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30th October, 1967

CABINET

BROADCASTING OF PARLIAMENTARY BUSINESS:
EXPERIMENT IN CLOSED CIRCUIT RADIO

Memorandum by the Lord President of the Council

Since the House rejected by a single vote the proposal for a combined experiment in radio and television coverage of House of Commons debates which had been recommended by the Select Committee, I have been waiting for an opportunity to reopen the issue in a way likely to remove some of the weakness of the previous plan and so to improve the chances of success. I believe a suitable opportunity has now arrived.

2. During the Recess we have found it necessary to adapt the wiring system of the Chamber for radio so that Hansard can cover morning sessions when required by means, not of verbatim reporting, but of tape recording, which is then translated by a team of girls. Subject to a test by the British Broadcasting Corporation (BBC) of the microphone installations in the House it should thus be technically possible to carry through the experiment in closed-circuit "piped radio" which the BBC, in its memorandum to the Select Committee, strongly urged should precede any experiment in live television coverage of debates. The experiment would take the form of piping the live radio broadcast to a number of points where it could be listened to. Simultaneously the BBC would supply a small staff which would prepare experimental programmes of a national and regional character including a "Today in Westminster" with live extracts from speeches. These experimental programmes would be played back each night in rooms where Members could listen to them. They would not be available to the general public. After the experiment had run for a sufficient time - perhaps a fortnight or three weeks - I should suggest that the House should be asked to come to a decision on whether the service should be made permanent and available to the public.

3. The Cabinet will recall that the House of Lords decided that its experiment in television coverage should go on despite the House of Commons' decision. Preparations are being made for a few days coverage in February, 1968. I am sure that this will be of very great value in enabling the Cabinet, as well as the House of Commons to come to a decision in due course on television. But after consultation through the usual channels with the Liberal and Conservative Oppositions I am not recommending that any further steps with regard to television should be
taken in the forthcoming Session. My proposal, which has the strong support of both Opposition parties, is for an experiment in live radio broadcasts only, and after that experiment a decision, if possible, to put regular broadcasts on the air during this Session. Then we can make up our minds at leisure whether action should be taken about television in the next Session.

4. I accordingly seek authority to move an appropriate Resolution in the course of the forthcoming debate on procedure, and subject to the agreement of the House thereto, to make arrangements for

   (i) an experiment during this Session in "piped radio" to selected points in the House; and

   (ii) the BBC, at the same time, to be enabled to broadcast on "piped" radio to Members an experimental series of edited extracts.

R.H.S.C.

Privy Council Office, S.W.1,

30th October, 1967
CABINET

RESUMPTION OF DIPLOMATIC RELATIONS WITH
THE UNITED ARAB REPUBLIC

Memorandum by the Secretary of State for Foreign Affairs

This memorandum sets out the reasons why I consider it desirable that diplomatic relations should be resumed between the United Kingdom and the United Arab Republic (UAR).

2. Whether we like it or not, the UAR is still the most influential Arab state. Its attitude will be crucial to a satisfactory Middle East settlement and to the reopening of the Suez Canal, which is of primary importance to us. It cannot therefore be in our interests, or that of our friends, that we should be deprived of early and regular access at a high level to the UAR Government and hence of the opportunity to influence their policies.

3. Our resumption of relations with the UAR would have an effect on the Arab countries that broke with us in June. Iraq and Sudan would probably soon follow in the UAR's footsteps. Algeria might also do so, though the Syrians probably would not. In all of these countries the United Kingdom has substantial material interests.

4. That it cannot be in our interests to be without relations with the UAR is also true in a wider context than that of the Middle East: the UAR is a leading power among the non-aligned nations. Other African countries which broke relations in December, 1965, over Rhodesia, could also be influenced by the resumption of Anglo-UAR relations. So long as we have no Embassy in Cairo we are denied use of one of the most important posts for obtaining information about developments in Africa and influencing their course.

5. There are in addition bilateral problems that can only be solved if we maintain at least correct relations with the UAR. In this connection Sir Harold Beeley's mission to Cairo has already produced one valuable result in that the UAR authorities have agreed to the resumption of military overflights between Aden and the United Kingdom.

6. Nor at this time should we ignore our capacity to influence for good events inside the UAR. The war of the summer left the Egyptians more than ever dependent on the support of the Soviet Union. One of the UAR Government's motives in making the first overtures for a resumption of relations (see paragraph 8 below) was certainly that they felt themselves in dangerous isolation from the West.

-1-
resuming relations with them would do something to move them back in the direction of non-alignment and would give encouragement to those Egyptians who wish to resist the increasing penetration of Egypt by Communist influence, to which Sir Harold Beeley has drawn my attention.

7. Since as a general proposition I consider it to be in our interests that we should have diplomatic relations with the UAR, I took steps last year to make it clear to the Egyptians that if they wanted to resume relations with us they would be knocking at an open door. Considerable progress had been made by the spring of this year. Five of the African states, including the UAR, that still had no relations with us had agreed that relations could be resumed on 1st July. The June war then intervened.

8. Once the immediate emotions engendered by the war had subsided, the Egyptians gave various indications that they would like to get on better terms with us. For example, at the beginning of September they restored the British Overseas Airways Corporation's staging rights at Cairo. More significantly, the Editor of the Cairo daily Al-Ahram, who is close to President Nasser and certainly would not act without official approval, wrote in the Sunday Times of 10th September that in his view it was time for a dialogue to begin. Meanwhile, President Nasser played the decisive part in the victory for moderate policies at the Arab Summit Conference at Khartoum.

9. I decided that it would not be right to ignore these indications or to miss any chance of influencing President Nasser to maintain a moderate course, which may become increasingly difficult for him. I therefore sent a personal message to President Nasser proposing a resumption of diplomatic relations, and I agreed with the UAR Foreign Minister in New York on 23rd September that Sir Harold Beeley should visit Cairo.

10. On 21st October Sir Harold Beeley was able to reach agreement with President Nasser that diplomatic relations at Ambassadorial level should be restored in the first half of December. It was encouraging that the UAR made no attempt to extract any concessions from us in return for this agreement, and that President Nasser in effect apologised for the lie about our collusion with the Israelis.

11. It was agreed that no announcement about our agreement should yet be made, since President Nasser said that he needed time to "condition" other Arab countries.

12. The UAR's economic condition is bad. When relations are restored we shall want to negotiate about the UAR's obligations to us, including the release of resequestrated property, compensation for nationalised property, commercial debts and the repayment of an Export Credits Guarantee Department (ECGD) loan. Even with goodwill, the UAR will find it very difficult to repay us. But it should be possible at least to resume normal trading on the basis that we do not increase the UAR’s net indebtedness to us. Otherwise our commercial rivals will steal a march on us.
13. Critics say that by making friends with Nasser now we are building him up and encouraging him to be intransigent. Alternatively they say that he will not last long and we should be in no hurry to commit ourselves to him rather than to his successors whoever they may be. I believe such criticisms to be misguided. There was no connection whatever between Sir Harold Beeley's mission and the incidents of 21st and 24th October when the destroyer "Eilat" was sunk and Suez shelled. We might, indeed, well be in a better position to prevent further incidents of this kind, if diplomatic relations were resumed. Sir Harold Beeley was not empowered to, nor did he, negotiate on the broader issues of Arab/Israel problems.

14. Sir Harold Beeley found President Nasser fit and apparently in full control, though there must be doubts about his future in the longer term. But whether or not President Nasser remains long in control does not, I think, affect the need for an early resumption of diplomatic relations. The UAR will certainly remain influential in the Arab world; geography makes it crucial for the reopening of the Suez Canal. If President Nasser were to fall we would be in a better position to influence his successors if we had diplomatic relations.

15. Why resume diplomatic relations now? In my view it is particularly important now, when a settlement of the problems of the Middle East must in large part depend on the UAR's continuing the relatively moderate line it adopted at the Khartoum Summit, that we should be in a position to use our influence and to do some serious talking with the Egyptians at the top level. Our ability to play a worthwhile part in the current efforts in the United Nations Security Council will be enhanced by this. Re-establishing diplomatic relations is not an anti-Israel gesture; indeed the Israelis cannot reasonably object to it when they themselves constantly say they want direct talks with the Arabs including the Egyptians. In fact, the recent sinking of the "Eilat" and the Israel retaliation at Suez point up the need for urgent progress towards a settlement, to which we can contribute far more effectively if we are talking to both sides.

16. A further point in favour of diplomatic relations now is the fact that our own withdrawal from South Arabia coincides with UAR withdrawal from Yemen, which removes a major area of contention between us. The disappearance of these two problems, which have in the past obstructed any satisfactory relationship between ourselves and the UAR, will afford a possibility, which we should not let slip, of a real improvement in the atmosphere both bilaterally and in relation to Middle Eastern problems as a whole.

17. Why relations at Ambassadorial level? Why not just a Chargé d'Affaires? The answer is that it is only at the highest level in the UAR today that it is possible to influence thinking or get decisions. We have had a "British Interests Section" in Cairo for almost two years, and we still have one; but although routine consular, commercial and other matters can be dealt with fairly well at this level, there is no substitute for an experienced Ambassador who can talk frankly to President Nasser if we are going to be able to help in solving Middle East problems and getting the Suez Canal open.
18. I recommend that my colleagues endorse the policy of working for friendly bilateral relations with the UAR and welcome the proposal to resume full diplomatic relations in the first half of December.

G.B.

Foreign Office, S.W.1.

31st October, 1967
CABINET

THE THIRD LONDON AIRPORT

Memorandum by the President of the Board of Trade and the Minister of Housing and Local Government

Following Cabinet approval in May (CC(67) 29th Conclusions; Minute 1) of the choice of Stansted as the third London airport, the endorsement by the House of Commons of this decision following a debate on 29th June, and the rejection by the Courts on 26th July of a claim by the Essex County Council that the Minister of Housing and Local Government was acting ultra vires in the matter, the next formal step would be to lay, in both Houses of Parliament, a Special Development Order (SDO) conferring the necessary planning permission for the development of the airport on the British Airports Authority which owns and manages it. It had been intended to lay this Order, which is subject to negative resolution in either House, in October.

2. There have, however, been a number of developments which make it desirable once more to refer the matter to the Cabinet. These are briefly:

(a) recent studies show that a re-alignment of the runways at Stansted, while adding to its money cost, would very greatly diminish the disadvantages of the site on noise grounds;

(b) cost/benefit studies, not previously attempted, have been carried out by an interdepartmental committee during the past few weeks. While broadly confirming the advantages of Stansted over the alternatives so far considered, these studies have drawn attention to a further possible site at Nuthampstead ten miles north west of Stansted. Although it costs more, this site also appears to offer considerable advantages, at any rate over Stansted on its original alignment, from the point of view of noise;

(c) some members of the House of Lords may press for the question to be referred to a Select Committee of that House.

3. These factors in combination, and other more general considerations, raise the question whether, even at this late stage, we should not reconsider the original Cabinet decision. The following courses of action seem to be open to us.

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Re-alignment

4. A full note on this possibility is at Appendix B. Briefly, at a cost (undiscounted) of some £10 million (mainly arising from the need to build two new runways, instead of one plus the existing runway, and from an additional land requirement of about 900 acres), it would almost certainly be possible to re-align the Stansted runways through 20° / 25° and so very greatly reduce potential noise nuisance.

5. If we decide that the other possibilities discussed later in this memorandum should be rejected and we go ahead with Stansted, we must clearly explore this possibility further. Confirmation of, and decisions on, the precise location of the re-aligned runways might take another month or so and, if agreed, the recasting of the SDO another few weeks. The delay of say two months could however be well justified to public opinion. We could, at the cost of some further delay, which might be considerable, take the local planning authority and other local interests into consultation on this change of plan. This we believe to be very desirable.

6. We could therefore postpone the Special Development Order for, say, two months or more to enable re-alignment to be fully considered. This would be worth doing, however, only on the clear understanding that the choice of Stansted is reaffirmed. This exercise would be pointless and could be embarrassing if, after several months' delay, it were decided, after all, to refer the whole matter to an independent committee.

Cost/benefit study

7. The interdepartmental committee upon whose report the Cabinet's decision in favour of Stansted was based went into public sector costs in some detail, but did not apply wider cost/benefit analysis to their study of alternative sites, and no reference to such an approach was therefore made in the White Paper. Some criticism has arisen on this score. A cost/benefit study has, however, at the suggestion of the Ministers concerned, been carried out by an interdepartmental committee over the past few weeks. Its report is at Appendix A. Broadly, it shows:

(a) an overall cost/benefit advantage to Stansted by comparison with all other sites;

(b) that all the alternative sites hitherto supported by the opponents of Stansted appear clearly to be ruled out leaving only an entirely new site at Nuthampstead as possibly deserving of further consideration.

8. It might be possible on the basis of (b) to set up an independent committee of inquiry to consider, having Nuthampstead in mind, only sites in the general area of Stansted.
9. This would avoid some of the considerable delay which may be involved in reference to a more wide ranging inquiry. But an internal cost/benefit study, carried out moreover in a very limited time and not yet sufficiently refined to be suitable for publication, would scarcely satisfy public opinion that further consideration ought to be confined to the Stansted area.

Further Internal Consideration

10. It would, of course, be possible to defer the whole matter for further interdepartmental consideration of the choice of site; for example, further refinement of the cost/benefit analysis and further discussion of the weight to be attached to noise and amenity. But there are many disadvantages and no discernible advantages in this course.

An Independent Committee

11. Yet another course would be to set up an independent committee of inquiry into the whole question of the location of the third London airport. Criticism of the Stansted decision has concentrated as much on the manner in which it was reached as on the decision itself. An independent committee of inquiry appears to be the only way of reassuring public opinion that all the considerations bearing on this immensely important question have been fairly and openly assessed and that the final decision is the right one. Other arguments in favour of this course are as follows:

(a) the decision in favour of Stansted was taken without any cost/benefit analysis. The analysis carried out in recent weeks (Appendix A), and which shows Stansted as still the probable best site, was hurriedly done and necessarily based on estimates and approximations. An independent committee would commission a really thorough analysis;

(b) as the problem is examined, new factors come to light, e.g. the Nuthamstead site and the possibility of readjustment; the Cabinet would be reassured by a critical independent examination of the whole problem;

(c) the Stansted lobby is not a factor in the calculation - there will be a lobby whatever the site. What matters is that public opinion generally is still far from being reassured. Indeed, doubts have been strengthened by the criticisms recently expressed by the South-East Economic Planning Council, the Greater London Council, and the report of consultants on Foulness. Only an independent investigation can allay these doubts;

(d) an independent committee would avoid the possibility, which appears seriously to be threatened, of reference to a Select Committee of the House of Lords. This would be a most inefficient and inadequate method of re-examining the question and could put the Government in a humiliating position;
(e) politically, the Government might gain positive kudos (especially at this moment of time) by showing itself frankly and openly willing to respond to public anxiety and criticism; a decision to set up an inquiry might well be hailed as a courageous one. We should also show ourselves sensitive to the regional planning considerations mentioned in the recently published South-East report.

(f) finally, the crux of the matter might be thought to be as follows. If the independent committee of inquiry should find in favour of Stansted, there would be no problem of delay and the airport would still be ready by the time it is needed (1974-76). If the committee found for some other site, there might be costs and penalties involved in the delay (though opinions differ as to the likelihood and magnitude of these); but they would be well worth accepting in the interests of having selected the right site and not the wrong one.

12. As against this it can be argued that:

(a) the cost/benefit study, in which account has been taken of the amenity and noise factor, confirms the choice of Stansted - and re-alignment so reduces its noise and amenity disadvantages as to bring them very close to those of other sites; and on all other counts Stansted is clearly superior;

(b) the only serious competitor to Stansted appears to be Nuthampstead and this has no advantage over Stansted on the score of regional planning or on any obvious political ground. Indeed the shift might be regarded as derisory and unlike Stansted, its choice would lead to the closure of Luton Airport (allowed for in the cost/benefit study) and some unavoidable overflying of Cambridge (at heights and frequency comparable with the overflying of, say, Hampstead by aircraft using Heathrow);

(c) as a result of the Commons debate and the striking out of the Essex County Council writ there is now a general expectation that Stansted will proceed. It would thus appear as the worst kind of weakness and vacillation for the Government now to reverse its view (stated in the White Paper; strongly defended by Government spokesmen and endorsed by the Commons in their vote on 29th June) that this is essentially a matter for decision by the Government and that reference to an independent committee is both unnecessary and undesirable;

(d) it might be possible to deter the Lords from referring the matter to a Select Committee - there is no precedent for such a reference; it would bring them into conflict with the Commons. If they insisted it might be possible to control the terms of reference of the Select Committee (although this would require the agreement of the House on an instruction to the Committee) and on the assumption that it would produce no new material, to reject the findings if they were against Stansted or in favour of a further inquiry;
an independent committee of this kind must lead to considerable further delay. Attempts to accelerate its proceedings would be at the cost of the democratic process which such an inquiry would be intended to serve. The committee itself might occupy anything from 18 months as an absolute minimum on the assumption that Stansted was confirmed, to possibly three years if other sites had to be seriously considered and their relative merits and demerits publicly argued. And in the end (since no conceivable site will not arouse major and justifiable objections of one sort or another) there might be no clear-cut recommendation but merely a further analysis of pros and cons on which the Government would then have to decide;

allowing for the subsequent processes of ratification by Parliament, land acquisition, planning and construction and making no provision for unexpected difficulties, delays or hesitation at any stage, it seems that if Stansted were confirmed it could probably be brought into operation by 1974 but that if any other site were selected there would be a serious risk of slippage until 1976 or even later, perhaps much later.*

An assessment of the potential effects of a delay of this order for civil aviation and for the national economy is at Appendix C.

there may be some difficulty in deploying the important defences consideration bearing on the choice of site before a public inquiry but this would probably not prove to be insurmountable. There could not, of course, be public cross-examination on future defence deployments and their consequences to which, once begun, no limit could be set.

13. The balance of argument, in the view of the President of the Board of Trade, is in favour of referring the whole matter (i.e. the location of the third London Airport) to an Independent Committee.

*NOTE. It is estimated that it would take from 1½ to 3 years for the Committee to hear and sift evidence regarding the various sites and prepare its report, and for the Government to consider and reach its decision. If Stansted were chosen detailed planning and land acquisition (some of which could be done concurrently) could probably be completed in 1½ years and construction in a further 2½ years. An inland site, other than Stansted, would take an additional 2 years planning and construction; an estuarial site would require an additional 3½ years. Allowing for Parliamentary procedures after the Government's decision (preparation and laying of the SDO and possibly a debate) Stansted could be brought into operation by the beginning of 1974. This date could not be met if the inquiry took longer than 18 months. If a site other than Stansted were chosen, an additional local public inquiry would be required for which a further 6 to 12 months should be allowed.
14. In the view of the Minister of Housing and Local Government the cost/benefit study has not shown any convincing alternative to Stansted. Nuthampstead has emerged as possibly the best of the alternatives because of its superiority on grounds of noise, but this advantage can be matched by re-aligning the runway at Stansted. The planning consequences of Nuthampstead are no more welcome than those of Stansted. He therefore considers that there is not a sufficient choice of alternatives to make a further investigation of them worthwhile.

CONCLUSION

15. We invite the Cabinet to consider and decide between the following courses of action:

(a) Delaying the SDO for upwards of two months in order to consider runway re-alignment at Stansted (paragraph 6).

(b) An independent inquiry into sites in the general area of Stansted only (including Nuthampstead) (paragraph 8).

(c) Further interdepartmental consideration of the third London airport question (paragraph 10).

(d) A major public inquiry without restriction on sites to be considered (paragraph 13).

Or, of course, proceeding at once with the development of Stansted as at present planned.

C. A. R. C.
A. G.

Board of Trade, S. W. 1.

6th November, 1967
APPENDIX A

The Third London Airport: Cost-Benefit Analysis
Report of a Working Group (Revised 27/10/67)

Introduction

1. Following the June 29th debate in the House of Commons on National Airport Policy, the Board of Trade in three weeks conducted a cost-benefit study of the third London airport decision, to see whether prima facie the conclusion from it would support the Stansted decision. At this stage no other Government Department was consulted. Although from this analysis Stansted was still among the best sites, there did not seem to be a clear and unmistakable net advantage in its favour.

2. As a result of a meeting of Ministers on September 27th a Working Group was set up, under Board of Trade chairmanship, to check over and if necessary revise this cost-benefit study. The following Departments participated: Treasury, Defence, Transport, Department of Economic Affairs, Housing and Board of Trade. The Report of this Group (dated October 17th) has subsequently been radically revised in the light of discussion with the British Airports Authority about likely airport costs.

Nature of the Cost-Benefit Analysis

3. Cost-benefit analysis is a way of setting out the full range of relevant economic factors which need to be taken into account in making certain kinds of choice. These may be divided into (a) public sector paying out costs or benefits, (b) other paying out costs or benefits incurred by individuals or companies, and (c) notional costs or benefits, which involve the attempt to express in money terms such factors as inconvenience or the reduction of satisfaction if some benefit were no longer available.

4. The analysis involved the attempt to estimate in money terms the most probable surface transport costs and benefits (capital expenditures, journey costs of airport traffic, and the indirect costs and benefits to other users of the transport system), the most likely cost and timing of airport construction expenditures, air traffic costs (due to the diversion of air routes which would be caused at some sites, to the different air distances travelled according to aircraft destination or origin and the location of the airport, and to the interference of the third London airport with other airports - as at Foulness, which would close down Southend airport), defence costs, the benefits from being able to reduce unemployment (at the Foulness and Sheppey sites), amenity and noise costs (categorised into nine separate amenity considerations), agriculture, and new town economies (which proved not to be quantifiable).

5. Costs and benefits were attributed to the particular years in which they were expected to be incurred, and the totals in each year were discounted back to a common base year (1970) and aggregated.

6. The sites chosen for comparison with Stansted were Sheppey and Foulness, being the two most favoured estuarial sites, Silverstone, Cranfield and Bedford Thurleigh, being three representative sites on the London-Birmingham axis, Nuthampstead, a green field site north-west of Stansted itself, being about 7-8 miles further from London, and (subsequently) Stansted 2, being the original Stansted (renamed Stansted 1) site with the runways re-aligned to reduce the amenity costs.
Conclusions of the Working Group

1. On the basis of the costs and benefits which could be estimated, as summarised in Table 1 at the end of this report, Stansted 1 and Stansted 2 appeared to attract the lowest net costs and were not significantly different from each other. Nuthampstead was about 15% more costly than Stansted 2, and about 17% above Stansted 1; it is probable that these differences were significant given the margins of error to be expected in this study; it is at least very unlikely that with further and more detailed enquiry Nuthampstead would emerge with significantly lower costs than Stansted 1 (there are some greater uncertainties about Stansted 2). Foulness and Bedford Thurleigh came next with costs about 45% higher than Stansted 1, and other sites attracted significantly higher figures. (The above results include the expected costs of delay; because the importance of this factor some further discussion is included in the Annex).

2. The close comparison in identifiable cost between Stansted 1 and Stansted 2 arises because Stansted 2 involves higher construction costs (mainly the abandonment of the existing runway) and lower amenity costs than at the original Stansted 1 site.

3. The principal disadvantage of Nuthampstead compared with the Stansted 2 site is its higher surface transport cost; compared with Stansted 1, Nuthampstead is more costly on airport construction and surface transport costs, but is less costly on amenity. (Nuthampstead, as distinct from the Stansted sites, would close down Luton airport, which has been taken into account).

4. The amenity differences are based on the calculation that at Stansted 1 there are about 103,600 persons at present living within the estimated 40 N.N.I. (Noise and Number Index) contour line, compared with 20,500 at Stansted 2 and about 17,600 persons at Nuthampstead. Accompanying these large differences in population are differences in the number of schools, hospitals and other buildings and facilities which would be affected. In terms of unidentifiable amenity cost, Stansted has about three times the acreage of parks and woodland compared with Nuthampstead, while Foulness might be preferable because over 90% of the area affected is sea or uninhabited marshland. (Since particular importance is attached to the evaluation of amenity costs at the various sites a rather more full discussion of this aspect than of the other factors is included in the Annex).

5. Another way of expressing the findings would be to leave amenity costs out of the totals and to say that the amenity costs at Stansted 1 would have to be evaluated at least £8 m. more than at Stansted 2 to make the runway re-alignment worthwhile. If this amenity cost were attributed on the basis of the number of people who would be within the 40 N.N.I. contour, this would be the equivalent in the case of Stansted 2 of evaluating amenity at £90 per capita and about £300 per dwelling house. On a per capita basis this compares with an evaluation of amenity of about £80 in the cost-benefit study (all figures being in 1970 present value terms). In the case of Nuthampstead the equivalent value of amenity would be about £230 per capita and £700 per dwelling house. In the case of Bedford Thurleigh and Foulness these figures would rise to about £500 per capita. (But, if, of course, amenity were valued at £500 per capita, it would not follow that Foulness necessarily would become the least cost site).

6. The public sector cash flows (discounted to 1970) appear to be about 13% higher at Nuthampstead than at Stansted 1, with Stansted 2 in between. This overall margin of difference, while the best estimate which can be made in the limited time available, is probably not statistically significant.
7. On present information, the British Airports Authority expect that the developments at Stansted 1 will pay for themselves in the long run, and that landing fees would not need to be increased on this account. They will, however, require continuing exchequer loans in the early years to finance this investment. No detailed examination has yet been undertaken by the B.A.A. since no immediate expenditure undertakings will be required.

8. In the extremely limited time available for this analysis many approximations and estimates have been involved. In general much better information is available about Stansted 1 than about the other sites. The British Airports Authority do not consider that their estimates can be taken as reliable to within ±10% and surface transport costs cannot be guaranteed within that margin of error either. Defence and amenity costs are also subject to possible errors of at least ±10%. The identified costs at Nuthampstead appear to be of the order of 15% above those at Stansted 2 and 17% above Stansted 1; these differences are probably large enough to be significant.
<table>
<thead>
<tr>
<th>Assumed date of operation(1)</th>
<th>Stansted 1</th>
<th>Stansted 2</th>
<th>Sheppey</th>
<th>Foulness</th>
<th>Silverstone</th>
<th>Cranfield</th>
<th>Thurleigh</th>
<th>Nuthampstead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport Construction</td>
<td>-52</td>
<td>-59(2)</td>
<td>-65</td>
<td>-65</td>
<td>-62</td>
<td>-62</td>
<td>-59(3)</td>
<td>-62</td>
</tr>
<tr>
<td>Surface Transport</td>
<td>-6</td>
<td>-7</td>
<td>-27(4)</td>
<td>-22</td>
<td>-22</td>
<td>-12</td>
<td>-19</td>
<td>-15</td>
</tr>
<tr>
<td>Air Traffic</td>
<td>0</td>
<td>0(5)</td>
<td>+4</td>
<td>+4</td>
<td>-6</td>
<td>-8</td>
<td>-8</td>
<td>0</td>
</tr>
<tr>
<td>Labour</td>
<td>0</td>
<td>0</td>
<td>+7</td>
<td>+5</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Agricultural Land</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Defence(6)</td>
<td>-2</td>
<td>-2</td>
<td>-8</td>
<td>-15</td>
<td>-38</td>
<td>-38</td>
<td>-11</td>
<td>-1</td>
</tr>
<tr>
<td>Delay</td>
<td>0</td>
<td>0</td>
<td>-10</td>
<td>-10</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
<td>-2</td>
</tr>
<tr>
<td>TOTAL (less amenity)</td>
<td>-51</td>
<td>-69</td>
<td>-100</td>
<td>-104</td>
<td>-131</td>
<td>-122</td>
<td>-99</td>
<td>-81</td>
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<tr>
<td>Amenity and Noise</td>
<td>-10</td>
<td>-3</td>
<td>-5</td>
<td>-1</td>
<td>-3</td>
<td>-4</td>
<td>-2</td>
<td>-2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-71</td>
<td>-72</td>
<td>-103</td>
<td>-105</td>
<td>-134</td>
<td>-126</td>
<td>-101</td>
<td>-83</td>
</tr>
<tr>
<td>Amenity and Noise increment over Stansted 1(7)</td>
<td>-8</td>
<td>-39</td>
<td>-43</td>
<td>-70</td>
<td>-61</td>
<td>-38</td>
<td>-20</td>
<td>-20</td>
</tr>
</tbody>
</table>
Notes on Summary Table 1

(1) Note that the assumed dates of operation are not the same for all sites. These are reasonable expectations based on the likely delays which would be involved. According to the British Airports Authority, it is likely that a 'green field' inland site of one runway could be ready to receive aircraft by 1975 (three years from the start of construction) with the second runway by 1976 and an estuarial site by 1977 (five years from the start of construction).

(2) It is possible that this figure may be increased by about £4 m. if rephasing of construction is necessary to provide 2 runways by 1974.

(3) Thurleigh is slightly cheaper to construct because of existing facilities, whose suitability for passenger services is as yet unknown. To allow for this the figure provided by B.A.A. for inland sites was reduced by £2 m. at present values, but it may prove cheaper to build if the existing facilities prove suitable.

(4) This is a minimum figure. In fact it would be much larger if as is possible, the rail tunnels in the Medway towns had to be duplicated (see Annex on Surface Transport Costs).

(5) Utilisation because of cross winds would be reduced from 99.6% to about 99.2%. This may have serious implications and a considerable but non-calculable penalty could be incurred.

(6) The Ministry of Defence have given firm minimum figures and possible maximum figures for Stansted, Nuthampstead, and Bedford Thurleigh. The risk of the firm minimum being exceeded are rather higher at Bedford Thurleigh than at the other two sites. Firm 'most probable' figures were given for the remaining sites. In this table the firm minimum and the 'most probable' figures have been used (see also Annex, where it is pointed out that the dislocation which would be caused if either Silverstone or Cranfield were chosen would be unacceptable to the Ministry of Defence).

(7) These are the minimum present values at the various sites compared with Stansted which must be attached to noise and amenity to swing the balance against Stansted. For another way of presenting these values, see number 5 in the 'Conclusions' above.
### Summary of Public Sector Cash Flows at 1970 (Discounted) Values

(Principal Alternatives only)

<table>
<thead>
<tr>
<th></th>
<th>Stansted 1</th>
<th>Stansted 2</th>
<th>Poulness</th>
<th>Thurleigh</th>
<th>Nuthampstead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport Construction</td>
<td>-52</td>
<td>-59(1)</td>
<td>-65</td>
<td>-59</td>
<td>-62</td>
</tr>
<tr>
<td>Surface Transport</td>
<td>-6</td>
<td>-7</td>
<td>-12</td>
<td>-9</td>
<td>-9</td>
</tr>
<tr>
<td>(Capital Cost)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air Traffic Interference</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-6</td>
<td>0</td>
</tr>
<tr>
<td>(Compensation to Bedford)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Benefit</td>
<td>0</td>
<td>0</td>
<td>+3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Noise and Amenity (Replacement, demolition and Soundproofing)</td>
<td>-5</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Defence</td>
<td>-2</td>
<td>-2</td>
<td>-15</td>
<td>-11</td>
<td>-1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-65</td>
<td>-69</td>
<td>-90</td>
<td>-86</td>
<td>-73</td>
</tr>
</tbody>
</table>

Note: (1) It is possible that this figure may be increased by £4 million if rephasing of construction is necessary to provide 2 runways.
The Third London Airport: Cost-Benefit Analysis

Report of a Working Group

This Annex contains brief notes on each of the specific factors which make up the cost-benefit study.

For clarity some indication is given in each case of the basis of estimation, and for brevity most attention is given to the principal alternatives to Stansted 1: Stansted 2, Nuthampstead and Bedford Thurleigh.

The individual sections are as follows:

1. Amenity and Noise
2. Airport Construction Costs
3. Surface Transport Costs
4. Defence Costs
5. Unemployment
6. Housing and New Town Considerations
7. Regional Planning Considerations
8. Agriculture
9. Air Traffic Costs
10. Costs of Delay
11. "Public Sector" Paying Out Costs
12. Thurleigh (Bedford)
13. Nuthampstead

Paragraphs

1-11
12-17
18-20
21-29
30-33
34-38
39-42
43-47
48-49
50-53
54-55
56-58
59-62
1. **Amenity and Noise**

**General Principles**

1. Specific measures of the loss to amenity in each site, if the airport were located there, were estimated separately in money terms in the following categories: dwelling houses, schools, hospitals, other public and commercial buildings, golf courses, motor race tracks (relevant only to the Silverstone site), sea-side resorts (relevant only to Sheppey and Foulness), and gliding.

2. The basis of evaluation were the facilities listed above which would be included within the 40 N.N.I. noise contour (the same contour configuration was used for each site), with the exception of 'gliding'. For some purposes facilities within higher noise contours were costed more highly. The general principle followed was to try to estimate the minimum cost to the community, whether this involved soundproofing, re-providing the facility elsewhere, or having to do without it partially or wholly. Thus the minimum cost attributable to the virtual loss of Bishop's Stortford Golf Course (which would lie within the 50-60 N.N.I. noise contour - the Committee on the Problem of Noise (Cmd. 2056, 1963) thought that this represented an 'unreasonable level') would be assessed at the cost of purchasing an assumed 50 acres of land in a comparable area away from the noise and converting it to a golf course (net of the selling value of the existing golf course and facilities).

3. The costs were attributed to the period in time when they were thought likely to be incurred. The estimated money values were discounted back to 1970 in order to be comparable with the other data.

4. The largest amenity costs were based on the number of people who would live within the assumed 40 N.N.I. contours, as shown in Table 3. Stansted with 103,600 people is significantly greater than any other site; Silverstone and Nuthampstead have the smallest population which would be affected, with 15,500 and 17,600 people respectively. These figures were used to estimate the number of dwelling houses, and hence the costs of soundproofing and amenity at each site. (As explained below they are based on a two runway airport.)

<table>
<thead>
<tr>
<th>Inside the airport perimeter</th>
<th>Within 55 NNI</th>
<th>55 NNI</th>
<th>45 NNI</th>
<th>40 NNI</th>
<th>Total Population Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Stansted 1</td>
<td>600</td>
<td>2,100</td>
<td>26,520</td>
<td>74,280</td>
<td>103,600</td>
</tr>
<tr>
<td>2. Stansted 2</td>
<td>730</td>
<td>2,030</td>
<td>6,930</td>
<td>10,740</td>
<td>20,490</td>
</tr>
<tr>
<td>3. Sheppey</td>
<td>210</td>
<td>760</td>
<td>3,360</td>
<td>31,880</td>
<td>38,210</td>
</tr>
<tr>
<td>4. Foulness</td>
<td>316</td>
<td>1,510</td>
<td>12,260</td>
<td>10,070</td>
<td>24,156</td>
</tr>
<tr>
<td>5. Silverstone</td>
<td>180</td>
<td>2,380</td>
<td>6,300</td>
<td>6,620</td>
<td>15,480</td>
</tr>
<tr>
<td>6. Cranfield</td>
<td>650</td>
<td>870</td>
<td>4,810</td>
<td>33,770</td>
<td>40,100</td>
</tr>
<tr>
<td>7. Thurleigh</td>
<td>510</td>
<td>1,560</td>
<td>6,740</td>
<td>12,910</td>
<td>21,720</td>
</tr>
<tr>
<td>8. Nuthampstead</td>
<td>390</td>
<td>6,570</td>
<td>3,720</td>
<td>6,930</td>
<td>17,610</td>
</tr>
</tbody>
</table>

5. The sum of £300 per house was used for houses within the 45-55 NNI contours and of £500 per house within the 55+ range (the figure of £300 was based on the actual cost of soundproofing, thought to be of the order of £200-£220, plus the discounted cost of 'getting away from
at all' more often than would occur in the absence of aircraft noise, subject to the maximum of £300 which is the estimated cost of 'getting away from it all' for good - i.e. moving from the district). Houses estimated to be inside the airport perimeter were valued at their full replacement cost (assumed to be £3,500). Estimates were also made of the cost of soundproofing a certain proportion of schools, hospitals, public and commercial buildings.

6. These calculations resulted in amenity costs (in 1970 present values) shown in Table 4, distributed over the appropriate years of operation.

**TABLE 4**

<table>
<thead>
<tr>
<th>Location</th>
<th>Lower</th>
<th>Upper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stansted 1</td>
<td>9.1</td>
<td>10.4</td>
</tr>
<tr>
<td>Stansted 2</td>
<td>2.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Shoeberry</td>
<td>2.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Foulness*</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td>Silverstone</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td>Cranfield</td>
<td>3.4</td>
<td>3.8</td>
</tr>
<tr>
<td>Thurleigh</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Nuthampstead</td>
<td>1.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>

7. Some progress was made with consideration of the areas as a whole, considered separately from the particular amenity characteristics. As an alternative method of describing the different sites, this approach was thought to have some merit. Table 5 shows the approximate areas, in square kilometres, which would lie beneath the 45 NNI contour lines classified according to built-up areas (villages and urban areas), parks and woodland, agricultural and industrial areas, uninhabited marshland and open sea.

8. The large areas at Foulness and Sheppey which are either uninhabited (or practically so) marshland or open sea are notable, as well as the relatively high proportions of parks and woodlands at Silverstone and Stansted. Since there was no firm basis for evaluating the different characteristics no cost differences were attributed.

* The Foulness figure takes account of the credit for the saving in amenity following the closure of Southend airport.
TABLE 5

Classification of Land under 45 N.N.I. in Square Km.

<table>
<thead>
<tr>
<th></th>
<th>Stansted 1</th>
<th>Stansted 2</th>
<th>Sheppey</th>
<th>Foulness</th>
<th>S'Stone</th>
<th>Cranfield</th>
<th>Thurleigh</th>
<th>Nuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Built up (Village and Urban)</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Parks and Woodland</td>
<td>14</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>23</td>
<td>3</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Agricultural and Indust.</td>
<td>134</td>
<td>143</td>
<td>26</td>
<td>7</td>
<td>125</td>
<td>136</td>
<td>143</td>
<td>141</td>
</tr>
<tr>
<td>Uninhabited Marsh</td>
<td>0</td>
<td>0</td>
<td>63</td>
<td>37</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Open Sea</td>
<td>0</td>
<td>0</td>
<td>51</td>
<td>32</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Have Amenity Costs been Understated or Overstated?

9. The reasons for thinking that the amenity costs may have been understated are as follows:

(1) The N.N.I. contours could underestimate the noise levels likely to be generated by the Concord and the Boeing 2707 supersonic aircraft because the Concord now seems likely to be noisier than it did when the assumptions underlying the contours were decided.

(2) No estimates could be made of the costs to the Community for those people who live within the area covered by the 35–40 N.N.I. contours (more work would need to be done in determining the position of the 35 N.N.I. line than was possible in the time available). At 35 N.N.I. considerable disturbance from aircraft noise would still be caused. According to the Committee on the Problem of Noise page 210, at 35 N.N.I. approximately 30% of people reported that the noise "disturbed rest or relaxation" about 45% reported that the noise "interfered with conversation", and 6 other types of disturbance were reported from about the same percentage of the population at that noise level. Applying the principle "how much would you be prepared to pay per annum not to be disturbed by this level of noise nuisance?" costs above zero would almost certainly be recorded.

(3) Schools and hospitals have been included in their estimated cost of soundproofing, but soundproofing is not wholly satisfactory and probably understates the true costs to the community. Subjects such as music and drama indoors and outdoor sports become more difficult to practice and to teach if there is intermittent nuisance from aircraft noise. Noise in hospitals can be especially distressing. In the absence of research into these matters no estimates can be made of the true costs involved. (It may be relevant to note that Alexandra Hospital of 270 beds in Harlow New Town, which was built about 3–4 years ago without soundproofing, lies within the estimated 40–45 N.N.I. contour for Stansted 1 but not for the Stansted 2 site.)

(4) No cost differentials have been included for the general area characteristics which would be affected by noise (as described in Table 5 above). Thus if Stansted has approximately 14 sq. Km. of parks and woodlands which would be under the 45 N.N.I. noise contour (including some Green Belt land and 1,000 acres of National Trust
forest), while Nuthampstead would have only about 5 sq. km. (with no Green Belt land), and the Foulness site would have over 90% open sea and almost uninhabited marshland under the same noise contour, then it would seem appropriate that some cost ought to be debited to Stansted compared with the other sites. Moreover, the number of buildings of architectural merit and fine churches would seem to be much greater at Stansted than at these other two sites, and again their value (net of doubt-counting with earlier calculations) is not zero.

10. The principal reasons for thinking that the amenity figures have been overstated are as follows:

1. Research is being intensified into methods of reducing the noise from jet engines. When international agreement has been reached the Noise Certification scheme should result in some reductions in noise levels below what they would otherwise have been.

2. The N.N.I. noise contours, which are only approximations, relate to a Standard Busy Rate (S.B.R.) of 64 aircraft movements per hour, but this rate will not be achieved until some time after the second runway is operational, in the mid-1980's. (But it is expected that eventually the airport will achieve an S.B.R. in excess of 120 aircraft movements per hour; the extra flights would take place from the twin runways built alongside each of the first two.)

3. The development of short take-off aircraft may in time change the shape of the N.N.I. contours, resulting in less intensive take-off and landing noise at more distant points from the runway.

11. It would generally be the case, if it is thought that the amenity costs have been understated in the study, that the position of Stansted I would tend to become less favourable compared with the other sites, while overstatement would tend to favour location at Stansted I.

2. Airport Construction Costs.

12. These costs, calculated by the British Airports Authority, represent the best estimates at present available; like all civil engineering estimates they could be subject to considerable error. They include only items which will be incurred by the Authority up to the year 1981; they exclude the costs of public surface transport figures. The estimates were derived by costing the various elements of the construction programme and allocating them over time, taking into account assumptions about the rate of development of the airport, as shown in Table 6.
<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stansted 1</td>
<td>-52</td>
<td>-2</td>
<td>-7</td>
<td>-13</td>
<td>-13</td>
<td>-4</td>
<td>-7</td>
<td>-6</td>
<td>-2</td>
<td>-2</td>
<td>-4</td>
<td>-7</td>
<td>-7</td>
<td>74</td>
</tr>
<tr>
<td>Stansted 2</td>
<td>-59</td>
<td>-2</td>
<td>-7</td>
<td>-12</td>
<td>-15</td>
<td>-8</td>
<td>-12</td>
<td>-6</td>
<td>-2</td>
<td>-6</td>
<td>-4</td>
<td>-7</td>
<td>-7</td>
<td>84</td>
</tr>
<tr>
<td>Sheppey (Foulness)</td>
<td>-65</td>
<td>0</td>
<td>-2</td>
<td>-7</td>
<td>-8</td>
<td>-6</td>
<td>-18</td>
<td>-22</td>
<td>-13</td>
<td>-8</td>
<td>-4</td>
<td>-7</td>
<td>-7</td>
<td>102</td>
</tr>
<tr>
<td>Silverstone (Cranfield (Nuthampstead))</td>
<td>-62</td>
<td>0</td>
<td>-3</td>
<td>-7</td>
<td>-17</td>
<td>-22</td>
<td>-13</td>
<td>-6</td>
<td>-2</td>
<td>-6</td>
<td>-4</td>
<td>-7</td>
<td>-7</td>
<td>90</td>
</tr>
<tr>
<td>Bedford Thurleigh</td>
<td>59</td>
<td>0</td>
<td>-3</td>
<td>-7</td>
<td>-13</td>
<td>-22</td>
<td>-13</td>
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<td>-4</td>
<td>-7</td>
<td>-7</td>
<td>-7</td>
<td>86</td>
</tr>
</tbody>
</table>

*In terms of Present Values, 1970*
It has been assumed that by 1974 the existing runway will be extended and the second runway will be in service; that passenger terminal capacity can become operational in three instalments in 1974, 1977 and 1982; that expenditures on infra-structure (internal roads, drainage, power sub-stations, etc.) will be undertaken before 1974, and that small expenditures on infra-structure will be necessary also in the late 1970's. If the second runway were not needed until 1976, construction costs (in present value terms) would be reduced by about £1.3m.

It has been assumed that the present runway will remain in operation until 1976 with some small interim facilities, and that two new runways will be constructed to the east, one entering service in 1974, the other in 1976 when the present runway would be scrapped. Terminal buildings and utilities would be phased as before. If the second runway were required by 1974 and construction had to be re-phased, costs might rise by about £4 m.

