph 77 of Cmnd. 2798.
13. It is not possible yet to make precise estimates of the gas reserves, but the recoverable reserves in the fields already discovered are roughly put at $25 \times 10^{12}$ cubic feet. This is enough to build up to a production rate of some 3,000 million cubic feet a day (m.c.f.d.) within five or six years and to continue at that level for perhaps fifteen years, thereafter gradually declining if no more gas is found. 3,000 m.c.f.d. is equivalent to about 11,000 million therms a year, nearly three times our present consumption of town gas. Experience in other parts of the world suggests that it would be most unusual if more gas were not found. The rate of discovery in the United Kingdom part of the North Sea so far has been very fast. For example, it was not until eleven years after the discovery of the first natural gas deposits in Holland in 1948 that the field at Groningen was found. A year later the reserves were officially estimated at $2.1 \times 10^{12}$ cubic feet. Only this year the official estimate of proved reserves there was increased from $3.9 \times 10^{12}$ cubic feet to $5.8 \times 10^{12}$ cubic feet. Though there can be no certainty as yet, it is a reasonable assumption for planning purposes that production from the United Kingdom part of the North Sea could reach 4,000 m.c.f.d. in 1975.

14. The Government's immediate objective has been that North Sea gas should be brought rapidly into use to enable the country to benefit as soon as possible from the advantages of this new indigenous primary fuel. Speedy use of the gas will also be an incentive to the exploration needed to extend our information about the size of the North Sea reserves. Planning and engineering work is going forward rapidly. But, particularly for the longer term, much more needs to be known before it will be possible to establish precisely the role to be played by natural gas in our energy supplies. It will take time to assess the ultimate reserves; the purchase price is still under negotiation between the Gas Council and the producers—the Government's view is that it should be fixed as low as possible consistent with encouraging exploration; and the scale and nature of the markets for gas inevitably depend to a large degree on the selling price. These are all key factors in the balancing of supply and demand for the gas, and because of the uncertainty about them the longer-term strategy for absorption must allow sufficient flexibility to accommodate fresh knowledge as it builds up. Considerable attention has already been given to the question of what absorption policy will bring the greatest benefit to the economy, though much of the analysis cannot yet be completed and only provisional conclusions can be reached. The following paragraphs outline the salient factors and estimates relevant to gas absorption as they are seen at present and indicate more precisely the nature of the problems to be resolved.

**Natural Gas and the Town Gas System**

15. Natural gas can be used to produce town gas, either by using it in place of oil products to enrich the lower calorific-value gas produced in the oil-reforming process or, with some modification of the reforming plant, as a reforming feedstock.* The natural gas imported from Algeria (about 100 m.c.f.d.) and the first supplies of North Sea gas have been used in both those ways. But in those overseas countries where natural gas is used

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* Natural gas has to be reformed in order to produce town gas because its calorific value (about 1,000 British Thermal Units per cubic foot) is about double that of town gas.
extensively,* it is not normally reformed into town gas but supplied direct to consumers.† In Great Britain the capital cost of converting the appliances of all the thirteen million gas consumers, over a period of ten years, will be about £400 million, equivalent to a present value‡ in 1968–69 of nearly £300 million. But conversion will make it unnecessary to build new gas-making plant to meet increases in demand and to replace existing plant; and with the higher calorific value of natural gas it will bring effective increases in the capacity of mains and storage. The present value of the cost of the new plant which would be required if the system were not converted, together with the running costs of reforming the natural gas, would be over £600 million. Thus conversion will reduce costs (at present value) by at least £300 million over the ten year period it will take; and with the cheaper supply system the cost advantages will continue. The Gas Council have estimated that, over thirty years, the present value of the difference (including savings from increased capacity) could be of the order of £1,400 million. The industry is, therefore, planning a phased programme of conversion of the town gas system to direct natural gas supply. About half the total cost of conversion will fall in the first five years.

16. Natural gas, produced and delivered on shore through sea-pipes by the producing companies, must be carried to the distribution networks. The Gas Council plan to supply natural gas to all Area Boards by 1970, and will provide a national gas transmission system for this purpose. The grid already built to carry Algerian natural gas will be absorbed into the national system and another 1,300 miles of pipe will be purchased and laid. The first of the new pipelines, from Easington in Yorkshire, where gas comes ashore from B.P.'s West Sole field, is already transmitting gas and the construction of a second line, to connect the shore terminal at Bacton in Norfolk to the existing natural gas pipeline, is in progress. Over the next five years, total expenditure on transmission and distribution will be close on £800 million.

The Market for Natural Gas

17. Sales of town gas last year were equivalent to about 1,000 m.c.f.d. of natural gas. In the traditional gas industry markets where gas, because it is clean and easy to control and needs no storage, can command a premium over an equivalent amount of heat from coal or oil, natural gas will take over. In its absence, gas users would want a continued supply of town gas made from other materials. This premium market is now made up of roughly 13 million domestic and commercial users, and about 80,000 industrial users. Sales to domestic users have grown by more than 12 per cent. a year on average in recent years, and they can be expected to continue to grow fast. Secondly, there are other markets, especially in industry, for uses in which town gas is not competitive, but where natural gas would command some premium over coal or oil, though less than for the first category. In these uses the alternative fuel to natural gas would normally be one of the light or

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* See the Annex to Appendix II.
† Appliances designed for town gas have to be converted before they can use natural gas.
‡ “Present value” is a concept used for comparing flows of money arising over different periods of time, using a rate of interest to discount future values to their present equivalent. In these calculations and others throughout the White Paper the rate of interest used was 8 per cent. unless otherwise stated.
middle oil distillates though coal has not yet been displaced entirely. Finally there are the uses (including much of the bulk industrial market) where, apart from any saving in handling and storage, natural gas may have little or no special advantage over fuel oil or coal and the price per therm is the main consideration.

18. Apart from fuel use, natural gas could be important to the chemical industry as a feedstock or raw material, mainly for the production of ammonia and methanol.

Balancing Supply and Demand

19. In looking at the prospects for natural gas, the Government are naturally concerned not only with the price advantage which gas may have over other fuels but also with the savings in real resources which are likely to be made when natural gas is used instead of another fuel. The Government’s studies* have suggested that the saving in resources from introducing natural gas is likely to be highest where it commands the greatest price premium. Hence resource savings are in general likely to be highest where natural gas is replacing manufactured gas, intermediate where it commands a moderate premium in price over oil, and lowest in the bulk industrial market. This is a conclusion of major significance in the development of a rational strategy for gas absorption. However, the price to the gas industry depends on the economics of natural gas production which favour a rapid build-up in supplies and a depletion period which is not too long. To confine supplies of the gas to premium markets means both a slower build-up and a longer depletion period, and the price to the gas industry is likely to be higher. In order to build up supplies quickly to the chosen depletion rate some gas would have to go to the bulk industrial market where, as stated above, the resource savings are likely to be lower. To some extent, therefore, these considerations pull in opposite directions.

20. Costs, and therefore prices and the development of markets, will also be affected by the load factor of the supplies. Supply considerations—both production and distribution—favour a high load factor so that the gas wells and other facilities that have to be provided to give sufficient capacity to meet the maximum demand shall be more fully utilised. The additional production costs involved in a lower load factor are likely to be reflected in the price paid for the gas, which will probably vary according to load factor. The gas industry’s present “system load factor”† is about 60 per cent. and has been declining. Although virtually all types of gas sales, whether domestic, commercial or industrial, have variable load factors, it is the space heating load, the fastest growing part of the domestic market, which accounts for a large part of winter peak demand. Of all town gas sales about 60 per cent. go at present to domestic consumers, about 25 per cent. to industry and the remaining 15 per cent. to commercial uses. Industrial consumers normally take gas at more constant rates throughout the year, and an increase in the proportion of industrial sales could raise the average load factor of the system. In a number of other countries some large industrial consumers, particularly power stations, are supplied on an interruptible basis and switch to other

* For a fuller exposition of the analysis, see Appendix II.
† The average weekly gas available during the year expressed as a percentage of the availability in the peak week nearest the end of the year or early in the following year.
fuels when demand for gas from other consumers increases. Such special contracts may provide for gas being used only during the summer months, so reducing the seasonal swing in demand; or they may provide that the supply may be cut off at short notice at any time when the peak load on the system requires supplies to be diverted to other consumers. The possibility of using such contracts depends, however, upon large quantities of gas being available at prices which would be sufficiently attractive to industrial consumers to enable them to accept the disadvantages of an interruptible supply. A preliminary study of possible seasonal use of gas at power stations has been carried out by the Gas Council and the Central Electricity Generating Board, and a trial conversion of one boiler at Hams Hall power station is being made. This station, which is coal-fired, was chosen because of its proximity to the existing natural gas transmission line; its selection implies no decision that natural gas used at power stations would necessarily displace coal.

21. Supply and demand can also be balanced by meeting peak demands with gas that has been put into storage when demand is low. The gas industry has always used gas holders to help meet short term variations in demand, but newer methods of storing natural gas in underground strata and in liquefied form enable much larger quantities to be stored. Experience abroad has shown that both these forms of storage are practicable and economic. The Gas Council are investigating possible sites for underground storage and are constructing at Canvey Island four frozen ground storages for liquefied natural gas, which may be supplemented by further units at other points on the pipeline system. Standby plant too can provide additional supplies of gas to meet peak demands and it may be economic to convert some of the present oil-based plant to manufacture gas interchangeable with natural gas. These various methods are not necessarily alternatives and can all be used in combination.

22. The rate of absorption of gas, the rate of depletion of gas fields, the rate of build-up and the load factor at which supplies can be accepted are all closely linked with the price at which natural gas can be purchased by the gas industry. The rate at which the gas can be absorbed will depend to a large extent on the price at which it is made available; a low price would make it possible to increase the speed of absorption and hence allow more rapid depletion of the fields. Conversely, higher prices would tend to be associated with a slower build-up and longer depletion periods. Again, the optimum method of load balancing will turn to some extent on the degree to which the purchase price varies with load factor. If the average price paid for supplies taken at a high load factor is substantially less than for supplies at a lower load factor this might make it economic to develop seasonal and interruptible business which would not be worth while if the differential were smaller.

23. To bring the gas into use and to convert appliances, very substantial amounts of capital will be needed, approaching £300 million a year over the next five years, and the capital charges on this new investment have to be met. For most consumers, it is likely to be some time before the full cost advantages of natural gas are reflected in prices. In some cases where bulk supplies can be made with relatively little new investment, particularly for loads in summer only, it should be possible to reflect the savings earlier.
One important point of principle that will affect prices to consumers has already been established—that is that the Gas Council, who will buy natural gas from the producers, will sell it to the Area Boards on the basis of a uniform tariff, subject to variations for the load factor. Prices to consumers will, however, continue to reflect differences in the Area Boards' distribution and other costs.

24. We are only at the start of the development of the North Sea gas fields and the uncertainties are too great for it yet to be possible to settle the long-term strategy on gas absorption. But we know already that the reserves are very substantial and this is the reason for the Government's decision to authorise construction of a nation-wide transmission system which will enable natural gas to be introduced rapidly and supplied to all parts of the country by 1970. The cost of this system and of the conversion of consumers' appliances will be considerable, but so will benefits to the economy in terms of foreign exchange savings and lower energy costs.
CHART 3
SALES OF ELECTRICITY AND GAS IN GREAT BRITAIN

THOUSAND MILLION KILOWATT HOURS

1957 58 59 60 61 62 63 64 65 66

ELECTRICITY SALES

GAS SALES
3. Electricity—Nuclear Power and Power Station Fuel Use

Demand

25. Electricity is essential for some uses but in the rest of its market it competes with other fuels. The competition will grow more intense with the coming of natural gas. Between 1953 and 1963 the rate of increase in electricity sales averaged 9.2 per cent. a year but it has since slackened off to an average of 5.4 per cent. a year. Last year, with the check to industrial activity, the increase over the previous year was only 3.9 per cent. For the years ahead up to 1975 the average rate of increase is likely to be rather higher than in the last year or two, though well below the average growth rate for 1953–1963.

26. The industry must provide sufficient capacity to meet the maximum demand of all consumers at any one time; and to cope with plant out of service, errors in forecasting, and abnormally bad weather, the Government authorise capital expenditure by the generating Boards to provide a margin of generating plant of about 17 per cent. above the maximum demand expected in average cold weather. To provide the generating plant and other equipment required to meet the growth of load, heavy capital expenditure is necessary; in recent years the industry's total capital expenditure has averaged £480 million on generation and transmission and £200 million on distribution. The industry's plans are based on the maximum demand in Great Britain reaching 61,000 megawatts (MW) by 1972–73, compared with a maximum demand of 39,991 MW to date. A total of 35,000 MW of plant is under construction; of this 25,000 MW will be coal-fired, 6,000 MW oil and dual-fired (i.e., coal or oil), and 4,000 MW nuclear.

The Generating Programme

27. The pattern of fuel use by the industry can change only slowly as new plant is introduced and, because it takes five years or more to build and commission a new unit of generating plant, the pattern is already largely fixed as far ahead as the 1970's. The only means of affecting it substantially during the next few years would be by giving one fuel special preference over others by adjustment of the operation of the power stations (coal has had special preference of this kind over oil since 1965) or by converting conventional stations from one fuel to another.

28. Most of the 25,000 MW of coal-fired generating plant now under construction, almost all of which was committed before 1965, is sited on the East Midlands and Yorkshire low-cost coalfields so as to reduce the delivered cost of coal to the minimum. The bulk of the plant was planned in conjunction with a large north-to-south transmission capacity through the 400 kilovolt grid, and when the new stations now building are commissioned there will be sufficient generating capacity in the Midlands and South Yorkshire to load the transmission capacity fully. Further concentration of generating plant in this part of the country would require additional transmission which, in addition to its cost, would raise questions of amenity. This need would be avoided by siting future power stations in the general area of the demand they are to meet.
CHART 5

OUTPUT CAPACITY OF PUBLIC ELECTRICITY SUPPLY INDUSTRY IN GREAT BRITAIN

END 1966

- NUCLEAR 2,800 MW
- OIL & DUAL FIRED 5,300 MW
- COAL FIRED 31,700 MW
- OTHER 3,200 MW

TOTAL 43,000 MW

END 1972

- NUCLEAR 6,000 MW
- OIL & DUAL FIRED 10,000 MW
- COAL FIRED 53,000 MW
- OTHER 4,000 MW

TOTAL 73,000 MW
29. The 6,000 MW of new oil-fired and dual-fired plant is being built at sites close to oil refineries. The cost of generation at these stations, with oil tax at the current rate of 2.2d. a gallon, is expected to be below that of contemporary coal-fired stations. Policy in the last few years has been to limit new oil-fired stations to sites where they show exceptional cost advantage and not to allow the conversion of coal-fired stations to oil unless there were very special reasons, such as to stop serious air pollution.

30. The first nuclear power programme has given the electricity supply and plant manufacturing industries valuable practical experience in designing, building and operating nuclear power stations. All but two of the stations in the programme are completed; their total capacity of 3,300 MW represents two-thirds of the programmed total of some 5,000 MW due for completion by 1969. All these stations are of the Magnox type, which has been thoroughly proved by operational experience, and reactors commissioned so far have shown a high reliability. The earlier stations in the programme have not been competitive with contemporary conventional stations, but there has been a steady fall in construction costs from £185 per kilowatt for Berkeley, one of the two stations commissioned in 1962, to an estimated cost of £108 per kilowatt for Wylfa, which is due to commission in 1969. The thermal efficiency of Wylfa is expected to be 31.5 per cent compared with 25 per cent for Berkeley. As a result of these advances the later stations in the programme will be competitive with contemporary coal-fired stations for the supply of base load electricity in the parts of the country where they are situated, away from the coalfields.

31. Under the second nuclear power programme, tenders were received in 1965 by the Central Electricity Generating Board for a power station to be built at Dungeness (Dungeness “B”) using the Advanced Gas Cooled Reactor (AGR), which suggested that stations of this type would generate electricity more cheaply than even the most favourably-sited contemporary coal-fired stations. The Government decided that, for planning purposes, it should be assumed that on average about one nuclear power station a year would be commissioned from 1970 to 1975, giving a total for the second nuclear programme of about 8,000 MW by 1975. The programme was intended to be flexible and was framed in the context of electricity demand forecasts for the period which were higher than the present ones.

Comparison between Conventional and Nuclear Stations

32. Since 1965, the Central Electricity Generating Board and the South of Scotland Electricity Board have received tenders for AGR stations at Hinkley Point and Hunterston which confirm the downward trend of nuclear costs; and there has also been a very considerable increase in the rate of ordering of nuclear power stations in the United States. Accordingly, a fresh and detailed examination of the economics of the second nuclear power programme and of nuclear costs in the longer term has been undertaken; the detailed results are given in Appendix III. The examination broadly confirms the prospects held out in 1965. Total generating costs at each of the first two AGR stations are expected to be lower than the estimated costs* both for Drax (near the Yorkshire coalfield), the latest

* At coal and oil prices ruling in May, 1967.
coal-fired station being built, and for the oil-fired station under construction at Pembroke. Further considerable reductions in nuclear costs are confidently expected for the period after 1975 from further developments in the AGR system. There is also the fast reactor which will be able to use for fuel the plutonium and spent uranium from the thermal reactors of the first and second programmes. Following extensive and successful operation of the experimental fast reactor at power outputs of up to 14 MW, a fast reactor on a commercial scale (250 MW) is being built by the Atomic Energy Authority at Dounreay and is expected to be completed in the early 1970's. Assuming progress is maintained, it should be practicable to incorporate large fast reactors in the nuclear power programme for stations to be commissioned towards the end of the 1970's.

33. The choice between nuclear and conventional generation rests mainly on estimates of the advance of nuclear technology on the one hand and of the future movements in the cost of conventional fuels on the other. No commercial scale AGR is yet completed and operating, and in a young technology the risk of disappointment must exist. On the other hand experience with the Magnox stations has been reassuring; indeed the later ones may well do better than forecast. Ample design margins are included in the AGR stations now being built or committed, and the scope for development in later stations should be considerable. The construction costs of AGR stations commissioned in the later 1970's are expected to be little greater than those of conventional stations. The possibility of reducing nuclear construction costs more rapidly is being intensively studied.

34. Conventional stations have much higher fuel costs than nuclear stations: operating on base load, the relative proportion of fuel costs to total generating costs is two-thirds at conventional stations and only one-fifth at nuclear stations. There are uncertainties about the future trend of fuel prices; the influences bearing on these are examined in other sections of this White Paper. Moreover, apart from straight comparisons of costs of generation, other considerations must be taken into account by the industry in assessing the merits of adding one type of station rather than another to the system. Nuclear power stations cause no air pollution. They can be sited near areas of consumption without affecting the cost of generation, and so there is less need for additional high voltage transmission lines. A regular sequence of new nuclear stations is desirable if the full development potential of this new technology is to be realised.

Generation from Natural Gas

35. Natural gas can be used for electricity generation and a particular possibility is its use in the summer only. In this way, supplies to power stations would take up some of the summer "valley" in the gas load curve caused by the very seasonal demand for gas for heating purposes (though this, of course, has implications for the load factor of the supply of other fuels for electricity generation). Obviously such schemes are likely to show the greatest advantage at power stations where a pipeline runs nearby. No decisions are possible at this stage but, as mentioned in paragraph 20, a small pilot-scale conversion of one boiler is being undertaken at Hams Hall power station to gain cost and operating experience as a guide to policy.
Future Fuelling Plans

36. The electricity industry takes over 30 per cent. of all primary fuel used; decisions about power station fuelling are thus of special importance for fuel policy. Chart 6 opposite shows the industry's use of primary fuels over the past decade. The coal-fired stations now in operation or under construction mean that large quantities of coal will continue to be needed throughout the 1970's and beyond. But with three main primary fuels, coal, oil and nuclear (together with some hydro-power—mainly in Scotland), and the prospect of adding natural gas, the aim of the industry is to achieve a more balanced pattern of generation; in this way the Boards seek to minimise their costs and to safeguard the system by spreading their risks between the different fuels and different technologies available. With the relative cost figures quoted in Appendix III, and the present preponderance of conventional stations, nuclear stations will predominate in new capacity planned for the coming years but there will continue to be scope for some new conventional stations at specially favourable sites.
Chart 6
Fuel used for the production of electricity in the United Kingdom (primary fuel input basis)
4. Oil

Demand

37. Oil at present provides about 37 per cent. of Britain's total energy requirements, as against some 15 per cent. ten years ago. The average annual growth rate for oil supplies over this period was 11\(\frac{1}{2}\) per cent., but in the most recent three years it dropped to 9\(\frac{1}{2}\) per cent. a year. Chart 7 shows the growth of sales in the more important sectors of consumption. Between 1955 and 1960 growth in oil use was dominated by expansion in fuel oil which rose from around a quarter of the total to nearly a half. Since 1960 fuel oil use has continued to rise but its proportion of the total has stabilised. Between 1960 and 1966 the most striking growth in oil use was of naphtha for the gas and chemical industries. The use of motor spirit has risen continuously.

38. In the future the rate of growth in fuel oil and other heavy oils is expected to slacken as a result of competition from other fuels, notably natural gas and nuclear power. Naphtha used by the gas industry will be the first product to be displaced by natural gas, and natural gas may also displace naphtha for the manufacture of some chemicals; as a result the proportion of total oil use represented by naphtha is unlikely to continue its rise in the longer term. Natural gas may also displace other oil products from the premium and bulk industrial markets.

39. Oil has no substitute for some purposes—particularly for road and air transport—and it is noteworthy that such uses, together with refinery fuel, currently make up about 40 per cent. of the total demand. In the sectors competitive with other fuels, oil has gained its markets mainly at the expense of coal, through its convenience and cheapness, despite the tax of 2d. a gallon (now 2.2d. a gallon or approximately £2.2 a ton) imposed in 1961. Over the last ten years there has been a substantial decline, in real terms, in the pre-tax price of fuel oil in the United Kingdom, largely as a result of economies made by the companies in their downstream operations.

40. In the course of the present review, the Government have re-examined the likely development of home refining capacity, the availability of the various oil products, the adequacy and security of oil supplies, the balance of payments implications, and the future competitive position of oil.

Home Oil Policy

41. Successive Governments since the War have pursued a policy of encouraging home refining largely for balance of payments reasons so that the cost of refining is incurred within this country instead of abroad. This policy also stimulates secondary and associated industries such as petro-chemicals, adds to security because it is easier to switch sources of crude oil than sources of products, and gives rise to substantial inflows of foreign capital for refinery construction. It also enables advantage to be taken of the increase in the size of tankers, which for crude oil are much larger than tankers built to carry products.

42. There will always be trade in oil products between countries as well as between companies, in order to balance the requirements of markets with the output of particular products from refineries and the yields of different
Chart 7
Inland deliveries of oil for energy consumption in the United Kingdom by sectors.

TRANSPORT

DOMESTIC

GASWORKS

INDUSTRY

POWER STATIONS

OTHER
crude oils; this exchange produces a more economic supply pattern than could be achieved by complete self-sufficiency. The Government's objective has therefore been that home refining should suffice to cover inland demand and bunkers in total, with marginal product imports balanced by exports; it was expected that the proceeds of the product exports would generally be more than sufficient to cover the cost of imports. Owing to commissioning delays and other difficulties with new refinery capacity, progress towards achieving this objective has been slower than had been hoped (see Chart 8 opposite). As a result, net product imports in 1966 were little lower than in 1965, the peak year since the immediate post-war period. However, firm plans known to the Government should take refinery capacity in 1970 to at least an annual rate of 110 million tons (about 102 million tons of output), sufficient to allow of some net exports.

43. The Government encourage companies to build refineries either alone or in combination with others as soon as their share of the United Kingdom market and their prospects for exports justify it. The development of further plans will depend on the companies' assessment of the market prospects for oil both in total and by sector, but even on the present plans the capacity for net exports of products should be maintained well beyond 1970. Refineries now under construction or planned (other than those of a specialist nature) range in size from 3 to 6 million tons annual capacity and are large enough to take advantage of the important economies of scale in refinery construction and operation.

44. One of the new refineries now under construction is designed to produce electro-grade petroleum coke for the first time in the United Kingdom, with significant import saving and export potential. The United Kingdom oil industry already supplies its products for use other than as a fuel to important and technologically progressive industries, notably the petrochemicals industry with its own very wide variety of products. Thus oil is an integral part of many aspects of modern life and is used, for example, to make the synthetic fibres used in textiles, most types of plastics, detergents, paints, synthetic rubbers, pesticides, weedkillers and fertilisers; and for lubricants and road making (with bitumen). The oil industry spends heavily on research into the various possible uses for oil products, and has substantial investment in industries such as petrochemicals. The value of oil to the economy, therefore, goes far beyond its use as a fuel, important though that is.

45. In the future, the demand for oil is not expected to grow at the same rate as in the recent past. Moreover, changes are expected in the market pattern and in the pattern of products imported and exported. Fuel oil, motor spirit and naphtha for the gas and chemical industries are the main imported products at present and middle distillates are our main net exports (lubricating oils are, by value, an important net export also). With the growth in refining capacity and changes in both the overall rate of expansion in oil use and the proportions of the various oil products, the net import of fuel oil, which is already falling, should turn into a net export, and the net imports of motor spirit and naphtha should decline to relatively small amounts. The likelihood is that, over the period under review, fuel oil and middle distillates will continue to be available for
CHART 8
UNITED KINGDOM OIL REFINERY CAPACITY AND OUTPUT, INLAND DELIVERIES AND BUNKERS, IMPORTS AND EXPORTS OF REFINED PRODUCTS

MILLION TONS OF OIL

1957 58 59 60 61 62 63 64 65 66

+20 +10 + -10 -20
export. But for these prospects to be realised markets will need to be found and this may not prove easy, since other countries pursue home-refining policies similar to our own.

46. The changes in market pattern could give rise to problems of refinery balance for which oil companies may have to seek solutions in various ways—by investment in additional cracking plant, varying the type of crude oil used, exporting more of the surplus products or cutting refinery runs (which would involve importing products no longer made). In general, however, the studies made of possible export outlets and of the likely impact of natural gas suggest that the problems of refinery balance will be manageable.

Adequacy and Security of Supplies

47. The Arab-Israeli war and its consequences, combined with the civil war in Nigeria, have been a sharp reminder of the long-standing problem of security of supply. A wider question sometimes posed is whether world oil reserves are adequate. There is certainly oil in the ground to meet the world's demand well beyond the period under review, and the danger is rather one of being denied normal supplies by political or other events outside the control of the industry or the Government. In the longer term this danger is limited by the fact that producing countries are at least as dependent on trade in oil as we are ourselves. But war or civil strife may cause interruptions, and production or exports may be stopped for political reasons or in the attempt to gain a sharp increase in unit revenue, even though this might affect the long-term growth of outlets for oil. Statistical exercises are undertaken regularly to test the country's ability to survive interruptions of varying severity and duration.

48. The problem is to weigh against the risks of interruption the costs of the measures necessary to reduce or eliminate them. There are several ways by which the risk of disruption is reduced without denying the country the benefit of the cheaper oil sources. Nearly all our supplies come from companies which can draw upon a wide variety of sources and have very flexible supply arrangements, and which own or operate on charter much of the world's tanker effect. Supplies can therefore be re-organised with speed and efficiency in the event of an interruption. Over the past ten years a great deal has been done to diversify the sources of our supplies. The Middle East, which provided over three-quarters of Britain's oil ten years ago, now provides only about half in normal times, though the proportion from Arab countries remains high. A number of completely new sources have been developed of which Libya, Nigeria and, in the Middle East, Abu Dhabi are the most important.

Contingency Measures

49. The United Kingdom's ability—and that of other consuming countries—to ride out an interruption of our supplies helps to deter producing countries from withholding their oil. A number of contingency measures are available to help overcome interruptions in oil supplies. For example, if one source is denied to us, emergency arrangements can be made to step up production from others. Also, in normal times, the world tanker fleet is not used to full capacity for carrying oil; the resulting reserve helps to
meet transit crises such as closure of the Suez Canal or the Levant oil pipelines. But the most important contingency measure is the possession of stocks of oil in the consuming country. The companies supplying this country have agreed with the Government to hold sizeable stocks in addition to their normal commercial requirements. The stock targets, which are confidential, are designed to enable the United Kingdom to resist the denial of a large part of her supplies for a considerable period. It was because of this stockpiling policy that we were able to weather the serious initial dislocation to supplies earlier this year.

50. Current policies have therefore been put to the test. Nevertheless, the Government are making a far-reaching re-examination of ways in which the security of the country’s oil supplies might be further strengthened. The review will consider the reliability of the sources from which the United Kingdom is normally supplied and ways in which supply might be further diversified, including the possible development, necessarily long-term, of the vast reserves of oil locked in non-conventional sources such as the Western Hemisphere oilsands and shales. It will examine the adequacy of stock levels, and the development of tanker capacity, bearing in mind that the very large tankers now being built will not only yield notable cost savings but also reduce Britain’s dependence on the Suez Canal, which they are not designed to use when fully laden. In many of these measures, the interests of the Government and those of the oil companies coincide. The cost of any further measures will have to be weighed carefully against their effectiveness and the risks of further interruptions.

Balance of Payments

51. Oil imports cost this country substantial sums of foreign exchange, and the Government consult the oil companies about ways to minimise these costs. In 1965, it is estimated that the net delivered cost of oil to the balance of payments was about £300 million, or about £4.1 per ton of oil retained in the United Kingdom (that is, after taking credit for the value of oil exports). This is considerably less than the c.i.f. value of the oil, as shown in the Trade Accounts, which was about £500 million (after deducting exports of over £100 million). The difference is accounted for by the use of British tankers, inward investment by foreign companies, and, in the case of British companies, items such as the costs of headquarters, research and other services and the companies’ profit margin, all of which arise in or accrue to the United Kingdom. In addition, overseas oil business brings further benefits to the balance of payments. Although the overseas earnings—both profits and earnings from services—of British oil companies from producing and selling oil elsewhere are now lower in proportion to assets than a decade ago, they are still a major contribution to the balance of payments. Other overseas oil business is also carried on through London. The total net benefit to the balance of payments from all this overseas business is estimated in 1965 to have been around £200 million, including exports of capital equipment.

52. The estimated foreign exchange cost of United Kingdom imports in 1965 of £4.1 per ton is an average for all retained imports, both crude oil and products. It is important to assess the foreign exchange content of those products which compete with other fuels, though the allocation of foreign
exchange costs between the various joint products of the refinery process involves some arbitrary assumptions. Studies of individual products have been made which indicate that in the case of fuel oil (the principal product concerned) the foreign exchange content of home refined fuel oil in 1965 was, on average, around £2·6 per ton, and of imported fuel oil around £4·6 per ton, an average of just over £3·0 per ton for all supplies of fuel oil. The balance of payments implications are further discussed in paragraph 80 and in Chapter 7 below.

**Future Costs**

53. It is difficult to predict the course of oil prices. There are a number of reasons for expecting them not to increase. The industry is continually searching for ways of cutting costs, as for instance by the use of very large crude oil tankers to reduce freight charges and increase flexibility and security of supply. Competition is strong both between companies and between sources of supply, and the surplus of crude oil seems likely to persist for many years despite the expansion in world demand. Here and elsewhere oil will be up against increasingly strong competition from natural gas and nuclear power. On the evidence available, it seems likely that oil will remain competitive with coal, and that pressure to force up crude oil prices will be held in check by the danger of loss of markets.
5. Coal

54. The principal purpose of the measures which the Government took in 1965 to assist the coal industry was to improve its competitive strength by supporting its reorganisation and concentration on the most efficient collieries. In a capital reconstruction, £415 million was written off the debt of the National Coal Board, in large part to take account of a revised assessment of the value of the industry’s capital assets. The industry was also to be supported during the period of reorganisation by various measures of protection and other help, including maintenance for the time being of the oil tax and the virtual ban on coal imports, as well as by discrimination against the use of oil at power stations and in public buildings. Even so, the Government took the view that it would not be prudent to count on a coal market in 1970 above the range of 170 to 180 million tons, including exports.

Demand

55. In spite of this support and the vigorous marketing efforts of the National Coal Board, coal demand has declined so fast that it is below the bottom end of that range already. During the year ended September, 1966, inland consumption and exports fell by 10 million tons, and in the last twelve months they have fallen by a further 12 million tons. As a result, consumption and exports during the current calendar year are expected to be about 165 million tons. This compares with a total of 188 million tons in 1965 and 177 million tons in 1966. The fall in demand is not confined to any one group of consumers: all groups are taking less coal.

56. This is not a peculiarly British problem but is shared by coal producers in the European Coal and Steel Community, who have had to face competition not only from other fuels, but also from imports of coal from the United States of America and Eastern Europe, which are at present running at a rate of 25 million tons a year. In Western Germany, internal demand for coal in 1966 fell by nearly 13 million tons to 116 million tons. In the much smaller coal industries of France, Belgium and the Netherlands, where the combined demand in 1965 was 101 million tons, consumption fell in 1966 by 7 million tons. In the countries of the European Coal and Steel Community as a whole, colliery stocks almost doubled between 1964 and 1966 to a total of 31 million tons, and by June, 1967, had risen to 36 million tons. No useful comparison can be made with the coal industry in the United States, where geological conditions are so much more favourable that production techniques can be used which enable a miner to produce many times more coal a year than in this country, and pithead prices are less than half those at British mines.

Modernisation

57. The National Coal Board have continued their work in modernising the getting of coal by mechanisation and the use of new techniques. The percentage of output power-loaded* rose from 75 per cent. in 1965 to 86 per cent. in 1966-67 and is now over 88 per cent. Many more powered roof supports, which reduce the amount of labour required at the coal face, are being installed. In March, 1966, they were used on only 27 per cent. of

* For an explanation of technical terms, see Appendix IV.
CHART 9
INLAND COAL CONSUMPTION BY SECTORS AND EXPORTS FROM THE UNITED KINGDOM
the mechanised faces; now they are used on 42 per cent. A major research and development effort is being devoted to the design of machines to eliminate the need for men to cut stable-holes at the end of faces for the coal-cutting machines. These and other technical advances are discussed in Appendix IV. Despite this progress, and the corresponding decline in wages and associated costs relative to total costs (from 54 per cent. to 51 per cent. over the last two years), the coal industry, alone of the fuel industries, remains labour-intensive and has a relatively low capitalisation.

58. The National Coal Board's objective is to develop means of production which are not only highly mechanised but operate largely by remote control, so that much of the labour force will eventually consist of highly skilled technicians; in this objective the Board have the full support of the unions in the industry. The advanced experimental colliery at Bevercotes has started production and the Board intend that these new methods of mining, adapted in the light of experience, and with due regard to costs, shall be progressively applied to the majority of collieries so that in the 1970's they become the normal method of coal production.

Reduction in Number of Collieries

59. The number of collieries continues to diminish. It has long been the Board's policy to close each year a number of collieries where working has become grossly uneconomic, as well as those where the coal is exhausted. In continuation of this policy 38 collieries were closed in 1964-65, 53 in 1965-66, and 46 in 1966-67. Most of the closures have occurred in the older coalfields in Scotland, the North-East, the North-West and South Wales. At the present time the number of collieries operating is about 420.

Productivity

60. Productivity, expressed as output per manshift overall, was 34-8 cwts. in 1964-65, 36-1 cwts. in 1965-66, and 36-6 cwts. in 1966-67. So far this year the seasonally corrected figure has been about 38-0 cwts. Difficulty in maintaining manpower in competition with other industries, particularly in the profitable Midlands coalfields, led to many collieries being under-manned in 1966 and contributed to the failure in that year to make any significant increase in productivity.

61. The benefits of mining by remote control can be obtained only gradually and are not likely to make a substantial contribution to increases in productivity in the next three or four years. It is from methods which have already been proved, like the powered support, and from the concentration of output upon well-equipped collieries with good natural conditions, that the main contribution to higher productivity is to be looked for during this period. The process of concentration has now been going on for many years but there are still substantial benefits to be achieved. In 1966-67 the output per manshift overall of the industry's 300 collieries with the highest productivity was 42-0 cwts., and of the 250 collieries with the highest productivity, 43-6 cwts. These figures are 15 per cent. and 19 per cent. respectively above the average output for all collieries. The best twenty collieries had an average output per manshift overall of about 70 cwts., while for the worst twenty the figure was only 18 cwts. A significant improvement in the
Chart 10
Coal: Manpower and Productivity

COAL: Total Colliery Manpower

Annual Average

Thousands

1957 58 59 60 61 62 63 64 65 66

COAL: Output per Manshift

CWTS.

1957 58 59 60 61 62 63 64 65 66

industry’s overall productivity is therefore realisable simply from further concentration of output on the better collieries. The Board consider that it should be technically possible to obtain by 1970–71 an increase in labour productivity of about a third on the 1966–67 level, and they look to an increase to two or even three times the 1966–67 level by 1980. However technically promising the new technical developments may be, a big increase in productivity can only be achieved by the co-operation of management and miners in adopting new methods and in concentrating output upon the best collieries. It will depend no less upon the industry’s ability to obtain the labour it needs to man the best collieries.

Costs

62. The rise in productivity has not so far been sufficient to offset the extra costs imposed by lower total production (with consequent narrower spread of overheads), by shortages of manpower for a substantial period at many of the best collieries, and by the general upward movement of wages and material costs. The average cost of coal per ton (before interest) rose by 4-6 per cent. between 1964–65 and 1965–66, and by 6-4 per cent. between 1965–66 and 1966–67, notwithstanding increases in productivity of 3-7 per cent. and 1-4 per cent. in these years. This indicates the magnitude of the task facing the Board if they are to achieve their declared aim of reducing costs in the coming years, so as to improve their competitive position.

Manpower

63. The number of men on colliery books fell by 28,000 in 1964–65, by 41,000 in 1965–66, and by 26,500 in 1966–67. At present it is about 395,000. The fall in manpower, which has been going on for ten years, has inevitably occurred principally in the older coalfields, most of which are now included in development areas. It has in the main been a carefully controlled reduction. It reflects both the increase that has been taking place in productivity and the decline in production. As productivity rises, fewer men are needed for the same output. On this account alone, without any further fall in the current level of coal demand, an increase of a third on the 1966–67 rate of productivity would lead to a reduction of about 105,000 in the number of miners by 1970–71—about 26,000 a year. This compares with an average decline of about 30,000 a year over the last decade. The total manpower reduction that will be necessary in future years depends also on the size of the market for coal. The more successful the industry is in improving productivity and reducing costs, the greater will be its chances of holding its markets; the less successful, the faster the switch to other fuels.

64. So far, manpower reductions have been achieved largely through natural wastage. Normally when a colliery is closed the National Coal Board have offered the men employment at other collieries within daily travelling distance or helped them to move to the Midlands coalfields. Unemployment among miners at 1-0 per cent. in 1964–65, 1-0 per cent. in 1965–66, and 1-3 per cent. in 1966–67 was in each year below the national average. In the last twenty years coalmining has had plenty of men at times of relatively high unemployment and, not surprisingly, has been short at times when other employment was easy to find. The industry needs a continuing recruitment of juveniles and young men to maintain the balance.
of its labour force, even at a time when it is reducing its total manpower. The rundown in mining employment does not create a new problem, but may aggravate an existing one in those places where other jobs are already harder to come by than elsewhere. As in the past, many of the colliery closures will occur in development areas where alternative jobs are relatively fewer. In some localities there will be difficulties to be overcome in avoiding hardship among the elderly and disabled. As the number of collieries falls it becomes more difficult to find suitable work for these men without unreasonable travelling.

**Open cast Production**

65. Opencast production has continued to supplement deep-mined production, to the extent of about 7 million tons a year in the last three years. Much of the coal produced in this way is general-purpose bituminous coal comparable to the ordinary output from deep mines, and goes to power stations, but some special qualities of coal are produced which are in short supply in particular places. It is cheaper to produce coal by opencast than in deep mines. In 1966-67 the average costs per ton, before interest, were 80s. 7d. and 98s. 5d. respectively. The Board consider that, with the use of bigger machines at large sites, there should be scope for reductions in cost and that opencast coal should continue to be produced much more cheaply than coal from deep mines. This method of working can, however, cause temporary damage to local amenities. Through screening opencast sites by the erection of embankments and the planting of semi-mature trees, the disturbance caused to local people has been reduced and the Board are working closely with local authorities, in some cases actually to improve amenities on restoration of the land, for example by removing long-standing dereliction and by providing new facilities for sport and recreation. Until the early 1950's much of the equipment required for opencast working had to be imported but, with the encouragement of the National Coal Board, manufacture now takes place largely in this country and the producers have been able to develop export markets for their equipment. The case for continued opencast working, taken by itself, is quite strong, but it has to be related to the circumstances of the industry as a whole. At a time of coal surplus, account has to be taken of the effects on total production and on the level of employment in deep mines.

**Stocks**

66. In 1964, 1965 and 1966, the National Coal Board were successful in matching production to the falling demand so that undistributed stocks were kept from rising. They varied between 18 and 22½ million tons, equivalent to five to six weeks' supply. At the end of last winter, with demand falling faster than production, undistributed stocks began to rise in comparison with the previous year. At present, they are about 7 million tons above their level at the corresponding time last year. The Board are taking steps to limit production, and thereby the rise in their stocks, particularly by limiting non-juvenile recruitment, but they must have regard to the potential damage to the industry of reducing their manpower suddenly, and they are aware of the consequences for the country, both economic and social, of doing this at a time when unemployment is already high. There is thus a serious conflict of objectives.
CHART 11
COAL PRODUCTION, CONSUMPTION AND UNDISTRIBUTED STOCKS

TOTAL PRODUCTION
TOTAL CONSUMPTION INCLUDING EXPORTS
UNDISTRIBUTED STOCKS OF COAL AT END OF SEPTEMBER

* PARTLY ESTIMATED
Transport of Coal

67. The cost of transporting coal adds on average about £1 per ton or 20 per cent. to its cost of production. Savings in transport costs can lead to a useful improvement in coal’s competitive position and the major coal users have been co-operating with British Railways and the National Coal Board in seeking means of achieving them. In particular, power stations and other bulk users are increasingly supplied by special permanently-coupled trains which move continuously between colliery and point of consumption and are rapidly loaded and discharged while in motion.

68. Shrinking production and geographical concentration have meant that the coal industry has offered a declining amount of traffic to the railways. In 1964, 1965 and 1966 the tonnages of coal and coke transported were 147 million, 138 million and 132 million respectively, accounting for about 35 per cent. of the total freight revenue of British Railways. The annual tonnage leaving the collieries by road has remained steady at about 36 million tons.

Capital Investment

69. The Board require to invest a substantial amount of capital each year to replace worn-out assets. In addition, modernisation calls for more complicated and more expensive equipment. Because of this, and despite declining production, the Board’s new investment in fixed colliery assets has remained at about the same level in recent years, namely £77 million in 1964–65, £74 million in 1965–66, and £77 million in 1966–67. The 1965 White Paper on the Finances of the Coal Industry (Cmnd. 2805) noted in paragraph 18 that the Board intended after the capital reconstruction to aim at generating from their own earnings the funds needed for future colliery investment. This aim was not achieved in 1966–67, since the Board’s internal resources, in the form of depreciation provisions, proceeds of disposals and surplus, fell short of new colliery investment by about £19½ million. The shortfall was made good by increased borrowing from the Exchequer. In addition to investment in collieries, the Board have continued to invest in ancillary activities and in new enterprises such as the exploration for oil and gas on the Continental Shelf.

Profit and Loss

70. In 1965–66, the capital reconstruction led to reductions, totalling £35·6 million, in charges to profit and loss account for interest (£21·5 million), depreciation (£10·5 million) and obsolescence (£3·6 million); and a deficit of £24·8 million, which reflected the deferment at the Government’s request of increases in coal prices, was written off against the Reserve Fund. A general rise in coal prices took effect in the spring of 1966, and in the year 1966–67 the Board had a small surplus of £0·3 million but made no contribution towards meeting the difference between depreciation of assets at historic and replacement cost, for which their objective is £10 million a year.
PART III. THE CO-ORDINATION OF POLICY

6. THE OBJECTIVES AND DETERMINANTS OF POLICY

71. The foregoing outline of the prospects for the fuel industries points to our being on the threshold of a major change in the energy economy. The advent of two new primary fuels, natural gas and nuclear power, is a development of great economic importance for the country and the object of the Government's review has been to examine its implications in depth so as to evolve policies for fuel which will bring the greatest benefit to the country.

72. With four primary fuels in the place of two, and a good deal of uncertainty about a number of important factors, it was necessary in the review to examine a series of possible alternative lines of development and to make assumptions about the main variables and uncertainties. The statistical methods used are described in Appendix I. The main assumptions made for statistical purposes at the start of the review were as follows:

(a) Alternative high and low quantities were taken for supplies of North Sea gas, and it was assumed that they would be available in each case at prices which would permit the full quantity being sold to consumers.

(b) The second nuclear power programme of 8,000 megawatts of capacity coming into commission between 1970 and 1975 would be completed as planned; and a third and larger programme would be initiated during this period for stations to be commissioned after 1975.

(c) The coal industry would achieve the full increase in productivity which the National Coal Board considered possible.

(d) No coal would be imported.

(e) Oil would continue to be available at a price competitive with coal.

(f) The gross domestic product would grow at a rate of about 3 per cent. a year.

(g) Three possible courses on the protection for indigenous fuels should be examined—protection removed; protection about the same as now; protection roughly doubled.

As the work progressed the results of other studies were fed into these statistical investigations. The studies included the examination of nuclear power costs and of possible future trends in coal and oil prices to establish whether the assumptions in the statistical exercise were sound. As more information on the North Sea came to hand, the assumptions on natural gas were brought up to date.

73. Despite the depth of these studies major uncertainties inevitably remain. The development of fuel policy is a continuing process and further
changes may be appropriate as further information about, for example, the North Sea gas reserves becomes available. The policy in the White Paper rests on present information and knowledge and the best judgments the Government can make about the future.

74. Table A below illustrates in round figures the likely pattern of fuel use in the mid-1970's on the assumptions indicated in the footnote. More detailed figures are given in Appendix I.

<table>
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<th>Million tons coal equivalent (m.t.c.e.)</th>
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|                   | 1957 (Actual) | 1966 (Actual) | 1975 | *
| Coal              | 212.9         | 174.7         | 120* |
| Oil               | 36.7          | 111.7         | 145  |
| Nuclear and Hydro-electricity | 1.7      | 10.2          | 35   |
| Natural Gas       | —             | 1.1           | 50   |
| Total Inland Demand for Energy | 251.3   | 297.7         | 350  |

* Exports of coal estimated at about 2 million tons.

FOOTNOTE.—The main assumptions underlying the pattern of primary fuel use in 1975 shown in Table A are that North Sea gas reserves would support a level of production at an average rate of 4,000 m.c.f.d. and that the price of the gas would be such that it could be sold; that there would be no conversion of coal-fired power stations to oil; that the second nuclear power programme would be fulfilled; that oil tax would be at a rate of 2d. a gallon; and that no coal would be imported. Gross domestic product is assumed to grow at an average rate of 3 per cent. per annum.

75. Projections for so long a period ahead are inevitably subject to considerable uncertainty and the figures should be regarded as illustrating trends, not as setting targets. It is important to note the assumptions on which they are based, as summarised in the footnote to the table. The considerations involved are further discussed elsewhere in the White Paper. But, subject to this proviso, the indications are that:

(a) By 1975 nuclear power and natural gas may be supplying as much as a quarter of all our energy requirements. How much natural gas will eventually be produced will not be known until much more exploration is completed; but studies of nuclear energy point to nuclear power making a rapidly increasing contribution in the later 1970's, possibly amounting to almost a quarter of our total energy requirements by the end of the decade.

(b) The inescapable result of the growing use of these new fuels will be to limit the market for coal; but even without them coal would have continued to decline unless it were still more heavily protected.

(c) In order to alter relative prices in favour of coal sufficiently to slow down its decline significantly, it would be necessary to protect it at a level which would lead to misuse of resources and would put British industry at a disadvantage with its competitors.
(d) The decline in the demand for coal, which is already faster than was anticipated in the 1965 White Paper,* could therefore only be reversed by deliberately holding back the expansion of nuclear power and the introduction of natural gas, and by heavy additional protection or a massive subsidy.