It has been assumed that the major work would start in 1972 following a period of 1-2 years for ground stabilisation. The first runway could not be in service before 1977, with the second runway one year later. The total costs (non-discounted) are £12m. greater than the cost of an inland 'green field' site due to £15 m. cost of stabilisation, offset by £1 m. less expenditure on land and the deferment of some expenditure to 1982.

On the assumption that construction work could begin in 1972 the first runway could be available by 1975, the second by 1976, and the first terminal by 1975. The costs (non-discounted) are £16 m. greater than Stansted due to the cost of the first runway and from concentrating construction into a shorter period.

The cost is essentially the same as the last three sites, reduced because a runway already exists (whose suitability for passenger services is unknown). £3 m. is allowed for this at 1970 values, but the credit would be higher if the existing facilities prove suitable.

3. Surface Transport Costs

An attempt was made to evaluate the full social costs and benefits incurred in transporting passengers and goods between their origin or destination in the United Kingdom and the third London airport in each site. These comprised (1) the journey costs of airport traffic, making allowance for the disutility of additional travelling time; (2) capital expenditure, including bringing projects forward in time and initiating new projects as a consequence of the airport location; and (3) the indirect costs and benefits to other users of the transport system, including the costs of increased congestion which arise from the addition of airport traffic, and the benefits which non-airport traffic would obtain from capital expenditure.

The capital cost of providing road and rail links to the airport was the largest item. 'Standard travelling costs', the additional social cost of travelling to or from a site further from the journey's origin or destination than Stansted, both the cost
of the journey and the cost of the time taken, were also found to be considerable. Congestion costs and benefits proved to be rather small. An allowance has been made for road investment affected in more distant years by the existence of airport traffic, but such estimates were highly speculative. The figures contained in Table 7 are the best the Ministry of Transport has been able to provide in the time available; their accuracy cannot in any way be guaranteed. The figures for Stansted are more reliable than the others.

20. The Sheppey road and rail links would involve not only a spur to the island but also extensive engineering works on the railway line from the Medway towns to London. If it were necessary in addition to duplicate the tunnels through the Medway towns, the present value figure for the surface transport to the Sheppey site of £27.5m. could increase to over £40m. Foulness would also require costly transport links to the island, Silverstone, Cranfield and Bedford are all very far from London, and though the transport links may not prove expensive 'standard travelling costs' are high. Nuthampstead has similar characteristics to Stansted except that additional road and rail spurs costing about £7m. (present value terms) would be necessary.

**Table 7**

<table>
<thead>
<tr>
<th>Location</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stansted 1</td>
<td>6</td>
</tr>
<tr>
<td>Stansted 2</td>
<td>7</td>
</tr>
<tr>
<td>Sheppey</td>
<td>27 to 40</td>
</tr>
<tr>
<td>Foulness</td>
<td>20</td>
</tr>
<tr>
<td>Silverstone</td>
<td>22</td>
</tr>
<tr>
<td>Cranfield</td>
<td>12</td>
</tr>
<tr>
<td>Bedford Thurleigh</td>
<td>19</td>
</tr>
<tr>
<td>Nuthampstead</td>
<td>15</td>
</tr>
</tbody>
</table>

4. Defence

21. The Ministry of Defence have checked carefully all their previous estimates given to the Peterson Committee, and have provided the following information in the light of current deployment plans.

22. The figures are the estimated costs of adapting other R.A.F. stations to take the tasks which would be displaced or, where this is not possible, the provision of new airfields. Adaptations are costed at £1m. each, and the provision of new airfields at £12m. each. Ten per cent has been added to the figure given below to take account of the cost of providing married quarters, telecommunications, movement of personnel and equipment, and the consequential deployments from airfields to be adapted. Twenty per cent has been added for M.P.B.W. overheads; but no allowance has been made for the cost of acquiring land where this would prove to be unavoidable, and no provision has been included for the inescapable costs of disruption.

Stansted 1 and 2

23. A firm minimum figure for the two closures concerned is £2m. There is a risk that the figure might increase to £14m. if one airfield which undoubtedly would be affected had to be resited. The expenditure would be spread over 2-3 years, and Wethersfield would become inoperative some time between 1972 and 1975.
24. The same firm minimum figure is given as at Stansted of £2 m., but there is a risk that the upper range could go as high as £38 m. if three of the airfields which would be affected had to be resited. The distribution of expenditure over time would be the same as at Stansted.

Cranfield and Silverstone

25. Location at these sites would involve about the same costs (£48 m. and £49 m. respectively); expenditures would have to be spread over the 4-5 years before 1976. (These figures include £20 m. due to Brize Norton.) But the dislocation caused if either site were chosen would be unacceptable to the Ministry of Defence.

Thurleigh (Bedford)

26. The firm minimum cost is given as £14 m. with some risk (on rather higher probability than at Nuthampstead) that the cost might rise to £28 m., spread over 3-4 years.

Foulness and Sheppey

27. The costs of closing all the facilities at Shoeburyness (including the A.W.R.E.) is estimated to be £15.2 m., on top of which is the M.P.B.W. service charge of £3 m. This differs from other estimates because no figure is included for accommodation nor for the 'sea wall', which is thought to be specific to Foulness. Accommodation is excluded because, insofar as new houses would be required at the alternative site for the firing range, the same number of houses would be released in the vicinity of Foulness. Thus there would be no net additional housing required (assuming that the barracks at Shoeburyness would be suitable for housing the airport construction workers or others). An allowance has also been made for expenditures on Shoeburyness facilities which would be incurred in any event, whether or not the range had to be moved.

28. The Group were advised that there remains considerable uncertainty whether a new site could be found for the range. After a 9 month search two possible areas have been identified, but they have not yet been verified as suitable.

29. If the airport location were at Sheppey, the defence costs of Shoeburyness are believed to be approximately £10 m., plus £2 m. service charge by the M.P.B.W. This is lower than the cost of location at Foulness because it is thought that some facilities at the Shoeburyness site could continue in operation.

30. Unemployment rates within journey-to-work distances of the possible sites for the third London airport vary considerably. On average over the three year period 1964-1966 Stansted (and Nuthampstead) had the lowest rates, 0.68 per cent each, and Sheppey and Foulness had the highest rates, 2.38 and 2.03 per cent respectively. Sheppey had the largest number of unemployed, as shown in Table 8 below.

<table>
<thead>
<tr>
<th>TABLE 8</th>
<th>Unemployment, 1964-1966</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>average % unemployed</td>
</tr>
<tr>
<td></td>
<td>labour force (’000)</td>
</tr>
<tr>
<td>Stansted (1 and 2)</td>
<td>0.68</td>
</tr>
<tr>
<td>Sheppey</td>
<td>2.38</td>
</tr>
<tr>
<td>Foulness</td>
<td>2.03</td>
</tr>
<tr>
<td>Silverstone</td>
<td>0.72</td>
</tr>
<tr>
<td>Cranfield</td>
<td>0.72</td>
</tr>
<tr>
<td>Thurleigh</td>
<td>0.76</td>
</tr>
<tr>
<td>Nuthampstead</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Source: Ministry of Labour
31. Thus if the third London airport were located at Sheppey or at Foulness some of these unemployed would become gainfully employed and would contribute to the G.N.P. according to their wages paid. If the other workers who would be employed at the third London airport were drawn at random from the existing population in the same way at each site, then the benefit to the community would be the total wage bill of the labour formerly unemployed in these areas. It was assumed that since these workers had formerly been unemployed they would be paid £1,000 per annum (less than the average wage at the existing two London Airports, £1,439). To allow for the unemployables, the calculation was based on the difference in average unemployment rates over the three years 1964-1966 between Stansted and the other sites, applied to the total work force at each site. The present value of the sum of future contributions to the G.N.P. was estimated through an annuity calculation.

32. Foulness and Sheppey, however, have special features. If the airport were located at Foulness, some 2,400 workers at present employed at Southend airport would be thrown out of work, because that airport could not continue in operation. This would be a loss to the community, but on the reasonable assumption that all the Southend airport workers would swiftly find alternative employment at the Foulness third London airport, this loss would be cancelled by an equal gain at about the same time, and therefore can be ignored.

33. But if the location were at Sheppey perhaps not all of the Southend airport workers would be willing to re-locate themselves at that site on the other side of the river Thames. If only 75% moved, and the remainder were unemployed, then the loss to the G.N.P. would be the wage bill of some 600 extra unemployed.

6. Housing and New Town Considerations

34. Housing and new town considerations are likely to be important in terms of the overall magnitudes of costs and benefits involved in the study. This arises because the absolute sums of money in new town development are very large (for instance, the estimated total capital expenditures involved in the new town proposed for Stansted would be of the order of £225 m.). But the evaluation of the likely costs or benefits in alternative sites remains to a large extent elusive. More fundamentally, in the absence of the relevant policy decisions on the housing development required in respect of alternative sites no reliable estimates are possible.

Stansted 1 and 2, and Nuthampstead

35. If the third London airport were located at Stansted, it is envisaged that there would be a new town of 100,000 persons in the general vicinity, although no site has yet been chosen. No doubt the same would apply at Nuthampstead.

Foulness and Sheppey

36. Although fewer additional houses would be required if the airport were located at Foulness compared with Stansted, because some unemployed potential workers are already housed in the vicinity, it is not thought that in fact there would be any saving involved in this. Any reduction in the number of houses needed were would be offset by an increase in the number needed elsewhere.

Silverstone and Bedford Thurleigh

37. If the airport were located at either site, the 100,000 additional population to service the airport could be resident in the new towns at Milton Keynes and Northampton, and in adjacent existing towns, and a new town would no longer be required for this
purpose. There could be some overall advantage to the community arising from this, as follows. Because there are some economies of scale in building a large new town compared with a smaller one, to accommodate most of the third London airport population at Milton Keynes (planned to accommodate 225,000 persons by 1991) could be of some advantage if the rate of building at Milton Keynes could be accelerated to accommodate the additional population in the early years. The benefit to the community would arise from the advantages of scale on the one hand and the different phasing of public expenditure on the other hand. The Group are agreed that the logic of this is sound, but there are some unsurmountable difficulties involved in estimation.

38. Also it appears from the Ministry of Housing and Local Government Circular No. 36, 1967 "Housing Standards; Costs and subsidies", that there are differences in building costs in different parts of the country. The building costs which would be relevant in the Silverstone area, and in the areas around Northampton, Wellingborough, and Rushden close to Bedford Thurleigh, are believed to be approximately 5% lower than would apply in the area around Stansted, Nuthampstead, Poulness and Sheppey. This could result in some substantial differences in cost between the sites, but without closer study no firm figures can be given.

7. Regional Planning Considerations

39. In the Peterson Committee the area to the north-west of London was examined because of its particular attractiveness from a regional planning aspect. The principal advantages of Silverstone were thought to be in the context of regional planning, and Cranfield and Bedford would to an extent have the same attractions. The advantages for regional planning are that development at a site on the Birmingham-London axis would fit in with other planned developments in the South-East region; and that they would assist particularly in helping to provide the employment for planned development in the South-East as a whole.

40. On the first of these arguments the relevant considerations are the ability of a particular site to be fitted into specific new or expanded town developments both in relation to housing, service facilities and industry. Thus to the extent that Silverstone or Cranfield could be phased into the Milton Keynes development the airport would have a regional advantage. The relative advantages of certain sites have been discussed earlier in the section on New Towns, and other planning costs and benefits are subsumed in the transport section. Also, insofar as a site on the Birmingham-London axis would to a degree act as a 'Midlands Airport', travel times for Midland users would be relatively lower and there would be a net gain if users in, say, Kent did not suffer offsetting losses.

41. The argument relating to the provision of employment is more finely balanced. On the one hand employment for a given number of people will have to be provided at, for instance, Milton Keynes. An airport would directly provide employment for some of these and it might therefore be easier to reach the total employment target sooner. In addition firms which were considering a move might go not to Milton Keynes but to a different area selected for planned development. On the other hand such firms might decide to make no move at all if they could not move to the particular planned development they favoured (for instance if they insisted on going to Milton Keynes rather than Ipswich).

42. Thus the regional planning arguments favour sites which would benefit from and which would assist the major developments already planned on the Birmingham-London axis. Stansted and Nuthampstead are much less attractive, as are the Thames Estuary sites to a lesser degree. The judgements on this are subjective, however, and the quantifiable advantages of each site from the
planning aspect largely appear elsewhere in the cost-benefit study.

8. *Agriculture*

43. An airport in any of the proposed locations would involve the loss of agricultural land, both for the airport itself and for related new town facilities. It is estimated that a two runway airport would occupy some 3,600 acres of land, and that a four runway airport would take an extra 1,200 acres.

44. Wherever the third London Airport is located it will attract a population of the order of 100,000 people, who will be housed somewhere in the general locality. We assume that these people would have to be housed in any event, and for comparative purposes assume that they would live in a new town located on rather poor agricultural land (value £170). If the population attracted to a particular site near a new airport lived on agricultural land with a value higher than this then the costs to the community of this extra population would be the differential cost of land in that site compared with the hypothetical new town (assuming the new town authorities would avoid housing developments on Grade 1 agricultural land if that were possible). On the basis of existing new towns we estimate that 100,000 people would require of the order of 6,000 acres of land, net of land for industrial purposes which the airport itself would cater for.

45. An Inter-Departmental Working Group has recently examined and reported (Ministry of Agriculture dissenting) on the valuation of agricultural land for planning purposes. Its conclusion was that for planning purposes the market value of land should be used, uplifted by 25%. This is equivalent approximately to using the stream of outputs (net of subsidies), assuming a 2% rise in the relative prices of agricultural produce but also adjusting for tax concessions. This method of valuation is applied to the acreage required at the various London airport sites.

46. At the Stansted sites and at Nuthampstead the full 6,000 acres would be needed to house additional population. At Foulness, however, part of the labour force necessary to service the airport would be provided by the present employment at Southend, together totalling approximately 3,500 persons. Similarly at Sheppey unemployed workers would be employed at the airport and the net population intake would be smaller by around 1,500. At Silverstone, Cranfield and Bedford, we have assumed that since the population might be integrated into the planned development in the area, the differential costs as outlined above are nil.

47. The land values used are current selling prices per acre of agricultural land in the relevant areas. The values used are probably not fully representative but are as accurate as possible with the available information.
9. Air Traffic Costs

48. There are four ways in which the volume and cost of air traffic would be affected according to the site chosen for the third London airport. First, if the airport were located anywhere other than at Stansted 1 or Stansted 2 there would be some delay before it could become operational. (The costs of this are considered briefly in the next section, and more extensively in Appendix C.) Secondly, if the airport were located at Silverstone, Amber One and Amber Two air routes to the north-west would have to be shifted, and this would impose a cost on all aircraft using these routes. To a lesser degree this would also apply at the Cranfield site. Thirdly, according to destination, flights to and from the third London airport would have to travel a greater or lesser distance according to its location. Finally, if the airport were located at Sheppey, Foulness, Cranfield or Silverstone there would be some interference with the operation of other civil airports, due to air traffic control requirements.

49. Costs under the latter three headings have been estimated and are included in the summary table as "Air Traffic".

10. The Costs of Delay

50. Some estimates of the costs of delay have been incorporated in the first summary table attached to the main report. Because of the importance of issues relating to delay, and because of the inherent complexities in making estimates, this is examined separately and at some length in Appendix C to the Submission.

51. The benefits of delay are in effect already incorporated in the summary tables. Thus if a certain capital expenditure involved in airport construction were postponed from (say) 1974 to 1976 due to the administrative processes of public hearings and compulsory purchase at a 'greenfield' site, there would be a benefit to the community in the sense that some other project could then go ahead earlier. The benefit of this is included by discounting the capital expenditure (at 8%) back to 1970 from 1976 instead of from 1974, which has the effect of reducing its amount. Likewise if the loss in amenity due to noise were to occur during a certain period after 1976 instead of after 1974, those who would be adversely affected receive a benefit due to delay.

52. The costs of delay in Appendix C and in the summary table relate to the adverse effects on airline passengers, on the B.A.A., on the airlines and hence on the United Kingdom community as a whole.

53. If more detailed enquiries and the development of air traffic showed that in fact Stansted 1 or Stansted 2 should commence operations in 1976 rather than in 1974, the date which present forecasts suggest, then expenditures in contracting the airport and its surface communication links would be delayed, and in terms of 1970 present values this would tend to increase the advantage of these sites. The advantage to Stansted 1 and Stansted 2 due to delay in incurring construction and other costs would just outweigh the advantage to, say, Nuthampstead in not incurring the penalties of delay on airline passengers, etc., as identified in Appendix C.

11. "Public Sector" Paying Out Costs

54. The summary table of costs and benefits includes several items which are costs to the community but not to the Government or to local authorities. On amenity costs, for instance, a clear distinction must be made between the sums of money the Government
might be prepared to pay for soundproofing (which on the Heathrow precedent would be £100 per dwelling) and the assessment of overall cost to the community due to noise which, although to some extent arbitrary, was an attempt to evaluate the amount of dis-benefit which the community would incur, using the yardstick of money. Likewise the costs of extra congestion due to airport traffic are not in themselves paid by the public sector (except where the journey times of public servants may be affected), although extra congestion may result in the bringing forward of, say, a road or rail improvement scheme which would involve public sector expenditure.

55. An attempt has been made to separate out from the cost-benefit Summary Table 1 those items which involve public sector expenditures; these are given in Summary Table 2. Houses were included throughout at a soundproofing cost of £100 each.

12. Thurleigh (Bedford)

56. Bedford Thurleigh aerodrome was considered by the Peterson Committee as an alternative to Silverstone on the Birmingham-London axis. It was thought at that time that Silverstone offered advantages over Bedford Thurleigh, and their detailed consideration was therefore confined to Silverstone.

57. Thurleigh aerodrome is located five miles due north of Bedford, on a large plain 230 feet above sea level. The area as a whole would appear to be suitable for major expansions as a third London airport. At present the aerodrome is owned by the Ministry of Technology and operated as a research station, in association with the Royal Air Force. It possesses a long runway of 10,500 feet (compared with 10,000 feet at Stansted). The aerodrome is approximately ten miles by road from the A1 which is to be improved to dual carriageway from there to London. The road distance would be 63 miles to Victoria (61 when a link is built to the A1).

58. We understand that if the Ministry of Technology vacated the aerodrome the cost of removal to an alternative site might be of the order of £6m-£8m. There are test wind tunnels approximately 2 miles from the existing aerodrome, which it is thought could continue to operate, but if this proved not to be possible the cost of re-locating these might be of the order of £20m.

13. Nuthampstead

59. The Nuthampstead site is on undulating ground at between 400' and 450' above sea level in an agricultural area of small and scattered villages, due west of Saffron Walden. The proposed runway alignment would be N.E.-S.W. Part of the site consists of a former airfield, now disused and of no value for aviation purposes. It was chosen because a runway configuration in the Stansted area which avoided the considerable amenity costs of the Stansted site itself seemed to have considerable advantage. The British Airports Authority have inspected the site, and consider it prima facie suitable.

60. The site is close to the A10, about 5 miles from the A11, and would be somewhat closer to the M11 proposed extension north of Bishop's Stortford. It is also approximately 5 miles from the Cambridge-Liverpool Street main line.

61. On the particular runway alignment chosen at Nuthampstead some flights entering the glide in path from the north stacking area might at certain times choose a route which would pass over
Cambridge, at a height of 2-3,000 feet. Since a majority of flights come from the South and East this may not be a large factor, but if further attention is given to the site this should be explored further.

62. It should also be noted that location at Nuthampstead might close down Luton airport, the estimated costs of which have been incorporated in the study. In relation to the other items in the account this would not be very significant; in reality much would depend upon the value of the airport in alternative uses, and being close to the city centre it would appear to have a high potential value. (Flying operations are, of course, severely restricted by Heathrow in any event.)
Comparison of Stansted with present runway alignment and Stansted with runways realigned by 25° (anticlockwise)

Recent studies have shown that with a greater public expenditure the noise nuisance from a major airport at Stansted could be considerably reduced by realigning the runways. A preliminary analysis has been attempted of the costs and benefits of this possibility both to the community at large and to the Exchequer alone. The results are given in the following tables:

### TABLE 1 - Cost/Benefit study

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Airport construction</td>
<td>-52</td>
<td>-59</td>
</tr>
<tr>
<td>Surface transport</td>
<td>-6</td>
<td>-7</td>
</tr>
<tr>
<td>Air traffic</td>
<td>-</td>
<td>(see note)</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>-1</td>
<td>-1</td>
</tr>
<tr>
<td>Defence (probable)</td>
<td>-2</td>
<td>-2</td>
</tr>
<tr>
<td>Amenity and noise</td>
<td>-10</td>
<td>-3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>-71</strong></td>
<td><strong>-72</strong></td>
</tr>
</tbody>
</table>

**NOTE:** The extra cash cost of realignment is £10m.

### TABLE 2 - Public sector cash flows

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Airport construction</td>
<td>-52</td>
<td>-59</td>
</tr>
<tr>
<td>Surface transport</td>
<td>-6</td>
<td>-7</td>
</tr>
<tr>
<td>Defence (probable)</td>
<td>-2</td>
<td>-2</td>
</tr>
<tr>
<td>Noise and amenity (replacement, demolition, sound-proofing)</td>
<td>-5</td>
<td>-1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>-65</strong></td>
<td><strong>-69</strong></td>
</tr>
</tbody>
</table>
Notes to tables:

1. Air traffic costs: Realignment of the runways by 25° in an anticlockwise direction means that the airport would be more subject to crosswinds than under the original proposal. This is obviously a drawback; but it has proved impossible to attach a cost to it. With the existing alignment the airport would be usable on 99.5% of occasions during the year (so far as crosswinds are concerned), while with the new alignment the usability figure would fall to 99.1% - a difference of about 35 hours in the year spread over a number of occasions. Met. Office statistics show that the excessively high winds occur predominantly between October and March when the traffic levels are not at their highest and there would normally be spare capacity for diverted traffic at Heathrow and Gatwick though there would be cost to airlines (repositioning) and inconvenience to passengers, especially outbound. In any case, a change in alignment of as much as 25° may not prove on further study to be necessary to achieve the desired improvement in amenity.

2. Acquisition of land: In the debate on a national airports policy in the House on 29th June, Mr. Douglas Jay said that only 2,600 acres, in addition to the B.A.A's present holding of 800 odd acres, would be required for the initial third London airport development; this was the last public statement on the subject. If the new airport were to be based on a realignment of the runways on the lines proposed, the additional acreage required might be increased to as much as 4,000 acres - 1,200 acres more than the figure mentioned in June and 900 acres more than would, in fact, be required by the latest draft Special Development Order based on current plans. The British Airports Authority might well in these circumstances, however, be able ultimately to release some of their present 800 acre holding (though its use for secondary airport purposes is more likely). This is not an important factor in terms of cost; but it might raise some political difficulty in the realignment scheme - especially as some of the new land that would need to be acquired is land not previously threatened by acquisition. On the other hand, the extra land would have been subject to very high noise levels under the original scheme, and its inclusion within the future airport boundary would improve the inhabitants' prospects of obtaining reasonable compensation.

3. Noise certification: The scheme of noise certification of aircraft likely to be adopted by aircraft-manufacturing countries as a result of the 1965 International Conference on Aircraft Noise can be expected to result in a substantial "mix" of markedly quieter aircraft by the 1980s, when traffic at Stansted Airport would be reaching the capacity of two runways. The amenity costs of both the alternative schemes for Stansted may, therefore, prove to have been somewhat overpitched, in terms of 1970 values, thus reducing the absolute gain to amenity from realignment.

4. Night restrictions on jet flights: Restrictions on night jet flights on the lines of those in force at Heathrow - amounting, of course, to a reduction in the night-time capacity of the airport - would almost certainly eventually be required at Stansted Airport if developed on the present runway alignment. They might also be required even with the new alignment because, as at all the alternative sites, an appreciable number of people would still be affected by noise, although the number would be very much smaller than with the original Stansted proposal. However, with the new alignment of runways, it is fair to assume that night jet restrictions at Stansted would be imposed at a later date and always be less severe. But it is impossible to make any evaluation of this factor at this stage.
APPENDIX C

Costs of Delay

Introduction

1. The costs of delay depend upon the date on which a third London airport should be fully operational (including supporting terminal complex) and the date on which any airport other than Stansted could be available.

2. The former date depends upon the view taken of the capacity (as improved) of Heathrow and Gatwick to cater for traffic growth in the early 1970s and upon the estimates made of that growth. But it can be said with some confidence that 1973 is the earliest date and 1976 the latest date by which the third airport will be needed.

3. The latter date in turn depends upon the view of the time taken up by a public inquiry with wide terms of reference and by land acquisition, planning and construction on a virgin site (which might be a good inland site or a difficult estuarial site). However, the most likely range of dates on which a new airport, other than Stansted, could come into operation is 1975-1977.

4. If of course Stansted were selected either now or following a further Public Inquiry lasting no longer than 18 months it could be ready by 1974 and there would be no significant 'costs of delay'.

5. If any other site were selected following a Public Inquiry (which in this event would be likely to occupy more than 18 months) the best conclusion that can be drawn from these two sets of dates is that London's airports would have to turn away one or two years' traffic growth; while on more extreme views the effect could be either more serious, or negligible.

6. Even those able to travel to and from London would have to book inconveniently long ahead. The inability to obtain seats at short notice could, rightly or wrongly, be expected to give rise to a considerable volume of complaint (cf. the situation when there is a marginal shortage of gas or electricity) possibly from businessmen seeking to secure export business.

7. The growth of freight traffic might be interrupted; while this would affect both imports and exports to about the same extent, London's reputation as a centre for air freight may be damaged, and again there might be complaints about frustrated exports.

8. With facilities for travel deteriorating foreign - and perhaps British - firms might tend in the marginal case to favour a continental rather than British location for new factories.

9. The ease and speed of communications between the capital and the development areas may be impaired.

10. A rationing of movements to and from London would entail international difficulties and probably retaliation against British airlines. The relatively minor operation of restricting night jet movements at Heathrow brings us annually closer to a rupture with the Italian authorities.

11. While recognising the importance of these factors, they are difficult - if not impossible - to express in money terms. However, other aspects of the costs of delay can be estimated if some simplifying assumptions are made. While it is believed that the estimates which follow offer a reasonable indication of the costs of delay, the nature of the assumptions suggests that the reliability of the results cannot be guaranteed.
An Estimate of Delay Costs

12. Simplifying assumptions must be made both about the behaviour of the airlines and of passengers during the period when traffic would be turned away from London and in the ensuing years. We shall first assume that Heathrow and Gatwick can handle all traffic to the London area up to 31st December 1975 (as also assumed in the Peterson Committee report, Table I b S.I./T.L.A. (66) 20). Secondly we assume that a one runway airport would be sufficient to handle the additional traffic during the years immediately after the opening of the third London airport. While the second runway is necessary and will enhance the commercial attractions of the airport its timing is not a factor to be considered in calculating the costs of delay.

13. Owing to uncertainties connected with the siting and construction of the third airport, no significant portion of the traffic can be expected to divert to Stansted or any other overflow airport until the new facility is available. Therefore the traffic which must be turned away from London in 1975 and subsequent years until the new facility is ready must be considered lost. However, traffic turned away at this time will be assumed to incur losses for a further five years after the new airport becomes available; a longer consequence is unlikely because of the known propensity of long term trends of this kind to re-assert themselves.

14. We shall assume that there is a direct relation between the traffic which must be turned away during the busy summer periods and the total traffic which will thereby be lost, for scheduled and charter services which are rejected at such times will naturally transfer some of their business. The following Table gives the approximate number of terminal passengers and aircraft movements which will be lost, based upon Board of Trade 'most probable' estimates.

<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal Passengers ('000)</th>
<th>Air Transport Movement ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>290</td>
<td>3.6</td>
</tr>
<tr>
<td>1976</td>
<td>1,500</td>
<td>17.7</td>
</tr>
<tr>
<td>1977</td>
<td>2,860</td>
<td>32.4</td>
</tr>
</tbody>
</table>

15. No discreet allowance will be made for possible increased load factors, which must be considered a distinct possibility because frustrated passengers may be able to re-adjust their journey plans at very small cost by filling up existing services. It should be noted that passenger/plane ratios are expected to continue to increase and the numbers of passengers handled at Heathrow and Gatwick will continue to rise at an annual rate of over 4%. No allowance has been made for possible technological improvements in air traffic control at Heathrow and Gatwick to allow them to exceed their estimated full capacity. It is assumed that no differential pricing policy or other financial or operational incentives can be arranged by the B.A.A. to restrict the unacceptable movements to domestic airlines and charterers with predominantly U.K. passengers since this element is small in relation to total airline costs. It is assumed that the U.K. passengers affected by the saturation will merely make alternative travel arrangements; they will still travel and so will incur some additional costs. The foreign passengers turned away are assumed to be tourists, since we may expect business and other passengers, who have come to England, to make alternative arrangements. In 1965, according to the London Airport Traffic Study, on average half of the terminal passengers were non-U.K. residents. Similar proportions were found at Gatwick, and in the
absence of more recent evidence (notwithstanding the submission on
the B.A.A. concerning Trans-Atlantic supplementals, a new
phenomenon whose long term continuance is uncertain) this
distribution will be assumed for the frustrated traffic.

16. Since in this study we calculate only the cost to the UK
community, the inconvenience costs of the foreign travellers will
not be included; we are only interested in the loss of foreign
earnings from these tourists. The inconvenience cost to the
British passenger will be considered by assuming that passengers
will find their way to another airport from which alternative
flights could be arranged, or alternatively that they will suffer
some inconvenience by having to travel at a less satisfactory
time. The admittedly somewhat extreme case where a passenger must
travel by train to Birmingham to catch a plane to Spain will be
assumed typical. Thus the additional cost will be the fare to
Birmingham and the increased fare to Spain. This rather extreme
case is taken as 'normal' so as to include the notional costs of
inconvenience and delay caused to other passengers in less extreme
circumstances. On this rather arbitrary basis the extra costs
would be approximately £3 per passenger journey.

17. One of the main losses claimed by the B.A.A. in the event of
traffic being turned away from London would be North American
tourists on 'open-jaw' tour itineraries, that is with the UK as
either the arrival or the departure point of an European tour in
which other countries are visited as well. In 1965 almost 60% of
American visitors to the UK undertook such itineraries. Also
slightly under half of all American visitors to Europe in 1965
visited the UK. It is not known whether the diversion of some of
this type of tour traffic would cause American citizens not to
visit the UK at all.

18. American visitors comprise about 36% of all visitors to the
UK travelling by air. Commonwealth citizens comprise about 12%,
and presumably would still aim to visit this country even if they
had to suffer a diversion; this would also be largely true of the
7% who are from foreign countries outside Europe. The remaining
41%, visitors from Ireland and the rest of Europe, will tend to use
surface transport and suffer some delay or will not visit the UK at
all. Bearing these factors in mind, and remembering that in many
cases each visitor represents two terminal passenger movements (in
and out), we shall assume - though this is admittedly an arbitrary
assumption - that the UK loses the foreign exchange from two days
stay in this country for every frustrated non-UK terminal passenger.
This suggests that at least one day is lost at the origin or
termination of the journey and another from the inconvenience of an
altered journey. Foreign visitors spend, on average £2.7 per day
in the UK. Of this 17% will be assumed to be the import content
of their expenditure, so each lost terminal journey will be assumed to
cost £4.5.

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers Diverted</th>
<th>Inconvenience Cost @ £3</th>
<th>Foreign Passengers Lost</th>
<th>2 Days Per Passenger Cost £4.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>145</td>
<td>335</td>
<td>145</td>
<td>635</td>
</tr>
<tr>
<td>1976</td>
<td>750</td>
<td>2250</td>
<td>750</td>
<td>3375</td>
</tr>
<tr>
<td>1977</td>
<td>1,430</td>
<td>4290</td>
<td>1,430</td>
<td>6435</td>
</tr>
</tbody>
</table>

19. No loss of foreign industrial investment in the UK will be
assumed since, even if such investments were to be influenced by
the temporary inconvenience of travelling to the UK, the cost would
be small. No permanent loss of scheduled services is assumed
because:
London at present is a world air transport nodal point, because of its geographical position and because of its attractions for business and pleasure; these basic factors which account for London's position are long term;

(b) Given the uncertainty engendered by an upset in the Stansted decision, foreign airlines are highly likely to direct their next round of expansion towards Paris or Amsterdam; however, as soon as London has a new international airport, as the B.A.A. have emphasised, it will attract at first a very large share of international airlines expansion;

(c) Airlines are commercial operators and do not make long-term decisions simply because the air traffic situation at London is difficult for a few years.

20. No significant loss of scheduled traffic before 1975 is assumed for the following reason. Granted that there will be some small losses of traffic before 1975, we cannot possibly measure them; we have however assumed them to be included in the post-1975 losses, which have been deliberately pitched high by the rather unrealistic assumption that all additional scheduled traffic will be lost.

21. The fact that net foreign exchange earnings from civil aviation have been static since 1962 implies that the growth in the expenditure by UK airlines abroad and by UK residents on foreign airlines is balanced by the growth of expenditure by foreign airlines in the UK and by foreigners on UK airlines. The following Table shows the proportions.

**Table 5**

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<tr>
<th></th>
<th>Civil Aviation</th>
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<tbody>
<tr>
<td></td>
<td>1965</td>
<td>1966</td>
<td></td>
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<tr>
<td><strong>U.K. Airlines</strong></td>
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<td></td>
</tr>
<tr>
<td>Disbursement Overseas</td>
<td>- 72</td>
<td>- 84</td>
<td></td>
</tr>
<tr>
<td>Revenues etc. from foreigners</td>
<td>+ 123</td>
<td>+ 137</td>
<td></td>
</tr>
<tr>
<td>Nett</td>
<td>+ 51</td>
<td>+ 53</td>
<td></td>
</tr>
</tbody>
</table>

|                      | Overseas Airlines |          |          |
|                      | Disbursements in U.K. | + 35    | + 38    |
|                      | Revenues from U.K.   | - 63    | - 68    |
|                      | Nett                 | - 28    | - 30    |
|                      | Total (Nett)         | + 23    | + 23    |

22. The saturation of London will, we have assumed, cause the foreign airlines thus diverted not to come to England at all. Thus the overseas airlines figures will be reduced relatively, and since this is a net outflow it would be a gain to the balance of payments. Set against this is the likely retaliation of foreign governments on UK airlines as a result of the situation, and the fact that it will be in some cases uneconomic for UK airlines to transfer services from London to regional airports. Some potential UK flights therefore will inevitably be curtailed. We may assume a relatively smaller effect on the foreign exchange earnings of UK airlines. This account is in surplus and so a loss to the balance of payments may be expected. We suggest that in the absence of precise data and the relatively small size of the figures concerned, the effects, which may be positive or negative, are negligible.
23. By 1974 freight movements will still be a small minority of total aircraft movements, and their manner of operation would seem to imply that very small cost effects would be felt.

The Likely Costs to the UK Aviation Sector

24. The B.A.A. have emphasised the potential losses to their own net revenue, and to those of BEA and BOAC. But from the standpoint of the community, it seems that negligible losses would accrue to the B.A.A. This is because all that will happen in the event of a delay is that some expansion will be postponed. Consequently, capital, labour and other resources which otherwise would have been taken up by the B.A.A. would be released for alternative uses. Throughout this study we have assumed complete substitutability of factors between different uses. This is a quite reasonable assumption in the case of the B.A.A. because it is a rapidly growing industry, so that all that is involved is a temporary slowing down in the rate of growth and no actual resources presently used would be transferred. It would be wholly untenable to argue that the B.A.A. could make more productive use of the factors which it would release if the third London airport is delayed, for one could equally argue that an alternative use may be also more productive. In brief, it is incorrect to say that the B.A.A. will lose net revenue through delay and that this is a loss to the community; the former may be true, but the community can thereby make alternative use of the resources so released.

25. In the case of BEA, BOAC and the other UK airlines these assumptions may be less realistic because their capital is lumpy and must be ordered many years in advance. Furthermore, given the competitive situation in civil aviation, they may be less in control of their rate of expansion that would the B.A.A. It is fair to say that within the period of delay, the UK airlines may be forced to under-utilise their capital, and this will be our assumption. Other inputs may be quickly adjusted, again because this is an expanding industry (for instance they would hire less additional labour during the period of delay). The ratio of the current book value of the U.K. airlines' assets to terminal passengers handled by them at London is at present about £28 per passenger, and we shall assume that assets and passengers grow in step over the relevant years. Assuming also that the loss of passengers at London will have an equivalent effect on all UK airline operations, this ratio may be assumed to represent a fair measure of the capital involved when London terminal passenger movements are forgone. We shall also take a somewhat extreme assumption (not altogether consistent with some earlier ones) that all the frustrated passengers who would have been carried by UK airlines are totally lost to them. This is because we can safely assume that some passengers are lost, and that although others will be carried by diverted services this would seem to involve an inefficient utilisation of the airlines' resources. We shall also assume that the capital associated with this loss of passengers lies idle for the period of delay. UK operators carry some 60% of all London terminal passengers and would presumably have carried the same proportion of the 'frustrated' passengers. The capital assets associated with each of these lost passengers will be assumed not to earn its 8% per annum return. When the third London airport opens we may assume that the UK airlines will quickly take advantage of it and restore their earning capacity. This then can be taken to be a measure of the loss borne by the UK airlines, in no way passed on by them to their passengers, because of traffic lost or diverted as a result of the delay. This represents a cost to the community, and is estimated in Table 4 below.
Table 4

Estimated Losses from Delay associated with U.K. Airlines

<table>
<thead>
<tr>
<th>U.K. Airlines Lost Terminal Passengers ('000)</th>
<th>Estimated Idle Capital Assets £ m.</th>
<th>Estimated Lost Returns at 8% £ m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>185</td>
<td>6.5</td>
</tr>
<tr>
<td>1976</td>
<td>900</td>
<td>31.5</td>
</tr>
<tr>
<td>1977</td>
<td>1,716</td>
<td>60.5</td>
</tr>
</tbody>
</table>

Summary

26. To summarise, the following costs and benefits have been identified and estimated, given the simplifying assumptions explained in the earlier paragraphs:

(i) Loss of foreign exchange from overseas visitors:

There will be some before 1975 but it is not calculable; a total loss during the years of saturation, and declining losses over the following five years;

(ii) Inconvenience to U.K. passengers:

Some before 1975 but not calculable; total inconvenience during saturation; none in succeeding years.

(iii) Loss of foreign exchange by U.K. airlines:

Not inconsiderable but balanced by:

(iv) Benefit to balance of payments from loss of foreign airline services.

(v) Loss of nett earnings by B.A.A.:

Some but not significant.

(vi) Losses associated with U.K. airlines:

Small in the first year, but rising steeply in later years;

(vii) Loss to British economy as a result of adverse commercial decisions:

Nil.

(viii) Loss of freight revenues and effects on foreign trade:

Nil.

27. In Table 5 these costs have been assigned to the years in which they are expected to occur; the losses from the reduction in the number of foreign visitors are assumed to dwindle arithmetically during the first five years of operation of the third London airport.

28. The dates of operation correspond to the forecast dates of saturation at Heathrow and Gatwick. The fact that no costs calculated on the basis of the above assumptions are incurred until summer 1976 must not be taken to suggest that the airport need not be ready sooner. In order to escape these costs the third London airport would have to be fully operational, with many services transferred, by the dates given. Furthermore, because of the inflexibilities of operations at Heathrow and Gatwick as they
approach saturation, some traffic will be turned away before 1976, even on the basis of the forecasts used here. Ideally the new airport must be ready 18 months before it is absolutely necessary. In the event of it being ready later it could quite clearly be made fully operational more quickly, at a cost. In addition to these factors are all those concerned with the uncertainties of the time necessary for construction. Thus it must be stressed that the costs calculated in this note are based upon a set of assumptions; but, granted that the assumptions are reasonable, they represent the best available guess.

29. It should be noted that the balance of payments costs (which might appear to involve double counting with UK airlines costs but in fact do not) should more appropriately be expressed as the cost in terms of domestic real resources which would be involved in turning the terms of trade against the UK in order to prevent the (admittedly small) deficit from emerging. This would probably tend to reduce marginally the costs as recorded.

The B.A.A.'s view

30. It is fair to add that the British Airports Authority assess the loss of foreign exchange earnings and loss of net revenue of the two Air Corporations as follows:

<table>
<thead>
<tr>
<th>L.A.P.3 available by</th>
<th>Actual</th>
<th>Discounted to 1970</th>
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</thead>
<tbody>
<tr>
<td>1975</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>1976</td>
<td>46</td>
<td>34</td>
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<tr>
<td>1977</td>
<td>94</td>
<td>64</td>
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<table>
<thead>
<tr>
<th>Loss to Net Revenue of Air Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
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<tr>
<td>1976</td>
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<tr>
<td>1977</td>
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<tr>
<td>7</td>
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<td>20</td>
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<tr>
<td>41</td>
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<tr>
<td>5</td>
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<td>14</td>
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<td>28</td>
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(Note: Adding the above two figures together would involve some double-counting.)

There may here be perhaps an understandable attempt to prove a case and on any view these figures are pitched on the high side: for example, there is a difference of methodology and the B.A.A. have taken extreme views on other traffic lost and on the way airlines would react to impending congestion; also they have calculated the loss to the rationalised sector of the civil aviation industry as distinct from that to the community as a whole. Nevertheless it is evident that any assessment of the cost of delay is very sensitive to estimates of traffic growth, and judgments on the likely behaviour of foreign tourists and of airlines when air travel to and from London is restricted.
## Table 2

Summary Table of Inconvenience Costs, Balance of Payments Costs and Net Losses to British Airlines if the Third London Airport were Delayed

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<td>Airport Operational by</td>
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CABINET

THE TRANSPORT OF FREIGHT: DRAFT WHITE PAPER

Memorandum by the Minister of Transport

In January, 1967 I put my proposals for the establishment of a national freight organisation to the Ministerial Committee on Economic Policy. My proposals were approved subject to consultation with the transport trade unions; and the Committee in February agreed that, in the light of these consultations, I could announce the Government’s intentions in the debate on Transport Policy in the House the following week.

2. In July the Cabinet approved my proposals for revision of the road haulage carriers’ licensing system (CC(67) 48th Conclusions, Minute 2), and in September I reported the results of my widespread consultations with industry and the unions to the Ministerial Committee on Industrial Policy. That Committee agreed to the modifications I proposed.

3. On these two main features of my proposals my consultations with all those directly interested on both sides of industry, including the Trades Union Congress and the Confederation of British Industries, have revealed a wide measure of acceptance, with the exception of quantity licensing which, although accepted by the unions and particularly welcomed by the rail unions, has, as expected, been opposed by the road haulage industry.

4. The working out of these two sets of proposals forms the basis for the White Paper on our policies for freight transport, which I propose should be published in advance of the forthcoming Transport Bill which I am hoping to lay before Parliament at the beginning of next month. The White Paper, a copy of which is attached, also includes, in paragraphs 65 to 68, a reference to the new charges to be imposed on lorries in respect of abnormal loads and wear and tear, agreed by the Cabinet in the course of the Public Expenditure review on 20th July (CC(67) 50th Conclusions, Minute 3). I propose to announce this new charge on 9th November, before publication of the White Paper which I would hope would be on 14th November or soon thereafter.

B.A.C.

Ministry of Transport, S.E. 1.

6th November, 1967
<table>
<thead>
<tr>
<th>CHAPTER</th>
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APPENDIX 1  Inland Freight Transport - Trends and Outlook
APPENDIX 2  Drivers' Hours
APPENDIX 3  Road Haulage Charges

SECRET
1. The basic objective of Government policy must be to improve the efficiency of the whole transport system. Nowhere is this more urgent than in the field of freight. Quick, convenient and economical means of moving goods are vital to industry. At the same time wider social and economic interests must not be overlooked. Only in this way will the nation's resources be put to their best use.

2. The White Paper on Transport Policy, 1966, described the distribution and expected trends of freight traffic and outlined the Government's new plan for freight. Since then, in the light of further statistical studies in the Ministry and of the wide-ranging consultations which have been held, the Government has evolved its freight policy in greater detail. This paper describes the proposals on which the forthcoming legislation will be based.