(e) Oil is unlikely to maintain its fast growth of recent years; but with growing consumption for transport and similar exclusive uses, it will hold or slightly increase its present share of the total energy market.

76. In the light of the Government's aim of shaping developments in the energy sector so as to bring the greatest strength to the economy, it is necessary first to test the emerging trends against certain specific objectives of fuel policy, namely those relating to adequacy and security of supply, fuel costs and prices, the effects on the balance of payments and the efficient use of the nation's resources—the objectives formulated in paragraph 35 of the 1965 White Paper.* The problems are social as well as economic and involve people, notably because the fortunes of whole communities are tied up with those of the coal industry; these problems are considered in the context of the formulation of central and regional economic policy. It is not possible fully to represent all these considerations in a statistical exercise, though in some cases it has been possible to examine them quantitatively as well as qualitatively. The conclusions are as follows.

Adequacy of Fuel Supplies

77. The prospects for fuel supplies up to 1980 have been examined in some detail with a broad look ahead at developments whose main impact will come later still. The only fuel for which it seems justifiable at this stage to contemplate a degree of conservation because of eventual physical scarcity is North Sea natural gas (see Appendix II); for the remainder there seems no reason why the possibility of exhaustion of reserves should be regarded as a constraint in determining the best way of meeting the nation's energy requirements. Ultimately, no doubt, all fossil fuel could be used up, but this is too far in the future to be taken into account, and changes in science and technology can be expected to develop alternative sources of energy in time. This is not to say that there could not be shortages of a particular fuel from time to time, since neither supply nor demand are easily regulated in the short term.

Security of Supply

78. The considerations relating to oil supplies are discussed in paragraphs 47 to 50; and further studies are in hand to explore ways of improving the security of these supplies in the light of the repercussions of the Middle East war. But in the meantime the Government have judged it right to base planning on the assumption that regular and competitively priced supplies of oil will continue to be available to us, as they have been in increasing quantities over the past years. In formulating policy it is necessary to take a balanced view of the risks involved; with a two-fuel economy the

* Cmnd. 2798.
risks in depending too heavily on oil from abroad were likely to become increasingly severe as oil continued to increase its share of total energy use. This was an important reason for protecting coal against competition from oil. But nuclear power and North Sea gas are hardly less secure than coal and the security of our fuel supplies will be enhanced to the extent that they take up markets which would otherwise have gone to oil. This reinforces the case for continuing to accept a degree of risk with oil supplies for those markets which it retains, so that we may benefit from its cheapness and convenience as our foreign competitors do.

Cheap Energy

79. Subject to these overriding considerations of adequacy and security of supplies, the Government’s basic objective can be summarised as cheap energy. This does not imply that fuel prices should be held artificially low compared with the real costs since this would lead to waste of resources. What is important is that we should take full advantage of the cheapness and technical merit of nuclear power, North Sea gas and oil (subject to the foreign exchange and investment considerations which are discussed below).

Balance of Payments

80. All fuels except indigenous coal involve some direct cost in foreign exchange. In general this will be highest for oil, intermediate for natural gas, and lowest for nuclear power. Virtually all our oil comes from overseas in the first instance. Its cost in foreign exchange varies according to its source, whether it is refined here or overseas, whether the suppliers are British or foreign and whether it is transported in British or foreign ships. An indication of the net balance of payments costs of oil and of some of the factors which enter into the calculation is given in paragraphs 51–52: the estimated average foreign exchange content of retained oil imports in 1965 was £4.1 per ton (rather less for fuel oil—see paragraph 52). Both North Sea natural gas and nuclear power also have some foreign exchange content, although rather lower than for oil. Many of the companies engaged in the North Sea are subsidiaries of foreign companies and the North Sea operations involve both an inflow and an outflow of foreign exchange. The precise costs in foreign exchange of North Sea gas will depend on the price to be paid for the gas and on which companies supply it. In the case of nuclear power, the uranium fuel for the reactors all comes in the first instance from overseas. Current requirements are being met from the substantial stock already held in this country, but this will have to be replaced in time and it is appropriate to regard all incremental requirements for uranium as involving a cost in foreign exchange. For A.G.R. stations this cost would appear to be in the region of 10s. a ton of coal equivalent. The present oil tax represents an average loading of about 40 per cent on the delivered pre-tax price of fuel oil to large industrial users and, as a measure of protection for indigenous fuels, this is a much higher level of protection than applies in most other sectors of the economy. From the detailed studies which have been made of the balance of payments costs of the different fuels, the Government have concluded that, leaving aside fiscal considerations, there is no justification for contemplating any increase in the tax. In reaching a view about the appropriate rate it is important that weight should be given
to the indirect effects on the balance of payments of the availability of cheap fuels in making British goods more competitive for exports or import-substitution.

Capital Investment and the use of Resources

81. The Government seek to ensure that the nationalised fuel industries use the resources they employ as efficiently and economically as possible. This is of especial importance in relation to their capital investment which is at present around £1,000 million a year. In the [forthcoming] White Paper on the Nationalised Industries the Government have set out guidelines for the industries to follow in regard to investment. Very briefly, they are that, having adopted the best possible methods of appraisal of projects (which will normally mean the use of discounted cash flow techniques) and appropriate pricing policies (which, whilst recovering accounting costs, would aim to relate prices to costs at the margin), the industries should look for a return of at least 8 per cent on all new investment undertaken for purely commercial reasons. During the review of fuel policy, as the electricity industry and nuclear power in particular are more capital intensive than other parts of the fuel sector, the effect on supply and demand patterns of using different rates of interest was examined; but over the range considered, they were not found to be very much affected.

Manpower and Social Implications

82. The manpower and social implications of developments in the fuel sector are important not only for economic reasons but also for the human problems involved. To achieve a major shift in patterns of employment inevitably takes time and can cause serious hardship to individuals. In the energy sector, the coal industry faces the most difficult problems of redeployment, rendered more acute by the fact that contraction is greatest in those areas where alternative employment is most difficult to come by. Further contraction and concentration of the industry are necessary and inescapable. The Government's aim is that they should be brought about with the least possible waste and hardship. In the past the National Coal Board have had remarkable success in reducing and redeploying the industry's manpower without serious redundancy. In any process of industrial change some social disturbance is unavoidable. The Government believe that by further support for the National Coal Board in their redeployment measures, by direct assistance to the elderly and disabled who are least able to fend for themselves and through vigorous pursuit of the policies for promoting new and more varied employment in the development areas, the continuing contraction of the coal industry can be carried through to the advantage of the economy and with the minimum of hardship to individuals.

Technology

83. Scientific and technological advance are vital in the energy sector, as elsewhere in the economy, in order to increase efficiency and reduce costs. The fuel industries' record is good and Part II of this White Paper has indicated that the momentum of advance should increase rather than slacken. In addition to serving their own internal efficiency, the fuel industries are able to contribute substantially to the promotion of technological progress
in other industries, as purchasers of new equipment and as suppliers of raw materials. Much may be expected of the expansion of nuclear power as a spur to the wide range of engineering industries involved in research, development and construction of nuclear plant and equipment for the home and export markets. The many roles played by oil, both within and outside the fuel sector, have already been noted; and natural gas may be of growing importance as a chemical feedstock as well as a fuel. Technologically the British coal industry is among the most advanced in the world; in relation to many other countries it is particularly far advanced in its approach to the use of electronics and computers. Exports of coal mining machinery in 1966 were worth about £15 million. More generally, low cost energy should extend the range of British economic activity and strengthen the competitiveness of British industry. The Government's recent decision to assist in establishing large-scale aluminium smelting capacity is a striking example of the opportunities offered by cheap energy.

Transport

84. The effect of changes in the fuel sector on other industries has been examined. In particular, declining coal sales and the concentration of new coal-fired power stations on the coalfields mean less traffic for railways and coastal shipping. On the analysis carried out in the review, the Government are satisfied that no additional fuel policy measures are needed on this account, over and above those required to secure the orderly transition of the fuel industries themselves. But it is necessary for the transport industry to be able to plan ahead on the basis of the best possible information on the main future flows of coal, and the National Coal Board are in close touch with the British Railways Board.

85. Major changes in the fuel economy take place relatively slowly and accordingly, in looking at the foregoing considerations, the Government have taken a long view. But in moving towards whatever long-term pattern of energy supplies is desired, account must be taken of transitional problems, some of them of considerable economic and social importance. In the two following chapters, the Government have set out first their long-term policy and then the shorter-term measures required to deal with transitional problems.
7. LONG-TERM POLICY

86. The first decision for the Government is whether a pattern of energy supplies in the mid-1970's of the general shape indicated by Table A* is desirable. As explained in paragraph 75, the figures in that table are in no sense production targets for the various primary fuels, but rather an illustration of the balance between them which underlying trends are likely to have brought about by the mid-1970's. They also point the direction in which the fuel sector is likely to develop in the still longer term: a continuing contraction of the coal industry, a slower rate of expansion for oil, rising use of nuclear power and perhaps further growth in natural gas.

87. The developing pattern of primary fuel supplies offers substantial benefits. The introduction of the newer fuels will mean cheaper energy. In the coming years they will not only take up the natural increase in Britain's energy requirements, but will also capture some existing markets from oil and coal. The recent growth of oil, both in new markets and in displacement of coal, has been very rapid: over the past nine years oil has risen from 15 to 37 per cent. of our total energy use and, if the introduction of nuclear power and natural gas were impeded, oil would inevitably gain an increasing share of the energy market. In a two-fuel economy, the time might have come when, despite oil's advantages as a fuel and its value in so many other roles, dependence on foreign sources for so much of our energy became a matter of serious concern.

88. The experience of the Middle East war emphasises the importance of developing the newer fuels on grounds both of security and cheapness. North Sea gas and nuclear power will slow down the advance of oil and they will take up some of the markets which coal would otherwise be likely to lose to oil. To the extent that they do so, there will be benefits to the balance of payments and an improvement in the security of fuel supplies. With a four-fuel economy the proportion of its energy requirements for which the country has to rely on imported fuel in the mid-1970's would be little higher than it is today, and there should be no greater need to consider limiting the growth of oil on security grounds. It should be noted that oil prices already reflect the cost of existing diversification and oil stockpiling by the companies.

89. Further decline in the markets for coal could not be prevented even by holding back the expansion of nuclear power and the development of natural gas unless the present level of coal protection were raised to an extent which would lead to a big increase in the general level of energy prices, or unless coal prices were heavily subsidised. But excessive protection for coal would lead to a misallocation of manpower and capital to the detriment of the economy as a whole.

90. We cannot afford to penalise our competitive standing as a nation by adding unnecessarily to our energy costs. Developments in recent years have reduced our competitive advantage in fuel costs vis-à-vis Europe: while American fuel costs are markedly lower than ours. It follows that we need to take the fullest advantage of the new primary sources of energy—natural gas and nuclear power—in order to assist industry in its competitive struggle;

* See paragraph 74.
and that it is essential for the coal industry to continue its drive for greater efficiency and lower costs, so that it too can play its part in the provision of cheaper energy.

91. Nevertheless, while the balance of payments position is difficult, as at present, some discrimination against oil is justifiable to conserve foreign exchange. But, as indicated in paragraph 80, the present rate of tax on oil already represents a high level of protection for coal.

92. The other major potential constraint on accepting a shift to the cheaper fuels is the rate at which it is practicable for the coal industry to contract and for the Government and the industry to deal satisfactorily with the resulting employment and social problems. The Government consider that a contraction to the level of demand for 1975 suggested by Table A should be manageable, but they have accepted the advice of the National Coal Board that the rate of contraction implied by the corresponding figures for 1970* would cause unmanageable difficulties for the industry during the next few years. It might also cause serious difficulties for the economy in this period.

93. The Government have decided that it is in the national interest to accept the long-term trends implied by Table A as a basis for planning. However, the figures in Table A make no allowance for the possible conversion of coal-fired power stations to oil or for any relaxation in the present virtual ban on foreign coal imports. It will be necessary to consider at a later date whether to relax these measures and what effect on coal demand in the 1970's this would have. For the present, the problems raised by the already fast rate of contraction of the coal industry up to 1970 preclude such relaxation; and during this period it will be necessary to take additional measures to help the industry and to secure an orderly transition. These measures are described in the next chapter. The longer-term decisions implicit in the Government's general conclusions are as follows.

Natural Gas

94. Natural gas is to be introduced rapidly into the economy. Strategy on gas absorption will continue to be evolved as more knowledge is gained about reserves, prices and markets. At this stage a rapid build-up in supplies is envisaged, on a basis allowing for the absorption of all that the fields so far discovered are expected to produce in the mid-1970's, with a modest allowance for additional discoveries. Most of the natural gas available will go to the premium markets where it will largely be displacing oil, but there will be some supplies to bulk industrial users, to assist the early build-up in supplies and to balance load thereafter. In these markets there will be some displacement of coal as well as oil.

95. This policy will mean a shorter life for the gas fields than a policy of slow depletion and will involve using some of the gas in markets where the resource savings are relatively low. The Government believe that these disadvantages are outweighed by the value of giving an incentive to the further exploration needed to improve our knowledge of the ultimate reserves available, and by the benefits to the economy and the balance of payments which a fast build-up of supplies will bring.

* See Appendix I, Table D.
96. Rapid absorption of natural gas will not bring dislocation or chaos to the energy market. 4,000 m.c.f.d. represents only about 15 per cent. of the total demand for energy expected in 1975; an important slice of the market but not revolutionary in its impact. But, for the gas industry, it does represent a revolution involving the wholesale displacement of existing gas-making plant and methods, a nation-wide conversion programme, and an expansion of sales by nearly fourfold between now and the mid-1970's.

Nuclear Power and Power Station Fuel Use

97. In the last few years, in recognition of the strong interest it has in the well-being of the coal industry because of the many coal-fired power stations which will remain in use for many years ahead, the electricity industry has been giving preference to coal in operating its stations. The Government have decided on a new scheme extending to 1970-71, the details of which are given in paragraphs 116-117 below.

98. The 1965 White Paper* established for planning purposes a second nuclear power programme of 8,000 MW and the Government envisage the completion of that programme by the mid-1970's. That White Paper also stated that proposals for oil-fired power stations would be the subject of special scrutiny. In order to keep down costs and prices it is important that the electricity industry should be able to make use of cheap sources of primary energy. Power stations not yet started cannot at the very earliest come into commission before 1973. The generating Boards should base their choice of fuel for new power stations on an economic assessment of the method of generation which will enable them to supply electricity at the lowest system cost consistent with security of supply and load balancing. In deciding whether to give consent to new stations, the Minister of Power and the Secretary of State for Scotland will also take into account such wider economic considerations as may be relevant.

99. It would be consistent with this policy for the generating Boards to seek consent in the longer term for the conversion of stations from one primary fuel to another where this would reduce system costs. The electricity industry will, however, require very large quantities of coal in the 1970's and has a strong, continuing interest in the health of the coal industry. For this reason, linked as it is with the short-term structural problems of the coal industry, the Government do not in general envisage the conversion of coal-fired stations to other fuels in the next few years, though there may be scope for some use of natural gas on a seasonal basis and there may be cases where the requirements of clean air dictate conversions from coal to other fuels.

Oil

100. Although the Government have decided, particularly in the light of the current balance of payments position, that it is right to continue to favour indigenous fuels against oil, it remains their broad policy to avoid discrimination between oil companies trading in the home market. Good progress has been made towards the goal of home refining capacity to match the country's requirements and this remains a major objective of policy.

* Cmnd. 2798.
though with recognition of the fact that some trade in oil products between countries will still be necessary for the oil companies to balance their international refining operations. The home refining policy depends also on the maintenance of a reasonable and balanced level of demand for the various oil products.

101. The repercussions of the Middle East war could have significant implications for certain aspects of oil policy. As stated in paragraph 50, the Government are conducting a thorough re-examination of ways of strengthening the security of our supplies. They nevertheless consider it right to base fuel policy on the expectation that regular supplies of oil at competitive prices will continue to be available and they believe that it would be wrong to deny to British industry the advantages that oil can bring. The greater part of the expected growth in demand is due to the growing needs of those markets, notably transport, where oil has no substitute; in the competitive part of its markets oil's rate of growth is expected to slacken. Although oil use as a whole in 1975 is expected to represent a higher percentage of total energy requirements than now, the increase will be small by contrast with the past. Subject to the outcome of the re-examination now in progress, no greater discrimination against oil should prove necessary on grounds of security.

Coal

102. The Government have concluded from their analysis of coal's position and prospects in relation to competing fuels that, on any tenable view of the longer-term pattern of energy supplies and costs, the demand for coal will continue to decline. This is not the result of Government policy: it reflects a continuing trend in consumer preference.

103. The Government do not underrate the difficulty of the task confronting management and men in trying to maintain and increase the efficiency of an industry which is gradually contracting. But because coal will continue for a long time to provide such a large and indispensable part of the country's fuel supplies, it is of the greatest importance for the efficiency of the industry to be still further increased and costs reduced. The Government have concluded that the modernisation of the coal industry and its concentration on the most economic coalfields and collieries must go forward. Only in this way can the coal industry remain viable.

104. The precise level of coal demand in the 1970's will depend on the extent to which productivity can be raised and costs brought down: without a substantial rise in productivity and the consequent saving in manpower, the cost of coal will be so high that coal demand will fall more quickly than implied by Table A. Either way, a further decline in colliery manpower is inevitable.

105. To the extent that manpower, and hence production, are not reduced in step with rising productivity and falling demand, undistributed stocks will rise above the level necessary to ensure proper distribution and security of supply: this has recently begun to happen on a large scale. With the present outlook for demand, there is serious risk of these additional stocks remaining unsold indefinitely. In any case they are a large additional burden
on the Exchequer, which has to finance them, and a continuing discouragement to the men and management of the industry. The Government therefore consider it important that production should be continually adjusted to the level of demand and that excessive stocking should be avoided. However, time will be needed both for the industry’s management to make the necessary adjustments inside the industry and for the men becoming redundant to be re-deployed into other employment. Similarly, time must elapse before the measures now being taken by the National Coal Board can result in cost reduction. The greater the Board’s success in reducing costs, the higher coal demand is likely to be in the mid-1970’s.

106. Most of the colliery closures will be in the older coalfields in development areas. The measures it is proposed to take to improve the benefits to men leaving the industry or transferred to other collieries, and to facilitate the redeployment of ex-miners to other suitable work in the transitional period, are set out in the next section; for the longer term, the Government’s regional policies take full account of the trends of mining employment.

107. As already indicated, the Government have decided that protection for coal cannot be reduced at the moment, but they have considered whether the existing forms of protection are the best. At present, apart from the assistance from the electricity industry, coal is helped by the 2.2d. a gallon tax on oil and the virtual ban on imports of coal. Imports of coal competing with home production would add to the difficulties of the United Kingdom coal industry and the lifting of the import ban cannot be contemplated at the moment, but the Government will keep this question under review.

108. An alternative to action against other fuels to protect coal would be a general subsidy for coal. The cost of a subsidy sufficient to have the same effect as the present tax on oil would be very heavy, representing a significant increase in taxation; and if it were to replace the oil tax the revenue so lost would additionally have to be made up from new taxation. A subsidy would reduce energy prices but would not alter the real costs of energy supplies to the country. It would also have the effect of protecting coal against natural gas and nuclear power. The Government have concluded that a general subsidy for coal is undesirable for these reasons, but they have accepted certain commitments for the transitional period as explained in the next chapter.

109. Taking a broad view of the industry’s prospects in the long term, the Government are satisfied that it should be able to provide on an economic basis a substantial though declining part of the country’s fuel requirements. Over the next few years however, the industry will need continuing assistance.

110. In neither of the last two financial years were the Board able to generate from their earnings all the funds needed for colliery investment: the higher revenue secured from the coal price increase in the spring of 1966 was entirely absorbed by rising costs. Any further substantial addition to prices would tend to depress the demand for coal still further and so increase the difficulties of dealing with manpower. In these circumstances the Board cannot be expected to find from their own resources all the finance for the
expensive modernisation programme or to bear a large proportion of the cost of the measures necessary to ensure that the reduction in manpower is conducted without undue hardship. Parliament will therefore be asked to provide further investment funds to continue the financing of the industry's modernisation, in so far as these cannot be provided from current revenue without undue increases in the price of coal. The proposed financial arrangements for the measures needed to deal with manpower in the transitional period are set out in the following chapter.
8. POLICY FOR THE TRANSITION

111. The new pattern of energy supplies in the 1970's will bring us important advantages. It promises increasing quantities of high grade clean fuels from our own resources to meet our growing needs; it frees us from the risk of becoming over-dependent on foreign sources; it will lower our energy costs; and it will promote technological advance. But it will mean radical changes in the fuel sector, some of them difficult to make. It is in the interests of the community as a whole that they are squarely faced, but it is equally important that they should be made with the minimum waste of economic and human resources.

112. The Government are conscious of the particular difficulties which the transition from the present pattern will cause for the coal industry and the mining communities; and they have decided on a number of special measures to help the industry through the transitional period to 1970.

Rate of Contraction in the Coal Industry

113. The Government's aim is that the industry's contraction during the next few years should be brought about with the least possible hardship in mining communities and without interruption of the modernisation of the industry. They accept the advice of the National Coal Board that a rundown of about 35,000 men a year would be manageable for the industry. On past experience, and taking account of natural wastage, such a rundown should not create a national problem. But it will require special attention to problems in particular areas; measures to this end are described in later paragraphs. The Government have accordingly decided that planning for the industry's contraction up to 1970-71 should be based on this rate of rundown. It is, however, their intention to maintain close consultation with the National Coal Board about the programme of colliery closures.

114. In the light of an assessment of employment prospects this winter, the Government have requested the Board to defer until after the end of 1967 all closures except those necessitated by the exhaustion of reserves. In addition, the Board will decide, in the light of the advice of the Chairmen of the Regional Economic Planning Councils, whether any of these closures should be further delayed until the end of March, 1968, and this arrangement will also apply to closures in areas of high unemployment which are due in the first quarter of 1968. These exceptional measures are designed to meet the problems of this winter only, and thereafter colliery closures will be in accordance with the planned contraction of the industry up to 1970-71.

Demand for Coal

115. On the basis of the estimates discussed with the nationalised fuel industries, and taking into account the latest views on the likely use of natural gas by 1970, the Government consider that inland coal demand in that year would be unlikely to exceed 146 million tons with perhaps a further 3 million tons for exports. With the further increases in productivity that can be expected from modernisation and the closure of uneconomic collieries, coal production in 1970 might be as much as 155 million tons, some 6 million tons more than the likely demand. For the reasons mentioned in paragraph 105,
the Government consider it desirable that any coal unavoidably produced in excess of demand should, if possible, be used rather than added to undistributed stocks which are already high.

116. The only sector in which it would be practicable to increase coal consumption significantly is electricity generation. The electricity industry expected to take 70 million tons of coal in 1970 out of the estimated total inland demand for coal of 146 millions tons. They were also expected to use 15 million tons coal equivalent (m.t.c.e.) of oil, 4 m.t.c.e. of natural gas and 16 m.t.c.e. of nuclear power and hydro electricity.* In the gas industry there is also scope for some additional coal consumption, though on a very much smaller scale. The Government have examined with the electricity and gas industries by how much they could increase their consumption of coal in the period to March, 1971, above what they would expect to use on the basis of straight commercial calculations. As a result the two industries expect to be able to burn up to 6 million tons more coal per annum up to 1970 if this should prove necessary. The need for, and the cost of, this additional coal burn will depend on various factors, notably the trends in the supply and demand for coal, and will be kept under close review by the Government.

117. Under the arrangements referred to in the 1965 White Paper,† the cost of additional coal use by the electricity industry was borne by electricity consumers. The Government have decided that, in the light of the new situation facing the coal industry, it would be wrong to expect electricity and gas consumers to bear the cost of these new arrangements, which are being introduced for wider social and economic reasons. The Government intend, therefore, to ask Parliament to provide for the cost, not exceeding £45 million, to be met out of public funds.

118. Despite the further help to be given to coal at power stations and gasworks, the Government recognise that in the period up to 1970 it may not be possible to adjust production at all times to current demand, and thereby to avoid increases in undistributed stocks, but they have asked the National Coal Board to take all reasonable steps to this end and will keep the level of stocks under review.

119. Production of coal at opencast sites employs comparatively few men for each ton of coal won, and reduction of opencast production therefore gives rise to fewer manpower difficulties than reduction of deep-mined production. Though opencast production is profitable and relatively small, there is no advantage to be gained from continuing opencast production where this can be avoided, at a time when surplus coal is being put to stock at considerable cost. The Government have therefore decided not to give further authorisations for opencast production except in special cases where, because of quality or location, the coal to be produced is not in competition with coal from deep mines; and they have asked the National Coal Board to have regard to these factors in operations at existing sites.

* These estimates represented a reduction in the amount of natural gas and oil previously assumed to be used for electricity generation (see Table D of Appendix I).
† Cmd. 2798 paragraphs 18, 51 and 82.
Energy Pattern in 1970

120. If, as at present envisaged, the demand for coal needs to be sustained at 155 million tons in 1970 the pattern of inland demand for energy in that year is estimated as follows:

<table>
<thead>
<tr>
<th>TABLE B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Fuel Use in 1970</strong></td>
</tr>
<tr>
<td>1966 (Actual)</td>
</tr>
<tr>
<td>Million tons coal equivalent</td>
</tr>
<tr>
<td>Coal</td>
</tr>
<tr>
<td>Oil</td>
</tr>
<tr>
<td>Nuclear and Hydro-Electricity</td>
</tr>
<tr>
<td>Natural Gas</td>
</tr>
<tr>
<td><strong>Total Inland Demand for Energy</strong></td>
</tr>
</tbody>
</table>

* Plus an estimated 3 million tons for exports, making a total demand of 155 million tons.

121. As a consequence of the extra use of coal at power stations in the years up to 1970–71, there is likely to be little scope between now and then for the conversion of coal-fired power stations to use other conventional fuels all the year round. If it were necessary for the power stations to use an additional 6 million tons of coal in 1970, their use of oil in that year would be likely to be down to 11 million tons coal equivalent, and their use of natural gas only 2 million tons coal equivalent (equivalent to an annual rate of 125 million cubic feet a day). Natural gas in that quantity could be taken, in the summer only, at power stations fired normally by either coal or oil. The gas industry's potential market for bulk sales of natural gas to power stations would be limited accordingly. Production from the North Sea should be capable of reaching an annual average rate of 2,000 m.c.f.d. by 1971 and, allowing for the use of natural gas in reforming plant in place of oil, the industry has estimated that it might absorb some 1,500 m.c.f.d. for premium uses in that year. It will, however, have to look elsewhere than power stations for any substantial bulk markets needed to match the supply in these years.

Social and Regional Measures

122. The manpower situation facing the coal industry is not new and the prospective reduction in mining manpower is fairly close to the average rate for the last ten years (see paragraph 63). Natural wastage will continue to account for the major part of the expected rundown and there will still be some scope for redeployment within the industry so that the number of redundant miners remaining unemployed for any length of time should continue to be a relatively small percentage of the total reduction. But, as noted in paragraph 64, it is in some of the development areas that the decline will have its most serious impact. Quite apart from any redundancies among miners, the loss of job opportunities will intensify the problems these areas are facing.
123. One of the chief objects of the Government's regional policies has been to help the development areas to overcome their difficulties and build a more broadly based industrial structure. The Government have over the past few years introduced, or progressively strengthened, a wide range of measures affecting these areas. The development areas include the coalfields of Scotland, Wales and Northumberland and Durham, and as such they are already assisted to a very considerable extent. For example, in order to encourage new industrial development, 45 per cent. grants for investment in new industrial plant and machinery are available in development areas, compared with 25 per cent. grants elsewhere, and building grants are available up to a level of 35 per cent. in certain cases. The Board of Trade provides factories on favourable terms, and the number of factories built in advance to provide an inducement to firms to move to development areas has been greatly increased. Exchequer grants (of up to 85 per cent. of the cost involved) are available to local authorities for the acquisition and rehabilitation of derelict land and the provision and improvement of basic services, if these contribute to the development of industry. The control over the issue of industrial development certificates which are required for all significant industrial building is operated with great stringency outside development areas, so that firms are encouraged to develop in those areas where industrial development certificates are readily available. As a result of this policy, in recent years the development areas have received a considerably greater share of new industrial building. In order to ensure that there is a sufficient supply of skilled labour available for incoming industry, the number and capacity of Government Training Centres have been greatly expanded and these have been increasingly directed towards the development areas, and the Government also give direct financial and practical assistance to employers to help with training. In addition, the Government introduced the Regional Employment Premium (see Cmnd. 3310), which came into effect in September.

124. The Government are confident that the combined effect of these measures will ensure that, despite the continuing contraction of basic industries, including coal, the economic prospects of the development areas as a whole will improve and the average level of unemployment there fall. There are, however, certain coalmining areas where general measures of assistance to the development areas as a whole are unlikely to be sufficient. These are localities where male employment is at present overwhelmingly dependent on coalmining and which are in many cases situated at some distance from the main urban centres or from centres of new industrial development within the region, so that access to the newly developing industries in the development areas as a whole will not be easy. While the areas concerned are limited, the numbers of people living and working in them are considerable.

125. In such areas the Government therefore propose to take special measures over and above those for development areas as a whole. There will be extra inducements to attract industry to move into or expand in them. New industrial estates are planned at selected sites in South Wales, Durham and Northumberland, and consideration is also being given to the acquisition of further land for industrial development in Scotland; the sites chosen will serve many of the colliery districts threatened by closure. Where
there are reasonable prospects of securing tenants, there will be a continuing building programme of advance factories to replace those let. The Government are also prepared to make extra funds available for improving the infrastructure of these areas and for other measures of assistance. Immediate steps are being taken to authorise additional expenditure on roads in order to improve local travel-to-work opportunities. Other use of these additional funds requires further study to ensure that the localities derive the maximum benefit from them; it could include such objects as improving access to the area and clearing derelict land. The Government are also setting in hand a more searching and detailed study of the economic prospects and potential of these areas; and into the possibility of additional measures. In these studies the Government will draw on the advice of the Regional Councils and local authorities.

126. There are special problems arising from pit closures for the older men who will find it difficult to get employment elsewhere. The scope for transfer within the industry will necessarily become more limited for the older miners, while employment in other industries will often require travel or transfer away from isolated mining communities. As announced by the Minister of Power on 18th July, a scheme is being prepared whereby mineworkers who are 55 or over and who become redundant after that date through colliery closures will have their incomes supplemented for a period of three years, subject to an age limit of 65, so that they can adjust themselves to their new circumstances. This will cover the major proportion of those expected to suffer redundancy, and will assist both individuals and the communities in which they live. The supplement will be based on previous earnings in the industry and will be conditional on a minimum qualifying period of service. It will be paid in addition to unemployment benefit and will be increased after the entitlement to unemployment benefit expires, in order to maintain substantially the same total level of payment for unemployed men. The effect of the scheme will be that, in the majority of cases, these redundant miners will be able to receive about 90 per cent. of their previous take-home pay for the three year period, but the actual percentage will vary according to family circumstances and previous earnings. The scheme will also provide that the men will receive their mineworker’s pension at the end of this period, without waiting for the normal age of 65. The Government intend to ask Parliament to provide for payment by the Exchequer of the whole cost of this additional assistance for mineworkers over 55 becoming redundant up to March, 1971. About 26,000 miners are expected to benefit under the scheme, and the total cost is estimated to be £35 million.

127. In order to facilitate the redeployment of mineworkers and other employees and thus help the elimination of uneconomic colliery capacity, the Exchequer makes grants under the Coal Industry Act, 1965, towards the cost of the benefits provided by the National Coal Board in respect of redundancy payments, loss of superannuation and employment prospects, removal and resettlement expenses, including housing, subsidised transport and supplementation of earnings for men transferred, and the maintenance of social welfare and other benefits in kind. The estimated cost of the benefits over the five years 1966–67 to 1970–71 was about £80 million, and
grants are payable in respect of half the Board's expenditure in excess of an annual sum of £3.8 million, subject to a total limit for grants of £30 million. Expenditure on these benefits in the year 1966-67 was approximately £6 million. Taking account of the revised estimates of the number of men likely to be affected by colliery closures and changes in the cost of the benefits, the Board's expenditure during the remaining period up to March, 1971, is now expected to be about £70 million. The Government will ask Parliament for power to make grants to the Board not exceeding two-thirds of their expenditure on these benefits in each of the four years 1967-68 to 1970-71, within a total limit of £45 million.

Borrowing Powers of the National Coal Board

128. Exchequer advances provide the principal means of borrowing by the National Coal Board. Under the Coal Industry Act, 1965, the Board's total outstanding borrowings after the capital reconstruction amounted to £545 million at March, 1965. The Act set the borrowing limit at £750 million; this limit was expected to meet the Board's borrowing requirements until about March, 1971. The purposes for which the Board expected to need external finance within that limit were set out in the White Paper on the Finances of the Coal Industry (Cmnd. 2805). The marketing difficulties which the industry has experienced since 1965 have been reflected in the Board's financial position and borrowing requirements. The Board have not been able to finance as much of their investment from internal resources as they had expected and the large increase this year in undistributed coal stocks has had to be financed by borrowings.

129. At March, 1967, the Board's total outstanding long-term borrowings amounted to £610 million. The Board's borrowings follow a seasonal pattern, rising in the summer and autumn when coal production exceeds sales to a peak in November or December, and falling in the winter when coal sales are at their highest. This year, borrowings to finance the exceptional increase in coal stocks have been superimposed on the normal seasonal increase, with the result that the Board's total borrowings have risen sharply and are already approaching the statutory limit of £750 million.

130. In estimating the amounts that the Board are now likely to require to borrow in the period up to March, 1971, it is necessary to have regard to the problems that will face the industry during the period of transition. The Government's decision that the rate of contraction of the industry should be moderated in that period may, despite the measures to increase coal consumption, result in further additions to coal stocks. The level of colliery investment will be kept under close review to ensure that it is in step with developing fuel policy, but it may be some years before this investment can be financed wholly from internal resources. The possibility must also be faced that increases in productivity may not be sufficient to offset increases in costs and that, unless coal prices are raised, the Board may incur deficits on revenue account. A general increase in coal prices would tend to accelerate the decline in the market for coal and might therefore be inconsistent with measures to support the demand for coal. Without prejudice to decisions that will need to be taken in the future in the light of the policy for financing the nationalised industries and of the
criteria for prices and incomes policy, it is proposed to increase the provision for financing deficits from £30 million under the 1965 Act to £50 million.

131. Having regard to the foregoing considerations, the Board's borrowing requirements for the period to March, 1971, are estimated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Outstanding long-term borrowings March, 1967</td>
<td>610</td>
</tr>
<tr>
<td>3. Provision for day-to-day and seasonal fluctuations in temporary borrowings for working capital</td>
<td>70</td>
</tr>
<tr>
<td>5. Additional coal stocks</td>
<td>25</td>
</tr>
<tr>
<td>6. Provision for deficits</td>
<td>50</td>
</tr>
<tr>
<td>7. All other contingencies</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>950</td>
</tr>
</tbody>
</table>

The Government will introduce legislation to raise the Board's borrowing limit to £900 million, or such greater sum not exceeding £950 million as the Minister may by order specify subject to the approval of the House of Commons.
9. CONCLUSION

132. The post-war years have been characterised by rapid change in the energy sector. In coal, with the introduction of new, pioneering techniques of mining and the re-organisation of the industry, productivity has risen by 50 per cent. over the last ten years. Oil has grown to become a major source of energy and the base of new and vitally important industries. Nuclear power made its commercial debut in Britain and is on its way to becoming the principal fuel for new generating capacity. And now natural gas has been discovered in the North Sea on a scale which guarantees a fourth source of primary energy.

133. For British industry this dynamic and vigorous pattern of development and change in the energy sector is of great significance because of the all-pervading impact of fuel costs on the economy. The continuing technical advances and improvement in efficiency in coal and oil and the emergence of nuclear power and natural gas are therefore developments wholly to be welcomed for their promise of ample, efficient and competitively priced energy supplies.

134. In great industries providing the livelihood of hundreds of thousands of people, rapid change and progress cannot be brought about without some painful readjustment, sometimes affecting whole communities. The coal industry has a fine record of successful adaptation to new methods and organisation as a result of the close and enlightened partnership of management and men and their joint recognition of the challenge facing them. The development of nuclear power and the discovery of natural gas will allow the coal industry no respite in its continuing drive for greater efficiency. It must expect to lose markets to the newer fuels because of their inherent advantages in ease of handling, cleanliness and price, and even if it were possible to arrest this change in the pattern of fuel supplies, it would be to the disadvantage of the economy if the Government were to attempt to do so. But the economy would also suffer by too abrupt a decline in coal, which would put at risk the success of the industry’s re-organisation and result in needless hardship and waste.

135. The Government have therefore sought to provide in their policy the conditions in which all the fuel industries will find incentive for the most vigorous further development and progress aimed at supplying industry with energy at the lowest possible cost in resources, while tempering the impact of this policy on the coal industry by transitional measures to assist it in its re-organisation. In framing these measures the Government have been at pains to avoid, to the maximum extent possible, distortion of the desirable long-term pattern of development in the energy sector.

136. The concentration in the White Paper on primary energy reflects its dominating importance for fuel policy as a result of recent developments. The magnitude of these developments highlights the need to think of fuel policy as an evolving subject, requiring constant review and susceptible to continuous adjustment. This need arises not only from change within the energy sector itself but also from the impact of broader economic and social circumstances, themselves liable to change. In their continuing review
of fuel policy the Government's aim will be to make possible the supply of energy at the lowest total cost to the community having regard to the whole range of relevant considerations—economic and social—and to national and regional economic policies.
APPENDIX I

STATISTICAL AND ECONOMIC ANALYSES

Introduction

1. This Appendix describes briefly the aims, methods and results of the main statistical exercise carried out in the course of the review of fuel policy. As part of the normal continuing functions of the Ministry of Power, forecasts of future fuel demand and supplies have regularly been prepared, mainly for internal use. On this occasion, in view of the discontinuity brought about by the prospect of large quantities of natural gas and economic nuclear power, it was decided to carry out a much more widely ranging exercise. New methods of statistical and economic analysis were introduced, designed to examine the implications of a wide range of assumptions about future trends in the fuel industries and in the economy.

2. This exercise was carried out concurrently with separate but related studies concerning the prospects for individual industries (on mining manpower and productivity, costs of nuclear power and other primary fuels at power stations, patterns and rates of absorption of natural gas, and the balance of the oil industry both at home and overseas). The method of operation had to allow for the results of these studies, and other new information, being fed in as the work went on. In particular, it was possible to make a progressively better assessment as to the likely availability of natural gas from the North Sea, though it will be some years before the full extent of the reserves there can be gauged with any accuracy.

3. A primary object of the exercise was to provide a basis for deciding on the best fuel policy at this particular time. Accordingly the statistical exercise had to examine the effects of a variety of possible policy decisions.

The Initial Assessments

4. The broad aim of examining all possible lines of development and selecting the most economic is simple enough in concept, but its implementation, even in simplified form, is immensely complicated. The demands for the various forms of energy interact on each other to a major extent and they are all affected also by outside influences, which cannot always be quantified precisely. To start the exercise at all it was necessary to make a considerable number of assumptions which were subject to validation and to correction as the work proceeded. For some factors a single value could be assumed (for any particular date); for others it was necessary to examine the results of variations. The latter class of factor included items within government control where the effect of different policies had to be examined. Fuel policy is operated by government through actions which affect the price of fuels (such as taxation or the financial obligations fixed for the nationalised industries) or which affect availability (such as import control).

5. The first step was to identify the area to be explored—what were the main factors to be taken into account and within what ranges were they likely to lie. Some of the principal unknowns on which assumptions had to be made were:

(a) the quantity of natural gas likely to be available from the North Sea; the most economic method of absorption; its price to the gas industry:
(b) the relative selling prices (including transport and other charges where appropriate) of the various fuels:

(c) the economic rate of development of nuclear power:

(d) the rate and pattern of growth of the economy:

(e) the level and pattern of protection for indigenous fuels.

6. After consideration of the likely range of possibilities for each of these factors, the Ministry of Power made rough estimates of the range of demand for each fuel. The estimation of these ranges involved the preparation of a considerable number of fairly detailed sets of estimates, each designed to be consistent from fuel to fuel, for various combinations of assumptions.

7. The fuel industries* then provided estimates of their costs, based either on given estimates of demand or on their own estimates of demand related to the specified assumptions. The secondary fuel industries also supplied corresponding estimates of their requirements of primary fuel. After examining the replies, the Ministry selected a small number of combinations of assumptions. Estimates of demand for these selected cases were made as consistent as possible from fuel to fuel in discussion with the fuel industries, and the industries prepared corresponding estimates of the use of resources (costs, manpower and capital investment). In addition, the foreign exchange costs involved were estimated by the Ministry.

8. A summary of the Ministry's estimates of inland energy demand for 1970 and 1975 for these selected cases is given in Table C ("the January, 1967, estimates"). The possible position in 1980 was also examined. The figures are very speculative and are not reproduced here, but they did not indicate any change in trend which would affect conclusions as to the desirable path in earlier years. The differences in the assumptions between the various cases in the table were as follows:

Case I This assumed immediate removal of the oil tax.

Case II The oil tax was assumed to be 2d. a gallon throughout the period, with no special preference for coal at power stations.

Case III The oil tax was assumed to be 4d. a gallon generally, but 6d. a gallon for power station use. (This case sought to quantify the possible effect of a general increase in the oil tax, coupled with a virtual ban on new oil-fired power stations and minimum use of existing ones.)

In each case, supplies of natural gas at an average of 1,000 million cubic feet a day (m.c.f.d.) were assumed for 1970; for 1975, the A alternative assumed 2,000 m.c.f.d., the B alternative 6,000 m.c.f.d. The other principal assumptions, common to all cases, were—

(a) that the gross domestic product would grow at an average rate of 3 per cent. per annum, measured from 1964;

(b) that the relativity between coal and oil prices in competitive sectors would remain unchanged (apart from any tax changes);

(c) that 10 per cent. of the total natural gas from the North Sea would go to power stations.

* For petroleum, the industry provided estimates of demand on the basis of the specified assumptions. Subsequently the Ministry of Power compiled its own estimates of costs, manpower and capital investment, in consultation with a number of leading companies.
### Table C
**Estimates of Inland Demand for Energy on Varying Assumptions**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Natural gas (North Sea) (energy uses) m.t.c.e.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil tax per gallon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimates of demand for energy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gas sales: million therms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>2,147</td>
<td>3,550</td>
<td>3,450</td>
<td>3,250</td>
<td>4,900</td>
</tr>
<tr>
<td>Industrial</td>
<td>935</td>
<td>1,530</td>
<td>1,470</td>
<td>1,390</td>
<td>2,300</td>
</tr>
<tr>
<td>Commercial and other</td>
<td>574</td>
<td>670</td>
<td>630</td>
<td>560</td>
<td>800</td>
</tr>
<tr>
<td>Power stations</td>
<td></td>
<td></td>
<td>350</td>
<td>350</td>
<td>700</td>
</tr>
<tr>
<td>Total</td>
<td>3,656</td>
<td>6,100</td>
<td>5,900</td>
<td>5,550</td>
<td>8,700</td>
</tr>
<tr>
<td>Electricity sales: thousand million kWh.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic and farms</td>
<td>63.0</td>
<td>76</td>
<td>78</td>
<td>81</td>
<td>109</td>
</tr>
<tr>
<td>Industrial</td>
<td>67.9</td>
<td>89</td>
<td>89</td>
<td>89</td>
<td>118</td>
</tr>
<tr>
<td>Transport</td>
<td>2.5</td>
<td>3</td>
<td>3</td>
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Coal: million tons

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<td>128.1</td>
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<td>126</td>
<td>130</td>
<td>152</td>
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Oil: m.t.c.e.

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Total inland demand for energy: m.t.c.e.

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<td>121</td>
<td>103</td>
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<tr>
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<td>37</td>
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<td>355</td>
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<td>344</td>
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</table>

N.B.—Although the total energy figures are shown to be lower where the natural gas supply is high (alternative B), this does not mean that consumers would have less useful heat. In fact in alternative B a slightly higher requirement for useful energy has been assumed, but it requires a lower primary fuel input.
9. The different estimates in Table C were designed to illustrate the effects on demand fuel by fuel (and thence on the use of resources to meet the demand) of varying the assumptions as set out in paragraph 8 in respect of two factors—the quantity of North Sea natural gas to be absorbed into the system and the level throughout the period of the protection for coal, which was represented in the statistical exercise by taking alternative rates of oil tax. These two factors were selected for this special initial scrutiny because of their particular importance for the review. The first was a major factor of exceptional uncertainty at the time these estimates were being prepared. The second was the principal variable relative to policy decisions.

10. The alternative assumptions for 1975 reflect the extent of the uncertainty as to how much natural gas might become available from the North Sea. The estimates of total gas sales, sector by sector, were provided by the gas industry for each combination of assumptions; they represented the best estimates available at that time from the concurrent exercise on the absorption of natural gas. The Ministry of Power had the task of deciding by how much earlier estimates of requirements for other fuels needed to be altered to allow for the greater use of gas. Data on which to base such estimates were scanty as there was no previous experience of a comparable nature in the United Kingdom, and data from abroad were only partly appropriate. In general, for those sectors of final consumption where gas is in competition with other fuels, the estimated sales of the competing fuels were reduced proportionately to the extent necessary to compensate for the extra gas. In most sectors the reduction made in the competing fuels was precisely equivalent to the increase in gas, but in the domestic sector it was considered that the lower prices overall would lead to some increase in total consumption of useful energy. It was assumed that half the average saving in expenditure on fuel (allowing for the switch from one fuel to another which was expected) would be applied to buy extra fuel for space and water heating; and that the other half would be spent on needs other than fuel, including the new appliances needed to convert from one fuel to another. In the industrial sector gas is only in competition with electricity to a limited extent, and the adjustments were restricted to fuels other than electricity.

11. To assess the effects of variation in the rate of oil tax, some measure of the price elasticities of the separate fuels in response to a sudden major change in relative prices had to be determined. This elasticity is of complex form because fuel consumption depends on the appliances in use, which change only gradually over a period of years. Previous experience provided little guide, particularly for such a wide range. The system adopted by the Ministry was to calculate the relative proportions of demand for coal and oil respectively, in each sector of final consumption affected, for any given coal/oil price ratio by rough interpolation or extrapolation between the assessed proportion in two particular cases—the first assumed the continuation of current trends, implying that oil's already appreciable advantage over coal for most uses would increase slightly; the second assumed that the price relationship would swing back to a level at which it was judged that the relative proportions would remain the same as now. In the calculations it was assumed that the effect of a price change would become progressively less the further one moved from the break-even point. The effects on the gas and electricity industries of a change in oil prices are also complex. Oil
feedstocks are currently a major item in the gas industry's costs and a rise in the price of oil for gas making would tend to raise the price of gas. The effect will progressively diminish as natural gas is brought in. Oil is a smaller element in the electricity industry's costs, and the effect on electricity prices of a rise in the price of oil would be much less than the direct increase in the prices of competing oil products to consumers. Electricity sales to domestic and other non-industrial users were therefore assumed to benefit from the overall effect of higher oil prices.

12. For a number of important factors, provisional single figures were inserted in the January, 1967, estimates. The intention was to assess the likely sensitivity of results to variations of these other factors with the object of concentrating further work on those which were likely to have a marked effect on decisions. It would have been quite impracticable, and of no value, to have carried through a full range of calculations for each of the many hundreds, or perhaps thousands, of possible combinations of assumptions; it would not even have been possible for the industries to provide estimates of the use of the various resources to meet the demand for a great number of different combinations. The assumptions used for the two factors examined in the January, 1967, estimates covered wide ranges and were intended to give an indication of the effects of intermediate values.