3. As the 1966 White Paper showed, rail freight traffic has declined over the years, mainly because of a large and continuous reduction in coal traffic, although this trend was offset between 1963 and 1965 by the railways' share of growth in the traffic generated by the steel industry during that period. By contrast, road transport has been growing fast with the rapid growth in the industries that are big users of road transport. In 1966 the fall in rail ton-mileage was resumed primarily because, in addition to the continued decline in coal traffic, there was a sharp fall in steel traffic. (See Appendix I). Although the use of road transport increased less last year than in previous years, it is clear that there is going to be a further rapid rise in demand as soon as industrial

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production picks up again. The Government recognises that the flexibility which road transport offers means that this sector must continue to play a vital, and indeed a dominant, role in the service which the transport industry provides to the community. Because of the changes that are taking place in the type of service which industry needs, the dependence on road transport is increasing and will continue to increase. But the growing pressure on road space, together with technological changes in the railways themselves, emphasise the importance of making the fullest economic use of the railways where, in their modernised form, they can give an efficient service and can save road space and congestion costs.

4. The drive to cut costs and increase efficiency throughout industry has accelerated the trend towards handling and moving goods in larger units. With through transport becoming the key to efficiency and economy, the importance of container service for non-bulk goods is growing rapidly. With the steady expansion of freightliner services during the past year British Rail is adapting itself to play its full part in these developments. Similarly, new regulations to increase the maximum permitted length of articulated goods vehicles, to be laid before Parliament shortly, are designed to help them carry containers of the largest international standard size more safely. Containers enable the transport of goods to be treated as one integrated movement from origin to destination, not only by road and rail for domestic traffic, but also by road/rail, sea, and even air, internationally. The full impact of the introduction of container operations has not yet been felt; this will happen in the early 1970s. On the short sea routes to Europe there is also the alternative of roll-on/roll-off services. These too are expanding; and in the longer term the building of the
Channel Tunnel would also affect the pattern of movement of the growing trade between the United Kingdom and Europe.

5. These technical developments highlight the need to ensure that wasteful competition and duplication within the publicly-owned transport system are eliminated. Road and rail services which perform the same function must be integrated to improve their efficiency, and those which should be complementary must operate in a framework which encourages co-ordination. The road haulage industry must be freed from the outdated restrictions of the licensing system under which it operates; but it must at the same time reorganize itself to meet the challenge of the higher standards which the nation now demands of it. Similarly, the commercial and social aspects of the railways' obligations must be clearly differentiated, and the White Paper on Railway Policy, just published, shows how this is to be achieved.

6. The trend of traffic away from the railways at a time when they are adapting themselves to handle it more efficiently, the need for a new framework within which road and rail transport can work together and the simultaneous introduction of new concepts and techniques for the through handling of freight, in which there is a clear role for both road and rail, all point to the vital importance of integrated planning of the total transport system. Such planning must embrace all the processes in the transport chain: shipping, docks, inland transport and air services. The nationally-owned road/rail services are a vital link in this chain. They must be reorganized to take full advantage of the new techniques for handling freight and to meet the challenge of the container age.

The Objectives of Freight Policy

7. Thus within this broad field the Government has set itself
six main objectives:—

(i) to offer the customer a more efficient freight service in the public sector — including a comprehensive, efficient and more economic door-to-door road/rail service, facilitating and exploiting the use of containers;

(ii) to eliminate wasteful and inefficient competition between publicly-owned road and rail services for the same traffic;

(iii) to use existing road and rail assets and manpower more efficiently through the reorganisation of structure and management and the adoption of new techniques and other improvements in productivity, as well as through the co-ordination of new investment;

(iv) to make the maximum economic use of our railways as well as our roads by promoting the transfer of all suitable traffic from congested roads on to the railways; and at the same time to make available to industry generally the full benefits of the new freightliner system;

(v) to improve the safety and efficiency of road haulage by means of a modern and effective system of carrier licensing and a revised and improved control of drivers' hours of work; and

(vi) to secure the willing cooperation of transport workers in these developments by associating them more closely with managements at all levels.
The Form of Integration

8. One way of securing the integration of the publicly-owned transport services would be to set up a new national transport authority to which both the railways and the rationalised sector of the road haulage industry would be responsible. There are, however, grave objections to this. In the first place, as the Introduction to the 1966 White Paper pointed out, the problems of integration in the freight field are quite different from those for passenger transport, where the needs of the customer demand a more individual service and where, therefore, regional and local considerations necessarily play a greater part; in consequence the solutions the Government is proposing are different, too.

9. Second, it will be apparent from the report of the Joint Steering Group annexed to the White Paper on Railway Policy that very substantial problems over a wide field of its activities will demand the full attention of the Railways Board in the next few years. These tasks will be urgent, exacting and over and above those arising from the integration needed in the freight field. If a national transport commission were to be established, with authority over the whole freight field, it would, whether it was given the direct responsibility for the operation of services or not, have to divide its energies between solving these railway problems and planning the organisational structure needed to provide the most efficient freight service in the various fields where road/rail integration was required.

10. Moreover, a new authority would take some time to find its feet and to work out a scheme for reorganisation. In doing so it would inevitably go over much of the ground already covered by the Government with the help of outside experts. At a time when the need is urgent for reorganisation of our inland transport system to meet the coming challenge of container operations, valuable time would in fact be lost.
11. The lesson of the British Transport Commission between 1947 and 1962 was not that the concept of integration was wrong but that a body of that size and range of responsibilities found it difficult in practice to get to grips with the basic problems of reorganisation to achieve road/rail integration. The Government intends that the publicly-owned freight services shall operate on strictly commercial lines. But, if this is to be done, and be seen to be done, it is important that the various freight activities should be broken down for operating purposes into units which make functional sense and which can be held financially accountable for the work that they do. Only in this way will it be possible to cost their work precisely and openly, to eliminate undesirable cross-subsidisation and to achieve real economies by integrating like with like.

12. The nature and degree of the integration required between road and rail must vary accordingly to the type of business. In some types of freight activity - removals, for example - there is little or no rail element. In others, such as the parcel service or the liner train services, there are obvious advantages to be gained by integrating road and rail. The first step, therefore, must be to differentiate the specialised freight activities so that reorganisation can be carried out in a meaningful way. It is equally urgent to do this on the road side as on the rail.

II: THE NATIONAL FREIGHT CORPORATION

The Field of Responsibility

13. It is for these reasons that the Government believes that a separate and distinct body is needed to integrate the publicly-owned freight services. The forthcoming legislation will provide for a new National Freight Corporation, which is to be a free-standing corporation responsible to the Minister. Its first task will be the further rationalisation of the functional groupings of the Transport Holding Company's freight activities.
as a precursor to integration with the corresponding rail activities where this would be sensible. To this end it will take over from the THC all its general and specialist road haulage services, together with its shipping services. It will take over from 3RB the assets - depots, vehicles, warehouses, containers and other equipment (but not the trains) - employed in the freightliner and sundries services, and the BRB's other cartage vehicles. This will enable it to take responsibility for all the movements which originate by road leaving the BRB responsible for both the marketing and operation of freight traffic - full train loads, company trains and wagon-load traffic - originating by rail and moving wholly within the rail system.

14. In this way integration will be concentrated on the areas where it will be most productive: general merchandise and parcels and sundries. These are the fields where rationalisation of road and rail services is most urgent if the railways deficit is to be reduced. In 1966 the BRB lost £25m. on its sundries traffic and, in preparation for the legislative changes which it is hoped that Parliament will approve, BRB and NRC are already engaged in discussions to bring the sundries service of the BRB and the parcels service of the THC together under unified direction so as to produce an expanding, efficient and more economical service. The Joint Planning Organisation which they have created, in consultation with the trade unions, will in due course be incorporated within the NFC.

15. The BRB is also incurring a heavy deficit in the handling of general merchandise - £36m. in 1966. Here the basic need is to reorganise old-fashioned methods. The carriage of unsuitable traffic by rail must be eliminated and better methods must be developed of collecting, bulking and distributing both
consignments of wagon-load size and those traffics which present themselves in smaller quantities. These are the traffics which incur most of the losses. An important element in this reorganisation will be the provision by the NEC of a modern and efficient through service from door to door, using road for collection and delivery, with traffic grouped at the terminals for trunk movement in bulk by rail, thus exploiting to the full the new rail freightliner services for the carriage of traffic in containers.

15. The Transport Holding Company has been conspicuously successful in tackling the problems of handling general merchandise and parcels traffic of this kind. At the same time the BRB has been developing the imaginative freightliner concept as the most efficient method of trunk haulage for a wide range of merchandise. The combination in one organisation of the THC's experience of traffic collection and distribution and the BRB's freightliner concept will pave the way for a vigorous new service to industry, commerce and the public. Using both the THC's vehicles and the BRB's cartage fleet to best advantage, the flexibility and door-to-door facility of road haulage will be combined with the speed and economy of rail over long distances.

The Arrangements for the Freightliner Service

17. The key to this road/rail development will be a Freightliner Company which, as a subsidiary of the NFC, will have the commercial responsibility for the marketing and management of the freightliner services. Transfer of this responsibility to the NFC is essential in order to enable the Corporation to make the most efficient and economic use of road or rail for the trunk haul. However, since the railways will still have a direct interest in the development of the freightliner service, as an important means of attracting a substantial volume of trunk haulage to rail, and in order to ensure that both organisations have a clear incentive to develop the service to the maximum economic extent, the
legislation will provide for the British Railways Board to have a substantial interest in the Freightliner Company, consisting of a 49% shareholding and an appropriate number of seats on the Board. The Board will be appointed by the Board of the NFC, the Railways Board nominating the BRB members.

18. The Freightliner Company will have commercial freedom in determining its charging policy. It will normally employ a standard charging system available to all but will be free in the usual way to incorporate discounts for quantity, regularity, etc. As well as selling through services direct to the consignor it will offer a transport advisory and contract service to industry. It will also sell space on the freightliners to other hauliers. The freightliner terminals will continue to be open to the private haulier and to the own-account operator without discrimination either as to the charges levied or the services provided.

19. The aim of the Company will be to exploit the full potentialities of the freightliner. Through its stake in the Company the BRB will be associated with the formulation of policy for the conduct and development of the service. Joint ownership will not only facilitate joint working between the BRB and the NFC, and the free exchange of information between them, but will enable them to work more closely together on planning and investment. This will be important because the decisions on the mode of transport in which investment is to take place will be expected to take account not only of the statutory financial duty which each undertaking will have, but also of the need to send freight by rail where it is economic to do so. This will be reflected in the statutory duty which the NFC will have to make
the maximum economic use of rail. The two undertakings will be expected to invest in new freightliner services wherever the return on capital to them jointly would be better than if the investment were not made and the traffic continued to go throughout by road. The Railways Board will levy a charge for providing and hauling the trains, which will be negotiated on a commercial basis, since the Railways Board will have a financial duty to break even and must, therefore, in relation to the freightliner services as elsewhere, cover its long-term avoidable costs and secure an adequate contribution towards its indirect costs, including track costs. In addition, profit made by the Freightliner Company will be divided between the BRB and the NIC in proportion to their shareholdings in the Company.

20. These arrangements will give the two undertakings a strong incentive to invest in the freightliner network to the maximum economic extent, and, once the investment has been made, to make the fullest use of the service. It will pay both undertakings to fill the train.

The Structure of the RFC

21. The role of the RFC Board will be to set the framework within which its various subsidiaries will operate, rather than to manage them. Freight transport is not a single, indivisible industry: its numerous parts vary enormously. Flexibility is therefore essential, and the new Board will be given the task of devising the structure most appropriate to its many-sided activities. Its duty will be to expand vigorously as a commercial enterprise and it will seek every opportunity, as the TEC has done, to acquire new businesses by voluntary agreement and to integrate them with its functional subsidiaries. The Board of the RFC will pay particular attention, over the whole field of its activities, to financial matters, the selection of management and
its performance, conditions of service of all the staff and industrial relations generally, and public relations. There will be coordinating machinery within the NFC to ensure that common policies are followed on these matters and that the subsidiary units do not act against each other's interests, and so that of the NFC as a whole. There will also be arrangements at national level to permit co-ordination with other operators and the provision of central marketing services for the largest industrial users.

22. For these purposes a small, non-executive Board is required to plan the overall strategy of the undertaking and to co-ordinate the policies of the subsidiaries. Its composition, and the subsidiary structure of the NFC, will reflect the Government's aim of securing closer association of the workers with the processes of governing and organising undertakings of this kind. The most effective ways of doing this are matters for discussion between the RFC and the trade unions concerned.

23. In this way the NFC will be developed to provide a comprehensive, country-wide, road/rail service in conjunction with 3R3, with links to Ireland and Europe, by both container and roll-on/roll-off service. On the deep sea routes, too, new container ships are coming into service with cargo concentrated for through transport with minimum handling. The NFC will develop road and rail inland transport links to serve these ships and the new and expanding network of inland clearance depots, in which the RFC will have a stake.

Financial Targets

24. The NFC will have a financial duty, similar to that given to other nationalised industries, of at least breaking even, taking one year with another, after making proper charges to revenue, including proper provision for depreciation or renewal of assets. Specific targets will be set for the NFC on the
lines set out by the Government in its recent White Paper "Nationalised Industries: A Review of Economic and Financial Objectives". The road haulage and shipping activities taken over from the SCS and the freightliner services taken over from the ERS will be operated on a commercial basis from the start and are expected to make a positive contribution to the Corporation's overall financial results.

25. But there is one area where it will be impossible for the NFC to break even in the early years. This is the sundries service which the Corporation will take over from the ERS. The Railways Board already have in hand a major reorganisation of this traffic including the rationalisation of depots, the trunk haul of some traffic by freightliner, and the transfer of some traffics to road throughout where this is more economic. This reorganisation is expected substantially to reduce last year's £25m. deficit on sundries before the NFC takes the service over, and it will then be the responsibility of the NFC by further rationalisation, higher productivity, and in due course by integrating the service with that of ERS Parcels Ltd., to eliminate the loss altogether.

It will inevitably take some years for the NFC to achieve this end. In the meantime continued assistance will have to be given by the Exchequer, at least in the early years, to meet this loss.

26. It is therefore proposed that, subject to an overall limit to be imposed by the Transport Bill, the NFC should be given a grant in respect of the full loss on this sundries service, as estimated annually in advance, in each of the first three years after Vesting Day, two-thirds of the estimated loss in the fourth year and one-third in the fifth year. On this basis the NFC would have to finance an increasing part of any loss on the sundries service in its fourth and fifth years, and any losses thereafter, from its profitable activities and from accumulated profits.
The effect would be to concentrate Exchequer assistance on the period when it is most needed and subsequently to provide the maximum incentive to eliminate the remaining and probably most intractable element of the loss.

The Transfer Arrangements

27. On Vesting Day, for which the target date is 1st January, 1969, the NFC will formally take over responsibility for the services described in paragraph 13 and the assets and staff to run them from the THC and the BRB. But before then much will need to be done, and still more can be done.

Interim Measures

28. In furtherance of the undertaking in Paragraph 96 of last year's White Paper, that an early start would be made on coordination, the BRB and the THC at the beginning of 1967 set up a Joint Parcels Organisation which has already led to closer inter-working between BRS Parcels Limited and the new Sundries Division which the BRB have set up. Under the aegis of this Organisation close and continuous cooperation has been instituted at all levels throughout the two services. In the J.P.O. there is joint consideration of investment, tariff harmonisation, inter-working arrangements, conditions of carriage, vehicle and equipment standardisation, administrative matters, including documentation and procedure, and training. Close liaison has also been established between the J.P.O. and the transport trade unions. In addition, the THC and the BRB have recently set up a Joint Freight Organisation to promote closer inter-working in the general merchandise field, i.e. between the THC's road haulage companies and the BRB's freightliner and wagon-load businesses. Arrangements for closer coordination in the shipping field are also being put in train.
29. All this will provide a solid foundation from which to develop the rationalisation of services after, and also, in so far as the 1962 Transport Act permits, in advance of Vesting Day. The establishment by the BRB of the Sundries Division enables the relevant staff and assets to be clearly identified. In due course, the Division will be converted into a subsidiary company of the BRB under powers to be sought in the Transport Bill, so that control of the staff and assets can be transferred simply and without delay to the NFC on Vesting Day. Similar action will be needed in the case of the Freightliner staff and assets so that the NFC can achieve a smooth take-over and start to operate efficiently straight away.

Subsequent reorganisation

30. Even so, the reorganisation and rationalisation which is already going on in the sundries service, and the expansion of the Freightliner service, will still be under way on Vesting Day. For this reason, and in particular to allow the NFC further time to reorganise the various companies which it will inherit, so that it can provide an integrated pattern of services in line with the principles set out in paragraph 21 above, it will be necessary to make provision in the Transport Bill both for the NFC to be able to reorganise its own structure, subject where the change is substantial to the consent of the Minister of Transport; and also for the BRB and NFC to transfer staff and assets between them or their subsidiaries, again subject to the Minister's consent. The Minister will also have power, subject to affirmative resolution of Parliament, to make orders re-allocating functions between the BRB and the NFC.
III: THE FREIGHT INTEGRATION COUNCIL

31. In order to assist the Minister of Transport to promote integration over the whole freight field, a Freight Integration Council will be established by statute. This will be a small body consisting of the Chairman of BRB, the Chairman of the NFC, two representatives of the trade unions representing road and rail workers and two independent members, under an independent Chairman. The independent members will be people of standing who can bring relevant specialised knowledge to the Council's tasks. The Council will have a secretariat of its own provided and paid for by the Ministry of Transport.

32. The Council's primary function will be to review and to report to the Minister periodically, or at her specific request, on the application in practice of the policy and arrangements for freight integration described in this White Paper. This will be particularly important during a period when the network of nationalised freight services will be undergoing extensive reorganisation and development. The Council will also supplement the arrangements already described for coordination between the BRB and the NFC, particularly in the investment field. The F.I.C. will seek to find generally acceptable solutions to issues on which the two undertakings have failed to reach agreement. Where it also fails it will be able to refer the matter to the Minister with its advice. In addition the Council will be able to propose measures that it considers would promote the integration of freight transport in the public sector. It would also examine any matters concerning freight integration referred to it by the Chairman of any of the other nationalised transport undertakings. The Minister will meet the Council to discuss its reports and recommendations, or any other matters of common concern, as appropriate.
The Minister's powers.

33. The existence of the P.I.C. will not affect the Minister's powers in relation to the BR and the NFC, which will follow the normal pattern for nationalised industries in relation to such matters as investment and finance. However, in addition to these powers and the power to give the Boards directions of a general character in relation to matters which appear to her to affect the national interest, the Minister proposes to take powers to give specific directions to the NFC and the BRB on matters which appear to her to require such directions and which arise from recommendations made to her by the F.I.C. Powers similar in form already exist in relation to matters reported to the Minister by the Transport Users Consultative Committees.

IV: THE ROLE OF THE RAILWAYS

34. The transfer to the NFC of the sundries services, and of the commercial responsibility for freightliners, will still leave the Railways Board with the great bulk of their present freight traffic, that is, with some 200m. tons a year on the basis of the 1966 figures. A substantial part of this business is already moving economically in full train loads on through runs, but some 120m. tons passes in smaller units of one or more wagon loads and much of this is unremunerative, mainly because of the extensive and costly marshalling and shunting which is necessary on route. This very substantial proportion of the BRB's traffic presents a major challenge to the railways. It must be reorganised and rationalised to ensure that it travels in the most economic way, and this must be a Railways Board responsibility. Some will be better converted into full or part train loads; some should be transferred to the freightliners; and some would move more efficiently by road throughout.
Even when as much as possible of the wagon-load traffic has been reorganised in these ways there will still be a substantial volume of business which will continue to pass in consignments of wagon-load size and, for this, the Railways Board will reorganise and rationalise their service so as to improve and simplify the pattern of movement. Because it will assume responsibility for the traffic which would go most economically by freightliner or by road throughout, the RFC will be closely associated with the Railways Board in working out the new arrangements for wagon load traffic.
If road and rail are to play their proper roles in the national freight plan, and so to meet the transport needs of industry to the fullest extent, radical changes are needed in the system of carrier licensing. In last year's White Paper the Government accepted the view of the Geddes Committee that the present licensing system was in many respects wasteful, ineffective and unduly complicated, but held that instead of abolishing licensing altogether it was necessary to devise a new system which would be an effective instrument of a modern national freight policy. The Government also considered that decisions on changes in the licensing system should await further Ministry research into the relative costs of carrying goods by road and rail.

The Ministry's research into trunk route transport costs, the main purpose of which is to obtain information on the likely returns from road and rail investment arising from alternative transport policies, is a continuing operation of which the first stage is now nearing completion. Although several major questions are still being studied, the research has already provided valuable guidance on four specific problems relevant to road transport policy. An intensive study of road track costs is now complete, the main conclusions of which form the background against which the Government proposes to introduce the new charges for heavy goods vehicles described in paragraphs 67 and 68. The study will be published in the Ministry's coming report on track costs. An assessment has also been made of the spare rail capacity on routes where significant quantities of traffic now move by road which would be suitable for carriage by rail. Thirdly, the relative costs of container movement by road and rail have been fully examined, with particular regard to the distance at which rail transport becomes more economic than road, and the factors which affect this break-even point. Lastly, the freight forecasts produced in the course of this research have enabled detailed estimates to be made of the inter-urban freight flows which will be suitable for freightliner operation.

In the light of this research the Government considers that the new system of carrier licensing which is now proposed should contain provision for promoting the fullest economic use of rail where this can be done without imposing additional costs on industry.

37. The present licensing system, which was set up by the Road and Rail Traffic Act, 1933, was designed to regulate competition within the road haulage industry, in view of the depressed conditions arising from rapid unregulated expansion; to give some protection to the railways by allowing them to object, along with other road hauliers, to the grant of licences to public haulage operators; and to protect the safety of the public and of the drivers by providing sanctions against operators of unsafe lorries. But the system no longer effectively achieves these objectives, and the objectives themselves need to be reconsidered in the light of modern needs.

38. Regulation of competition between public hauliers is no longer necessary. The Government fully accepts the conclusions of the Geddes Committee in this respect. Road transport is still an expanding industry, but it is incomparably stronger and more vigorous than it was in the 1930s and is likely to remain so. There is no reason to suppose that the road transport industry cannot now stand on its own feet without the need to regulate the amount of available haulage capacity. In any case, the present licensing system has turned out to be largely ineffective in controlling total road haulage capacity and imposes an unnecessary administrative burden on much of the industry.

39. For the reasons already mentioned, the need to give some protection to the railways is still a valid objective of licensing. The Government believes that the principal means by which the railways will secure a larger share of the available traffic will be by improvements in their services and the greater effectiveness that co-ordination with the N.F.C. will give. The first of these changes
is already taking place. New techniques—the freightliner, the company train—and hard selling are already capturing traffic fast. But there is a long way to go before the railways have the traffic for which they are fitted. Meanwhile there is spare capacity on the railways and congestion on many roads. It is, therefore, plain common sense to keep some form of quantity licensing as one of the means of encouraging industry to use rail transport where it can get a service which in overall terms of speed, reliability and cost is at least as good as that which road transport can provide. It is true that the Geddes Committee doubted the value of licensing as a means of promoting greater use of rail. But the Committee could not take account of the new and improved services, particularly the freightliner, now being introduced on the railways. Although these new services will attract much traffic of themselves, an additional incentive which only licensing can give is needed to encourage industry to use them to the full.

40. The protection of public safety by the promotion of high standards of vehicle operation and maintenance is even more important now than it was in 1933. Roads are more crowded, vehicles more powerful and the incentives which can lead to breaches of the law for financial gain remain. Yet the existing system gives little scope to licensing authorities to inquire into the suitability and competence of intending operators, and the disciplinary powers available to deal with operators who break the law have proved quite inadequate.

41. Finally, the present system is far too diffuse and extends to an unnecessarily large range of vehicles. Of the 1,500,000 vehicles now authorised under A, B or C licences, over half are under 30 cwt. If licensing is concentrated only on the larger vehicles it will become far more effective in achieving its objectives, and at the same time a large number of light vehicles will be freed altogether from an out-of-date and unnecessary control.
The Government therefore proposes to introduce a new carrier licensing system adapted to present day needs, the main features of which are:

(a) the complete exemption from any form of carrier licensing of goods vehicles not exceeding 30 cwt. unladen weight;
(b) a system of quality licensing applicable to all goods vehicles over 30 cwt. and designed to improve road safety;
(c) a system of quantity licensing limited to goods vehicles over 16 tons gross weight, and designed to promote the fullest economic use of rail transport, where suitable services are available.

Exemption of vehicles not exceeding 30 cwt. unladen weight

There are over 900,000 goods vehicles not exceeding 30 cwt. which are at present subject to carrier licensing. They are nearly all operated on own account, and are mostly light delivery vans and tradesmen's vehicles used for local runs only. There are no economic grounds for subjecting them to licensing. Also, most of these vehicles are operated in towns and the accidents in which they are involved tend to be less serious than those involving heavier vehicles; the number of deaths from accidents per vehicle mile is 40% higher for lorries over 30 cwt. than for those of 30 cwt. and below. Moreover, vehicles up to 30 cwt. will still be subject to the same annual tests as private cars and also at any time to roadside spot checks by Ministry of Transport examiners. It is proposed, therefore, to exempt vehicles not exceeding 30 cwt. from carrier licensing altogether, and to concentrate the new system on the 600,000 heavier goods vehicles.

Quality licensing

Whatever developments take place in rail transport, road haulage will continue to play a dominant and expanding role in the movement of freight. One of the principal aims of Government policy, therefore,
is to promote the highest possible standards of safety and working conditions in the industry. To this end the Government proposes to introduce a new type of carrier's licence to be held by every operator of goods vehicles over 30 cwt. - the so-called "quality" licence. To receive such a licence an applicant will have to satisfy the licensing authority that:

(a) he can and will provide or secure adequate maintenance facilities for his vehicles, keep proper control over their loading and arrange satisfactory checks on the hours worked by his drivers;

(b) his financial resources are commensurate with his proposed scale of operation and, in appropriate cases, that he has sufficient business in prospect to maintain reasonable financial stability;

(c) he holds a new type of personal licence (a "transport manager's licence"), issued by the licensing authority, and entitling him to manage the vehicles of a transport undertaking, or employs the holder of such a licence in a position of responsibility.

The licensing authority will also take into account the applicant's past record, if any, of vehicle operation.

45. The rights of existing carriers to object to the grant of a licence to a public haulier will be replaced by a new right of objection designed to bring to the notice of the licensing authority any relevant facts which he ought to know when considering an application. The right will be exercisable by trade unions representing workers in the road goods transport industry, by employers' associations representing operators of goods vehicles, by the police and by certain local authorities. They will be able to object on the grounds that the applicant could not satisfactorily meet the criteria which the licensing authority must consider before granting a licence.
6. The licensing authorities will have wide discretion in applying these new tests. The past record in the industry of most existing operators will be such that they can be granted a licence with the minimum of investigation. Equally there will be some who can expect the most searching enquiries to be made. All new entrants to the industry will similarly have to undergo close scrutiny. Licensing authorities will refuse a licence to anyone who cannot measure up to the new standards, but in cases where there is real doubt or uncertainty about an applicant (and this will of necessity apply to many newcomers to the industry who have no past operating record) the licensing authority will be able to grant a short-term licence for a year or so to give the applicant time to prove himself. Otherwise licences will normally be granted for a full term of five years.

7. An important new feature of the system will be the individual licensing of the person responsible in each undertaking for the day-to-day management and maintenance of the vehicle fleet. In smaller concerns this will often be the owner himself, or one of the partners, but for larger fleets there will be a separate transport manager for these functions. In the very large undertakings, with multiple operating centres, there will usually be a transport manager for each depot or group of depots. In deciding how many licence holders must be employed by each operator, regard will be had to the way in which individual firms are organised, the size of their vehicle depots and the places where they are situated.

8. It is the ultimate aim that applicants for a transport manager's licence should have to produce evidence of their professional competence by passing appropriate examinations, and discussions as to how progress might be made towards this objective will be started with all interested organisations. Once a system of examinations is in force the Government hopes to be able to hand over the administration of transport managers' licensing to a separate professional body organised and supported by the industry itself.

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/ The new
The new system will provide strong disciplinary powers against a defaulting operator. First, whenever there has been a breach of the law relating to vehicle operation, the licensing authority will be required to consider suspending or removing from the quality licence one or more of the operator's lorries, or suspending or revoking the licence altogether. In considering this question the licensing authority will also take into account any previous breaches of the law relating to vehicle operation committed by the operator. In serious cases of mismanagement the position of the holder of the transport manager's licence in the organisation could be called in question; his own licence would be at risk unless he could show that he was not responsible.

There will be a right of appeal to the Minister for operators and transport managers who are refused a licence or whose licences are revoked or suspended by the licensing authority, and also for objectors who are dissatisfied with the licensing authorities' decisions on operators' licences.

Quantity licensing

There is a considerable amount of traffic which travels over the longer distances by road. Appendix 1 shows that road transport on hauls over 100 miles amounts to some 16,000 million ton-miles, or about 10% of road ton-mileage. It also shows that a substantial volume of bulk traffic - coal, iron and steel, and some extracted materials - moves by road both for the longer and the shorter distances. Ministry of Transport studies have indicated that some 4,500m. ton-miles of traffic of a kind now moving by road could go by rail in the early 1970s, rising to some 6,000m. ton-miles by 1980. Although 500m. ton-miles would be only some 10% of road ton-mileage it represents an increase of about one third in rail ton-mileage. It is on the long distance general merchandise traffic and on the bulk traffic now moving by road that quantity licensing needs to be concentrated in order to promote the fullest economic use of rail.

/ The Government
The Government is therefore proposing to limit quantitative control over road haulage to all goods vehicles of more than 16 tons gross weight engaged in hauls of over 100 miles, or in the carriage of certain specified bulk materials such as coal, various extracted materials, and iron and steel (mainly in the unfinished and semi-finished categories) over both long and short distances. Own-account vehicles above the same gross weight will be included in the new quantity control.

At present some 190,000 public haulage vehicles of all sizes are subject to quantity control. But the present form of quantity control, based on proof of need, is ineffective. The new control will apply only to the 40,000 public haulage vehicles which are over 16 tons gross weight, and will bring in an additional 60,000 own-account vehicles above that weight. In practice, some of the 100,000 lorries over 16 tons will be engaged exclusively in carrying on journeys of less than 100 miles goods other than the prescribed bulk commodities. These lorries will not be affected by quantity control.

A limit of 16 tons gross weight (which is approximately equivalent to 5 tons unladen weight) has been chosen because lorries over this weight carry about half the tonnage and account for half the ton-mileage moving by road over 100 miles, and thus carry much of the traffic which will be suitable for the freightliner service. They also carry much of the bulk traffic moving over all distances. The 100 mile limit will apply to the distance over which any individual consignments are carried; vehicles will not be restricted to journeys within 100 miles radius of a given operating base.

Goods vehicles under 16 tons will be exempt from all quantity control and will be free to undertake any kind of work. Although the licensing authority will impose a limit on the number of vehicles authorised in an operator's quality licence, this limit will reflect only the operator's capacity to maintain a fleet of given size.
For vehicles both below and above 16 tons the old distinction between carriage for hire and reward and carriage on own account will disappear, except in those few cases where a licensing authority decides to restrict a licence to own account operation because he considers that the applicant's record does not justify extension of his activities to include carriage for hire or reward or that such extension would overstrain his resources for maintaining his vehicles.

56. An application for a quantity licence will be made (as under the present system) to one of the independent licensing authorities. The operator will have to state, in so far as it is practicable to do so, the type of goods he intends to carry and the areas within which or between which he intends to operate. The licensing authority will send a copy of the application to the National Freight Corporation (Freightliner Company) and the British Railways. It will be open to objection only by one or other (or both) of these two bodies. If the traffic in question can be carried by freightliner the potential objector will be the Freightliner Company; if it can be carried otherwise by rail, the potential objector will be the B.R. Objections will be made to the licensing authority and a copy will go to the applicant. There is reason to think that arrangements similar to the present informal road/rail negotiating machinery will continue in being, and so minimise the number of objections that need to be heard by the licensing authorities. A licence will be issued automatically if there is no objection.

57. The sole basis for an objection to the issue of a quantity licence will be that rail or the combined road/rail service offered by the N.F.C. can provide a service which overall is as satisfactory as that of the applicant, taking into account a combination of speed, reliability and cost in relation to the needs of the consignors and the nature of the particular traffics concerned. (Cost in this connection...
connection will mean cost to the consignor.) The test will, therefore, be on an economic basis; it is not the Government's intention that the licensing system should be capable of being used as a means of diverting traffic to rail uneconomically. In short, the system is designed to promote carriage of the traffic by rail where this can be done without detriment to the consignor.

An objector will have to give supporting reasons for his objection. If, in the licensing authority's opinion, a prima facie case has not been made out, he will have power to dismiss the objection without a hearing and grant a licence to the applicant. If a prima facie case has been made out, the licensing authority, as under the present system, hold a public inquiry.

At this inquiry the licensing authority will call for evidence from applicant and objector relevant to a comparison between the proposed service and the rail alternative in terms of the criterion of speed, reliability and cost described above, and each side will be able to develop its case orally before him. The applicant will be able to refer to the relevant rates and time schedules of British Rail or the N.P.C's Freightliner Company which will be introduced in evidence at the hearing and which will be a matter of fact. The objector, on the other hand, will only have, in the case of an application by an own-account operator, the applicant's own assessment of the speed, reliability and cost to him of operating his own transport service to his own needs. It would be unreasonable to place on the objector the onus of proving that this assessment was inaccurate. Moreover, the Government considers that if, when all the evidence has been produced and examined, the licensing authority finds that neither the applicant's case nor that of the objector is conclusive, the need to ensure minimum economic use of rail transport should tip the balance towards the objector. At this stage, therefore, the onus of proof must rest with the applicant. At the conclusion of the inquiry the licensing authority
authority will grant a licence, subject to appropriate conditions, only if, and to the extent that, he is satisfied that rail does not provide a service which is as satisfactory as that of the applicant in terms of speed, reliability and cost.

In considering contested applications, licensing authorities will be able to draw upon detailed information provided by the current Ministry research into the relative costs of carrying goods by road or by rail. They will also be empowered to call upon expert advice, e.g. on accountancy, from independent assessors. Special provision will be made by means of short-term or emergency licences to ensure that the system is sufficiently flexible to avoid interference with urgent and unexpected demands for the movement of goods which cannot be met by rail or by the use of vehicles under 16 tons. There will also be provision for appeals by applicants and objectors to an independent tribunal against the decisions of licensing authorities.

Apart from rights of appeal, both applicants and objectors will have safeguards in cases where a licence has been granted or refused on the basis of evidence or undertakings which are not borne out by subsequent events. The safeguard for an applicant who has been refused a licence will be that he can reapply, with obviously enhanced chances of success, if the railways' services prove to be significantly inferior, or their charges significantly greater, than he has been led to expect. In the reverse case, it will be open to the railways to send the necessary evidence to a licensing authority who can then, at his discretion, call on the licence holder to show cause why his licence should not be revoked. The National Freight Corporation will be required to apply for quantity licences in the same way as a private haulier, although it will in fact have a statutory duty to make the maximum economic use of rail for the trunk haul. Licensing authorities will have discretion to require the N.F.C. to produce evidence in support of an application
for a quantity licence to show why the traffic in question could not be carried by rail.

2. These arrangements, in the Government's view, overcome the difficulties envisaged by the Geddes Committee of using the licensing system to influence the distribution of traffic between road and rail. The argument has been frequently heard, since the Government's proposals were first published in July, that the normal forces of competition are sufficient to ensure that all traffic which is suitable for rail will go there without any need for additional pressures from licensing. The Government believes that, in the long run, rail will secure its proper share of the available traffic primarily by improvements in the type and efficiency of the services it offers. At the same time, there will often be a natural reluctance by consignors to alter their habitual arrangements for the transport of their goods, unless the advantage of the rail alternative is obvious and substantial. Inertia and habit will play their part and some consignors may not even be aware of the advantage to them of the new rail services, nor of the true economic cost of their present arrangements. The arrangements now proposed, which are firmly based on the principle that licences will be withheld only when rail is overall as satisfactory as road, will also have value in encouraging some consignors to make a conscious comparison between the actual costs to them of road and rail trunk haul in relation to different classes of traffic. Nevertheless, the Government intends to be satisfied that the new freightliner service has proved itself in practice before quantity licensing is introduced. It is therefore proposed that the Minister of Transport should be given powers in the Transport Bill to bring the system into force by Order on an appointed day, when she is satisfied that the freightliner services have developed sufficiently to justify its introduction.
Transitional arrangements

§ 3. The present system of A, B and C licensing will remain in force until quantity licensing is introduced. It will run in parallel for some time with the proposed system of quality licences which will be introduced as soon as possible after the Transport Bill becomes law. After the appointed day when quantity licensing is introduced, operators of vehicles over 16 tons gross weight which are used for purposes requiring quantity licences will have to apply for them when their existing A, B or C licences expire. An operator may surrender his A, B or C licence after the appointed day, but before it will normally be due for renewal, and apply for a quantity licence if he wishes to do so. Otherwise, existing licences will normally be allowed to run their full term. But a five year licence issued in 1968 would run until 1973, and the system could not be brought fully in force within a reasonable period if all existing licences remained valid until they expired. The Government therefore intends to take powers to limit the duration of licences current when quantity licensing is introduced, if this should prove necessary in order to confine the period of transition within reasonable limits. In exercising these powers, licensing authorities will be entitled to take into account any hardship which might result by allowing reasonable time for readjustment to the new licensing system.

Drivers' Hours

§ 4. The legal limits on the working hours of professional drivers have played an important part in protecting public safety since they were introduced in 1930. The tired driver can be a menace to himself and to others, and without the safeguard of realistic limits on his hours the professional driver is prone, not only to tiredness towards the end of the day, but also to a cumulative build-up of fatigue which can be especially dangerous. The present limits have remained unchanged for 33 years. Yet traffic conditions to-day are very different. Following widespread consultations with representatives of vehicle operators, workers in the industry and
other interested organisations, major changes in the miles
governing drivers' hours will be included in the forthcoming
Transport Bill. Details of the proposals as they relate to
goods vehicles are contained in Appendix 2.

Abnormal loads charge

65. Most motorists have suffered from the frustration and
delay caused by slow-moving heavy lorries with abnormal or
overhanging loads. Police time is involved in providing
escorts, and despite careful routeing the congestion caused
is often considerable. In some cases the loads might have been
sent by sea or rail, or broken down into smaller units. In
other cases the nature of the load or its destination
precludes the use of alternatives to road transport.

66. The Government believes that the introduction of a special
charge for the movement of such loads will encourage consignors
to look for other ways of moving them. It will also give some
compensation to the public for the social costs imposed by the
remaining abnormal loads which must continue to move by road.
It is therefore proposed to include in the forthcoming Transport
Bill provision for payment of a specific charge by operators
of vehicles carrying abnormal loads. The charge will be
assessed on a mileage basis and its amount will also vary
according to the dimensions and weight of the abnormal load,
from one shilling a mile for a load only just within the
abnormal category to as much as £15 a mile for the very largest
and heaviest type of load. It will be collected by the
offices of the licensing authorities.

Road Haulage Charge

31
Road Haulage Charge

67. Lorries impose heavy wear and tear on road surfaces. As a result, roads have to be built to higher constructional standards than would otherwise be necessary, or maintenance has to be carried out more frequently. In general, the heavier the lorry, the greater the cost in providing roads adequate to its needs. Ministry research into track costs, the report on which is being published, has shown the high proportion of road maintenance and construction costs that is attributable to heavy goods vehicles. Other European countries have recognised this fact in the charges they are proposing to apply to the use of heavier lorries (see Appendix 3).

68. The Government has therefore decided that, in addition to the contributions that all vehicles already make to general revenue, operators of goods vehicles over 3 tons unladen weight should pay a specific charge per vehicle which will reflect the extra costs imposed on the roads by heavy goods vehicles. The charge will be collected by the Ministry of Transport and will be separate from the vehicle excise duty. It will be an annual charge at a rate rising with vehicle size from £50 and up to a maximum of £190 a year for vehicles over 8 tons unladen weight. This proposal must be viewed against the background that the Government is committed to a continuing programme of heavy expenditure on roads.
VI: THE WATERWAYS

69. In certain parts of the country commercial traffic on the inland waterways is still playing a small but nevertheless useful part in the transport of freight, particularly of bulk commodities. As foreshadowed in Chapter VIII of the 1966 White Paper those nationally-owned waterways which could form an economic transport undertaking will, with their allied transport facilities such as docks and warehouses, be operated by the British Waterways Board on a commercial basis and, with a more realistic capital structure, will be separately accounted for. These commercial waterways have now been listed in Appendix A of the recent White Paper on British Waterways. Every effort will be made to promote and develop the transport uses of these waterways wherever this is economically justifiable.

VII: COASTAL SHIPPING

70. In terms of ton-milage, coastal shipping carried 16% of all freight movements in 1966 compared with 22% by the railways. Coastal shipping is particularly suitable for moving bulk commodities where the producing and consuming centres are both on or near tidal water or the broader inland waterways. About 85% of all coastal cargo has hitherto consisted of coal and oil, and a number of large and more efficient ships are being built for these trades, which are making a significant contribution to reducing costs. The tonnage of coal continues to decline, as the country’s fuel needs change, but the industry has shown enterprise by developing new trades such as gravel dredging and supplying the North Sea oil rigs. Specialised ships have also been built for moving heavy and bulky loads which would otherwise congest the roads.

71. More than 90% of dry cargo and 50% of the oil carried coastwise by sea is carried in British ships. Many of these ships also carry exports and imports in the short sea trade and thereby contribute directly to the balance of payments. The Government recognises the contribution which coastal shipping can make to the national transport system.
Coastal shipping is included in the scope of the Committee of Inquiry which the Government has set up under the Chairmanship of Lord Rochdale to review the efficiency and competitiveness of the shipping industry. The Government will give close attention to any recommendations about coastal shipping the Committee may make.

VIII: AIR FREIGHT

73. As explained in last year's White Paper air freight is a somewhat specialised (and domestically comparatively small) traffic. International air freight is, however, of very great and growing importance, especially for high value, compact or fragile goods, or those needing very quick delivery. In 1966 nearly £550m. worth (or over 10%) of U.K. exports or re-exports were carried by air. The freight traffic of British scheduled airlines grew on average by 23% a year from 1960 to 1966, which was well above the world average growth. Further rapid growth is expected in future, with the introduction of the larger jet aircraft with improved freight capacity and of freight aircraft with improved economics. The use of containers and pallets, standardised handling equipment and other techniques to minimise handling and permit through services, together with an increased awareness among exporters, agents and consignees of the benefits of air freight, will all play their part. Accordingly it is clearly important that there should be close liaison and co-operation between the N.F.C. and the operators, agencies and authorities concerned with providing air as well as shipping transport. Through services, and the appropriate links between surface and air facilities (including those between inland clearance depots and airports) must be developed. Similarly all reasonable standardisation, interchange and co-operation must be encouraged.
The Edwards Inquiry set up recently by the Government to review the civil aviation industry will be making recommendations in its Report, which is expected next Spring, affecting, among other things, the inter-relation between air and surface transport in the U.K. Freight services will no doubt be given due attention by the Committee in its study.

IX: THE PORTS

75. The changes in the techniques for handling and transporting freight call for radical adaptation of the facilities in our ports. On the one hand there is the extension of bulk-handling to new commodities and the continuous growth in the size of bulk carriers; on the other, the growth of the through unit load concept for general cargo - both roll-on/roll-off services, in the main for the short-sea trades, and the newer standard container services using specially developed cellular ships. Modernising our ports and adapting them to the new techniques calls for massive capital investment. Port investment has already risen from an average of £18m. a year in the period up to 1964 to £35m. in 1966 and an expected £45m. this year; it is expected to continue at at least this level for the next few years. The programme will be kept flexible to match the speed of technological advance.