Other Factors to be Examined

13. There were four main factors for which it had been thought that a detailed examination of alternative assumptions might be required, but it has not been necessary to carry this out. The methods of estimating the effects of a change in the oil tax, as described in paragraph 11, were also appropriate for judging the effects of variations in the relative prices of coal and oil (though the effect of a progressive change in prices would be less than that of an immediate change in tax); the work undertaken on this subject led to the conclusion that the pattern of demand for the various fuels would not be greatly affected by any likely variation in these price relativities. Separate work on nuclear power costs (referred to in paragraph 2) made it possible to dispense with alternative assumptions as to how much nuclear power there would be by 1975, and to work on the basis that the existing programmes would be fulfilled. Scrutiny indicated that the rate of interest on new investment, within accepted limits, was unlikely to have any significant effect on the demand forecasts. As regards the rate of growth of the economy, earlier work had given a measure of the effect of alternative assumptions and had indicated that policy was unlikely to be very sensitive to variations in this factor. One particular reason for this view was that, although in conditions of fast expansion the total demand for fuel would be higher, coal's proportional share might be lower, if only because the industry would probably have to pay higher wages to retain the necessary manpower, with adverse effect on prices.

Selection of the Most Desirable Policy

14. The most desirable course of policy, other things being equal, would be the course which held out prospects for meeting the demand for energy at the lowest cost. But qualifications to this general statement included the following:

(a) As has already been noted, some of the assumptions made concerned factors (such as the size of natural gas deposits in the North
Sea) which are not, or not mainly, within the control of the Government, and for which there was insufficient data on which to base a reliable estimate. In considering the most desirable course of policy, a view has to be taken of the possible range of the factor in question, and, if the choice of the best policy is sensitive to where in the range eventually proves right, as to the likelihood of any particular value of the factor. It may sometimes be best to select a course of policy which will give good results whatever the value of a particular factor, rather than one which will give the best results for one particular value but poor results for some other values.

(b) In certain circumstances, the money cost of a particular resource may not be an accurate measure of its real cost to the nation. For example, if the displacement of miners adds to unemployment in the short term, manpower at marginal collieries may be regarded as costing less in national terms than the wages actually paid. Allowance must therefore be made, in this and other contexts, for the possibility of a divergence between money costs and resource costs. It is not always practicable to put precise figures on these differences, but the concept can nevertheless be applied by taking a range of assumptions and comparing the outcome in terms of the total resource cost of meeting demands for energy. The results of this approach have not yet been worked out in detail, but the principle has been an important aid in reaching the decisions outlined in the White Paper.

(c) Two fuels which both give the same useful heat to a consumer may not have the same value to him. One may be more expensive to use than the other, because, for example, the appliances required cost more, or stocking costs more, or labour costs of use are higher; or the consumer may simply prefer one to the other, perhaps because of reasons of its greater convenience, and may be willing to pay for his preference. In an attempt to quantify these differences in value, the concept of "convenience factors" was introduced; these expressed the premium which one fuel could command over another of equal calorific value in competition with it. Work on this concept is still in the early stages; its practical application raises awkward problems which have yet to be solved.

15. Qualitative assessments of the importance to be attached to the various factors affecting the desirable level of protection made it possible to arrive at interim conclusions for the purpose of the White Paper without going through a whole range of detailed calculations. The appropriate level of protection for coal in the longer term was judged unlikely to be higher than is represented by an oil tax at the present rate. Not only was the present level of protection as high as seemed likely to be justifiable in the longer term for general balance of payments reasons, but the difficulties of re-employing the displaced miners should be surmountable in the longer term and the economy should gain substantially by their moving to more productive employment; the avoidable costs of coal production would not be very much less than total accounting costs in the longer term; and the costs to the economy of a high level of protection were substantial.
The April, 1967, Estimates

16. In the light of the conclusions outlined in paragraph 15, attention was concentrated on the practical problems which would arise if coal demand were to decline at the rate expected with oil tax continuing at 2d. a gallon. Case II of the January, 1967, estimates was no longer entirely satisfactory for this purpose because events had moved on, much more being known about the potential availability of North Sea gas. It now seemed likely that 2,000 m.c.f.d. might be available by 1970, rather than the 1,000 m.c.f.d. assumed in the January, 1967, estimates. This was more than the gas industry was likely to be able to use in its traditional markets, and presented complicated problems of reassessment of demand patterns; in the separate exercise on the absorption of natural gas, discussed in Chapter 2 and Appendix II, studies were made of the desirability of burning natural gas in power stations and the bulk fuel market.

17. To illuminate the problems arising from a continuation of the oil tax at 2d. a gallon (the rate prior to the imposition and subsequent consolidation of the 10 per cent. surcharge) and the more rapid absorption of natural gas, the Ministry of Power provided the new estimates set out in Table D ("the April, 1967, estimates"). These estimates formed one of the main bases for discussion at the Minister of Power's Conference with the Chairmen of the nationalised fuel industries in May. They are on the basis of a 2d. a gallon tax on oil. The principal changes in assumptions as compared with Case II of Table C are as follows:

(a) The natural gas assumed to be absorbed by 1970 is double the previous assumption. For 1975 a single assumption of 4,000 m.c.f.d. has been used, instead of 2,000 m.c.f.d. and 6,000 m.c.f.d. respectively in the A and B alternatives.

(b) The proportion of natural gas going to power stations has been taken as 30 per cent. in 1970 and 25 per cent. in 1975. In the January, 1967, estimates 10 per cent. was assumed throughout.
### Table D

**Estimates of Inland Demand for Energy on Specified Assumptions**

("The April, 1967, estimates")

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<th>1975</th>
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<td></td>
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</tr>
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<td>Nuclear and hydro-electricity</td>
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<tr>
<td><strong>Total</strong></td>
<td>91(\cdot)8</td>
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<td><strong>Coal: million tons</strong></td>
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<td>65(68)</td>
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<td>Coke ovens</td>
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<td>27(\cdot)5</td>
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<tr>
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<tr>
<td><strong>Total</strong></td>
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<td>42(\frac{1}{2})</td>
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<td>3(\cdot)7</td>
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<tr>
<td><strong>Total</strong></td>
<td>111(\cdot)7</td>
<td>130(127)</td>
<td>146</td>
</tr>
<tr>
<td><strong>Total inland demand for energy: m.t.c.e.</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>174(\cdot)7</td>
<td>139(142)</td>
<td>118</td>
</tr>
<tr>
<td>Oil</td>
<td>111(\cdot)7</td>
<td>130(127)</td>
<td>146</td>
</tr>
<tr>
<td>Nuclear and hydro-electricity</td>
<td>10(\cdot)2</td>
<td>16</td>
<td>37</td>
</tr>
<tr>
<td>Natural gas</td>
<td>1(\cdot)1</td>
<td>25</td>
<td>49</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>297(\cdot)7</td>
<td>310</td>
<td>350</td>
</tr>
</tbody>
</table>

*In 1970 alternative estimates are given of coal and oil usage at power stations. The first figures assumed no discrimination against oil other than the tax of 2d. a gallon. The bracketed figures assumed a continuation of the current short-term arrangements which provided for an additional loading against oil.
Chart 12

Pattern of Primary Fuel Consumption: United Kingdom

1966
297.7 million tons of coal equivalent

1975
350 million tons of coal equivalent

Coal
Nuclear & Hydro Electricity
Oil
Natural Gas

65
The Outcome of the Exercise

18. The practical problems—human, social and economic—of contraction in the coal industry had been very much in mind since the exercise began. At the Fuel Policy Conference in May the issue was sharpened: assuming that the estimates of total demand for each primary fuel in Table D were correct (and they received a broad measure of agreement), could the consequent contraction of the coal industry be achieved without risk of damage to its morale and management which might do disproportionate harm to the industry’s future contribution to the economy? Following discussion at the Conference, the Government concluded that the contraction of the coal industry to the level for 1975 envisaged by the figures should be manageable; but they accepted the advice of the National Coal Board that the rapid run down in the period to 1970 would cause unmanageable difficulties for the industry. They considered that it would also cause unacceptable social hardship and serious difficulties for the economy in this early period. The decision was taken to try to hold the demand for coal by 1970 at around 155 million tons if this was practicable and necessary.

19. In the light of this political and managerial judgment, it was necessary to analyse and quantify the implications and consequences in financial and economic terms of holding coal demand at this level. The only practicable way of supporting demand for coal to this extent was to use more than expected at power stations (and possibly also rather more at gasworks). This meant that there would be less scope for using natural gas at power stations and also implied a considerable degree of special preference for coal over oil there. Table E summarises the pattern of inland demand that may result in 1970 if demand for coal is sustained at 155 million tons, including 3 million tons for exports.

### Table E

**Pattern of Inland Demand in 1970 Adjusted for Contingent Support for Coal at 155 Million Tons Including 3 Million Tons for Exports**

These figures assume a 2d. tax rate on oil and a 3 per cent. per annum growth in gross domestic product from now on; and that additional coal would be used at power stations and the extra cost of this arrangement would be met from public funds.

<table>
<thead>
<tr>
<th>Estimates of demand m.t.c.e.</th>
<th>1966 (Actual)</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal: Power stations</td>
<td>68.7</td>
<td>76</td>
</tr>
<tr>
<td>Other</td>
<td>106.0</td>
<td>76</td>
</tr>
<tr>
<td>Oil: Power stations</td>
<td>12.4</td>
<td>11</td>
</tr>
<tr>
<td>Other</td>
<td>99.3</td>
<td>114</td>
</tr>
<tr>
<td>Nuclear and hydro-electricity</td>
<td>10.2</td>
<td>16</td>
</tr>
<tr>
<td>Natural gas: Power stations</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1.1</td>
<td>15</td>
</tr>
<tr>
<td>Total inland demand for energy</td>
<td>297.7</td>
<td>310</td>
</tr>
<tr>
<td>Electricity sales (thousand million KWh)</td>
<td>160.8</td>
<td>205</td>
</tr>
<tr>
<td>Gas sales (million therms)</td>
<td>3,656</td>
<td>6,700*</td>
</tr>
</tbody>
</table>

*For energy use. Includes natural gas supplied to power stations.*
Chart 13

Primary Fuel Consumption in the United Kingdom

MILLION TONS OF COAL EQUIVALENT

1966 - 1975

Coal

Oil

Nuclear & Hydro Electricity

Natural Gas
20. It is to be noted that the adjustments relate to a transitional stage in fuel policy evolution. The revised demand estimates for 1970 in Table E reflect a particular constraint which operates in the next few years, say, between now and 1970–71. They do not, therefore, affect the 1975 figures in Table D. Chart 13 shows the estimated primary fuel use in 1970 and 1975, compared with 1966.

21. Chart 14 illustrates the changes in total energy demand by sector in the period up to 1975 and compares them with the corresponding changes between 1957 and 1966. The absence of any significant change in the thermal value of energy used by domestic consumers throughout the period is the result of increasing efficiency in the use of domestic fuels; higher standards of comfort in the home and greater use of appliances are being secured without any marked increase in the total fuel supplied. The same applies, to varying degrees, in other sectors—for example, the principal reason why the growth in transport fuel requirements has been slower over the past decade than it is expected to be in the years ahead is the rapid decline in the last few years in coal use, at low efficiency, on the railways.

22. Chart 15 illustrates in very broad terms the principal features of the estimates of manpower and investment requirements for the fuel industries that emerged from the calculations mentioned in paragraph 7. These tentative estimates do no more than give a very approximate indication of the probable pattern of the needs for these resources in the energy sector up to 1975.

23. Much more remains to be done on work which has had to be left on one side while problems of immediate practical importance were dealt with, but the analyses already carried out leave little doubt as to the validity of the decisions already based on them though the uncertainties which cannot yet be resolved underline the need for flexibility in fuel policy.

Future Developments

24. Trends of development in any major sector of the economy call for continuous review and study and for periodic major reassessment. The current review has, at one and the same time, offered an opportunity to develop and apply new techniques of analysis and shown the need for their further elaboration. A major new development in the technique of analysis is now in train. With the help of experts from the fuel industries, the Ministry of Power is engaged in constructing a series of mathematical models of the fuel economy and the results of the work will be incorporated in the general body of quantitative analysis as it reaches fruition. The gestation of new techniques such as these is a long process and it will take time to create a fully integrated series of mathematical models which will successfully simulate the activities of the fuel economy and relationships with the economy generally. Concurrently with the work on detailed computable models, to give the best presentation of the fuel economy consistent with the information and facilities which can be made available, the aim is to produce greatly simplified computable models which can be constructed relatively quickly and got into operation, however crudely, in a matter of months rather than years. The results from such simplified models may not prove sufficiently
CHART 14

ENERGY DEMAND BY SECTORS

PRIMARY FUEL REQUIREMENTS BY FUEL PRODUCERS

DEMAND BY FINAL CONSUMERS OF ENERGY (HEAT SUPPLIED BASIS)*

*FOR DEFINITIONS SEE PAGE 17 OF THE MINISTRY OF POWER STATISTICAL DIGEST 1966.
reliable for practical application, but it is hoped by this means to anticipate some of the teething troubles which will inevitably be met in the more detailed work. The simplified models may also help in assessing the significance of various factors and indicating how far they need to be taken into account in detailed models. The analyses carried out in the course of the current review, and previously, have already provided an insight into the possibilities and problems involved in work of this nature.

25. The structure of the main model, both in the detailed and simplified versions, consists of a separate supply sub-model for each of the principal fuel industries, linked to each other and to a demand sub-model in such a way as to express their interactions on each other. The aim will be to obtain such answers as the demand for each fuel and the related costs and prices, investment and manpower, on the basis of information (or assumptions) as to the prospective state of the economy and as regards government policy on such matters as taxes and subsidies and financial objectives for the nationalised industries.
CHART 15
MANPOWER AND INVESTMENT REQUIREMENTS OF THE ENERGY SECTOR
APPENDIX II

NATURAL GAS

ANALYSIS OF PROBLEMS OF DETERMINING THE OPTIMUM RATE OF DEPLETING THE NORTH SEA GAS FIELDS

1. North Sea natural gas is a valuable national asset with an important contribution to make to the economy. Substantial reserves have been proved but, while there is every reason to believe that further discoveries will be forthcoming, there will inevitably be uncertainty for some time to come about the total amounts of natural gas which the United Kingdom area of the North Sea holds. In spite of this uncertainty, however, the Government have had to come to terms with the problem of analysing the rate at which ideally this new resource should be used up. This Appendix describes in a simplified and condensed form the background to the Government’s analysis.

2. A point of clarification is needed on what a particular “rate of depletion” implies in practice. In a typical case, production from a gas field is built up over the first few years, while the initial wells are being drilled and pipelines and other facilities installed, to a “plateau”. As the gas in the field is depleted, output tends to decline and can only be maintained at the plateau level by drilling additional wells and installing compressors. Eventually, after a period of years, it becomes uneconomic to drill more wells and output gradually tails off. Production will normally be planned to give a certain level of output on the plateau which can be expressed as a proportion of the recoverable reserves (recoverable reserves may be no more than 70 to 80 per cent. of the gas actually in place). Within limits, the output, and so the length of life of the field, can be varied by drilling more or fewer wells and installing pipelines and other facilities to match the desired off-take. A field would be described as having a twenty-year depletion period if its annual output on the plateau were one-twentieth of the recoverable reserves, but this level of production might in practice be maintained for only about twelve years, though gas would flow over a span of thirty years or more, including the build-up and tail-off periods. Similarly, a field designed to produce one-thirtieth of the recoverable reserves annually might only maintain this level of output for twenty years or so, while yielding some gas over a total period of around forty years. To say, as in paragraph 13, that with $25 \times 10^{19}$ cubic feet of recoverable reserves the plateau production level might be 3,000 million cubic feet a day is to imply that the depletion period would be 20 to 25 years, but the plateau level would be maintained for less and total production for a longer time.

3. The rate of depletion is an important issue only in the case of a natural resource the reserves of which are limited and for which there is no close substitute available at a comparable cost. In the United States, the ratio of proved reserves to annual production of natural gas is at present about 17:1. But there, new reserves are continually being discovered and it would not be prudent at this stage to assume that the United Kingdom’s part of the North Sea will be as prolific a source of gas as North America.
Since there is also no firm prospect that either manufactured gas or imported natural gas could match our North Sea gas in price, the depletion issue is relevant to our situation.

4. As to the production side, there are technical and economic limitations to the rate at which fields can be depleted, but generally the maximum technically efficient rate would be faster than the optimum economic rate determined by the balance between discounted costs and discounted revenues. While there is no single optimum depletion period applicable to all fields, economic considerations do not favour a very long depletion period because it would leave some of the gas reserves unused, and producing no return, until far into the future. But whatever plateau production level is chosen, there are clear advantages from the production and distribution point of view in having a rapid build-up to that level. The pipelines and other equipment needed to bring the gas into use have to be large enough to take supplies at the plateau level of output and the sooner they are used to full capacity the better.

5. Turning to the markets, the sooner the gas is brought into use, the sooner the benefits in reduced fuel costs are realised. However, as noted in paragraph 19, the savings in resources are different in different markets. The assessment of the resource savings can only give a broad indication of their possible scale. It involves complex judgments and calculations of the resource costs, over many years ahead, of the fuels that would be displaced by natural gas and those that would be a substitute for it when the reserves are exhausted. These calculations involve attempting to allocate resource costs to some oil products which are produced jointly with others in the refining process. However, the analysis suggested that the savings would be substantial where natural gas replaced town gas, intermediate in those markets where it can command a moderate premium over oil, and small in the bulk market. This conclusion, therefore, argues in favour of reserving the gas for the premium markets in preference to the bulk market. But because of the present size and nature of the premium markets, this would inevitably mean a rather slow build-up and probably too slow a depletion rate.

6. Thus, there are conflicting considerations. The approach adopted was to attempt to calculate how the resource savings could be maximised. Beyond a certain point in time, the greater resource savings obtainable from reserving the gas for use in premium markets will clearly be worth less, when discounted to a present value, than the savings from the bulk use of gas now or in the next few years. At present, it is only possible to quantify some of the factors which must be brought into account—and even then only within a substantial margin of error. The potential growth of traditional, "semi-premium" and non-premium markets for gas has to be assessed (this will depend on the selling price of the gas, which in turn will partly depend on the price paid by the gas industry to the producers); assumptions have to be made about the price of natural gas over the years and at different rates of use; and, if the period of depletion extends very far into the future, the possibility that technological progress might provide a cheaper substitute for natural gas in at least some of its markets has to be borne in mind. However, accepting the need for qualification in the light of the great
uncertainties, the broad conclusion was that something over twice the level of the reserves so far discovered would need to be assured before, from the point of view of resource savings, it would be desirable to sell the gas extensively to the bulk market.

7. There are, however, other important considerations which could affect this conclusion. The importance of load factor and the complexities involved are mentioned in paragraphs 20 and 21; there is the question of how likely it is that more gas will be found in the United Kingdom part of the North Sea—and of the availability of natural gas abroad, since imported natural gas might be the cheapest alternative to indigenous natural gas; and there is the value of a rapid build-up to the chosen depletion rate in giving an incentive to further exploration which would both increase the information about the ultimate reserves and, it is to be hoped, add to our resources of gas. Also, the introduction of natural gas has to be seen against the wider background of fuel policy as a whole, its effect on other fuels, and its value to the economy.

8. With so many uncertainties, the analysis could only be directed to determining the immediate course of action for the absorption of natural gas on the knowledge available and on conservative assumptions about future developments. Firm conclusions which may be drawn now are that the rapid introduction of natural gas into existing and new premium and semi-premium markets will reduce costs and save foreign exchange; and that sales to the bulk energy market will improve load factor and assist the rapid build-up in supplies, and so help to secure a low price. On present knowledge of the North Sea reserves, however, deliberate encouragement of bulk sales beyond this would not be justifiable if they would be at the expense of premium markets.

9. As a general guideline at this stage, the greatest gain to the economy will be obtained by a policy of rapid absorption, with most of the gas going to premium markets (where it would largely be displacing oil) and some bulk sales to make possible a rapid build-up of supplies to the most economical depletion rate. This will mean some displacement of coal by natural gas in the bulk energy market, but the coal markets that will be lost in this way would in all probability fall to oil if natural gas were not available.
In some overseas countries—particularly in the United States—natural gas has been widely used for some time. In none of them is there a perfect parallel to our own situation but their experience in the build-up of supplies, depletion rates and pattern of demand is worth noting when considering our own absorption strategy.

United States of America

2. The beginnings of the natural gas industry in the United States date from the early nineteenth century when natural gas was first discovered. For many years its use was confined to the localities in which it was found because of the lack of means to transport it over long distances. With the development in the 1930's of large-diameter steel pipelines capable of operating at high pressures, it became possible to transmit the gas to markets away from the producing fields. Since the last war growth has been very fast: whereas in 1945 natural gas provided less than 13 per cent. of the country's energy consumption, it now accounts for over one-third.

3. The United States is the world's largest producer of natural gas, with a production of about 50,000 million cubic feet a day. Proved recoverable reserves have almost doubled since 1945 and it has been estimated that future discoveries may be two to five times the reserves so far found. Of the amount marketed, nearly 60 per cent. is consumed in industry and about one-fifth of this is used in power stations. The domestic market now takes over 30 per cent. of marketed production.

4. Because of the long distances over which gas is piped, the load factor at which gas is taken is of particular importance. To even out seasonal changes in demand, underground storage of gas has been developed on a large scale and nearly three hundred storages are now in use. In addition, gas is sold to some large consumers on an interruptible basis; this allows supplies to be cut off or reduced in winter when demand from other consumers is at its maximum.

Holland

5. The discovery in 1959 of vast reserves in the province of Groningen has made Holland potentially the largest producer of natural gas in Western Europe. Prior to this discovery, town gas was supplied by a large number of separate undertakings, the gas being manufactured, or purchased from coke ovens, refineries and some small natural gas fields. For the bringing into use of the new reserves in Groningen, a new organisation, Gasunie, was established, responsible for constructing the natural gas transmission network and for purchasing and supplying the gas to the undertakings and to large industrial consumers. Consumers' appliances are being converted to use supplies of natural gas as it becomes available; by the end of 1966 about 70 per cent. of the two and a half million consumers had been changed over.

6. Deliveries into the natural gas grid began at the end of 1963 and last year totalled nearly 3,500 million cubic metres (about 350 m.c.f.d.), or 9 per cent. of total energy consumption. Internal sales are expected to
increase fivefold by the mid-1970's. Because the reserves are so large, part has been allocated for export and contracts have been made with France, Belgium and Germany to supply quantities which will total over 20,000 million cubic metres a year (2,000 m.c.f.d.).

France

7. Most of the indigenous natural gas supplies are at present obtained from the Lacq field in the south-west of France; further deposits of gas have recently been found in this area. Although the Lacq field was discovered in 1951, the large amounts of sulphur in the gas created technical problems and commercial exploitation did not start until 1957. Production of desulphurised natural gas is about 5,000 million cubic metres a year (500 m.c.f.d.). This is over 90 per cent. of the total production of natural gas and represents about 5 per cent. of France's energy consumption.

8. Nearly half the production is sold to consumers in the south-west, including a few large industrial consumers and a power station established in the vicinity of Lacq. In order to achieve as rapidly as possible a build-up to the optimum rate of production, it was necessary to seek markets in the more industrialised parts of France, and more than 1,000 miles of new pipelines were constructed by the nationalised gas industry, Gaz de France, to supply the north-west and the Paris and Lyons areas. These pipelines are leased to Compagnie Francaise du Methane, which is jointly owned by Gaz de France and the state-controlled producing company at Lacq, and they supply both the distribution networks of Gaz de France and large industrial consumers.

9. To achieve a rapid build-up, large amounts were sold initially to power stations but, as demand from other consumers increased, supplies to power stations were reduced and the gas so released has been used to meet the growing requirements of the gas industry and large industrial consumers. At first the gas industry used natural gas mainly for enriching or reforming into town gas, but a programme to convert all the consumers to direct supply is being undertaken and about one-third of its six and a half million consumers have so far been changed over to natural gas. Gaz de France now takes over half the gas transmitted by Compagnie Francaise du Methane.

10. Indigenous supplies of natural gas are being supplemented by imports. Since 1965, liquefied natural gas has been imported from Algeria and an agreement has recently been concluded for larger quantities. The first deliveries of gas from Holland are due this year.

Italy

11. Natural gas was first discovered in the Po Valley in 1946 and, although in recent years gas has been found in other parts of Italy, this area still provides most of the country's production of about 8,800 million cubic metres a year (about 880 m.c.f.d.), which accounts for 10 per cent. of the total energy consumption. The conventional gas industry in northern Italy was small and, in order to exploit as rapidly as possible this indigenous supply of energy, pipelines were laid to the industrial centres there and the gas was sold mainly to industrial consumers and power stations. By 1955, production had reached
3,600 million cubic metres a year, of which more than 90 per cent. was consumed in industry. The proportion taken for non-industrial purposes has, however, been increasing and now represents over 25 per cent. Changes made in recent years in industrial tariffs have aimed to encourage the maximum use of supplies in premium uses.

12. The demand for gas in northern Italy can no longer be satisfied from the Po Valley fields and a contract has been made for the import of liquefied gas from Libya. Discussions on the provision of additional supplies are also taking place with other countries.
NUCLEAR POWER COSTS

1. Following the encouraging tenders in 1965 for the Advanced Gas-Cooled Reactor (A.G.R.) station being built at Dungeness, which is the first station in the second nuclear power programme for commissioning in 1970–75, the Government announced in the 1965 White Paper* that a total of 8,000 megawatts (MW) of nuclear capacity might be built under this programme. Since then the Central Electricity Generating Board have received tenders for Hinkley Point “B”, the second station in the programme, and the South of Scotland Electricity Board for a station at Hunterston. In the United States there has been a massive increase in the rate of ordering of nuclear power stations. In view of these developments, a fresh examination of the economics of the second nuclear power programme and also of nuclear costs in the longer term has been undertaken.

Second Nuclear Power Programme

2. Table F shows the estimates of nuclear and conventional generating costs per kWh given in the 1965 White Paper and the Central Electricity Generating Board’s latest estimates. The figures include the royalty payable to the Atomic Energy Authority on A.G.R. nuclear stations of 0.014d. per kWh and have been calculated on the basis of the “ground rules” used by the Central Electricity Generating Board in making comparisons of generating costs—a 20 year amortisation period for nuclear stations and 30 years for conventional stations, 7½ per cent. interest rate (and 5½ per cent. for interest during construction), a constant lifetime load factor of 75 per cent., and a credit of £2 a gram for plutonium.

TABLE F
GENERATING COSTS OF NUCLEAR AND CONVENTIONAL POWER STATIONS

<table>
<thead>
<tr>
<th></th>
<th>1967</th>
<th>1965†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuclear</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dungeness “B”</td>
<td>...</td>
<td>... 0.52</td>
</tr>
<tr>
<td>Hinkley Point “B”</td>
<td>...</td>
<td>... 0.48</td>
</tr>
<tr>
<td>Coal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cottam</td>
<td>...</td>
<td>... 0.53</td>
</tr>
<tr>
<td>Drax</td>
<td>...</td>
<td>... 0.56</td>
</tr>
<tr>
<td>Oil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pembroke (with tax)</td>
<td>...</td>
<td>... 0.53</td>
</tr>
<tr>
<td>„ (without tax)</td>
<td>...</td>
<td>... 0.42</td>
</tr>
</tbody>
</table>

† Paragraph 68 of Cmnd. 2798 (apart from Hinkley Point “B”, which was ordered in 1967). The figure for Dungeness “B” has been increased to include a royalty payment to the A.E.A. of 0.014d. per kWh.

3. The total generating cost of Dungeness “B” is now expected to be 0.05d. per kWh higher than the 1965 estimates. This increase is mainly the result of including further items in the expected construction cost, but the cost of the reactor “island” or purely nuclear plant has not increased apart

* Cmnd. 2798, paragraph 70.
from inflation. The estimated generating cost of Drax has risen by about 0·04d. per kWh as a result of the increase in coal costs in April, 1966, and revised estimates of capital costs. There has been little change since 1965 in the estimated generating costs of Pembroke and Cottam, but these stations were ordered in 1963 and 1964 respectively, and their costs do not give an accurate guide to the costs of stations ordered now, for which construction costs would be higher. The estimated cost of Hinkley Point “B” is lower than that of Dungeness “B”, and there are good grounds for believing that there will be further cost reductions in subsequent A.G.R. stations. By 1975 their generating costs are expected to approach those of a conventional station using untaxed oil. These cost reductions would come from miscellaneous design and engineering improvements, from improvements in fuel technology (as in the case of the Magnox plant which formed the basis of the first nuclear power programme), from larger size of stations (four reactors instead of two) and from economies from repeat orders.

4. Estimates of generating costs on the basis of pence per unit, on the assumption that the power stations under consideration will have a fixed load factor (75 per cent. for example) throughout their lives, are useful for some purposes but can be misleading in comparing plant with markedly different capital and operating costs, such as nuclear and conventional power stations. Nuclear power stations have higher capital costs but much lower operating costs than conventional stations and it is reasonable to assume that they will be operated at higher average load factors. For this reason, in making comparisons of nuclear and conventional power stations, the Central Electricity Generating Board calculate the costs which they would need to incur throughout the life of either type of station. This method shows the effect on the Central Electricity Generating Board’s total costs, rather than the isolated costs at the individual stations, by allowing for the fuel savings which would accrue as more efficient plant comes into service in the future and displaces older conventional plant in the power station merit order. It minimises the disadvantage in fuel costs of the conventional plant as compared with nuclear plant; the cruder method of assuming a constant high load factor tends to distort the comparison in favour of nuclear plant.

5. Using the method described in the previous paragraph to calculate the operating savings of nuclear stations compared with coal-fired stations, the internal rate of return on the extra investment in nuclear stations can be calculated by recognised discounted cash flow techniques. For the 5,500 MW of the second nuclear programme after Dungeness “B” and Hinkley Point “B”, the additional capital cost compared with a similar programme of coal-fired stations is expected to be some £170 million, or about £30 per kW (including interest during construction and the cost of the initial loading of uranium fuel for nuclear stations). The “ground rules” employed in calculating the return on this extra investment are the same as those used by the Central Electricity Generating Board (see paragraph 2) on which Table F is based, except that interest during construction is taken as 8 per cent. (against the Central Electricity Generating Board’s figure of 5½ per cent.), and a higher cost of the initial charge of uranium fuel is assumed in line with the Central Electricity Generating Board’s estimate of the cost of replacement uranium fuel. In the light of increasing experience with the existing Magnox stations and with the experimental A.G.R. at Windscale, these ground rules
might be thought pessimistic in two respects. First, a longer amortisation period might be justified; and second, a higher availability and thus a higher lifetime load factor, or else greater system savings, might be attainable. Both these changes, if reflected in the ground rules, would favour nuclear power. Nevertheless, it has been felt proper, for the time being at least, to retain the use of the more severe ground rules.

6. For purposes of calculating the operating savings of the nuclear plant as compared with coal-fired plant, a range of coal prices from 3d. up to 6d. per therm at pithead was considered, equivalent to 3·7d. to 6·7d. inclusive of costs of transport, handling, preparation and ash disposal. The present inclusive costs of the cheapest and most expensive coal that the Central Electricity Generating Board purchase from the National Coal Board are 3·9d. and 6·6d. per therm: the average cost is 5d.

7. The results of these calculations of the internal rate of return on the extra investment are given in Table G below:

TABLE G
INTERNAL RATE OF RETURN ON EXTRA INVESTMENT IN THE SECOND NUCLEAR POWER PROGRAMME

<table>
<thead>
<tr>
<th>Coal Costs</th>
<th>Coal Costs Inclusive</th>
<th>Estimated Internal Rate of Return*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pithead (pence per therm)</td>
<td>(pence per therm)</td>
<td></td>
</tr>
<tr>
<td>3.0</td>
<td>3.7</td>
<td>13%</td>
</tr>
<tr>
<td>4.0</td>
<td>4.7</td>
<td>19%</td>
</tr>
<tr>
<td>5.0</td>
<td>5.7</td>
<td>25%</td>
</tr>
<tr>
<td>6.0</td>
<td>6.7</td>
<td>31%</td>
</tr>
</tbody>
</table>

* On extra capital required for 5,500 MW of capacity based on nuclear (instead of coal).

The precise balance of optimism and pessimism in making future estimates of generating costs is to some extent a matter of judgment. There are inevitably uncertainties—for example, in the estimates of capital costs, in the timing of completion of construction, and in plant availability. In view of these uncertainties, but bearing in mind that it would be wrong to aggregate all the most favourable or all the most unfavourable factors, the rates of return shown in Table G should be regarded as the mid-points of ranges extending 2 or 3 percentage points in either direction.

8. Consideration has also been given to whether the estimates in Tables F and G include all the avoidable costs properly attributable to nuclear power stations in the second nuclear power programme and, in particular, whether the prices paid by the generating Boards for the supply and re-processing of nuclear fuel and the disposal of radioactive waste fully reflect the costs incurred by the Atomic Energy Authority. The Government have accepted that the Atomic Energy Authority’s activities of a commercial nature ought in principle to be accounted for separately in a Trading Fund, and that all assets in the Fund should be charged the proper Treasury interest rate and earn in addition an appropriate surplus. Although the full costs arising from the provision of uranium and the re-processing of radioactive waste are not at present covered in the Trading Fund as such, they are expected to be by the early 1970’s, and by then the Atomic Energy Authority will be
recovering all avoidable costs. As regards the Atomic Energy Authority's research and development expenditure, the royalty at the rate of 0.014d. per kWh. to be paid by the generating Boards to the Atomic Energy Authority on A.G.R.'s in the second nuclear power programme has rested primarily on the assumption that they will show a cost advantage over alternative methods of generation. This royalty will not recover all the past costs of the development of the Magnox and A.G.R. systems, but it is expected to cover amply all forward avoidable costs likely to be incurred by the Atomic Energy Authority in further development work for the second nuclear power programme.

9. Although the rate of return on incremental capital should be the main yardstick, estimates have also been made of the price at which coal could compete with nuclear power, that is, the price of coal at which extra investment in nuclear power would show only an 8 per cent. return, which is the minimum rate of return which the Treasury recommend should normally be earned on new investment in the public sector. The "break-even" price of coal considered in this way is estimated to come to about 2.9d. per therm, inclusive of transport and handling charges and, allowing for the uncertainties mentioned in paragraph 7, may lie between 2.6d. and 3.2d. per therm (or between 1.9d. and 2.5d. at pithead). The upper end of this range is, of course, the important figure in considering the choice between coal and nuclear power. These figures compare with those quoted in paragraph 6 (a range of 3.9d. to 6.6d. per therm with an average of 5d.) for the present inclusive prices paid by the Central Electricity Generating Board for National Coal Board coal. It should be noted, however, that the Central Electricity Generating Board are already purchasing very large quantities of coal for use in existing stations, and will continue to do so for many years for use in the new coal-fired power stations now being built. Thus, even if extra coal could be supplied to the Central Electricity Generating Board at or below the break-even price, this cheaper coal should be considered to be available to dispense with a corresponding quantity of the coal being burned in existing stations, for which higher prices were being paid. It is thus the higher priced coal that must be considered as being displaced by nuclear power.

Post-1975 Nuclear Costs

10. Consideration has also been given to the possible trend of nuclear costs after 1975. The reliability of post-1975 estimates must be considerably less than those for the 1970–75 period, which to some extent are based on actual tenders. Quite apart from the prospects for fast reactors, there is ample scope for further development of A.G.R. technology, and the factors mentioned in paragraph 3, which should have a continuing effect, provide grounds for expecting cost reductions. The precise size and timing of the reductions are bound to be subject to considerable uncertainty but, on the basis of current price levels, it seems reasonable to assume that by about 1980 A.G.R. generation costs should be down to a level at least 20 per cent. below those of the A.G.R. stations now under construction, and should then be fully competitive with generation from untaxed oil.
APPENDIX IV

TECHNICAL DEVELOPMENTS IN BRITISH COALMINING

1. Any assessment of the likely future market for coal must take account of the coal industry’s potential for raising productivity and reducing costs, particularly at a time of very rapid technological change. This Appendix describes some of the important developments in mining practice which are taking place.

2. The coalmining industries of the world use various systems of mining, depending on the depth, thickness, type, and disposition of the coal deposits. In Britain, these natural conditions now generally demand the application of what is known as the “Longwall Advancing” system. This involves the extraction of the area of coal to be worked by advancing the face forward on a broad front (commonly 150 yards to 200 yards) leaving behind the roadways serving it, which are supported—usually by packs of stone and steel lining—in the area of extraction. These roads have then to be maintained in good condition to provide for transport of men and materials to and from the face and for ventilation. The roof over the working area at the face has to be supported by roof supports. In established modern practice the coal is won mechanically by a machine (“power loader”) which cuts the seam while travelling along the face and simultaneously loads the cut coal on to an armoured face conveyor situated in front of the line of roof supports. At each end of the face there is usually an excavation (“stable hole”) in the coal seam, extending a few yards ahead of the face line, into which the power loader is driven at the end of its run so that it can be got ready and advanced into position to commence the next run. These stable holes, which provide approximately one-tenth of the face output, are not usually prepared by power loaders; the coal is usually undercut by machine, blown down by explosives, and loaded out by hand.

3. In the past decade, the mining industry in Britain has made great progress in the development of longwall coalface machinery and the introduction of mechanical mining into the collieries. Emphasis was placed initially on the development and installation of robust, highly productive, power loaders and their associated conveyor systems; during the period 1956 to 1966 the proportion of deep mined output cut and loaded by mechanical equipment rose from 15\% per cent to nearly 86 per cent. The power loaders of today commonly absorb 150 horsepower and can cut a 2 foot-deep slice of coal at a rate of 20 feet per minute.

4. During much of the period, there has also been intensive research and development activity aimed at producing better types of roof support. The traditional method of supporting the roof by means of props and bars, set and withdrawn manually, is a labour-consuming operation and is ill-suited to, and can limit the output of, modern mining machines; it can also cause accidents. The collaboration of Britain’s mining engineers, scientists and manufacturers has pioneered a system of self-advancing hydraulically operated roof supports, otherwise known as powered supports, which are the equal in design and performance of any in the world; and there are ample statistics to show that their adoption on a mechanical face, irrespective of the type of power loader, leads to increased output, higher productivity and above all
greater safety. A face so equipped can operate on a complete coal-winning cycle (excluding the formation of stable-ends) of well under 2 hours. The second major phase of mechanisation has, therefore, been to equip faces with powered supports as rapidly as practicable; whereas there were no production installations in 1956, over 50 per cent. of current output comes from such faces.

5. As a direct consequence of the adoption of the techniques outlined above, the industry is now able to break away from the traditional cycle of operations, whereby the winning of coal was limited substantially to one shift per day. Fully continuous production of coal for periods of up to perhaps 20 hours per day has become possible, and the introduction of multishift production is a step in that direction. This is an important development in mining practice. At present about half the machines on mechanised faces are used on a two-shift basis, and a further third are used on three or more shifts a day.

6. The combined effect of these various developments is that each individual coalface has become a production unit of considerable complexity. The average daily output per face has more than doubled since 1957 and now stands at just over 470 tons a day; but many faces regularly achieve a daily output of more than 1,000 tons and a few have exceeded 2,000 tons. The capital investment involved in a typical mechanised face, equipped with powered supports, is about £150,000.

7. The industry has not yet been able to exploit to the full the potential which technological development has put at its disposal. The expensive coalface equipment is mostly being used for a disappointingly short time each shift, with the result that production costs are kept high by the high capital charges. Many problems and difficulties will have to be overcome before this situation is put right, and several of them are not technological. Nevertheless technology has its contribution to make and a great deal of technical thought and effort continues to be devoted to finding solutions.

8. One of the outstanding and most recalcitrant technical problems arises from the fact that there is not yet a widely acceptable and proven method of forming and advancing the stable holes and roadways at a rate which will ensure that face line operations can proceed without delay. Face-end operations are still, in the main, carried out manually and are both slow and very demanding in manpower. Attempts are being made to develop mechanical methods of performing them; specially designed powered support systems for face-ends are under trial. Operating methods and power loading machines of greater versatility are now aimed at dispensing with the stable hole, and “stableless” systems are being introduced into British collieries. Machines have been designed for and applied to the ripping operation to form the roadways at the required rate of advance, but so far there has been difficulty in controlling dust concentrations, in handling and disposing of the debris, and in cutting hard strata at a satisfactory speed. During the past year substantial progress has been made, but a number of problems remain. Until they are solved, and fully dependable machines of wide applicability have been developed, the face-end operations will remain the final major technical obstacle to realisation of the full benefits of mechanisation of the coalface and its associated roadways.
9. Looking further ahead, there is the prospect of extended use of remote control, and possibly even automation, of coalface operations. Two experimental longwall faces, which were operated during 1963 and 1964 with very encouraging results, served to demonstrate that the remote control of some of the operations between the face-ends is possible. A further programme of such faces has been planned and four faces were in operation at the beginning of this year. An important unsolved problem is that of automatic steering of the face machine so as to keep it cutting coal and prevent it wandering into the roof or floor, and this is being given a high priority at the National Coal Board’s research and engineering establishments.

10. Elsewhere underground there have been comparable changes in techniques and equipment. In order that face operations shall not be brought to a halt by short stoppages elsewhere underground, there has been a marked increase in the use of underground surge bunkers. Continuous improvements are also being made in other services to the coalface in order to economise in manpower: they include better systems for handling materials, for transport of coal and men, and for disposal of debris from roadways and headings. Substantial progress has been made in the installation of remote control of the underground conveyor transport system so as to dispense with, or greatly reduce, the employment of men at transfer and loading points and at bunkers. There are now about 100 such systems in operation. Remote or automatic control, with the aid of electronic monitoring systems, is also being widely applied to the running of other underground machinery.

11. On the surface, efforts to reduce costs include the widespread use of automatic winding control gear, automatic tub and mine-car control circuits, the use of modern methods of packaging and handling materials and supplies, and automatic loading of wagons. In coal preparation plants the automatic monitoring and control of washery feed and preparation processes, such as blending for improved consistency of quality, is being extended.

12. This increase in the complexity and sophistication of mining operations has given rise to a need for improved communications and information systems. Substantial sums are being invested in modern electronic communication equipment, both for control purposes and to provide management with factual performance data. Nearly thirty collieries now have electronic monitoring and indicating equipment and its use is being extended rapidly. Information about the operation of power loaders, conveyors, winding gear, and in some cases about the position and speed of operation of the coal-cutting equipment, is fed to a central control point on the colliery surface or underground.

13. Perhaps the best known of the industry’s activities in these fields are the proposals for the collieries at Bevercotes (Nottinghamshire) and Longannet (Scotland). At Bevercotes it is planned to operate a completely new mine as the first colliery to have a fully integrated system of remote control throughout the colliery and to operate as nearly as possible on a continuous basis; coal production has started and it is expected that when the colliery is in full production it will produce 1.5 million tons of coal annually with a labour force of 700, giving an output per manshift of about four times the present average. The Longannet scheme embraces the working of a single seam by a
complex of four separate producing units, the output from which will be fed on to a central underground conveyor system carrying the coal through a five mile long tunnel to reach the surface at the stocking ground of a new power station which is now being built. The ultimate objective is to have all the plant and equipment controlled automatically from a central control point on the surface, possibly with auxiliary control centres nearer to the several coalfaces.
Public expenditure commitments for later years constantly rise, despite our Public Expenditure Survey Committee travails, because we take new policy decisions at regular intervals. In order that my colleagues shall keep abreast of what we are involving ourselves in (including the likelihood of prunings at some later date) I propose to circulate regular situation reports to the Cabinet.

2. It was as recently as July that we decided on the general level of public expenditure in the light of the Medium-Term Assessment.

3. Nevertheless since then we have taken a number of decisions affecting public expenditure. Some programmes have been rephased. The estimated cost of others has been revised. The result of these changes is that expenditure in 1970-71 will exceed the figure of £15,100 million which we fixed in July by some £75 million. In other words, we have already used up virtually one-third of the contingency allowance for that year.

4. The largest single item in the increase is support for the coal industry - some £30-£40 million in 1970-71. Assistance to industry accounts for another £5 million. Revised estimates for social security benefits add another £10-£15 million.

5. I attach at Annex a table setting out the figures from 1960 onwards - as they were in July, and the position now.

L. J. C.

Treasury Chambers, S.W.1.

23rd October, 1967
### PUBLIC EXPENDITURE 1967-68 to 1971-72

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<tr>
<td>Total (excluding contingency allowance)</td>
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<td>14,764</td>
<td>14,976</td>
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<td>Changes since Cabinet conclusions</td>
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<td>+ 60</td>
<td>+ 101</td>
<td>+ 75</td>
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<td>Total (excluding contingency allowance and change since Cabinet conclusions)</td>
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<td>15,700</td>
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<tr>
<td>Total (provisional approved total)</td>
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<td>-</td>
<td>49</td>
<td>175</td>
<td>220</td>
</tr>
<tr>
<td>Additional provision</td>
<td>-</td>
<td>-</td>
<td>10</td>
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<tr>
<td>Revised total (provisional approved total + additional provision)</td>
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<td>14,814</td>
<td>15,126</td>
<td>15,345</td>
<td>15,920</td>
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Note: Includes nationalised industries etc, capital expenditure, investment grants, National Health and Employment Tax additional payments and Regional Employment Tax.
24th October, 1967

CABINET

NATIONALISED INDUSTRIES: DRAFT WHITE PAPER

Memorandum by the Chancellor of the Exchequer

I was invited by the Steering Committee on Economic Policy to circulate to the Cabinet a revised draft of the White Paper on Nationalised Industries. This is attached.

2. This draft takes account of the comments of my colleagues at the Steering Committee on Economic Policy and subsequently; and of the views of the Trades Union Congress, the Confederation of British Industry, and the Chairmen of the nationalised industries. I intend to deal with these views orally at Cabinet.

3. I invite my colleagues to agree to early publication of the White Paper.

L. J. C.

Treasury Chambers, S.W.1.

23rd October, 1967
On 7th September, 1967 the Government announced that all future major price increases in the nationalised industries would be referred to the National Board for Prices and Incomes. This decision is intended to show clearly that prices and incomes policy criteria apply equally to price increases in both the public and private sectors. It will allow the National Board for Prices and Incomes to see whether such increases can be reduced or avoided by increased efficiency or changes of practice. It is however the Government's responsibility to formulate the general policy framework within which price changes should be reviewed and to agree with the industries their economic and financial objectives. Before the announcement in September, therefore, the Government had initiated a review of these matters, and this White Paper sets out the conclusions and the main considerations which should apply to the investment and pricing policies of the industries and to future financial objectives.

General

2. The statutory duties of nationalised industries are set out in the nationalisation Acts. Broadly they are to meet the demand for their products and services in the most efficient way and to conduct their finances so that over time they at least break even, after making a contribution to reserves. The statutes however gave no guidance on what was meant by efficiency in economic terms, and prescribed only a minimum standard of financial performance. This was defined in terms of surplus (or deficit); it differs from the ordinary concept of profit (or loss) in that provision must be made for all items properly chargeable to revenue under the statutes.

3. It was later found necessary to make this requirement more specific; and further guidance for the industries was set out in the White Paper on the Financial and Economic Obligations of the Nationalised Industries in 1961 (Cmnd. 1337). This interpreted the
statutory provisions as meaning that industries should aim to balance their accounts "taking one year with another" over a period of five years, after providing for interest, and depreciation at historic cost. Provision should also be made for the difference between depreciation at historic cost and replacement cost and allocations to reserve sufficient to make some contribution towards the industry's future capital development programme (which would otherwise fall on the Exchequer) and as a safeguard against premature obsolescence and similar contingencies. Financial objectives or "targets" were to be determined for each undertaking in the light of its needs and capabilities in relation to these criteria. In practice targets have normally been expressed as a rate of return on the undertakings assets though other methods of expressing them were not ruled out; a list of the targets currently in force is in Table 2.

4. In the six years since 1961 much has happened. There have been important technological changes and discoveries of new natural resources which affect the long-term prospects of the fuel industries. There have been changes in the pattern of demand which affect the transport and aviation industries. Despite contractions in one or two industries, the overall capacity of the nationalised sector has been growing fast to meet increased demand. All this has led to investment on a scale far greater than was foreseen six years ago. In consequence, calls upon scarce resources of manpower and capital are now very heavy; and the need to measure these calls, to assess priorities, and to allocate resources upon an economically and socially rational basis has become even more important.

5. The Government's objectives for industry are to increase the productivity of both labour and capital employed; to raise the rate of new capital formation, to ensure that new equipment is as technologically advanced as possible and is effectively deployed; to increase the profitability of new investment; and to obtain the maximum return in terms of the production of goods and services. The nationalised industries have a vital role to play in the
attainment of these objectives as well as in the development of the
government's wider social and economic policies. With the
nationalisation of steel, their net assets are now valued at nearly
£1,000 million and they invest annually around £1,600 million,
over half of which is at present financed by the Exchequer. Their
annual investment is equivalent to the whole of that for private
manufacturing industry; they contribute about 11 per cent of the
gross domestic product and they employ around 8 per cent of the total
labour force. When the Government's proposals for further
nationalisation in the docks are implemented, they will provide most
of the economy's basic needs for energy, transport, communications,
steel and export facilities; and the efficiency with which so large
a sector operates will have a significant impact on the evolution
and rate of growth of the whole economy. In their case the
objectives outlined above cannot be achieved merely by maximising
the financial returns of each industry: significant cuts and benefits
can occur which are outside the financial concern of the industry
and it is the special responsibility of the Government to ensure
that these "social" targets are reflected in the industries' planning.

Investment

6. Investment is fundamental to economic growth and largely
determines the way in which industries develop. The investment
programmes of the nationalised industries are framed in the light
of the Government's policy for the sector (fuel, transport, etc.)
concerned. Investment is often a necessary condition for the
achievement of reductions in costs, and the choice between different
ways of satisfying consumer demand requires careful and sophisticated
calculations. The development plans for industrial sectors must
greatly influence investment decisions made by individual public
corporations, and, conversely, the pattern of investment decisions
that is expected provides some of the basic information on which
broad industrial policies are formulated by the appropriate Government
Departments in consultation with the industries. There is no simple automatic rule for ensuring the consistency of decisions, and it will remain the job of sponsoring Departments to ensure that the strategy of economic development for their sector evolves appropriately in the light of changing circumstances and technological advances. Within the framework set by these strategies, investment decisions must be made against the appropriate criteria.

7. Investment projects must normally show a satisfactory return in commercial terms unless they are justifiable on wider criteria involving an assessment of the social costs and benefits involved, or are provided to meet a statutory obligation. Subject to these considerations, the Government's policy is to treat the industries as commercial bodies and the underlying concept behind the control of nationalised industries' investment by rate of return is that the most efficient distribution of goods and services in the economy as a whole can be secured only if investments are made where the return to the economy is greatest. This holds true whatever the level of investment in the economy. The rate of return on new capital is not the same as the overall return on net assets; the two may diverge quite widely, for reasons discussed below.

8. The Government expects the nationalised industries to use the best possible methods of appraisal. Discounted cash flow techniques, which are already widely used by the nationalised industries are recommended for all important projects. By taking account of the effects of the timing of cash outlays and receipts, these techniques enable proper comparison to be made between alternative projects. They can be applied in different ways, and the industries are free to adopt whatever method suits them best, but the Government will expect projects which are submitted to it for approval to be expressed in present values by the use of a test rate of discount.

9. This test rate of discount must be sufficient to ensure that resources are efficiently used, and represents the minimum rate of return to be expected on a marginal low-risk project undertaken for
commercial reasons. It is essential that the nationalised industries should use consistent methods of appraisal and should adopt the same test discount rate.

10. The Government have decided that 8 per cent is a reasonable figure to use for this purpose in present circumstances. This figure is broadly consistent, having regard to differing circumstances in relation to tax, investment grants, etc., with the average rate of return in real terms looked for on low-risk projects in the private sector in recent years. Some nationalised industries have been using similar rates for investment appraisal in recent years. Following discussions with the industries about the application of these methods to their individual circumstances, the Government is now asking the nationalised industries to use this rate until further notice. It is intended to apply to expenditure and receipts related to investment projects before allowing for tax; this is appropriate in the case of nationalised industries which although subject to tax in the same way as private industry, do not receive investment grants on their main activities.*

11. The test rate of discount is different from the rate of interest which the nationalised industries will pay on new borrowing from the Exchequer since they borrow at rates reflecting Government credit. Access to this source of funds should not imply any relaxation of the economic criteria appropriate to investment for commercial purposes. The surplus over their interest liabilities provides part of the finance for the industries' investment programmes.

12. The test rate of discount, being a uniform rate for all industries, does not include allowance for the risks of individual investments. Exercising judgment as to what risks are worth taking is essentially a function of management. Whenever possible, estimates should be made of the likely range of outcomes, and investment undertaken only when management judges that prospects are, on balance, *The rate to be used by the British Steel Corporation has yet to be settled. As part of manufacturing industry the Corporation will receive investment grants and these will have to be allowed for in determining the appropriate test rate of discount.*
favourable. In these calculations the cost of capital should be taken as 8 per cent, so that prospective gains and losses can be compared in a consistent way. In some types of case, however, it may be impossible to make meaningful estimates of the degree of risk in quantitative form, and in these cases it will be desirable to use a more stringent criterion - that is, a higher test discount rate than the recommended one - in appraising exceptionally risky projects. Instead, the alternative receipts and outlays assumed in Discounted Cash Flow calculations themselves represent the various possible expected outcomes. Risk is thus built into the cash-flow figures used and there is no need to allow for it separately in the discount-rate chosen. Similarly the test rate of discount does not include an allowance for inflation; it is therefore necessary to base investment appraisals on the assumption that the prices of inputs and outputs are not affected by changes in the general price level. (Clearly, however, it is necessary to allow for expected changes in relative prices).

The use of this test rate of discount in investment calculations does not of course imply that nationalised industries should never invest new capital in the supply of goods and services which do not show a return of at least 8 per cent in real terms on the capital employed. There are circumstances in which it is desirable for social or wider economic reasons to provide such services; and it is desirable in a few cases to provide services at some direct financial loss. But all projects need to be assessed in a systematic way allowing for uncertainties in the forecasts of demand and of technological developments so that their direct return can be estimated before any other considerations are taken into account.

The economic value of investments cannot always be measured by reference to the financial return to the industry concerned. Many investments also produce social costs and benefits which can in principle be valued in financial terms and which, when taken into account, will provide a good economic justification for them.
Examples of these are extensions to the underground network in London which take account of congestion costs. Equally so there are cases like the railway branch lines where the Government may take social and regional considerations into account in requiring an industry to undertake continuing operations which are themselves unprofitable; but these generally involve current rather than capital expenditure. Often the social costs and benefits arising from a particular investment are not significantly different from those associated with other investments offering similar financial returns, and to measure an investment by its financial return can for most practical purposes be regarded as giving a reasonable approximation to its value to the community. But where there are grounds for thinking that the social costs or benefits do diverge markedly from those associated with the alternatives the Government will take this into account when assessing the investment. Indeed it must take a wider view than that of the industry itself, since the Government's objective is to secure the maximum social return on the capital invested, while the industry's concern is properly with the financial return.

15. Techniques of social cost/benefit evaluation are being developed rapidly though there are often difficulties and uncertainties involved in making the calculations. Social cost/benefit studies may prove valuable in comparing investments within broad sectors of the economy (transport, fuel etc.) where comparison cannot be made on financial terms because pricing arrangements in different parts of the sector are not comparable; they may also be necessary to assess the return to the economy of certain very large projects. Some of the costs and benefits however lie in fields where nationalised industries are not in a position to make estimates; and in order to be sure that assumptions are applied consistently, overall cost/benefit studies of major projects are best carried out by the Government Departments concerned, in collaboration with the industries.

16. Equally, it does not follow that all investment passing the
test rate are automatically undertaken. The test rate of discount is essentially a device to ensure that the calls of the public and private sectors upon resources do not get out of line with each other over the long term. After a nationalised industry has prepared an investment programme based on the demand it expects to meet at rational price levels, and appraised in the way just described, the Government then has to consider it in the light of developments elsewhere in the economy, especially short-term ones, and of other calls on resources. The Government are thus concerned with the phasing of investment which needs to be considered in the light of real resources available. The sums involved are now so large in relation to other public and private sector expenditure that there may also be special problems of financing. Alternative public sector borrowing arrangements will be kept under review, but nothing would be gained by going back to separate stock issues for the nationalised industries. These would involve serious problems of market management and would not create any additional savings. If therefore some easing of pressure in the short term is indicated, the Government may arrange for the deferment of desirable but not immediately essential investment. But if in the long term the level of investment in the nationalised industries as a whole is considered excessive, then the proper course would be to adjust the test discount rate.
Prices

17. The use of correct methods of investment appraisal will only be effective if the nationalised industries also adopt, within the context of national prices and incomes policy, pricing policies relevant to their economic circumstances. The circumstances of different industries vary greatly. Nevertheless there are certain general considerations. The Government's policy here starts from the principle that nationalised industries' revenues should normally cover their accounting costs in full - including the service of capital and appropriate provision for its replacement. But important though this is, it is not in itself sufficient to produce a rational pricing policy. Prices, if they are to contribute towards a more efficient distribution of resources, must also attract resources to those areas where they can make the most effective contribution to meeting the demands of users.

18. It is therefore important that, while covering overall accounting costs wherever possible, pricing policies should be devised with particular reference to the costs of the goods and services provided. Unless this is done, there is a risk of undesirable cross-subsidisation and consequent misallocation of resources. The aim of pricing policy should be that the consumer should pay the true costs of providing the goods and services he consumes, in every case where these can be sensibly identified. There are of course exceptions to the general rule. In some cases there will be good commercial reasons for charging prices which differ from costs. In others it may be simply impracticable to cost separately relatively minor operations. In a few cases, cross-subsidisation may be justified by statutory requirements or by wider economic or social considerations. But - these cases apart - to cross-subsidise loss making services amounts to taxing remunerative services provided by the same undertaking as objectionable as subsidising from general taxation services which have no social justification.
19. Another reason for charging prices different from costs may arise when there is persistent spare capacity, either for relatively long periods or at certain times, places or seasons. This capacity is unlikely to be used economically unless charges adequately reflect the difference between the costs of meeting additional demand where spare capacity exists and the higher costs where additional capacity has to be provided to meet demand. Thus where there is additional demand which could be met without major investment in new plant, it is desirable that prices should be reduced if this would stimulate demand — if necessary to the level where the escapable costs of particular services are just covered. If this is not done a requirement for new investment may be created in industries supplying competing services without surplus capacity.

20. In some industries — such as electricity and commuter services of the railways — the load at periods of high demand rather than the growth of total sales determines the need for new capital investment. In such cases plant may be under-utilised for much of the time and so far as is administratively possible the price system recognises this characteristic of demand by providing adequate incentives to encourage users to shift from peak to off-peak. Provided off-peak charges do not fall below the levels needed to cover the variable costs incurred, differentiation can be increased with advantage until the balance between peak and off-peak is economically most efficient. The effect on revenue is neutral so long as lower receipts from off-peak users are offset by higher receipts resulting from higher charges made to peak time users; indeed a net revenue gain is likely. Two-part and differential pricing systems are also used to improve financial results without distorting the allocation of resources when there are important elements in costs which cannot easily be allocated to specific services or products (e.g. costs incurred jointly by several services or costs which do not vary proportionately with output). In apportioning these costs among consumers, there is a wide choice of methods ranging from complex multi-part tariffs designed to ensure that each customer
pays for the costs he imposes, to simple quantity discounts which may be appropriate in cases where large quantities are more economical to supply than smaller amounts. The actual calculation of the different elements of such a price system is itself a complicated task; but the broad objective is clear enough.

21. In addition to recovering accounting costs, prices need to be reasonably related to costs at the margin and to be designed to promote the efficient use of resources within industry. Where and when there is spare capacity, as there may be at some points in the business cycle, or excess demand, short run marginal costs (i.e. the additional costs of increasing output in the short run) are relevant; the object is to persuade customers to make use of spare capacity or to curtail excess demand. In the long run, the main consideration is the cost of supply on a continuing basis, those services and products whose separate costing is a practical proposition (i.e. long run marginal costs), though the problems of transition to a new technology or to a new source of supply may imply the need, in the medium term, for prices to diverge from long-run costs. These long-run marginal costs naturally include provision for the replacement of fixed assets needed for the continued provision of services, together with a satisfactory rate of return on capital employed.

22. New technological developments can greatly reduce the long run marginal cost of providing some services, and it is right to have regard to these in pricing policy. But a gradual adjustment of prices in the light of reasonable expectations is generally preferable to sudden large changes occurring discontinuously when major assets are replaced. Strict adherence to long run marginal costing in such circumstances could lead to a period of revenue deficits requiring a temporary but heavy subsidy from general taxation and this would be difficult to justify. The systems of large public undertakings are in any case of such a size that there are practical limits on the rate of modernisation, and unless plant is well tried, rapid innovation may lead to breakdowns and heavy costs. Too rapid a reduction in prices might stimulate demand.
too much that shortages result or demand could only be met by costly measures to increase supply in the short run. It might also react on demand for the products of other nationalised industries; prices need to be set in the framework of Government policy for the sector as a whole.

23. Not all costs cannot be allocated to specific services or activities, and some industries, where the area of unallocable costs is large, may find difficulty in going all the way towards a pricing structure which accurately reflects the costs of particular services while at the same time covering total costs. Two-part pricing is a device commonly employed to reconcile the two objectives, and in other cases a sufficient incentive to attract customers to areas where costs are lower might be provided by making prices proportional to costs at the margin but at a level sufficient to cover total costs.

24. It will be clear from the preceding paragraphs that there is nothing rigid or doctrinaire about the pricing policy which the industries are expected to follow. Indeed the whole system of financial objectives within which the industries operate is a very flexible instrument. Targets are set for a period of years (usually five) at a time; and provided that industries, on balance, meet their targets over the period as a whole, they can, and should, carry out their pricing so as to fit in with the Government's general policy for prices and incomes. Insofar as the industries observe the principles set out in the White Paper, the Government does not intend to interfere in the day-to-day responsibility of management to propose increases, and will endeavour to leave management the maximum discretion in adjusting their price structure to meet competition and to take advantage of commercial opportunities.

25. Nevertheless, nationalised industries supply many of the basic needs of consumers and industries; successive Governments have, therefore, maintained a very close interest in the pricing decisions of the industries, and, in practice, Ministers have been consulted and given an opportunity to comment before final decisions have been
been taken to increase prices on any significant scale. Price stability in this sector is of especial importance to the economy. On the other hand, if nationalised industries' prices were allowed to get seriously out of line with costs this would lead to artificial stimulation of demand and a heavy burden of support on the general taxpayer.

26. Arrangements for price consultation with Ministers have now been formalised as part of the voluntary early warning system described in the White Paper Prices and Incomes Policy: "An Early Warning" System (Cmnd.2808). The powers of the Prices and Incomes Act 1966, apply to the nationalised industries in the same way as to private industry. But because of the importance of the industries to the economy, and the need to demonstrate that the public sector is operating to the full in carrying out the Prices and Incomes policy, the Government has decided in future to refer all major price increases in the nationalised industries to the National Board for Prices and Incomes (N.B.P.I.). In examining such cases - against the background of the industry's overall financial objective - the N.B.P.I. will consider the underlying justification for any increase, its timing and the extent to which costs could be reduced by increased efficiency.

Costs

27. To make the best use of resources, it is not enough merely to ensure that prices properly reflect costs, important though this is. Continuous and critical attention has to be paid to costs themselves in order that an industry may play a full part in bringing about a more efficient and faster growing economy. It would obviously be wrong if any industry, public or private, were allowed to exploit a degree of monopoly power so as to attain satisfactory financial results by covering unnecessarily high costs by equally unnecessary price increases. The objective of price stability can only be reconciled with the important aim of earning a proper return on capital if costs are kept under firm control. Since it is likely that, for a variety of reasons, the prices of
some of the resources, especially manpower, will rise from time to
time, managements' task is to seize every opportunity of reducing
costs by employing improved methods or techniques. This calls for
imagination, careful planning, and a willingness to experiment.

New plant technology, automation and better use of manpower will
all play their part.

28. The principles of the productivity, prices and incomes
policy apply equally to workers in the public and private sectors.

It will therefore be for management and workers in the nationalised
industries to continue to strive to increase efficiency and
productivity and thus to meet the cost of pay increases while
ensuring that the community as a whole benefits from higher pro­
ductivity. Nationalised industries have a good record in this
respect. Nevertheless, there is always scope for further improve­
ments and it is clear from international comparisons (though these
must always take account of different circumstances in different
countries) that we still have some way to go in using manpower
more efficiently. There is a national shortage of qualified
engineers of which the nationalised industries are large employers
and they therefore have a special obligation to employ engineers
economically and to use their talents fully. There is also a short­
age of certain kinds of skilled worker and the industries are
expected to make the most of their human resources, both by using
less skilled labour so far as possible and by continuing enlightened
training policies.

29. One of managements' main tasks is to look continuously for
possibilities of labour savings, and to encourage at all levels a
positive attitude towards ideas of all kinds that might reduce the
quantity of labour needed to provide the required level of service.

This involves effective consultation and collaboration between
management and men with a view to using labour more efficiently
by improved organisation of existing plant and methods, and intro­
ducing new plant and methods which require less labour. In
appraising both investment proposals and suggestions for reorganisation,
the Government will expect the industries to make allowance for the likelihood that the real cost of labour will rise continuously through time as general productivity increases. This means that industries will have to become gradually less labour intensive in their methods over time. Similarly, if an appreciable rise in the relative prices of any of their other inputs is expected, management will rightly take this into account in its long term operational and investment planning.

30. Normally the best use cannot be made of new plant and equipment unless changes in working methods are accepted by management and employees. When costly automated equipment is installed the optimal utilisation rate should be higher than it was when less expensive plant was used, and in some cases tariff structures may need revision with the object of keeping the equipment fully used. All this requires considerable flexibility of approach by both sides of industry to manning questions, and there can be no room for inefficient, out-dated or restrictive practices particularly in the operation of costly and technologically advanced equipment.

31. In view of the rapidity of technological changes, and the necessity of making the best possible use of source manpower resources, it is essential that the nationalised industries should continue to plan their future manpower requirements and keep these plans under review in the light of their own changing demand and the anticipated supply position for the categories of manpower which they require. Where manpower plans indicate a long term reduction in total manpower requirements, appropriate measures should be taken (i.e. by control of recruitment and wastage) so that the planned reduction can be effected with the minimum of dislocation and redundancy.

32. The Government has, of course, had frequent discussions in the past about productivity and labour utilisation in the nationalised industries. In view of the great importance of productivity at the present time - and the fact that successful investment depends upon it - the Government has reviewed its policy in this area and has
taken a number of important decisions. In the first place (as was announced on 7th September) the N.B.P.I. will be strengthened to enable it to make all necessary enquiries into the efficiency of the industries whose proposals for price increases are referred to it. These enquiries will cover the industries' machinery for keeping down costs including the appropriate forecasting and decision-making techniques. The Board plans to recruit a small number of specialist staff to concentrate on this work and to provide continuity. This staff will be reinforced as necessary by outside consultants. In addition the Government Departments directly concerned will continue to develop in consultation with the industries indicators of performance which will provide regular and systematic information about each industry's success in controlling its costs, increasing efficiency, and economising in the use of manpower and capital resources. The Government intends to pay particular attention to the trends shown by these indicators in the course of the annual Investment Review discussions with each industry. The main object will be to discuss with the industries what they have done in the past year and what they plan to do over the period of the review to improve efficiency in all its aspects and to add to the common pool of experience. Furthermore the nationalised industries should often be able to pass on to other parts of the economy the fruits of their experience in this field. The Government hope therefore that the nationalised industries generally will exchange views among themselves and will make public as much information as they can about successful productivity techniques and in particular will give some account in their annual reports of what they have achieved in the past year and what they plan to do in the coming years.

Financial Objectives

33. Clear financial objectives will continue to be necessary so that the industries know what is expected of them by the Government. Thus they serve both as an incentive to management and as one of the standards by which success or failure over a period of years may be judged. The alternative would be an indefensible lack of control
There are, inevitably, simplifications and compromises to be made in formulating an overall financial objective for a large industrial undertaking in the form of a simple figure. It is not always possible in practice to reconcile a prescribed rate of return on new investment, and a system of pricing which accurately reflects costs, with a predetermined overall return on total assets. Deviations may be inevitable if there are sudden developments in technology affecting the lives or the use of large amounts of existing assets. Nevertheless, despite these difficulties the system of financial objectives has proved its value in practice: it cannot provide a perfect formula for the resolution of all pricing and investment decisions, but it does give a framework within which such decisions can be reached.

For these reasons the setting of objectives for those industries which have not got them or the replacement of those which expire cannot be solely an arithmetical exercise, and in its discussions with the industries the Government will take into account the considerations - return on new investment, soundly based pricing policy, social obligations not covered by a subsidy, efficient operation, national prices and incomes policy - mentioned above. Unlike the common test rate of return on new investment, these objectives will in practice be different for each industry and for the various Area Boards because they will reflect different statutory and social obligations, conditions of demand, domestic costs and other factors peculiar to the individual undertaking. It will not be true therefore that a higher target necessarily indicates a more efficient industry.

The financial target system described above is essentially a flexible one. It has already been explained in paragraph 24 that industries are required to fulfil their obligations over a run of years taken together, and not necessarily to meet their targets every year. This in itself is a valuable means of reconciling financial discipline with reasonable price stability. But the target system can also be adopted to meet the varying circumstances of individual industries. Targets have so far been set mostly in terms of a percentage return on the net assets of the whole undertaking, which
is readily comprehensible and provides an accepted standard by which to assess efficiency in the use of capital. It also takes some account of changes in the scale of an undertaking. But this is not the only criterion which can be devised. Objectives for different parts of an industry's operations, or expressed in other ways, might be appropriate in certain industries and at certain times. It might for instance be desirable to express an objective as a fixed money sum; though this would require more frequent revision with changes in the scale of operations or in the value of money, it could not be confused with the return to be expected on new investment or the rate of interest on borrowings. It will also be desirable to set some targets for a shorter period than five years. Finally, it follows from the fact that targets should reflect sound investment and pricing policy and not vice versa that if there are significant changes in the circumstances of an industry the Government would be ready to review its target within the period for which it has been set and revise it upwards or downwards.

36. In certain cases the circumstances of a particular industry coupled with Government approval to the application of wider economic and social factors, may involve overall losses. But even here a clear financial objective will be necessary as an aid to management and it will be desirable to set this in a way which will provide a realistic incentive to efficiency and morale within the industry. A two-part objective - providing for a certain determined level of losses, possibly subject to specific subsidies, on part of the operations and seeking an adequate return on the rest - is one possibility; tapering subsidies are another.

The Role of the Industries

37. The aim of strengthening the United Kingdom economy can only be achieved if resources are more economically used and more efficiently deployed than in the past and all undertakings fully observe the Government's policy on prices and incomes. Nationalised industries, which command much greater resources than all but the
very largest private undertakings, should expect to be numbered among the most progressive and efficient concerns in the country. Where there are significant social or wider economic costs and benefits which ought to be taken into account in their investment and pricing these will be reflected in the Government's policy for the industry; and if this means that the industry has to set against its own commercial interests, the Government will accept responsibility. (Where necessary the Government will make a special payment to the industry or make an appropriate adjustment to its financial objective). Except in such cases the industries should provide goods and services which consumers want and are willing to pay for at prices which reflect their own costs as accurately as possible, and keep these costs at the lowest levels consistent with providing satisfactory conditions of employment and earning a proper return on capital. In planning their future investment, the industries should have regard to the considerations set out in paragraphs 6 to 15 above, and should take into account economic forecasts prepared by the responsible Government Departments. In their approach to problems of pricing, cost reduction and staffing, the industries should have regard to what is said in paragraphs 17 to 36 above.

The Role of the Government

38. Though the responsible Ministers and their Departments are in frequent contact with the nationalised Boards about matters affecting Government policy, it is not the Government's intention to interfere in the day to day management of the industries. Nevertheless the Government must accept a large measure of responsibility for the general lines of economic development which are followed in this vital sector of the economy, and in its relations with the nationalised industries will have in mind the considerations outlined in this White Paper, and in particular that increases in costs should whenever possible be absorbed by greater efficiency rather than be passed on to the consumer, and that price
increases should be capable of being publicly justified.

39. The annual investment review provides a regular occasion for reviewing the state of each industry. Then the Government normally gives firm approval for the agreed level of capital expenditure for the forthcoming financial year and provisional approval (subject to some limitation on the extent to which funds are to be committed) for the following year; and also gives its views on the outline of investment proposed for subsequent years. The programmes for most industries extend five years ahead, and with industries in which investment takes a long time to mature, this longer-term look is of key importance. The implications of the investment programmes for the Exchequer - and hence for the short and long-term balance of the economy - must always be considered, though it is not intended to express financial objectives in terms of self-financing ratios.

It is also during the investment review discussions that the Government is able to take account of the general balance of investment between individual nationalised industries, and between them collectively and the rest of the economy, in order to ensure co-ordinated development in the context of planned growth of the economy.

Conclusion

40. This White Paper is intended to show how investment, pricing and efficiency policies will be taken into account in setting financial objectives, rather than to make any change in the basic relationship between the Government and the nationalised industries. It reviews the features and principles which are common to all nationalised industries and which underlie their relationship to the Government. The circumstances of the industries are however very diverse and will be taken into account in formulating detailed policies for the sectors concerned.
<table>
<thead>
<tr>
<th>Table 1</th>
<th>NATIONALISED INDUSTRIES</th>
<th>1965-66</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>£m.</td>
<td>£m.</td>
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<tr>
<td>Post Office</td>
<td>1,408</td>
<td>114.4</td>
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<tr>
<td>Coal Board (6)</td>
<td>865 (4)</td>
<td>0.5</td>
</tr>
<tr>
<td>Electricity Council and Tyne &amp; Wear</td>
<td>3,425</td>
<td>228.9</td>
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<tr>
<td>NCB</td>
<td>250</td>
<td>12.5</td>
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<tr>
<td>I.C.</td>
<td>292</td>
<td>15.6</td>
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<tr>
<td>Council and Areas Gas Boards</td>
<td>853</td>
<td>46.1</td>
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<tr>
<td>A.C.</td>
<td>123</td>
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<td>Railways Board (5)</td>
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<td>199</td>
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<td>Transport Docks Board (5)</td>
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<td>Waterways Board (5)</td>
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<tr>
<td>Airport Holding Company (5)</td>
<td>161</td>
<td>17.6</td>
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<tr>
<td>Total, all industries</td>
<td>9,654</td>
<td>400.6</td>
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</table>

(1) Includes Giro Development Expenses of £0.1 million financed from Exchequer advances.

(2) These figures exclude deficit grants of £132.4 million for British Railways and £1.5 million for British Waterways, but even so do not give directly a self-financing ratio as borrowings may be affected by changes in working capital requirements.

(3) Includes £1.8 million advanced to finance market purchases of the Board's own stock for cancellation.

(4) Reflects only part of the capital reconstruction under the Coal Industry Act 1965. Approximately £200 million remained at 26th March 1966 to be written off from the Reserve Fund.

(5) For the calendar year 1965.

### Table 2: NATIONALISED INDUSTRIES: FINANCIAL OBJECTIVES

<table>
<thead>
<tr>
<th>Industry</th>
<th>Objective</th>
<th>Period Covered</th>
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<tbody>
<tr>
<td>Electricity Boards (England and Wales)</td>
<td>average 12.4% gross (A)</td>
<td>1962-63 - 1966-67 (E)</td>
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<tr>
<td>S.S.E.B.</td>
<td>12.4% gross (A)</td>
<td>1962-63 - 1966-67 (E)</td>
</tr>
<tr>
<td>N.S.H.E.B.</td>
<td>(see footnote C)</td>
<td></td>
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<tr>
<td>Gas Boards</td>
<td>average 10.2% gross (A)</td>
<td>1962-63 - 1966-67 (E)</td>
</tr>
<tr>
<td>Post Office</td>
<td>8% net (B)</td>
<td>1963-64 - 1967-68 (E)</td>
</tr>
<tr>
<td>B.O.A.C.</td>
<td>12.5% net (B)</td>
<td>1966-67 - 1969-70 (E)</td>
</tr>
<tr>
<td>B.E.A.</td>
<td>8% net (B)</td>
<td>1963-64 - 1967-68 (E)</td>
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<tr>
<td>British Railways</td>
<td>have the statutory obligation of reducing their deficit and breaking even as soon as possible</td>
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<tr>
<td>London Transport Board</td>
<td>(see footnote D)</td>
<td>1963-67</td>
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<tr>
<td>National Coal Board</td>
<td>to break even after interest and depreciation including £10 million a year to cover the difference between depreciation at historic cost and replacement cost (F)</td>
<td></td>
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</table>

**Notes**

A. Income before interest and depreciation, expressed as a percentage of average net assets

B. Income before interest but after depreciation at historic cost, expressed as a percentage of average net assets.

C. As an interim measure the N.S.H.E.B. agreed to apply such tariff increases as would give a similar percentage increase in revenue as the tariff increases applied by the S.S.E.B.

D. L.T.B's objective was to earn an average balance of revenue of £4 million a year, after interest and depreciation at historic cost. This was equivalent to 3% net. L.T.B's target is however in abeyance in view of the Board's financial position.

E. The Minister of Power announced on 19th December 1966 in answer to a Parliamentary Question (O.R. Cols. 232-233) that the objectives of these two industries would continue in 1967-68. New objectives are to be negotiated for these industries to operate from 1st April 1968.

F. The N.C.B. were relieved of their objective temporarily in April 1965 but this has now been revived and will continue in 1967-68.
### NATIONALISED INDUSTRIES

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<tr>
<td>All Nationalised Industries</td>
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<td>3.1</td>
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<td>3.1</td>
<td>2.8</td>
<td>2.2</td>
<td>2.9</td>
<td>4.1</td>
<td>4.3</td>
<td>4.1</td>
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</table>

(1) On a calendar year basis.

(2) In 1963 the accounting changed from calendar to financial years and the figures for that year have been adjusted to represent a 12-month period.

(3) In 1964 N.S.H.E.B. and S.S.E.B. had a fifteen-month accounting year on changing from a calendar to a financial year basis. The figures have been adjusted to represent a twelve-month period.

(4) Allowance has been made in the B.O.A.C. and B.E.A. figures for prior year adjustment. This is substantial in the case of B.O.A.C.

(5) S.S.E.B. was formed in 1955 and the first accounting period was 9 months only. The figures have been adjusted to represent a 12-month period.

(6) Net income is gross income less depreciation at historic cost and foreseeable obsolescence.
### NATIONALISED INDUSTRIES

Gross Income as a Percentage of Average Net Assets

<table>
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#### General Notes on Tables

1. On a calendar year basis.
2. In 1963 the accounting changed from calendar to financial years and the figure for that year has been adjusted to represent a 12-month period.
3. In 1964 N.S.H.E.B. and S.S.E.B. had a fifteen-month accounting year on changing from a calendar to a financial year basis. The figures have been adjusted to represent a twelve-month period.
4. Allowance has been made in the B.O.A.C. and B.E.A. figures for prior year adjustments. This is substantial in the case of B.O.A.C.
5. S.S.E.B. was formed in 1955 and the first accounting period was 9 months only. The figures have been adjusted to represent a 12-month period.
6. Gross Income covers trading surplus and other income before changing depreciation, taxation and interest on borrowings.

Tables 3 and 4 show net and gross income respectively as a percentage of average net assets, industry by industry, in a new series which replaces that used in Cmnd. 1337. The new series is more closely related to the financial results of the industries as they appear in their published annual accounts.

The figures in Tables 1, 3 and 4 have been compiled for the purposes of comparison on a standardised basis from information in the annual accounts of the industries and differ in some respects from the industries' own presentation of their figures which use the differing bases of calculation of gross and net returns agreed when the financial objectives were settled.
INDUSTRIAL EXPANSION BILL: DRAFT WHITE PAPER

Memorandum by the Secretary of State for Economic Affairs

25th October, 1967

CABINET

I was asked to consider, in consultation with my colleagues, a number of outstanding policy questions and to prepare a revised draft of the White Paper on Industrial Expansion.

2. I have discussed with the Lord President, the Minister of Technology and the Chief Whip the questions of Parliamentary procedure involved. We concluded that it would be best to drop the idea of a Select Committee; and that schemes involving the use of new powers granted by the Bill should in all cases be subject to affirmative resolution in Parliament.

3. I have discussed the treatment of the aircraft industry with the Minister of Technology. We consider that the Bill should deal specifically with the Concord; and that it should be so drafted that the new powers could be used for the Beagle Aircraft Company, and if need be (and subject to the satisfactory conclusion of negotiations with the Companies concerned) for the airframe merger.

4. Officials have been considering the other unresolved issues. I am in touch with the Chancellor of the Exchequer, the President of the Board of Trade and the Minister of Technology on these and shall report our conclusions in due course. With one exception (see paragraph 5 below), the issues involved do not affect the drafting of the White Paper.

5. It is, I think, desirable to include in the White Paper a paragraph about advisory machinery. I do not think that it is either necessary or desirable to establish any statutory machinery under the new legislation. We should, however, make it clear that we would subject projects which were being considered for support under the Bill to a rigorous examination both within the Government and, as a general rule, by a new panel to be drawn from members of the Industrial Reorganisation Corporation (IRC) and the National Research and Development Corporation (NRDC) and staffed by those organisations. We should not commit ourselves to use the panel in every case, nor should we be bound by its advice which would be confidential and would
cover the technical feasibility and economic viability of proposed schemes and any other relevant aspects, including where appropriate the effect on competition within the industry concerned. I think that the IRC and NRDC would both agree to this (though we should need to clear it with them before publishing the White Paper) and I believe it would go some way to allay criticism from industry.

6. I attach a revised draft of the White Paper. The underlined passages reflect changes made to the previous draft in the light of the Cabinet discussion on 12th October, my discussions with the Lord President and the Minister of Technology and the proposal referred to in paragraph 5 above.

7. I invite my colleagues to approve the text of the draft White Paper (subject to clearance of the relevant passages with the IRC and NRDC) for publication by the Minister of Technology and myself as soon as possible after The Queen's Speech.

P.S.

Department of Economic Affairs, S.W.1.

24th October, 1967
Annex

DRAFT WHITE PAPER

INDUSTRIAL EXPANSION

Introduction

Our national industrial policy is directed to promoting the efficient use of resources both in the public and private sectors. The success of this policy requires the maintenance of a close working relationship between the Government and industry. A vigorous and successful private sector within a competitive economy is essential if a satisfactory rate of economic growth - permitting higher standards of living and improved social conditions - coupled with a healthy balance of payments are to be achieved. At the same time it is generally recognised here and in other advanced industrial countries that, although competitive market forces are a necessary spur to efficiency and provide an essential basis of investment decisions and the allocation of resources, they cannot by themselves be expected in every circumstance to secure national economic objectives and the optimum use of resources, because of the possible divergence between social and private costs and benefits. For this reason, there has been a steady growth in the scale and variety of Government measures affecting the private sector, whether by the use of financial incentives to influence investment decisions in certain broad directions, or by support for particular projects. The rapid advance of technology and the increasing problems presented by the scale of international competition are now giving rise to new needs in industry which call for a still more flexible response by the Government.

2. Government and private industry have a common interest in industrial excellence and commercial success. Government policy is designed to facilitate the efforts of those...
enterprising managements which are striving to meet the challenge of technical change and competition in world markets and to maintain and improve the efficiency and profitability of their companies. In the ordinary course such companies will continue to rely on their own resources, augmented by general schemes of fiscal incentives, or to command support from commercial sources and existing financial institutions. The Government have no intention of displacing these sources of finance. Nevertheless, the Government must be equipped to provide measures of support where this is necessary to secure the realisation of wider economic benefits.

Existing partnership between Government and Industry

3. Support of this kind is not new. In the past, direct Government support for specific projects in the private sector has been given to older and less profitable industries and to industries meeting some national purpose, such as defence or regional development. More recently, the Government have provided finance for new and technologically advanced projects where the potential benefits to the economy were greater than the returns which the companies concerned could expect to receive in the short term. The programmes of assistance to computer and micro-electronics development are examples of this approach. Another kind of special action, exemplified by the Ministry of Technology's pre-production orders for machine tools, is to facilitate the introduction of advanced equipment which is likely to be profitable, but which appears to involve too much risk for the customer until there has been experience of the new equipment. Here the Government is reducing the marketing risks for the producer and the innovation risk for the customer.

4. This has taken place at a time when the Government and both sides of industry have been concerned to evolve effective methods of economic planning. Within this setting industrial
policy has concentrated, first, on providing a series of measures designed to shift resources of manpower and capital from less to more productive employment and to even out the geographical distribution of industrial activities; and secondly, on providing assistance for structural change. Measures have been taken to encourage investment in modern plant and machinery in the manufacturing, extraction and construction industries; to increase the benefits available to industrial enterprise in Development Areas; and to support technological research and development in civil as well as in defence industries.

5. In particular, the resources of the N.R.D.C. have been enlarged so as to enable it to support the development and exploitation of commercially promising projects within its scope. The I.R.C. has been set up to promote, and where necessary to finance, the structural changes which modern technology and international competitive conditions require. At the same time the Minister of Technology has been given authority to engage in or support research and development and to further the application of the results. These various powers have been used to good advantage as in the help given by the N.R.D.C. in the fields of data-processing and antibiotics, by the I.R.C. to reorganisation within the electronics industry and by assistance from the Minister of Technology to automation schemes.

The need for further development of the partnership

6. But it has become clear over the past year or so that these provisions are not enough to enable the Government to take the action needed to further their policy of seeking to ensure that necessary investment in the interest of the expansion of our industrial capabilities is not held back.

7. A main purpose of the Ministry of Technology from the start was to identify key points of growth and to bring about a more rapid application of advanced technology. The Ministry
has wide powers to support research and technological development, but the scope for exploiting the results is more limited. If the Government are to play their full part in the industrial expansion which technological development now makes possible, they must be able to operate more directly and more flexibly in support of industry to help overcome obstacles in the field of production and marketing as well as in research and development. In the wider context of the reorientation of research and development policy, the Government consider there should be closer links between Government research establishments and industrial companies which can exploit and market the results of research so that they should be able to draw more effectively on the resources of these research establishments; on occasions also, the Government may need to establish a new industrial capability by themselves or in association with others.

8. One of the problems facing the national economy is that investment programmes need to be sustained to provide for the future growth of demand. Any decline in the level of industrial expansion may lead to disproportionate falls in orders in the investment goods industries. As a result, the industries concerned may have to reconsider their expansion and development plans. If these are cut back and the employment of engineers and skilled manpower reduced, the capacity of these industries to meet investment demand when it eventually recovers will be inadequate. If the Government are to be in a position to support investment at these times, they must be able to take steps, in addition to action under the Investment Grant Scheme, to provide the necessary assistance to appropriate key sectors of industry. The need for action of this kind in the machine-tool industry has recently been under discussion, but within existing
powers it has been possible to help only by increasing the pre-production order scheme. Experience has shown that other measures of support, whether for this or other important sectors of industry, could not be speedily implemented without separate legislation in each case.

9. The main task of the I.R.C. is to promote industrial reorganisation although it may, if requested to do so by the Secretary of State for Economic Affairs, contribute to the development of individual enterprises. The Government have close and regular contacts with the Corporation and intend to use its facilities to the full and to seek its advice whenever appropriate. There will, however, be cases involving industrial development where action by the I.R.C. will not, for one reason or another, be suitable. For example, there may be a need for long-term public participation arising from Government industrial or social policy, particularly regional policy, which the IRC would not normally consider appropriate to its role. The reorganisation of the shipbuilding industry is an example of an operation where a different approach was called for.

10. The further development of the Government's positive role as partner with industry is therefore creating new needs for legislation to deal with particular situations. In the absence of new general legislation, separate bills will be required to cover the needs of the aircraft industry. The Government is considering proposals for the development of an aluminium smelting industry in Britain. This is a further example of the type of project which, under present arrangements, would require separate legislation.

11. But the Government are not concerned solely with legislative authority for proposals which have already been worked out with industry or are under negotiation. They are also concerned to be able to respond promptly to further
needs as they emerge. It is important that, in exploring further possibilities, especially those holding promise of future export growth, neither Departments nor companies should be deterred by the fear that opportunities to implement projects might be lost because of the delays involved in securing separate legislation. In such cases, where a successful break-through in development or production which is of particular value for the economy can be realised, but where for special reasons adequate funds are not available from the company's own resources or through commercial channels, the Government must be able to supplement those sources of finance.

**An Industrial Expansion Bill**

12. What is needed is a faster and more flexible procedure for implementing the Government's side of its partnership with industry. The Government therefore propose to introduce legislation to authorise the Minister of Technology and other Ministers with responsibilities for industries to provide direct assistance to industrial projects designed to promote efficiency; to support technological advance; or to create, expand or sustain productive capacity, especially in the Development Areas. The Minister concerned, with the consent of the Treasury, would be empowered to give financial support which might according to circumstances take the form of loans, grants, guarantees, the underwriting of losses or the purchase of equity shares to projects falling within the purposes of the Bill. For the Minister of Technology this would be a widening of the scope of his powers under the Science and Technology Act, 1965, for carrying on or supporting scientific research or the dissemination of the results of scientific research, and under the Civil Aviation Act, 1949, to support the design, development and production of civil aircraft. The new Bill would enable the Minister to support the design,
development and production of other products, in addition to civil aircraft. It is proposed to include in the Bill a limit to the total of financial assistance which may be made available to industry under it.

Operation of the New Powers

13. The Bill will not confer any compulsory powers, either directly or indirectly, and the Government have no intention of compelling a firm to take part against its wishes. For the Government to use compulsion would clearly not accord with their purpose of launching successful projects in partnership with private industry. It follows that the Bill would not confer any powers to acquire shares in any industrial undertaking otherwise than by voluntary agreement. The Government do not intend to acquire shares freely on the market, and would purchase holdings only in agreement with the firms concerned.

14. The provision of Government finance, under the Bill, for projects in the private sector should not be subject to any less stringent examination than that applied to investment in the private sector or in the nationalised industries. The economic return on every project will be carefully appraised to establish its prospect of long-run profitability. It is inherent in the policy outlined in this White Paper that the Government should be selective in the support that they give within the private sector. The Government recognise that there may be concern lest they give preference in procurement policy etc. to firms because they have shareholdings in them, or use their shareholdings to interfere in the day to day management of a company. This is not the purpose which the Government would have in mind in acquiring shareholdings as part of schemes of industrial development under the Bill. The Government are nonetheless willing to discuss with industry whether any particular safeguards are needed. The powers to
assist industry would of course be exercised with due regard to the Government's international obligations.

15. The Government will itself subject projects which are being considered for support under the new legislation to a comprehensive evaluation. As a general rule, they will call upon the advice of the I.R.C. and N.R.D.C., who have agreed to set up an advisory panel consisting of members of the two bodies and staffed by them for this purpose.

16. The role of Parliament in the evolution of a closer partnership between Government and industry is of critical importance. In order to ensure that schemes put forward under the new legislation are subject to proper scrutiny by Parliament, the Bill will provide that, before making use in any particular case of new powers granted under it, the Minister concerned would be required to define the particular proposals in an Order to be laid before Parliament and to obtain the approval of the House of Commons for proceeding with them. It is envisaged that Orders under the Bill will provide for the proposed acquisition of the Beagle Aircraft Company Limited, which has already been agreed with the industrial interest concerned; for the financing of Her Majesty's Government's share of the production of the Concord; and, subject to the conclusion of negotiations now in progress for the purchase of a Government shareholding in the aircraft industry.

Conclusion

17. In the Government's view the proposed measure is both necessary and urgent if schemes for industrial expansion are not to be delayed. The Bill will provide the framework for a further stage in the development of Government's partnership with industry for the encouragement of increased investment and more rapid application of modern technology.
CABINET

SOUTH ARABIA

Memorandum by the Secretary of State for Foreign Affairs

The Annex to this paper sets out for my colleagues the present situation in South Arabia. The synopsis of recent events in its first eight paragraphs shows that the ramshackle arrangements inherited from our predecessors have collapsed, despite our efforts to make them work and to improve them. The territory has since early September been held together precariously by the South Arabian Forces. They themselves however feel the strain of continued divisions among the factions; there has been marked deterioration in the position in this respect over the last ten days.

2. My colleagues will recall that our previous decisions on the date of independence were taken on finely balanced calculations of maintaining the confidence of the South Arabians in the face of the United Arab Republic (UAR)'s occupation in the Yemen, and getting the Federal forces ready to cope with a situation affected by that. The situation in the Yemen has changed. The UAR are firmly committed to withdrawal; they have evacuated Taiz and Sana and expect to have withdrawn entirely by mid-December. Simultaneously the nature of political conflict in South Arabia has been transformed by the collapse of the Federal Government. That collapse has not however been followed by the emergence of an administration ready to deal with us as yet. The continued absence of such an administration, and the failure so far of the revolutionary factions to agree on one in their belated talks in Cairo, are creating a progressively more dangerous situation. In these circumstances, the High Commissioner and the Commander-in-Chief have now strongly recommended that we must declare independence and evacuate our forces in November and not wait till January. Even if things get better rather than worse meanwhile, the risk of renewed conflict involving our forces outweighs what small chance there might otherwise be, if we waited till January, of a political settlement embodying some of the arrangements normal to our decolonisation. We must I think concentrate on completing our military withdrawal and disengaging in the least onerous fashion possible. Our power to impose solutions was always slight. Only in Aden State, and in some islands with a total population of less than 400, have we had sovereignty. We have never had legal or other power to impose patterns or solutions elsewhere in South Arabia. And in present circumstances there is
neither possibility of, nor vital interest in, doing this. The only course we can follow is to leave the Arabs to settle their own differences, while supporting and seeking to maintain influence with the South Arabian forces, and to assume responsibility for terminal matters only where we both can and must.

3. Correspondingly all previous decisions are open to review. These are the date of independence and final withdrawal of 9th January and the offer of deterrent forces (C(67) 78); our basic decisions in 1966 on military and economic assistance after independence and our supplementary offers of June, 1967. Our aid programmes have kept South Arabia viable and her forces together and have thus so far avoided a breakdown which would hamper our withdrawal; the logistic withdrawal will be over by mid-November. It is too soon to say if they will succeed in the second objective (over which we were always less optimistic) of leaving behind a viable stability. This will depend on political developments and also on South Arabia’s ability to raise or borrow money over and above whatever assistance we decide to provide (which at its previous level was to be considerably less than the resources which have been available to her in recent years).

4. The UAR’s withdrawal from the Yemen reduces our major concern about future stability. But we still need to minimise the damage because of possible repercussions in the Persian Gulf and our relations with King Faisal. The King always considered that the Defence Review decisions and all that followed amounted to the abandonment of friends and the prejudice of his interests. He is highly critical now. We want to reduce this damage, and also to reduce the danger that his own inclinations and the urgings of former Federal leaders in South Arabia could lead him to act in ways that would increase the difficulties there. I am acting with the Saudis to make the position and our approach to it absolutely clear.

5. I summarise below some recommendations and conclusions which are fully set out at Annex.

(a) I recommend that my colleagues should leave me discretion, in consultation as necessary and according to developments, to decide on any date of independence and withdrawal after mid-November, 1967 (which may be as early as 22nd November); and to announce next week that we are leaving in the second half of November (paragraphs 9 and 16-18). I deal with public presentation below. We should have to accept the likelihood that we might be unable to promote a political settlement before our departure (paragraphs 23 and 24).