76. The full benefit of modernisation of the ports will only be obtained if the planning and operation of their facilities are closely integrated with both inland transport and shipping. The Government is improving road access to the ports, and the freightliners will serve all our main freight ports. But the new unit load systems, and particularly the use of containers, can be exploited to the full only if loading and unloading can be carried out as near as possible to the origin and destination of the goods and if traffic can be concentrated to provide large regular flows handled by far fewer vehicles, berths and ships than conventional cargoes require. These factors have led /to the
The current development of inland depots in the main industrial
entres for the loading and unloading of containers and their
clearance through Customs. The Government welcomes the development
of these depots, which are being provided jointly by private and
public enterprise, through consortia which include the container
ship operators, the B.R.B., the T.H.C. and in some cases the port
authorities, and other inland transport interests, because the
reduced handling and reduced transport of small loads to the docks
would lead to the lowering of transport costs for a large proportion
of our exports and imports.

These plans for modernisation to meet changing circumstances are
only a first, though essential, step in the provision of a modern,
efficient ports system. In the longer term, as outlined in the 1966
White Paper, the Government intends to introduce legislation for the
organisation of the ports on the basis of public ownership. To
obtain the fullest benefits from the integrated through movement of
freight unified control of our ports is essential. The need is for
a strong central directing body with power both to prepare plans and
to ensure that they are carried out, whilst being itself charged
with the full responsibility for its policies. The Government's
proposals for a National Ports Authority, with Regional
Port Authorities under it, were circulated to the many interests
concerned, as a basis for discussion, in early July; their comments
will be thoroughly considered before final decisions are taken.

X: PRODUCTIVITY AND EFFICIENCY

In transport more than in most industries there are problems in
maintaining high standards of productivity. The great variety of
work and the difficult and changing conditions in which transport
operates, particularly in towns, make especially exacting demands on
management. But, even more important, transport is a labour-
intensive industry. It will, therefore, be vital to ensure the
losest co-operation between management and workers in the development of new methods of working and the use of better equipment. Improvements in productivity are needed not only to provide better and cheaper transport services, but also to provide the resources for improving conditions for transport workers. It is the Government's intention that steady progress should be made with the rationalisation of conditions of service for the staff of the various undertakings transferred to the National Freight Corporation so that staff engaged in similar duties enjoy comparable pay and conditions. But the pace at which standards generally can be improved must depend on the rate at which it is possible to improve productivity.

Then again, in the port industry, although some time will be needed for the initial problems to be solved, decasualisation has been a major step towards modernising the conditions of employment. The way will now be open for a wider extension of productivity agreements designed to increase throughput and reduce costs by the more efficient use of new machinery and methods.

If these technical developments, with their important implications for the workers concerned, are to be vigorously pursued, it is essential that the workers in these industries should have a much closer association with management. The exact forms of consultation may vary from one sector to another but the key principle is that the men and women involved should discuss, not merely the "how" but the "why" of the changes they are asked to accept. Consultation must therefore embrace, not merely negotiation of terms and conditions of employment, or measures affecting the safety, health and welfare of workers, but also proposals to improve efficiency in all its aspects, if the workers' representatives must be given the information necessary for them to be able to participate effectively in such discussions - as provided in the Iron and Steel Act, 1967. In the Rail Transport Bill, therefore, a duty will be laid on the B.R.B., L.C. and B.M.B. to consult the unions with a view to setting up the necessary
necessary machinery and to report to the Minister, within a period specified by the Minister, on the progress made. Consultations are already being held on the application of these principles to the port industry as part of the coming reorganisation.
Appendix 1 gives an estimate of how the road transport industry will continue to grow. Moreover, whilst the stimulus to the greater use of rail from the proposals in this White Paper will be vital to the future prosperity of railways, the amount of traffic likely to transfer from road to rail through the combined influence of the quantity licensing system and the expansion of the freightliner network is likely to amount only to about one third of the growth otherwise expected in road freight ton-mileage. Consequently, the trend of manpower in road transport will be little affected.

But railways and docks present a more difficult problem. The serious decline in many traditional rail traffics, and the increasing use of containers for general merchandise traffic, for instance, will clearly have very big effects on the demand for manpower on the railways and, in the latter case, in the docks. Although the problems that will arise are primarily for the industries concerned to resolve, it is the Government's responsibility to ensure that those who are employed in these industries do not live in continual uncertainty about the future. A close watch will be kept on trends in manpower and each industry will be required to produce a manpower budget. In the case of the railways the outcome of the discussions taking place on pay and efficiency and on productivity will have to be taken into account as well as the effects of changes in traffics and of technological improvements. Firm estimates of long-term manpower requirements must await accurate assessment of these developments. In the case of the docks the Government has, with the help of the National Ports Council, the National Docks Labour Board, the port authorities, the employers and the shipping industry, undertaken a preliminary study of the trends over the next few years of demand for and supply of both registered
jockers and other port workers; a broad assessment of the position over the next five years should be available shortly. The government will work with those employed in both industries in the task of preparing plans for the future and in particular on the arrangements for any necessary redundancy and retraining. It will pay particular attention to regional or local difficulties as they arise.

XIII: RESEARCH

8. Research is of fundamental importance if full advantage is to be taken of the application of the latest techniques of transport, communication and control and if new techniques are to be developed which permit cheaper and more efficient ways of handling and moving freight. Much valuable work is going on in both the public and private sectors of the transport industry. For example, the BRB's Research Department is currently investigating, among other things, the further mechanisation of freight handling, the dynamics of vehicles so as to improve their riding behaviour (and to avoid derailments) and the development of higher speed freight vehicles which need less maintenance. Their longer term work on the development of an advanced passenger train and on automatic train control based on track-to-train communication will also benefit their future freight operations. To ensure continuous and balanced technological development across the whole transport spectrum greater emphasis must be put on speculative research for the longer-term. The nationalised transport undertakings have an important responsibility in this respect and it is accordingly proposed that the forthcoming legislation should impose upon the BRB, BTDB, BWA, LTB and the NFE a clear duty to promote research and development. At the same time arrangements have been made between the Ministers of Transport and Technology for a joint transport research and development
programs, using resources from both departments. The National Research Development Corporation, the Atomic Energy Authority and the Ministry of Transport are co-operating closely in these arrangements, with the long-term aim of stimulating the development of new transport systems and equipment to meet the future demands of both passengers and freight. Furthermore, to ensure that research is not reasonably constrained, the Minister of Transport proposes to take specific powers to give financial assistance for the promotion of transport research and development.

As the 1966 White Paper indicated, the Ministry is also carrying out a substantial economic research programme with the general aim of providing a firmer economic basis to guide decisions on transport policy. Reference has already been made in para. 36 to the contribution which the first stage of the Inter-regional Transport Costs Model has already made in the field of carrier licensing. There have, in addition, been valuable by-products, in contributions to current policy matters. For example, the research has played a useful part in the consideration of the justification for further railway electrification. It has also been used in estimating the effect on road haulage costs of changes in drivers' hours, and of higher vehicle speeds. Work on the Transport Costs Model is being extended to include an examination of the significance of coastal shipping, air freight and pipelines for road and rail transport. Other research has been useful in assessing the labour intensity of the road haulage industry, as part of a wider investigation into changes in the industry's costs.

Another major economic research project within the Ministry is concerned with the impact of containers on the flows of imports and exports. A mathematical model is being constructed to simulate likely flows of containers between inland points in the U.K. and overseas ports, to help assess the container berth requirements of U.K. ports.
A mathematical model of port hinterlands has been developed to produce forecasts of the port facilities required for general cargo which is not suitable for carriage in containers. The Ministry has also commissioned a study on the practicability of a pilot pool for U.K. domestic and, if possible, international light traffic, and on its potential value. The total amount of research work in the field of transport economics—both by the Ministry of Transport and by outside organisations on its behalf—is far greater than ever before and is still increasing. A substantial part of this research will, moreover, reach fruition during the next few months. The Government will continue to foster this work.

III. CONCLUSION

The demand for transport is an ever-growing one and the industry must be dynamic. In fact, its performance over the different sectors has been uneven. An industry which contributes over 10 per cent of the country's gross national product and employs some 9 per cent of its labour force is bound to have many varied problems. But the Government is determined that a better service shall be provided to the nation, and is convinced that the way to achieve this is by a more rational and better co-ordinated use of the available resources. The proposals outlined in this White Paper involve substantial changes in the organisation of the public sector, and a new challenge to the road haulage industry. But they are flexible enough to permit account to be taken of increased knowledge, changes in demand and technological developments. They are an essential stage in the process of preparing the transport industry to meet both the present and the future needs of the community.
Most freight goes by road - 82 per cent of the tonnage and over 60 per cent in ton-mileage terms. Road and rail together handle 95 per cent of the tonnage and account for some 83 per cent of the ton-mileage.

Table 1: Inland freight transport in 1966

<table>
<thead>
<tr>
<th>Mode</th>
<th>Tons (millions)</th>
<th>Ton-miles (millions)</th>
<th>Average length of haul (miles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road</td>
<td>1,450 (82%)</td>
<td>41,500 (61%)</td>
<td>30</td>
</tr>
<tr>
<td>Rail</td>
<td>214 (12%)</td>
<td>11,800 (22%)</td>
<td>70</td>
</tr>
<tr>
<td>Coastal Shipping</td>
<td>54 (3%)</td>
<td>10,600 (16%)</td>
<td>200</td>
</tr>
<tr>
<td>Pipelines</td>
<td>26 (2%)</td>
<td>900 (1%)</td>
<td>55</td>
</tr>
<tr>
<td>Inland Waterways</td>
<td>8</td>
<td>100</td>
<td>15</td>
</tr>
<tr>
<td>Air</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,752</strong></td>
<td><strong>67,900</strong></td>
<td></td>
</tr>
</tbody>
</table>

By road, hauls are mostly short, 70 per cent of the tonnage being carried less than 25 miles, and only 7 per cent more than 100 miles.

By rail, 45 per cent of the tonnage is carried less than 25 miles, and 20 per cent more than 100 miles.

Figures relating to road transport in this Appendix are estimates based on the 1962 Road Goods Survey updated by reference to changes in the goods vehicle fleet, estimated goods vehicle mileage and industrial output. They are liable to revision in the light of the results of the 1967/68 Road Goods Survey.
Recent trends

2. The earlier trends continued in 1966 but with a smaller growth in road transport, and an apparent slight fall in total ton-mileage by all modes. This year, on the figures available to date, it appears still to be declining as a result of the interruption in the rise of industrial production and the continuing fall in coal traffic.

Table 2 Inland freight transport ton-mileage: trends and shares

<table>
<thead>
<tr>
<th>TON MILES (thousand million)</th>
<th>% SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>33.6</td>
<td>35.0</td>
</tr>
<tr>
<td>16.1</td>
<td>15.4</td>
</tr>
<tr>
<td>10.8</td>
<td>10.6</td>
</tr>
<tr>
<td>0.4</td>
<td>0.5</td>
</tr>
<tr>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>All</td>
<td>61.1</td>
</tr>
</tbody>
</table>

3. The share of road transport has been growing and that of rail falling mainly because of the growth in activities that are large users of road transport in contrast to the considerable fall in coal traffic and the modest growth in iron and steel traffic. As Table 3 indicates, the bulk fuel and steel traffic accounts for some 85 per cent of the total freight tonnage and 70 per cent of the ton-mileage moving by rail.

/ Table 3/
Table 3 Estimated Distribution of Road and Rail Freight Traffic in Great Britain 1966 by Mode, Commodity and Length of Haul

<table>
<thead>
<tr>
<th>Commodity</th>
<th>ROAD</th>
<th>RAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Under 25 miles</td>
</tr>
<tr>
<td>Total</td>
<td>1,450</td>
<td>70</td>
</tr>
<tr>
<td>Coal and Coke</td>
<td>140</td>
<td>80</td>
</tr>
<tr>
<td>Petroleum Products</td>
<td>70</td>
<td>55</td>
</tr>
<tr>
<td>Iron and Steel including ore and scrap</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>Oils and Oils</td>
<td>320</td>
<td>60</td>
</tr>
<tr>
<td>Building Minerals and Materials</td>
<td>460</td>
<td>80</td>
</tr>
<tr>
<td>Chemicals</td>
<td>40</td>
<td>55</td>
</tr>
<tr>
<td>Other Manufacturers Materials and specified Goods</td>
<td>360</td>
<td>60</td>
</tr>
</tbody>
</table>

Notes. Percentages below 10 are rounded to nearest 2.5.

Discrepancies in totals are due to rounding.

**The outlook**

On the basis of present policies and on the assumption that the rate of growth of Gross Domestic Product will reach 3% again within the next 3 years, the demand for transport, other than the bulk fuel and steel traffics is expected by 1970 to reach some 52,000 million ton miles, compared with 40,000 million in 1966. The prospect for the fuel and steel traffics is very different. In these cases, total ton-mileage will be sharply reduced as the result of present policies and on the assumption that the rate of growth of Gross Domestic Product will reach 3% again within the next 3 years.
falling demand coupled with a shorter average length of haul due to the siting directly on coalfields of coal-fired power stations currently under construction. Although demand for oil and steel will, the demand for transport of these commodities will not keep pace.

Substitution of natural for oil-based gas, the loss of other markets for natural gas, and factors connected with the location of new refineries will affect ton-mileage. Nuclear power will make only minimal demands on transport. With steel the continuing change-over from home to imported locational changes, concentration of production and a progressive reduction in the tonnage of imports required per ton of steel produced, will tend to reduce the transport ton-mileage required per ton of steel. Present indications are that the aggregate transport ton-mileage for fuel and steel traffics could fall from 28,000m. ton-miles in 1966 to some 24,000m. in 1975.

Thus total transport demand in 1975 would be as follows:

<table>
<thead>
<tr>
<th>Thousand million ton-miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
</tr>
<tr>
<td>Fuel and steel</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

As in 1975

Rail carryings of fuel and steel traffic will probably fall from 00m. ton-miles in 1966 to some 8,000m. in 1975. As regards rail traffic of other commodities, studies have indicated that potential road traffic amounting to some 4,500m. ton-miles, mainly on hauls of over 100 miles long by rail in the early 1970s, rising thereafter with industrial growth. (Road transport on hauls of over 100 miles is estimated at some 40m. ton-miles increasing by about another 5,000m. ton-miles by 1975 taking account of transfer to rail). Given energetic promotion of Inter-City trains and freightliner services, reinforced by the road transport new proposals, and allowing for some transfer of uneconomic rail traffic
Rail carriage of these other commodities, accounting for some 1m. ton-miles in 1966, could be about doubled. Allowing for some reduction in ton-mileage by coastal shipping and increase in transport by pipeline, the distribution of inland transport ton-mileage in 1975 would compare with that in 1966 approximately as follows:

<table>
<thead>
<tr>
<th>Thousand million ton-miles</th>
</tr>
</thead>
<tbody>
<tr>
<td>RAIL</td>
</tr>
<tr>
<td>------</td>
</tr>
<tr>
<td>10\frac{1}{2}</td>
</tr>
<tr>
<td>4\frac{1}{2}</td>
</tr>
<tr>
<td>14\frac{3}{4}</td>
</tr>
</tbody>
</table>

| per cent | 22 | 22 | 61 | 65 | 17 | 13 | 100 | 100 |

On this basis
1) the traffic transferred from road to rail, equivalent to about 30 per cent of rail ton-mileage in 1966, would more than offset the decline in fuel and steel ton-mileage. Rail ton-mileage would rise by some 1,750m. ton-miles, or 12 per cent. Its share of total ton-mileage would remain at 22 per cent as in 1966.
2) road transport ton-mileage would increase by some 8,000m. ton-miles, or nearly 20 per cent. Its share of total ton-mileage would rise to 65 per cent.
3) road ton-mileage on hauls over 100 miles would still be rather higher than in 1966: the transfer to rail envisaged would be rather more than offset by growth in the remaining road traffic.
Drivers' Hours

The principal changes in the existing law on drivers' hours which will be included in the Transport Bill are as follows:

(a) The maximum permissible length of a driver's working day will be reduced to 11 hours from the present total of 14. The new 11-hour limit will include an allowance of no more than 9 hours actually at the wheel of a vehicle, compared with the 11 hours out of the present 14 which a driver can spend at the wheel or working in connection with his vehicle or its load.

(b) The minimum daily rest period will go up from 10 to 11 hours, and will have to be taken immediately before starting a day's work.

(c) To combat the build-up of fatigue, a new limit of 60 hours' total work in any week will be introduced, together with a new requirement for at least one 24-hour rest period each week.

2. Measures will be taken to streamline the work of enforcing observance of the law and to increase the effectiveness of the examiners whose job this is. All goods vehicles, except the lightest not exceeding 30 cwts. unladen weight will have to carry recording instruments (tachographs) designed to give accurate and permanent records of driving time and other information about vehicle operation. Drivers will carry a new personal log book for recording their hours of work and rest, unless they are engaged solely in driving the lightest vehicles. Examiners' powers to scrutinize records relating to driving and working time will be strengthened, and defects in the law which have made enforcement unnecessarily difficult in the past will be remedied.
3. Drivers who have to drive only as an ancillary activity to some other main occupation - for example the tradesman who uses a van to carry his tools from job to job, or the shopkeeper who spends an hour or two each day delivering orders to his customers - and who are not subject to the same dangers from driving fatigue as a full time driver will be released from compliance with the law by a provision that anyone who drives for less than 4 hours each day in a week will no longer be reckoned as a driver for the purposes of these rules.

4. A new and much-needed flexibility will be built into the law by allowing the Minister of Transport to make suitable arrangements for those drivers whose job involves emergency work (for example in running fire or ambulance services or in keeping vital public utilities functioning) to be excused from those parts of the rules which might otherwise make it impossible for such services to be provided. And the Minister will have power to allow some extension of the working day (though not of the number of hours of actual work within the day) in those few instances where this is essential to enable particular transport services to be run properly.

5. Reforms on this scale will call for a big effort from management and unions within the industry to ensure that they can be carried through without major increases in operating costs and without undue hardship to drivers. Increased productivity will be the key factor and evidence of real progress towards this objective by both sides of the industry will be essential before it is possible to bring the new law fully into effect.
Road Haulage Charges

1. The Government's proposal to introduce a new road haulage charge as a contribution to the wear and tear on roads caused by heavy lorries is in line with the systems in operation or proposed in Germany and France.

2. Germany has long had a ton-mileage charge as well as the normal excise tax based on vehicle weights. It is now proposed that the ton-mileage charge should be substantially increased for vehicles carrying goods on own account, rising from about £250 at 3 tons unladen weight to £1,500 at 8 tons unladen weight.

3. In France there is also an excise tax based on vehicle weights. An entirely new charge is now proposed which is linked directly with the weight of the vehicle and the load it transmits to the road through each axle. The new charges will vary from about £50 per annum for lorries of 5 tons unladen weight to about £500 per annum for those of 8 tons unladen weight.
INDUSTRIAL EXPANSION BILL: DRAFT WHITE PAPER

Memorandum by the Secretary of State for Economic Affairs

I attach a report by officials on the outstanding policy issues on this Bill as invited by my colleagues on 26th October, 1967 (CC(67) 61st Conclusions, Minute 6). This incorporates certain conclusions reached at a meeting that I held with the Ministers most directly concerned and recommendations on certain other points which we referred back to officials for further examination and legal advice.

2. I also attach a revised draft of the White Paper prepared by officials. The only substantial amendment has been to the section from paragraph 12 onwards. The reference to the Industrial Reorganisation Corporation and the National Research and Development Corporation (paragraph 17) would have to be cleared with them before publication.

3. I agree generally with the recommendations at the end of the report, subject to the following points. First, in paragraph 4, last sentence, I think the Advisory Committee should instead be limited to commenting upon aspects involving discrimination and indicating ways of mitigating it. Second, in paragraph 9, we must bear in mind the weight of opinion on our own side against leaving the nationalised industries out of the Bill altogether. Third, I consider that the limit on expenditure (other than on Concord and Cunard) should be capable of extension twice by Order, i.e., to a total of £200 million.

P.S.

Department of Economic Affairs, S.W.1.

7th November, 1967
INDUSTRIAL EXPANSION BILL

Report by Officials

The Secretary of State for Economic Affairs was invited to arrange for officials to make recommendations on the outstanding policy issues on this Bill and the draft White Paper (Cm 67 81st Conclusions). These recommendations were considered at a meeting (referred to in this report as "the Ministerial meeting") held by the Secretary of State for Economic Affairs and attended by the Minister of Technology, the Chief Secretary to the Treasury and the Minister of State, Board of Trade. This meeting reached conclusions on certain points and referred others back to officials for further examination and legal advice.

2. We have taken as our starting point that the Bill is intended to enable the Government to give financial support to industrial projects which will benefit the economy but which will not be undertaken unaided by the companies concerned because the risk is too great or the return inadequate to command sufficient finance from commercial sources. (The way in which this criterion is to be provided for in the Bill is being considered.) To be eligible, projects must have one or more of the following purposes:

(a) to promote efficiency or (b) to support technological advance or (c) to create, expand or sustain productive capacity.

Advisory Committee

3. The technical and financial appraisal of schemes, and the consideration whether there is unfair discrimination, will be difficult and important, and the members of the Committee will have to be chosen with care. The Ministerial meeting concluded that it would be unwise to limit its composition to members of the Industrial Reorganisation Corporation (IRC) and National Research Development Corporation (NRDC) and the White Paper should leave open the possibility of other appointments.
4. We envisage that the Advisory Committee would arrange for the appraisal of projects referred to it by the Government to be undertaken by a team drawn from the staff of the IRC and the NRDC, from outside consultants or from a combination of both. The Committee would be given guidelines by the Government as to the scope of its enquiry and the factors to be taken into account; and in the process of evaluation would consult departments and make use of such information as the Government could make available. The appraisal would establish such matters as the sum needed (and on what terms) to make the project financially viable, the quantifiable economic costs and benefits not reflected in the financial analysis and, where necessary, the technical feasibility of the project. In appropriate cases, the Committee would say whether it thought that a proposed project involved unacceptable discrimination between firms.

5. Reference to the Committee will have to be made in the Bill in order to enable payment to members, if necessary; and the Bill will also need to enable the IRC and NRDC to give such assistance to the Committee and to Ministers as is necessary for the Committee's functions.

6. The White Paper should state that it is the general intention to refer projects for advice, but that there may be exceptional cases where this would be clearly inappropriate. It will not, for example, normally be necessary to seek a further appraisal by this Committee where the project or scheme of development has already been exhaustively examined for the Government by an independent committee of enquiry; and there may be other unforeseen and exceptional cases where the Government would find it inconvenient or inappropriate to refer the project to the Advisory Committee. The White Paper should also state that the Government would review the arrangements for evaluation and advice in the light of experience. (This would leave it open to the Government to...
consider later whether there is a case for building up within the
government the staff and knowledge needed to undertake the appraisal

task.)

7. The Minister of Technology has proposed that the powers under
the Bill should be available not only to finance individual pro-
jects but also to enable a Minister by Order under the Bill to set
up a Board to advise on and perhaps supervise a series of related
projects to be undertaken within a single industry. The Minister
would then finance these within the sum authorised by the Order.
This may prove a convenient procedure to adopt for the purposes of
the Bill in certain cases. But we consider that such Boards should
be set up only in exceptional cases where: (a) there is a continuing
industrial operation to be carried through comparable with the action
now being taken in shipbuilding; and (b) there has been a prelimin-
ary enquiry on the basis of which the Government has announced a
policy of support under the Bill. We agree that if there are to be
such Boards they should not have spending power of their own —
other than (possibly) power to pay staff. The Minister would, of
course, need to prove, within a general Order, particular expenditure
proposals.

Industries to be covered.

8. The Ministerial meeting decided that the powers under the new
legislation should be available to support eligible projects in any
industry (including transport, distribution and other services) in
the private sector. It would not, however, be the intention to use
these powers in duplication of those which Parliament may already
have provided for the desired purpose under separate legislation,
e.g. the agricultural support legislation and the shipbuilding
industry act. (The latter has only recently been enacted and
shipbuilding should, therefore, be explicitly excluded from the
Bill.)
9. The Ministerial meeting also decided that to bring the nationalised industries fully within the scope of the Bill would run counter to the philosophy underlying the new legislation whose principal purpose is to support private industry. The main activities of the nationalised industries should, therefore, be excluded in terms from the scope of the Bill. It was, however, thought desirable to have power to support the ancillary activities of nationalised industries as these are more closely comparable with activities in the private sector and are so treated for the purposes of investment grants, etc. There is some doubt whether it would be necessary to take express power to support these activities under the new legislation since the power would exist in any case so far as joint projects between a nationalised industry and a private sector company were concerned, and other ways of supporting wholly-owned subsidiaries of nationalised organisations could be found in many cases. If, however, Ministers wish to be certain that the power will always be available if required, it would be desirable to draft the Bill in such a way as to make this explicit. The manufacturing power of nationalised industries is, however, a highly sensitive question on which the CBI has in the past made strong representations to the Government. The inclusion in the Bill of a provision explicitly authorising the Government to support the ancillary activities of nationalised industries would, therefore, be likely to arouse further controversy with industry; and this would need to be weighed by Ministers against any disadvantages which would arise if such provision were not included.

10. The industrial scope of the Bill for both the public and private sectors should be indicated in general terms in the White Paper.
growth - it would be a convenience from the point of view of the parliamentary timetable to provide in this Bill for the assistance to Cunard. In this event, the financial provision should be made in a separate clause and Cunard should not be mentioned in the White Paper.

Aircraft projects

1. The reference to aircraft projects in the White Paper leaves open the options on the airframe merger and provision must be made in the financial limits on expenditure under the Bill for the possibility of a Government minority holding (costing about £60 million) in an airframe company. This provision cannot be included in a separate financial limit for aircraft projects because the approximate figure for Concord would be known and the included for the airframe merger could be deduced, thus seriously weakening our negotiating position on that merger. There should, therefore, be a separate financial limit for Concord alone. The prototype and pre-production costs are already being financed under existing powers and the full production costs should be provided for in a separate clause of the Bill which would include for this purpose a separate financial limit of £100 million with provision to increase it by Order by £25 million.

Financial limit (other than Cunard and Concord)

2. The financial limit fixed for other projects under the Bill must necessarily be an arbitrary figure because the scale and rate of expenditure cannot now be foreseen. We suggest that it might be £100 million with provision to increase it once or twice by Order by £50 million. This would include the provision needed for the possible airframe merger.

3. The White Paper should state the intention to have financial limits, but there is no need to state the actual figures at this stage.
it would be a convenience from the point of view of the parliamentary timetable to provide in this Bill for the assistance to Cunard. In this event, the financial provision should be made in a separate clause and Cunard should not be mentioned in the White Paper.

Aircraft projects

12. The reference to aircraft projects in the White Paper leaves open the options on the airframe merger and provision must be made in the financial limits on expenditure under the Bill for the possibility of a Government minority holding (costing about £40 million) in an airframe company. This provision cannot be included in a separate financial limit for aircraft projects because the approximate figure for Concord would be known and the sum included for the airframe merger could be deduced, thus seriously weakening our negotiating position on that merger. There should, therefore, be a separate financial limit for Concord alone. The prototype and pre-production costs are already being financed under existing powers and the full production costs should be provided for in a separate clause of the Bill which would include for this purpose a separate financial limit of £100 million with provision to increase it by Order by £25 million.

Financial limit (other than Cunard and Concord)

13. The financial limit fixed for other projects under the Bill must necessarily be an arbitrary figure because the scale and rate of expenditure cannot now be foreseen. We suggest that it might be £200 million with provision to increase it once or twice by Order by £50 million. This would include the provision needed for the possible airframe merger.

14. The White Paper should state the intention to have financial limits, but there is no need to state the actual figures at this stage.
Summary of Recommendations

(i) Advisory Committee. The composition should not be confined to members of the IRC and NRDC and reference of projects to the Committee should not be mandatory (paragraphs 3 and 6);

(ii) Industry Boards. Power should be taken to set up Boards on the lines suggested in paragraph 7 above;

(iii) Industrial scope. The powers should be available for any industry in the private sector (including services but excluding shipbuilding which is covered by recent legislation). It should be made clear that the powers would not be used to duplicate existing legislation for particular industries such as agriculture (paragraph 8).

The main activities of nationalised industries should be excluded from the Bill. There is a case for including their ancillary activities, but this needs to be weighed against the controversy which this would arouse in industry (paragraph 9);

(iv) Cunard. This assistance should be provided in a separate clause of the Bill (paragraph 11);

(v) Aircraft projects. The full production costs of Concord should be provided in a separate clause of the Bill with a financial limit for Concord alone of £100 million with provision to increase it by Order by £25 million (paragraph 12);

(vi) Financial limit (other than Cunard and Concord). This might be, say, £100 million with provision to increase it once or twice by Order by £50 million each time. This would include £40 million for the possible airframe merger (paragraph 13).
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
Confidential

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.G. 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 I.R.C. 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 would be required to cover the needs of the aircraft industry, for example, the financing of Concord production. The Government are also 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
securing separate legislation in each case. 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 should be able to supplement those sources of finance speedily and effectively.

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 projects designed to promote efficiency; to support technological advance; or to create, expand or sustain productive capacity.

13. 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 legislation would enable the Minister to support the design, development and production of other products, in addition to civil aircraft.

14. The powers under the new legislation would be available to
support eligible projects in any industry (including services) in the private sector, except for shipbuilding for which there has been recent legislation. The Government do not, however, intend to use these powers where the same object could be achieved under existing legislation relating to the industry in question, for example, the agricultural support legislation. The Bill would cover the ancillary activities of the nationalised industries, but not their main activities.

15. 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; and a separate limit relating to the production expenditure on Concord.

Operation of the New Powers

16. The Bill will not confer any compulsory powers, either directly or indirectly. 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 will 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.

17. The powers under the new legislation would be used only for projects which would not take place without Government support and where the Government judged it to be in the national interest to give that support. It is not intended to use them as a general substitute for investment grants in industries which do not qualify under the Industrial Development Act, 1966. Projects to be considered for support would be carefully selected and the provision of Government finance to them would be subject to no less stringent examination than that applied to investment in the private sector or in the nationalised industries. The Government would submit these projects to a comprehensive
evaluation and a new advisory committee would be set up, containing members of the Industrial Reorganisation Corporation and the National Research and Development Corporation and drawing on their staff, to which it would be the Government's general intention to refer projects for advice. (There may be exceptional cases where such reference would be clearly inappropriate, as, for example, where the new legislation was used to implement the recommendations of an independent Committee set up to examine the problems of a particular industry.) These arrangements for evaluation and advice would be reviewed in the light of actual experience.

18. 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 of new powers granted under it, the Minister concerned would be required to define the scheme or specific proposal in an Order to be laid before Parliament and to obtain the approval of the House of Commons for proceeding with it.

19. In exercising the powers under the new legislation, the Government would take full account of regional needs and pay due regard to international obligations.

Conclusion

20. 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.
BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT

Memorandum by the First Secretary of State

We have now to decide whether to accede to the request by British European Airways (BEA) that they should be allowed to buy the British Aircraft Corporation (BAC) 2-11 aircraft in place of the Boeings which last year we refused them permission to buy. The President of the Board of Trade in his memorandum C(67) 177 argues that we should let BEA have the BAC 2-11; in C(67) 178, the Minister of Technology puts the contrary view. These memoranda, together with the joint memorandum by officials of the Board of Trade and the Ministry of Technology appended to this note, were considered on 13th November by a meeting of the Ministers mainly concerned under my chairmanship. I summarise below the views of that meeting.

2. Some of the considerations are clear-cut -

(i) It could have a damaging effect on the morale, and hence the productivity, of BEA if we overrule their commercial judgment for a second time.

(ii) On the other hand, to go ahead with the 2-11 would involve much heavier cost to the Exchequer than the development of the Trident 3B which would probably by the alternative aircraft for BEA. The figures are summarised in Table III and paragraph 13 of the Appendix. They show that, while BEA's operating losses with the 2-11 would be likely to be less than with the Trident, this would be more than offset by the heavier launching costs of the 2-11, which the Government would have to bear. The net result would be that the 2-11 would involve an additional cost, as compared with the Trident, of some £50 million in discounted terms.

(iii) The effects on employment in the aircraft industry of adopting one course rather than the other are not sufficiently significant to influence our choice.

3. There are a number of further considerations which are less clear-cut and which do not decisively favour one alternative rather than the other.
(i) A decision in favour of the 2-11 would upset the French because they would regard it as prejudicing the success of the Airbus. But we have avoided giving them any commitment about the 2-11 and have retained our freedom of action. Moreover, the French themselves have allowed Air France to buy Boeings, despite their concern for the Airbus.

(ii) The 2-11 would have some export prospects, while the Trident would have none. On the other hand, the fact that BAC are not prepared to contribute to the launching costs perhaps suggests that they have no great confidence in the export potential of the 2-11.

(iii) The 2-11 would be preferable to the Trident on noise grounds, but this would not significantly affect the overall noise problem at our airports.

4. There was general agreement that, apart from costs, the crucial considerations revolved around two major uncertainties. The first is the effect on the export potential of Rolls Royce aero-engines of a decision in favour of the 2-11. Rolls Royce have two "new technology" engines with great export potential - the RB, 207 and the smaller RB, 211. The RB, 207 will go into the European Airbus. The RB, 211 has perhaps a fifty-fifty chance of being adopted for the American Airbus which Lockheed and McDonnell Douglas propose to develop. Since we cannot be sure that the European Airbus will go ahead beyond the project definition stage, there is at present no assured market for the RB, 207 engine. It is therefore all the more important that Rolls Royce should be able to market the RB, 211 engine, lest we should be left with no outlet at all for our advanced technology engines. If the 2-11 aircraft goes ahead, this would in itself be an outlet for the RB, 211 engine; moreover Rolls Royce feel strongly that this would improve their chances of getting the RB, 211 into the American Airbus. But to buy a foreign engine for their Airbus would be a major decision for the Americans and it is doubtful how far they would in fact be influenced by the knowledge that the RB, 211 would be flying in the 2-11 aircraft.

5. The second uncertainty is the future of the European Airbus. Recent reports make it clear that the German Government will have difficulty in persuading Lufthansa to place a firm order for the Airbus on completion of the project definition stage, and there must therefore remain some doubt whether they will in the event insist on this. On the other hand, all the three Governments concerned agreed to proceed to the project definition stage on clear assurances that, if the specification could be complied with, they would between them provide an assured market with their national airlines for 75 airbuscs.

6. If we assume that the European Airbus will go ahead, this would argue in favour of the Trident and against the 2-11: the Airbus would provide an outlet for one of the Rolls Royce engines; development of the 2-11 would be partly (though not wholly) in competition with the Airbus and would run counter to our general policy of European collaboration as the basis for all future airframe ventures. If on the other hand the Airbus were not to get beyond project definition, the effect might well be that in the long term Europe, including the United Kingdom,
would be obliged to buy the American Airbus. In these circumstances, there would be an argument for developing the 2-11 as an interim measure, but it is not a conclusive argument. The 2-11 would enable the British airframe industry to stay in business for a short period; but in the long run it could not hope to survive American competition.

7. My colleagues and I found this a difficult issue with the considerations evenly balanced. The general view, however, was that further study or inquiries would not help matters; moreover a decision is required urgently by BEA and the industry. The majority view was against development of the 2-11, and I invite the Cabinet to endorse that view. I should add that this is the only decision we are called on to make at present; if we do not go ahead with the 2-11, there should be further urgent discussion with BEA before deciding the type and number of alternative British aircraft they would then need.

M. S.

70, Whitehall, S. W. 1.

14th November, 1967
BEA RE-EQUIPMENT

Joint memorandum by Board of Trade and Ministry of Technology officials

Ministers will recall that in the summer of 1966 BEA were refused permission to purchase a fleet of Boeing aircraft. It was announced that BEA would buy British aircraft and that aircraft under consideration were developed versions of the VC-10, the Trident and the BAC 1-11; the Government were prepared to give launching aid for the types selected and would "take steps to ensure that BEA is able to operate as a fully commercial undertaking with the fleet it acquires."

The BEA requirement fell into two parts. The first was met by the purchase of an improved and larger version of the BAC 1-11 - the BAC 1-11/500. The second and larger requirement was for an aircraft to match the Boeing 727 which is being acquired by continental competitors and to provide the larger capacity aircraft which will be needed as traffic grows on many routes at home and abroad. Without further aircraft BEA will be badly short of capacity to meet the growth in traffic from about 1969 until the Airbus is available in 1973, but the aircraft they acquire will continue to be needed for many years after the Airbus is available.

To meet this requirement for a larger aircraft intermediate between the jet aircraft now operated by BEA (e.g., Trident with about 100 seats) and the Airbus (about 270 seats) there were in August 1966 only the VC-10 which might be modified for short-haul use (175 seats) and an enlarged Trident which has now emerged as the Trident 5-E (146 seats). Meanwhile the British Aircraft Corporation have proposed a substantially new aircraft the BAC 2-11 (203 seats). BEA asked in February 1967 for permission to buy the BAC 2-11 on the ground that it was the right intermediate size (about 200 seats) on the way to the Airbus, and had the attraction of being first in the field of a new generation of quieter aircraft with good operating economics.

Of the five possibilities theoretically before us, two appear to be ruled out in practice. First, we assume that Ministers will adhere to their previous decision not to permit the purchase of Boeing, even though Air France and Lufthansa have been allowed to acquire them. Secondly, there seems no case for a modified VC-10, to which consideration was given earlier, since this aircraft is rejected by BEA on operational grounds, and has no advantage on financial grounds.

Accordingly, in more detail, the paper discusses

(a) various possible fleets;

(b) the consequences for BEA's operational efficiency in financial terms;

(c) aid to BEA;

(d) launching costs;

(e) incidence of Exchequer expenditure;

(f) consequences for the balance of payments;
effect on the aerospace industry;
noise.

BEA fleets for BEA:

BEA have no doubt that they want the BAC 2-11. They have never evaluated other possible courses. The various "mixes" of aircraft for which a detailed analysis has been made are shown in Table I. The main assumptions which BEA have made and discussed with departments are set out for reference at Annex A. The "Boeing" fleet is that originally proposed by BEA in 1966. It is included for purposes of comparison only. As far as Tridents are concerned it will be seen that a fleet with a reduced number of Tridents and a greater number of airbuses has been included as well as the "mix" that BEA themselves would prefer; the exact numbers and mix of aircraft in this reduced Trident fleet are not finally determined. The new aircraft of whatever sort would be absorbed gradually throughout the 1970s.

### Table I

**ALTERNATIVE BEA FLEETS**

<table>
<thead>
<tr>
<th>Aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC 2-11</td>
</tr>
<tr>
<td>Trident</td>
</tr>
<tr>
<td>Airbus</td>
</tr>
<tr>
<td>Boeing 727-200</td>
</tr>
<tr>
<td>Boeing 737</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fleet</th>
<th>Seats</th>
<th>BAC 2-11</th>
<th>Trident</th>
<th>Reduced Trident</th>
<th>Existing Types</th>
<th>Boeing 727/737</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fleet</td>
<td></td>
<td>Fleet</td>
<td>Fleet</td>
<td>Fleet</td>
<td>Types</td>
<td>(national</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Fleet</td>
<td>fleet)</td>
</tr>
<tr>
<td>2-11</td>
<td>(18 on order)</td>
<td>97</td>
<td>23</td>
<td>21</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Trident 2</td>
<td>(6 on order)</td>
<td>106</td>
<td>21</td>
<td>17</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>Trident 3-B</td>
<td>203</td>
<td>34</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Airbus</td>
<td>146</td>
<td>-</td>
<td>47</td>
<td>29</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Boeing 727-200</td>
<td>267</td>
<td>15</td>
<td>16</td>
<td>26</td>
<td>42</td>
<td>17</td>
</tr>
<tr>
<td>Boeing 737</td>
<td>111</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

(Previously fleets containing respectively 18 short-haul VC-10s and 20 Boeing 727s were considered, but the results are worse than for the Trident fleet and they are omitted.)

**Consequences for BEA:**

(a) Effect on BEA's investment and profit and loss account

The expected results with each of these fleets are shown in Table II. This is done in two ways. First is shown how long BEA would expect to make losses; what their accumulated deficit would be at the end of that period; and how far that would be reduced, by subsequent annual surpluses. Second the nett present value of these results is shown in terms of discounted cash flow with the internal rate of return this represents. It is to be observed that the figures represent nett results of very large sums of revenue and expenditure over the years.


### TABLE II

**BEA FINANCIAL FORECAST**

<table>
<thead>
<tr>
<th>Accumulated Deficit</th>
<th>Nett Present Value at 1968</th>
<th>D.C.F. Terms (10 year period)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accountancy Terms</strong></td>
<td><strong>Period from 1968/69</strong></td>
<td><strong>Nett Present Value</strong></td>
</tr>
<tr>
<td><strong>Accumulated Deficit</strong></td>
<td><strong>at end of Period in Col. 1</strong></td>
<td><strong>After 10 years</strong></td>
</tr>
<tr>
<td>7 years</td>
<td>-47</td>
<td>-13</td>
</tr>
<tr>
<td>7 years</td>
<td>-60</td>
<td>-34</td>
</tr>
<tr>
<td>8 years</td>
<td>-70</td>
<td>-55</td>
</tr>
<tr>
<td>9 years</td>
<td>-67</td>
<td>-59</td>
</tr>
<tr>
<td>5 years</td>
<td>-10</td>
<td>48</td>
</tr>
</tbody>
</table>

---

**Exchequer Aid to BEA**

When BEA were refused permission to buy Bocings the Government undertook to ensure "that BEA is able to operate as a fully commercial undertaking with the fleet it acquires". These are the same words as were used when the Government dealt with the financial consequences of the equipment decisions taken for BOAC. The problem is different because BOAC had a heavy accumulated deficit; the objective here is to avoid such an accumulation as a millstone round the neck of BEA and the Government. It is important to give BEA aid during the next few years when otherwise they would be accumulating a deficit, and to avoid the implication that the aid is directly related to the economics of the British aircraft.

The method proposed, after discussion with BEA, is that their existing borrowings should be reduced by a given sum and that a special "fund" of the same amount should be created for the purpose of sustaining their revenue account during the period of anticipated losses. This transaction would not require the provision of additional Exchequer money, but as it would involve writing off part of the Corporation's debt to the Exchequer it would require legislation. Additional Exchequer money is not required because, although the creation of the special "fund" reduces the interest payable by BEA and receivable by the Exchequer, BEA's need to borrow during the same period is reduced to the same extent. A predetermined sum would be transferred from the "fund" to the revenue account each year so as to afford BEA, on the basis of present forecasts of trading conditions and out-turn, the opportunity to achieve a reasonable margin of profit. From these profits a reserve would be gradually built up. At the end of the period for which aid is required BEA could be expected to be able to operate in a fully commercial fashion without support. It would then be open to the Government either to reclaim the reserve (which could be done under existing powers) or to convert it into interest-bearing borrowings or equity capital.

These matters will have to be settled before BEA finally commits themselves to the purchase of aircraft. Negotiations are continuing about the exact size of the fund involved but they should not exceed the following amounts for the various fleets discussed:
BAC 2-11 Fleet £30 M.
Trident 3-B Fleet £50 M.
Reduced Trident 3-B Fleet £57 M.
Existing Types Fleet £58 M.

These sums do not, of course, modify the financial figures given in paragraph 7, since they represent no more than the method to be adopted for dealing with the short falls shown there.

Launching Costs

1. The figures in Table II are the results for BEA on the assumption that launching costs are borne by the Government. Table III shows these costs, combines them with the value of BEA's investment as in Table II, and shows therefore the total nett present value of the investment.

<table>
<thead>
<tr>
<th>Fleet</th>
<th>Launching Cost</th>
<th>Value of BEA's Investment (From Table II)</th>
<th>Import Duty</th>
<th>Value of total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC 2-11</td>
<td>-78 (-56)</td>
<td>-44</td>
<td>-</td>
<td>-122 (-100)</td>
</tr>
<tr>
<td>Trident 3-B</td>
<td>-17</td>
<td>-54</td>
<td>-</td>
<td>-71</td>
</tr>
<tr>
<td>Reduced Trident 3-B</td>
<td>-17</td>
<td>-63</td>
<td>-</td>
<td>-80</td>
</tr>
<tr>
<td>Existing Types</td>
<td>0</td>
<td>-64</td>
<td>-</td>
<td>-64</td>
</tr>
<tr>
<td>Boeing 737/727</td>
<td>6</td>
<td>20</td>
<td>+14</td>
<td></td>
</tr>
</tbody>
</table>

Notes (a) Figures in round brackets are those applicable to the BAC 2-11 Fleet if the basic engine launching costs can be attributed to the American Airbus.

(b) According to normal practice the launching costs of the BAC 2-11 would be offset to a modest extent by a Government levy on sales. Allowance has been made for this in the above figures.

Exchequer Expenditure

12. An analysis has been made of the incidence of the funding by the Treasury of BEA and of the aircraft industry (in its civil role) over the next five years in respect of the different BEA fleets considered in this paper. In this context it is the gross launching cost (not discounted as above) that is relevant in £130 M. for the BAC 2-11 and £17 M. for the Trident 3-B. The results are shown in Annex B and for completeness cover Concord development and production which is of no relevance to BEA.

SUMMARY

13. These tables show that the BAC 2-11 is rightly preferred by BEA on financial grounds - in nett present value terms it is £10 M. better than the full Trident fleet or £20 M. better than the reduced Trident fleet - as well as because of its advantages in size and quietness.
dually they make it clear that the BAC 2-11 is the least attractive investment with launching cost taken into account, involving an additional cost in discounted terms of some £50 M. or, in Exchequer terms, an outlay of some £20 M. per year greater from 1965/9 - 1971/2.

Balance of Payments

4. The Trident 3-B has negligible export potential. There is certainly a world market for an aircraft of around 200 seats in size and with economics as good as, or preferably better than, those of the BAC 2-11. How great it is and how successful the BAC 2-11 would be in capturing it must be speculative. The Americans could well produce a competitor of more advanced design by, say, 1974 and export sales probably would be achieved only in the early years of availability of the BAC 2-11. In the view of the Ministry of Technology, it is probable that export sales would amount to more than 60 representing a foreign earning of £130 M. This would involve an implied preference rate for foreign exchange of some 50% (relating Government loss to export earnings), or some 35% allowing for the fact that we should save the cost of developing the Trident 3-B for BEA, and that BEA's foreign currency earnings would be improved with the BAC 2-11. If, less probably, 100 export sales were secured earnings might be £20 M. and the implied subsidy 23% and 17% on the two bases.

5. There are two other factors here that are more speculative - the further export earnings that might be achieved if on the one hand the development of the BAC 2-11 enabled Rolls-Royce to market the RB.211 engine; and if, on the other, a decision not to develop the BAC 2-11 led to the later project for a European minibus discussed below.

Effect on the Aerospace Industry

16. (a) Engines

On past experience the export potential is greater for engines than for airframes. It is therefore of the utmost importance to give Rolls-Royce a secure basis for developing at least one of their new technology engines, RB.207 or RB.211. The RB.207 will go into the airbus, but we shall not be sure until the middle of next year that the airbus will go ahead. The RB.211 is on offer for an American Lockheed or Douglas airbus, but it faces strong competition from American engines. In these circumstances, the BAC 2-11 provides the one present application for a new technology engine entirely within our control.

17. (b) Aircraft Industry Policy

Aircraft industry policy is now firmly based on partnership with Europe, since we do not rate very highly the chances in future of selling large civil aircraft in world markets, in the face of increasing American and Russian competition, unless they have as a starting point an assured market in Europe. This was the basis of the decision to start the airbus.

18. The BAC 2-11 would run counter to this policy. On BEA's plans, assuming they buy the BAC 2-11, they would not require more than 15 airbuses by 1980, which would make it difficult to achieve the assured market of 75 aircraft which we regard as a minimum for continuing the airbus project, particularly as Air France have already been allowed by Boeing as an intermediate aircraft. To the extent that it would abrod it would constitute a threat to airbus exports.

19. The Trident 3-B would also, to a less extent, run counter to the European policy. If BEA have no new type of aircraft they will have to take something like 40 airbuses; their optimum Trident fleet would
leave a demand for only 18 airbuses and even the reduce Trident fleet which has been considered calls for no more than 26 airbuses, but no exports of the Trident 3-B that would further prejudice the airbus market are expected.

20. As a continuation of a European policy we should, in the view of the Ministry of Technology, plan towards a 200-seat aircraft of advanced design (a "minibus") as a collaborative project entering service in 1975 or later and aimed at a wider market than the purely national BAC 2-11. Conceived as a Boeing 727/200 successor, and sufficiently up to date in concept to go on selling into the 1980s in the face of competition, such an aircraft might hope to achieve sales of 200/250 in all, earning for the United Kingdom foreign currency to a present value of £150/200 M. At this level of sales, the United Kingdom might be expected to recover its share of the launching costs, so that there would be no implied subsidy. We should lay claim to design leadership (since the French are leading on the airbus). The minibus, following the airbus, might possibly be the start of a European family of aircraft and therefore lead to continuing export sales.

21. This policy will, of course, not be without difficulties. There can be no assurance that the technical improvements necessary for a successful minibus will prove feasible, or that other countries can be persuaded to join in or accept our leadership. The French have agreed that officials should discuss this project, and are thought to have accepted the philosophy of a European family of aircraft, but we know that French finances are already strained by the current aircraft programme.

Manufacturing considerations

22. The BAC 2-11 would be designed and built by BAC at Weybridge where a sharp rundown of work is threatened on completion of the BAC 1-11. All things being equal, we should aim to maintain this team, since it is the only one which has achieved real success in the major civil aircraft field. However, in the absence of the BAC 2-11 we might employ the nucleus of the team in preliminary studies to establish the feasibility and economics of a minibus concept (at a cost in the order of £1-2 M. a year). The Trident 3-B would be designed and built by HSA at Hatfield. Without it there would be a shortage of work at this factory until the airbus gets underway.

Aircraft noise

23. The noise characteristics of the aircraft under consideration are set out in Annex C. The BAC 2-11 and the airbus are the only two types which would incorporate advanced technology engines, intrinsically much quieter than those in use now. The Trident 3-B, like the Boeing 727, is not significantly different from current aircraft.

24. If BEA buy the BAC 2-11 in the numbers they propose, by 1973 something like 40% of BEA's movements to the London airports or about 15% of the total of all airlines, would be with these quieter engines. Similarly, maximum deployment of the airbus would have attraction from this point of view. Existing types of aircraft, or stretched versions of them, would precede the new noise certification scheme and, at least initially, not be affected by it. It has to be recognised, however, that noise suppression will have growing importance during the lifetime of the aircraft now to be ordered and it is possible that the Trident 3-B which, like the Boeing 727, is above the criteria to be applied, will have to be re-engined or retired well before the end of its service life.

25. BEA are well aware of the advantages to them of quieter engines, and have assumed that they would obtain a higher utilisation of the quieter BAC 2-11, especially at night, than of the Trident 3-B. BEA...
are also aware of the danger of restrictions on the Trident 3-B and Mr Anthony Milward has made it clear that, if he is compelled to take it, he will want a guarantee that it will be exempt from the noise certification scheme. Clearly no such guarantee can be given and it may be necessary instead to promise here also to make good any losses incurred as a result of noise policy.

In addition to the advantage to BEA, an attempt has been made to evaluate the amenity benefit of the BAC 2-11 to the public. At busy airports, like Heathrow which is BEA's main base and where there is a high rate of air transport landings and take-offs with a general high noise level and intermittent bursts of high intensity, the presence of some quiet aircraft will only marginally affect amenity nearby. In less busy airports the relative importance of some quieter aircraft will be greater but the loss of amenity due to noise at those places is, in total, very much less. Furthermore, the number of movements that BEA will make with their new aircraft at these places is small in relation to their activity at Heathrow. Overall, the value of the improvement in amenity near airports where BEA operates is considered to be marginal in relation to the other sums involved in choosing an aircraft for BEA but so far as there is an advantage it lies with the BAC 2-11.

BEA's position

Finally, it is necessary to have some regard to BEA's position in all this. By refusing their first choice, the Boeing 727 and 737, we have already once overruled their judgment. If now we refuse to accept the BAC 2-11 available against their considered preference, and furthermore insist on reducing the number of Trident 3-Bs below what we regard as the optimum, we are undermining the BEA Board and substituting our own judgment. BEA is a national asset and we are bound to attach importance to their success in carrying out their statutory responsibility to provide an efficient and economic airline.

On the other hand the BAC 2-11 had not been conceived at the time BEA were refused permission to buy Boeing aircraft. The alternatives under consideration then were much less expensive in terms of launching aid than the BAC 2-11 and it was these smaller sums the Government was prepared to pay when it made its decision. While the BAC 2-11 fleet gives the best internal rate of return on BEA's investment none of the fleets of British aircraft examined by BEA ensures an 8% a year return on capital invested in BEA, the criterion laid down in the recent White Paper on financial objectives for the nationalised industries as the minimum return on new investment.

SUMMING-UP

While the figures in the tables in this paper are reasonably reliable as a guide to the relative values of the fleets considered they are not entirely solid in absolute terms. In particular, the total capacity in aircraft the airline needs to meet forecast traffic demand is not certain and, indeed, could be influenced by the conclusions of the Edwards Committee. It is not necessary to decide the precise numbers of aircraft to be purchased now. When the type to be bought has been chosen BEA would, in accordance with usual practice, place an initial order for fewer aircraft than they expect to need and take options, which may be turned into firm orders later, on additional aircraft.

There is no dispute that for BEA the BAC 2-11 is the best purchase; that it presents the only prospect of earnings from export; that it is attractive from the point of view of noise; and that it is the only project wholly within our control that will provide a basis for Rolls-Royce new technology engines. On the other hand this is the most expensive solution although these
advantages might perhaps justify a heavy expenditure on launching costs if this were also desirable on industrial grounds. Against this has to be set the judgment of the Ministry of Technology that to develop the BAC 2-11 would seriously prejudice, if not even put an end to, the Airbus project and the prospects of an integrated European aircraft manufacture on which we are predicated our present policy for the aircraft industry and our future hopes of selling large civil aircraft in world markets.

If we do not proceed with the BAC 2-11 it would be possible to go to the other extreme, refuse to develop the Trident 3-B and leave BEA with no alternative to making do with the existing types, i.e., Trident 2 and BAC 1-11/500. This, because we shall have no launching costs to meet, is the course with the best present value for the whole investment, and would have the effect of maximising BEA's need for the Airbus. But it is not only financially less attractive to BEA than other courses but would leave them with obsolescent and too small aircraft to meet the competition of airlines which are acquiring larger American aircraft and a very difficult transition to the Airbus.

Accordingly, if we do not proceed with the BAC 2-11 the best alternative in the view of the two Departments is the Trident 3-B. If that course is chosen it is necessary also to decide whether BEA should be allowed to acquire what they regard as the optimum "mix" of Tridents and Airbuses, or whether, as the Ministry of Technology would wish, the number of Tridents should be kept to a reasonable minimum so as to maximise BEA's support for the Airbus. The reduced Trident fleet which has been considered is shown in Table II to leave BEA with a deficit after 10 years some £20 M. greater than would be the full Trident fleet, and to have present value, as shown in Table III, some £9 M. worse than that fleet. It would on the other hand force BEA to order twenty-six Airbus instead of eighteen.

If it were decided not to proceed with the BAC 2-11 the Ministry of Technology would propose a small study contract to cover preliminary design investigations into a minibus and to conserve the nucleus of a team at BAC, Weybridge, which could lead on such a project.
Annex A

B.E.A.'s ASSUMPTIONS

B.E.A. have based their calculations of the fleet they require on the main assumptions set out below.

1. Fleets are based on matching expected traffic growth, international and domestic. This is taken as 10½% falling to 8% annually for international passenger traffic and at varying amounts, according to the fleet chosen, falling to 7% for domestic traffic. Freight is assumed to increase at 20% annually.

2. All jet operations as soon as possible are assumed on international routes and parity of equipment and opportunity with independent airlines is assumed for the 1970s on domestic routes.

3. The results assume actual anticipated cost and revenue for the first three-four years at expected fares and wage rates. In subsequent years fares and wage rates are assumed to move in parallel.

4. The results are much affected by the extent to which BEA consider they will be short of capacity, or unable to operate matching services with their competitors, in the early years. All fleets, including the Boeing fleet originally asked for, would be expected to become profitable, though to differing extents.

5. The notional Boeing fleet assumes payment of Import Duty.

B.E.A.'s growth figures have been checked and are considered reasonable. Their cost and revenue figures are more open to doubt in detail, but it is considered that in the earlier years they indicate fairly the likely trends with each fleet and the relativities between them.
### Treasury Funding of Aircraft Industry and B.E.A.

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(1) New borrowing by B.E.A. less payment of interest. If B.E.A. is relieved of some part of the interest payable, then new borrowing is reduced by the same amount. The above figures would, therefore, remain unchanged.

(2) If the BAC 2-11 is rejected, a study contract for a "Minibus" should be placed, at a cost of, say, £1 M. in 1968/69 and rising to £2 M. per year thereafter.
## Annex C

### Estimated Noise Levels of Aircraft Considered

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<th>Aircraft with existing engines</th>
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<td>Boeing 727/200</td>
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<td>Short Haul VC.10</td>
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<td>MD 1-11/500</td>
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<td>T-tent 2-B</td>
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<table>
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<th>Aircraft with new technology engines (RB207 or 211)</th>
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CABINET

BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT

Memorandum by the President of the Board of Trade

British European Airways (BEA), having been refused permission to buy the Boeings they wanted, asked last February for authority to order 30 of a new type of British aircraft, the BAC 2-11, with an option on a further 10. This proposal called for a great deal of study; but the main issues as explained in the memorandum by officials (Appendix to C(67) 176) are now sufficiently clear for me to make a recommendation to my colleagues. A decision is now urgently required both by BEA, who need to know whether they will be able to start introducing the BAC 2-11 in 1972, and by the manufacturers of the BAC 2-11 and its possible rivals.

2. I believe that we should agree to let BEA have the BAC 2-11. I have been influenced in this view not only by BEA's needs, but by wider economic considerations. Indeed, BEA's case by itself, strong though it is, might not carry the day for the BAC 2-11. However it is in my view sufficiently reinforced by industrial, technological and balance of payments arguments.

3. BEA themselves have powerful arguments on their side:

(i) In 1966 they were denied the aircraft of their choice (the Boeing 727s and 737s). The Minister of Aviation then indicated in the House, however, that the recommendation as to the British aircraft to be bought instead would be left to BEA. Although the BAC 2-11 did not exist at that time, there is no doubt that it is a better aircraft for their purposes, commercially and operationally, than any other British aircraft in the field.

(ii) Operationally, BEA need an aircraft intermediate in size between current types of around 100 seats and the Airbus of 270 seats, both as a step towards the Airbus and to operate alongside it. The BAC 2-11 of 200 seats is the right size.

(iii) Commercially, a BEA fleet with the BAC 2-11 will attract more traffic and hence (as explained in the memorandum by officials) will leave BEA, in 10 years' time, with a deficit of £20 million less than would a fleet with the Trident 3B.

(iv) The BAC 2-11 will enable BEA to continue as the leading European operator, even though in competition with airlines using American aircraft; and, as a consequence, to maintain high morale at all levels; this is important if we are to press the airline for high productivity.
(v) The probable alternative is the Trident 3B, which no-one else will buy, which will be less attractive and economic to operate, which will deprive BEA of its pre-eminent position in Europe, and so lead to a general lowering of morale.

4. In a wider context, the BAC 2-11:

(i) Is the only new British aircraft with a prospect of export sales bringing in foreign currency. The most likely figure (paragraph 14 of the official paper) is 60 overseas sales bringing in £130 million of foreign currency.

(ii) Would be the vehicle for the RB 211 aero engine which is expected to be an outstanding example of "new technology"; it provides the only means entirely within our control of keeping Rolls-Royce in the world market for civil aero engines, which have in the past been large foreign currency earners. As is shown by the attached letter from Rolls-Royce they very strongly support the BAC 2-11 project.

(iii) The BAC 2-11 with the Rolls-Royce engine will be substantially quieter than any of its rivals. It would thus provide the first conspicuous step in achieving our aim of reducing aircraft noise; the Trident 3B, like the Boeing 727, is a noisy aircraft.

(iv) The airframe of the BAC 2-11 will provide development and production work for the British industry under its own and not French leadership.

5. I recognise, however, that there are arguments against the BAC 2-11. These, with my comments on them, follow:

(i) On BEA's present plans for buying the BAC 2-11 they would have a smaller demand (15) for the European Airbus than under any other course open to them. But the only figure for BEA's demand for the Airbus which has been discussed in negotiation with the European countries is 20. It should be possible for BEA to recast their requirements by taking a smaller number of the BAC 2-11 and a larger number (say 20) of Airbuses.

(ii) To the extent that the BAC 2-11 sold abroad, it might reduce the demand for the Airbus from other uncommitted airlines. But the BAC 2-11 is in closer competition with the Boeing 727 than with the Airbus and it is difficult to imagine that, if it is not developed, its potential market will not be filled by Boeings rather than by the Airbus.

(iii) If we develop it, the French would say that they doubted our seriousness in pursuing the Airbus project and so that project might be wrecked. But if we were able to announce both the BAC 2-11 and a decision that, subject to the Airbus proving satisfactory, BEA would take at least 20 of them, we should surely go a long way toward removing French apprehension. (They themselves, after all, have allowed Air France to buy Boeings without being committed to the Airbus).
Finally there is the weighty argument that the cost of the BAC 2-11 (in discounted terms some £80 million) is excessive in relation to the benefit to BEA (in discounted terms only £10 million to £20 million). I recognise that if BEA's interests only were involved, these figures might be decisive despite the beneficial effect of the BAC 2-11 on BEA's status, and efficiency as an operator. But it is not only BEA's interests that are involved. I am much concerned at the magnitude of the risks that we shall be running by staking so much on the Airbus. (The proposed European mini-Airbus seems to me altogether too nebulous a project to affect significantly our present decision).

We cannot be certain that the Airbus project will be continued after next summer. The history of collaboration in European aircraft manufacture does not inspire any great confidence, and another abortive venture at this stage would harm rather than promote our argument about technological contribution. If we deny BEA the BAC 2-11, we should, if the Airbus is not a success, have no alternative but to equip them for the future with American aircraft. Further, and even more serious, Rolls-Royce may have no firm basis for developing a new technology engine - I understand that the rival American airbus manufacturers are now unlikely to reach a decision whether to use Rolls-Royce engines before next June. The BAC 2-11 would at the least represent an insurance policy - although an expensive one - both against failure of the Airbus and for Rolls-Royce's projects of developing a new technology engine. At the best it may well have a substantial value of its own in preserving British leadership in two important technological fields.

6. There is one other consideration that must be mentioned. I have no power to direct the Board to purchase any given type or number of aircraft. BEA would no doubt comply if I were to ask them in writing to follow a specified course provided we settled at the same time the financial arrangements which will implement the undertaking given by the then Minister of Aviation in August, 1966. But we must be concerned not only with the artificially contrived financial results but with the operating realities they mask and BEA will certainly wish to make it clear where the responsibility lies. Sir Anthony Milward has told me that he will insist on having such a request for publication.

7. I invite my colleagues to agree that we should make the BAC 2-11 available to BEA.

C.A.R.C.

Board of Trade, S.W.1.

9th November, 1967
Following our telephone conversation, I am writing to outline to you our latest position and thoughts on the BAC 2-11.

Ever since the requirements for a range of substantially larger subsonic aircraft became apparent, we have expressed a preference for the smaller of the two ranges of engine size for the obvious commercial reason that the world market was likely to be substantially larger for the smaller engine.

We always knew, of course, that in the event we would go enthusiastically for whatever size of engine was chosen by those aircraft constructors who specified a Rolls Royce engine. As of today the only aircraft project which has firmly specified a Rolls engine and for which Government funding is available is the European Airbus with the RB 207.

As you know, we are trying very hard to sell the smaller size of engine as well and have made plans that have satisfied our potential customers of our capacity to do both sizes.

The Ministry of Technology are fully aware of these plans and have detailed proposals from us for the development of both sizes of engine for application to the BAC 2-11 and an American three-engined aircraft in the case of the RB 211.

In addition to putting in firm proposals to the Ministry of Technology for the development of the RB 211 for the BAC 2-11, we have strongly supported the case for the BAC 2-11 with all the Ministers and Officials with whom we normally deal in the Ministry of Technology. I have also specifically written to the Minister of Technology confirming our support for the BAC 2-11. Some of the arguments we have used with the Ministry of Technology for support of the BAC 2-11 are as follows:

1. The BAC 2-11 fills a "window" in the present likely airline requirements. We have supported this view by providing the Ministry of Technology with our detailed market survey.
2. We have emphasised the reduction in noise compared with current aircraft.
3. We have stressed our belief that it is unlikely that an American constructor would launch this size of aircraft in the foreseeable future, as we consider there is no likely American requirement developing for some considerable time.

4. The launching of the EB 211 would definitely be of assistance to Rolls Royce in their present competition for the three-engined American aircraft. We have refuted the possible argument that this would be detrimental to our chances by our firm belief that the engine decision is now firmly in the hands of the American airline operators, rather than the constructors and that the former would welcome the added assurance arising from a firm Government decision to proceed and another aircraft using the engine.

5. That Government money spent on developing the BAC2-11 would bring positive returns in terms of export business, whereas money spent on any alternative aircraft for BEA is exceedingly unlikely to do so.

There is no doubt that the Ministry of Technology's anxiety is that support of the BAC 2-11 would weaken the chances for the European Airbus.

My own view is that the only way to minimise these anxieties is for BEA to commit themselves, concurrently with the launching of the BAC 2-11, to the purchase of a substantial number of European airbuses under the same conditions that Air France have committed themselves, i.e. that the final specification is satisfactory.

In conclusion, I would want you to know that I have said nothing in this letter, apart from the preceding paragraph, which we have not already said at one time or another to the Ministry of Technology.
14th November, 1967

CABINET

BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT

Memorandum by the Minister of Technology

On the facts set out in the paper by officials (Appendix to C(67) 176), I believe that the BAC 2-11 should be rejected on two grounds - its cost, and the fact that it runs counter to our aircraft industry policy.

2. When launching costs are taken into account, the national cost of a BAC 2-11 fleet for British European Airways (BEA) is likely to be dearer than the possible alternatives by some £40 million or more (discounted); this means appreciably higher Exchequer expenditure during the next five years.

3. While, if all went well, the BAC 2-11 would undoubtedly command some export sales, particularly among airlines who are satisfied users of the BAC 1-11, these sales would probably not be large; the greater part of the Government's investment in launching the aircraft would almost certainly be lost.

4. If large civil aircraft projects are to prove worthwhile investments, we must in future undertake them in collaboration with other countries, so as to widen the market and spread the R & D costs. This was the foundation of our recent decision on the Airbus. The BAC 2-11, which could not be started on the basis of a wide assured European market and shared R & D, would eat into Airbus sales and would also rule out the possibility of starting during the next few years another collaborative project which could form, with the Airbus, the beginnings of a European family of civil aircraft. This is the only way open to us in the future of combating American - and perhaps Russian - competition, of continuing to earn worthwhile amounts of foreign currency, and of assuring the position of Rolls-Royce in the longer term in the big engine field. To further this policy, I shall shortly be putting proposals to the Treasury for starting exploratory work at BAC on the design of an advanced 200-seat aircraft which could form the basis for a joint project to complement the Airbus.

5. The BAC 2-11 could only be justified if we decide here and now that our European civil aircraft procurement policy is going to fail. This policy remains a valid one even if we do not enter EEC at the present time; as a step towards merging British and European technological resources, it should improve our chances of entry later.
6. If we decide against the BAC 2-11, BEA's best British buy would be the Trident 3B. In terms of operating costs for BEA, it should be as good as the Boeing 727/200, the aircraft which BEA originally wanted to buy. It would form a logical extension of their present Trident fleet, and is a useful intermediate size between present types and the Airbus. BEA estimate that their earnings during the next ten years would be slightly lower with the Trident 3B than with the Boeing 727/200, but the difference is less than 2 per cent, which is within the margin of error of the calculations.

7. BEA need a decision urgently. Both BAC and Hawker Siddeley have been keeping open our option by continuing design work on the BAC 2-11 and Trident 3B at their own expense. They will not continue to do so. We must therefore take a decision now, otherwise we may ultimately find ourselves forced into buying American.

8. I therefore invite my colleagues to agree that if BEA re-equipment is to go beyond their existing types, it should be on the basis of the Trident 3B.

A.W.B.

Ministry of Technology, S.W.1.

13th November, 1967
BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT -
THE BAC 2-11

Addendum to Memorandum by the Minister of Technology

The British Aircraft Corporation (BAC) yesterday offered to contribute 10 per cent towards the airframe launching costs of the BAC 2-11 provided they receive an initial order from BEA for not less than 20 aircraft. On the formula they have adopted, this works out at about £7.5 million and reduces the estimated cost to Her Majesty's Government for airframe and engine to some £120 million. This is not a ceiling figure, since BAC are not prepared to accept an upper limit to our 90 per cent contribution. It does, however, include a contingency margin of £10 million and is probably a safe figure.

2. Rolls Royce had earlier offered to bear 30 per cent (£14 million) of the engine launching costs, with an upper limit to the Government contribution. This followed the pattern of similar offers from them for the RB 207 in the European Airbus and the RB 211 for Lockheed, and is taken into account in the project estimate of £120 million above.

3. The BAC offer (worth say £5 million in discounted terms) does not significantly affect the financial appraisal in earlier papers. Though coming at the last moment, it can perhaps be charitably regarded as a mark of confidence by BAC in the project, but not a particularly big one; it falls far short of the 50 per cent which we normally expect an aircraft manufacturer to contribute towards launching costs. If, in accordance with what BAC believe is Government policy, we bought the company, their contribution converted into work-in-progress would be purchased as part of the net assets of the undertaking, and they would argue that the fact that the BAC 2-11 is a going project enhances the value of the undertaking as a whole.

4. The balance of argument is therefore still, in my view, against the BAC 2-11.

A. W. B.

Ministry of Technology, S. W.1.

15th November, 1967
15th November, 1967

CABINET

BRITISH RAILWAYS BOARD SALARIES

Memorandum by the Minister of Transport

My colleagues will be aware of the urgent need to reconstitute the Board of the Railways in order that it may quickly get down to work on the tasks outlined in the Morris Report, on the reduction of the deficit and on preparations for the formation of the National Freight Corporation. I expect soon to receive the resignation of the present Chairman. So, with other retirements which have already been agreed, I shall be in a position by the end of the year to effect an extensive reconstitution of the full-time membership of the Board.

2. The immediate need is a new Chairman. An ending of the present uncertainty and speculation about the succession is essential to the restoration of the very depressed morale of the Board and also of its senior officers. Other new appointments are also needed both to strengthen the Board and to replace members who are being retired. These must be made in consultation with the new chairman. For all these reasons I want to get him appointed immediately.

3. I propose to appoint Mr. Peter Parker. After a very thorough examination of a number of alternatives I am convinced he will bring to the Board the qualities that we need. It is already clear that he will be able to establish an effective working relationship with the Vice-Chairman of the Board, Mr. Johnson, who as a railwayman of long experience will provide exactly the right balance to him.

4. Mr. Parker is in principle ready to accept the chairmanship. He is not, however, prepared to accept the present salary of £12,500 because it would leave inadequate headroom for the salaries he considers it essential to pay the deputy chairman and other members of the Board and chief officers. He has himself been offered a salary of £15,000 for the post of an ordinary full-time board member of the Steel Corporation. He considers that it would create a most unfortunate impression, especially in view of the low morale at BRB headquarters, if, as his very first act he were to accept a salary which effectively made it impossible to attract Board members of the right calibre and to reward chief officers who, under the Joint Steering Group's recommendations, will have greatly increased responsibilities. In his opinion, we need to offer full-time Board members at least £13,000 and probably more. He also believes that the new post of Deputy Chairman and Chief Executive recommended by the Joint Steering Group, for which Mr. Johnson is the obvious choice, is of such vital importance
in the new organisation that it should command a salary of £17,500. This would lead to a salary for the chairman of not less than £20,000. In view, however, of the difficulties that the payment of such salaries would cause at the present time, he would accept appointment at a salary of £17,500. He attaches great importance, however, to the Deputy Chairman being paid £15,000.

5. I am convinced that Mr. Parker is right. It was clear from the soundings I took of other potential Chairmen that the general view was that the right salary band for chairman was about £20,000 to £25,000, with corresponding uplifts in the salaries of other Board members. The soundings already taken by management consultants in relation to possible candidates for the key posts of Vice-Chairmen for finance and planning make it clear that we shall have to pay something like £15,000 for them. Two of the suggested names were the Finance Directors of Courtaulds and Associated Electrical Industries. They are paid £18,000 and £20,000.

6. If we start off the reconstitution of the Board in a half-hearted manner we will defeat our own objects. I recognise that we will have to take more time in deciding the appropriate salaries for full-time members other than the Chairman and Deputy-Chairman. But the urgency of getting the two top salaries more nearly right, and of getting the new Chairman appointed, are such that we cannot wait for the outcome of a general review of nationalised Board salaries.

7. I seek my colleagues' agreement, therefore, to Mr. Parker being paid a salary of £17,500 per annum and Mr. Johnson £15,000, on a personal basis in each case. I should also like to tell Mr. Parker that the salaries for full-time Board members are likely to be reviewed in the immediate future.

B.A.C.

Ministry of Transport, S.E.1.

14th November, 1967.
15th November, 1967

CABINET

VIETNAM

Memorandum by the Secretary of State for Foreign Affairs

I attach at Annex a Memorandum setting out the history and background to the Vietnam conflict and the current attitudes of the principal participants. I invite my colleagues to consider our Vietnam policy in the light of the essential facts as identified by this Memorandum and of the alternatives open to us.

The Essential Facts

2. The North Vietnamese are at present determined to fight on in South Vietnam to secure:

(a) a regime in South Vietnam which is in all respects their creature (i.e. the Liberation Front to take exclusive power);

(b) the withdrawal of United States forces by attrition, that is by creating a situation in which increasing popular frustration in American and the movement of world opinion will compel the United States administration to break off the war; or

(c) alternatively, negotiations exclusively on their own terms which would secure the objectives in (a) and (b) above.

3. The South Vietnamese and United States Governments, with the other Vietnam belligerents, have decided that the survival of the South and its people in independence and safety requires armed resistance, with equal determination, to the attack from the North; and are pursuing a defensive war while constantly re-stating their readiness to negotiate a solution which would leave South Vietnam in peace.

4. Both sides in the conflict are deeply engaged in fighting a war with geographic and political limitations. The North Vietnamese are unable to mount a military effort in the South which would swing the military balance in their favour; and the United States are precluded by world opinion and the stresses of the presidential electoral campaign from all-out military escalation, such as the land invasion of the North or additional measures of air and sea warfare, aimed at bringing the war to a swift military conclusion.
5. Each side is aware that there are channels for direct communication with the other side. These channels have been used on a number of occasions, but have served only to establish for each side that there is no acceptable alternative to continuing the fighting until there is a change in the political or military situation. Both sides believe this change will come, to their own advantage, but until it does they are determined to continue fighting.

6. In this present situation there is nothing which we, or any other non-involved Government, can do to mediate or to arrest or alter developments. But we have a duty and a capacity to maintain a continued readiness to act in the cause of peace when asked to do so by one of the combatants.

7. In the United States there is widespread concern over the conduct and continuation of the war, and a public debate in the classical American manner on what should be done to dispel this concern. Its essential components are frustration, war weariness and a desire to end the whole involvement in Vietnam. But while probably a majority criticise the Administration's handling of the war, the desire to be "out" in a way which would hand over South Vietnam to the North, i.e. through an abdication of American responsibilities, is held by only a small—but vocal—minority. An equally vocal minority is demanding all-out escalation as a means of finishing the war quickly.

8. Meanwhile the Communist powers are mobilising a skilful worldwide propaganda campaign, which they believe will work in North Vietnam's interests, to assert that while North Vietnam's own intervention in South Vietnam is blameless, the military policies of the United States are totally immoral. The majority of those concerned in the current international wave of demonstrations against the Vietnam war are neither Communists nor fellow-travellers. But the demonstrations themselves are being orchestrated principally by the World Council of Peace (WCP), one of the original Soviet Communist front organisations, which dates from 1948, and takes its cues from Moscow. The WCP set out to stimulate demonstrations on 21st October ("International Peace Day on Vietnam") in Britain and the United States and other countries in Europe, Latin America and Asia. Co-ordination was provided by a 'Continuing Committee' set up by the International Conference on Vietnam which met in Stockholm in July this year. For all practical purposes the WCP controlled and stage-managed the Conference, and still effectively runs the 'Continuing Committee'. The WCP's propaganda apparatus throughout the world was turned on to promoting and subsequently publicising the demonstrations on 21st October. It is now advertising the 'Continuing Committee's' plans for the future, which include the celebration of 10th December as Human Rights Day, and 20th December as the anniversary of the foundation of the National Liberation Front of South Vietnam.
The Three Alternatives

9. We have three alternative policies which we could adopt:

(a) We could align ourselves unswervingly behind the United States Administration to the point of uncritical support at all times.

(b) We could express public criticism of the American position, ranging from complete dissociation to a demand for the bombing to stop, in the hope that this would advance the prospect of a negotiated settlement.

(c) We could recognise that there is nothing we can do for the present, but meanwhile maintain our capacity to give private advice to the Americans and to maintain contact with other powers, against the day when both sides might want our services.

I review each alternative in turn.

Course (a): Unreserved support

10. Uncritical alignment behind the Americans would be an act of folly. We would reduce our ability to play an independent role elsewhere, as well as in the Vietnam context; we would destroy our ability to offer advice and to criticise in private; above all this would be to act against the weight of British public opinion including that sector which believes that the Americans are in the wrong situation even if their motives are right.

Course (b): Disapproval

11. If we believe that the South Vietnamese have the right to resist a takeover, we cannot condemn the Americans for helping them. In considering what action we could take, the critical point is whether action by us will lead directly to a decent settlement of the problem. Any step recognised as the sine qua non of a decent settlement will in the long run be excused, if not applauded. But the same step, if it fails to produce a decent settlement, may be vilified and regarded as the cause of subsequent disasters; and here we must accept that our dissociation or disapproval would not bring North Vietnam to negotiations. Furthermore the Americans themselves and the world in general would regard public criticism by Her Majesty's Government at the present time as synonymous with condemnation; and this would also place us in one sector of the domestic turmoil in America. By doing this we would lose the confidence and respect of the present and future Administrations there; and by estranging ourselves from the present Administration - on whom falls the burden of deciding on a Vietnam policy adjusted to domestic requirements and the military and political situation - we would damage perhaps irreparably our understanding with the United States in other fields and areas of the world.
12. In these circumstances there is a strong probability that the present Administration and any likely successor in 1968 would, to say the least, cease to exert themselves at all in favour of British interests. Whether it is a question of protectionism against British goods, defence contracts, refraining from discrimination against our imports to the vitally important United States market, trade with Rhodesia or votes at the United Nations on Gibraltar, there would be a strong urge to punish our alleged "defection", and we need not expect any effective sympathy from United States pressure groups or Congress. There would undoubtedly be adverse effects for us both in practical terms and in terms of the overall political success of our policies. In prosperous times these might not be much more than marginal considerations. I am more concerned over two deeper considerations. One is our balance of payments and the other is the balance of power.

13. If after all that has happened we now take an anti-American line on Vietnam, it is hard to believe that the United States Administration will take a helpful line in respect of our financial, economic and commercial problems, and it is impossible to suppose that the Continentals will - or indeed can - provide an adequate substitute for American help. And it is not merely our balance of payments problem narrowly defined that is at stake. Our application to join the EEC and our chances of solving the offset problems are both willy-nilly bound up with the international financial situation and our bargaining strength in it.

14. The world balance of power is also at stake. Personally, I do not believe that America is likely to become consciously isolationist. But there is undoubtedly a risk that if she thinks she is defeated in Vietnam, and particularly if she thinks that this result has been brought about by her principal allies, she will follow a sporadic and unpredictable foreign policy, withdrawing here and over-asserting herself there. This would be a dangerous situation. We could not be sure that the Chinese and Russians would properly interpret American actions and would resist unwise temptations.

15. Finally, at a time when our own power has declined we should not lightly resign such influence as we have and can have with the most powerful nation in the world. Apart from anything else, a loss of influence with the Americans automatically entails a loss of influence with others, including, particularly, the Russians. (The relationship with Britain has a certain special interest for the Soviet Government precisely because what we say is taken seriously by the Americans.) Countries very seriously affected by such a change would be our Commonwealth partners, Australia, New Zealand, Malaysia and Singapore. If we lose influence with the Americans we lose influence with them. It will be worse still if they believe we have contributed to an American defeat in Asia.

Course (c): The middle course

16. The policy I believe to be right is to avoid involvement at the wrong time (for us) but yet to retain (for us) the capacity to talk to the Americans frankly and to the other powers involved from a position of disinterest except in the overriding objective of a negotiated settlement. This policy would avoid ranging ourselves on the side of those who have
hitherto offered no reasonable alternative to a cessation of military activities by the one power which can prevent South Vietnam being handed over to the rule of force. Equally it would continue to secure for us a position from which we can act when any of the parties engaged in the war believe that our services could help towards a settlement. This time has not yet come. The North Vietnamese do not need us. The Soviet Government frankly take the view that the Geneva Co-Chairmen have no role to play at the moment. The South Vietnamese, though gaining in stature, are only gradually approaching the point where an initiative for direct North/South talks could add a new diplomatic dimension in the situation. The Americans know that we are always ready to help with peace moves when these are practicable.

The Moral Considerations

17. Over and above all the foregoing, there are the moral considerations in this conflict; and these are frequently misrepresented. I have no doubt that none of us wishes to see South Vietnam captured by the North and its inhabitants submerged in a totalitarian regime. The South Vietnamese have a right to freedom and a right to decide their own future for themselves. The result of a total American withdrawal now would be immediate subjugation of the South because by ideology, training and adaptability to the local situation, the North is infinitely better equipped to achieve this than the South is to resist it. To capture the South has always been the North's objective since the 1954 Geneva Agreements robbed them of military success. For the United States to resist the takeover is no more to be condemned than was their leadership in resistance to armed attack in the Korean war. The objectives of the Communist side are unchanged; to secure territory and peoples. Only their methods are different and have thereby brought about a different type of intervention by the powers capable of organising resistance. Moreover, as I have shown in the Annex, the American help for South Vietnam has always been in clear response to an 'escalation' of the takeover-attempt; as the situation has developed in complexity, so has the measure of the United States' response to it. If, however, we believe that the South have the right to look to their friends for help, then the degree of help they have sought and secured cannot be a matter of criticism or condemnation.

18. To condemn the United States at present is to condemn the major power in the conflict which has publicly proclaimed a policy aimed at securing for the South Vietnamese the right to order their own affairs; and which has reaffirmed constantly its readiness to negotiate a settlement which will achieve this end. I do not believe my colleagues would have us condemn the continuous search for ways to end the fighting and start negotiations. This is the American policy; but it has foundered on the determination of the leaders in Hanoi to sit it out until the Americans, they hope, will be inescapably obliged to comply with North Vietnamese requirements.

19. Nowhere is the North's skilful use of the 'double standard' technique for distorting a moral issue clearer than in their campaign against the bombing. While they themselves fight on in the South with every means at their disposal, including the most repulsive atrocities, they have succeeded in mobilising a selective condemnation of one method of American warfare - bombing - which can play a significant part in both halves of Vietnam in checking the North
Vietnamese/Viet Cong effort. Quite apart from the fact that acceptance of this thesis is to play the Communist game, I believe it is morally indefensible to suggest that the bombing alone is to be condemned, with the implication that other forms of slaughter are in some way tolerable.

20. Furthermore, we are not fighting in Vietnam; and therefore we are not qualified to pass judgment on individual methods of warfare there, though we can deplore all use of force as a means to settle disputes. Our right and duty of intervention is based on our responsibility for achieving peace. It follows that, if we accept that the United States is justified in using force to help prevent the North Vietnamese forcible take-over of the South, we cannot claim the right of military judgment on the utility of bombing North Vietnam as one instrument of this force. Nor can we insist on a cessation if, in the military judgment of the combatant concerned - the United States - this would lead to military disadvantage and more casualties. We can, however, argue for, and demand, a cessation of bombing if in our judgment this will succeed in achieving progress to a negotiated settlement, since this is our overall aim, and we have taken every opportunity (including my discussions with President Johnson and Mr. Rusk in September) privately to urge the Americans to re-examine their bombing policy as carefully and as frequently as possible. They have declared their readiness to cease bombing when the cessation will lead to talks. At present it is the refusal of North Vietnam to meet the American readiness which is the obstacle to our own policy as well as to that of the United States.

21. Finally I think we should remember that the conflict looks very different in Asia than it does from the other side of the world. The Australians and New Zealanders believe it right to be fighting alongside the Americans; to pass moral judgment on the latter would be to judge our Commonwealth partners as well. It is a fact, too, that in none of the non-Communist Governments of South East Asia is there an outspoken demand for the United States to quit with the Vietnam issue unresolved. This holds good for South Vietnam itself, Burma, Thailand, Laos, Malaysia and Singapore; I believe also for Indonesia despite her middle-of-the-road public position. Even Prince Sihanouk of Cambodia has reservations about an American withdrawal from Asia.

Conclusion

22. In sum, I recommend to my colleagues that we should maintain, and if possible improve, our present policy of committed detachment; that we should view the present period of self-examination in the United States with sympathy and make it clear that we understand their dilemma; and that we should make our attachment to a peaceful settlement the foundation of our readiness to mediate if asked to do so. Above all I believe we should eschew a position of moral condemnation of the United States because it would not be based on valid moral principles; it would not shorten the war; and it would not be practical politics.

G.B.

Foreign Office, S. W. 1.

15th November, 1967

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BACKGROUND AND CURRENT ATTITUDES

British policy towards Vietnam has the following basis:

(i) A lasting solution to the war cannot be military, but must come by a negotiated settlement that will secure the legitimate interests of all concerned;

(ii) South Vietnam is an international entity and its people have the right to pursue their own affairs free from interference;

(iii) North Vietnam has not yet desisted from trying to overthrow the South Vietnamese Government by force with the aim of replacing it by Hanoi's own creation - the National Liberation Front of South Vietnam;

(iv) The Government of South Vietnam has the right in international law to resist this and to request American help;

(v) United States policies are reasonable in their readiness to negotiate a political settlement;
(vi) The Geneva Agreements are a reasonable and adequate basis for such a settlement.

Chronology of American Presence and North Vietnamese Action in South Vietnam

2. The first American presence in Indo-China was established in 1951 with the formation of MAAG (Military Assistance Advisory Group) consisting of some 200-300 men concerned with supervising U.S. military aid to the French. In 1954 this was reformed as an Advisory Group to the South Vietnamese Government.

3. From 1954 to 1959 North Vietnam relied mainly on diplomacy and propaganda to unite the whole of Vietnam under Communist rule. Communist sabotage and the assassination of officials continued at a low level in the South. However, in the middle of 1959 there was a sharp increase both in the number and scale of such incidents, and evidence from captured documents reveals that the movement in the South was being directed clandestinely by members of the Lao Dong party (North Vietnamese Communist Party). Our evidence also suggests that infiltration of trained insurgents from the North was running at a rate of more than 400 per month through 1959 and 1960.

4. In September 1960 at the third congress of the Lao Dong party, the First Secretary, Le Duan, laid the basis for the formation of the South Vietnam Liberation Front by calling for a broad national united front.
We know from evidence to which reference must not be publicly made that in early November Hanoi ordered their leaders in the South to prepare the ground for the announcement of the formation of the National Liberation Front: to draw up the first draft of a manifesto for the party central committee to consider; and to recruit personalities for appointments in the Front, Nguyen Huu Tho, the present chairman of the Liberation Front Central Committee, being mentioned by name. On 11 December Hanoi informed the South of the date for the public announcement of the Front which was finally made in Hanoi on 29 January 1961.