(b) I recommend that the offer of deterrent naval and air forces made in June, 1967 should be cancelled (paragraph 19). The High Commissioner agrees that this is right and I am consulting him on the terms of the announcement.
(c) I recommend that I be allowed latitude to decide later whether we should adhere to our decision to offer Hunter aircraft and associated radar to increase the strength originally planned for the South Arabian Air Force (paragraphs 20-22); and to authorise the High Commissioner to attempt to secure the agreement of the South Arabian forces to the withdrawal of the Hunters on the basis that we should instead build the South Arabian Air Force to a total strength of 12 Jet Provosts/BAC 167 aircraft rather than eight in partial compensation. The High Commissioner is against cancelling the Hunters, at least at this point, but suggests he could attempt to secure agreement if we can make this substitute offer. The Secretary of State for Defence would also be concerned at the effect on the security of our final evacuation if we were, against the South Arabian Army’s wishes, to remove the Hunter aircraft.

(d) Because it is unlikely that any successor government will before independence bring into force the satisfactory Nationality Law the Federal Government had enacted but not brought into force, I recommend that an Order in Council should be made bringing that Nationality Law into force for the inhabitants of the whole country. This may enable (but would not oblige) the Home Secretary to make an Order depriving up to 80,000 people in Aden who have no connection with the United Kingdom of the citizenship of the United Kingdom and Colonies and of the exemption from the Commonwealth Immigrants Act with which they might otherwise be left (paragraphs 29 and 30).

(e) I recommend that, if no better arrangement can be made, we should assume responsibility for the pensions and other terminal benefits which would normally be the responsibility of the successor government for expatriate public servants, both British and others, provided that the others do not come under the "indigenous" classification in the existing Public Service Regulations which distinguishes purely local civil servants of various races from expatriates (paragraphs 31-36).

(f) I ask my colleagues to take note that supplies of military equipment arranged under the programme of June, 1966 continue, and that I have not suggested a decision now against provision of any of the supplementary equipment, except as indicated above Hunter aircraft and radar, which was offered in June, 1967 (paragraphs 10 and 11). The reason in both cases is that it is essential not at present further to disturb the South Arabian forces on whom the present precarious stability depends. Delivery of the supplementary items of June, 1967 is not imminent. Decisions will have to be taken later (paragraph 11).

(g) I suggest to my colleagues that we cannot at present, again because of the effect on the South Arabian forces, take and announce decisions on the financial subventions for military and civil purposes after independence which we had decided upon earlier, or on the Military Advisory and Training Mission which we offered in June, 1967. I think the main party of the latter will have to remain at notice to proceed, as now planned, from early November even if we are doubtful whether it will prove appropriate. Our public line should be that such matters are for discussion with the successor regime (paragraphs 25-27).
I ask my colleagues to note that I am doing what is possible to impose close control on current expenditure (paragraph 12).

I ask my colleagues to take note that there is virtually no chance of the United Nations agreeing to the internationalisation of Perim under their auspices while we remain responsible; and to take note of my decisions on the islands, including the retrocession of the Kuria Muria islands to the Sultanate of Muscat and Oman (paragraphs 13-15).

6. We may have a difficult passage in Parliament. The main attack will doubtless be that the course of events was precipitated by the decisions in the Defence Review and that our subsequent measures were inadequate to compensate for this. I propose to take the general line foreshadowed in the first half of my speech of 19th June. I included it as a precaution against the kind of situation we now face. We can argue that we made it plain enough at that time that the proposals announced then were designed to redress a deteriorating situation arising above all from the unsound basis of British policy in South Arabia before we took office. They also took account of the position as I have sketched it at the beginning of paragraph 2 above. We can take the line that the position has entirely changed, but (assuming no collapse meanwhile) that our support of the forces has been amply justified because these have prevented disintegration, and have in any case held things together over much of the last phase of our withdrawal. So far as matters nevertheless remain difficult and unpredictable, this however only emphasises that the logic of our basic analysis on 19th June should now be followed, and that we should as soon as possible leave the Arabs to sort out their own problems without the complication of our military presence. We can justify an advanced date of independence, should we decide on this, on three main grounds. First, the revolutionary upheaval has transformed the context in which we must deal. Secondly, there is no evidence that we could achieve anything useful, to the Arabs or ourselves, by staying longer. Thirdly, the problem has relapsed to local proportions with the departure of the Egyptians from the Yemen, and is no longer one in which outside powers should remain to play a part. Where Parliamentary replies or statements have to be made before final decisions are announced, we should take the line that we await discussions with the emergent regime.

G. B.

Foreign Office, S.W.1.

25th October, 1967
SOUTH ARABIA

RECENT EVENTS

As our troops withdrew from the hinterland to Aden in preparation for their final evacuation, armed dissidence and genuine or opportunist sympathy with it caused the various Sultanic state administrations progressively to fall in the period between the end of July and the middle of September. The Federal Supreme Council disappeared with this.

Continuing instability

2. This is not however revolution under central control. The National Liberation Front (NLF) established firm control in about two-thirds of the Federation. Various elements grouped under the label of the Front for the Liberation of Occupied South Yemen (FLOSY) gained ascendancy in two or perhaps three states. The two groupings, sometimes violently and sometimes in uneasy truce, continue to contest for supremacy in some places, particularly in the area Northern Aulaqi/Wahidi. In Aden State itself sympathies are divided. The NLF were the first of the two organisations to seize the opportunity in the Eastern Protectorate. Though at first it seemed that FLOSY might resist them there, the NLF seem now to be consolidating their control of both the Kathiri and the Qaiti States, and it seems that the Mahra State is going the same way.

3. The picture is complicated by the underlying factional and tribal factors which have always bedevilled South Arabia. The fact that one or other extremist organisation appears to have the allegiance of the people in a given area often reflects traditional feuds or divisions rather than political conviction in the modern sense. The downfall of the Sultans as the central regime is no doubt permanent. Their eclipse in their own states may not in all cases be. With most of the former Sultans in refuge in Saudi Arabia, there has been real risk that some of them may try to mount counter coups from Yemeni territory (either Royalist or Republican controlled) and a risk that the Saudis may involve themselves in this. The High Commissioner at Aden, and I through the Embassy at Jedda, have done all we could to limit this risk and so far have avoided serious trouble in relation to it.
External influences

4. The inter-relation of domestic and external Arab factors has changed considerably. From late 1966 it was obvious that the NLF was gaining ground. Having lost Egyptian backing in 1965/66 it benefited from appearing genuinely South Arabian by comparison with FLOSY. The latter, drawing its strength primarily from Aden and largely from Yemenis in Aden, could not match the NLF's gunmen; lost control of the trade union movement in Aden; and progressively weakened on its own ground of Aden as its significant leaders stayed or fled abroad. Its base eroded further as many of its Yemeni supporters left Aden as our forces ran down, and as economic life stultified in the prevailing conditions. Recognising this, we nevertheless thought earlier that the longer term position of the two organisations might be reversed if the Egyptians stayed in the Yemen and FLOSY retained its external backing. The Egyptians, however, needing Saudi money and conceivably under Soviet pressure, are leaving the Yemen and their withdrawal will almost certainly be complete by mid-December of this year. Further weakened by this, FLOSY sought de facto tactical alliance not only with the Egyptians, but also with the Saudis (who mistrust it, but prefer it to the NLF, which they regard as extreme left-wing) and some elements of the former Federal regime, notably among the Aulaqis who see temporary advantage in assuming a FLOSY label and think of counter-coups in their home States. The NLF's political inspiration, so far as it is not its own, comes from the Arab Nationalist Movement (ANM) in the Levant and in Kuwait, who are distant, whereas Yemeni territory and the Saudis are close. There is a general predisposition, irrespective of regime, to think of "Arab socialism". It is still not certain therefore that the NLF will remain dominant. If FLOSY and the NLF do not get together, and if the NLF weaken, FLOSY are unlikely to supplant them more than partially; and the most likely consequence would then be disintegration.

Economic position

5. The economy and administration are in parlous condition. The inevitable fall in employment and income as the base ran down was serious but, assuming our continued support, not necessarily critical. But the economic activity of the Port of Aden, the only major source of earnings, has come to virtual standstill. Terrorism and political strikes were followed by the closure of the Suez Canal and the Arab oil boycott. This for a time virtually paralysed the BP Refinery which exists primarily for bunkering, is

Aden
Aden State's major source of tax revenue, and is at present operating at about 60% of normal levels on changed patterns of business. Finally the revolutionary upheaval followed. Where taxes or customs dues (e.g. at the Yemen frontier) should have been levied, they either were not or, in many cases, were looted by dissidents. This is being partially remedied in some places but by no means all. Saudi financial help will not be forthcoming in immediate circumstances. Terrorism and systematic intimidation have over the last two years eroded the civil service, Arab even more than British. Things are momentarily easier for Federal civil servants during the present lull; but the State administrations were disrupted and the re-establishment of these now in progress in some States is by no means complete.

Role of the South Arabian armed forces

6. Complete disintegration may have been prevented by the South Arabian armed forces, but their own loyalties have been deeply divided and so far they have been able to take little positive action. Their sympathies are in general more with the NLF than with FLOSY. This was however sharply modified through the tendency of both officers and men to follow tribal alignments, which caused several senior officers to swing towards FLOSY under the lead of the former rulers of Aulaqi country (paragraph 4 above). There have been at least three cases of battalion commanders acting in partisan interest or espousing this - in Baihan for the NLF and in Wahidi and Little Aden for FLOSY. Realising that this trend could split their own ranks and bring complete chaos, the officers resolved to refuse political power themselves while continuing to try to hold the ring between the two nationalist factions, to press these to reconcile their differences sufficiently for joint negotiation with the High Commissioner, and to urge him to appeal to the factions accordingly. With our agreement he issued a statement on 5 September, saying that the Federal Government had ceased to function, that the "nationalists" had established their representative position and that he was ready to negotiate terminal issues with them. The South Arabian Forces also succeeded in enforcing almost unbroken truce for some six weeks in Aden, from which our forces and the withdrawal operation benefitted, and to a lesser extent among the factions up-country. Over the last ten days it has partially broken down in Aden and threatens to do so up-country.

/ The latest position

-3-
The latest position

7. The South Arabian Army gave the factions two weeks to come together for negotiation with the High Commissioner; but after over a month, they have still not agreed on a common front. The depth of their divisions, their scattered leadership and inadequate organisation and their uncertain control are obvious reasons. Another is personalities: the NLF would deal, on terms, with Makkawi but try not to deal with Asnag. In addition FLOSY, weak on the ground yet still claiming larger say than the NLF, and the NLF hoping to complete the defeat of FLOSY, have both had an interest in playing for time to see whether intrigue and outside backing can redress their situation (paragraph 4 above). The Saudis, determined to check the NLF and if possible an NLF/FLOSY combination excluding others, got the Egyptians to agree with them to impose a formula for a caretaker government on the basis of 5 each for FLOSY and the NLF, 3 for the now ineffective South Arabian League and 3 for "others" (clearly Sultanic nominees). Only now have FLOSY and the NLF - the latter with manifest reservations - agreed to negotiations between themselves under President Nasser's auspices in Cairo. The formula above was rejected by both FLOSY and the NLF. The outcome remains uncertain so that, two and a half months before our declared date for independence of 9 January, we have none to negotiate with. The delay increases the strains on the South Arabian forces and the likelihood that they may disintegrate or, worse, join in internecine trouble and thus leave the territory to chaos. Their senior officers have avoided backing one faction and taking over themselves because either course would split their own ranks. There is now a greater danger of that split because of NLF moves against FLOSY in Aulaqi country which were only prevented with difficulty.

United Nations

8. In July, the United Nations Mission had finally succeeded in talking to FLOSY in New York after we had made repeated efforts for over five months to persuade FLOSY to meet the Mission. FLOSY still refused to talk to Lord Caradon. The Mission then went to Geneva in the hope of gathering all factions together at last. In the event however only representatives of the States, whom they had at last consented to see, and of Aden turned up (indeed the absence of too many Federal personalities in Geneva may have been a minor factor in the Federal rulers' easy overthrow). The Mission then moved to Beirut and Cairo for a further effort to see FLOSY, and if possible...
possible the NLF who had continued to reject the Mission’s belated overtures. The High Commissioner kept the Mission informed of developments, and warned the Mission at the end of August in a personal message that the situation was being transformed. When it became necessary for him to make his statement of 5 September, Lord Shackleton flew to Beirut to explain what was happening before the statement was broadcast the same evening. The Mission reacted adversely. Ignoring the time factor, and despite our continuous efforts earlier to keep them informed, they complained perversely of lack of consultations and the Afghan member, in particular, took an extremely hostile line accusing us of conspiracy with the NLF as well as wrong policy in the past. The Mission are now in New York trying to complete their report but delayed in this by the absence of their Malian member and their feeling that they must not, by publication, prejudice NLF/FLOSY negotiations. The report is bound to be critical of HMO though what particular line it will take or what recommendations it may make we do not know. Lord Caradon, and the High Commissioner in regular messages, are doing their best to keep the Mission informed and reasonably equable.

INTERIM POLICY

Military Planning

9. I agreed with the Secretary of State for Defence that while a changed date of independence would have to be considered between us collectively, the Commander-in-Chief must be authorised to submit plans for accelerated withdrawal. This he has done. The plans involve the movement however of 7,000 men, most of them by air, a major commitment of Air Support Command and some rearrangement of charter aircraft. The present position is that orderly withdrawal could be completed by 22 November provided a decision is taken and can be revealed to air charter companies etc. by, at the latest, 2 November. There is a strong feeling, emphasised by both the High Commissioner and the Commander-in-Chief, that the marked deterioration in both Aden and the Protectorate over the last few days, including signs that the strains may be becoming too great for the Arab forces’ precarious unity, make it essential to get out not later than the end of November. The alternative in their view is that orderly and peaceful withdrawal might become impossible.

// Support of the Arab forces
Support of the Arab forces

10. The High Commissioner represented strongly that we should do nothing to reduce the cohesion of the South Arabian forces, or to suggest that we could cease to support them now and after independence. They would certainly disintegrate (but retaining their weapons) if they thought their pay was stopping. This applied equally to the Hadhrami Beduin Legion (HBL) in the Eastern Aden Protectorate (EAP), whose role there had been comparable with that of the forces in the Federation. I agree, but this means that some decisions we may take now cannot be revealed and that we shall have to stonewall on future support for some time in Parliament and elsewhere.

11. We naturally suspended deliveries of military equipment (by administrative action made easier to conceal by the Canal’s closure) in September. But the High Commissioner recommended on 19 and 20 September, for the reasons in the foregoing paragraph, that we should maintain delivery of all weapons, including aircraft and small arms, which in his view and the Commander-in-Chief's would not be a threat to our forces in our remaining time. The deliveries immediately affected all arise from the programme of June 1966 and the expenditure is committed and in large degree made. They include the aircraft required to make the South Arabian Air Force in part operational before the end of November. The arms which could be a threat to us, and which the High Commissioner wants supplied but not actually delivered, come under the supplementary programme of 1967 which the Federal forces have only belatedly indented for but expect. They are the additional Saladins, the additional 25-pounder guns and the self-loading rifles. In arguing that full procurement of material, including these, should proceed, the High Commissioner maintains that even after the immediate need to maintain confidence during our withdrawal has passed, we shall still find it in our interest after independence to maintain influence with the forces by maintaining the full supply programme, and argues that we would not want Russian supply in lieu. The forces will still be the key to any stability, and we should have interest in keeping in with them. He sees no advantage in a middle course between the full programme and the complete cancellation which, he allows, might well follow a collapse of the forces and the disintegration of the territory.

/ Financial Control

-6-
Financial Control

12. The disintegration, the financial situation and the progressive administrative deterioration since 1965 have made it essential to take abnormal action over finance. In general terms my department and the Ministry of Overseas Development have proposed if feasible to draw a line under Colonial Development and Welfare schemes which finance some Federal recurrent expenditure and, in consultation with the High Commissioner, to control expenditure as rigorously as possible by short-term instalments of the block grant which supports the Federal/State budgets including the finance of the forces. We are also taking what action we can to compose correct accounts, since the full audit (well after a given financial year) which would normally be available to the Public Accounts Committee will clearly now be impossible; records are already in some cases beyond our officials' access.

The South Arabian Islands

13. The United Nations Mission deprecated our proposal of the internationalisation of Perim as one outside the terms of reference laid down for them by the United Nations resolutions. Their report may also condemn the proposal; the Fourth Committee certainly will, as the Arab delegations at New York already have. That will kill the proposal (though exactly when within this Assembly we do not yet know) and I shall inform Parliament accordingly in due course. We are left with the demand in the United Nations resolutions that Kamaran, Perim and the Kuria Muria islands be incorporated in South Arabia: and our warning to the United Nations and our undertaking to Parliament that the wishes of the inhabitants must be taken into account (this of course is consistent with our line over Gibraltar, the Falkland Islands and comparable issues.)

14. I have decided that we must, as the "administrative power" do what seems right and best from all points of view. I have told the High Commissioner to attempt to cover the need for consultation by informing the inhabitants of Perim and Kamaran (subject to the outcome of the internationalisation proposal in the former case) that they should remain with Aden; and by informing the inhabitants of the Kuria Murias that they should revert to the suzerainty of the Sultan of Muscat and Oman. The consultation process is designed to give the islanders full opportunity to object and will ensure that a representative reaction is obtained. I expect Perim to opt for South Arabia and thus constitute no problem. Kamaran has not been formally proclaimed a protectorate; we simply remained in control.
control after World War I. In these circumstances, we can simply leave while informing the United Nations of the wishes of the inhabitants. In neither case is the course we propose to the islanders likely to stimulate a reaction at variance from the United Nations resolutions, and there should be no difficulty between Her Majesty’s Government and the United Nations in these cases. If the Yemen should subsequently claim Perim or Kamran that will no longer be our problem.

15. The Kuria Murias’ case will cause complaint from the United Nations and “nationalists”, who will complain of departure from the United Nations resolutions and dislike anything favouring the Sultan of Muscat. But we must act positively over the Kuria Muria Islands, since we have sovereignty there. They were a gift from Muscat 113 years ago. The few mainland connections of their 70 inhabitants are with the Sultanate of Muscat and Oman. The patois is akin to that on the nearby mainland, not that spoken in Eastern South Arabia. The only connection with South Arabia has been an administrative convenience of subordination to the Governor of Aden. The islands are some 20/40 miles from the Sultanate and some 200 miles from South Arabia. It is entirely right they should revert to Muscat and Oman. Our interest in good relations with the Sultan continues, whereas we have little interest in future relations with South Arabia. Consultation will undoubtedly yield the inhabitants’ request for reversion to the Sultan of Muscat. I propose to arrange this by agreement with him, and to inform the United Nations. Eventual complaint from the United Nations would be unfounded and must be accepted.

MAJOR DECISIONS REQUIRED

The date of Independence

16. The truce sought by the South Arabian Army and, on the whole, tacitly maintained until recently by the factions has given our forces a breathing space. Within Aden State, the South Arabian Forces have taken over Little Aden, and the Shaikh Othman/Mansura area. Like the NLF who dominato Little Aden, they have shown determination to safeguard the BP refinery, a considerable British investment. At the other extreme and in the worst case, there might be a resumption of terrorist activity with elements of the Forces siding with terrorist groups against both other groups and ourselves using the heavy weapons of the Forces and those the factions have acquired (paragraph 9 above). The High Commissioner, who is now strongly in favour of early withdrawal.
withdrawal has recommended that we should still maintain as much flexibility between 20 and 30 November as the difficult situation allows. Taking into account the latter half of November as the time of partial operational readiness by the South Arabian Air Force, he and the Commander-in-Chief have made strong recommendations that:

(a) We fix independence and withdrawal of last military elements by 22 November;

(b) We announce by 31 October that we are leaving in the second half of November; and

(c) We decide by 13 November whether the date at (a) should become 30 November. This allows an extra 8 days for the beginning of negotiations if a caretaker body emerges meanwhile (negotiations which the future Embassy could continue after independence).

17. The first objective of our policy has been to get our forces out in good order. That, already largely achieved, can be completed on the foregoing basis by 22 November. But there are other problems on which we should attempt to start negotiation if a new government emerges in time for this, and if other conditions are not unfavourable.

18. In these circumstances I recommend:

(a) that I should have discretion, in consultation as necessary and according to developments, to decide on any date of independence after mid-November 1967 (which may be as early as 22 November); that I should decide finally by 13 November whether to make this date 30 November; and that we should now announce that independence will be in the latter half of November. Independence would be brought about by an Order in Council under the Aden, Perim and Kuria Muria Islands Act of 1967 terminating British sovereignty; simultaneous Royal Proclamations ending British protection over the protected territories of South Arabia; and other terminal action required consistently with this;

(b) that we should inform the High Commissioner and Commander-in-Chief immediately of our decision.

Deterrent forces

19. Even if we should decide to support the successor regime after independence, the changes within South Arabia and the UK's withdrawal from the Yemen make the maintenance of our offer of deterrent units unnecessary for the purposes originally conceived (OPD(67)45), while there is no question of involving ourselves after /independence
independence against attacks over the border by ex-Sultans or even the Yemeni republicans. The High Commissioner agrees. I therefore recommend:

(a) that the stationing of V-Bombers at Masirah should now be cancelled;

(b) that the deterrent task of the naval force should now be cancelled but that the force should, with any modifications of composition appropriate, continue to assemble to cover contingencies around and after the time of independence for a limited period.

I remain in consultation with the High Commissioner about informing the South Arabians. Subject to this I would expect to inform the House as soon as necessary.

Hunter aircraft and radar

20. Our decision this year to offer 8 Hunter aircraft and associated radar (OPD(67)65) in addition to the 8 light ground attack aircraft decided on in 1966 (CTD(66)62) must be reconsidered. The Hunters and radar are already in Aden as part of the Royal Air Force; we had decided to transfer them on independence. The High Commissioner says that he might be able in due course to persuade the South Arabian Defence Ministry that this equipment is unnecessary in present circumstances and would be a heavy drain on the South Arabians' limited resources. He asks however that we should for the present at least adhere to our decision to supply. To change it could in his view cause adverse reactions among the South Arabian forces. He does not believe that it would be in our interest (or the Saudis' interest) to give up the close relationship with the South Arabian Army which the provision of supplies and personnel will in his view make it possible to continue. If we do not supply all the equipment we have promised, he considers it probable that the Russians will do so and might in this particular case substitute MiG 17s with East European pilots. He argues that the South Arabian Army will still need at least the level of armaments which we had proposed for the defence of the country, and in particular for the control of dissident movements, in view of the large quantities of sophisticated arms which are in various hands in the country. As stated above, he does not think that there is a middle course between supplying as planned and ceasing support entirely. His latest statement is that he would
be prepared to tackle the South Arabian Army now on reconsidering the Hunters, but only if we can authorise him to say that we will provide four additional Jet Provosts instead (see paragraph 22 below).

21. The arguments against this are these:-

(a) In 1966 Middle East Command refused to support the bid for Hunters and radar because they thought it too complex a defence system for the South Arabians to manage. We disregarded this in June this year because of the need to instill confidence in the face of the UAR threat in the Yemen. That threat is however now disappearing.

(b) The equipment, now owned by Her Majesty's Government, is worth about £1.05 million and the recurrent annual cost of its maintenance and operation was estimated at £0.325 million.

(c) We have several potential customers for the Hunter aircraft and can earn both foreign exchange and good will by selling them.

(d) The inevitable increases in the costs of the whole programme together with emergency delivery arrangements enforced by the closure of the Canal mean as things stand at present that we must find some £300,000 of savings within the programme to remain within the ceilings my colleagues have authorised.

(e) There must be some doubt about the political utility of supplying the forces of a state which, if it survives, may well be hostile to Saudi Arabia and Muscat; but this can be argued both ways.

22. I am reluctant at this point to advise any decision which would override the High Commissioner's view of what he needs to do his very difficult short-term job. The Secretary of State for Defence would also be concerned at the effect on our final evacuation if we were to anger the South Arabian forces by removing the aircraft against those forces' wishes just before independence. I therefore recommend:

(a) that my colleagues leave me latitude, in consultation as necessary, to take a decision on the Hunter aircraft and the radar later on;

(b) that I should also authorise the High Commissioner to inform the South Arabians of withdrawal of the Hunter offer at a time of his choosing, provided he can offer to leave permanently 4 "stop-gap" Jet Provosts instead.
These are in any case due for delivery in December to tide over the period until the South Arabian Air Force complement of 8 light jet aircraft can be fully operational. This would mean 12 light jet aircraft instead of 8, in substitution for 8 light jet aircraft and 8 Hunters.

(c) That should we eventually decide against supplying the Hunter aircraft without the agreement of the South Arabian forces, any intimation or announcement of this should, subject to the High Commissioner's judgment, be as late as possible so that it cannot damage our reliance on the South Arabian forces, who might well react adversely, to cover our withdrawal. The announcement could be delayed till the time of the aircraft's removal, which I understand can be delayed until a week or so before independence.

(d) that alternative potential customers cannot yet be told of any change;

(e) that we refrain from stating the position to Airwork (whose operating contract with the Federal Government has not yet been expanded to cover the Hunters) but find ways administratively, without reason stated, to ensure that they do not incur avoidable expenditure in relation to the Hunter aircraft and radar in the period before we can tell them that these may not be involved.

I should explain, over (a), that Airwork were given an assurance some months ago, by agreement between my Department and the Treasury, that if their contractual arrangements with the South Arabian Government broke down for reasons beyond their control I would consider favourably recommending to Parliament that their reasonable and proper irrecoverable expenditure be reimbursed. This would of course be very much cheaper than financing the programme as planned.

Political

23. The best arrangement conceivable in present circumstances is an agreement with a representative group, if possible including elements other than the NLF and FLOSY and with the backing of the South Arabian forces, under which they would assume responsibility for the entire territory. There is no chance of bringing into effect the revised constitution which the Federal Government had been about to introduce. The best we can hope for on the constitutional side is that the participants should undertake to respect the essential safeguards of human rights and laws provided to Aden in the present Aden State constitution or the abortive draft
Federal constitution until such time as more durable arrangements can be worked out (perhaps with United Nations assistance). An indication of respect for the Universal Declaration on Human Rights could also be sought. I have it in mind, as soon as a relatively favourable outcome of this kind emerges, to act to secure international recognition and United Nations membership for the new regime. This of course would also lay some basis for economic aid, whether bilateral or multilateral and from the Specialised Agencies which, in due course, might ease decisions on reducing or ending our own subventions.

24. The worst likely outcome is an unresolved or even chaotic situation in which we had to leave the territory to the de facto authorities even if divided among themselves, perhaps handing over Aden State to the military authorities immediately controlling it or, if they refuse responsibility, simply leaving. We have after all no responsibility for regulating the Federation except in so far as our responsibility for Aden has become involved with this. It would be a difficult matter simply to abandon our responsibilities in the colonial territory. But I see no alternative. The basic logic of merging Aden with the Federation was that it could not survive in independence on its own and at odds with the Protectorate. That remains true. It is true that we could make some effort to establish Aden as a separate state, i.e. taken out of the Federation, with a separate though republican constitution similar to that partially suspended in September 1965. But this would not work. There would be accusations within the territory and at the United Nations that we were dismembering the country in violation of the United Nations resolutions. This would antagonise the forces, the NLF and the Sultans alike and probably precipitate immediate chaos within Aden as the factions resorted to arms. The civil services are inextricably intermixed, and so are the government machines. For similar reasons it would not be practicable to refuse to terminate British sovereignty in Aden and stay on in the hope that something satisfactory could be arranged if we did. The task would be impossible, and a de facto resolution of the problem would be delayed rather than assisted.

Post Independence Military and Economic Aid

25. For the reasons at paragraphs 10 and 11 above we cannot at present give any indication that we may not continue the aid promised to the Federal Government in June 1966. At the same time we and Parliament may find it hard to accept that recent events should leave unaffected the very high level per capita expenditure hitherto envisaged for the Federation; even without the additional offers of June 1967, this amounted, over three years...
years, to over £30 million military subvention, some £29 million civil aid and an unspecified development loan and other grants to a territory with well under a million people. If continuance seems likely we may moreover also have to resolve the subsidiary question whether the ratio of military to civil assistance has to be as high as hitherto intended.

26. I intend to take the line in public that future support obviously depends largely on discussion with the new régime when it emerges. If in the end there is no central successor régime, our options would be open. The question would then arise whether and, if so, for how long we should continue to provide and to keep the military and civil machines functioning. My present thinking is short term instalments at present levels to keep them functioning till we see what is to emerge. If by independence a successor central régime has emerged, and provided that its attitude towards us is tolerable, I think we may feel compelled to continue a fairly high level of aid. Not to do so would deprive the emergent government of its financial means both civil and military, and would thus provoke the break-up we have been trying to avoid. This would no longer serve to impede our withdrawal but would be damaging to our reputation and, subject to further consideration according to developments, possibly our wider interests. To end over a century's responsibility by leaving a chaos which aid could mitigate would not be very creditable. We must consider all this later, including the High Commissioner's argument in paragraph 10 above, but neither can or should decide it now. If we continue aid, we should rationalise it as much as possible, giving single block grants for military and civil assistance to the territory as a whole and making, for example, no separate provision for the states of the Eastern Aden Protectorate. In this connexion we have to remember our separate assurance to the Hadhrami Beduin Legion in June that, subject to various conditions, they would be paid for two years after independence. I do not ask my colleagues to consider this now, but expect to revert to it and associated problems as necessary later.

Military Training and Advisory Mission

27. It follows from the need to keep the South Arabian forces in play that we cannot, within the question of military aid, take any new decision at this point on the provision of the Military Advisory and Training Mission on which my colleagues decided in June 1967. This has been nominated (apart from the medical component which it has proved impossible to supply). More than half of the 50 members nominated are, surprisingly, volunteers. About 20 are on 14 days' notice to move to Aden from 1 November. The remainder are already in Aden, or will not in any case be needed till later. There is real question whether a "nationalist" government will ask for this Mission (the South Arabian Army still want it) and whether, when things are clearer, it would be in our interests to provide it in such uncertain circumstances. We may well in any case find it impossible to commit such a Mission to its functions if we cannot conclude adequate status arrangements with a successor régime.

Agreement on Independence

28. Before the upheaval we envisaged the entry into force of a new constitution, the termination of sovereignty in
colonial territory and the ending of our protection over the rest of the country as a combined operation. It was to result in the independence of the Federation as a single international entity, and the independence of the unfederated Eastern Aden Protectorate States with it or separately. As far as we can now foresee this remains the right course. If, however, we can conclude any formal agreement on transfer of authority to a successor central authority, and if we have any means of exacting conditions in relation to this, we should also try to cover certain outstanding problems discussed below at the same time. It is just possible (but no more, given the political and timing difficulties involved) that some aspects of aid could be a sanction in this. If we cannot exact any conditions, we shall have to consider unorthodox action.

Nationality Questions

29. In the new draft constitution they had approved but not been able to enact, and in a Federal Nationality Law which had been enacted but had not been brought into force, we persuaded the Federal Government to adopt a liberal approach to nationality questions. Broadly speaking anyone who was born in Aden, or whose father was born in Aden, would be among those to qualify as a South Arabian citizen. Had the Federal Government been able to make their law effective, the Home Secretary would have been able to make an Order under the Schedule to the Aden, Perim and Kuria Muria Islands Act to deprive persons of their citizenship of the United Kingdom and Colonies if they were entitled to this other new status. The total with entitlement to citizenship of the UK and Colonies could well be as much as 80,000 and is certainly well over 50,000. It includes between 20,000 and 30,000 Indians and other non-Arabs who are in no sense UK belongers. If no Order could be made by the Home Secretary, the practical consequence would be that, subject to certain formalities, these persons would retain their present citizenship and be exempt from the Commonwealth Immigrants Act.

30. If the matter can be negotiated the High Commissioner will try to get the successor authority to endorse this decision of their predecessors. They may well however resist or stall, in reaction against anything their predecessors decided and also in xenophobic hostility to Hindus in particular. If these people do not acquire South Arabian (or some other valid) citizenship there would be no scope under the UK's Nationality Act to deprive them of UK citizenship. My Department have considered making an Aden Ordinance under the High Commissioner's authority but have concluded that that could not serve. It could only create an Aden citizenship which, as Aden is unlikely to be an international entity, does not get around the difficulty. If we are to act at all, the only other course open to us is an Order in Council bringing the Federal Nationality Law into force. This would be an unusual action inasmuch as citizenship is essentially a domestic matter and we have frequently emphasised that we have no domestic power with the Protectorate. I am advised however that such an Order can be made and would be valid, its justification would in part be that we had an obligation to give the population of South Arabia a citizenship at the time of independence which was sanctioned by law and could be recognised internationally. The successor authority would be free to repudiate the citizenship we had prescribed after independence. If the Home Secretary made a matching Order under
the Schedule to the Aden Act taking away U.K. citizenship from those on whom the Order in Council had conferred South Arabian citizenship, he might subsequently be criticised as responsible for the statelessness of the people of non-Arab race should these fail to secure from the successor Government the South Arabian citizenship which the Order in Council had conferred. I understand that the Home Secretary would nevertheless be prepared to consider making such an Order if our Order in Council had not been repudiated after a decent interval of two or three weeks (under the Schedule he would still thereafter be free to vary or cancel his Order should developments require this). His decision on that would be later. But the basis of an Order in Council must be laid, if at all, before independence. I therefore recommend:

that we should proceed by way of the
Order in Council envisaged above before
independence.

Terminal Benefits of the Public Service

31. It is a world wide principle of ours that successor governments undertake responsibility for the pensions and other terminal benefits of the public service, whether expatriate or indigenous. They are held to have served the territory and not H.M.G. We have always concluded Public Officers' Agreements where necessary to ensure this. In cases where the successor government has defaulted, we have made the necessary payments to "United Kingdom" public servants but on the basis that these are advances for reimbursement when the successor government honours its obligations. We have not covered default in respect of public servants other than the British expatriates. We had agreed with the Federal Government on the basis of a Public Officers' Agreement. In accordance with the Oversea Service Aid Scheme, H.M.G. have expected to meet half the cost of the compensation for loss of career of "designated" (i.e. U.K.-based) civil servants together with the proportion of pensions and commuted pensions gratuities attributable to the British contribution to their salaries under the Aid Scheme. The remainder of the terminal benefits of "designated" officers, and the whole cost of the retirement benefits of "non-designated" (i.e. other non-indigenous) civil servants would normally be the direct responsibility of the South Arabian Government. The totals of these local liabilities are:-

<table>
<thead>
<tr>
<th>Designated Officers</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Compensation</td>
<td>328,000</td>
</tr>
<tr>
<td>(b) Interest on outstanding balances of compensation instalments</td>
<td>77,000</td>
</tr>
<tr>
<td>(c) Commuted Pensions Gratuities</td>
<td>163,000</td>
</tr>
</tbody>
</table>
(d) Pensions per annum £115,000 x

Non-Designated Officers

(e) Commuted Pensions Gratuities £132,000

(f) Pensions per annum £45,000 x

x Figures include pensions already in issue as well as those arising at Independence. We had agreed to provide the Federal Government with loans on easy repayment terms to a total of £700,000 to assist them to pay the benefits in (a), (b), (c) and (e). The provision of loans for items (a), (b) and (c) to territories achieving Independence has been general practice. In recognition however of South Arabiain's very difficult financial position, we had exceptionally agreed to help them to pay also item (e), the commuted pensions gratuities of non-designated officers. It was however expected that, as elsewhere, the local Government would meet the recurrent pensions bill (items (d) and (f)) themselves. These arrangements may well now prove abortive.

32. The High Commissioner has recommended that we should make an early announcement that HMG will assume direct responsibility for the accrued terminal benefits of the designated (UK-based), non-designated non-indigenous (i.e. Indian), and local (i.e. South Arabian) public servants alike in order to stave off possible industrial action before independence.

33. There is growing pressure from civil service representatives which may be reflected in Parliament here. My general conclusion is that the strain of recent years and the poor prospects of e.g. Indian civil servants in face of Arab xenophobia against Hindus and Christians, and the absence of a normal Public Service settlement justifies us in treating all categories of expatriate non-South Arabian officers similarly in relation to the payment of pensions. Further the prospects of an effective successor government, in the short time before independence, being persuaded to honour our concept of their obligations seem poor enough to justify our taking on their terminal benefits, though we would hope that this would be a temporary expedient pending negotiation of something better. I should add that the draft Public Officers' Agreement covered these classes on the same basis and we might be accused of discrimination among expatriates on racial grounds if we treated them differently now.

34. I think, however, that the South Arabian civil servants are in a different class. Apart from precedent, they are of the country and must look to the government of their own people. The attitude of many of them to terrorism has been equivocal. It is questionable how far /any

/any
any concession on gratuities would in fact affect their readiness to remain in the public service, whether they would attempt industrial action, and whether the NLF or the Arab forces would stand by and let them do so (the NLF are known to have shown concern to keep the civil service at work). The additional cost of taking on their terminal benefits would be about £1.85 million for gratuities plus an annual bill of £0.255 million for pensions. If the latter were also commuted, the lump sum of such commutation would be a further £3.5 million. These considerable figures are for the civil service and exclude the Armed Forces and the Police.

35. Two consequences of deciding on independence by the end of November, without any certainty about a successor government, are first that we must inform the public service; and, secondly, that we cannot expect the expatriates to remain in any way bound, so far as we are concerned, to stay on after independence. We must give notice to the expatriate staff (most of whom in any case have indicated their intention to leave) and the corollary of this is that we cannot offer the continued service of expatriate officers to the successor government.

36. I therefore recommend:

(a) that I inform the High Commissioner that we cannot accept post independence responsibilities in respect of indigenous officers;

(b) that I instruct him to try for a public Officers' Agreement which could not, by virtue of paragraph 35, hand over expatriate public servants to the successor government, but would seek to confirm that government's acceptance of liability for terminal benefits; but that we should in the last resort accept direct responsibility for designated and non-designated non-South Arabian officers if it cannot be concluded or if, having been concluded, it is not fulfilled by the successor regime. This would mean that subsequent payments under (a), (b), (c) and (e) in paragraph 31 would be made direct to the officers concerned from money at present earmarked for the £700,000 loan that we had already offered. It would not therefore constitute a new commitment. In addition however we would have to assume pension liabilities of £160,000.
£160,000 per annum (items (d) and (f)). The test for eligibility must be the classifications in the existing Public Service Regulations and would not be affected if some of those covered should subsequently acquire South Arabian nationality under the proposals discussed at paragraphs 27 and 28. I should add that some officers on contract but within the same classifications would also be due for terminal benefits but these cannot be assessed at the present time.

DEBTS

37. Aden State has loan debt outstanding as follows:

(1) loans by H.M.G. totalling £3.82 million;

(2) a London Market loan of £1.33 million maturing 1972/74 (against this there is a sinking fund of £2 million held by the Crown Agents as trustees);

(3) a locally issued debenture loan of £1.2 million (of which over three-quarters is held by the Currency Authority.)

We shall naturally do our utmost to secure repayments of the debt owed to the Exchequer. While H.M.G. has no formal obligation to the subscribers to the other loans we will be open to criticism if we do not do what we can to ensure that these liabilities are met. If proper agreements on independence can be concluded we shall try to ensure a formal transfer of responsibility for them.

CURRENCY

38. The South Arabian Currency Authority is a corporate body established under Federal Law. It has reserves (nearly all in sterling) of about £20 million, a currency circulation which has been about £15-19 million, and stocks of unissued notes which, though reduced after June, still approach the quantity of currency in circulation. These assets and liabilities are South Arabian, but the position is being examined carefully in relation to sterling and the scheduled territories.
The Cabinet agreed at their meeting on 25th July (CC(67) 52nd Conclusions, Minute 5) that I should accept the recommendations in the Report from the Joint Steering Group under John Morris' chairmanship which I and the Chairman of the British Railways Board set up to review future railway policy, and that the necessary legislative provisions should be included in the Transport Bill which is now being drafted. (The Ministerial Committee on Economic Policy had previously approved the recommendations in the Group's Interim Report.)

2. The Cabinet also invited me to consult the Ministerial Committee on Economic Policy on the timing and manner of publication of the recommendations of the Joint Steering Group. I shall be able to explain to my colleagues orally why I consider it essential that they should consider this draft at short notice. The timing depends critically on certain developments in relation to Board membership which I have been able to bring to a head only this week.

3. As I told my colleagues on 25th July, I am sure that the best course would be to publish the Group's Report in full, and after careful consideration I have concluded that there is no objection to this. At my request, therefore, the Group have now prepared a slightly revised version of their Report, including only the minimum editorial changes, but incorporating their Interim Report. This will now be regarded as their substantive Report, and the two earlier reports will have the status of confidential working papers (it is important, therefore, that their existence should not be disclosed). The Railways Board have agreed to the publication of the substantive Report, and I propose that it should form an Annex to the White Paper of which a draft is attached.

4. The White Paper sets the background to the new railway policy, describes the main recommendations from the Group, and announces the Government's decision to accept all the recommendations.

5. The Annex constituting the Joint Steering Group's Report will be circulated separately as soon as possible.

B. A. C.

Ministry of Transport, S. E. 1.

26th October, 1967.
WHITE PAPER ON THE RAILWAYS

Background to the Joint Review of the Railway Industry

1. The evolution of a new policy for the railways has been at the centre of the Government's whole transport planning. The principles which should inspire that policy were outlined in the White Paper on Transport Policy (Cmd. 3057). The Government believes that, if our transport system is to meet the social as well as the economic needs of the country, we shall need a substantial railway system for some time to come. It also believes that the men in the industry cannot be encouraged to give of their best, nor can the public be given the service it has the right to expect, unless a sense of stability and of self confidence is restored to the industry.

2. It is clear that there are many services which have little or no prospect of paying their way, in a commercial sense, yet whose value to the community outweighs their accounting cost to the railways. These socially necessary services include many commuter services in conurbations, whose closure would add intolerably to road congestion costs, important cross-country services, and some services in remote areas where reasonable alternatives cannot be provided or only at excessive cost. The Government's first problem, therefore, was to determine the size and shape of the basic route system to meet both commercial and social needs. This was essential so that management could concentrate on the improvement rather than the contraction of the system, and provide a first class service to the public, as well as an assured and worthwhile future for railwaymen.
3. After taking account of the views of Economic Planning Councils, the Government and the British Railways Board decided on the basic route network, the details of which were published in March 1957. This network will consist of some 11,000 route miles, compared with the present system of between 13,000 and 14,000 route miles. It reflects the necessary pruning of lines which no longer meet modern traffic needs but calls a halt to the drastic reductions which would have been necessary under the terms of the 1962 Transport Act. The Government intends that this basic network shall be adapted and developed to meet present and future needs, and the necessary finance will be provided for new worthwhile investment, including the continued modernisation of traction, rolling stock, track and signalling, that can be justified on a proper economic basis.

The Joint Steering Group

4. The second main task of the government has been to give the Railways Board a financial target it could realistically be expected to attain. Under its present terms of reference the Board is required to "break even" as soon as possible, but it can never be expected to do this as long as its accounts are burdened with the losses on socially necessary lines which it has been refused permission to close. If self-reliance is to be restored to the industry, it is essential that the community should explicitly take financial responsibility for these services. The first step, therefore, has been to identify and cost them. Joint machinery was set up by the Minister of Transport and the Chairman of the Railways Board for the study of these and certain related questions, under the control of a Steering Group under the chairmanship of the Joint Parliamentary Secretary to the Ministry of Transport, Mr. John Morris, M.P.
5. The Joint Steering Group submitted their main report in July 1967; the full text, which incorporates an interim report, is published as an Annex to this Paper. The Group's conclusions and recommendations are summarised in Section 5 of the Report, and the Government, after consultation with the Railways Board, has decided to accept all the recommendations.

Scope of the White Paper

6. This White Paper sets out in detail the Government's new policy for the railways on the basis of the Steering Group's recommendations. It will be followed by separate White Papers which will deal with the Government's freight policy and the Government's policy on public passenger transport. The first of these further papers will include a description of the effect of the new freight policy on the railways and the means by which it is intended to put the carriage of freight on to a new, more efficient and more economical basis. The White Paper on passenger transport will describe the role of Passenger Transport Authorities and the kind of arrangements which are to be made between these Authorities and the Board in respect of local rail passenger services.
7. This White Paper does not attempt to deal with these problems, fundamental though they are to the future success of the railways; it concentrates on the central financial and management issues, which are the main subjects of the Group's Report. On the financial side it has been necessary to decide the extent to which, and the way in which, continuing assistance should be given to the Railways Board for the discharge of their necessary social obligations. From this it has been possible to make a forecast of the Board's future overall financial position after taking account of social factors, and this has led to the conclusion that an extensive financial reconstruction will be essential. These major changes carry implications for the Board's future organisation and management structure and here also the Government has made far-reaching decisions on the basis of the Group's recommendations.

The Railways' Social Obligations

8. It has long been clear that the railways have no hope of supporting, from profits on their other passenger services and on freight work, the many non-paying passenger services which they are expected to retain. The time has come to face this fact squarely: the services which require long-term assistance will be identified and separately costed so that the community can consciously decide whether the social benefit to be obtained from the maintenance of a particular service is sufficient to justify the cost of continuing it. The decision in each case will have to be made in the last resort by the Minister (and not by the Railways Board) and in reaching that decision the Minister will weigh the costs /of
of retaining the service - in terms of the amount of grant which will have to be paid - against the social and economic benefits which it will bring. Before approving the Board's application for a grant the Minister will require to be satisfied about the level of service to be provided, taking account of other forms of transport which may be available and will need to be assured that every opportunity has been taken to produce a good service at the lowest possible cost. This will mean a careful study by the Department of the efficiency of the existing service and of ways of getting better value for money as an alternative to the possibility of closure: the Directorate-General of Economic Planning is already making a start on this work. In any case where the Minister declines to approve the payment of a grant, the Board will be free to submit an application for the withdrawal of the service under the statutory procedures laid down in the Transport Act 1962. The White Paper on passenger transport will describe the necessary adaptations of these arrangements for the proposed new passenger transport areas.

9. The detailed procedures for the calculation, payment and control of grants for these unremunerative passenger services are covered in Section 3 of the Steering Group's Report. The best estimate which the Group has been able to make of the likely total amount of these grants is £40m. per annum in 1969 and £35m. in 1974, with the addition in both cases of interest which on present asset values would amount to about £15m. These figures may however need revision in the light of further study including a detailed examination which is now proceeding of a sample of potential grant applications.
10. It has been suggested that another aspect of the social obligations which the railways are required to meet is the provision of what has been described as "standby capacity". The Steering Group examined this concept in detail and concluded that it is highly unlikely that "standby capacity", additional to that required for the railways' commercial and social services, could be proved to exist as a permanent element of any foreseeable railway network. The Government accepts this conclusion. The Group recognised, however, that surplus capacity does exist in the railway system in the shape of excess track mileage (e.g. four tracks where two would suffice to carry the traffic) and that until this surplus capacity can be eliminated (which is bound to take time) the cost of maintaining it adds considerably to the operating loss. In accordance with their recommendation, therefore, it has been decided to pay a grant to the Board to assist in the elimination of surplus track and signalling capacity and the rationalisation of the system. The grant will be fixed in advance and will be calculated to cover the estimated expenditure by the Board on the maintenance of such surplus capacity as will exist in 1969 or is expected to develop over the next 4 years; it will, however, decrease year by year and taper off completely by 1974, thus giving the Board a powerful incentive to reduce their surplus capacity correspondingly. To the extent that they are unable to eliminate the surplus at the rate at which the grant decreases, they will have to make savings or additional profits elsewhere to cover the cost of the continuing surplus. On present estimates, the grant is likely to be of the order of £15m. in 1969 and will reduce progressively over the following four years.
11. There are certain other continuing social obligations which the Board have claimed should not be charged against the operating deficit. The Joint Steering Group studied each of these in detail and concluded that there is a case for relieving the Board of part of their existing liabilities in respect of the maintenance of overline road bridges and level crossings and for assisting them to meet their superannuation obligations, which result from the decisions of their predecessors. They also agreed that the Board should be given some financial assistance towards the cost of the British Transport Police in recognition of the latter's service to the public generally. The total cost of all these obligations is some £8m. per annum, but they are of such a nature that it would be inappropriate to deal with them by any kind of specific grant; the Government have accordingly decided, in accordance with the Group's recommendations, that account should be taken of this relatively small sum in the recapitalisation which is described below.