5. During 1961 infiltration continued at a level of about 500 men per month and terrorist activities continued to rise, 2,000 village officials being assassinated by the Viet Cong. That these subversive terrorist activities were supported and organised by the North was recognised in 1962 in a special report by the International Control Commission, the Polish member dissenting (Cmd. 1755).

6. At this time the American presence in Vietnam was small, there being only 685 military instructors in MAAG in 1961, whose presence was noted by the I.O.C. (the Polish member dissenting) as not contravening the Geneva Agreements. However in the same year the military situation in the South deteriorated so that in December, in response to an appeal by President Diem, President Kennedy agreed to increase American assistance to the South Vietnamese defence effort.
7. We calculate from American reports, which are mostly based on prisoner interrogations, that by the end of 1962 the number of trained personnel who had infiltrated from North Vietnam into the South was some 28,000 with infiltration continuing at the rate of about 1,000 a month. At that time there were 12,000 American advisers in South Vietnam.

8. In 1964, North Vietnamese torpedo-boats attacked the U.S. destroyer "Maddox" in the international waters in the Gulf of Tonkin, and subsequently repeated the attacks. Following a resolution by both Houses of Congress, authorising the President to repel any armed attack on United States forces and to prevent further aggression, the United States took retaliatory air action against North Vietnamese gun-boats and bases. In February 1965, U.S. barrack areas at Pleiku and Qui Nhon in South Vietnam were attacked, which led to the first systematic American retaliatory air action against military targets in North Vietnam. In May 1965 the first formed units of the North Vietnamese army (as opposed to individual North Vietnamese operating with the Viet Cong) were identified as operating in the South. Finally in June 1965 General Westmoreland was given authority to use U.S. troops in offensive operations in South Vietnam. The basis of the present situation was thus laid. Our own estimate from total intelligence sources, mostly American but including sources to which reference must not be made publicly, is that there are now about 53,000 regular North Vietnamese troops operating in the South together with 190,000 Viet Cong fighters and /60,000
60,000 political and administration personnel. Infiltration from the North fluctuates according to weather and military plans, but the monthly average rate through the present year has been about 4,000. American troops number 460,000 with 55,000 allied troops and 320,000 regular South Vietnamese troops.

9. It follows from the foregoing chronology that the United States and South Vietnamese have taken their action in response to hostile activity by the North Vietnamese against both the territorial integrity and political independence of South Vietnam. The North Vietnamese have no grounds for claiming that their action was in self-defence, while the South Vietnamese have every reason to claim that theirs is and the United States equal reason to justify their assistance.

Current Warfare

10. The two most criticised activities of the war are the American bombing and North Vietnamese terrorism. American bombing has been against targets related to the Vietnamese military effort in the South. Great care is taken to minimise the civilian casualties and, although it is difficult for us to know what casualties have occurred, our assessment is that these are surprisingly low even for raids on targets within or near Hanoi.

11. North Vietnamese and Viet Cong terrorism is better documented. It is both indiscriminate and directed against the local administration in the South. According to published American figures, between /1960
1960 and 1965 (before any U.S. troops were committed to combat) 35,000 members of the South Vietnamese forces had been killed, 9,000 Government officials and civilians assassinated and 45,000 civilians kidnapped. According to our count, derived from published American figures, in the two years 1965 and 1966, 4,625 civilians were killed, 7,742 wounded and 7,814 kidnapped. For the first six months of this year the figures are 1,317 killed, 2,328 wounded and 1,777 kidnapped.

**Current Position**

**South Vietnamese**

1. The South Vietnamese Government have stated that they have no territorial ambitions nor any desire to change the political régime of the North. But they resist the claim that the National Liberation Front is representative, let alone the sole representative, of the South Vietnamese. The recent Presidential elections, where 82 per cent of the registered electorate voted on eleven candidates, bear this out. Significant abstentions would have indicated a support for tendencies, Viet Cong or neutralist, that were not represented among the candidates. This did not occur.

2. Although many problems of international law are raised in the case of divided states like Vietnam, it must be noted that as one of the successor Governments to that of one of the French Union States (the other two are Laos and Cambodia), the Government of the Republic of Vietnam has been internationally recognised.
recognised by more than 60 states including the major Western powers. South Vietnam has the right, which has long been established in international law and is recognised by Article 51 of the United Nations Charter, of individual and collective self-defence. In resisting the present North Vietnamese attack on her and in requesting the United States to assist her (formally in December 1961), she is exercising these rights. Though the South Vietnamese are not members of the United Nations, the Americans, as required by Article 51, have kept the Security Council generally informed of their actions in Vietnam.

American

14. In addition to specific assurances given by successive American Presidents (by President Eisenhower in a letter to President Diem on 23 October, 1954; by President Kennedy in a letter to President Diem on 14 December, 1961 and in a White House statement on 30 October, 1963; by President Johnson in an affirmation in the Senate on 27 November, 1963 and on several subsequent occasions), the United States have declared that their support for South Vietnam is in accordance with their obligations under the SEATO Treaty, South Vietnam being a "protocol state" covered by the treaty. (This position was affirmed in the Congressional resolution of 7 August, 1964.) We have made it plain, however, that we do not view our SEATO obligations in the same way as do the United States, and in any case South Vietnam has not formally /invoked
invoked SEATO help. Even if she did, our view is that it is open to each party to put its own interpretation on the treaty requirement to "act to meet the common danger", and thus that each individual member would have to decide for itself how to respond.

15. The Americans say that they have no wish to change the North Vietnamese régime; are concerned only to help the South Vietnamese to beat off the North Vietnamese attack; wish for no bases in Vietnam; wish for a negotiated settlement to end the fighting; and are content that this should be on the basis of the Geneva Agreements. They have said that they are ready for unconditional negotiations, for a public conference, or private talks, are ready to precede talks with mutual military restraint with or without a formal cease-fire. They are publicly committed by the Manila Communiqué (October 1966) to withdraw their forces not later than six months after the end of violence and the withdrawal of Communist forces to the North. They have offered to spend large sums of money on the rehabilitation of the Mekong area, including North Vietnam if Hanoi desires it, after the cessation of hostilities.

16. They have attempted to explore the ground on which negotiations might take place both by direct confidential channels and by intermediaries. Direct low-level contacts have taken place on a number of occasions but they have never developed to the point of offering a prospect of negotiations.
17. In addition, the U.S. have initiated five bombing pauses, one 37 days long, in the hope that one of them would lead to a cease-fire and negotiations. With the disputed exception of U Thant's initiative in Rangoon in 1964, the Americans have encouraged third parties in their efforts to bring about a cease-fire and negotiations.

North Vietnamese

18. The North Vietnamese hold firm on their "Four Points" (U.S. withdrawal; respect for Geneva Agreements; adoption of Liberation Front programme; peaceful reunification) and on the claim, most recently repeated both by their Prime Minister, Pham Van Dong, and the official North Vietnamese newspaper, that the Liberation Front is the sole genuine representative of the people of South Vietnam. Their current attitude to the possibility of negotiation is based on the interview given by their Foreign Minister in January this year in which he said that: "only after the unconditional cessation of U.S. bombing and all acts of war against the D.R.V. could there be talks between the D.R.V. and the United States".

19. In addition, the North Vietnamese maintain that there can be no equality of treatment for the aggressor (in their view the United States) and the victim and that there can be no reciprocity between the two sides. All proposals so far put forward /have,
have, in North Vietnamese eyes, suffered from this
disability and have, therefore, been rejected.
Equally, all efforts to discover whether North
Vietnam would, in fact, start talking after a cessation
of bombing have failed. In New York 'in September
Mr. Gromyko would only say in private that if there
were an unconditional cessation "the situation would
have changed", and "conditions would be more favourable".

Present American Attitude

20. As a result of this North Vietnamese attitude and
international criticism of the bombing, President
Johnson has moved from his position in February that
bombing would stop when North Vietnamese infiltration
had stopped to a publicly stated willingness to order
a cessation of bombing "when this will lead promptly
to productive discussion", provided only that while
discussions proceed the North Vietnamese would not take
military advantage of the bombing cessation or limi-
tation. The North Vietnamese have made no responsive
shift in their policy.

British Attitude

21. British responsibility is two-fold:

- As a major power concerned with the
  security of South East Asia as a whole;

- As a Co-Chairman of the Geneva

/22.
22. For the first, it is accepted by our friends and allies that our military non-involvement in Vietnam does not mean that we have abandoned all concern with the security and stability of the whole region. Nor does it inhibit us from giving aid and support to South Vietnam and the U.S. presence there, because it is in our general interest that there should be a strong and viable South Vietnam so that the people of South Vietnam should be capable of deciding their future, and the question of reunification, free from foreign interference. We therefore believe that South Vietnam's resistance to encroachment from the North is right.

23. For the second, it has to be accepted that the Geneva Co-Chairmanship imposes a responsibility without effective power. The Geneva machinery is basically a means of reaching and giving effect to a settlement, and the Geneva Agreements themselves are in many parts textually obsolete after 13 years. The Geneva Conference can reconvene only if its members will attend; and so far not even the Soviet Co-Chairman, let alone China and North Vietnam, have conceded that the time is right to do so. The essential value of the Geneva machinery is that it remains in existence, by tacit understanding between all concerned, against the day when it can be used; and that we test it periodically to see whether this day is near.
15th November, 1967

CABINET

BRITISH RAILWAYS BOARD SALARIES

Memorandum by the Chief Secretary, Treasury

In her memorandum on this subject (C(67) 179) the Minister of Transport proposes that the salary of Mr. Peter Parker, as the new Chairman of the British Railways Board (BRB), should be £17,500 a year, and that of Mr. H. C. Johnson, as Deputy Chairman, £15,000 a year.

2. I do not think it would be right to agree to these salaries. In recent years successive Governments have followed a clear policy of paying, with certain exceptions, members of nationalised boards on a standard "tariff". The current "tariff" rate for Chairmen of major nationalised industries is £12,500 a year. This is the salary paid to the Chairman of the National Coal Board and the Electricity Council, and to the present Chairman of the BRB.

3. Exceptions have been made when it has been essential to secure the services of a particular man from outside the industry, who has been receiving more than the current "tariff" rate. In such cases, personal rates have been paid. However, the present cases are not of this type. Mr. Parker's current salary is £11,500 a year; and Mr. Johnson receives £10,000 a year, the current "tariff" rate for Deputy Chairmen of the major nationalised boards.

4. The salaries agreed for members of the British Steel Corporation earlier this year are, of course, not a parallel. There it was necessary to secure the services of men already receiving remuneration well above the current level of nationalised board salaries, and with protected salary rights under the Nationalisation Act.

5. Moreover, the Cabinet recently invited me (CC(67) 62nd Conclusions, Minute 3) to consider the whole question of salaries of members of nationalised boards, including the reorganised BRB, and to put proposals to my colleagues. This I hope to do shortly. But in my view to decide now to increase the general level of salaries for the BRB would seriously prejudice our consideration of the wider issue. It would be difficult or impossible to treat other nationalised industries differently from the railways. In effect we should be practically settling the whole question in isolation and without proper consideration of the issues.
I do not underestimate the difficulties that will face the reorganised BRB, as set out in the Minister of Transport's memorandum. But they are difficulties that should be considered in the wider context. In my view, the right course is to pay Mr. Parker and Mr. Johnson the current "tariff" rates (£12,500 and £10,000 a year respectively) and to tell them in confidence that we are considering the general problem of nationalised board salaries. The salaries of the BRB would, of course, play an important part in our consideration.

J.D.

Treasury Chambers, S.W.1.

15th November, 1967
C(67) 182

20th November, 1967

CABINET

ECONOMIC SITUATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate herewith an extract from the Conclusions of the meeting of the Cabinet held on Thursday, 16th November, 1967.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

20th November, 1967
Extract from Conclusions of a Meeting of the Cabinet held on Thursday, 16th November, 1967.

The Cabinet -

1) Took note, with unanimous approval, of the Prime Minister's summing up of their discussion of the devaluation of sterling and the necessary consequential measures.

2) Agreed:

(a) that the parity of the pound sterling should be immediately reduced to a new fixed rate of $2.40 to the pound, representing a devaluation of 14.3 per cent;

(b) that measures should be introduced to free resources on a scale designed to secure an improvement of at least £500 million on the balance of payments;

subject to the right of the Chancellor of the Exchequer to invite the Cabinet to reconsider these decisions if, before they were announced, there should be major international developments justifying such action.

3) Agreed that, otherwise, these decisions should be announced in the late evening of Saturday, 18th November; that they should be formally communicated to Parliament on Monday, 20th November; and that arrangements should be made for a Parliamentary debate as soon as possible thereafter.

4) Agreed that the measures to reduce demand set out in the Annex should be introduced as appropriate and should be announced together with, or as soon as possible after, devaluation.

5) Invited the Chancellor of the Exchequer to consider the extent and timing of such further tax increases as might be required in order to bring the reduction in demand affected by the measures in the Annex to the prescribed total.

6) Invited the Chancellor of the Exchequer, in consultation with the Lord President of the Council, the Secretary of State for Scotland and the Minister of Housing and Local Government, to consider how a saving of some £30 million in the field of local authority expenditure could best be made, whether by withholding any increase in the Rate Support Grant or by other means yielding an equivalent saving.

7) Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Scotland, the Ministers of Transport, Power and Technology, and (after devaluation had been announced) with the Chairmen of the Boards of Nationalised Industries (including the Post Office), to consider the best means of securing a reduction of some £75 million in 1968-69 in the investment programmes of those industries.
Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Education and Science and the other Ministers principally concerned, to arrange for further consideration to be given to the desirability of postponing the raising of the school-leaving age to 1974-75.

Agreed to give further consideration, at a subsequent meeting of the Cabinet and in the light of their decision on devaluation, to the memoranda by the First Secretary of State, the President of the Board of Trade and the Minister of Technology on British European Airways Re-equipment (C(67) 176, 177 and 178).

Agreed in principle that the Government's decision to protect those members of the community who would be most adversely affected by devaluation should be announced at the same time as the decision on devaluation itself; and invited the Chancellor of the Exchequer, in consultation with the First Secretary of State and the Minister of Social Security, to consider the amount and form of possible measures to this end.
ANNEX

Measures to reduce demand

(i) Bank Rate to be raised to 8 per cent and restrictions on bank credit, subject to the priorities obtaining before the recent relaxation, to take effect at the same time.

(ii) An increase in hire purchase restrictions in respect of motor cars, to achieve a reduction of £100 million in hire purchase debt, to take effect forthwith.

(iii) Corporation Tax to be increased in the next Budget by 2½ per cent.

(iv) The tax on fuel oil for industrial purposes to be increased, possibly by 50 per cent or 100 per cent, the amount to be determined by the Chancellor of the Exchequer in consultation with the Minister of Power and the other Ministers principally concerned.

(v) The 7s. 6d. premium payment under the Selective Employment Tax to be abolished for manufacturing industry outside development areas.

(vi) The investment programmes of nationalised industries to be curtailed on a sufficient scale to achieve a reduction of some £75 million.

(vii) Defence expenditure to be reduced by rather more than £100 million in 1968-69.

(viii) Public expenditure in the local authority field to be reduced whether by withholding of any increase in Rate Support Grant or otherwise, on a scale to secure a reduction of some £30 million.

(ix) Abolition of the export rebate, to be effected in the next Finance Bill but to be announced as part of the measures accompanying devaluation.
20th November, 1967

CABINET

BRITISH RAILWAYS BOARD SALARIES

Memorandum by the Minister of Transport

The Cabinet did not consider the two papers, by the Chief Secretary and myself, on the salary of the British Railways Board (BRB) Chairman and Deputy Chairman (C(67) 181 and 179). But they were considered by a small group of Ministers. I was invited to see Mr. Parker, and with all the earnestness at my command to invite him to accept the chairmanship of the BRB at the tariff salary (£12,500). I was authorised to assure him that this salary, and that of the Deputy Chairman (£10,000) would be reviewed.

2. I saw him the same afternoon and later took him to see the Prime Minister. We did not prevail upon him. He said he thought that for him to accept would be disastrous to any hopes of getting full support from senior railway management, or of strengthening it by bringing in high-calibre people from outside to fill key positions. If he did not succeed in attaining those preliminary objectives, there was no hope of his bringing round the railway industry so that it could implement the economic and social objectives set out in my White Paper (Cmnd. 3439). He said he attached, if anything, greater importance to the salary he had proposed for Mr. Johnson (£15,000) than to his own.

3. It is the intention that Mr. Johnson should fill a new post of Deputy Chairman and Chief Executive in accordance with a recommendation of the Joint Steering Group which the Government has accepted. What is in question, therefore, is not an increase in salary but the rate of pay for a new job which involves a promotion. At present the job of the Chief Executive is being done by two Vice-Chairmen and at least one of the functional members of the Board, and the Chairman himself is also devoting part of his time to it. It will be an essential corollary of the move towards a non-functional Board, as recommended by the Joint Steering Group, that these various executive tasks should be concentrated under the control of one man.

4. Today I again saw Mr. Parker and Mr. Johnson, to see whether they would be willing to reconsider their decision in the light of the news over the weekend. I proposed that in the changed circumstances they should accept the tariff salaries, on the basis that there would be an early review of top salaries in nationalised industries generally, the results of which would operate as soon as possible. I cut no ice with either.
5. Mr. Parker said that he fully appreciated the Government's difficulties and was anxious to do all he could to help. Nonetheless he felt that he could not make a success of the job on the basis I had suggested. It was of overwhelming importance to create the right conditions for efficient management and it would be fatal to start on an unrealistic basis. It was generally recognised, not least among railwaymen, that very substantial increases in top nationalised industry salaries (outside the Steel Corporation) were long overdue. The point was strongly made that ordinary working railwaymen and middle management had increased rewards for increased effort, but these have not extended to top management.

6. For his part, Mr. Parker would be prepared to accept a temporary abatement of 12½ per cent even though this would leave him with a salary (£15,300) little more than he was offered as an ordinary member of the Steel Corporation. He was, however, very insistent that Mr. Johnson should be offered a salary of £15,000. As I have explained in paragraph 3, this is not an increased salary for doing the same job. Mr. Johnson is being asked to take a new job with very much greater responsibility. Mr. Parker stressed particularly that the proposed salary for Mr. Johnson was essential to enhance the standing of the most senior railwayman and also to help gain the acceptance of other railwaymen for a new comer as Chairman.

7. It is clear that Mr. Parker will not accept anything less than he has proposed. If we cannot offer this, I am without a Chairman for BRB and cannot be certain of keeping Mr. Johnson. So I ask my colleagues to accept the recommendations in my last paper, subject only to a temporary abatement of 12½ per cent of Mr. Parker's salary.

B.A.C.

Ministry of Transport, S.E.1.

20th November, 1967
GABINET

DEVALUATION: SOCIAL SECURITY CONSEQUENCES

Memorandum by the First Secretary of State

The Chancellor's statement last weekend said:

"It is the Government's firm intention to take, at the right time, the steps which will be needed in order to protect the most vulnerable sections of the community from hardship resulting from the change in the exchange rate."

2. The Cabinet had previously asked me to discuss with the Minister of Social Security and with the Treasury the protection of those members of the community who would be most adversely affected by devaluation. These include old people, poor families and others who are eligible for supplementary benefits.

3. In relation to old people, it was concluded that for economic reasons it would be necessary to resist the pressure which must be expected from pensioners generally. We do not need to decide now either the amount or timing of increases in supplementary benefits, as it seems unlikely that pressure from price rises will build up immediately. But my colleagues should know that on the assumption that the cost of living is likely to increase during the next year by 5 to 6 per cent, of which some half would be due to devaluation, increases in the supplementary benefit scales of the order of 4s., a week might be needed by the end of 1968 at a cost of some £35 million net in a full year.

4. But supplementary benefits do not help the families of the lowest wage earners in full time employment. To help them some increase in family allowances would need to be considered. In terms of both prices and the need to resist the pressure of wage demands, flexibility of timing in any increase would be important. The cost of an increase in family allowances would depend more on what amount would be politically presentable than on the amount which would be strictly proportionate to a rise in prices for those children in respect of whom family allowances are payable. The latter could be assumed to justify up to 1s. a week for those children. A presentable amount, say 3s. across the board, would cost £35 million net of tax at existing rates. There are, of course, many permutations of ways of providing an increase according to size of family and to the total amount of expenditure. This net extra cost would have to be met out of taxation.
5. An increase in supplementary benefit scales could be made by regulations requiring an affirmative resolution, and at least three months would be needed after the decision to put new scales into payment. Action effective sometime between June and October next year would therefore require a decision on amount and timing by April.

6. An increase in family allowances, however, requires legislation. There are two possibilities. A Bill for this purpose could be introduced at the appropriate time next year. (I am advised that it would not be appropriate to include provision regarding family allowances in the next Finance Bill). But it would be possible to amend the present Family Allowances and National Insurance Bill, now about to enter the Committee Stage, to empower the Minister of Social Security to make a further increase in family allowances - by Order subject to affirmative resolution - at whatever proves to be the right time. A further Money Resolution would be needed which could be taken on the same day as the remaining stages of the Bill but preceding them. To amend the Bill in this way would provide an earnest of the Government’s intention to protect the poorer families and might help in resisting pressure of wage demands and would certainly provide flexibility. On the other hand there must be some risk that this would stimulate pressure, e.g. from pensioners, for a similar commitment to protect them against the effects of devaluation.

7. An immediate decision is necessary about the present Bill. The Cabinet are therefore asked to consider whether this Bill should be amended to provide the enabling power described in paragraph 6.

M.S.

70 Whitehall, S.W.1.

22nd November, 1967
28th November, 1967

CABINET

PASSENGER TRANSPORT AND TRAFFIC:
DRAFT WHITE PAPER

Memorandum by the Minister of Transport

The attached White Paper on Passenger Transport completes the series of White Papers outlining policies which will be implemented in the forthcoming Transport Bill. The policies described have all been approved at various times by the appropriate Ministerial Committees over the past year. The main elements of the policies set out in the White Paper may be summarised as follows:

(i) The establishment of Passenger Transport Authorities with members appointed by the local authorities in their area. These new statutory bodies will have the responsibility for planning and in part providing the public transport requirements of our great conurbations. They will be set up immediately in the Greater Manchester, Merseyside, West Midlands and Tyneside areas. Later they may be set up also in other areas.

(ii) The acquisition by the Transport Holding Company (THC) of the last big block of privately held bus companies, thus bringing virtually all the main network of ordinary bus services into public ownership of one sort or another. This purchase has now been completed by the THC subject to the passing of the necessary legislation to extend their borrowing powers.

(iii) The creation of a new National Bus Company to run the nationally owned bus services in England and Wales with a specific duty to co-operate with Passenger Transport Authorities in the reorganisation of bus services.

(iv) The operation at the desire of the Secretary of State for Scotland of a separate Scottish Transport Board which would be responsible for bus services and shipping services in Scotland.
(v) The introduction of grants towards capital investment in public transport. There will be a 75 per cent grant for major schemes of investment in fixed capital facilities such as new or improved rail lines in the cities, new tube lines, bus stations and so forth. There will be a lower rate of grant (25 per cent) for the purchase of new buses of improved design. There will also be an increase in the grant already made to the operators of the ordinary bus services as a refund of part of the fuel duty which they at present pay.

(vi) A scheme for the support of bus services in remote country areas which will be paid for as to half by the local authorities in the area and half by the Government. This will implement the main recommendations of the Jack Committee which reported in 1961 on this problem.

(vii) The removal of the present anomalies which prevent local authorities from arranging for concessions for their old people on local buses. The payments for such concessions will however have to be met by local authorities if they introduce them and will not fall in any way on central Government.

(viii) A revision of the regulations affecting the hours of driving for bus and coach drivers which have remained unaltered since the 1930s. The date of introduction of these changes will have to be carefully considered in order to avoid dislocation of public transport facilities.

(ix) The extension of the programme of research and development on which we have embarked.

(x) The placing of much clearer responsibilities on local authorities for the management of traffic in their areas, with less detailed interference from central Government. But local authorities in the towns and cities will be expected to prepare urban transport plans which will fit in with their general development plans and will form the basis for decisions about investment in public transport facilities, roadworks and traffic management schemes.

2. I should call my colleagues' attention to the consequence which will flow from the decision to establish a separate statutory Scottish Transport Board. The THC Board had not known of our intention to do this when they approached me with the proposal to buy the British Electric Traction (BET) Group bus interests. They regarded the purchase as defensible on commercial grounds to bring all the major bus companies under a single control. However, they regard the transfer of the Scottish Bus Group to a separate statutory body as so damaging to the strength of the National Bus Company that they insisted that they would only proceed with the purchase of BET if I gave them a direction to do so. I have power to issue such a special direction but I should point out to my colleagues that it has never been used.
before on a major matter. In accordance with the decision of the Ministerial Committee on Industrial Policy on 15th November I therefore promised THC such a direction if the Government proceeded with its plans for a Scottish Transport Board. The purchase of the BET under a direction could however have political implications when it became known - as it would have to be.

3. The White Paper has been delayed because of the need to know whether or not the purchase by the THC of the BET Bus Group would be achieved. The successful conclusion of the negotiations last week has enabled our policy on passenger transport throughout the country to be set in a satisfactory context. In particular, it has made it possible to drop the provisions for compulsory acquisition of private bus companies which were likely to create serious difficulties in the effective working of the new Passenger Transport Authorities.

4. I ask my colleagues to agree to the publication of the White Paper as soon as possible and to confirm that they wish a Scottish Transport Board to be established even though this involves giving a direction to THC.

B. A. C.

Ministry of Transport, S. E. 1.

27th November, 1967
WHITE PAPER ON PUBLIC TRANSPORT AND TRAFFIC

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Annex Establishment of Passenger Transport Areas and functioning of Passenger Transport Authorities and Executives.
I The Modern Role of Public Transport

1. One of the most precious achievements of modern civilisation is mobility. It enriches social life and widens experience. To build mobility into the urban and rural life of this crowded island without destroying the other elements of good living must be one of the major purposes of transport policy.

2. If this is to be achieved, far-reaching changes in attitudes and administration will be necessary. The provision of transport - whether public or private - can no longer be considered in isolation from other developments. It must be built into the whole planning of our community life so that no factory is sited, no housing estate or 'overspill' developed, no town re-planned without the implications for the movement of people and goods having been studied and incorporated from the outset. In other words, transport must become the servant of the planners, not their master.

3. It is for this reason that Ministries, regional Economic Councils and local authorities are undertaking studies of transport needs. It is for this reason, too, that the new type development plans envisaged in the Minister of Housing and Local Government's proposed Town Planning legislation will treat the basic transport planning of the area as part of its general planning of the structure of the area. Nor must the needs of rural areas be overlooked, where the decline of public transport threatens to isolate many people in remote communities.

4. The problem is, however, most acute in the built-up areas. Great Britain is basically an urban country; nearly half our people live in large towns and cities and about 80% of them in urban areas. The quality of urban life depends /to
to a large extent on the excellence of the transport services available both to those who live in cities, and to those who seek to come there for work, shopping or pleasure. The freedom to move easily about the city - to go places and see people - is something of great value in itself. Yet this freedom can, if ill-used, do great damage to the quality of urban life.

5. The nature and kind of urban transport systems must be based on our ideas of the kind of cities we want to develop. But city planning must be based on a realistic appraisal of what can be provided in the way of transport investment. It is useless to devise a structure for a city on the basis that nearly all journeys will be made by car or taxi if this demands an investment in highways so huge that the resources of the country cannot provide it. So general planning and transport planning must be carried out hand in hand.

6. All the studies carried out so far from the Buchanan Report onwards suggest that our major towns and cities can only be made to work effectively if a new dynamic role is given to public transport as well as expanding the provision for private cars. Unless we recognise this we shall pull down the centres of our towns in an attempt to remove congestion, and at the end of the day we shall find congestion still with us, and the character of our towns destroyed. We have neither the physical space nor the economic resources to rebuild our cities in such a form that all journeys can be made by the use of private cars; and in any case we must provide for the large number of people - the old, the young, the housewives, the poor, - who do not have the use of cars.

7. The provision of an attractive and efficient system of public transport is therefore vital to deal with the immediate and pressing problems in our cities. But we must
also see how far public transport could offer new opportunities in the renewal of our urban areas. The pattern of growth of London was largely determined by the building of the suburban railways and tubes; the structure of many provincial cities reflects the pattern of the first tramways. New rapid transit systems for our major cities could provide an attractive basis for new patterns of development.
II. The principles of organisation

1. Four main consequences flow from this approach. In the first place the basic planning of local public transport is clearly a function of local rather than central government. It is local authorities who are responsible for the planning of their areas and the development of their local road networks; and they cannot do these jobs effectively unless they also have control over the public transport in their area.

2. That is why the Government has rejected the idea of establishing nationalised area Passenger Transport Boards responsible to the minister of Transport and organising local transport services independently of the local authorities in their area. A clear distinction must be drawn between the national transport network (designed to handle movement between cities) and the short-distance local movement of people which needs to be a local responsibility.

3. Secondly, investment in local public transport must be grant-aided by central government just as investment in the principal road network in the cities and towns receives specific capital grants of up to 75% from the Exchequer. Otherwise the renewal and extension of public transport systems will be held back, while the money available is concentrated on road schemes which are grant-aided. But here again responsibility for deciding what public transport developments are needed must rest in the first place on local communities.

4. Thirdly, all the transport matters for which local authorities are responsible - the improvement of the local road network, investment in public transport, traffic management measures, the balance between public and private transport, - must be focused in an integrated urban transport plan.
plan, which in its turn is related to the general planning for each area. Otherwise a series of unrelated schemes will come forward without a unifying policy; and it will be difficult for central Government to see which investment projects should be given priority.

Fourthly, local public transport is no longer an appropriate activity for private companies whose duty is to their shareholders. Indeed it has long been recognised that the basic passenger transport services could only be effectively provided through public ownership - whether local or national. Most of the major cities have established their own public transport services. London's transport was integrated in a public Board in 1933. Since 1948 the British Transport Commission and later the nationally-owned Transport Holding Company, as owners of the Tilling and Scottish Groups of bus companies, has been by far the dominant provider of bus services outside London and the big cities. Today T.G.N.O. own 14,000 buses and coaches and have a large share (average 40%) in the companies of the British Electric Traction Group, which own 11,000 buses and coaches. In all, 80% of stage bus passengers in Great Britain are carried by publicly owned undertakings, and there is a substantial public stake in a great part of the remainder. Less than 10% of such passengers are carried by wholly privately owned companies.

The completion of this process of bringing the basic network of local passenger transport services under public ownership and control will make possible a radical rationalisation of the pattern of public transport. It will also enable the finances of public transport to be considered on a wider basis than the narrow financial interests of individual operators. In particular the finances of rail and bus operation need to be considered together and not in entirely separate compartments.
Finally, the planning of public transport can only be done intelligently over areas which make sense in transport terms. This means that planning must cover not only a large city or town but also the catchment area from which large numbers of people travel to the centre for work, shopping or pleasure. Such an area is far larger than that of any existing individual local authority outside London. Indeed it is clear that one of the major factors making for the reorganisation of local government is the need to create local authority units big enough to tackle the sort of problems, like transport, which they ought to tackle if local government is to survive as an effective force. Any such change in local government structure in England and Scotland must, of course, await the report of the Royal Commissions on local government. But the reform of local government is a complex matter and may well take several years. In the meantime the traffic situation in some of the major urban areas is so serious, and the prospects for public transport deteriorating so rapidly, that the reorganisation of the transport system cannot wait.
III. The reorganisation of public transport

1. Sections III to VI of this Paper set out the Government's proposals for implementing these principles outside London.

2. First, powers are to be sought in the Transport Bill to set up, by Order, Passenger Transport Authorities in any area where it seems to the Minister they are required for the effective organisation and planning of public transport. The traffic problems of the major conurbations are already critical and their continuously built-up areas call for unified planning of transport under a single Transport Authority. Yet at present they are served by a multiplicity of operators, large and small, which hinders the satisfactory planning of public transport in the area. In the Greater Manchester Area, for example, there are no less than eleven municipal bus operators with fleets ranging in size from over 1,200 down to 19. In these areas, moreover, suburban rail services play a substantial part in the movement of peak hour traffic; and the full integration of the planning of rail and road services is a pressing need. Here the role of new fixed track transport systems to serve the whole area needs to be investigated thoroughly and quickly. To meet these needs new Transport Authorities must be set up to take responsibility over the whole area and for all kinds of transport, rail, tube, bus and ferry, as well as any new forms of rapid transit which may be developed. It is therefore proposed as soon as the Bill becomes law to proceed with the establishment of Passenger Transport Authorities in Great Manchester, Merseyside, the West Midlands and Tyneside. Consultations will be held with the local authorities concerned on the delineation of the area to be covered by the P.T.A. in each case.

3. In much of the rest of the country the problems are less acute and the future pattern of local government even less clear. Inadequate improvements can, however, be made by the effective coordination...
coordination of bus services on the lines of the agreements at present operating in Bristol, Plymouth and elsewhere. The promotion of such agreements will be helped by the proposed acquisition by the T.H.C. of complete control of the BT Group of bus companies. This will enable a single national bus undertaking to be established operating virtually all the basic network of local bus services outside the main cities in England and Wales. The National Bus Company will cooperate with Passenger Transport Authorities in the organisation of transport services in their areas. And in the rest of the country it will rationalise the services which it operates and cooperate very closely with municipal bus undertakings.

This coordination will be fostered not only by the Traffic Commissioners' licensing control, where appropriate, but also through the Regional Passenger Transport Coordinating Committees. In Scotland all the buses outside Glasgow, Edinburgh, Dundee and Aberdeen are already run by the Scottish Bus Group owned by the T.H.C. The Scottish problem is therefore different in nature from the problem in England and Wales and separate proposals for Scotland including the establishment of a Scottish Transport Board are described further below.
IV Passenger Transport Authorities

1. The procedure for establishing Passenger Transport Authorities - and a description of their powers and functions - is set out in detail in Annex A. The constitution of the P.T.A.s is designed to secure two ends: first, the control of policy and finance by a body responsible to the local authorities in the area concerned and secondly the delegation of day to day management to a professional executive appointed by the controlling authority and answerable to it. The relations between the Authority and the Executive will be similar to those between a minister and a nationalised industry. The Authority will be composed almost wholly of people appointed by the local authorities. It will appoint its own Chairman, with the approval of the Minister. Since the Authority and the Government will be working closely together on many aspects of transport policy, with the help of substantial block grant, the minister will appoint two or three members of the Authority, but not more than one-seventh of the total membership.

2. The Authority will appoint the Executive on such terms as it may decide. It will settle the broad lines of policy, including services and fares. It will be for the Authority to choose, therefore, whether it wishes public transport in its area to be self-supporting or whether, in the interests of wider transport considerations, it wishes to assist it through precepts on the local authorities in its area. The Authority will be free to grant concessionary fares throughout its area.

3. The viability of public transport will clearly be affected by the extent to which it is related to the general planning of the area which is the responsibility of
of the local authorities who are appointing the members of the P.T. ... The Authority and the Executive must therefore plan public transport as part of a unified plan for land use, highways and traffic management.

Responsibilities of the Executive.

4. A major task for the Executive will be to prepare a Plan for approval by the Authority setting out its proposals for the development of a system of public transport capable of serving the needs of the area. It will also be responsible for the provision of services, either by operating them itself or by entering into agreements with British Railways, with the National Bus Company or other operators. One of its most urgent tasks will be to reorganise the bus undertakings in the area. As an essential first step it will take under its control all the municipal bus undertakings concerned. Reorganisation will also be made easier by the fact that all, or nearly all, of the other major bus undertakings will be in public ownership under the control of the National Bus Company which will be given a statutory duty to cooperate with the P.T.E. This development now makes it unnecessary to give them the compulsory powers of acquisition originally visualised.

5. The Passenger Transport Executive will not however be just a body to organise or run bus services. Its primary job will be to plan the public transport system of the area as a whole in the context of the development and traffic plans of the local authorities. The Executive must comprise men of vision and wide experience; and they must employ staff skilled in the latest techniques of transport planning and development, not only by road but by all means of transport. It will be the job of the Executive to work out with the local authorities a practicable balance between private and public transport; to integrate the bus and rail services.
services in the area even though they are operated by different undertakings; and to evaluate the costs and benefits of major new investment in public transport whether in fixed track system reserved routes for buses or other use.

6. A first plan for the development of public transport must be prepared by the Executive for approval by the Authority and for publication within two years of the appointment of the Executive. Such a plan set in the context of the development plans of local authorities will help the Minister in deciding on the capital grants to be made to the Executive for investment in major new projects.

Organisation of the Executive's Own Undertaking

7. It will be the duty of the Executive to regroup the municipal undertakings transferred to it (and any other bus services which it may acquire by voluntary negotiations) in a way which will enable them to operate with maximum efficiency. The total number of buses owned by the Executive in Greater Manchester, Merseyside and the West Midlands will be of the order of 2,000 or even more.

Although there is no evidence that there is any particular optimum size of bus undertaking (the optimum size almost certainly varies considerably in different conditions), there is a general consensus of view in the bus industry that the problems of effective management steadily increase when the number of buses in an undertaking rises above 1,000. There is therefore no intention that the Executive should organise the bus undertakings which come under its ownership in a single monolithic structure. On the other hand many of the existing municipal undertakings are clearly too small to be retained as individual units and would be better combined with others into units of a reasonable but still manageable size.
8. Although it will be for the Authority and the Executive to choose the organisation scheme which they think fit, there would clearly be advantages in grouping their assets in a number of subsidiary undertakings of a size which can be effectively managed. In the circumstances of the conurbations this would probably be of the order of 500 - 1,000 buses. These subsidiary undertakings could be organised as Companies wholly owned by the Executive. The Executive would naturally control the general policy of the subsidiary companies and would make sure that there was full integration in the way in which they worked together. But within such a general policy there would be plenty of room for the management of each undertaking to adopt policies appropriate to its own local conditions.

9. Such an arrangement would ensure that there was close contact between the subsidiary undertaking and the local community which it served. It would be open to the Executive to appoint to the Board of Directors of these local undertakings some persons from the local authorities in the area, particularly those which had previously been running their own bus undertakings. In this way the existing interest and pride in the local bus services would be maintained in the new system; and the undertakings themselves would be more responsive to local needs. The arrangement would also ensure that each subsidiary has a close link with those responsible for the traffic policies in its area, which can have so marked an effect on the efficiency and attractiveness of the bus services.

10. Secondly the arrangement would ensure a much better system of financial responsibility for the individual parts of the Executive's undertaking. Each subsidiary would be expected to produce its own financial accounts and would have its own financial objectives set by the Executive.
and the Authority. The cost of operation may very well vary widely over the whole area and it would be most undesirable for these variations to be masked in an overall average for the whole of a very large undertaking. If costs in a particular part of the area are relatively low then it will be right for the travelling public in that area to enjoy the benefits of such lower costs.

11. This means that although the Authority will establish a general fares policy for the area as a whole there is no reason why the individual and detailed fares scales of particular areas should be identical. There should be room for local variation in the light of local conditions and costs.

12. In this way the Executive will be able to secure the substantial advantages of grouping the bus undertakings which it owns in units of an effective and manageable size with clear financial responsibilities and yet retain those advantages of management, centralised purchasing and other common services which spring from single ownership and a control of broad policy.

Agreement with the National Bus Company

13. The National Bus Company will own several individual companies operating in each of the first Passenger Transport Areas. The Company will have a statutory duty to cooperate with the Executives in the reorganisation of bus services in their areas. This could be achieved in some cases by transfers of bus services between the two undertakings. Alternatively there will need to be working agreements designed to solve the problems of severance while avoiding the irritating restrictions which are often placed under the present system on the way in which people inside and outside the area can use the different bus services. The
agreement between the N.B.C. and the Executive must be of a kind which provides for full integration on a financial basis satisfactory to both parties.

14. Although the agreement will not need the approval of the Minister details of it will be submitted to the Minister as part of the reorganisation plan for the area referred to above. Full control of services in the Area which will be exercised by the Executive in place of the Traffic Commissioners will not be given to the Executive unless the Minister is satisfied that a reasonable agreement has been made with the National Bus Company.

**Agreement with British Railways**

15. The suburban services operated by British Railways play a major part in the provision of public transport in the conurbations particularly for the movement of commuters. These services must be integrated into the general pattern of transport for the area. The Executive will therefore be given a specific duty to prepare an agreement with British Railways which will set out the part which suburban railway services are to play in the comprehensive transport plan for the area. This agreement will need the approval of the P.T.A.

16. The precise nature of the agreements made by the Executive with British Railways will vary from area to area. The level of fares to be charged must be a matter for the Executive who will fix it in the light of their general policy for transport in the area (taking account of B.T. fares on related services). Clearly a P.T.A. will not be able to draw up an effective transport plan unless it is able to influence the fares policy for all types of transport in its area. It might, for instance, wish to stimulate rail travel by fares concessions which would add to the losses made on the services. Moreover, it would not have the same incentive
incentive to reduce the loss on rail services by integrating them more effectively with other forms of transport if it did not have financial responsibility for that loss. The ultimate goal must therefore be for the P.T.A. to take responsibility for paying grants for any continuing losses on the suburban rail services it decides are necessary as part of its comprehensive transport plan. But progress towards this goal will necessarily be slow and will only take place in the context of Government policy designed to give local authorities greater financial help for public transport than they have at present. For this reason the Government will be making special grants to executives in connection with their agreements with B.R. - details of which are set out in Section VII.

Agreements with other Bus Operators

17. Although the majority of sizeable bus undertakings will be publicly owned, most of the small undertakings may remain in private hands. The Executive cannot be expected to plan transport services in its area unless in the last resort it can control all area bus services. It is therefore proposed that powers at present exercised by the Traffic Commissioners should be exercised by the Executive.

18. There will however be full protection for the position of existing operators. They will have the right to go on providing the services which they are now providing; but the Executive will be able if they think it necessary to revoke the permission to continue with a particular bus service if they are not able to secure the proper organisation of the bus services in the area without doing so. But in such cases the operator would be entitled to full compensation from the Executive for any reduction in the value of his business caused by the withdrawal of his right to operate a particular service. And if the withdrawal was such that it endangered the viability of the business he would be free to require the Executive to buy the whole.
whole business at its market value and at any rate at not less than the value of the net assets owned by the business.

19. Once the Executive has worked out its plans for reorganisation they would be expected to make arrangements with individual bus operators similar to those described above with the National Bus Company. These agreements would have to protect the position of the operator; and there would be provision in them for appeal to some independent person over disputes about their interpretation, preferably to the Traffic Commissioners who are experienced in such problems.

Machinery for Negotiation and Consultation with Workers

20. The Transport Bill will be laying on the Railways Board the National Bus Company and the Scottish Transport Board a duty to consult the Unions with a view to setting up the necessary machinery for consultation and negotiation with their workers on terms and conditions of employment, measures affecting safety, health, welfare, and proposals for improving efficiency.

21. A similar duty will be placed on Passenger Transport executives under which they will make agreements with the Unions to set up suitable machinery for the discussion of these matters. And the Executive will have to report to the Authority on the progress with such agreements. Its policies will be set out fully and publicly in its statement of general policy.

22. In deciding on the persons to be appointed as members of the Authority the Minister will take into account the desirability of including among the members of the Authority a person with special knowledge of the organisation of workers particularly perhaps in the Passenger Transport Industry.
Industry. It will be for the Authority and the Executive themselves to decide how best to establish good relations between workers and management in the individual Public Transport undertakings owned by the Executive. But the Minister would hope that they would see that the men and women involved would be able to discuss not merely the "how" but also the "why" of the changes which they are asked to accept as an essential means of providing the improved Public Transport system needed in the PT areas.

Financial Position of PT Executives

23. The financial position of the Passenger Transport Executive will depend in the first place on the efficiency with which they organise both their businesses and their agreements with other operators. The merging of the various municipal bus undertakings will present opportunities for reduction in the total cost of management, and for savings from the rationalisation of services. Nor will the PTE, whose role will be a planning one, require a large HQ staff. In the longer term rationalisation of garage and maintenance facilities, centralised purchasing and standardisation of vehicles and supplies should also provide a source of significant economies.

24. Moreover, for the first time public transport will be enjoying capital grants towards the cost of new transport facilities, including the cost of new buses, together with a reduction in fuel tax (see Section VII below) and these will inevitably reduce operating costs.