Recommendations for Financial Reconstruction

12. The Railways Board prepared for the Joint Steering Group detailed financial forecasts for the years 1969 and 1974 which are included in Appendix G to the Group's Report annexed to this White Paper. These forecasts were finalised in May of this year on the basis of certain economic assumptions which are set out in the Appendix; they did not, and could not, take account of several developments since that date which must inevitably effect the figures. The forecasts did, however, take account of the Government's decision on the size of the basic network and they also assumed that the railways' sundries traffic, which in 1965 lost £25m. per annum, would be transferred to the National Freight Corporation.
13. The Steering Group examined these forecasts in detail and concluded that they were much too optimistic. After allowing for interest on the present basis (some £80m. per annum) and taking into account the grants which will be payable in accordance with the decisions recorded in paragraphs 8-10 above, the Group estimated that the Board’s accounts would be likely to be in deficit in 1974 to the extent of between £5m. and £55m. (see summary table in paragraph 2.24 of the Steering Group’s Report). The Group concluded that, if the Board were to be given a target of financial equilibrium within any reasonable period, a radical financial reconstruction would be inevitable. (The figures used for the Board’s financial forecasts were the best available at the time the Report was compiled, but the Group make it clear that the figures to be adopted for the recapitalisation which they recommend will need to be re-examined in the light of changing circumstances and the refinement of the Board’s own financial forecasts to which the Report refers).
There can be no doubt that the continuing deficit of well over £100m. a year has been a major cause of the growing feeling, both within the railways and outside, that the industry was ailing and in decline. The deficit has persisted despite strenuous efforts to improve productivity. During the last five years manpower has been reduced by 32% (150,000 jobs) and the numbers of stations, locomotives and wagons have been reduced by 43%, 53% and 43% respectively while traffic has remained at about the same level. The effect of these and other measures could be described as a reduction in total railway working expenses of about £115m. between 1962 and 1966, but of this £95m. was absorbed by wage and other price increases. These developments have completely falsified the expectations which lay behind the Transport Act of 1962 that the railway deficit would be largely, if not completely, eliminated within five years. In fact the figure for 1967 is likely to be of the same order as that for 1962 (£159m.) and it is clearly impossible to expect the management and the men of this great industry to continue to try and do their jobs under the crippling shadow of this immense deficit. Accordingly the Government fully accepts the Joint Steering Group’s recommendation that capital debt of the Railways Board should be written down to a level at which it is reasonable to expect that interest payments can be met out of revenue early in the 1970s. It is the Government’s firm intention that the Board’s capital liabilities should be so adjusted that they have a fair and reasonable prospect of achieving and maintaining a break-even position (after taking account of the proposed social grants) over the years ahead. The annual revenue account will then become a fair measure of the success or failure of the industry’s management.
15. The Government considers it essential that the valuation of the Board's capital assets should be scaled down, as recommended by the Joint Steering Group, to correspond with the revised capital debt. Moreover, since the Board will be put in a position in which competent and dynamic management should enable the industry to break even, there should no longer be a need for any deficit grant from the Minister, except perhaps during a short interim period until the new measures have taken full effect. These will accordingly be no continuing power to pay deficit grants, and in particular no such grant will be payable in respect of depreciation provisions. This revised financial structure should provide a strong reinforcement to the Board's internal financial discipline.

16. This latter decision is particularly important in relation to future capital investment policy. The recapitalisation on which the Government have decided will do no more than reduce the burden of interest and depreciation in respect of existing assets. While this will make a very great difference to the Board's financial situation in the short term, there is a clear possibility and danger that the burden of interest and depreciation will again, as the years go by, mount beyond the capacity of the industry to meet it unless a long-term plan is made which ensures that these future burdens are kept within the limits of total future revenue, including Government grants. The estimates prepared by the Board for the Joint Steering Group assumed the continuance of investment at the rate of £100m. per annum on average over the next seven years. It will be one of the first tasks of the Board, in the
light of the Steering Group's Report and the Government's decisions, to consider whether such a level of investment is realistic and compatible with the future earning capacity of the industry. If sound decisions are to be reached on these matters, there will be an urgent need for the kind of up-to-date corporate planning recommended by the Joint Steering Group, and it will be essential for the Board to relate their investment plan to a long-term financial plan covering all aspects of the Board's business.

17. The importance of the decision to cease deficit grant financing is this. In the past, even when the Board's revenue has come nowhere near covering their expenses, they have received, through the deficit grant, cash to the amount of some £60m. per annum which was immediately available for financing capital investment without any interest burden. In future, not only will depreciation provisions be smaller as a result of the recapitalisation, but if in any year the Board fail to earn their full depreciation there will be no grant available to meet the deficiency. Consequently the funds available for capital investment will have to be found either from depreciation provisions actually earned, or from sales of scrap, surplus land and the like, or from loans. This will mean that an investment programme of the current size (some £100m. per annum or more) will involve a sizable interest burden which in turn will have to be met from increased revenue. The Government expects that this new financial situation will lead to a major reappraisal of the size of the Board's investment programme and the type of projects which should be included in it.
18. In these circumstances it will be even more important that the methods and criteria used for investment appraisal should be realistic and up to date. The consultants employed by the Steering Group are shortly to produce a Report on this subject and the Group will be making further recommendations to the Government in due course. The broad criteria for investment will of course follow those described in the White Paper on the Economic and Financial Objectives of Nationalised Industries (Cmnd. ).

Recommendations on Management

19. It will be clear from what is said above how immense is the task that faces the railway management if the Government's aims for the industry are to be realised. This emphasises the importance which the Joint Steering Group have attached to their recommendations on management structure and organisation. Their Report makes very clear their view that there must be changes in this field to match their financial recommendations. The first point which emerges from the Group's recommendations is the need for a change in the present arrangements under which individual Board members are executively responsible for particular functions. The Group emphasise that the Board as a whole should be free to concentrate as far as possible on policy questions and on the long-term planning and financial control of the industry; to this end they recommend that it should consist largely of members who would not be tied down by day-to-day responsibilities for specific functions. They also think that the Board should be smaller than at present. They lay stress on the appointment of a single Board member (probably a Deputy or Vice Chairman) to control and /co-ordinate
co-ordinate all aspects of the day-to-day running of the railways; as a "Chief General Manager" he would combine responsibility for the commercial as well as the operating (including technical) functions in respect of both passenger and freight traffic.

20. The Group emphasise their particular concern for the effective establishment of a long-range planning function and of a financial policy which looks beyond the next year's results by recommending that there should be senior members of the Board (possibly Vice-Chairmen) responsible for each of these two aspects of the Board's responsibilities. The Government are in full agreement with the importance of these recommendations if the Board is to be in a position to ensure that the benefits of recapitalisation are achieved and that its prospective financial targets are met.
21. This re-thinking of the management structure will be carried through to the lower levels of the organisation as a result of the Steering Group's recommendation that the Board should be required to submit a general scheme of organisation for the Minister's approval. Although the Group visualise a greater degree of centralised control in future, they have not made any more specific recommendations. They do, however, propose that the statutory Regional Railway Boards should be abolished, and this will be achieved by the repeal of Section 2 of the Transport Act, 1962: but this does not mean that the regions as management units will cease to exist. Indeed, it is clear that they will have to continue for some considerable time.

**Government Action**

22. The Government's acceptance of the financial arrangements recommended by the Group means that there will be a major recapitalisation on the lines proposed and that Government grants will be available for unremunerative but socially necessary services and for track rationalisation. The power to pay any further deficit grants after the new provisions come into effect will also be ended. These changes will enable a real drive to be made to eliminate the rest of the deficit. The Board's new task will be to operate economically and effectively on the new basis, and to move as soon as possible to a position of financial equilibrium. In this they should be greatly helped by the removal of that part of the deficit which is due to factors outside their control. The Government think it important, moreover, to place on record that in their view the new provisions deal adequately with all the Board's social obligations, and that for the future these obligations cannot
be regarded as any reason for the Board's failing to meet its new financial target.

23. So far as the Group's recommendations involve legislation, the necessary provisions will be included in the forthcoming Transport Bill. In particular, the Bill will provide for the financial recapitalisation, for powers to make grants for unremunerative passenger services and track rationalisation, and for the necessary changes in the statutory provisions relating to the size and composition of the Board and the possible modifications in the future organisation of the industry.

24. However, many of the recommendations do not involve legislation. The Government will be arranging with the Railways Board how these can most speedily and effectively be implemented, and how the outstanding work arising from the Joint Steering Group's deliberations can most usefully be carried to completion.
Railway Policy Review

Joint Steering Group

Chairman
John Morris, M.P.
Joint Parliamentary Secretary
Ministry of Transport

Report to the Minister of Transport
and the
Chairman, British Railways Board

July 1967
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1.1 The White Paper on Transport Policy of July, 1966, (Cmnd. 3057) records the Government's conclusion that for the foreseeable future there would be a need, as part of the country's transport system, for a substantial railway network. The social and other considerations which led to the decision to stabilise the rail network also made it necessary to devise a new financial framework for the railways. Accordingly the Minister of Transport and the Chairman of the Railways Board set up a Joint Steering Group to review certain aspects of the railway industry.

1.2 The Members of the Joint Steering Group are listed in Appendix H.

1.3 The full terms of reference for this Joint Review are reproduced as Appendix K.

1.4 To assist with our work we appointed Consultants, to whom we gave the specific remits set out in Appendix J.

1.5 Paragraph (f) of our terms of reference made mention of the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force. We concluded that it would be best to have these and other similar obligations examined, in the first place, by Joint Teams of officers from the Ministry, the Board, and in some cases the other Government Departments concerned. These Teams were set up immediately after the Joint Steering Group began their work, and the results of their work have been reported to us over the last year.

1.6 We have met, in all, nineteen times as a full Group (one meeting extending over two days) and a great deal of work has been done by Sub-Committees and individual members, which in particular has involved the independent members of this Group giving up very many days of their time to the work of the Inquiry. As an example only, the Sub-Group which reviewed the Board's financial estimates met five times in nine days.

1.7 It has always been envisaged that it would take us at least a year to complete the work allotted to us, and probably rather more. We think it would be appropriate to draw attention to the fact that British Railways is a very large complex of businesses employing today over 340,000 people and that because of this, and of the relatively short time that has been available to us, it has not been possible for us to assimilate and report at the present time on the full ramifications of the problems involved.

1.8 The present Report covers our recommendations on the overall financial structure of the railways, the principles to be adopted for calculating, paying and controlling grants for unremunerative passenger services and on the overall management structure and organisation which we think most appropriate for the future. We should make it clear that on all three issues the Group have concentrated on the matters likely to require legislation; a great deal of further detailed work will be involved.

1.9 Section 2 of this Report sets out our financial recommendations and is based on work by the Board and by the Consultants.

1.10 Section 3 of the Report gives our main recommendations on the principles to be adopted for calculating, paying and controlling grants for unremunerative passenger services. This examination of grant principles has involved us in a consideration of the costing methods at present employed, since on these will depend the calculation of grants. As indicated in Appendix E, we are satisfied that the costing principles and methods at present used by the Railways, although open to improvement in a number of respects, are generally sound and certainly on an interim basis adequate for calculating the grants required. We have also thought it right to give some attention to the various possible methods of reducing and controlling costs and increasing revenue on grant-aided services. These are described in Appendix D.
1.11 The Consultants have prepared a draft form of questionnaire for the Board to use in submitting applications for grants for unremunerative passenger services. This draft is now being used on a sample of some 25 such services. The Consultants have also produced information about the likely overall size of the grant required for this type of service. Appendix D records the work that has been done to date. As we make clear in that Appendix, we have been kept informed about the progress of thinking on Passenger Transport Authorities, and the extent to which it is proposed that they should become financially responsible for local services in conurbations. We have concluded that the detailed implications are not matters on which we need make recommendations. Appendix D to this Report also includes some comments on problems resulting from the allocation of track costs and the problem of subventions for bus services provided in lieu of withdrawn railway services.

1.12 Section 4 of the Report contains our recommendations on management structure. As we make clear in that Section, we had the benefit of very full submissions by the Board, and by the Consultants.

1.13 We consulted the Trade Unions and the views they expressed on finance and management structure have been taken into account in the recommendations in Sections 2 and 4. There were a number of other matters on which the Unions commented, and which seem to us worthy of mention, and these are set out with our further comments in Appendix A.

1.14 Paragraph (d) of our terms of reference required us “to assess whether and, if so, to what extent the cost of the railway infrastructure includes an element of ‘standby capacity’”. We have therefore set out at some length in Appendix B the views, which we accept, of a special Committee which we set up to study this matter. The main conclusion to which we came in the light of the Committee’s detailed investigation, was that it was highly unlikely that “standby capacity” exists as a permanent element of any foreseeable railway network. (We are using “standby capacity” to mean capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds, and (b) for the social services. In other words, it is surplus capacity which is additional to that required (a) on commercial grounds,

1.15 As regards the continuing obligations from the past referred to in paragraph 1.5 we have now reached conclusions on virtually all of these matters, and the financial implications of our recommendations are included in Section 2 of this Report. As will be seen, we conclude that together they amount to a sum of approximately £8m. per annum, and that the most appropriate way of recognising this is by taking account of it in the capital reconstruction, which we have recommended. The results of these studies are set out at greater length in Appendix C, which includes those of our recommendations which do not directly relate to finance.

1.16 The Minister and the Chairman may also find it helpful to know the extent of the further work which we have in mind, and the likely timetable. For convenience this can be set out under the six remits which we originally agreed with the Consultants, and which are set out in full in Appendix J to this Report.
Remit 1

1.16.1 We set up a Costing Progress Committee to review progress by the railways in developing and implementing the recommendations concerning costing contained in the original report by the Consultants, the main recommendations of which are summarised in Appendix E. Progress on this is being maintained by the Board, and a small research section has been established. We are satisfied that there are no recommendations capable of immediate adoption which are not being developed. Some recommendations will probably require reconsideration in the light of the further report from the Consultants which, as set out under remit 4 below, we hope to receive by the end of July. There are clearly a number of matters on which we shall wish to express a definite view, but we are unlikely to be in a position to do this before the autumn.

Remit 2

1.16.2 The sample study of 25 unremunerative services to which we have referred in paragraph 1.11 above is now being conducted jointly by the Board and the Ministry, in co-operation with the Consultants. We hope that the results of this will be available in the autumn, and propose to include the main results in a subsequent report to the Minister and the Chairman.

Remit 3.1

1.16.3 Separate Consultants are undertaking a study on train-load traffics, the results of which should be available shortly, and the Board are themselves undertaking an exercise on wagon-load traffics. We hope that we shall be able to report on progress with these studies in a later paper.

Remit 3.2. Marketing Organisation

Remit 3.3. Pricing Policy

1.16.4 The Consultants hope to submit their report to us shortly. Further work will certainly be necessary, particularly on pricing policy.

Remit 4. Review of Budgetary and Financial Control and Management Information

1.16.5 We had some preliminary comments from the Consultants in their first report on Costing, the gist of which we record in Appendix F. They hope to complete their main report to us by the end of July, 1967, with a further report a few months later dealing with procedures for the control of capital expenditure.

Remit 5. Procedures for Preparing Long-Term Financial Estimates

1.16.6 The Consultants will be doing some additional work under this remit on which they expect to report by the autumn.

Remit 6. Management Structure

1.16.7 It is clear that some further work will be required under this remit, and we propose to discuss this with the Consultants when their further reports are available.

1.17 We shall also be making recommendations under (e) of our terms of reference which requires us to examine the Board's investment programmes and the criteria for investment appraisal.

1.18 Accordingly we shall certainly wish to submit a further report in the autumn, and it may be appropriate, as circumstances develop, to put in short separate reports, rather than a further comprehensive one. We will keep in close touch with officials of the Ministry and the Board on the necessary timetable.

1.19 We conclude this Section by emphasising that our aim has been to provide the gist of our recommendations as shortly as possible, and in the most readable form. All our detailed papers, and the reports from the Consultants, are available both in the Ministry and in the Board. We have, therefore, confined ourselves as far as possible to a statement of our main findings and recommendations, with the minimum of supporting material.

1.20 Our conclusions and recommendations are summarised in Section 5 of this Report.
INTRODUCTION

2.1 Paragraph 3 of the Annex to the White Paper on Transport Policy of July, 1966, (Cmnd. 3057) said that the social and other considerations which had led to the decision to stabilise the railway network also made it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. The requirement contained in that Act for the Board to “pay its way” by the beginning of 1968 was now entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interest of the community and inconsistent with the Government’s plans. It was therefore necessary for this framework to be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.

2.2 One of the most important tasks implicit in our terms of reference was, therefore, to review the financial prospects of the Board in the light of current developments and the new policies indicated in that White Paper. When we began this review, it seemed likely that there would be a gap—possibly a large one—between the total of the Board’s revenue, including the various direct grants which we had in mind, and their total costs. We therefore set ourselves the aim of viewing the whole of the Board’s railway business as it would be in future years in the light of the Government’s policies, taking account of future increases in efficiency, including those which should result from our current review. We have now completed an exercise on these lines, and can therefore make recommendations as to how the objectives set out in the White Paper can best be achieved. We have only just seen the very recent report by McKinsey & Co. on “Containerisation” which they prepared for the British Transport Docks Board but it is clear that the developments which they foresee could be of great importance for the railways.

2.3 We have looked in great detail at the problems involved in paying grants for unremunerative passenger services, and include some details of our work in Section 3 and Appendix D. It will be impossible to put forward a firm figure for the total of these grants until a great deal more work has been done, but we have agreed a tentative estimate (paragraph 2.14). We are also in a position, as a result of the work described in Appendix B, to put forward a rough order of magnitude figure for the grant that we recommend in respect of track rationalisation (paragraph 2.21). We explained in paragraph 1.5 that a number of Joint Teams had been set up to look at the various continuing obligations on the Board to which specific reference was made in paragraph (f) of our terms of reference, and we have now been able (paragraph 2.16) to put an approximate figure to the cost of these obligations. But we quickly came to realise that there is no possibility that these subventions could suffice to take the British Railways Board out of its current deficit position.

REVIEW OF LONG-TERM REVENUE FORECASTS

2.4 We therefore thought it right to ask the Board to produce detailed financial forecasts for 1969 and 1974 in order that we could look at the whole financial position as it was likely to be on the best assumptions that could be made. The Board discussed and agreed with the Ministry of Transport, and other Government Departments, the economic assumptions on which this study should be carried out, and these are set out in Appendix G.1. The Board produced detailed forecasts for both these years, comparing likely levels of revenue and costs, but ignoring interest, and their overall figures are set out in Appendix G.2. These forecasts showed that in the Board’s view, on the basis of the assumptions, to which we have already referred, and assuming a continuance of present asset values and depreciation policy, they would reach a position of being in deficit to the extent of about £30m. on operating account in 1969, and would be likely to break even on operating account in 1974. But, as we make clear in later paragraphs, they would not be earning sufficient, even taking all the various types of grant into account, to pay interest on the whole of the existing capital debt.
2.5 These forecasts have been examined in some detail by a Finance Sub-Group. Whilst Board representatives attended all the meetings of the Sub-Group and gave such information and assistance as was required, it was agreed that they should not be regarded as members.

2.6 It is clear from this work that looking ahead as far as 1974 involves a considerable degree of judgment, and even speculation. The Sub-Group therefore concentrated their attention on those aspects of the forecasts where the overall outcome appeared to be particularly sensitive to variations in the basic assumptions used. On the cost side, the most important assumptions made by the Board concerned operating performance, the wages level, and the extent to which it would in practice prove possible to run down their manpower. Other key assumptions concerned the national economic environment, and thus demand for rail services and the prices which it would be possible for the Board to charge. The Sub-Group also thought it necessary to make a provisional examination of the level of investment implied by these forecasts, as it is obviously extremely relevant to remember that the Board's forecasts depend upon the assumption that investment will be available at the rate of about £100m. per annum.

2.7 The Sub-Group were also particularly concerned about the possible effects of inflation. As will be clear from Appendix G.1, the Board worked on an agreed assumption that there would be no change in the prices paid by the Board for materials and services, and that wages would rise at a rate of 3 per cent per annum. The railways might be seriously affected by inflation (particularly if their costs were inflated more than those of their competitors or the economy as a whole) and, whilst it is not yet possible for us to put forward detailed figures, we are arranging for further work to be done on this over the next few months.

2.8 Our views on the Board's figures can be summarised as follows:

2.8.1 While the Board have given us every possible help, and answered all our questions as fully as possible in the time available, many of the most important forecasts are still subject to refinement as a result of further work which the Board are putting in hand, but which cannot be completed before the autumn.

2.8.2 Subject to this qualification, we feel that in general there may be more optimism than pessimism in the forecasts. The following factors need to be taken into account in putting forward a possible bracket of results:

(a) The reservations regarding investment and inflation made above.
(b) The forecasts assume that there will be a steady expansion in the economy at about 3 per cent a year; slower growth or fluctuation could damage the railways.
(c) The use of 1966 as a base may itself imply a degree of optimism; the 1967 results may now be considerably worse than those of 1966. It is unlikely in these circumstances that 1969 could show the improvement indicated in the forecast.
(d) Postulated improvements in locomotive and crew utilisation, and in wagon working, might prove slower and more difficult to realise; this would worsen the results by several £millions.
(e) It will prove difficult, even with special help, to reduce manpower at the rate implied in the forecasts.
(f) There must be a danger of some traffics, particularly coal, falling short of expectations; on the other hand there is probably scope for increasing receipts through higher charges.
(g) Freightliners are still at such an early stage of their development that estimates as far ahead as 1974 must be regarded as somewhat speculative.

Whilst different members may attribute different weights to these various factors, they are agreed on the broad conclusions set out in the next paragraph.
2.9 Drawing these various threads together, and making a reasonable allowance for the factors which might occur in combination, we have reached the conclusion that, unless there are major changes in policies, the bottom end of the bracket of likely results in 1974 might well be up to £40m. worse than forecast, before taking any account of interest. On the other hand, the top end of the bracket seems unlikely to be more than £10m. better. Both these figures take no account of the various subventions from the Government which we recommend should be available. It should be noted that the range of £50m. suggested above is equivalent to about 5 per cent of the combined revenue and expenses of the undertaking, and this is looking seven years ahead; thus, while we think these figures are sensible for planning purposes, it is not impossible that the results might fall right outside this range.

2.10 The range quoted in the previous paragraph is given simply in order to provide a guide to the Minister and the Chairman when considering the question of the extent to which capital reconstruction will be required. In our collective judgment, the most likely outcome on present trends and policies may well be somewhat more unfavourable than the Board predict in the figures quoted in Appendix G.2. But we do not wish to give the impression that nothing better than this is possible, and certainly it would be entirely wrong for the Board to feel that it would be satisfactory if they do no better than achieve the mean point of the figures quoted above. They have said that they hope to do better, and should set themselves the target of doing so, provided the trend of the economy and other matters outside their control work out as favourably as has been assumed for the purpose of these forecasts.

Effect of Grants

2.11 Before considering the degree of recapitalisation that may be desirable, we have had to consider the nature and scale of the various types of grant that may be available to the Board.

Social Grants for Unremunerative Passenger Services

2.12 Section 3 gives our main recommendations on grants for unremunerative passenger services, and Appendix D explains the progress that has already been made in devising a detailed procedure for dealing with these grants. It will not be possible to put forward anything like an accurate total for these grants until at least a considerable number of services have been looked at in great detail. In the meantime, we asked the Consultants, in association with the Board's officers, to make the best estimate they could of the likely order of magnitude for the total of these grants. In view of the time available for the preparation of the estimate, it was necessary to use information on the earnings and direct costs of services which was already available. Much of this was somewhat out of date and had to be adjusted to take account of changes in price levels, and fairly broad assumptions had to be made about track and signalling costs. On this basis, the Consultants said that the total deficit on all loss-making passenger service has been £83m. p.a.

But to make the figure compatible with those quoted in Appendix G.2, it is necessary to exclude

- Services on “grey” or “thin black” lines* which it was assumed would be withdrawn by 1969: £14m.
- Interest related to the remaining services: £17m.

On this basis, the adjusted deficit is £31m. £52m. p.a.

* As explained in the Foreword to the British Railways Network for Development, published in March, 1967, the thin black lines show lines for freight only. The grey lines represent routes which on present evidence were not proposed for inclusion in the basic network.
2.13 A broad analysis is:

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suburban</td>
<td>£18m.</td>
</tr>
<tr>
<td>Stopping</td>
<td>£21m.</td>
</tr>
<tr>
<td>Principal and Secondary</td>
<td>£13m.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£52m. p.a.</strong></td>
</tr>
</tbody>
</table>

2.14 It is likely that certain of the services which are included in the above figures would not in fact be submitted for grant by the Board, either because they considered that the services could be made viable by management action or because they wished to retain them for sound commercial reasons. It is also clear that if there were to be a somewhat greater degree of aggregation of services, the total deficit quoted would be smaller, because the surplus on other services would counter-balance the loss on the services included above. On the other hand it may be that on investigation it will prove right further to sub-divide some of the services with a consequent increase in the losses ranking for grant. The net effect of these qualifications is likely to be a reduction in claims, particularly for suburban and principal and secondary services: in relation to the latter the case for a grant on social grounds might often not be strong. After taking all these points into account, the Board estimate that the total grants (excluding interest) which they might actually expect to receive in 1969 and 1974 will not exceed the figures of £40m. and £35m. These may prove to be over-estimates if efficiency can be improved, or the services pruned, more than now seems likely; or as a result of applications for grant being rejected, in which case the services in question would presumably be withdrawn. In these circumstances the Board's basic figures would be similarly affected and the net result would be the same.

**The Board's Continuing Obligations Deriving from the Past**

2.15 We have described in some detail in Appendix C the work that has been done on these continuing obligations by the various Joint Teams whom we set up at the time of our appointment. We are agreed that there is no need for specific financial treatment in respect of Museums and Historical Records, where we hope that the Board's responsibilities can largely be handed over to the Department of Education and Science. As regards the Savings Banks there is no short-term problem, but the interest on these deposits, and also on the Superannuation funds, has to be taken into account when we come to assess the total amount of interest burden which it would be appropriate for the Board to carry for the future.

2.16 The specific obligations which should be mentioned at this stage are:

2.16.1 Road Bridges, a sum of about £1½m. per annum.

2.16.2 Level Crossings, a sum of about £1m. per annum.

2.16.3 The British Transport Police (in respect of their services to the public as a whole) say £¼m. per annum and

2.16.4 The Board’s Superannuation obligations resulting from the decisions of their predecessors—about £5m. per annum.

2.17 We considered whether it would be appropriate to meet these obligations by some kind of specific or general grant. There would, however, be considerable practical difficulties involved in arranging for such grants, and agreeing the amounts. The general nature of the grants would moreover be quite different from the type of specific grant which we are recommending in respect of unremunerative passenger services. We have therefore come to the conclusion that the sensible way in which to deal with these relatively small sums is to take account of them in the recapitalisation which we discuss later in this Section.
Track Rationalisation

2.18 Paragraph (d) of our terms of reference required us to assess "whether, and if so, to what extent the cost of railway infrastructure includes an element of 'standby capacity'." We have in fact made intensive enquiries into the ramifications of this subject, and a brief summary of our work is included in Appendix B. We have concluded that, strictly speaking, "standby capacity" other than that required by the railway for commercial reasons or for operational convenience, does not exist as a permanent feature, but there is a considerable measure of surplus capacity, actual or potential, in the system, the cost of which is bound to swell the Board's deficit until it can be eliminated. This surplus is not mainly related to the route mileage of the system or to the decision to retain and develop a basic network of 11,000 route miles. It is almost wholly to be found in the shape of excess track mileage (e.g. four tracks, where two would suffice to carry the traffic). This is one of the inherited liabilities of the railway which, in the light of the policies which we recommend for the future, should be eliminated as quickly as possible. The amount of the surplus is not static and additional surplus should be continuously created with changes in equipment and operational methods. For the purpose of settling this grant, however, it is proposed to confine consideration to surplus which exists now or can be created before 1974. We hope that it will be possible for the Board to identify and cost all this surplus capacity within the next 18 months. But they have explained that, even so, there are good technical reasons why much of this surplus cannot be eliminated as soon as it is identified. In many cases it will involve alterations to alternative routes, the rationalisation of services, the installation of improved signalling and possibly even the removal of old stations or the building of new ones. Where these steps are necessary they may well take a number of years. But, until they can be carried out, the Board will have to carry the cost of this surplus. We are therefore satisfied that there is a case, exceptionally, for the Ministry paying a specific grant whose purpose should be to assist, and hasten, the elimination of this surplus and the rationalisation of the system. Whether this grant should also cover any part of the capital cost of removing the surplus has still to be considered.

2.19 We have already explained why the other historic liabilities under which the Board suffer can most conveniently be dealt with by means of a capital reconstruction. The fact that this infrastructure surplus is a liability which can be substantially reduced over a period of a few years means that, from the finance angle, the appropriate treatment is a specific but tapering grant, rather than capital reconstruction. We are therefore recommending that the Board should be paid, in the first year, a grant which should meet the assessed cost of this surplus, but that the grant should thereafter be reduced at an agreed rate, so that it reaches zero at the earliest period by which the Board could be expected to have removed at least the greater part of this surplus. We suggest that this period should be fixed at 5 years.

2.20 We think we should emphasise that in recommending such a grant, we regard it essentially as a tool for securing the most rapid possible rationalisation of the system. Although the Board gets no benefit from the retention of unnecessary capacity, we think they would be helped by an incentive to get rid of it rapidly. If a grant is agreed on the lines we propose, it should represent a challenge to the Board to deal with the situation as drastically and as rapidly as circumstances and the available resources permit.

2.21 As set out in Appendix B, the Board will not be able to put forward a precise figure for the cost of this surplus until towards the end of 1968. In the meantime, they have produced an order of magnitude figure which, for the year 1969, is a bracket from £11m. to £17m. They believe, and we accept, that this may represent something of an underestimate, and we suggest that for the current overall financial exercise we should assume that the grant in 1969 will be at a rate of £15m. per annum. If this is accepted, then it is fair to assume that by 1974 rationalisation will have reduced their costs by something near to this amount (even although the grant will no longer be payable), and we have therefore assumed a £15m. improvement in their finance for both years.
Subventions to Operators of Bus Services provided as a Condition of the Withdrawal of Rail Services

These subventions cost the Board £500,000 in 1966. This figure will certainly increase, at least in the short-term. We are still unable to make specific recommendations as to how this financial responsibility can best be removed from the Board, as any new arrangements should fit in with the general structure of the policies for the bus industry generally which are currently being developed within the Ministry. But we are agreed that, as part of the overall financial reconstruction which we are recommending, the Board should be released from these burdens, and we assume in the following paragraphs that a way will be found to achieve this.

THE BOARD’S FUTURE FINANCIAL STRUCTURE

2.23 The Board’s current interest-bearing debt, as set out in their 1966 Annual Report and Accounts, is as follows:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest-Bearing Capital Liabilities to Minister of Transport</td>
<td>912m.</td>
</tr>
<tr>
<td>Savings Bank Deposits</td>
<td>36m.</td>
</tr>
<tr>
<td>Superannuation, etc., Deposits and Provisions</td>
<td>275m.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,223m.</strong></td>
</tr>
</tbody>
</table>

In addition, the suspended debt (on which no interest is payable) totalled 705m. but the capital deficit arising from adjustment of book values of vested net assets could be offset against this 315m., leaving a total of 390m.

2.24 The following table sets out the likely figures for the Board’s financial position in 1969 and 1974 including the effect of the proposed grants.

### SUMMARY OF LONG-TERM REVENUE FORECASTS

<table>
<thead>
<tr>
<th>Year</th>
<th>1966</th>
<th>1969</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m.</td>
<td>£m.</td>
<td>£m.</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Deficit/Surplus before calculation of grants and interest</td>
<td>72</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Per Appendix G.2.</td>
<td>72</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Adjustment in accordance with paragraph 2.9</td>
<td>-</td>
<td>0-25*</td>
</tr>
<tr>
<td></td>
<td>Adjusted result</td>
<td>72</td>
<td>30-55*</td>
</tr>
<tr>
<td></td>
<td>Grants, excluding interest, in respect of unremunerative passenger services</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Track Rationalisation Grants and Track reductions</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>2.</td>
<td>Deficit/Surplus before interest payments (or interest receipts in respect of grants)</td>
<td>72</td>
<td>25-0</td>
</tr>
<tr>
<td>3.</td>
<td>Interest, assuming no change in present basis of capital obligations</td>
<td>64</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Payments</td>
<td>64</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Less: Grant receipts</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Net</td>
<td>64</td>
<td>55</td>
</tr>
<tr>
<td>4.</td>
<td>Deficit/Surplus after Grants and interest (2 less 3)</td>
<td>136</td>
<td>30-55</td>
</tr>
</tbody>
</table>

* No specific estimate for 1969 is made in this Section of the Report, but the above figures assume a narrower bracket for 1969 than for 1974. At the upper end of the bracket, it is assumed that the Board will be permitted to offset the deterioration in 1967 by increases in charges.
2.25 These figures demonstrate that, if the Government policy set out in the White Paper is to be carried into effect, a considerable write-off of existing capital debt to the Minister is inevitable. The White Paper said that after Government had assumed responsibility for losses on services retained for social reasons, the Board should then be given realistic financial objectives to assist them to move as soon as possible to a fully economic basis of operation. Even on the most optimistic assumptions the Board cannot be expected to do this on the basis of their present debt.

2.26 We are agreed that recapitalisation must be on a realistic basis, and must not look too far ahead to a period where the uncertainties become great. We recommend therefore that the capital reconstruction should be carried out on a basis which does not foresee quite such a rate of recovery as is suggested by the Board's revenue forecasts, and that the aim should be to put the Board in a position of break-even, including interest payments, in the early 1970s.

2.27 We regard it as obvious that the Board must be put in a position where they can continue to honour their obligations in respect of the interest-bearing deposits and provisions for the Savings Banks and Superannuation and Retirement Funds, etc. Any recapitalisation which is considered can relate only to the Board's debt to the Minister.

2.28 Subject to the figures which the Board produce later in the year not being drastically different, we see no reason why it should not be possible to put the Board in a break-even position by about 1971. Whilst this would certainly involve a drastic writing down of their capital debt, we do not believe that this need go beyond the bounds of acceptability. Transitional deficit grant powers may well be needed to cover the period from 1969 to 1971, but it is an important part of the scheme which we recommend that no future deficit grant powers need be envisaged for the period after 1971. In other words, we think it essential that the Board should be put in a break-even position at an early date, and that they should then be seen to be in a similar position to other nationalised industries, with no need for the Minister to have powers to make grants to meet any deficit that they might incur in an individual year.

2.29 It is considered that the capital reconstruction envisaged should be matched by an equivalent writing down of asset values. Such a writing down would have the consequence of reducing the amount of depreciation which the Board would have to provide each year, and would thus increase the margin of revenue it had available for servicing capital debt. In working out the detailed figures, however, consideration should be given to shortening the depreciation lives of certain assets, for instance because of the risk of technical and commercial obsolescence.

2.30 If in any year the Board did in fact fail to earn enough to meet all their liabilities, including interest, the main effect would be that they would not have earned their depreciation in full. Depreciation (including amortisation) is a provision in respect of the consumption of fixed assets which involves no cash expenditure year by year. The expenditure arises only when the assets have to be replaced. Nonetheless, under the present system, Exchequer grant is issued in respect of the depreciation provision, and the Board are provided with cash in excess of that needed to meet operating losses; this cash is available towards their current capital requirements. Under our proposed scheme, the Board would no longer have the cash from depreciation unless they actually earned it. They would have to borrow the sum required to make up any deficiency. But given the estimates which the Board and the Ministry make of the position up to 1974, and on the basis of the degree of recapitalisation which we have in mind, this situation should not present an intolerable burden. We do not think that even over the following few years, it need become unmanageable, though we recognise that there will be a need for a continuing financial improvement after 1974 if investment is to be sustained at its present level.

2.31 There are two further comments which we should make:—

2.31.1 We are recommending a very drastic approach to the problem. A possible consequences might be that more capital is written off than proves
2.25 These figures demonstrate that, if the Government policy set out in the White Paper is to be carried into effect, a considerable write-off of existing capital debt to the Minister is inevitable. The White Paper said that after the Government had assumed responsibility for losses on services retained for social reasons, the Board should then be given realistic financial objectives to assist them to move as soon as possible to a fully economic basis of operation. Even on the most optimistic assumptions the Board cannot be expected to do this on the basis of their present debt.

2.26 We are agreed that recapitalisation must be on a realistic basis, and must not look too far ahead to a period where the uncertainties become great. We recommend therefore that the capital reconstruction should be carried out on a basis which does not foresee quite such a rate of recovery as is suggested by the Board's revenue forecasts, and that the aim should be to put the Board in a position of break-even, including interest payments, in the early 1970s.

2.27 We regard it as obvious that the Board must be put in a position where they can continue to honour their obligations in respect of the interest-bearing deposits and provisions for the Savings Banks and Superannuation and Retirement Funds, etc. Any recapitalisation which is considered can relate only to the Board's debt to the Minister.

2.28 Subject to the figures which the Board produce later in the year not being drastically different, we see no reason why it should not be possible to put the Board in a break-even position by about 1971. Whilst this would certainly involve a drastic writing down of their capital debt, we do not believe that this need go beyond the bounds of acceptability. Transitional deficit grant powers may well be needed to cover the period from 1969 to 1971, but it is an important part of the scheme which we recommend that no future deficit grant powers need be envisaged for the period after 1971. In other words, we think it essential that the Board should be put in a break-even position at an early date, and that they should then be seen to be in a similar position to other nationalised industries, with no need for the Minister to have powers to make grants to meet any deficit that they might incur in an individual year.

2.29 It is considered that the capital reconstruction envisaged should be matched by an equivalent writing down of asset values. Such a writing down would have the consequence of reducing the amount of depreciation which the Board would have to provide each year, and would thus increase the margin of revenue it had available for servicing capital debt. In working out the detailed figures, however, consideration should be given to shortening the depreciation lives of certain assets, for instance because of the risk of technical and commercial obsolescence.

2.30 If in any year the Board did in fact fail to earn enough to meet all their liabilities, including interest, the main effect would be that they would not have earned their depreciation in full. Depreciation (including amortisation) is a provision in respect of the consumption of fixed assets which involves no cash expenditure year by year. The expenditure arises only when the assets have to be replaced. Nonetheless, under the present system, Exchequer grant is issued in respect of the depreciation provision, and the Board are provided with cash in excess of that needed to meet operating losses; this cash is available towards their current capital requirements. Under our proposed scheme, the Board would no longer have the cash from depreciation unless they actually earned it. They would have to borrow the sum required to make up any deficiency. But given the estimates which the Board and the Ministry make of the position up to 1974, and on the basis of the degree of recapitalisation which we have in mind, this situation should not present an intolerable burden. We do not think that even over the following few years, it need become unmanageable, though we recognise that there will be a need for a continuing financial improvement after 1974 if investment is to be sustained at its present level.

2.31 There are two further comments which we should make:—

2.31.1 We are recommending a very drastic approach to the problem. A possible consequence might be that more capital is written off than proves
to have been necessary. If this should prove to be so, the Board might
well earn a considerable surplus. But Section 18 of the 1962 Act already
provides for the establishment of a general reserve as a charge on revenue,
under the Minister's control. In addition the Minister will, we suggest, need
a power, on the analogy of that contained in Section 3(9) of the Air
Corporations Act, 1966, providing for the capital reconstruction of BOAC,
to direct, after consultation with the Board, that any amount surplus to the
Board's requirements should be paid into the Exchequer.

2.31.2 We believe that to put the Board's financial structure on a break­
even basis, and to remove the "safety-net" of a deficit grant power, should
re-inforce the Board's internal financial discipline.

2.32 We do not think that it would be right for us to recommend precisely
how much the write-off should be. We have, as yet, only fairly rough figures
available, and the precise figures for recapitalisation will need to be determined
over the next few months in the light of the position that will emerge as the
Board's own financial forecasts are further refined and, it is hoped, the economic
outlook becomes clearer. Certainly there will be a need for the figures to be
discussed in detail between the Board, the Ministry and the Treasury. But,
clearly, the Minister and the Chairman would expect us to recommend the
principles which any recapitalisation should follow.

2.33 As an indication of orders of magnitude, however, we might make the
following points:—

2.33.1 If the remaining suspended debt were written off, and asset values
written down accordingly, the depreciation allowances to be provided in
the Board's accounts could be reduced by some £15m.–£20m. There would
be no immediate effect on the interest burden.

2.33.2 If, say, £100m. of the "live" capital debt to the Minister were written
off, and asset values were written down correspondingly, the interest burden
would be reduced by £6m. per annum and the depreciation provisions could
be reduced by £5m. per annum.

2.34 Recapitalisation on the scale required to meet the recommendations sum­
marised in paragraph 2.39 is recognised as a matter of real gravity, and
represents the acceptance (which is essential) of the fact that British Railways'
earnings simply are not sufficient to support the total assets now employed in
the business, even when allowance is made for specific social, etc., grants. It
is thus a step in line with the aims set out in the White Paper on Transport
Policy of July, 1966, (Cmd. 3057) of providing British Railways with realistic
burdens and assets and will enable their efficiency to be judged by normal
financial criteria.

2.35 Nevertheless it is also recognised that recapitalisation is merely an account­ing
device to align the book value of British Railways' existing assets with their
earnings and of itself does nothing to render British Railways more commercially
viable in the future when assets will be replaced at the full cost of such assets
at that time. The recapitalisation is, however, recommended in the expectation
that it will help British Railways' management to solve the basic problem of
aligning the actual value of their future assets with future earnings, that is,
ensure that the quantity and type of assets that are actually replaced in the
future are only such as can be supported by future earnings.

2.36 Moreover, it is not envisaged that the recapitalisation will involve a
relaxation of financial discipline; on the contrary it should enable it to be
exercised more clearly and thus impose on British Railways a very considerable
responsibility. In the opinion of British Railways this responsibility is made all
the more serious because of the fact that their capitalisation is wholly on the
basis of fixed interest.

2.37 The whole of this Section is based on our assumption that, apart from the
unremunerative services to be grant-aided on social grounds, the Railways Board
will have freedom to manage their activities on a commercial basis.
2.38 One member of the Steering Group feels strongly that the present method of financing the nationalised industries by fixed interest capital is wrong at least as regards the railways, and that the introduction of an "equity" would be particularly suitable in the circumstances of that industry. Since, however, we have been informed that the Government would be most unlikely to accept this, we have not pursued the matter further.

RECOMMENDATIONS

2.39 In the light of all these considerations we make the following recommendations:—

2.39.1 the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s;

2.39.2 the "break-even" thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board's revenues in the early 1970s;

2.39.3 the capital write-off involved would in part be justified by taking account of the continuing obligations of the Board in respect of railway road bridges, level crossings, superannuation, and the Police, as described in paragraph 2.16;

2.39.4 the capital reconstruction envisaged should be matched by an equivalent writing down of assets values;

2.39.5 appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations for cutting down the capital debt, the amount of write-off necessary has been overestimated;

2.39.6 there should no longer be provision for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971): and in particular, no deficit grant should be payable in respect of depreciation provision.
Section 3

METHODS OF CALCULATING, PAYING AND CONTROLLING GRANTS FOR UNREMUNERATIVE PASSENGER SERVICES

INTRODUCTION

3.1 We interpret paragraph 25 of the White Paper on Transport Policy of July, 1966 (Cmnd. 3057) to mean that a grant ought to be payable wherever the Minister on broad social and economic grounds decides to retain a particular passenger service, the revenue reasonably attainable from which, falls short of the properly attributable costs.

3.2 The same White Paper also refers in paragraph 27 to the possibility that local authorities might assume some, at any rate, of the financial responsibility for such passenger services. We know that this is under consideration in the Ministry, but for the purposes of this Report we have concentrated on the principles and methods to be adopted where the grants are paid by the Minister of Transport. This does not imply that similar principles should not be adopted where the grants are to be paid by Passenger Transport Authorities or local authorities.

CALCULATION OF GRANT

3.3 We recommend that grants should be based on an assessment of net losses likely to be incurred over a future period of time, rather than on the basis of payment in arrears in respect of actual losses incurred. We make this recommendation because we believe that this will present a considerable inducement to the railways to run their grant-aided services as efficiently as possible so as to reduce actual losses. Furthermore, if grants are paid on an estimated loss, this will considerably reduce the need for audited accounts of each service and the possibility of dispute about detailed figures. It should also offer an incentive to the Board to reduce losses on the grant-aided services.

3.4 We have concluded that once a grant has been agreed in principle, it should, as far as possible, cover all the costs which the Board incur in respect of that service (including some part of joint costs) and which they are not able to recover from the receipts from the service.

3.5 We recommend that terminal and track and signalling costs incurred on facilities used only by grant-aided passenger services should be charged to those services.

3.6 We refer in paragraph 3 of Appendix E to the further research which is to be undertaken to determine how costs vary with the volume of traffic. This will inevitably be a lengthy process but will help us to see how far, in respect of any of these unremunerative passenger services, there are true "joint costs", (defined by the Consultants as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) (Para. 2 of Appendix E). Costs which vary with output should certainly rank for grant. It is arguable that true joint costs should remain the responsibility of the Board but we do not accept this view because it would mean that, in practice, the Board's remunerative services would have to carry the full joint costs and thus cross-subsidise the unremunerative. Pending the completion of studies into joint costs and the development of a more precise formula for calculating grants for individual passenger services, we had total figures prepared as a basis for examining the Board's general financial prospects (Paras. 2.12-2.14). For this purpose all costs were treated as fully variable and apportioned to the services concerned on the basis used by the Board for passenger profitability studies.

3.7 As regards general administration costs, we recommend that it would be appropriate to allocate to the grant-aided services a proportion of those costs that are properly attributable to passenger traffic.

3.8 We recommend that the grant payable should include depreciation, and we further recommend that this should be assessed on a replacement cost basis, and not on historic costs. We also recommend that grants should include
an allowance for the appropriate interest charge on the assets used in providing these unremunerative passenger services. When the grant is paid by the Ministry we recommend that the basis should be a reasonable attribution of actual interest payable by the Board. This should be subject to further discussions between the Ministry and the Board.

3.9 We agree with the Consultants’ recommendation that it would be inappropriate, in calculating grants, to take any account of contributory revenue although, in deciding whether a service should be retained, and grant-aided, both the Board and the Ministry will no doubt have to take into account the amount of contributory revenue that may be at risk. Contributory revenue is the off-service revenue of journeys partly on and partly off a service.

3.10 We regard it as important that the principles to be adopted for the calculation of grants should be consistent with those adopted generally for costing within the railways, as otherwise any arrangement would be open to misunderstandings and criticism. It does not follow that the financial accounts should accord in all respects with the costing formulae; in particular, depreciation will be charged for accounting purposes on the basis of historic costs.

APPLICATION FOR GRANT

3.11 We recommend that three years should normally be the period for which grants should be fixed in advance. If the period is kept to three years, this will be long enough to provide an incentive, and short enough for it not normally to be necessary to include any provision for review of individual cases during that period, though wage increases seem to raise special difficulties, as they can hardly be taken into account in advance, and we discuss this further in paragraph 3.14. If costs other than wages rise above those ruling at the time when the grant was fixed, then the Board will have to cope with these, and should not be able to ask for any increase in grant until the termination of the three year period, except in the circumstances described in paragraphs 3.15 and 3.16. The dates for review of grants for particular services should be staggered to ease the administrative burden of assessment and review, and in order to set up this arrangement initial grants may have to be paid for shorter periods than three years in a proportion of cases.

3.12 Requests for grants should be submitted service by service, by the Board. In each case the Board should submit to the Ministry sufficient details (see paras. 3-6 of Appendix D) to show that the services are being operated efficiently and that all means of reducing costs, while providing an adequate standard of service, have been fully explored. They should also give whatever information they have of the demand for those services, and the extent to which this demand will be met by the proposed service to enable the Minister to decide, in the light of all other relevant considerations, on the merits of the case for grant on broad social and economic grounds. Where there is a major traffic reorganisation in contemplation, in conurbations for example, additional information may need to be sought.