25. One of the most important factors affecting the running costs and attractiveness of bus services is the traffic conditions in which they operate. These are under the control of the constituent local authorities of the PTA and it will therefore be within their own power to create the

/conditions
conditions in which the service offered to passengers can be improved and the strain on bus workers relieved. So great is the importance of effective traffic management to the viability of bus services that the Minister of Transport proposes to place full responsibility for traffic management on local authorities as described in Section X 26. The finances of PTAs will also be strengthened by the right it is proposed to confer on the Executive to carry on any activities in which they are qualified or equipped to engage. Full details are given in the Annex. These powers will enable the Executive to provide every type of transport service and associated facilities needed to complement the basic public transport system and so improve its attractiveness and convenience for the travelling public.

27. A major factor in costs is the level of wages and other payments made to employers. At present there are significant differences in wage levels and conditions of employment in the various undertakings both municipally and nationally owned. The principle of common conditions of work for those engaged on comparable work is obviously right. But it may well be thought that the conditions of work for bus staff are by no means identical throughout the whole of a Passenger Transport Area and it may be that there will be a case for paying premium rates in certain parts of the area where conditions of work are most trying and consequently it is particularly difficult to obtain enough staff. Clearly progress towards uniformity of conditions must depend, like all increases in pay, on the rate of increase in productivity in the bus industry.
28. The Government does not therefore accept that the establishment of PTAs and the transfer of municipal undertakings to PTEs will lead to an increase in the cost of public transport or to higher fares than would otherwise be charged. Whether public transport in these Areas is able to cover its costs or requires a rate precept will depend partly on the quality of the people appointed to the Authority itself, partly on the management skills of the Executive they appoint, and partly on the readiness of the constituent local authorities to see that the traffic conditions in which buses operate are such that they can do their job efficiently.
V. NATIONAL BUS COMPANY

1. Although this is not always recognised, a very large part of the network of ordinary bus services throughout the country has for nearly 20 years been provided by undertakings which are nationally owned or in which there is a large public shareholding. Companies which are wholly owned by the nationalised Transport Holding Company (T.H.C.) own over 14,000 buses and coaches. The T.H.C. also owns an equal share with the British Electric Traction Company (each owning from one-half to one-third of the shares) in nearly all the companies in the British Electric Traction Group which own about 11,000 vehicles. Although there are indeed some 25,000 other privately owned public service vehicles in the country, only about one-quarter of them are mainly engaged in the operation of ordinary 'stage' bus services; the remainder are concerned with long-distance coach services, tours and excursions and contract hire work. And although there are hundreds of small companies engaged in this kind of work, only four privately controlled companies operating 'stage' bus services outside the B.E.T. Group have more than 60 buses.

2. The Transport Holding Company took the view that the control by a single body of all the main bus companies would enable that body to participate with each Passenger Transport Executive in the necessary reorganisation of bus services without damaging the economic and financial viability of the bus companies which provide most of the services outside the large cities. The Government shared this view believing that the essential reorganisation of public transport services based on the establishment of Passenger Transport Areas can be carried through most effectively if all the large bus companies operating stage bus services in England and Wales are brought under national ownership by the purchase by agreement of the remaining privately owned shares in the major bus companies.
Otherwise, safeguarding of the financial interests of the individual private shareholders could be a serious obstacle to a radical reorganisation.

With the authority and approval of the Government the T.H.C. has therefore made arrangements for the purchase of the shares owned by British Electric Traction Company, in bus companies in the B.E.T. Group, for some £35m., which represents the T.H.C. estimate of the value of the underlying assets. The T.H.C. will be offering to buy the other privately owned shares in these companies on a comparable basis. The T.H.C. has also acquired in recent months control of two sizeable independent bus companies in Yorkshire (the West Riding Automobile Co., and the Executors of S. Ledgard), and will be prepared to consider the purchase of other large privately owned bus companies if the shareholders wish to sell. The Government will introduce necessary legislation for the extension of the borrowing powers of the T.H.C.

It is intended to establish a statutory National Bus Company to which will be transferred all the T.H.C. interests in bus undertakings in England and Wales including their interests in firms manufacturing buses. The T.H.C. has in any case to be reorganised since its road haulage interests are being transferred to the National Freight Corporation. It is therefore more convenient to establish a body specifically responsible for passenger transport. Like the T.H.C., the National Bus Company will be run on commercial lines. It will continue to operate through locally based subsidiary companies. It will be expected to pay its way, providing out of revenue for the interest on its capital loaned by the Exchequer and the renewal of its assets. The financial duty of the N.B.C. will therefore be basically the same as that of Passenger Transport Executives.

/ The T.H.C. /
The T.H.C. interests in the operation of bus services in Scotland will be transferred to a separate Scottish Transport Board as described below.

The T.H.C. and its successor body the National Bus Company will use the opportunity created by the full control of the B.E.T. companies to rationalise the provision of services between their various subsidiaries in a way which has not proved practicable when the Tilling Group of bus companies was wholly owned by the T.H.C. while the B.E.T. Group was effectively controlled by a separate company. Although there has been progress in some areas, there is a good deal of scope for economies by reorganisation of services and depots.

The National Bus Company will have power - as the T.H.C. had - to acquire voluntarily bus undertakings which fit in with the rest of their services; but small private operators in many areas will continue to play a useful part in the provision of services particularly in country areas. The N.B.C. will co-operate with other bus operators (and indeed with the Railways Board and the London Transport Board in respect of their services) in order to ensure the provision of the necessary public transport services for the community in as efficient a way as possible.

The National Bus Company will have a specific duty to co-operate with each Passenger Transport Executive, when set up, in carrying through the necessary reorganisation of public transport in the areas concerned. As described above the subsidiary companies of the N.B.C. in each area will make agreements with the Passenger Transport Executive; these agreements will provide for fully integrated operation in and near the area over which the Executive have a responsibility for planning public transport.

Such agreements should not of course merely freeze the existing pattern for the provision of services. Changes will need to be made particularly in the great urban areas where the first Passenger Transport
Authorities and Executives will be set up. Some
services at present provided by companies which will belong to the
National Bus Company may be more conveniently provided in future by
undertakings owned by an Executive. Or the reverse may be the
case. What is important is that the agreement between the
Executive and the N.B.C. companies should not destroy the basis on
which the N.B.C. companies can operate profitably. The N.B.C.
companies will be maintaining a wide range of country services
outside the main towns on which the level of profits is inevitably
low; and they will need a proportion of more profitable urban
services if the 'mix' of their services is to lead to a financial
viability. If these companies were deprived entirely of their
right to provide urban services, then the people living in country
towns and villages served by the N.B.C. companies would find them-
selves either deprived of services altogether or expected to pay
fares raised to wholly unreasonable levels. These considerations
will need to be taken into account in the arrangements made between
Executives and the N.B.C.

Where they are operating services for passengers wholly within
a Passenger Transport Area the N.B.C. companies will operate under
the terms of their agreement with the Executive and not as at present
under the jurisdiction of the Traffic Commissioners. The nature of
the services to be provided and the level of fares to be charged
will therefore depend on the terms of the agreement and will have to
be related to the general fares policy laid down by the Authority to
be followed by the Executive for its area.

The agreements must however be such as will enable the N.B.C.
companies to fulfil their financial responsibilities. The N.B.C.
companies cannot, however, be expected to enter into agreements
which would entail their operating at a loss, and so form a back-
door method of gaining Government money to subsidise the operation
do local transport services. If under their policy the Passenger
Transport Authority precept in order to enable the level of fares
/to be
be held down, or certain highly unprofitable services to be continued, then the policy must be applied to N.B.C. companies operating in the Area as well as the Executive's own undertakings.

1. The establishment of the National Bus Company provides an opportunity to clear up some anachronisms in the nationalised transport field. The Railways Board have retained certain joint interests with the local authorities in bus undertakings operating in Halifax, Huddersfield, Sheffield and Todmorden. These interests will be more sensibly vested in the National Bus Company and this will be done.

2. More important, British Railways also have the responsibility for securing the provision of bus services required to be provided as a condition of the consent of the Minister of Transport to the withdrawal of rail passenger services. This responsibility in any case involves the Railways Board in the negotiation of continuing contracts with bus operators which involved the payment by the Board of subsidies to those bus operators of more than £500,000 in 1966. When the acquisition of BET undertakings by the THC is complete, over three-quarters of these subsidies will be payable to companies which will be owned by the N.B.C or STB and which they will be running as part of their general network of services.

3. The negotiation of contracts for bus services is not an activity which is proper to the functions of the Railways Board. It is therefore intended to transfer to the N.B.C or STB the obligation to arrange for these bus services where these are provided as an essential condition to the Minister's consent for closure of passenger rail services. The exact services provided will naturally be subject to such amendments and variations as Ministers may from time to time decide and the Traffic Commissioners approve.
The estimated cost of the provision of these services has been taken into account in settling the financial duties of the B& and G.T.B. The Company and the Board will not necessarily provide the services themselves or through a subsidiary company if they find it more economical to contract with another operator for the provision of a particular service. The N.B.C. and S.T.B. will also take over from the Railways Board the responsibility for the contracts with private operators in respect of existing rail replacement services and will in future negotiate the renewal of such contracts themselves unless for good reasons any individual operator is not prepared to have his contract with the Railways Board transferred to the N.B.C. or S.T.B.

The National Bus Company is being established to make easier the reorganisation of bus services to meet the needs of each area. It will not be a centralised board but in effect a holding company for a large number of local subsidiaries which will be responsive to local conditions and problems and will cooperate closely with the communities they serve. Although it will act commercially its financial responsibilities will not be such as to inhibit it from taking a broad view of proposals for reorganisation whether in a Passenger Transport Area or with a municipal bus undertaking outside. In short the establishment of the Company will provide a sound basis for developing on a rational basis the provision of bus services throughout England and Wales.
VI PASSENGER TRANSPORT IN SCOTLAND

OBJECTIVES

1. An efficient system of local passenger transport in Scotland is essential both on social grounds and as a means of promoting economic growth. The pattern of services must be flexible enough to respond to movements in population, the development of industry and of tourism, increased car ownership, and the different needs of the Central Belt and of the sparsely populated areas. In addition to rail and bus services, shipping and air services provide essential components of the Scottish transport system, especially in the Highlands and Islands.

EXISTING PATTERN

2. Passenger transport in Scotland is to a large extent already in public ownership, although through a number of different agencies. Apart from the municipal services in the four cities, the main bus services are provided by the Scottish Bus Group, which is a subsidiary of the Transport Holding Company. The Holding Company also shares in the ownership of David MacBrayne Limited, whose shipping and road services in the West Highlands are assisted by the Secretary of State for Scotland. Certain shipping services in Orkney and Shetland, as well as the new air service to the North Isles of Orkney are assisted in the same way. Shipping services in the Clyde are provided by the Caledonian Steam Packet Company, a subsidiary of the British Railways Board.

PROPOSED ORGANISATION

3. The Government consider that the overall planning objectives for Scotland will be achieved more effectively, especially in the field of transport investment, if the whole of the road and sea passenger network in public ownership is developed by a single organisation responsible to the

/Secretary
Secretary of State. The Transport Bill will therefore provide for the establishment of a new undertaking to be known as the Scottish Transport Board. Initially this organisation will take over the Scottish Bus Group, the Transport Holding Company's shares in MacBrayne's, the Caledonian Steam Packet Company, and the ships at present chartered to the subsidised shipping companies by the Secretary of State. The Government hope that the current discussions about a possible lease of the Glasgow Corporation's transport undertaking to the Scottish Bus Group will soon be successfully concluded. The Board will also have power to acquire by agreement any other undertakings needed to provide an effective passenger transport system, and to provide ancillary facilities such as hotels, car parks and piers.

FINANCIAL ARRANGEMENTS

4. The Board will operate mainly as a holding company, the various bus and shipping companies being operated as subsidiaries with the fullest possible measure of commercial freedom. It will have an obligation to balance its accounts, to the same extent as the National Bus Company (see section V). Essential shipping services will where necessary continue to receive assistance under the Highlands and Islands Shipping Services Act, 1960, which it is proposed to extend to cover the Caledonian Steam Packet Company services in the Clyde. Cross-subsidisation between bus and shipping services will be avoided as far as possible. Like other transport operators, the Board and its subsidiaries will be eligible to receive the various grants to be provided for in the Transport Bill.
ALTERATIONS IN SERVICES

5. Bus services provided by the Board's subsidiaries will at present require road service licences granted by the Traffic Commissioners. The STB will take over responsibility for any bus service required as a result of a condition of consent to a rail closure, for the same reasons as are described in section V. Services other than bus services provided by the Board and its subsidiaries will be subject to consideration by the Transport Users Consultative Committee for Scotland, which will be able to make recommendations to the Secretary of State on the same basis as to the Minister of Transport in respect of the services of other nationalised transport undertakings.

OTHER SERVICES

6. The services of the railways and British European Airways will not be directly affected by these proposals. In view of the functional relationship between the Stranraer-Larne service and other cross-channel services to Ireland, the balance of advantage lies in the operation of this service continuing with the railways. The future of MacBrayne's road haulage services will be a matter for subsequent discussion between the Scottish Transport Board and the National Freight Corporation.

CO-ORDINATION

7. The Scottish Transport Board and the National Bus Company will be expected to co-operate in matters of common concern, such as research and procurement policy. The Board will also co-operate with private bus and shipping operators in order to achieve an efficient network of services throughout Scotland. Co-ordination of the Board's services with those of the railways and other undertakings will be achieved by direct consultation between the operators concerned.
concerned, in appropriate cases by the Traffic Commissioners and also through the advice of the Transport Committee of the Scottish Economic Planning Council. This Committee is already examining the co-ordination of passenger transport throughout Scotland in collaboration with the Consultative Groups of the Council and with the Highlands and Islands Development Board.

**Passenger Transport Areas**

3. The Government believe that these proposals will provide Scotland with a more cohesive system of public passenger transport which will be able to meet the rapidly changing needs of the community in both urban and rural areas. The Transport Bill will empower the Secretary of State to set up Passenger Transport Authorities and Executives in Scotland, but a decision will be deferred for the time being on whether this power should be exercised and, if so, in what areas. The Scottish Transport Board will have a statutory duty to co-operate with any Passenger Transport Executive which may be set up in Scotland, and it is envisaged that its subsidiaries would make an agreement with any Executive for the provision of bus services in the area concerned. The economies of scale achieved by the national network could in this way be combined with the matching of services to local needs by the Authority.
VII. ASSISTANCE FOR PUBLIC PASSENGER TRANSPORT

1. Public transport both in our cities and in the countryside cannot be expected to play its necessary role without new measures of financial support. The government stated in the 1966 White Paper on Transport Policy that it intended to take powers to provide financial help for public transport. Proposals have now been worked out in detail.

Grants towards Capital Expenditure in Public Transport

2. The Government will take powers in the Transport Bill to make grants towards the cost of fixed capital investment in public transport - just as grants are at present given towards the cost of major highway construction and improvement. This major new development in Government policy is intended to correct the present imbalance in Governmental financial support for transport in urban areas, where improvements to the primary road system attract Government grants but expenditure on public transport facilities does not.

3. The grants will be made towards the cost of approved projects for the provision, improvement or development of public transport in cities and towns. Eligible projects will include:

(a) major improvement or extension of railway lines - track, stations, signalling systems, re-equipment with stock special to the project and associated investment for local railway services;

(b) provision of new "fixed track" rail and bus systems (e.g. tubes or underground railways, monorails, busways);

(c) construction or major improvement of:

(i) bus stations and depots,
(ii) terminals and vessels for local passenger ferry services,
(iii) interchanges, including car parks, for people transferring to and from public transport systems.
The costs of preliminary work and the preparation of proposed projects will be eligible for grant.

4. In England the Minister responsible for making grants will be the Minister of Transport, and in Scotland and Wales the Secretary of State. The rate of grant will be 75% of the approved cost of major projects such as those described in (a) and (b) above (i.e. the same rate as for grants for major road investment).

5. In deciding whether a project shall be approved for grant the Minister concerned will expect it to be set in the context of local policies and plans for handling the transport needs and problems of the area. Grant will not be approved for isolated projects which cannot be clearly related to general planning. Investment in public transport projects – particularly fixed track systems – is long term in its nature, and the investment once made is irreversible for several decades. These projects must therefore fit in with plans for the structure of the area, the land use pattern, the road and rail network, the balance between public and private transport – in short with the basic planning of the locality. The land use/transportation studies in the conurbations will provide a basis for assessing major projects.

6. The financial return on the investment will clearly be one of the considerations in deciding whether a project should attract grant. But in evaluating it the Minister will also take into account the total benefits which would accrue to the community including any reduction in congestion costs, the value of savings in journey time, not only for those using the new or improved services but of all travellers in the area, and all other factors taken into account in social cost/benefit analysis. Investment in
local public transport may well be highly advantageous in these terms even if the extra revenue attributable to the improved services would not cover their full cost (including the high capital charges often involved).

7. The new grants will be of particular value in helping to finance the cost of new railways and tubes in London and the main conurbations, where complete reliance on buses for public transport is not a practical approach. The grants will also be of value for fixed track systems (including special roads for buses) in New Towns if they are judged the right solution. In other free-standing towns buses using the ordinary highway will continue for the foreseeable future to provide the great bulk of public transport with only a limited contribution from local railway lines. But even here, as with the railways, the grant system will help with providing interchanges and improving terminals so as to make public transport more attractive - and more efficient. In these cases too the projects must be shown to fit in with the transport planning of the area.

8. Application for grant will normally be made by the body responsible for the project. This may be a national body - the Railways Board, the London Transport Board, the National Bus Company, the Scottish Transport Board - or a local body - a Passenger Transport Executive or local authorities for bus stations or interchanges. In a Passenger Transport Area the minister will expect a project to be submitted by or through the Executive so that it can be related to the overall planning of public transport in the area. And, whether in a Passenger Transport Area or not, the project will have to be properly related to the general transport planning of the area and will have therefore to be the subject of full consultation with the local planning authorities. There will also be provision to
empower local authorities to contribute to the capital cost of projects of benefit to their area.

9. The contribution by the Government to public transport under this scheme will be substantial and is likely to grow steadily through the next decade. The first projects for consideration will be in London, where the Government has already agreed to the Brixton extension of the Victoria line and will be considering the project for grant under the scheme. But soon projects are likely to be coming forward from the main conurbations. The Manchester Rapid Transit study, commissioned by the Minister and the Manchester Corporation last year, has been published, and this describes the kind of public transport developments which may be needed in a typical conurbation. The next stage will be to proceed with the detailed planning of an underground railway providing direct rail access to the heart of Manchester. This and other rail developments will be assessed in the CENLLC Transportation Study which is now being undertaken by a joint Ministry and local authority team. Similarly on Merseyside preparatory work is going ahead on the proposed Mersey Railway extension under central Liverpool, and this proposal too will be assessed in the land use/Transportation Study for that area.

10. The capital grants for fixed investment in public transport will not be of major importance to bus operation. Yet in all areas outside central London the bus is likely to continue to provide the bulk of short distance public transport services and in many areas it will be the only available form of public transport. Any moves to help and improve public transport must therefore include a radical effort to increase the attractiveness of bus services by
comparison with the private car, and to increase as far as possible the economy and efficiency of the operation of bus services.

11. It is clear that these aims can be achieved only by a considerable increase in expenditure on the re-equipment of existing bus fleets with new vehicles. The cost of this re-equipment programme can be so large that individual operators need financial incentives to encourage them to embark on it. The rapid extension of 'one-man operation' of buses is essential to hold down costs of operation in the face of rising labour costs and the fall in passengers. If 'one-man operation' is to be introduced as quickly as it should be, this will require the replacement - earlier than customary - of existing buses not suitable for such operation. And the additional capital charges can swallow up a large part of the savings in the early years. In the cities the installation of fully automatic equipment for fare collection would greatly facilitate one-man bus operation. This too would involve substantial additional capital expenditure.

12. Apart from this, developments in bus services may well require an increase in the use of specialised types of buses for specific purposes - limited-stop commuter services, feeder services to stations, standee buses, small buses for town centre use. This again may well justify replacement of existing buses before the normal date.

13. Moreover if buses are to compete more effectively with the private car passengers must be offered higher standards of comfort: quality of ride, warmth, air-conditioning, convenience of boarding and so forth. And bus drivers in the future will need additional facilities, such as fully automatic transmission, for helping their work, particularly /when
when they are operating with a conductor. All this will raise the cost of the individual bus.

14. The Government proposes therefore to take powers to introduce a grant scheme for the purchase of new buses. The rate of grant will be 20% of the approved cost.

15. These new bus grants will be made only for buses of types approved by the Minister of Transport, appropriate for use on ordinary stage services. (They will not apply to luxury coaches and long-distance express buses).

16. The aim of the new scheme is to encourage the purchase of standardised buses of high quality. It is a major weakness in the manufacture of buses for the British market that each operator tends to produce his own detailed specification varying not basically but in many details from the buses ordered by other operators. This makes large production runs impossible and so increases costs. Basic specifications for a limited range of models will be laid down in consultation with manufacturers and operators, and only vehicles conforming to these specifications will normally be eligible for grant. Grant will also be payable for experimental vehicles in approved cases, so as to stimulate new development.

17. The Minister may lay down certain conditions (apart from compliance with the safety conditions of the Construction and Use Regulations and international standard recommendations) for buses to be eligible for grant.

Discussions will be opened immediately with bus manufacturers and operators on the conditions of eligibility for grant.

18. The scheme will apply to buses delivered to operators from 1st October, 1960. As soon as the conditions of eligibility have been settled, the Minister will be prepared to consider grant applications for buses for which orders have already been or will be placed for delivery after that date.
date. All bus operators - Passenger Transport Executives, municipal bus undertakings, the nationalised sector, and private operators - will be eligible for the grants. Operators will normally have to make a refund of grant if they sell the bus, or cease to use it on stage services, within five years of its delivery new.

19. The Scheme will be introduced for a period of seven years. It may be extended beyond this period if the need still exists to encourage faster replacement.

20. Expenditure on new buses primarily for stage services is at present running at something like £20m. a year. This is based on an average life of about 15 years. If replacement is speeded up the total expenditure will increase. The economies of standardisation should offset some increase in the costs due to higher standards. The Government's assistance to the bus industry through these grants is likely to be at least £5 million and probably more a year - a substantial contribution towards the capital costs.

**BUS FUEL GRANTS**

21. Representations have been made repeatedly by bus operators that fuel duty represents a heavy burden on bus services which ought to be removed. Stage bus services have of course been insulated from recent increases in fuel duty by the payment of an offsetting grant by the Minister of Transport now totalling 10d. a gallon. The Government has carefully considered the representations of bus operators; but has concluded that it would be wrong to exempt stage bus services entirely from taxation on the fuel they use. Bus operators have access to a track which has been provided at the public expense and for which they make no direct payment. In economic terms it is right that bus operators should meet a charge broadly equivalent to the cost of providing the track facilities which they use.
22. The Government does not consider it desirable in the light of their policy of assisting public transport to seek to raise fuel taxation on stage bus services in excess of this, moreover the weight of fuel duty has had an unfortunate side-effect on the design of buses. Operators have sought to keep fuel consumption as low as possible and this has led to the use of power/weight ratios for most buses considerably lower than that for many buses used in other countries. In present traffic conditions buses need better powers of acceleration, automatic transmission, power steering and other characteristics which tend to increase fuel consumption.

23. The Government has therefore decided to increase the grant paid to operators of stage bus services by a further 9d. a gallon bringing the total to 1s. 7d. a gallon. The additional payment will be made in respect of fuel used on and after 1st April, 1968 - subject to the passage of the necessary legislation. The Government would not however consider it reasonable for the industry to press for a further reduction below this level. The additional grant will be worth some £7 million a year to the industry.

/Subsidies
SUBSIDIES TOWARDS OPERATING COSTS

24. The capital grants for fixed assets and for buses, and the further grant to offset fuel duty, represent a large government contribution to help public transport. They will be available to public transport operators throughout the country within the terms already described. It is undesirable as a general principle for the central Government to provide grants or subsidies out of national taxation to meet losses incurred in the operation of local urban services, except in the special circumstances set out below.

25. The reason for this is that whether a local public transport system operates at a loss or a profit will depend basically on local factors. Some — such as the efficiency of the management of the undertaking — will be within the control of the operator. Others — such as the traffic conditions under which buses are within the control of the local authorities. Much will depend on the extent to which the local community demands — and is prepared to face the cost of maintaining — off-peak and Sunday services which are very lightly loaded. It follows that any subsidies which are to be given to meet operating losses of public transport operators ought to be provided by local communities. This is why Passenger Transport Authorities are being given power to precept on the rates of local authorities.

Suburban Rail Services in Passenger Transport Areas

26. However, as explained in section IV above the Passenger Transport Authorities and Executives in areas where railways are particularly important for local passenger movement (notably the main conurbations) will be required to assume responsibility for deciding the services which should be provided by British Railways in the context of the /comprehensive...
comprehensive transport plan for the area.

27. The present suburban rail services in the main conurbations outside London are losing in total several million pounds a year. These losses are at present met by the taxpayer through the British Railways deficit. It would obviously be impossible - and quite wrong - to expect the Passenger Transport Authorities, and through them the local communities, suddenly to take over responsibility for finding sums of this magnitude. Moreover, the Passenger Transport Authorities will, at the very beginning, have little choice but to continue the existing pattern of services.

28. But in the course of time the Passenger Transport Authorities and Executives will be taking many decisions which will fundamentally affect the cost of providing these services. As part of the integration of bus and rail services they will decide to expand some rail services, create new ones - and perhaps to curtail others. The level of suburban rail fares will be settled by the Authorities as part of their general policy on fares. Some rail services which are at present not paying their way may become profitable if bus services are organised so as to make it more convenient to use rail. In the long run, therefore, the size of any losses on suburban rail services in the conurbations will be determined by local decision. It follows that the cost should ultimately be borne on the general accounts of the Executives.

29. But help will be needed at first. Therefore the Government proposes to make grants to Executives in respect of the costs of rail services covered by the agreement. In the first year of the Executives' agreements with the /Railways
Railways Board the grant will be 90% of the estimated cost. The level of grant will be tapered over a period of years in the light of progress with the Authority's integrated transport plan and of the money level of other forms of Government help to public transport.

Rural Bus Services

30. The second area in which Government assistance will be given towards the cost of operating particular local services is the scheme for rural bus grants. This scheme is intended to do something effective to implement the Report of the Jack Committee of 1961. The Government proposes to give powers to local authorities to make grants to operators of bus services in rural areas where the essential services could not be provided on a commercial basis. Provided that the terms laid down by the Minister or the Secretary of State concerned are complied with, the appropriate Department will make a payment to local authorities of 50% of the grant paid to the bus operator. This scheme is designed to deal with the situation in remote country areas which can no longer sustain a bus service on a commercial basis simply because the number of people who need or want to use it is so small. In the Government's view it would be wrong for areas like these to be deprived almost entirely of access to public transport even though the number of people who would be seriously affected may be relatively small. For general social reasons, it is right that the Central Government should contribute towards the cost of maintaining some bus services in these outlying areas.

31. The National Bus Company and the Scottish Transport Board will continue to maintain many services in country areas.
areas which do not cover their full cost of operation. But there are others where the receipts may be so low that neither the National Bus Company, the Scottish Transport Board nor private operators can be expected to maintain them without some form of grant or subsidy.

32. But it is for the local community to decide whether a particular service is so important to the needs of the area that it is worth providing a continuing subsidy to keep it going. Applications from operators will therefore have to be made to the local authorities concerned who will have to reach a decision. If the cost of subsidising the service is small (less than £500 a year) the Minister concerned will give the local authority 50% of the cost of subsidy without prior approval. In other cases a specific application by the local authority for grant will be considered on its merits. The general criteria to be followed will be worked out in consultation with the local authorities.

33. Local authorities will be given powers to make grants not only towards operating costs, but also for other suitable purposes, such as buying vehicles. The whole system should be flexible and as simple as possible. At the same time, it will be necessary to make sure that grants are not given for services for which the demand is so limited that the benefits derived from the expenditure are too small. And it will be necessary to review services after a period to see whether they are worthwhile. In many cases these services to outlying villages can best be provided by private operators who may well run a bus service in conjunction with other activities. The service may well be best provided with a relatively small vehicle. The Government itself is experimenting with the use of minibuses.
of minibuses on some postal services which will at the same time carry a few passengers. It is also proposed to simplify the procedure for obtaining a licence to run bus services with small vehicles so that these operators will find it easier to undertake the job.

34. It is expected that the cost of the Rural Bus Grants Scheme will build up slowly; much will depend on the views taken by individual local authorities as to the scale on which these country services should be maintained. It is not expected however that the eventual cost will rise beyond about £4m. a year, in which event the Exchequer would be contributing £2m. of this. The Exchequer contribution will be a specific grant.

Ferry Services

35. Arrangements similar to those in respect of bus services will be made to assist ferry services which benefit people living in rural areas. The principle of grant-aiding such services has already been accepted in legislation affecting the Scottish Highlands and Islands (whose special position is dealt with in section VI). Local authorities will be empowered to give grants towards capital or operating costs and may receive a contribution from the Exchequer. As the circumstances of the ferry services concerned vary more widely than those of bus services no fixed percentage for the Government's contribution will be laid down. In other respects the administrative arrangements will be the same as for the Rural Bus Grants Scheme.

Conclusions

36. The schemes described above represent a new and large scale programmes of Government assistance to local passenger transport.
transport services. They may well amount to at least £20m. in the first year, rising thereafter as the preparation of approved major capital projects goes forward, over and above anything which is now being contributed. They should provide a powerful incentive to develop and re-equip public transport and to increase its operating efficiency.
VIII. TRAVEL CONCESSIONS

1. In 1964 one of the first acts of the new Government was to free local authorities from the restrictions which had been imposed on their freedom to give travel concessions to old people, the blind and disabled, and children on their own bus undertakings. Many took advantage of this. But the effect has been to produce many anomalies since local authorities are still unable to arrange for such concessions on non-municipal buses operating in their areas. This means that many local authorities cannot provide their residents with any concessions.

2. The transfer of many municipal undertakings to the Passenger Transport Executives requires a new approach to this question. After full consultation with all those concerned, the Government has decided that local authorities should have powers to arrange with the Executives for concessions to be provided on their services in the Passenger Transport Areas; and also to make similar arrangements for concessions on local journeys with bus operators outside these Areas. These powers for local authorities will apply to concessions for old people, the disabled, and the blind, but not concessions for children since the level of cheap fares for children is customarily provided for by operators who will be controlled in this matter by the Traffic Commissioners or the Passenger Transport Authorities.

3. If they arrange such concessions the local authority will be expected to meet the cost to the operator of giving them. The Minister will lay down a basis on which the cost should be calculated; and provision will be made for settling any dispute about the cost in a particular case, normally by the Chairman of Traffic Commissioners.

4. The cost of concessions given by local authorities on their own bus undertakings, even if it is met from the rates, does not count in calculating the total amount of the rate support grant by the Government to local authorities. In removing the present anomalies...
The Government will also wish to avoid any distinction between the cost of the concession on municipal undertakings and on other bus undertakings. The cost to local authorities of all concessions under the travel concessions provisions will therefore not be taken into account in calculating the aggregate of rate support grant.

3. The Passenger Transport Executives will, with the consent of their Authorities, be free also to introduce concessionary fares themselves on any of the services operated in their area. It will be for the Authority to decide whether or not the cost of giving such concessions throughout the Passenger Transport Area should fall on the general accounts of the Executive or should be met by a rate precept. In the long run Passenger Transport Authorities may well wish to see a common pattern of concessions across the whole of their area; and this possibly will be an advantage of inclusion in a Passenger Transport Area. But the Authorities will inherit a very mixed selection of concessions, some wholly free and some at reduced rates. It therefore be right in the first place for them to make arrangements with individual local authorities pending the development of the consistent policy.

6. The position in London is being dealt with separately since the new arrangements for Passenger Transport Authorities do not apply in London.
IX. BUS DRIVERS HOURS

1. The Government has in the past year been discussing with the public transport operators and the representatives of the bus workers concerned the application to the road passenger transport industry of the review of legislation controlling the legal limit on the working hours of professional drivers. This legislation has remained unaltered since the 1930s.

2. Major changes in the present legislation on drivers' hours both for lorry drivers and for bus drivers will be included in the Transport Bill. The main provisions will be the same for both but there will be a number of variations designed to meet the specific operating conditions of the passenger transport business.

3. The main provisions in relation to bus drivers will be as follows:

   (i) The maximum length of the working day will be reduced from 14 hours to 11 hours; but in order to enable the bus industry to meet the needs of passengers at the morning and evening rush hours there will be a special provision for stage services that the 11 hours work may be spread over a period of not more than 12½ hours in total. Appropriate spreadover provision will also be made to meet the special circumstances of express and excursion work. Not more than 9 hours of the time in any working day may be spent actually driving the vehicle.

   (ii) Before starting a day's work the bus driver will normally have to have a period of 11 hours rest rather than 10 as at present. (Though on one day a week the period can be reduced to 9½ hours rather than the 8 hours at present.)
(iii) Not more than 60 hours of work may be done in a week and the driver will have to have at least one full rest day of 24 hours off duty each week.

(iv) These requirements will be applied to the drivers of large passenger vehicles whether or not they are licensed as buses.

4. Many bus and coach drivers are working hours substantially in excess of these limits. In particular, the practice of working on the rest day in a 6-day week or even on both rest-days in a 5-day week is widespread because of the shortage of bus drivers. It is clear that to bring the hours worked in the bus industry into conformity with the new rules is likely to require either a very large number of additional bus drivers or a very considerable improvement in the effective work carried out by the existing drivers. Otherwise bus operators will be forced to make substantial reductions in bus services including cuts in peak hour services.

5. The Government naturally has no desire to introduce changes which will result in serious inconvenience if not actual hardship to the travelling public. On the other hand the existing hours of work are unreasonably long in relation to vehicles carrying large numbers of members of the public. The Government considers that it is necessary to achieve in the bus industry conformity with the new rules at the earliest possible date. However in determining when it is possible for the new rules to be introduced the Government will have to have full regard to the ability of the bus industry to provide adequate services for the travelling public. Discussions are continuing with both the bus operators and representatives of the bus workers on how best to overcome the problems.
PLANNING FOR TRAFFIC

1. The first part of this White Paper emphasised that land use and transport in our towns must be planned together as part of an integrated whole, and that an urban transport plan is needed in every major town or city. To do this effectively the powers of local authorities in relation to traffic matters must be improved to make them as flexible and effective as possible and the central Government must play a more positive role.

2. The proper role of the Government is not the detailed supervision of the actions of local authorities which is carried out today. The responsibility for deciding how to handle the impact of traffic on the effective working and character of their area must be with local authorities. It is the role of the Minister of Transport (in partnership with the Minister of Housing and Local Government) and the Secretaries of State for Scotland and Wales, to remove obstacles to comprehensive and imaginative action by local authorities, to create the right legislative and financial framework, and to assist in experiments and in the dissemination of results. This is the basis of the policy described below, which includes:

(a) the preparation of Urban Transport Plans by local authorities for submission to the Minister concerned;
(b) the extension of highway capital grants to certain types of expenditure on traffic management;
(c) widening the powers of local authorities in respect of the management of traffic and the control of parking;
(d) making local authorities responsible for the traffic management and parking arrangements in their areas, and eliminating the need for Ministerial approval of large numbers of traffic regulation orders made by them;
(e) simplifying the procedure for the making of orders.
The Minister of Transport will shortly be asking local authorities in English County Boroughs and other local authorities in towns of over 50,000 population outside Greater London to prepare as soon as possible, (and certainly by the first half of 1969) plans setting out how they propose to handle the transport problems in their areas between now and the mid 1970's; similar requests will be made by the Secretaries of State in Scotland and Wales. These plans must deal with a situation in which the amount of traffic seeking to enter and circulate within the town will inevitably grow faster than the capacity of the road system. Unless effective action is taken there will be growing congestion, town centres will become less easily accessible and their value as focal points for the life of the community will be seriously damaged. Economic losses arising from congestion will mount. Road safety will be impaired. The pressure of moving and parked vehicles will increasingly damage the environment. Positive policies and strong local action will be needed to avert the harmful consequences that will otherwise accompany the benefits of growing car ownership.

The plan will have to seek deliberately to strike the right balance in each area of the town between the claims of moving traffic, of accessibility to places in the area, of road safety and of the environment. It will have to take account both of the needs of people in the area and the necessity to provide for efficient movement of goods. It must hold the scale between the needs of people on foot and those using vehicles. A better balance between the use of public transport and private cars, is, itself, a means of easing traffic congestion. The plan must therefore be concerned with the interests of bus passengers at least as much as those who choose to use their own cars.
5. The plan will eventually need to be geared to the long-term Structure Plan for the area which in England and Wales will be prepared under the new legislation on town and country planning to be introduced by the Minister of Housing and Local Government; similar legislation for Scotland will be brought forward in due course. But it will have to deal with the problem of planning for traffic over the next few years, before many of the new structure Plans will be ready and before major re-development can in most cases be carried out.

6. The plan will be submitted to the Minister of Transport or the Secretary of State. It is not intended that it should be a formal statutory document since this would only delay preparation and inhibit change; in any case ample safeguards surround the making of the individual traffic regulation orders needed to put it into effect. The plans will be statements of policy and guide lines for action which must be kept continuously under review as circumstances change. The Departments concerned will offer comments upon them and will seek to help with guidance. The nature of these plans will also have a considerable bearing on the attitude of the Minister of Transport or Secretary of State to applications for capital grants towards the cost of highway improvements and transport facilities.

**Grants for traffic management**

7. Under the present system of grants for improvements to principal roads traffic engineering installations which can greatly improve traffic conditions are often ineligible for specific grant aid. The system will therefore be altered so as to give local authorities specific financial help towards introducing comprehensive traffic management schemes. Details of this proposal are being discussed with the local authority associations.
The powers of local authorities to regulate traffic under the Road Traffic Regulation Act, 1967 (which merely consolidated earlier legislation) are too narrowly conceived. They would not enable satisfactory urban transport plans to be carried through in the first place they are very largely concerned with promoting traffic movement and only in a very limited and ineffectual way to the whole problem of the urban environment and the needs of all the people who live and work in the town.

The Transport Bill will therefore provide specifically that the various measures of traffic regulation open to local authorities can be adopted for the purpose of preserving or improving the amenities of an area as well as for other purposes. At the same time the Bill will place a specific duty on local authorities to use their traffic regulation powers with full regard to the effect on the amenities of any locality which would be affected. Accessibility is, of course one of the amenities of an area, and the proper needs of the community in terms of free movement in a town and access to its facilities will need to be given full weight.

Secondly, the existing legislation does not have sufficient concern for people on foot in towns. It is therefore proposed to extend the powers of local authorities to regulate traffic in order to facilitate the movement of people on foot as well as vehicles; and to place on them a duty to use their powers in order to secure convenient and safe movement of pedestrians as well as wheeled traffic. Equally pedestrians who are thoughtless may endanger the lives of others as well as their own. The powers of local authorities will be extended so that they will be able where necessary to control the use of roads by pedestrians as well as vehicles, for example by prohibiting them from using roads, bridges and tunnels designed solely for wheeled traffic.
11. Thirdly, the present powers give no recognition to the major role which must be played by public transport in solving the transport and traffic problems in our cities. A specific duty will be placed on local authorities in using their traffic powers to have regard to the importance of helping buses to move freely, and to secure the safety and convenience of people using them, so that they can be given the opportunity to provide a more attractive alternative to travel by private car.

12. A thorough-going parking policy is needed to ensure that the volume of traffic seeking to enter and circulate in the congested central areas of our cities is sensibly related to the capacity of the road system, particularly during peak hours. It is essential that the optimum amount of parking space should be provided in the right places and subject to controls on its use that are appropriate to local circumstances. The Transport Bill will therefore place on local authorities a general duty to secure the provision of suitable and adequate parking facilities, on and off street.

13. Local authorities' powers to control parking have so far usually been regarded as a way of reducing the amount of obstruction caused to moving traffic by vehicles parked on the highway, or to share out scarce parking space. Parking control has been applied in relatively small areas of particularly severe congestion. Over the next few years, parking control will be needed over quite wide areas in all cities and indeed in many small towns. Control may be exercised in a variety of ways; it may involve payment or not. These are matters for local authorities to decide for themselves. But to achieve the best solution in particular circumstances, local authorities need wider and more flexible powers than they have at present.
The Transport Bill will therefore give powers to local authorities to introduce parking controls with much more discrimination and flexibility than at present. In particular they will all have powers similar to those now available in London to set up parking areas where parking would be permitted only to those to whom a special permit had been issued, and to make charges for this facility. This will be particularly helpful where parking control schemes have to include residential areas which because of their nature do not contain adequate garage facilities for the residents. Similarly, local authorities will be given the power to issue certificates or other means of identification for particular vehicles which ought, for special reasons, to be exempted from the provisions of traffic regulation orders and in particular on waiting in particular roads.

5. Local authorities also ought to have more flexibility in the use of parking meter profits. At present, these can be used only for the provision of off-street parking. This is a desirable use as long as the total amount of parking space in a city centre - particularly for all-day parking - is not raised to a level which leads to severe congestion; for it is in city centres that meter profits are usually highest, and these are the very places where there may well be a need to limit off-street parking space. In such places it is not sensible to provide additional parking spaces which would attract traffic in excess of the capacity of the road system. Moreover, the effect of the present law can be to encourage the use of meter profits to subsidise off-street parking charges in places where subsidy is least justified on transport grounds. The Bill will therefore provide that local authorities may also use parking meter revenues either for the provision of public transport services or for carrying out highway improvements (including traffic engineering) in the area. It is not however intended to allow them to be used merely to offset general local authority expenditure.
greater responsibility for local authorities

The Bill will also provide for a substantial reduction in the degree of detailed control exercised by the Central government over the particular traffic regulation or parking schemes of local authorities. At present, a great many schemes require the approval of Ministers. In future, the consent of a Minister will be needed only in a few specific cases. The most important of these will be:

1. Orders which prevent access by vehicle to premises in a road for more than 8 hours in 24 (though, as in the present law, orders prohibiting the loading or unloading of goods at the kerbside would not on that account require Ministerial approval.) This would apply for example, to a street which was made into a pedestrian precinct for a large part of the day.

2. Orders fixing speed limits on principal roads or a speed limit below 30 m.p.h. on any other road. In these cases a Minister would need to ensure that a reasonable balance was struck between local safety and vehicle movement.

3. Orders made by a local authority applying to a trunk road. Most orders applying to trunk road traffic are made by the appropriate Minister but an area scheme of parking control might include a trunk road; and Ministers would therefore be concerned.

The effect of this will be to remove the need for Ministerial approval of about 1,000 orders a year including ones which:

(a) prohibit, restrict or regulate the use of a road by any specified class of traffic (except as in paragraph 16 above);
(b) prohibit or restrict overtaking;
(c) prohibit the use of roads by through traffic;
(d) create street playgrounds;
(e) designate street parking places, with or without charges;
(f) create areas of general traffic control without parking charges (except as in sub paragraphs 16(1) above).

17. At present Ministerial consent is also required for every individual pedestrian crossing. In the Government's view local authorities should take this responsibility themselves, except on trunk roads. It is therefore intended to fix, for each local authority, a quota for all pedestrian crossings in their area based on population, which may be exceeded only with special authority, and to give general advice upon the types of crossings available, their costs and usage. Within the limits of the quota local authorities will be free to site crossings where they think fit. The object of quota control is to avoid a repetition of the situation which had arisen by 1951, when the number of crossings reached a point at which they became ignored by drivers.

18. Ministerial approval is now required for the installation of some 17 different types of prescribed traffic sign, including traffic lights. As soon as possible regulations will be made to enable local authorities to put up themselves all road signs of approved pattern other than traffic signals, except on trunk and principal roads. The installation and alteration of traffic lights will continue to require Departmental approval, because of their growing complexity.

19. The need at present to secure Ministerial approval to certain individual orders is widely regarded as a method of protecting the interests of individual or particular groups against unfair treatment by their local authorities. The Government
Government considers that discretion to use general reserve powers where necessary is preferable to mandatory detailed control of individual order-making by local authorities. The Bill will therefore provide not only for powers for Ministers to revoke and vary orders made by local authorities but also powers to direct them where, in a Minister's view, there is urgent need for action.