CONTROL BY THE MINISTRY

3.13 We recommend that in addition to careful scrutiny of the Board’s submissions, the Ministry should select for detailed review a sample from the cases submitted to them. This review should not include a check of the calculations, but this would be done in a proportion of cases by an independent accountant who might be the Board’s auditors.

3.14 The Consultants originally recommended that no provision at all should be made for the escalation of costs. But the development of the questionnaire described in paragraphs 3-6 of Appendix D has shown that in practice the Board will be required to take into account any possible economies in calculating the amount of the deficit to be grant-aided. Accordingly we think some way will have to be found of helping them to deal with wage increases, which could represent a very substantial increase in costs. We are giving this further thought.

3.15 We recognise that for very large services, particularly in conurbations, it may be necessary to provide for a review if circumstances change significantly during the three year period.
3.16 The Minister must have control over the frequency and standard of service, and the maximum fares, on any grant-aided service. The Board should be asked to ask for a review of the grant if there is an increase in the deficit on any service as a direct result of the exercise of the Minister's control.

3.17 Furthermore, because any capital investment on such a service will affect the future level of grant, the Board should be required to refer to the Ministry for specific approval any proposed capital expenditure over a stated amount, including any renewals, which is made in respect, or in partial respect, of a grant-aided service. If such a service is withdrawn before the fixed assets have been fully depreciated, then the Board will make a capital loss, and ways will have to be found of meeting this (e.g. by writing off the unexpired balance against capital account). There will be a similar need in cases where expenditure on renewals and periodic maintenance is not fully recovered before a service is withdrawn.

3.18 Grants should be paid by the Ministry to the Board at 4-weekly intervals. These sums should be calculated as being 1/13th part of the annual agreed amount for each service. Where the period fixed for a grant has come to an end, and a decision has not yet been taken by the Ministry as to whether the grant should be renewed, at the same or any different level, then pending such an agreement the grant should continue to be paid, at the previous level, with any necessary retrospective adjustment when the new grant is agreed.

3.19 The Board should be required to give the overall estimated financial results, in respect of grant-aided passenger services, in their Annual Report. The time that would be required to ascertain these figures would probably make it impossible to include audited figures in the Accounts.

3.20 We think it reasonable that the Ministry should be supplied with figures, at agreed intervals, in respect of each grant-aided service, to show the extent to which the service is being used. These figures would not relate to the financial results, but could take the form, for example, of passenger counts.

LAW

3.21 We suggest that as far as possible the legislative provisions should be widely drawn. The essentials are:—

3.21.1 that the Minister should have power, in respect of individual unremunerative services:
   (a) to decide that they should be continued on broad social and economic grounds,
   (b) to agree with the Board the level of service to be provided,
   (c) to decide on the level of grant to be paid for a period of up to three years ahead,
   (d) to call for information about the extent to which such services are in fact being used.

3.21.2 that the Board, in addition to supplying the details mentioned in paragraph 3.19, should be under an obligation to refer any proposals for major capital expenditure in respect of any such service to the Minister.

3.22 All the above recommendations relate to legislative proposals. In the meantime, and as soon as possible, we recommend that calculations on the basis set out in paragraph 3.3 should be carried out, that the Ministry should reach decisions on individual services as though grants were to be paid, and the amounts concerned should be noted in the Annual Reports, in order that the extent to which the Board's deficit relates to services which, for the future, will be specifically grant-aided by the Ministry, can be readily seen.

3.23 Other aspects of the arrangements for paying grants in respect of unremunerative passenger services are discussed in Appendix D as explained earlier in paragraph 1.11.
Section 4

BOARD STRUCTURE AND ORGANISATION

PRESENT POSITION

4.1 Section 1(3) of the Transport Act, 1962 provides that the Board shall consist of a Chairman, one or two Vice-Chairmen, and not more than sixteen nor less than ten other Members. It also provides that Board Members are to be appointed by the Minister from among persons who have had wide experience of, and who have shown capacity in, transport, industrial, commercial, or financial matters, administration, applied science, or the organisation of workers. At present, there are a Chairman, two Vice-Chairmen, seven full-time Members and four part-time Members. All the full-time Members, other than the Chairman and the newly appointed Vice-Chairman, have functional responsibilities.

4.2 Section 2 of, and the First Schedule to, the 1962 Act provide for the setting up of six Regional Railway Boards to share between them responsibility for all parts of the national railway system. Subsection 2(2) gives the Minister power, by order, to vary the number of Boards. Subsection 2(4) provides that the Regional Railway Boards shall exercise such functions of the Railways Board as are delegated to them by the Board, and the Board have to determine these functions on lines settled from time to time with the approval of the Minister. At the present time, as a result of an order made by the Minister in 1966, there are only five Regional Railway Boards.

METHOD OF WORK BY THE GROUP

4.3 We have had the benefit of a statement by the Railways Board in which the Board's own proposals for a new structure and organisation of the Railways are set out. The Group also received a separate report from the Consultants, including recommendations based on the experience they had gained over the whole of the Railways organisation since the beginning of their appointment as Consultants to the Group.

4.4 In addition we were fortunate in obtaining the services of the Senior Partner of the firm of Consultants employed on this assignment who interviewed separately each of the Group members and collated their views in a report to the Group, and in addition provided a separate paper giving an indication of his own views which he had formed in the course of these discussions.

4.5 The Group have considered carefully all the views which have been put forward to them in these several reports and our conclusions are set out in the following paragraphs.

THE PROPOSED FUTURE STRUCTURE AND ORGANISATION

Factors Affecting Overall Structure and Organisation

4.6 The British Railways Board control a complex of many businesses. As in any business it is essential, if profitability is to be ensured, to match production and sales, but the transport industry has the characteristic that transport cannot be stored. It is also vital to plan railway services in such a way as to maximise utilisation of all the assets, including manpower. In many cases, this involves decisions about the allocation of resources, when the priorities between different types of service have to be assessed. Furthermore, all such decisions depend, in the long run, on adequate co-ordinated long range planning. It follows therefore that general management is required at the centre to ensure that all forward planning activities are properly co-ordinated and carried out within the framework of agreed objectives and overall strategies.

4.7 On the other hand there is a need for dispersed management. Both the scale of railway operations, and the geographical dispersion of the system require local managements with authority to make decisions on day to day matters. This local management must operate within general policy lines laid down by general management at the centre.
4.8 The future management structure requirements of the railways will clearly be influenced by a number of factors which have already become evident but which are likely to become more marked in the future. The most important of these are:

- the continuing rationalisation of the system by the elimination of facilities (track, marshalling yards, terminals) which are no longer required;
- the more intensive use of the developed system;
- the continuing reduction in the labour force;
- the trend towards a more ordered pattern of operation both for passenger and freight services.

These will make it even more vital to develop sophisticated planning and control techniques, including the use of computers, both for day-to-day control and for "model" building.

4.9 All these considerations suggest an increasing trend towards the centralisation of the planning of railway operations with at least the main trunk services, passenger and freight, being directed from the centre. This will also be required if the Board are to develop their relationships with the new National and Regional Transport Organisations which are to be set up. Strong central financial control will also be required if the Board are to achieve the financial targets which we have recommended in Section 2 of this Report. These financial objectives will make it ever more important for the Board to ensure that there are comprehensive plans, covering each main section of their business, for the achievement of these objectives.

4.10 At present, the Board's Headquarters is organised into functional departments headed by Chief Officers who in turn report to Board members. As indicated above, all the full-time Board members, except for the Chairman and one Vice-Chairman, have functional responsibilities. It is the consensus of opinion amongst us that full-time members should be without the direct executive line responsibility that they have under the present arrangements.

4.11 Relations between the Board and the Regions may have been complicated by the Regions having a statutory status under the 1962 Act, and by the philosophy of that Act being that the Regions were to have the main responsibility for the "management of the railways". We doubt whether a split statutory responsibility for the management of the railways, and the present independent statutory position of the General Managers, can be conducive to ideal relations between the Board and the Regions.

Scope of our Recommendations

4.12 Railway problems are unique, both because of the size and geographical spread of the industry and the nature of its operations and commercial activities. Many of us are without direct experience of the industry and can only base our opinions on acquaintanceship with its problems and the limited study that has been possible over the last year. We are also conscious that the setting up of the National Freight Organisation, and a number of Passenger Transport Authorities, will obviously influence the shape of management structure appropriate for the Railways Board. Furthermore, we have pointed out that there are a number of developments which are leading to a greater element of central direction. We could not, therefore, claim to be in a position to make specific recommendations about all the details that will be involved in the new organisation. But we feel confident in putting forward some general principles which should be observed in any new organisational structure.

Timescale

4.13 We think it best to frame our recommendations in the light of the ultimate shape and structure for the industry which we think will be appropriate in a few years time when the "new railway" is in existence. We are, in the following paragraphs, recommending a different type of Board designed to meet the situation then likely to exist, and this will affect the overall structure and geographical organisation of the railways. It may well be that none of the changes
which we propose can be implemented quickly. We accordingly emphasise that there will be a need for a transitional period during which these changes can be effected. We accept that the determination of the precise provisional arrangements which will operate during this transitional period must be for the Ministry and the Board. These arrangements will have to take account of the inevitable practical and human problems involved. We do not think that it would be appropriate for us, in this Report, to attempt to deal with these transitional problems. We recognise that they will be difficult, but we are concentrating on what we believe should be the ultimate objectives.

Proposals for the New Board

4.14 In our view, the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day-to-day responsibilities for specific functions. We are therefore generally agreed that it would be sensible that ultimately the Board should consist largely of non-functional members and should be smaller than at present.

Top Management and Responsibility for Co-ordination

The Chairman

4.15 We accept the view put forward by the Board that the Chairman must be given some relief from his present heavy load of day-to-day responsibility. He inevitably has many commitments of a more general nature, and it is therefore desirable that he should be free from day-to-day matters as much as possible in order to be able to concentrate on the major issues of policy and to project the Board's image both within the organisation and to the public at large.

4.16 Clearly it is the Board itself which will carry the ultimate responsibility for policy and direction of the railways and for the overall performance of the undertaking. But the Chairman has a particular responsibility for these matters, not least in his relations with the Minister and with Parliament. All the Members of the Board, including those with executive responsibilities to whom we refer in paragraphs 4.18 to 4.28 inclusive and 4.30 below, will regard themselves as responsible to the Board as a whole.

4.17 We consider that the Chairman must have time to devote to top level management planning problems. No doubt, a Chief Officer would be responsible for the major personnel planning issues, and we think that, exceptionally, such a Chief Officer should report direct to the Chairman on questions of management development.

Need for a "Chief General Manager" for the Railways as a Whole

4.18 If the Chairman is to be relieved of his day-to-day responsibilities, and the Board is to be reconstituted as we suggest above, the great majority of us are of the view that it will ultimately be desirable to have a single person to control and co-ordinate all aspects of the day-to-day running of the railway. Whilst we do not wish to assign a specific title to such a person, we envisage him as a kind of Chief General Manager, responsible for the railway as a whole, and for convenience we refer to such a person below under this title.

4.19 We envisage that the Chief General Manager would provide leadership and direction to the Regions and/or Divisions, and would be the focus of the Board's headquarter functional organisation insofar as it is concerned with current policy making and the efficiency of the business. He would be in a position to provide the necessary degrees of co-ordination between commercial, operating and technical requirements in respect both of passenger and freight traffic.

4.20 The burden on one man would necessarily be extremely heavy. But the great majority of us are agreed that, under whatever title, there must be one man whose responsibility it is to take the ultimate decisions on day-to-day matters—or see that they are taken, and are duly implemented. The emphasis should be on his responsibility for the effectiveness of the organisation, rather than on his
taking personal decisions. Many of us do not think that it would solve the problem to split this duty between two Vice-Chairmen, as it would tend to mean in practice, difficulties would have to be resolved by the Chairman. We therefore recommend that there should be a single Chief General Manager, recognising that he will need a considerable staff in support to whom he will delegate on a substantial scale.

4.21 The Chief General Manager must have a position of sufficient status and authority within the Board, and publicly, to enable him to do this job. Clearly he must be a member of the Board, and it might well be the case that it would normally be appropriate for him to be appointed as a Deputy or Vice-Chairman. But we recognise that circumstances and personalities change from time to time, and we do not think that the legislative provisions for the Board need define his status on the Board.

Planning and Finance

4.22 These are two areas which are so important, and which will have so pervasive an effect on the work of the Railways Board as a whole, that we recommend that it will be essential to appoint members to the Board with specific responsibilities for these two aspects of the Board’s work.

4.23 We recommend that one member should be responsible for the co-ordination of long range planning in the railways. We suggest that he must have specific responsibility for

4.23.1 ensuring that there are coherent, comprehensive and compatible objectives, strategies and long range plans for each main sector of the business, directed towards the achievement of the overall financial objectives of the undertaking;

4.23.2 establishing a systematic organisational and procedural framework in which all planning activities should be carried out and the results monitored; and

4.23.3 co-ordinating all the long range planning activities in the railways wherever carried out.

4.24 It would be necessary for this member to be supported by a corporate planning department consisting of people with varying knowledge and experience.

4.25 He could also be directly responsible for management organisation planning and probably for an economic and commercial studies department which would include market research. Possibly he could also include technical research and development within his sphere of interest.

4.26 We also recommend that there should be a member appointed with specific responsibility for finance. He would have a special responsibility for

4.26.1 the overall financial policy of the undertaking;

4.26.2 the operation of the financial control system; and

4.26.3 the development of management information and control systems.

We should however comment that we are due to receive a report from the Consultants on their review of budgetary and financial control and management information by the end of July, and we may wish to review the responsibility for the development of these systems in the light of that report.

4.27 In view of the great importance for finance of purchasing and supplies in the special circumstances of the railways, we suggest that the finance member might also be responsible for these activities and it would also be appropriate to consider, in the light of circumstances at the time, whether he might also have an overall responsibility for estates.

4.28 It will be essential that both the planning and finance members should have positions of recognised status and responsibility on the Board, to which, of course, as a whole, they would both be responsible. We suggest that the legislative provision for the Board should be such that it would be open to the
Minister, in consultation with the Chairman, to appoint both of these as Vice Chairmen of the Board if, in particular cases, this seemed appropriate. This might most conveniently be achieved, by analogy with the Iron and Steel Act, 1967, by giving the Minister power to appoint one or more members of the Board as Deputy or Vice-Chairman.

**Full-Time Members**

4.29 In addition there must clearly be a number of full-time Board members. With the sole exception of a member who, we recommend, should have functional responsibilities for personnel and labour relations (paragraph 4.30) we are agreed that these Board members should not have functional duties. They should have spheres of interest, and might often be required to co-ordinate activities of various kinds. By this, we mean that individual members might be given responsibility for such varying matters as the overall development of the passenger business (necessarily crossing many functional boundaries), relations with the various Passenger Transport Authorities, the general oversight of one or more Regions, or non-executive Chairmanship of (or general responsibility for) one or more of the subsidiary units to which we refer in paragraph 4.41 below. The functional head of each of the various departments should be the Chief Officer, reporting to the Board as a whole, (most of them through the Chief General Manager), and not, as now, to a functional member of the Board.

4.30 In view of the undoubted importance of personnel and labour relations, we think that there should be a Board member who should have specific responsibility for the longer term development of labour relations in the industry. The Chief General Manager would, of course, be regarded as the employer of labour on the railways and he should have the support of a Chief Officer to deal with personnel and labour relations matters on a day-to-day basis. But there will be a number of important issues which have to be taken to Board level, and it is important that the Chief General Manager should not have to devote a disproportionate amount of time to them. Furthermore, labour relations will be one of the major responsibilities of the Board as a whole, and they may well find it important that there should be another one of their number, in addition to the Chief General Manager, with a special interest in this field. The labour relations member should, however, have a wider remit than the Chief Officer, and should not be regarded merely as the functional head of his department.

4.31 We do not think that it is possible to lay down any precise number of Board members. This will depend on the changing circumstances of the railway industry, and the different types of personality on the Board. It also depends upon the extent to which, in practice, the Chief General Manager finds that he needs assistance, at Board level, in the discharge of his duties for general management over the system as a whole. We suggest that the new legislation should provide for a minimum of three, and a maximum of six, such full-time Board members, including the one dealing with labour relations, but in addition to the Chief General Manager and the members with specific responsibilities for planning and finance.

**Level of Remuneration and other Conditions of Service (including Pensions) for Board Members and Chief Officers**

4.32 We are seriously concerned about the current level of remuneration and other conditions of service for members of the Board, and for Chief Officers. This is so vital a matter that we have concluded that we should make detailed enquiries, and we intend to make recommendations in a subsequent report. In the meantime, this matter is of such importance that it would be wrong for us to make general recommendations about the structure of the new Board without making it plain that, in our view, substantial improvements will be required in the level of remuneration and in the other conditions of service (including pensions) both for Board Members and for Chief Officers.
Headquarters Staff

4.32 It will be obvious from the recommendations made above that most Board members should not have specific functional responsibilities, that a vital role will be played by the Chief Officers at Headquarters, who would carry full responsibility as heads of departments. Except for those Chief Officers concerned with the planning and finance functions which we suggest should be the responsibility of the two members described in paragraphs 4.22 to 4.28 above, the Chief Officers would report to the Chief General Manager. This would not, however, prevent the development of close relations with any of the full-time members of the Board who might have accepted a special interest in their sphere of responsibility.

Part-Time Members

4.34 We recommend that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis. Specifically the Group do not favour the idea which was put to us that there should be representation on the Board of the National Coal Board, the British Steel Corporation and the National Freight Organisation. We are satisfied that the necessary co-ordination with those bodies can be achieved in other ways.

4.35 We further recommend that the period of service for part-time members should be restricted. We do not wish to recommend any exact time limit, but suggest that when the Minister and the Chairman consider individual appointments they should bear in mind that, on the one hand, part-time members should serve for long enough to ensure that the Board get full value from their experience, and the contribution they can make whilst, on the other hand, there should be sufficient change in their ranks in order to provide for the necessary infusion of new ideas at regular intervals. In this connection we think there will be considerable advantage in providing for greater flexibility in the remuneration of part-time members than is now customary. We have in mind that there may be occasions when an eminent outsider, whose services would be of value to the railways, might be prepared to serve on a half-time basis with a consequential and desirable enhancement of his responsibility compared with that of a normal part-time member.

A General Scheme of Organisation and the Place of the Regions

4.36 We have already set out in paragraphs 4.6 to 4.11 the general considerations, present and future, which in our view will affect the relations between General Management at the centre, and Regional Management. We have also referred in para. 4.12 to the effect on the shape of the Board's management structure of the setting up of the National Freight Organisation and Passenger Transport Authorities and to the developments which are leading to a greater element of central direction. All these considerations are consistent with our recommendations for a small non-functional Board, and the appointment of a Chief General Manager.

4.37 We are agreed that the existing statutory Regional Boards no longer fulfil any essential function, and may indeed militate against the effectiveness of Headquarters control. Accordingly we recommend that the provision in Section 2 of the Transport Act, 1962, relating to the establishment of Regional Boards, should be repealed.

4.38 We are impressed by the desirability of affording to the Chairman of the Board and the Minister the greatest possible degree of flexibility in developing a Board structure and organisation that meets the needs of a situation that is, and is likely to continue to be, fluid. Accordingly we have noted with interest the precedent created by the Iron and Steel Act, 1967, which provides for the submission to the responsible Minister for his approval of a general scheme of organisation for the industry.
Headquarters Staff

4. It will be obvious from the recommendations made above that most Board members should not have specific functional responsibilities, that a vital role will be played by the Chief Officers at Headquarters, who would carry full responsibility as heads of departments. Except for those Chief Officers concerned with the planning and finance functions which we suggest should be the responsibility of the two members described in paragraphs 4.22 to 4.28 above, the Chief Officers would report to the Chief General Manager. This would not, however, prevent the development of close relations with any of the full-time members of the Board who might have accepted a special interest in their sphere of responsibility.

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4.39 Our studies so far have led us to believe that it will be necessary in the future for the centre to assume a greater degree of control over activity in many fields. There must be a clear delegation of management responsibility within the limits of specified policy and planning objectives, and it will be desirable that the chain of command should be reduced in length wherever practicable. But these are detailed matters on which we do not feel qualified to put forward specific views, particularly as their development will necessarily be a lengthy process. We therefore recommend that a provision corresponding to that in the Iron and Steel Act, 1967, should be included in the Transport Bill to provide that the Railways Board should submit a general scheme of organisation to the Minister for her approval within a specified period of the date of coming into operation of the Act. We suggest that the Board should be required to submit the first of such schemes within an initial period of 12 months. We think that it would be desirable for the Minister herself to have a continuing power to initiate a change, if she thought one to be necessary, in the absence of proposals by the Board.

4.40 In their original submission the Board suggested that top policy co-ordination would be achieved through an Executive Policy Group consisting of the Chairman and the two Vice-Chairmen whom they proposed. If, in the event, it is decided to set up such a Group, which we suggest should be particularly concerned with planning, the details would no doubt emerge from the general scheme of organisation which the Board will be required to put forward to the Minister. We suggest that it would in any case be appropriate that, whatever their ranks on the Board, such a Group should include, in addition to the Chairman, the Chief General Manager whom we recommended in paragraphs 4.18 to 4.21, and the planning and finance members whose functions we have described in paragraphs 4.22 to 4.28.

The Board's Ancillary Activities

4.41 It will clearly be necessary to consider whether activities such as workshops, hotels and shipping should be hived off into separate management units or companies. We think that it would be inappropriate for us to seek to reach firm conclusions on this issue in the absence of a clear appreciation of all the relevant factors.

LEGISLATION

4.42 The legislative provisions consequent upon our recommendations are relatively simple and fall under three heads as follows:—

4.42.1 An amendment of Section 1 of the Transport Act, 1962, to provide for the amended size and composition of the new Board, including a provision on the lines of sub-paragraph 1(8) of Part I of the Fourth Schedule to the Iron and Steel Act, 1967.

4.42.2 The repeal of Section 2 of the Transport Act, 1962, which provides for the setting up of Regional Boards.

4.42.3 A new provision on the lines of that in Section 4 of the Iron and Steel Act, 1967, requiring the Board to put forward a general scheme of organisation for the Minister's approval within a specified period.
SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

FINANCE

5.1 Our summary of the likely financial position of the Board in 1969, and 1974, before allowing for any capital reconstruction, is set out in paragraph 2.24. This table starts with the Board's financial forecasts, which are set out in Appendix G.2 and which show a break-even position on operating account in 1974. These figures take account of the establishment of the National Freight Organisation, but not of any grants for social passenger services or track rationalisation. After studying these figures we have concluded that, unless there are major changes in policies, the likely results in 1974 might well be up to £40m. worse than the Board have forecast; on the other hand, at best, they would be unlikely to be more than £10m. better (paras. 2.4, 2.9, 2.24 and Appendix G.2).

5.2 The best estimate, on the available evidence, is that the “social” grants for unremunerative passenger services, which we recommended in Section 3 of the Report, will not exceed £40m. per annum in 1969, and £35m. per annum in 1974, excluding interest in both cases (paras. 2.12-2.14).

5.3 The grant for track rationalisation described in paragraph 5.37 below, is likely to be of the order of £15m. per annum in 1969; this grant will have reduced to zero by 1974, but by that date the Board should have achieved savings of about the same order (para. 2.21).

5.4 After taking account of these likely grant levels, and after charging interest, we estimate a deficit for the Board in 1974 of between £5m. and £55m. (para. 2.24).

5.5 On the basis of the above conclusions, we are satisfied that a considerable write-off of existing capital debt to the Minister is inevitable if the Board are to be given realistic financial objectives (para. 2.25).

5.6 We recommend that the capital debt of the Board should be written down to a level at which it can reasonably be expected that the interest payments can be found out of prospective revenue early in the 1970s (paras. 2.26 and 2.39.1).

5.7 We recommend that the “break-even” thus envisaged should be based on neither too optimistic nor too pessimistic a forecast of the Board’s revenues in the early 1970s (para. 2.39.2).

5.8 We recommend that the valuation of the assets should also be scaled down to what is represented by the new capital debt (para. 2.29 and 2.39.4).

5.9 We recommend that appropriate arrangements should be made for dealing with any surplus on revenue account in case, as a result of following the previous recommendations for cutting down the capital debt, the amount of write-off necessary has been overestimated; in particular, the Minister should have power to direct that any surplus, after taking the Board’s requirements into account, is paid into the Exchequer (paras. 2.31.1 and 2.39.5).

5.10 We recommend that there should no longer be provision for deficit grants from the Minister (except perhaps for the transitional period 1969 to 1971); and in particular that no deficit grant should be payable in respect of depreciation provisions (paras. 2.28, 2.30 and 2.39.6).

5.11 We recommend that the Board’s other continuing obligations deriving from the past (in respect of road bridges, level crossings, superannuation and the Police), should be taken into account in the capital reconstruction which we recommend in para. 5.6 above and that there should not be specific and continuing grants (paras. 2.17 and 2.39.3).

5.12 We recommend that ways should be found of compensating the Board for the cost to them of subventions to operators of bus services provided in place of withdrawn rail services (para. 2.22 and Appendix D.8).
5.13 *We recommend* that grants should be based on an assessment of losses likely to be incurred over a future period of time, rather than on the basis of payment in arrears in respect of actual losses incurred (para. 3.3).

5.14 We have concluded that once a grant has been agreed in principle, it should, as far as possible, cover all the costs which the Board incur in respect of that service and which they are not able to recover from the receipts from the service (para. 3.4).

5.15 *We recommend* that terminal and track and signalling costs incurred on facilities used only by grant-aided passenger services should be charged to those services. Pending further research we agree that where more than one service is involved these costs should be apportioned on the basis used by the Board for passenger profitability studies (paras. 3.5 and 3.6).

5.16 *We recommend* that an appropriate proportion of general administration costs should be allocated to grant-aided services (para. 3.7).

5.17 *We recommend* that the grant payable should include depreciation assessed on a replacement cost basis. *We also recommend* that the grants should include an allowance in respect of interest charges on the assets used in providing the service (para. 3.8).

5.18 *We recommend* that three years should normally be the period for which grants should be fixed in advance (para. 3.11).

5.19 The Minister should have control over the frequency and standard of service, and the maximum fares, on any grant-aided service (para. 3.16).

5.20 The Board should be required to refer to the Minister for specific approval any proposed capital expenditure over a stated amount in respect of a grant-aided service. The Board should be compensated where a grant-aided service is withdrawn before the fixed assets have been fully depreciated or where expenditure on renewals and periodic maintenance has not been fully recovered (para. 3.17).

5.21 The Board should be required to give the overall estimated financial results in respect of grant-aided passenger services in their Annual Report (para. 3.19).

5.22 The Ministry should be supplied with figures at agreed intervals in respect of each grant-aided service to show the extent to which the service is being used (para. 3.20).

**Structure and Organisation**

5.23 We conclude that the setting up of new national and regional transport organisations, and technical developments within the railways, will all influence the shape of the central structure of the Board, and the relationship between the centre and the Regions. Against this background we have tried to foresee the management structure which would be appropriate in a few years time, while recognising that there will be a transitional period during which different arrangements may be needed: on these we make no specific recommendations (paras. 4.12 and 4.13).

5.24 Our general conclusion is that the Board should as far as possible be free to concentrate on policy questions and in particular on the problems of future planning, and the individual members should not be tied down by day-to-day responsibilities for specific functions. *We therefore recommend* that ultimately the Board should consist largely of non-functional members, and should be smaller than at present (paras. 4.14 and 4.29).

Chairman

5.25 *We recommend* that the Chairman of the Board should be relieved of day-to-day responsibilities, in order to be able to concentrate on the major issues of policy and to project the Board's image both within the organisation and to the public at large (para. 4.15).
We recommend that a single member of the Board should be responsible for controlling and co-ordinating all aspects of the day-to-day running of the railways. He is envisaged as a "Chief General Manager" whom it might be appropriate to appoint as a Deputy or Vice-Chairman. He would co-ordinate commercial, operating and technical requirements in respect of both passenger and freight traffic (paras. 4.18-4.21).

Planning
5.27 We recommend that one member of the Board, who might be a Vice-Chairman, should have specific responsibility for the co-ordination of long range planning in the railways (paras. 4.23 and 4.28).

Finance
5.28 We recommend that another member, who might also be a Vice-Chairman, should have specific responsibility for financial policy (paras. 4.26 and 4.28).

Labour Relations
5.29 We recommend that one member of the Board should have specific responsibility for the longer-term development of labour relations (para. 4.30).

Full-time Members
5.30 We recommend that in addition to the "Chief General Manager", and the members with responsibilities for planning, finance and labour relations, there should be provision for a minimum of two, and a maximum of five other full-time Board members (para. 4.31).

Part-Time Members
5.31 We recommend that there should be at least three part-time members, who should be appointed for their ability and experience rather than on any representational basis (para. 4.34).

Period of Service of Part-Time Members
5.32 We recommend that the period of service of part-time members should be restricted (para. 4.35).

Remuneration, Etc., of Board Members and of Chief Officers
5.33 We are confident that substantial improvements will be required in the level of remuneration and in other conditions of service (including pensions), both for Board members, and for Chief Officers, and we propose to make recommendations in a later report. There should be greater flexibility in the remuneration of part-time members than is now customary (paras. 4.32 and 4.35).

Regional Boards
5.34 We recommend that the statutory provisions relating to the establishment of Regional Boards should be repealed (para. 4.37).

The General Scheme of Organisation
5.35 We recommend that the Railways Board should be required to submit a general scheme of organisation to the Minister for her approval within a specific period (say 12 months) of the coming into operation of the Act. The Minister should have a continuing power to initiate changes, if she thinks they are necessary (para. 4.39).

Trade Union Views
5.36 We have taken account in the above recommendations of the views which the Trade Unions expressed to us on matters of finance and general Board structure; their views on other subjects are set out in Appendix A, but their comments have not led us to make any specific recommendations on those of the matters to which they referred which are within our terms of reference (para. 1.13 and Appendix A).
"Chief General Manager"
5.26 We recommend that a single member of the Board should be responsible for controlling and co-ordinating all aspects of the day-to-day running of the railways. He is envisaged as a "Chief General Manager" whom it might be appropriate to appoint as a Deputy or Vice-Chairman. He would co-ordinate commercial, operating and technical requirements in respect of both passenger and freight traffic (paras. 4.18-4.21).

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5.36 We have taken account in the above recommendations of the views which the Trade Unions expressed to us on matters of finance and general Board structure; their views on other subjects are set out in Appendix A, but their comments have not led us to make any specific recommendations on those of the matters to which they referred which are within our terms of reference (para. 1.13 and Appendix A).
"STANDBY" AND "SURPLUS" INFRASTRUCTURE CAPACITY

5.37 After a detailed investigation we have concluded that it is highly unlikely that "standby capacity" additional to that required for the railways' commercial and social services could be proved to exist as a permanent element of any foreseeable railway network. There definitely is surplus capacity in the system, however, and We recommend that, for the reasons set out at length in paras. 2.18 to 2.21, it would be right to pay a grant to the Board, fixed in advance and on a tapering basis, to assist in the elimination of this surplus and the rationalisation of the system (paras. 1.14, 2.18-2.21 and Appendix B).

OTHER OBLIGATIONS DERIVING FROM THE PAST

Road Bridges and Level Crossings

5.38 We have concluded that, although there is a good case in equity for transferring road bridges over the railway to local or highway authorities, on the basis that they should be regarded as part of the highway, the case in law is less good, and the practical difficulties are too large to be ignored. We therefore recommend that ownership of the bridges should remain with the Board, but that account should be taken of the costs of their maintenance, which amount to about £1m. per annum, in the capital reconstruction which we recommend (paras. 2.16-2.17 and Appendix C.3-C.5).

5.39 We also recommend in Appendix C.6

5.39.1 that the Board's present payment of £40,000 per annum in respect of trunk road bridges should be discontinued;
5.39.2 that the Board's present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority;
5.39.3 that the Board's present duties in respect of the maintenance of bridges should be brought up-to-date; and
5.39.4 that the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.

Level Crossings

5.40 We conclude that the method of crossing operation, and the fact that control must remain with the railways, make it impossible to seek any financial contribution from local authorities. We recommend that it would be right to relieve the Board of a figure of the order of £1m. per annum, and that this should be done through the medium of the proposed capital reconstruction (paras. 2.16-2.17 and Appendix C.7-C.8).

Pensions

5.41 We conclude that there is no case for making any specific grant to the Board in respect of their pension obligations. The total amount of the obligations which result from the decisions of their predecessors is about £5m. per annum, and We recommend that this should be taken into account in the proposed capital reconstruction (paras. 2.15-2.17, para. 2.27 and Appendix C.9-C.15).

Museums and Historical Records

5.42 We recommend that responsibility for the Board's museums at Clapham and York should be transferred to the Department of Education and Science, who would be responsible for running a single museum to be housed in a building which the Board would provide at York out of the proceeds of the sale of their existing museum properties (Appendix C.16).

5.43 We recommend that the historical records should also be transferred to the Department of Education and Science, and housed in the same building at York (Appendix C.17).

5.44 We consider that the Railways Board should open negotiations for the transfer of responsibility for their Museum at Swindon to the Swindon Corporation (Appendix C.16).
Railways Savings Banks
5.45 *We recommend* that account should be taken of the interest burden of these Savings Bank deposits in the capital reconstruction which we recommend (paras. 2.15, 2.27 and Appendix C.18).

Transport Police
5.46 We have concluded that there is a case for some public contribution towards these costs, to the extent of about £600,000 per annum, and *We recommend* that this should be taken into account in the proposed capital reconstruction (paras. 2.16-2.17 and Appendix C.24-C.31).

Costing of Unremunerative Passenger Services
5.47 *We recommend* that the costing basis used for the calculation of grants for these services from Passenger Transport Authorities should be the same as that adopted for the calculation of grants to be paid by the Minister (Appendix D.9).

Legislation
5.48 Legislative provisions will be needed as follows:—
5.48.1. An amendment of Section 1 of the Transport Act, 1962, to provide for the amended size and composition of the new Board, including a provision giving the Minister a power to appoint one or more members of the Board as Deputy or Vice-Chairman.
5.48.2. The repeal of Section 2 of the Transport Act, 1962, providing for the setting up of Regional Boards.
5.48.3. A provision requiring the Board to put forward a general scheme of organisation for the Minister’s approval within a specified period.
5.48.4. Provisions to give effect to our financial recommendations.
5.48.5. Provisions to give effect to our recommendations on bridges over railways and museums and historical records.

Appreciation
5.49 Although we shall be submitting one or more further reports to you later in the year, the completion of this report provides an appropriate opportunity for us to express our thanks for the assistance we have received from our two Joint Executive Directors, Mr. Hammond and Mr. Lazarus, and from the Secretariat. A very heavy burden of work has fallen on their shoulders, not only in the drafting and circulation of the numerous papers and minutes of our meetings but particularly in the preparation of this report. They have performed their tasks to our entire satisfaction and we are most grateful to them.

Signed on behalf of the Joint Steering Group,

JOHN MORRIS,
Chairman.

D. E. BARLOW,
Secretary.

Appendix A

VIEWS OF THE RAILWAY TRADE UNIONS ON MATTERS OTHER THAN FINANCE AND MANAGEMENT STRUCTURE

A.1 It was clearly desirable that we should have Union views on a number of matters, and we have now had written evidence from all three Railway Unions, and have held a separate meeting with representatives from each Union. We have had views from each Union both on finance and on management structure, and have taken account of them in the recommendations which we make in Sections 2 and 4 of the main part of this Report. There are a number of other matters on which the Unions have put views to us which we think the Minister and the Chairman would wish us to report, and these are set out in the succeeding paragraphs.

Closures

A.2 All three Unions were in favour of a halt to further closures pending the determination of future policy. ASLEF thought that closure of lines and withdrawal of services should be halted pending the establishment of “a sound and rational basis for costing”. They thought that joint consultation should play a greater part in the consideration of closures, and that the value of feeder lines to the main line services should receive greater emphasis. The NUR stressed the importance of correct costing of closures, and thought that the subsidies to bus operators which the railways are required to pay as a condition of closure should be taken into account. TSSA pointed out the harm done to the railway image by continual closures, and the need to consider whether branch lines could not be saved by the kind of cost-cutting exercises now being carried out in East Anglia.

A.3 We explained to the Unions that in fact:

A.3.1 The Consultants have said that the Board’s present costing principles are generally sound,

A.3.2 there is no evidence that the elimination of branch lines has deprived the railways of an appreciable amount of profitable traffic, and

A.3.3 passenger closures since the spring of 1963 are saving about £17m. per year.

A.4 ASLEF suggested that restricting the level of service on unremunerative lines was harmful to the image of the railways.

A.5 The NUR thought that there was a case for a contribution by local authorities towards the cost of providing railway services, because the value, for example, of houses in areas served by the railways is enhanced by improved railway services. We have been informed of the development of the policy outlined in paragraph 27 of the White Paper on Transport Policy of July, 1966 (Cmd. 3057) for part of the responsibility for the retention of passenger services to be devolved on to local communities. We do not think that this is a matter on which we could usefully comment further. We have, however, said in Section 2 of this Report that, whilst further thought needs to be given to the means of meeting the cost of replacement bus services, we are of the definite view that the Board should no longer be required to do so once the new finance provisions apply (see also paragraph 8 of Appendix D).

A.6 The Ministry representatives agreed at the meeting with ASLEF that the Ministry would consider how they could take account of major points raised by the Unions about individual closures.

Road/Rail Track Costs

A.7 ASLEF stressed that road/rail competition should be rationalised, with particular reference to railway track costs. The Ministry representatives have provided us with a summary of the previous arguments on this issue, and at our meeting with ASLEF they put forward the view that overall the total cost of the road system (including various ancillary costs such as those of accidents) was heavily outweighed by the total licence duty and fuel tax derived from all road
users. The Ministry also explained that they did not think that the case for heavy goods vehicles and buses did not make an adequate contribution been proved. We know that this is a matter which is very much under consideration in the Ministry, and do not think that it would be appropriate for us to make any further comment on the issues involved.

A.8 We have, however, recommended in Section 2 of this Report that specific account should be taken of the costs of railway-owned overline road bridges in the capital reconstruction of the Board.

**Control of Withdrawals of Freight Services and Closures of Freight Stations**

A.9 ASLEF recommended that these should be made subject to the control of the Minister, because of their importance for the overall transport policies which the Minister was now working out. At our meeting with ASLEF, the Board pointed out that their policy of freight concentration, and the use of liner trains, had in fact meant that more freight traffic was being carried on certain services. At the same time, the railways recognised that there were other freight traffics which would be declining.

A.10 We do not think that the case has been proved that closer Ministerial control over withdrawal of freight services and closure of freight stations would serve any useful purpose, and we have decided not to make any specific recommendations. We explain in Appendices B and D to this Report that the Ministry and the Board are jointly pursuing certain questions relating to the allocation of track costs for freight services, and their implications for the control of the withdrawal of freight services, which arise from the Group’s work on the problems of surplus infrastructure capacity.

**Joint Consultations**

A.11 This is one of the subjects being considered under the auspices of the Minister of Labour, and is not within the terms of reference given to us. We confine ourselves, therefore, to reporting that in the evidence given to us there was general stress on the need for improving the way in which the machinery for joint consultation was used. ASLEF said that whilst certain modifications were necessary, they thought that the present system was right. But harm had been done by this machinery being used for consideration of closure cases. TSSA took the same view that only minor modifications were necessary. But it was recognised that recent changes, and the number of closures, had thrown a great strain on the system. None of the Unions suggested to us that any substantial modifications would be necessary.

**Staff Participation in Management**

A.12 TSSA thought that there should be more consultation with the staff, but that it would be wrong for the Unions to have any share in management decisions. There should be members with Trade Union experience on the Board, because of the individual contribution they could make, but there should not be direct Trade Union or staff representation on the Board.

A.13 This is a matter which is currently being considered by the Government in relation to all the nationalised industries and we do not think that we are required to comment on the views put to us. But we should explain that in looking at the overall problem of the Board’s management structure we have concentrated on the shape and size of the Board, and have not thought it necessary for us to recommend how Trade Union representation should be dealt with. This seems to be mainly a question for the Minister when she comes to make appointments to the new Board.

**The Necessity for Adequate Public Services**

A.14 In their evidence the NUR pointed out the importance of clean and comfortable trains, a conveniently timed service, speedy services, courtesy and assistance from the staff, comfortable station facilities and punctuality of trains. These must be provided at an economic price. They also thought that further electrification was important. TSSA thought that a unified fare structure and well prepared timetables were important. They also stressed the need for the removal of derelict station buildings.
A.15 These all seem to be matters which properly lie within the management responsibility of the Board, and we would not wish to comment, except to emphasise that, as set out generally in our recommendations in Section 2, and also from the unremunerative passenger services, which are to be grant-aided on broad social and economic grounds, the need for the future will be for the Board to plan to provide services which are attractive to the public and which can be run at a profit.

**Need for a Separate Police Force**

A.16 The NUR thought that the present Transport Police tended to act on behalf of the railway management in matters concerning individual railwaymen, and that there would be advantages in the Police being independent of the Railways Board.

A.17 This is not a question which we have been able to consider in any detail, but it seems to emerge from the work done by the Joint Team that there are very strong reasons why the existing Railway Police should be maintained. The views of the NUR on what is essentially a narrow aspect of the police functions do not, in our view, go near to outweighing the arguments in favour of the force being continued.

**Advantages of Electrification**

A.18 As already stated the NUR regard this as important in order to provide a good standard of service for the public. TSSA thought it important for the good image of the railways.

A.19 No separate comment is necessary, other than to refer to the various places in this Report in which we have stressed the need for forward planning in order to ensure that, for the future, investment in major capital schemes is only approved in cases where the Board and the Minister are satisfied on the financial return to be obtained from the investment.

**Need to Improve Career Prospects**

A.20 TSSA referred to the importance of career prospects, and thought this could be achieved by improvement of the quality and conditions of work. Their main aim was that the best man possible should be acquired for a particular post, but so far as practicable the expertise already available within the industry should be fully utilised. Whilst recognising the need for movement between the various sectors of the nationalised transport industry, they were in principle against senior managers being recruited from outside industry.

A.21 At the meeting with TSSA, the Board representatives pointed out the need for injecting new blood into the railways from time to time, not least for training purposes. We accept the need for selecting the best available people for the top managerial posts, and clearly this cannot always be done by picking people already within the railway industry. But it is important, not least for the purpose of raising morale, that it should continue to be seen by all those within the industry that there is no bar to the promotion of able railwaymen to top posts.

**Retention and Strengthening of the Financial Management Services**

A.22 TSSA thought it important that this central service should be maintained and strengthened, and that even when the NFO came into existence, there should be no attempt to split this central service. This was particularly important in the light of the greater use and complexity of computers.

A.23 We have included recommendations in Section 4 of this Report for the control of the central finance services. The Consultants are due to report to us in the near future on management information and financial control, and we hope to put forward detailed recommendations in the autumn. We would expect that the administrative arrangements eventually agreed for the NFO would allow appropriate co-ordination in this field.
Labour Productivity

A TSSA thought that this would be achieved by recruiting an improved quality of staff. They also pointed to the problems for supervisors of the bonus payments for wages staff.

A.25 These are clearly matters which fall within the Minister of Labour’s enquiry, and we do not think that we should comment.
B.1 The concept of "standby capacity" was specifically included in our terms of reference, and we set up a Special Committee to study it in detail. We decided at an early stage that we were concerned with standby capacity in infrastructure (i.e. formation, track and signalling, etc.) and not with any standby in terminals, depots or wagons and carriages. We were also agreed that the real question was how far, if at all, would the proposed future railway network, as broadly agreed between the Minister and the Chairman of the Board, contain standby capacity which was additional to that standby capacity required (a) on commercial grounds, and (b) for the social services. In other words, and this seemed to the Group a most important point to emphasise, we were looking for surplus which was additional to that which the railways would need for sound commercial reasons (e.g. to cope with predictable peaks or to assist operational efficiency). We were also aiming to identify the nature of such surplus, why it existed, and, if any part of it was likely to persist, the reasons why.

B.2 In the light of detailed investigations carried out on their behalf, the Committee finally agreed that it was highly unlikely that standby capacity as set out above (i.e. additional to that required for commercial and social services), could be proved to exist as a permanent element of any foreseeable railway network. We accept this view.

B.3 The Committee were agreed, however, that there definitely was considerable surplus capacity in the system, the cost of which the Board would be unable to bear unaided if the continuance of the deficit was to be avoided. The essential distinction is that standby capacity would have permanence: surplus is essentially temporary and capable of removal. This surplus was mainly a matter of excess track capacity, and was related only to a minor extent to excess route mileage. In other words, it was more relevant to look at the width of the individual routes within the system, rather than at its total length.

B.4 As described in detail in paragraphs B.12 to B.14 below, we accepted the Committee's recommendation that a programme of work should be settled to identify this surplus, so that its cost could be assessed, and a programme could subsequently be agreed for its elimination.

**Work of the Standby Capacity Committee**

**Surplus in the System as a Whole**

B.5 An initial approach adopted by the Committee was to assume that standby capacity was maintained by the railways in the form of a number of routes which were additional to those which would be provided by a fully commercial system. Thus it was thought that the difference between the 8,000 miles of route which would have been likely to result from the approach contained in the Board's report, "The Development of the Major Railway Trunk Routes", published in 1965, and the 11,000 mile system subsequently agreed between the Ministry and the Railways,* might disclose a quantifiable amount of standby capacity. Consideration of these 3,000 miles of route and of the routes on the remaining 8,000 miles, disclosed that the Committee should be looking at route capacity rather than route miles as such.

**Examination of Specific Routes**

B.6 The Board suggested that it might be helpful for the Committee if special studies were made of a number of individual routes of widely varying characteristics. Three such studies were made by a Ministry economist working on data provided by the British Railways Board.

* Published in March, 1967 as "The Railway Network for Development."
B.6.1 The first route studied was the East Coast main line from King's Cross to Doncaster. The study identified some surplus capacity, which would permit the running of an additional 36 express passenger trains, or 18 slow freight trains per day. Its cause was the need to have a signalling system which would pass express passenger trains at very frequent intervals during peak periods. In consequence, capacity was available for the rest of the day, but it had not so far been possible to sell this capacity to users. It was implicit that the net revenue from peak passenger services adequately covered the cost of providing this surplus capacity.

B.6.2 The next route studied, Plymouth to Penzance, was a "secondary" route on which the long term decline in summer holiday traffic had rendered some of the track capacity superfluous to present requirements. It was found, however, that the regional management has plans for completely revised train services on the route, with a consequent reduction of the track mileage, and an increase in track utilisation. The route, which is at present nearly all of double track, is proposed for reduction to mainly single track with appropriate passing loops. The resulting train and track capacity is considered adequate for present and future needs. This was a case where surplus capacity had been identified, but by re-arranging and reducing the train services, it would be possible to eliminate nearly all of the surplus capacity. Some investment would be required for the singling project, but the potential savings were very high in comparison with the investment required.

B.6.3 Finally, a study was made of the Weaver Junction to Glasgow route, as it would be after electrification. This is a route on which the railways would have almost complete freedom to adjust the capacity to suit future commercial and operating requirements. Even with this freedom, it was proposed to install surplus capacity, so that the day-long rate of utilisation would be only just over 60 per cent. As with the East Coast main line, this high level of capacity was caused by the need to signal the route to carry short-run peaks of traffic at certain times of the day. As these would in themselves be profitable traffics, even including the cost of the extra capacity they required, it was concluded that the existence of the surplus capacity on the route would not impose a financial handicap upon the railways.

B.7 It was implicit in these three reports that it is possible to tailor the infrastructure capacity of a route to the expected volume and mix of traffic at least in the long term. Any surplus is, therefore, almost entirely a matter of commercial choice (e.g. to cope with profitable peaks) or of history. There may well be circumstances in which it is cheaper to leave the surplus, at any rate for a time, than to incur the expenditure required to eliminate it.

Distinction between Standby and Surplus

B.8 The Committee finally agreed, and we accept, that there is certainly surplus capacity in the existing network, and this creates a financial problem since, as the Board have consistently maintained, to leave the whole responsibility with them will merely ensure the continuance of the deficit. The Committee therefore came to the conclusion that the best way forward was to try to agree about the size and cost of this surplus infrastructure capacity, to decide how long it would take to eliminate it, and then to agree on a method of payment which would provide an incentive to the Board to get rid of this surplus as soon as possible. The Committee agreed that, given time, there should be no difficulty in calculating the extent of the surplus, though they recognised that it might vary over time in the light of changed traffic levels.

Proposals for Identification of Surplus Capacity

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Proposals for Identification of Surplus Capacity

B.9 The Committee agreed that the extent of surplus infrastructure would depend on the number and types of trains to be run. It could not, therefore, be divorced from operating and commercial considerations. Only the Board would be in a position to identify this surplus infrastructure in the light of the
profitability of the traffics concerned. Most of it would probably be found to be on the "secondary" system, but some would be on the "primary" system. Most of it, also, would be in the form of double or multiple track, some of which could be reduced, thus lowering maintenance costs without reducing the route mileage.

B.10 On lines used only by grant-aided passenger services, the Committee assumed that the full cost of the minimum necessary track capacity for these services would qualify for the social grant. Any existing capacity in excess of the minimum requirements should be identified separately and included in the calculation of surplus capacity, with plans for its elimination.

B.11 Special problems arose in the identification of surplus capacity and the allocation of costs for grant purposes on lines carrying freight as well as grant-aided passenger services, and also on "freight only" lines. The allocation of track costs, where a line is shared between freight and passenger services, is a difficult question, and it may not always be right to accept the recommendation in the original report from the Consultants on Costing principles, which advocated a continuance of the railways' present practice of calculating this on the basis of total train weights. As set out in Appendix D, we are hoping to be in a position to make firm recommendations about this later in the year.

Recommendations
B.12 The Committee therefore recommended that the following plan of action should be taken by the Board:—

B.12.1 they should identify all existing surplus capacity whether on the secondary or primary system;
B.12.2 they should identify those lines on the secondary system which would be needed for social passenger services, but on which, whilst they are so used, the Board would also run freight services. In respect of these, the Board should consider whether the freight services were likely to require additional infrastructure and whether they could meet its cost;
B.12.3 they should estimate the cost of the continuing maintenance of each element of surplus capacity and the capital cost (if any) of its elimination;
B.12.4 they should prepare a programme for the elimination of surplus capacity (taking into account the commitment to an 11,000 mile system).

B.13 A capital investment programme should then be agreed with the Ministry for the elimination of the surplus. A grant should also be agreed, on a diminishing basis, which would, in the first year, pay for the actual cost of maintaining this surplus. The grant would be paid annually at a level which would be fixed in advance, and which would be reduced year by year at a rate which assumed that the agreed elimination programme could be maintained. The effect of this should be that the Board would be relieved of all the costs of their non-commercial surplus infrastructure provided that they succeeded in cutting it out as quickly as the programme envisaged. The Board would then be left with a network which, after taking account of the social grants, should be able to play its part on a commercial basis in the country's transport system. It would be a much slimmer network than at present but it would retain the margin needed for commercial reasons, and the Committee did not believe that any additional surplus capacity need, or should, be maintained.

IMPLEMENTATION OF THE COMMITTEE'S RECOMMENDATIONS
B.14 We accepted all these recommendations, and decided to set up a further Committee to assist the Board in the formulation of their detailed proposals for the identification and costing of surplus infrastructure and the preliminary assessment of its cost. The remaining paragraphs in this Appendix describe the progress that has so far been made with this work.

B.15 There are three separate stages involved:—

B.15.1 The preparation of the broad estimate, which we have included in Section 2 of this Report.
Further work designed to produce, by the autumn, a more reliable estimate.

The preparation over the next 18 months of a detailed assessment of surplus, line by line, the calculation of its cost and the preparation of a plan for its elimination over a stated period.

Preparation of a Detailed Assessment of Surplus, and its cost

Definition of Surplus

It is assumed that it will be necessary to maintain and provide services over a specific route mileage determined by the Network for Development, published in March, 1967. In that context surplus track and signalling capacity can be defined as that which can be eliminated at no cost, or at a cost which will show a reasonable return on any necessary investment, and yet still leave sufficient capacity to operate such services as are commercially desirable and those services which the Minister decides should be retained on broad social and economic grounds.

Establishment of Surplus

To establish the extent of this surplus, a critical examination must be made of the need for all track and signalling comprising the 11,000 route mile network in relation to the traffic likely to be available on a commercial basis and for social needs, as well as the methods by which this traffic will be moved.

We assume that the proposed Bill will become law during 1968, and that the Government will decide to commence the payment of grants in respect of this surplus from 1st January, 1969. We refer, in future, to this date as the "prescribed date". We think it is a reasonable assumption that it will be feasible for the Board, before the prescribed date, to produce a sufficiently accurate assessment of surplus, and its cost, on which the total amount of grant can be calculated.

The Board have made it clear that, so far as commercially desirable traffics are concerned, account must be taken of the precepts contained in the report on the Development of the Railway Trunk Routes (February, 1965), for the concentration of the maximum volume of through traffic over the minimum of routes to reduce the cost per unit carried.

Even the best estimate of surplus capacity, however, can be no more than an approximation of a theoretical position which could exist at some point in time. It can never truly reflect the actual position on the track as changes in train speeds, speed mix, and methods of operation will take place continually to improve efficiency and productivity; the demand for rail transport will also change, and these factors will vary the actual degree of surplus capacity. It will be necessary before the "prescribed date" to make an assessment of surplus as it will be likely to exist on that date, or to be created over the period during which grants will be payable (see paragraph B.21 below). We assume that this will be five years, and we refer henceforward to this five year period, ending on 1st January, 1974, as the "prescribed period". This assessment will be required for the purpose of calculating the size of the grant. But we recognise that this is necessarily a somewhat artificial picture, and that in practice the Board will need to review the extent of any surplus capacity as a continuing process.

We are agreed that the Board will be required to assess not only the current surplus at the prescribed date, but also that surplus which will be created by the changes in the levels of traffic, and changes in operating methods and signalling over the next few years and which, at least as to the major part, they expect to be able to eliminate over that period. For this purpose the Board will estimate the likely pattern of operations by the end of the prescribed period in 1974, and use this estimate as the basis for their calculations. They will also include all surplus which is currently in existence at the time that each individual line is surveyed. A record will be kept of all surplus removed prior to the prescribed date, and the grant will cover the balance of surplus remaining.
B.22 The Board have made it plain that while they accept their obligation to reduce track and signalling facilities to a minimum commensurate with services to be provided, the identification of surplus and its removal cannot coincide in time. To achieve the necessary reductions it will be necessary in many cases to resignal, to install track circuits and automatic level crossing barriers, to re-lay and re-align track and eliminate points and crossings. There is a limit to the physical resources available for this work in design offices, in contracting firms, in railway works and on the track itself, and the Board regard it as unrealistic to suppose that resources can be concentrated to eliminate surplus capacity from the network at a very rapid pace. The most convenient time at which to simplify a railway layout is when re-laying of the track becomes necessary or when signalling assets have reached the end of their useful life and must be replaced. But there may be economic and financial reasons why earlier change is necessary.

B.23 A decision about the priority to be given to the work involved in eliminating surplus will have to be reached by the Ministry and the Board direct when the full assessment of surplus has been completed, and when it is possible to compare the results from expenditure on the elimination of surplus against the expected return on investment for the development of the main routes and facilities. The Board set a high value on the use of the available resources for modernising and developing main routes to improve efficiency so that the best service can be given to the greatest number of the population and the largest sectors of industry. They believe that, in terms of cash contribution to viability, with the limited physical resources available, investment in track and signalling on a trunk route, associated with electrification, should achieve more and produce a much better net return to the railways than investment in the engineering work required for the elimination of surplus. But they recognise that it will be necessary to review the priorities when the detailed assessment of surplus is available, and we agree that this assessment should be produced as quickly as possible. When it is available, the Board and the Ministry will have to explore alternative policies and estimate their effect.

Grant for Surplus

B.24 When the surplus has been identified by the methods described above, and to the extent that elimination will not have taken place by the prescribed date, the amount of the grant for surplus infrastructure to be paid initially (i.e. in 1969) will be based on:

B.24.1 the annual cost of the maintenance of track and signalling installations; and
B.24.2 signalling operation costs,
for those facilities which are already surplus on the prescribed date, or which the Board estimate will become surplus during the prescribed period. Pending settlement of the new capital structure for the railways it will not be possible to determine the future interest and depreciation element in the cost of surplus. For the time being, therefore, in the assessment of the cost of surplus, interest and amortisation as it would be in present conditions, should be shown separately.

Method of Calculation for different categories of line

B.25 The Board have informed us of the methods which they propose to adopt for the identification of surplus and the assessment of its cost and have explained that for this purpose it will be essential to divide the rail network into several different categories related to its use and the type of service operated. We endorse their method of approach.

Assumptions Used for the Estimate of the Order of Magnitude Figure

B.26 We have explained in paragraph B.18 that we think it is a reasonable assumption that the detailed assessment can be substantially completed by 1st January, 1969. But it clearly cannot be done in any shorter period. In order to produce an order of magnitude figure, short cut methods had to be employed, and we accept the Committee's view that these methods are acceptable within the time constraint.
B.27 The figures of the cost of surplus as estimated by the Board, together with the justification for a grant, have been included in Section 2 of this Report, along with the Board's overall financial situation. The Board, with assistance from the Ministry of Transport economists, will refine these figures so far as possible over the next few months in order to produce the best available estimate before transport legislation is introduced into Parliament. We must emphasise, however, that there is bound to be a large element of uncertainty until the Board have identified in detail where surplus exists or can be created.
C.1 We have explained in paragraph 1.15 that we have completed the work of examining these obligations. The following paragraphs set out our conclusions and recommendations, except in so far as they involve finance, in which case they have already been included in Section 2 of the main Report.

ROAD BRIDGES AND LEVEL CROSSINGS

C.2 The total cost of overline bridges in 1965 was £1,506,000, of which some £900,000 was to revenue account, and therefore an addition to the deficit. For the 2½ years up to 1960, the Ministry had agreed to pay the Railways some £2m. per year towards the cost of road bridges and level crossings, because of the extent to which this had been inflated by the growth in road traffic. The payment was stopped in 1960, because it was thought administratively more convenient to deal with this through the revenue deficit. In addition to the above figures the Board pay £40,000 per annum to the Ministry in respect of their relief from liability for the trunk road bridges which were transferred to the Minister in 1946. They also have to find about £327,000 per annum for the road surfaces of bridges. As regards protected level crossings over public roads, of which there are some 2,800 at present, their total cost in 1965 was just under £1½m. The present statutory framework of responsibility for bridges and level crossings is obviously complicated and unsatisfactory. The main disadvantages are that there is a lack of clearly defined obligations, great administrative complexity, failure to reach satisfactory standards of provision, and administrative difficulties which often prevent the removal of bridges which are no longer necessary.

Bridges

C.3 Against this background, it seemed to us that in principle, existing highway overline bridges should be regarded as part of the highway, and it is clearly inappropriate that financial responsibility should remain with the railways. Although it would seem logical to transfer the bridges to highway authorities, this is impossible because of the way the Rate Support Grant is distributed. It would, therefore, be necessary to transfer them to the larger local authorities. But the Rate Support Grant is based on complicated calculations which would make it impossible to compensate the local authorities in an equitable manner. (Figures submitted to us show that the compensation for the transfer of these bridges would vary as between one authority and another from £100 to £500 per bridge per annum.)

C.4 We have had to conclude that, although there is a good case in equity for transferring the bridges, in law the case is less good, and the practical difficulties are too large to be ignored. In reaching this conclusion we have also had in mind that these bridges represent only one-sixth of all the bridges for which the Board are responsible, and that in any case it would be sensible, on manpower grounds (as well as for safety reasons), to leave the responsibility for the physical maintenance of these bridges with the Board, since in practice, even if they lost responsibility for these bridges, the Board could hardly make any reduction in their maintenance staff.

C.5 We therefore recommend that ownership of road bridges over the railway should remain with the Board, but that as set out in Section 2, account should be taken of these costs, which amount to about £1½m. per annum, in the financial reconstruction which we propose.

C.6 We also recommend that the Board’s present payment of £40,000 per annum in respect of trunk road bridges should be discontinued. We also suggest that, even if the bridges themselves are to continue in the Board’s ownership, their present responsibility for the surfaces of all overline bridges should be borne by the appropriate local authority. Finally, the Transport
Bill should bring up to date the Board's present duties in respect of maintenance at present based on minimum legal liability, and the powers of the Inspecting Officers of Railways in relation to railway bridges already owned by local authorities should be extended.

Level Crossings
C.7 So far as level crossings are concerned, we have concluded that the method of crossing operation, and the fact that control must remain with the railways, make it quite impossible to seek any financial contribution from the local authorities to the operating costs of public road level crossings, although we note the Ministry's proposal to introduce legislation empowering local authorities to contribute to the capital cost of their improvement.

C.8 In view of the extent to which level crossing costs have been inflated as a result of the growth in road traffic, and the change in its nature, and also in the light of the additional responsibilities which we are informed the Minister proposes to put on the Board in respect of accommodation and occupation crossings, we think that it would be right to relieve the Board of a figure of the order of £1m. per year. We have recommended in Section 2 of this Report that this is the figure which should be taken into account in the calculations leading to our proposals for recapitalisation.

PENSIONS
C.9 The problems in this field are more difficult. The main questions to resolve are whether, and if so how far, the Board should be relieved of superannuation and pension liabilities relating to staff previously employed on social or abandoned lines, and its obligations which result from decisions of the Board's predecessors. There is also the problem of the interest burden on superannuation and pension fund deposits and provisions which were no longer represented by any viable assets. We realise that in facing these issues we are asking whether the Board should, in effect, be regarded as a new body, starting afresh from the current date, with only the liabilities that they have chosen to impose on themselves for the future, or whether it is right that they should be saddled with some part at least of the legacy of the past.

C.10 If the arguments for releasing the Board from its obligations were accepted in full, this might represent a sum of the order of £15m. to £20m. per year. To do so, however, would be a most unfortunate precedent for other industries in a similar position.

C.11 We have had to look into the figures in considerable detail, and think it may be helpful to set them out under two separate heads as follows:

C.11.1 *The Interest Burden*
Using 1965 figures the Board had to pay:—

- (a) Interest on Superannuation and Pension Fund portion of Pension for Retirement Benefits £3.6m. p.a.
- (b) Interest on Fund balances held on deposit by British Railways Board £6.2m. p.a.
- (c) Interest on balance of BTC (Male Wages Grades) Pension Scheme £1m. p.a.

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<td>(a) Interest on Superannuation and Pension Fund portion of Pension for Retirement Benefits</td>
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<td>(c) Interest on balance of BTC (Male Wages Grades) Pension Scheme</td>
<td>£1m. p.a.</td>
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<td><strong>Total</strong></td>
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The capital sums to which these interest charges relate (about £270m.) are not represented by cash, but by fixed assets in which, at one time or another, the monies have been invested. They are an integral part of the capital structure of the Board and the interest charges to which they give rise cannot be considered separately from the question of the overall interest burden of the Board's capital liabilities.
C.11.2 The Pensions Obligations resulting from the decisions, and practices, of the Board’s predecessors

These obligations include the following:

(a) Future charges to revenue in respect of a deficiency (not yet quantified) emerging from the application of realistic assumptions on wages, etc., to the valuation of the funds. The present capital value of these deficiencies may well amount to a further £50m.

(b) An unquantified figure reflecting the extent to which the Board may be involved in further deficiency payments attributable to provisions of the LMS Pension Scheme.

The Joint Working Team have estimated that these and other pension obligations of which the Board consider they should be relieved (these include charges to revenue in respect of the liquidation of Superannuation Fund deficiencies, the difference between the rate of interest credited to funds deposited with the Board and a realistic rate of interest, the difference between the contributions actually being paid by salaried staff and what they would be paying under the contribution rates prescribed in the new pensions scheme, the cost of future deficiencies and the cost of payments under non-statutory customary practices) might amount to about £8m. to £9m. per annum, but this depends to a considerable extent on the rate at which any deficiencies in the Fund were to be liquidated.

C.12 These sums together add up to a total of about £17m. to £20m. per annum. As set out above, something over half of this relates to the interest burden on sums invested with the Board, the remainder to the burden on the Board resulting from decisions of their predecessors.

C.13 In addition to the foregoing there is a capital obligation estimated at £20m. (resulting in an annual revenue charge of £1.6m.) in respect of the back-dating element of the new wages grade fund and continuing obligations of £0.15m. a year in respect of the extension of the benefits of the new fund to staff who retired between 1st January, 1967, and the start of the new fund in August, 1967. There are also deficiencies on other funds of the order of £20m. which are being currently met by charges to revenue at the rate of £1.5m. a year. This figure together with the £1.6m. mentioned earlier and the £0.15m., have been allowed for as expenditure chargeable to revenue in the long-range revenue forecasts.

C.14 We are sure that it would set a dangerous precedent to make any specific grants in relief of the Board’s pension obligations. These are clearly obligations which have to be met, and the only question is whether the payment should and could be made in future by the Board. We recommend in Section 2 of this Report that account should be taken of these obligations in the financial reconstruction which we propose.

C.15 So far as can now be assessed (although these figures will need further study) the total capital value of the pensions obligations is of the order of £370m. as compared with £275m. in the balance sheet at 31st December, 1966. The capital values adopted for the reappraised superannuation obligations assume an interest rate of 5 per cent compared with the current rate of 4 per cent. The future annual interest burden will therefore be of the order of £19m., compared with the present figure of £11m. Against this increase of £8m. can be offset the avoidance of deficiency charges to revenue of some £3m. leaving £5m. increased charges to be taken into account in the forward revenue estimates and the assessment of the debt to the Minister.

MUSEUMS AND HISTORICAL RECORDS

Museums

C.16 We are satisfied that the Transport Museums have a useful scientific, educational and cultural role to play. The Joint Team think that the greater part of the exhibits in them should be preserved, and we consider that provision for the future of such exhibits as are preserved should be such as to assure their continuing development. We are agreed that it would be in the interests of the Railways Board, and beneficial from the standpoint of museum
policy generally, that the Board should build a new Transport Museum, for
to the Department of Education and Science as an outstation of the
Museum, with the funds realised from the sale of the Clapham site. Our
detailed conclusions and recommendations are as follows:—

C.16.1 It would not be possible to set up a new purpose-built transport
museum, the primary purpose of which was to replace the museum at
Clapham, and to pay for it from the proceeds of the sale of the Clapham
site.

C.16.2 The conversion of an existing building would, however, enable a
new museum to be provided out of the money released—which would
probably amount to about £517,000—by the sale of the sites of the present
museums at Clapham and York. Neither the Railways Board nor the
London Transport Board have a building available in the London area, but
the Railways Board have suggested the conversion of a motive power depot
at York which would be well fitted to serve as a transport museum, and
which could be satisfactorily converted within the limits imposed by available
funds. The Department of Education and Science would, subject to approval
by Ministers, be prepared to assume responsibility for a museum provided
in this way, and the Ministry of Public Building and Works would accept
responsibility for its maintenance.

C.16.3 If the proposed new museum at York was administered by the
Department of Education and Science, and the policy of charging for
admission was continued, total net costs would be about £15,000 a year
less than those at present incurred by the Railways Board on the existing
transport museums at Clapham and York. Since museum costs go to swell
the railway deficit, a move to York would reduce the total cost of the
museums to the Exchequer, provided that the Department of Education and
Science were to continue the present charging policy. (To discontinue
charging would increase the present annual costs of the collections to the
Exchequer by about £10,000 p.a.)

C.16.4 The conversion of the York depot would provide enough space for
all those railway exhibits which, in the view of the Science Museum, merit
preservation in a national transport collection. The London Transport
Board have indicated that they would prefer to take their own relics back
into their keeping rather than see them removed to York, and we under­
stand that this should result in a decrease in the London Transport Board's
annual expenditure on relics.

C.16.5 We recommend that those exhibits which would not qualify for
inclusion in a national collection should, in accordance with the established
practice, in the first instance be offered free of charge to local museums and
recognised preservation societies, and those for which homes were not found
should be sold. Any sums realised in this way should be added to the funds
available for setting up the new museum.

C.16.6 The Department of Education and Science would not be willing to
assume responsibility for the museum at Swindon. We therefore recom­
mend that the Railways Board should open negotiations for the transfer of
responsibility for the museum at Swindon to Swindon Corporation.

Records

C.17 As regards the historical records, we are satisfied that they are of no
value to the Board in running their business, but we accept that the bulk of them
merit preservation on grounds of general educational usefulness and as illustrat­
ing an aspect of social history. We think there may be some scope for reduction
in the amount spent on preserving the records, by centralising the English records
in one building, but we accept that they are not suitable for inclusion in the
Public Record Office.

C.17.1 It would be physically possible to accommodate the records at
present held in the Railways Board's Record Office in London in a small
extension, costing about £60,000, to the proposed York Museum. In view
of the relatively small sum involved we recommend that the occasion should
be taken to transfer the historical records to York, even if this cannot be
done entirely within the financial limits set by the proceeds from the sale
of the Clapham and York sites.
C.17.2 The Standing Commissions on Museums and Galleries have been
consulted and are broadly satisfied with the above proposals.
C.17.3 We finally recommend that provision should be made in the forth­
coming Bill to enable these proposals to be carried out, and that the neces­
sary arrangements might be left to the Board and the Ministry.

RAILWAYS SAVINGS BANKS
C.18 We explained in Section 2 that there was no short-term problem in regard
to the Railways Savings Banks but that the interest on deposits had to be taken
into account in assessing the total amount of interest burden which it would be
appropriate for the Board to carry for the future. We have dealt with this
aspect in Section 2.
C.19 In the course of our enquiries we looked at the trend of deposits over
recent years. Deposits fell by £2.9m. from 1963 to 1965. They fell by a further
£2.7m. in the first six months of 1966 to £37.3m. For the whole period 1959 to
1965 withdrawals exceeded new deposits to the extent of £16m. After crediting
interest totalling £13m. the fall in total deposits amounts to a little over £3m.
C.20 The Team’s researches show that the costs of administration would not
diminish in proportion to the reduction in the total amount of deposits. Equally
administrative costs would not be affected to any major extent by an increase of
the order of 15 to 20 per cent. in the number of accounts deposited, and now
that much of the calculation is done by computer, computer costs would not
be materially affected by an increase of up to 40 per cent.
C.21 These circumstances provide strong arguments why the railways should
try to increase the present size of deposits. Furthermore, and of equal import­
ance, they are a source of relatively cheap capital for the railways as well as an
incentive to savings amongst railway staff.
C.22 In these circumstances we have already recommended:
   C.22.1 That the existing basis of operation of the Railways Savings Banks
       is left basically unchanged.
   C.22.2 That positive steps be taken by the Board to encourage an increase
       in membership of the Banks and of the extended use of payroll deductions
       as a regular means of savings.
   C.22.3 That the interest rate payable on deposits should be adjusted to
       bring the bank into line with other comparable banks.
   C.22.4 That in addition to Railways Board employees, employees of a
       National Freight Organisation should in future be eligible as depositors in
       an enlarged “Transport” Savings Bank.
C.23 We should record that the Board have already largely implemented the
above recommendations. Following the centralisation and computerisation of
the existing banks at Darlington, a new BR Savings Bank has now be estab­
lished and the former banks closed.

TRANSPORT POLICE
C.24 It appears that the services of the Transport Police may be regarded as
falling into three distinguishable (but not exclusive) categories:
   C.24.1 The protection of property in which are included the safeguarding
       of the premises and property of the Board, and of goods in transit and the
       property of travellers. This is clearly the sole responsibility of the Board.
   C.24.2 The detection of crime, which is mainly a function of the Criminal
       Investigation Department (CID).
   C.24.3 General public services, such as the control of traffic in the vicinity
       of main railway stations, the marshalling of crowds, general help to members
       of the public and the maintenance of public order.
C.25 The Railways Board have claimed that some element of grant for both C.24.2 and C.24.3 above would be justified. They have emphasised that nearly 20 per cent. of the Transport Police are in the CID and without them crimes on the railways would merely be reported to the Civil Police Forces for investigation by them. The Transport Police CID thus provide relief for the Civil Police Forces, and also render direct assistance, for example, in 1965 by making about 725 arrests. Furthermore, they are able to cope better in circumstances where knowledge of transport operations is essential. As regards services for the general public, some 24 per cent. of the Transport Police are employed in this field, much of which is common with that covered by the Civil Police (e.g. control of immigration).

C.26 On the other hand, it can be argued that the railways provide a police force largely for sound commercial reasons, and that their public image, and the cost of losses, would be materially affected by any reduction of their police activities.

C.27 We have concluded that, while it is a matter for the Railways Board to consider whether they want to maintain a Police Force, and although an element of the force is entirely a commercial responsibility of the Board itself, some part of the benefit from the particular services of the Police devoted to the detection of crime and to general public services accrues to the general public and affords relief to the civil forces.

C.28 It has proved impossible to provide a precise assessment of police services and their benefits and any apportionment must necessarily be a matter of judgment. Some of us have argued that apart from any fall-out benefit from the services of the Transport Police as a whole, the particular benefits accruing from the services devoted to the detection of crime and the general public services were sufficiently substantial to merit financial recognition.

C.29 Others of us disagree with this view, and do not think that it has been established that, if the Board decided to limit their police services to what would be desirable on commercial grounds, this would make a significant reduction in the British Transport Police and its cost. It is in their view clearly unreasonable to describe any “fall-out” benefit to the community at large as being “substantial”. Moreover, there are fall-out benefits in the other direction, i.e. to the Board from the activities of the Civil Police.

C.30 We have finally concluded that we must accept that there is a case for some public contribution towards these costs. The main reason for this is that the Transport Police clearly perform duties over and above those which are proper to a commercial organisation. In the past it has been expected that public bodies should assume some social obligations without remuneration, but we take it that it is now established Government policy to recompense the railways for expenditure incurred for social reasons. No precise basis for apportionment can be arrived at, but we suggest that calculations should be based on 50 per cent. of the cost of the force attributable to CID and to general public service functions. This would amount to about £600,000 per annum, i.e. about 20 per cent. of the total cost of maintaining the British Transport Police.

C.31 We have therefore recommended in Section 2 of this Report that the continuing services by the British Transport Police to the general public should be recognised by including in the proposed capital reconstruction of the Board a specific element in respect of these police costs.
D.1 Soon after we were appointed we asked the Consultants to carry out a review of a number of the services which are currently running at a loss, and for which closure had been refused by the Minister, or her predecessors. Their main objectives were to consider possibilities for reducing costs (e.g. by reducing the amount of track, using conductor guards on trains, simplifying protection arrangements at level crossings, etc.) and also for increasing revenue (e.g. by adjustments of fare levels and by providing the service best suited to the needs of the travelling public, having due regard to economy).

D.2 The work showed that, in respect of five services, all of which were largely rural in type, the loss at the time when closure was refused could be substantially reduced. Much of this reduction is attributable to steps which have either been taken, or are currently being planned, by British Railways, but the Consultants made further suggestions for consideration by the Board. Not all of these, of course, may be feasible.

D.3 The Consultants have now prepared a draft questionnaire, all or part of which, depending on circumstances, would need to be completed by the British Railways Board in respect of each service before an application for a social grant was made, and which could then serve as the actual application form for such a grant. We have provisionally approved this draft and it is being tested in practice using a sample exercise covering some 25 unremunerative passenger services.

D.4 The purpose of the questionnaire is: —
   D.4.1 to provide the Ministry with information on: —
   (a) the present service and its operating methods ;
   (b) the present usage of the service and its financial results ;
   (c) the Board’s proposals for changes in the service and its operating methods ;
   (d) a forecast of the financial results for three years ahead.

D.4.2 to enable the Board to demonstrate that the service is being, or is planned to be, operated at an optimum level—that is, at the minimum deficit consistent with meeting the local demand.

D.4.3 to provide the Ministry with the basic information to assist them to make an assessment of: —
   (a) whether the social need is sufficient to justify the grant ;
   (b) whether there is any scope for improving the financial results by reducing the level of service or improving operating methods while still satisfying the basic social need.

The assessment will have to start from the present service, but the questionnaire is designed to lead to a decision being based on the best available assessment of future needs.

D.5 The assessment of social need is fundamental to the Minister’s decision as to whether or not a service should be grant-aided. The questionnaire provides for the Ministry to receive basic information on the present usage of the rail service together with a list of alternative transport services. The Consultants have advised that, in their view, this information should be sufficient in the majority of cases. If, in some, borderline, cases more information is required than the Board has in their possession, the Ministry will have to obtain this from whatever source is most convenient, including possibly in the most difficult cases mounting a full market survey of passenger demand.

D.6 The present and projected financial results will be set out in full, and will also be expressed in terms of
   D.6.1 percentages of earnings ;
   D.6.2 rates per train mile ; and
   D.6.3 rates per passenger mile.
The expression of the deficit as a percentage of earnings will be helpful by showing the extent to which current passengers are in fact paying their way. The expression of a rate per train mile will be useful primarily as a basis for comparison between services with similar characteristics. The Consultants hope that the figure expressed as a rate per passenger mile will be particularly useful as an evaluation of the passenger benefit which would result from the payment of a grant. Whilst there will clearly be cases where on very strong social hardship grounds it may be necessary to pay an exceptional rate per passenger mile, this figure should prove a yardstick against which preliminary decisions can be reached. It will also be a useful tool for the determination of priorities if, in the long run, the total amount of these grants has to be contained within an annual estimate.

Track and Signalling Costs
D.7 In their first report, the Consultants suggested that track and signalling costs should be allocated to services according to the weight and number of trains concerned. In the light of the work of the Committee set up to consider standby capacity, we are now considering whether it would be more logical, in cases where the capacity of a route is determined solely by the peak needs of a grant-aided passenger service, for that service to bear most of the costs of the track and signalling, with the other services only bearing a proportion of the wear and tear costs. This would be particularly significant in cases where a line was used jointly by a commuter passenger service and by other passenger and freight services. We are arranging that, in the processing of the sample exercise to which we have already referred, both methods of allocating track costs should be tried out, in order that we can see the practical effect of the alternative approaches. We propose to make further recommendations on this point in due course.

Cost of Replacement Bus Services
D.8 We still have to consider how best to cover the subventions to operators of bus services provided as a condition of the withdrawal of rail services. We understand that discussions are continuing within the Ministry as to the provisions to be included in the forthcoming Transport Bill about bus services generally. Obviously the best method for dealing with the comparatively small number of bus services provided to replace withdrawn rail services will depend on the general pattern of the provisions to be made about the greater number of bus services for the country as a whole. We are, however, clear that it follows from the new proposals for the Board's finances that the responsibility for these bus services should be removed from the railways.

Passenger Transport Authorities
D.9 We have been kept informed by the Ministry about the development of thinking on the constitution and duties of Passenger Transport Authorities. It is clear that, certainly in respect of unremunerative passenger services wholly within conurbations, the arrangements which we have recommended for the payment of grants will not apply, and that the responsibility for paying grants will be laid upon these new Authorities. But on the assumption that this will not affect the overall financial position of the Board, we do not think that it is for us to go into the details of the arrangements which will be required. We strongly recommend, however, that the costing basis used for these calculations should be the same as that adopted for the calculation of grants to be paid by the Minister.

Future Programme of Work
D.10 The results of the sample exercise mentioned in para. 3 of this Appendix will be available in the autumn, and we then propose to review the whole situation, and to see how far the recommendations of the Consultants will be adequate for dealing with the identification of unremunerative services, the costing of them, and the preparation of material on which the Minister can make a decision as to whether the service should be grant-aided on broad social and economic grounds. We hope that it will be possible for us to submit a further report later in the year, and that thenceforward the railways can proceed with
the submission of cases in respect of all the unremunerative passenger services which fall within the field of our previous recommendations. We regard it as important that this should be done as quickly as possible so that, even before a statutory grant scheme comes into full operation, the Board may be able to quote in their Annual Report more exact figures of the extent to which the deficit is related to the burden of these unremunerative, but socially necessary, passenger services.
Appendix E

COSTING PRINCIPLES AND METHODS

E.1 We have had the benefit of a very full report from the Consultants, which covers the whole of the ground in great detail. It still needs further study, and, as set out below, in one important respect further research is needed before final conclusions can be reached. But whilst the Consultants suggest that certain changes are desirable, their overall conclusion is that the present costing principles and the ways in which they are applied are generally sound and that, at least on an interim basis, the methods now used to calculate movement costs for passenger profitability studies would be appropriate for grant purposes.

E.2 The difficulties of railway costing arise mainly from joint costs (defined by the Consultants as those associated with the situation where the production of one product enables the production of another to take place at no extra cost) and fixed costs (those which do not vary with changes in the quantity produced). In recognition of this problem, British Railways have divided their operating costs into two categories:

E.2.1 Direct costs—which are considered to be both variable and specific (that is they can be attributed directly to the traffic conveyed);

E.2.2 Indirect costs (track and signalling and general administration)—which are normally treated as being both fixed and joint.

E.3 We agreed with the Consultants that it is necessary, if the classification of costs is to be improved, that costing research should be undertaken to determine:

E.3.1 how, and on what time scale, costs vary with changes in either the volume of traffic or other measures of railway output;

E.3.2 what factors, other than output, affect the level of cost of each activity.

This is now in hand. It will be particularly important to ascertain how far costs vary from the average. We have also still to consider in the light of a further report from the Consultants which is expected shortly, how far the various presentations of costs meet the needs of managers who have to use these figures.

E.4 The Consultants have recommended that interest should not be treated as a cost, but should be recovered as part of a "profit contribution". We accept that the present method of assessing interest, which involves allocating to certain assets the sum actually paid by the Board in interest at the present, is unsatisfactory. We also accept that it should be distinguished from other costs. But we do not think that it is appropriate to think in terms of a profit contribution for an industry which is not intended to make profits, and which will certainly continue to be financed through fixed interest capital and not equity shares. In these circumstances, we think that interest should be charged at a current rate, and that as far as possible it should be assigned to specific items needed for particular operations.

E.5 Furthermore, we think that depreciation, for costing and grant purposes, should continue to be assessed on a replacement cost basis, and not on historic costs. This seems essential if the full cost of operations is to be taken into account, and if those assets of the railways which are to be retained are to be kept in good order in perpetuity.

E.6 The present accounting and information systems do not provide the information required for costing purposes, and it is necessary for the Traffic Costing Service to ascertain costs either by analysis of the overall working results or by ad hoc studies. Both methods have considerable disadvantages, which would be largely avoided if the budgets could be used for costing purposes to the maximum extent possible. The Consultants have reported that it should increasingly be possible to calculate from the budgets the total and unit costs for individual locations and track sections, distinguishing between short-term variable and long-term costs, and their proposals are now being studied in detail by the Board.
FINANCIAL AND BUDGETARY CONTROL PROCEDURES

F.1 The Consultants have made a preliminary report on some aspects of the budgeting and management information systems of British Railways. We still have more work to do in this field, but there are certain preliminary conclusions, which are sufficiently important to deserve some mention in this Report. It is also right to record the Consultants’ view, with which we entirely agree, that in view of the fact that the present procedures were introduced only three to four years ago great strides have already been made by the Board.

F.2 Their recommendations are as follows:

F.2.1 As far as practicable “responsibility” budgeting should be extended so that individual area and depot managers within a division may be involved in the budgeting process.

F.2.2 There should be a greater degree of coordination between the:
(a) budgeted sales in terms of both receipts and volume of activity;
(b) estimated physical resources required to achieve the expected sales; and
(c) expenditure budgets which should represent the cost of providing the resources required.

F.2.3 There should be an analysis of the differences between budgeted and actual results for activities or locations in order to show separately the effects of:
(a) differences between the actual level of output and that envisaged in the budgets;
(b) changes which are outside the control of the manager concerned; and over or under spending for which the manager is responsible.

F.2.4 In order to compare actual expenditure incurred with the expenditure which should have been incurred for the level of output actually achieved, it will be necessary to divide costs between those that may be expected to:
(a) vary within the budget period with changes in the level of output;
(b) remain unchanged, at least during the budget period.

If this attempt is made to determine the variable elements of the costs of activities, and if budgeting is extended to individual locations, then it would be possible to make greater use of the budgets for costing purposes.

F.2.5 They entirely support the philosophy underlying the developments in management control information proposed in the Board’s overall plan of September, 1964.) The principle of comparing the value (in terms of standard allowances) of output produced with the cost of the resources used in its production should, however, be extended to other activities.

F.2.6 They regard it as important that the control information systems now being planned should be designed to be integrated to the maximum extent possible with the budgetary control system. In turn, this integrated budgetary control/management information system should, as far as possible, be designed to meet the requirements of the Traffic Costing Service and thereby reduce the need for ad hoc sample studies to ascertain the costs of individual activities.

F.3 We have not yet been able to take a final view on all these recommendations. We have ensured that the Consultants collaborate with the Board in carrying out a detailed investigation of the steps that would be required to carry into effect those of their outline recommendations which we decide to accept, the advantages that this would provide for managerial decision-making, and the cost. We shall be reporting on this further in due course.
Appendix G.1.

LONG-TERM REVENUE FORECASTS

Summary of Economic assumptions on which forecasts were prepared by the Board

G.1.1 Between 1967 and 1975 total output will expand by 3 per cent per annum, industrial production by 3-3 per cent and wages will rise, in real terms, by 3 per cent per annum. There will be no change in the prices paid by the Board for materials and services.

G.1.2 Coal consumption and exports which amounted to 178 million tons in 1966, will decline to 158 million in 1969 and about 135 million tons in 1974.* Within the totals, coal for electricity generation will rise slightly. Consumption by the steel industry will be maintained and the remaining uses will decline, some drastically—e.g. domestic. Production will be concentrated increasingly on the East Midlands and South Yorkshire.

G.1.3 Steel production, which was 24½ million tons in 1966, will increase to 28 million tons in 1969 and 31/32 million tons in 1974. The changeover to imported iron ore will continue and be substantially complete by 1974.

G.1.4 Oil growth will be diminished, but not vitally, by natural gas developments.

G.1.5 Chemicals will represent an important growth industry.

G.1.6 The population will rise by 2½/3 million by 1974. Consumer expenditure will increase by 2-2 per cent per annum and car ownership, at present 9½ million, will reach 16 million. Competition from air will be maintained on main routes over 200 miles and, with a likely decrease in the cost of motoring in real terms, car competition will increase.

G.1.7 There will be no Channel Tunnel by 1974.

G.1.8 The 11,000 mile network will be reached in 1969 and maintained until 1974.

G.1.9 There will be no major difficulty in securing an allocation of investment for profitable projects or those essential to maintain profitable services.

G.1.10 There will be no difficulty in getting rid of freight traffic or services which cannot be made profitable.

G.1.11 The relationship with the National Freight Organisation will be such that the Railways' present losses on sundries, which is of the order of £20 million per annum, will be wholly transferred to that Organisation.

* There were indications, as the exercise proceeded, that this figure was probably too high, and we therefore also considered an alternative assumption of 120m. tons. The Board estimated that the effect of this on their net revenue in 1974 would be a reduction of about £4m.
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<td>High Capacity Containers</td>
<td>24</td>
<td>40</td>
<td>16</td>
</tr>
<tr>
<td>Sundries</td>
<td>217</td>
<td>196</td>
<td>21</td>
</tr>
<tr>
<td><strong>Miscellaneous Receipts and Expenditure</strong></td>
<td>9</td>
<td>4*</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Direct Expenses/Margin</strong></td>
<td>464</td>
<td>388</td>
<td>76</td>
</tr>
<tr>
<td><strong>Indirect Expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Track and Signalling</td>
<td>—</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>Administration</td>
<td>—</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>General Expenses and Adjustments</td>
<td>—</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>464</td>
<td>542</td>
<td>78</td>
</tr>
<tr>
<td><strong>Add Ancillary Income (Net)</strong></td>
<td>6</td>
<td>—</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total Revenue/Expenses/Margin</strong></td>
<td>470</td>
<td>542</td>
<td>72</td>
</tr>
</tbody>
</table>

* The expenditure shown here is that relating to Miscellaneous Receipts which have not been covered already in the estimates given for the individual traffics above.

17th May, 1967
Appendix H

COMPOSITION OF JOINT STEERING GROUP

CHAIRMAN:
John Morris, M.P.,
Joint Parliamentary Secretary,
Ministry of Transport.

MEMBERS:
J. P. Berkin, C.B.E.,
formerly Managing Director,
Shell Petroleum Company Limited.

J. G. Cuckney,
Managing Director,
Standard Industrial Group Ltd.

D. O. Henley,
Assistant Under Secretary of State,
Public Finance,
Department of Economic Affairs.

J. J. B. Hunt,
Under Secretary, Public Enterprises,
H.M. Treasury.

P. G. James,
Member, British Railways Board.

H. C. Johnson, C.B.E.,
Vice-Chairman,
British Railways Board,
(since May, 1967).

F. C. Margetts, C.B.E.,
Member, British Railways Board,
(until May, 1967).

Professor A. J. Merrett,
Professor of Finance,
London Graduate School of Business Studies.

C. P. Scott-Malden, C.B.,
Under Secretary, Railways Group,
Ministry of Transport.

P. H. Shirley,
Vice-Chairman,
British Railways Board.

G. C. Wardale,
Under Secretary, Finance Group,
Ministry of Transport.
JOINT EXECUTIVE DIRECTORS:

J. W. Wardle, J.P.,
Running Movements Supervisor,
British Rail Diesel Depot,
Tyseley,
Birmingham.

W. I. Winchester,
Chief Officer (Financial Research),
British Railways Board,
(Deputised for Mr. James, April/May, 1967.)

J. R. Hammond, M.B.E.,
British Railways Board.

P. E. Lazarus,
Ministry of Transport.

SECRETARY:

D. E. Barlow,
Ministry of Transport.
Appendix J

REMITs GIVEn TO CONSULTANTS

Remit 1

1.1 Review and comment on the acceptability of the principles and procedures now adopted by the British Railways Board for the assessment of the costs and profitability of freight and passenger traffic. Recommend any changes in these principles and procedures which may be desirable.

1.2 Recommend the methods by which the profitability of categories of freight traffic and individual passenger lines and services should be assessed.

1.3 Recommend the methods by which any subsidies for unremunerative passenger services should be calculated, controlled and paid.

1.4 Recommend how; and on what time base, the results of individual loss-making passenger services should be calculated and monitor the preparation of the necessary figures by the Board’s staff.

Remit 2

2.1 Consider the results of all loss-making passenger services and recommend any changes, including those in the type and frequency of service, operating practices and fare structure, which would be likely to improve the results of these services in the long run.

2.2 Estimate the effect of the recommended changes on the viability of the services concerned.

Remit 3

3.1 Review the extent to which those freight services likely to be marketed by the Board after the formation of the National Freight Organisation* fulfil the requirements of customers and determine types of traffic and conditions under which additional traffic could be obtained by the Board.

3.2 Review and make recommendations on the methods and organisation of all functions of marketing for passenger and for those freight services which British Railways is likely to be selling after the formation of the National Freight Organisation, including sales to that organisation.

3.3 Review and make recommendations on the pricing policies for both passenger and freight services.

This review initially to be limited to a study of inter-city passenger services but keeping abreast on the passenger side with the conurbation studies already in progress and on the freight side with the Board’s own researches. The Consultants to keep themselves informed as to progress with the National Freight Organisation.

3.4 Undertake those studies which work has shown to be necessary and which will be authorised by the Steering Group.

Remit 4

4.1 Review and make recommendations on the Board’s financial and budgetary control procedures as applied both to revenue account and to investment projects.

4.2 Review and make recommendations on the financial, statistical and other information provided to management for control purposes.

* It has been agreed with the Consultants that, pending further clarification of the role of the National Freight Organisation, the phrase “those freight services... after the formation of the National Freight Organisation” in remits 3.1 and 3.2 means that the Consultants will give priority in their consideration to company train traffic and other bulk traffic that will not be likely to require the provision of road collection and delivery services, by British Railways or British Road Services.
Remit 5

5.1 Recommend the procedures to be adopted for forecasting the future income and expenditure of British Railways and for preparing long-term estimates of the operating results and financial position of the Board.

5.2 Monitor the preparation by the Board's staff of such long-term estimates as the Joint Steering Group may require.

Remit 6

6.1 Advise on any proposals by the Board on management structure.

6.2 Recommend any changes in management structure and responsibilities which work on other remits has shown to be desirable.
The Government has reached the conclusion that for the foreseeable future there will be a need, as part of the country's transport system, for a substantial railway network. In order to restore stability to an industry which has been the subject of continual change and uncertainty, and to enable management and staff to concentrate on the development of the system in the interests of the public and of trade and industry, the Government has decided that the basic size of the railway network should be determined now. It will consist primarily of routes linking the main centres of population and of industry and commerce, with additional routes to serve major freight traffic flows and to provide essential passenger services for commuters and others. There are still some lines, services and stations whose retention in modern conditions can no longer be justified, and their future will be decided under the usual procedure as soon as possible to avoid prolonging uncertainty.

2. The Government and the Railways Board are determined that this stabilised rail system shall play a full part in the transport system of the country and do so with rapidly increasing economic efficiency. Capital will be provided for the replacement of rolling stock and the modernisation of traction systems and of track and signalling wherever this can be justified in economic terms. Investment will be concentrated on the main trunk routes carrying heavy flows of traffic, but other feeder and commuter lines will also be adapted to modern needs.

3. The social and other considerations which have led to the decision to stabilise the rail network also make it necessary to substitute a new financial framework for that imposed by the Transport Act, 1962. It has become clear that the requirement contained in the Act for the Board to "pay its way" by the beginning of 1968 is entirely unrealistic and would, if pursued, force it into action which in many cases would be against the interests of the community and inconsistent with the plans for transport and other services which the Government is developing. It must therefore be amended to provide more realistic and appropriate financial objectives and a new financial framework and discipline.

4. Against this background the Minister of Transport and the Chairman of the Railways Board have agreed to undertake a review of certain aspects of the railway industry. For this purpose they have set up a Joint Steering Group under the chairmanship of the Joint Parliamentary Secretary to the Ministry of Transport.

5. The Joint Steering Group will be assisted by an expert working party, consisting as necessary of independent accountancy and management consultants and including economists from the Ministry's new Directorate General of Economic Planning and by a number of joint Ministry/Railways Board teams investigating particular subjects. The terms of reference of the review as a whole will be as follows:

(a) to establish an acceptable basis for costing and to identify those categories of services (both passenger and freight) which are not covering costs; to isolate those categories which are potentially viable; to examine the remaining loss-makers and to isolate those with no prospects of becoming viable; and to cost in detail the annual loss on each passenger service which is unlikely ever to become viable so that the Government can decide whether it should be grant-aided on broad social and economic grounds;

(b) to consider any steps in the field of pricing policy or elsewhere which may be necessary to improve the prospects of those services which are already remunerative and those which are potentially viable;

(c) to examine the Board's methods of costing and financial control in the light particularly of the new proposals for meeting the cost of essential but unremunerative services and of other changes proposed in the White Paper;
(d) to assess whether and, if so, to what extent the cost of the railway infrastructure includes an element of "standby capacity";
(e) to examine the Board's investment programmes and the criteria for investment appraisal;
(f) to examine the continuing obligations deriving from the past which rest on the Board, including those in respect of road bridges and level-crossings, of superannuation and pensions for past and present employees, and of the British Transport Police Force;
(g) to consider the suitability of the Board's management structure and procedures for the future operation of the system in the light of the contents of the White Paper and the changes which may stem therefrom;
(h) to make consequential recommendations, including suggestions for possible legislative changes;
and to report to the Minister of Transport and the Chairman of the Railways Board accordingly.