Simplification of procedure

20. The Transport Bill will give Ministers power to make regulations governing the procedure for making orders, (e.g., such matters as the form of the orders, consultation and public notification) including those procedural matters which are at present fixed by the Road Traffic Regulation Act, 1967 itself. The present procedures are in many instances cumbersome and prevent speedy and effective action. On the other hand the procedure must give adequate time and opportunities for all those who consider they would be affected by an order to make clear to the local authority the nature of their objections so that the local authority can consider whether changes should be made in their proposals.

21. A thorough review of the existing procedural requirements is being undertaken by Ministers and the drafting of new regulations to determine procedure will be discussed with local authorities and other interests during 1968, so that the new procedural regulations can be brought into effect soon after the Transport Bill becomes law. These procedural regulations will be supported by administrative instructions to guide local authorities in the making of traffic regulation orders and to serve as a code of practice on such matters as consultation with those whose interests might be affected by the proposals.

/Traffic
Traffic Regulation and Enforcement

22. It is no use making traffic orders if they are not going to be reasonably well observed or, in the last resort, effectively enforced. The Transport Bill will therefore require local authorities to consult with the Chief Officer of Police before making any traffic regulation order. This will ensure that the Police are able to give their views on the effects of the order and on any difficulties of enforcement which may arise from the nature of the order.

23. But of course there are only a limited number of policemen available. It is therefore important that fuller use should be made of traffic wardens, a recent reinforcement of great value to the police. To enable this to be done, the Transport Bill will seek an extension of the powers and functions of traffic wardens, on the lines recommended by the Police Advisory Board for England and Wales at the end of last year. In performing their present functions of enforcing the laws relating to parking, and of regulating road traffic, traffic wardens are to have the support of the same legal sanctions as constables have when they perform these duties. They are also to be given new powers to direct traffic, and to require people to give their names and addresses in certain circumstances. They are also to be able to deal with certain aspects of vehicle excise law. But they are not to have the powers of a constable to arrest people.

Greater London

24. Many of the powers and duties to be included in the Transport Bill already apply to the Greater London Council. Although the proposals set out in this White Paper will have only marginal effects on transport planning in Greater London, they will clarify the purposes for which traffic can be regulated there; and should somewhat simplify the procedures involved.
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XI Research and Development

1. Over recent decades little fundamental research work has been done in Britain on the problems of improving systems of passenger transport in our cities. The Ministry of Transport is now mounting a substantial programme of work to make good this neglect.

2. Arrangements have been made by the Minister of Transport and the Minister of Technology to combine the resources of the two Departments in developing a programme of new research on a joint basis; and a substantial part of this programme will be concerned with urban passenger problems. A full-time Transport Research Assessment Group has been set up consisting of a consortium of scientists and engineers from the Road Research Laboratory, the Royal Aircraft Establishment, the Atomic Energy Authority and the British Railways Board. The National Development Corporation is also cooperating closely in these arrangements.

3. Within the framework of the general programme individual projects have already been started. In cooperation with industry work is under way to assess the feasibility, both technical and economic, of a novel system of Guided Buses. A more complex project is concerned with the feasibility of a fully automatic self-routing system of taxi-trains (a network of small cars without drivers controlled by a central computer.) This project is a method of examining the fundamental problems of the use of fully automatic vehicles not on a single track (which will be done in the Victoria tube line in London) but on a general purpose branching network.

4. In addition to the programme undertaken by the Government the National Bus Company will have a specific duty to promote research into problems of road passenger transport operations; and the Passenger Transport Executives will have power to engage in research and development work. The Ministry of Transport will seek to assist bus operators to mount a much needed programme of operational research.

5. The
5. The Ministry is also engaged on a substantial economic research programme much of which is relevant to passenger transport problems in the cities. Mathematical models (and associated computer programmes) are being developed for forecasting flows of people and goods both within urban areas and for regions as a whole. The object of this work is to provide a better basis for investment decisions and for evaluating pricing proposals. The Ministry has recently taken over the analysis and forecasting work on the South East Lancashire - Northeast Cheshire Transportation study.

6. The Ministry is also elaborating the work already done on the factors which influence the choices which people make as to whether to use rail, bus, or private car for particular journeys. Public transport operators have been much hampered, as have town planners, by the lack of knowledge as to the significance of speed, reliability, comfort, and cost in determining the choices which people make. The Ministry has therefore commissioned studies in several cities which will attempt to secure information on these matters by the use of refined statistical techniques.

7. The Ministry is also continuing work on the analysis of the costs of operating buses in various conditions. In particular an analysis is being made of the relationship between the labour costs of vehicle operation and the peaks in vehicle use on specific routes. It is intended to continue this kind of work in full cooperation with bus operators including the NBC and the PTE's.

8. In addition to the fundamental scientific and economic research work so far described the Ministry is seeking to cooperate with public transport operators in any projects of general importance. The Manchester Rapid Transit Study which was largely financed by the Ministry has produced a great deal of information on the economic and environmental factors involved in the choice of a new urban rapid transit line.
The first report of the Working Party set up to study the problems involved in the operation of buses without conductors has outlined the main fields in which further work is needed: particularly the layout of the vehicles and the design of the equipment for fare collection. These matters will be pursued.

9. Fundamental research into basically new systems of urban transport will inevitably take many years to produce results and may at times appear fanciful; but it must be carried out and a lead must be given by the Ministry. In operational research the Ministry would like to see the public transport operators themselves taking the lead in cooperative ventures which the Ministry could support. But throughout the research programme close links must be built between the Ministry, the operators and the manufacturers of transport equipment if the results we need are to be obtained – and obtained speedily.
ESTABLISHMENT OF PASSENGER TRANSPORT AREAS AND
FUNCTIONING OF PASSENGER TRANSPORT AUTHORITIES
AND EXECUTIVES

1. This annex sets out the procedure for establishing
Passenger Transport Areas and the way in which
Authorities and Executives will function when they
have been set up.

Designation of the Area

2. There will be many considerations to take into
account in fixing a Passenger Transport Area. Before
reaching a decision the Minister concerned will seek the
views of the local authorities in and near the area being
considered. The views of operators of stage bus
services and of British Railways will also be taken into
account.

3. In the first place, the Area selected should be one
over which local transport services need to be planned
as a whole. Where the Area includes a major conurbation
or city, it should also include the places around it
from which there are substantial movements of commuters
to work either by bus or by train. As far as possible
the boundaries of the Designated Area will be drawn to
correspond with existing local authority boundaries.
But it may sometimes be necessary to include part only
of a county district within the designated area.

4. In deciding on the Area the Minister concerned will
have regard to any recommendations made by the Royal
Commissions on Local Government so as to minimise any
problems which might be created over Passenger Transport
Areas following any re-organisation of local government.
In Wales the Secretary of State will have regard to the
proposals in the White Paper on Local Government in
Wales.
Constitution of Passenger Transport Authority

5. The Minister concerned will make an Order designating the Area and providing for the establishment of two bodies - a Passenger Transport Authority and a Passenger Transport Executive.

6. The Order will set out the constitution of the Authority. It will specify the number of members of the Authority who will be appointed by county boroughs, county councils and county districts (in Scotland county and town councils) all or part of whose area falls within the Designated Area. In England and Wales one member at least of the Authority will be appointed by each county borough, and provision will be made for joint appointments by county councils or county districts where this is appropriate.

7. In addition to the members appointed by the local authorities in or partly in the Area the Minister concerned will appoint a few members not exceeding one-seventh of the total membership. Since it is the intention to keep down the Authorities to a workable size, the number of members to be appointed by the Minister will probably be two or three out of a total membership of fifteen to twenty-five. The Authority will appoint its own chairman with the approval of the Minister.

8. In deciding the number of appointments to be made by the various local authorities or group of authorities the Minister will take into account the product of a penny rate of each local authority area and any other relevant factors.

9. Local authorities will be free to appoint anybody whether he is a member of their council or not. However,
if the person appointed is a member of the council at
the time of his appointment and subsequently ceases to be
a member, he will have to vacate his office as a member
of the Authority, although he may be reappointed.
Members or employees of Executives and directors (if
they are also members of the Executive) and staff of
subsidiaries will not be eligible to be members of an
Authority.

Appointment of Passenger Transport Executive

10. The Executive will be responsible for the actual
planning and provision of local passenger transport
services in their area in conformity with decisions on
general policy taken by the Authority itself.

11. The first task of the Authority will be to appoint
the members of the Executive. The Executive will be a
body corporate consisting of a Director General
appointed by the Authority and between two and six
other members appointed by the Authority after consulta-
tion with the Director General. Membership of the
Executive will normally be a full time appointment.

Transfer to Executive of local authority undertakings

12. The Minister concerned will provide by Order, as
soon as possible after the Executive has been appointed,
that the municipal bus undertakings (and any municipally
owned ferries) will be transferred from local authorities
in the Designated Area to the Executive. All the assets
used wholly or mainly in connection with the provision of
a municipal transport undertaking will be vested in the
Executive together with all liabilities related to the
carrying on of the undertaking. If there is any dispute
about which assets and liabilities should be transferred,
the matter will be settled by arbitration.

13. People employed by the municipal transport under-
takings will be transferred to the service of the
/Executive
Executive on terms similar to those normal with transfers arising from local government reorganisation. Their pension rights and similar rights will be transferred at the same time, and there will be provision for compensation for those who suffer loss of employment or diminution of emoluments.

14. Through the transfer of the municipal bus undertakings, the Executive will immediately acquire a nucleus of professional staff which will enable them to carry through the responsibilities which will immediately fall upon them.
15. Preparation of a Policy Statement

The first task of the Authority and the Executive will be to prepare a statement of the policies they intend to follow and of the action they are taking, or propose to take, in discharging their functions. The statement will set out in particular:

(a) the broad division between bus services which the Executive is operating, or propose to operate, and those which are being operated, or proposed for operation, by the National Bus Company or other operators;

(b) the organisation which the Executive intends to adopt for its own undertaking;

(c) the nature of the agreements made or proposed with the National Bus Company or other bus operators;

(d) progress over any agreements with the Railways Board for providing rail services to meet local travel needs;

(e) the financial position and prospects of the Executive;

(f) the machinery established or proposed for negotiation and consultation with staff;

(g) the state of preparation of the plan described in section IV;

(h) machinery for securing co-ordination between:
   (i) the planning and operation of bus services in the area;
   (ii) the preparation and execution by the constituent councils in the area of plans and policies for traffic regulation or parking.

/16.
16. The statement will have to be published within a year of the establishment of the Authority, or such further time as the Minister may allow.

Transfer of control of bus services to the Executive

17. During the period of preparation of the policy statement the Executive will operate in conformity with the Road Traffic Acts the municipal bus services which have been transferred to it. It will therefore need to obtain the approval of the Traffic Commissioners for the area in the same way as any other bus operator to proposed changes in services and fares. Nor will it in this period have special powers in relation to other bus operators.

18. When however the Minister has seen the policy statement and is satisfied with the way in which the Authority and the Executive intend to proceed, the Minister will make an Order fixing a date after which control of bus services in the Passenger Transport Area will be transferred from the Traffic Commissioners to the Executive.

19. After that date all bus operators providing 'Area bus services' will only be able to operate either under a consent from the Executive in respect of each of their services or under an agreement with the Executive.

20. This requirement will apply to all bus services which run wholly within the Passenger Transport Area. It will apply to services going into the Area from outside only to the extent that they carry passengers who are both picked up and set down within the Area. The Executive will not have any power over a service which merely seeks to set down within the area passengers picked up outside, or to pick up passengers inside the Area to take them to places outside. Such services will continue under the jurisdiction of the Traffic Commissioners, and will not be 'Area bus services'.
21. The position of all operators who are running 'Area bus services' at the time of transfer of control to the Executive will however be fully safeguarded. The Executive will be required to give consent for the operator to continue to run the service on the same terms and conditions as in his road service licence at the time of the transfer of control. This consent may be later revoked by the Executive after not less than 9 months notice, but, if so, the Executive will have to compensate the operator for any loss suffered by the withdrawal of the consent. And the operator will have the right also to require the Executive to buy his whole road passenger transport business if he regards withdrawal of consent as so serious as to make it unprofitable for him to continue to run buses at all.

22. It is not however intended that operators should continue for long operating under consents. It is envisaged that the Executive should either terminate the consents and take over the services itself, or should make a long term agreement with each operator governing the provision of services in the Area. This agreement would be intended to integrate the services provided by the operator into the general framework of services provided in the Area. It would include provisions which would properly protect the position of the National Bus Company or other operators and it could provide for pooling of receipts or expenses. There should be provisions in each agreement for matters under dispute to be settled by an independent person - preferably the Traffic Commissioners.

23. Even more important, it is contemplated that these agreements will apply not only to Area bus services but to the general nexus of services provided by the National Bus Company.
Bus Company or other operators in and near the Area. It is most undesirable that the Area boundary should become a barrier to the sensible organisation of services inside and outside the Area. Services crossing the boundary need to be integrated into the services within the boundary. Restrictions on the picking up and setting down of passengers on buses entering the Area from outside should not be introduced except where these are for the benefit of the passengers themselves.

24. For Area bus services the Traffic Commissioners and the Ministry's Area Mechanical Engineers will continue to be responsible for ensuring that the vehicles used by all operators, including the Executive, comply with the conditions of fitness and for inspecting the buses to ensure that safety standards are maintained. The Commissioners will also continue to be responsible for the enforcement of the regulations affecting drivers' hours, licensing of drivers and conductors and other matters.

25. The Executive will be entirely free to apply to the Traffic Commissioners for road service licences to run buses beyond their own area. In deciding on such applications, the Traffic Commissioners will treat the Executive in exactly the same way as any other operator.

26. The control of bus services within the Area by the Executive will not extend to excursions and tours but only to stage and ordinary express services. The number of excursions and tours provided wholly within an area will not be very great. There seems no advantage and considerable disadvantage in giving the Executive any monopoly or control over these services. They will continue to be licensed by the Traffic Commissioners in exactly the same way as they are now whether the services are provided by the Executive or a private operator.
27. There will however be no restriction on the extent to which an Executive or its subsidiaries may seek licences for excursion and tour work; and they will be free to compete fully with other operators for their share of this profitable business.

**Agreements with the Railways Board**

28. In the main conurbations, and in some other areas, the suburban railway services run by the Railways Board have a particularly important contribution to make to the public transport system. In these places it is vital that bus and rail services are fully integrated. In such areas, therefore, the Minister concerned will place a special duty on the Executive to review the railway passenger services provided by the Board in and near the area, and then to enter into an agreement with the Board under which the Board will provide such railway passenger services as the Authority decide are required to meet local travel needs. This agreement will cover all the local services to be provided for the Area and not merely those which the Board themselves would not wish to provide on a commercial basis.
29. It is intended that the methods for calculating the costs of individual rail services shall be determined by the Minister of Transport and that these should be the same as will be used for calculating the Minister of Transport's own payments to British Railways for unremeritative rail services. This is important to safeguard both the Railways Board and the Authorities and Executives since such a large part of the costs of any individual rail service are composed of "indirect" and "joint" costs. Wherever possible, the precise nature of the agreement between an Executive and the Board will be settled between them, in order to take account of the costs of the service, the estimated revenue, and the effect of any measures which the Executive may have in mind and which would be likely to affect the viability of the service. The Minister will have power to settle any disputes arising in connection with the agreement and to give directions accordingly (in the case of agreements for services in Scotland and Wales after consulting the Secretary of State). It is not the Minister's intention to put the Board in a "cost-plus" position in respect of these services; they must have a realistic inducement to run the services efficiently and to attract as many passengers as they can. But the calculation of costs must be on a uniform basis in order to ensure that all the railways' costs are taken into account, and that they are not left with a loss which they have to try to recoup from revenue on other services. In particular, these costs will have to include a sufficient allowance for the replacement of necessary assets, interests and a fair allocation of "joint" costs.

30. If there is a failure to reach agreement on the
terms on which the Board will provide services, it will be necessary for the Executive and the Board to have the matters in dispute settled by an independent process. It will therefore be provided that either party may refer the matter to the Minister of Transport, who will have power to issue directions with respect to it. (In Scotland and Wales the Minister will consult the Secretary of State first).

31. If the Board satisfy the Executive that the full cost of providing the services in the agreement is likely to be in excess of the revenue, it will be necessary for the Executive, with the Authority's sanction, to make payments to the Board in respect of it. The Minister will be taking powers to make grants to an Executive towards any payments made by the Executive to the Railways Board under such an agreement. The Minister will of course only do this if satisfied that the terms of the agreement are reasonable. It is not intended however to lay down any statutory conditions about the nature of the agreement. This will be settled administratively.

Relationship between the Authority and the Executive

32. The Authority will be responsible for deciding the general policies to be followed by the Executive. The Executive will be responsible for actually planning and providing the public transport services of the Area either through its own undertakings or through arrangements with other operators.

33. The main means by which the Authority will exercise its control of policy are:

(a) appointing the Director General and the other members of the Executive,
(b) controlling the general level of fares and /the amount
the amount of money to be raised by precept from local authorities, both of these being reflected in the Executive's annual budget, which it must approve,

(c) controlling the Executive's capital development. The Executive will have to obtain the Authority's approval for major capital investment (which also will require the Minister's approval) for long-term borrowing, and for the disposal of any part of the undertaking.

34. In addition the Executive will require the Authority's approval for a number of other matters including the agreement with British Railways, the concessionary fares to be granted on services in the area, the compulsory purchase of land (which will also require the Minister's consent), the promotion of Parliamentary Bills by the Executive, the submission of reports and plans to the Minister and the appointment of Auditors for the Executive's accounts.

35. The procedure for approval of the annual budget will put the responsibility firmly on the Authority for deciding whether or not the Executive should aim to meet its costs, including the costs of agreements with the Railways Board, from its trading income alone (i.e. from fares and revenue from ancillary activities). The Executive will prepare estimates of income and expenditure for submission to the Authority before the beginning of each financial year. If the Authority so decide provision can be made in the estimates for the Executive to provide services on a scale or at fares which result in an estimated loss for the year, but the Authority must then issue a precept on the rating authorities in the Area to raise an amount equal to the estimated loss. The Executive will be under a statutory duty to earn sufficient income to meet its expenditure, and so cannot carry out any policy envisaging a trading loss unless the Authority agree to provide for the loss by means of a precept.

36. The Authority must settle the amount of the precept before the beginning of the financial year so as to give the rating authorities enough notice to include
the amount in their rate demands. If during the course of the year the Authorities decide that circumstances have so changed that the Executive cannot reasonably be expected to fulfil the original estimates then the Authority will give a guarantee to the Executive to raise the sum by precept issued in the following financial year; meanwhile to meet the difference the Executive will raise money by temporary borrowing. This procedure will avoid the need for supplementary precepts and enable local authorities to know in advance the total amount they will have to pay in a particular year.

37. The Authority will in these ways have full control over the policy framework, both financial and operational, within which the Executive gets on with its job. The Authority will not concern itself with the day-to-day operation of transport services. Nevertheless cases may occur where the Executive is not willing to provide a particularly unrewarding service which the Authority none the less considers to be essential to the social needs of the Area. In such cases, the Authority will have power to direct the Executive to provide the service, but the Executive may in these cases require the Authority to precept for the loss in providing it.

38. The Minister concerned will have power to fix by Order either generally or for a particular Authority the maximum sum which may be raised by precept. Before making the Order the Minister will consult the relevant local authorities.

Powers of the Executive

39. The powers of the Executives will be widely drawn so that they are not handicapped by being unable to carry out activities in which they are qualified or equipped to engage and for which they have the necessary resources.

40. They will have power to run bus services not only within its own Area but to any place outside (it will of course require road service licences for bus services outside its Area in exactly the same way as any other operator). Subject to this it will be free if it so desires to operate long-distance bus services or to
run excursions and tours. In certain special circumstances it may also run bus services between places both of which are near its Area but in fact outside it.

41. The Executive will have power to let passenger vehicles on hire and to engage in contract carriage operations but, if it does this it must publish separate information about the extent and financial results of this activity. And if the Minister considers that an Executive is carrying on this type of business on the basis of charges which are unduly low, the Minister can direct the Executive to change its policies or even to drop the business entirely. It may be also of advantage to the travelling public for the Executive to enter into agreements with taxi firms or to supplement the taxi services in the Area, but they will have no power to acquire taxi firms compulsorily and will be subject to the usual licensing procedure.

42. The Executive will have power to run rail and ferry services within its Area or to places near its Area. Examples of such activities would be a new underground railway and the ferries across the Mersey. The Executive will not have power to engage in on long-distance rail or sea services.

43. The Executive will also have power to carry out a wide range of ancillary activities which are naturally related to their main function of securing the provision of public transport. Examples are

(a) the carriage of luggage, parcels and other goods in their buses;

(b) providing interchanges such as bus stations and car parks associated with the public transport system;

(c) running refreshment rooms, left luggage offices and other amenities required by people using their transport services;

(d) constructing or repairing anything required for the purposes of their business.
44. The Executive will have power to continue to carry on any activity which was being carried on at the time of transfer by the municipal bus undertakings in its Area. For example some municipal undertakings run a parcel service in the Area, while others carry out servicing and repair of vehicles owned by other municipal departments. It is obviously sensible that an Executive should be able to go on doing so.

45. The Executive will have power to acquire by agreement land or undertakings needed for its business, and to develop their land either for its own business or (with the consent of the Minister) for other purposes. The Executive will however require the consent of the Authority and the Minister if it wishes to sell or lease any part of its undertaking to other transport operators.

46. The Executive will have power to form subsidiary companies to run public transport services or other activities rather than operating them directly itself.

47. The Executive will therefore have wide powers and great flexibility both in the manner in which it uses than and in the organisation of its own undertaking. This will enable each Executive to work out arrangements which fit in to its own local conditions.

48. Long-term planning

The Executive will be required to prepare and publish within two years, or longer if the Minister so allows, a plan for the future development of the passenger transport system in the Area. This plan will have to be worked out in close consultation with the local planning authorities; the main elements in the public transport system—such as railway developments or rapid transit systems—will also appear in part of the 'structure plans' which local planning authorities will be obliged to prepare under following planning legislation.
CABINET

ADDENDUM TO C(67)185

Ministers may find it helpful to have the attached summary section of the White Paper on Public Transport and Traffic. It is intended to incorporate it as Chapter XII in the White Paper.

Ministry of Transport, S.E.1.

28th November 1967.
1. The planning of public transport, particularly in our cities, must be a responsibility of local rather than central Government. It must be carried out in the context of transport plans prepared by local authorities. (Section I).

2. Transport planning must be done over areas wider than those covered by any existing local authorities outside London. Operation of the basic network of local passenger transport services is best carried out by publicly owned bodies rather than by private companies responsible to shareholders. (Section II).

3. The reorganisation of public passenger transport outside London will be achieved by a twofold approach. First, powers will be taken to set up Passenger Transport Authorities - responsible to local authorities in their areas - where these are needed for unified planning of transport. Such Authorities will be set up immediately in Greater Manchester, Merseyside, the West Midlands and Tyneside. (Section III - paragraph 2).

4. In the rest of England and Wales, the establishment of P.T.As must depend on the clarification of the future shape of local government. However the establishment of a National Bus Company which will take over from the Transport Holding Company nearly all the main bus companies outside the big cities will enable effective co-ordination of bus services to be achieved. (Section III - paragraph 3).
5. Passenger Transport Authorities consisting mainly of members appointed by local authorities will themselves establish a professional Passenger Transport Executive which will be responsible for securing an integrated transport system for the Area. The executive will take over the municipal bus undertakings in its area and reorganise them in sensible units with close local contacts. (Section IV para. 1 - 3).  

6. A main task of the Executive will be to prepare a plan for the Area to be approved by the Authority, which will cover all local transport services - road, rail, and ferry. This will involve detailed working agreements with both the National Bus Company and with British Railways. (Section IV paras. 4 - 19).  

7. Control of broad policy will lie with the Authority itself which will in particular have to decide whether or not operating grants are to be made to assist public transport in the Area financed by precepts on the local authorities in the Area. (Section IV particularly paras. 23 - 26).  

8. The National Bus Company will be established to take over the bus interests of the Transport Holding Company. It will continue to operate as a commercial body through its individual subsidiaries. Its financial responsibilities will be to break even year by year. The Company will take over responsibility from B.R. for securing the provision of bus services to replace withdrawn railway services. It will co-operate closely with all other public transport operators particularly P.T.A.s. (Section V).
9. In Scotland a separate Scottish Transport Board will be established, responsible for bus services and local shipping services in Scotland. It will take over the interests of the Transport Holding Company in these fields together with certain shipping interests of British Railways. (Section VI)

10. The Government is introducing large scale new measures for Government help for public transport. The most important will be capital grants towards major new projects for investment in public transport in cities and towns such as the improvement or extension of railways or the provision of new tubes, monorails etc. (Section VII paras 1-9)

11. A new scheme for capital grants towards the purchase of buses for stage services will be introduced. The grant will be 25% of the cost and will be used to encourage standardisation. (Section VII paras 10-20)

12. The present grant to offset fuel duty on stage bus services will be increased from the present 10d a gallon to 1/7d a gallon so that the duty broadly reflects a reasonable contribution towards the cost of providing the roads on which the buses operate. (Section VII paras 21-23)

13. The Government will introduce special grants to P.T.A.'s towards the cost of any subsidies they have to give British Railways for the maintenance of suburban rail services. These grants will be tapered off over a period of years. (Section VII paras 26-29)

14. The Government will introduce grants to help bus services in remote country areas. Half of the cost will be met by the local authority, the other half by the central Government. A similar scheme will apply to rural ferry services. (Section VII paras 30-34)
15. The powers of local authorities to make concessions for old people, the blind and disabled on municipal bus undertakings will be extended to arrangements for such concessions with any operator of bus services. Passenger Transport Authorities will be free to introduce general concessions over the whole of their area if they think this desirable. (Section VIII)

16. A reduction in the length of time for which bus drivers can be on duty each day and each week is being introduced. Discussions are continuing on how to achieve this without serious inconvenience to passengers or interruption of bus services. (Section IX)

17. Ministers are asking local authorities in our towns and cities to prepare urban transport plans setting out how they propose to handle transport problems in their areas over the next 5 to 7 years. (Section X paras 3-6)

18. The system of highway capital grants will be extended to grants for certain types of expenditure on major traffic management schemes by local authorities. (Section X para 7)

19. The powers of local authorities to achieve traffic management and control of parking will be widened; and the need for Ministerial approval of many of their regulation orders will be abolished. The powers of Traffic Wardens will be widened. (Section X paras 8-23)

20. The Ministry of Transport is embarking on a substantial programme of technical and economic research into the problems of passenger transport particularly in urban areas. (Section XI)
On 24th November the Home Affairs Committee agreed unanimously to the proposal in my memorandum on theatres that there is no means of effectively prohibiting the presentation of living persons, and that the Theatres Bill should therefore follow the recommendations of the Select Committee on Theatre Censorship in making defamation in a stage play a ground for an action for libel. Since, however, this problem had been remitted for further consideration (CC(67) 53rd Conclusions, Minute 3), the Committee invited me to report on it to the Cabinet.

2. If any helpful and practicable suggestions are made in Parliament for dealing with the representation of living persons we should of course be willing to consider them, but I have not so far been able to arrive at any satisfactory method of dealing with the problem. One suggestion, put to me by Lord Goodman, was that the Bill might provide that The Queen was not to be represented on the stage, and also that representation of people in their private, as opposed to their public, lives should be prohibited. The Lord Chamberlain's Office do not like singling out The Queen and I could not recommend it. I find difficulty in his other suggestion also, and I think that he must have done so too, as he has not succeeded in providing the draft which he said he would try to produce. A distinction between public and private life would be hard enough to handle in relation to people in a public position. It would be even harder in relation to private citizens. The Lord Chamberlain is concerned, not so much with satire relating to public men, as with the type of representation that purports to be a true record, e.g. of a notable trial, but is in fact false. The sufferer may be a private citizen, but the events portrayed may be public events and would presumably be held to relate to his public life.

3. The second possibility would be to adapt Mr. Benn Levy's Bill and simply prohibit the representation of living persons or those recently dead, whether the characterisation was true or false, benevolent or malicious. This would cover only representation of a person by name. Without more elaborate provision it would not cover representation by a slight change of name or by inference, and I really do not think that a provision on these lines would achieve very much. Moreover, Mr. Benn Levy's proposition (from which he recoiled in his evidence before the Select Committee) is not as simple as it looks. Would it be limited to persons who are (or were at the time of their death) ordinarily resident in the United Kingdom, or would it be universal?
4. Turning to what would have to be done to provide a watertight prohibition there are the following difficulties:

(a) Prohibition would have to be either absolute or qualified, in the sense that only invidious representation was prohibited. If absolute, it would be more restrictive than the present practice of the Lord Chamberlain; but if qualified it would be left to the courts to decide whether the representation was invidious or not, and the procedures for deciding that question would differ so little from the trial or an action for defamation that we might as well rely on the law of defamation, as proposed by the Committee.

(b) In a satirical production it would, as noticed above, be easy to present a public figure under some different name, or in a change of setting, but in circumstances which made it clear who was intended. If this were to be prevented it would involve a judgment by the courts in particular cases on whether there had been a representation (or an invidious representation) of a living person or not, and again this would not be far removed from an action for defamation.

(c) A playwright could quite easily ridicule or vilify a person, whether he was portrayed as a character in the play or not, and that could be prevented only by prohibiting references (or invidious references) to living persons, as well as their characterisation.

5. These are practical difficulties, but I believe there are also objections of principle. The Select Committee attached importance to placing the theatre on the same footing as other media, and to prohibit the characterisation of living persons would be criticised as substituting one form of political censorship for another. The prevalence of political satire was one of the main causes of the original Licensing Act of 1737.

Conclusion

6. I therefore invite the Cabinet to endorse the decision of the Home Affairs Committee on this point.

R, H, J.

Home Office, S, W. L.

27th November, 1967
28th November, 1967

CABINET

THE APPROACH TO EUROPE

Memorandum by the Secretary of State for Foreign Affairs

At the last meeting of the Six there was a general feeling that the crucial question - whether to open negotiations with Britain - would have to be faced at the next Council meeting of the Six Foreign Ministers on 18th - 19th December. De Gaulle's press conference has brought the crunch nearer. (The text of what he said is at Annex A).

2. The alternatives are:

(a) to leave the Six to take their decision without advice from us. This might lead to a further period of uncertainty, and to the proposal by the Six of some alternative to negotiations for full membership;

(b) subject to the result of the consultations referred to in paragraph 4 below, to urge the Five to insist on fixing a date in January for the opening of negotiations, and so force the issue with the French either on 18th - 19th December or at the beginning of January;

(c) to continue urging an early decision, but without insisting on the January date. We would then not be maintaining with the Five that, if we had to wait a little longer, our position would be untenable;

(d) to let the Five and the French off the hook, by indicating readiness to consider alternatives to negotiations for full membership, such as

   (i) a form of association, or membership by stages; or

   (ii) pre-negotiation discussions.

3. I do not like either (a) or (d). The alternatives in (3) are dangerous (they are considered more fully in Annex B). They would mean facing a further long period of uncertainty. All the steam would go out of our European policy. (a) would be likely to lead to the same result. And we shall not avoid giving advice to the Five without appearing to have lost interest in the outcome. (c) is a continuation of our present policy, which I believe is beginning to expose the Government to criticism.

-1-
4. I therefore favour (b). I should like the authority of my colleagues to urge this course on the Five during the next two weeks. We shall have to press them hard, for some of them will go to great lengths to avoid a showdown with the French. I should like to begin by putting the idea to Dr. Luns when he comes here on 5th December. Subject to his advice, I would then pursue the idea with MM. Brandt and Nenni when they are here on 9th December. Because of the danger of a leak, I would say nothing to the Luxembourg Foreign Minister (here on 1st December) or M. Rey (here on 4th December).

5. Nor can we deal with the issue of membership of the Community in isolation. Irritation with France over her attitude to the Gold Pool and the discussion of the future of the Alliance in the NATO Council on 13th - 14th December will be very important pieces in the game. By facing these various issues in isolation, we allow de Gaulle to choose his time for piecemeal attacks and to defeat us in detail. It will be important to know how the United States views French policies, and to have her support and perhaps assistance over NATO and gold. I have this in hand.

6. It is possible that de Gaulle can be forced to give way. And if he gives way on one major policy issue, his front may give elsewhere. Alternatively, the course which I recommend could lead to a French veto on negotiations, more or less disguised. (But the Five will not in the end want to share French responsibility). We shall then at least know where we stand for the immediate future. If we are unable to join the Community now, we shall have ensured that bitterness against France will hold up its progress for what may be a long time. And we shall then be able to consider the alternatives and decide future policy in an atmosphere much more favourable than that under courses (a) or (d).

G.B.

Foreign Office, S.W.1.

28th November, 1967
ANNEX A

Text of the French President's statement on Britain and the Communities:

The following is a complete translation of General de Gaulle's statement on Britain and the Communities:

From the moment when there were men and there were states, any great international plan has rested on seductive myths. That is quite natural since inspiration is always at the origin of action. And so, as regards the unity of Europe, how fine it would be, how good it would be if Europe could become a fraternal whole where each people would find its prosperity and its security. The same is true for the world. How marvellous it would be if all the differences of race, language, ideologies, riches, all the rivalries, frontiers that have divided the earth since the beginning could disappear. But however attractive dreams are, the realities are there. And it is by following these realities or not that politics can be a fertile art or a vain Utopia. It is in this way that the idea of linking the British Isles to the Economic Community, consisting of the six continental states, gives rise everywhere to wishes which are in theory very justified. But it is a question of knowing whether this could be done at present without tearing up or breaking what exists. For it happens that Great Britain, with an insistence and a haste quite out of the ordinary, and on which perhaps the recent monetary events have thrown a certain light, has proposed the immediate opening of negotiations between herself and the Six with a view to her entering the Common Market. At the same time she has said that she accepts all the dispositions which govern the Community of the Six - which would seem a little contradictory with a request to start negotiations. For why should one negotiate about clauses which have been entirely accepted.
accepted in advance. In fact we are seeing the fifth act of a drama in the course of which the various attitudes of the United Kingdom with regard to the Common Market have succeeded one another without resembling one another. The first act was the refusal of London to participate in the formulation of the Treaty of Rome which, it was thought on the other side of the Channel, would come to nothing. The second act showed the deep hostility of Britain towards the construction of Europe as soon as the latter began to make its appearance. And I can still hear the exhortations, I think I have already mentioned it before, the warning which my friend Mr. Macmillan, then Prime Minister, addressed to me in June 1958 in Paris. He compared the Common Market with the Continental Blockade and threatened to declare against it at least a war of tariffs.

The third act was the negotiation at Brussels conducted by Mr. Maudling for a year and a half. This negotiation was designed to bend the Community to the conditions imposed by Great Britain. It was brought to an end when France made it clear to her partners that this was not the question at issue but precisely the opposite.

At the start of Mr. Wilson's Government the fourth act was characterised by a lack of interest in London regarding the Common Market, by the maintenance around Great Britain of the six other European countries which made up the Free Trade Area and by a great effort to tighten the internal links of the Commonwealth. And now unfolds the fifth act in which Great Britain this time puts forward her candidacy and in order that it should be accepted embarks on all the promises and all the pressures imaginable. In fact this attitude can be quite easily explained. The British people no doubt see more and more clearly that in the great movement which is carrying the world forward,
forward, before the enormous power of the United States - the
growing power of the Soviet Union, - the newborn power of the
continental countries - the new power of China, and taking into
account the more and more centrifugal forces which appear in the
Commonwealth, their systems and their habits, her activities and
even her national personality are henceforth at stake. And
after all, the grave economic, financial, monetary difficulties
in whose grip she finds herself make themselves felt day after
day. And from there comes a tendency to discover in her own
depths a framework, perhaps European, which would allow her,
help her to save and to safeguard her own substance, which
would allow her to play once again a leading role and which
would relieve her of a part of her burden.

There is nothing in that which is not salutary for her,
and in the long run, there is nothing but satisfaction in that
for Europe, provided that the British people, like those whom
they wish to join, desire to and know how to bring upon them-
selves the fundamental changes which would be necessary in order
to ensure their own stability. For it is a radical modification
and transformation of Britain which is necessary in order that
she can join the continentals. This is obvious from the
political point of view, but - to speak only of the economic
sphere today - the report which the Brussels Commission submitted
on the 29th of September to the Governments of the Six shows
with the greatest clarity that the present Common Market is
incompatible with the economy as it exists at present - of
Britain, whose chronic balance of payments deficit is proof of
permanent disequilibrium, and shows features concerning
production, sources of supply, credit policies, working
conditions, which she could not alter without transforming her
own nature.
The Common Market is also incompatible with the manner in which the British provision themselves, as much by their own agricultural produce, very highly subsidised, as by the food products they purchase cheaply throughout the world, notably from the Commonwealth, which makes it impossible for London ever in fact to accept the levies laid down in the financial regulation which would be crushing for Britain. The Common Market is, moreover, incompatible with the restrictions laid down by the British concerning the transfer of capital which, by contrast, circulates freely between the Six. The Common Market is incompatible with the state of sterling which has been highlighted again by devaluation, as well as by the loans which preceded and accompanied it. Sterling's condition together with the pound's character as an international currency and the enormous external balances which encumber it, prevent it at present from joining the solid united and secure group which comprises the franc, the mark, the lira, the Belgian franc and the florin. In these conditions, what could be the effect of that is called the entry of Britain into the Common Market? If there was a desire, despite everything, to impose this, it would obviously mean the collapse of a Community which has been constructed by and which functions by rules which do not allow for such a monumental exception. Furthermore, certainly I should add that this Community could not withstand the introduction of a state which precisely by its currency, its economy and its policy does not at present form part of Europe in the sense in which we have begun to practice it.

To allow Britain to enter, and by consequence to become involved in a negotiation to that effect now, would be, for the Six - given that everyone knows what this involves - to grant their consent in advance to all the tricks, delays, pretences
which would tend to disguise what would be the virtual
destruction of an edifice which has been built at the price of
so many difficulties and amidst so much hope. It is true that
while recognising the impossibility of letting the Britain of
today enter the Common Market in its present form, one might all
the same wish to sacrifice the Common Market for an agreement
with Britain. It is true that, in theory, the economic system
which is at present practised by the Six is not necessarily the
only one that Europe could practise. One could imagine, for
example, a free trade area spreading over the whole of the West
of our continent. One could also imagine a sort of multilateral
treaty of the kind which emerged from the Kennedy Round,
regulating between ten, twelve or fifteen European states their
respective reciprocal quotas and tariffs. But in both these
cases, one would first have to abolish the Community and break
up its institutions. And I can say that France is certainly not
asking for that. However, if one or another of her partners, as
is after all their right, should make the proposal, France would
examine it with the other signatories of the Rome Treaty.

But what she cannot do is to enter at present into a
negotiation with the British and their associates which would
lead to the destruction of the European structure of which she is
a part. Moreover this would not at all be the way to construct
a Europe which is building herself by her own effort and for
herself in such a way as to avoid dependence on an economic,
monetary and political system which is alien to it. In order
that Europe may be able to form a counterweight to the immense
power of the United States it must at all costs avoid weakening
itself and on the contrary must strengthen the bonds and rules
of the Community. Indeed those who, like myself, have proved
by their action the attachment and the respect which they have

/for
for England, hope deeply to see her one day choose and accomplish
the immense effort which would transform her. Indeed to help her
in these matters France is quite prepared to enter into some
arrangement which, under the name of association or some other,
would encourage henceforth commercial exchanges between the
continental on the one hand and the British, the Scandinavians
and the Irish on the other.

4. It is certainly not in Paris that one is unaware of the
psychological evolution which our friends from across the Channel
appear to be showing, or that there is failure to recognise the
merit of certain measures which they have already taken, or
others which are projected in order to achieve equilibrium,
their interior equilibrium and their external independence.
But for the British Isles really to Moor themselves alongside
the Continent, a very vast and very deep transformation is still
required.

5. Everything depends therefore not on a negotiation which
would for the Six be a renunciation telling the knell of their
Community, but on the will and action of the great English people
who would make of themselves one of the pillars of European
Europe.
Association and Pre-negotiations as Alternatives

During the next few weeks, the suggestion may be made more formally than hitherto that, rather than pursue the objective of full membership of the Community, consideration should be given to some relationship falling short of full membership. This might take the form of association with the Community, or "membership by stages" (which would involve our becoming a full member only after a period, and, inevitably, subject to accepting the progress the Community might make in the meantime). For the sake of brevity, "association" is used in this paper to describe any formal relationship with the Community short of full membership.

Hitherto we have rejected association as an alternative to full membership. The Prime Minister, at his meeting with M. Pompidou and Couve in London in July 1966, rejected the idea that Britain might be a "country member of the club". In subsequent talks with the French and with others we have maintained a negative line. The purpose of this paper is to consider what our reaction should be in the event of a proposal, or more formal suggestion, that we should consider association rather than full membership.

If association might be proposed

1. Association, as an alternative to full membership, might be proposed by the French, or alternatively by one or more of the Five or the European Commission.

2. If France proposes it, it will be because France does not want us to become a full member of the Community. But it cannot be assumed that in consequence France would agree to our association. The French Government have alternated over the years in their preference between association and full membership.
for Britain in order to try to avoid appearing too negative about whatever Britain seemed to want at the time. In March 1961, M. Couve said that membership was the only solution. In January 1963, de Gaulle said that nothing prevented our association. In July 1966, M. Pompidou said that the matter would be truly at issue if Britain decided to undertake the same burdens and responsibilities as other members. Today France is suggesting that association would be the better course.

6. If association is put forward by one of the Five, or by the European Commission, their motive will be to appease France and to avoid a crisis in the Community. Each one of the Five Governments have told us that they welcome our application for full membership, and that, provided we accept the Treaty and its rules (which they recognise we have done), full membership is the right course for us and for Europe. The European Commission, in their "opinion" of 29 September, have also accepted that full membership is the right course for Britain.

6. So we must conclude that a proposal of association, whether made by France or by one of the Five or the European Commission, will not have as its motive the achievement of a satisfactory relationship between Britain and the Community. France will put it forward because she seeks to exclude us from the Community. The Five and the European Commission will put it forward because they seek to appease France.

What could association mean?

7. A proposal for association put forward in the next few weeks is unlikely to be clearly defined.

8. The name itself is not important. If a satisfactory relationship could be established which fell short of full membership in however large or small degree, we would be well advised seriously to consider accepting it whatever name might be given to it.

9. Three factors must largely determine our reaction. First, the theoretical variety of forms of relationship falling short
full membership is almost infinite. Some of the main ones have been set out in EURC(67) 104 on 21 August. But one thing will be common to all variations: Britain's position in the institutions of the Community will be less effective than that of a full member. Second, because of the differing national interests of the Six, and because the theoretical variety of forms of association is infinite, the Six would have the greatest difficulty in agreeing and negotiating a detailed proposal for the content of association. Third, under the Rome Treaty the Commission would be the body with which the association agreement would have to be negotiated.

Paragraphs 11-17 below relate these three factors to our purpose in deciding to seek full membership of the Community.

11. When the Prime Minister announced H.M.G.'s decision to seek full membership of the Community in the House of Commons on 2 May, he made it clear that the two main reasons for the decisions were

(i) despite short term economic disadvantages, the long term potential for Europe and therefore for Britain in the creation of a single market of approaching 300 million people;

(ii) ensuring that Europe plays a part in world affairs a part which the Europe of today is not playing.

The Prime Minister has since emphasised the importance of "economic union" in Europe as a condition of creating viable European industries in the technological field.

12. When the Cabinet decided to apply for full membership it recognised, in addition to these considerations (the longer term economic advantages; and the "decisive" political advantages), a further consideration: if we were going to join, the sooner the better. This was because of the important decisions which the Community were likely to take in the next two or three years; and the need to become a member in order to influence these and other decisions, in the economic field and elsewhere in that of political union.
6. How would these policy objectives be served by an attempt to associate with the Community, rather than to join it as a full member?

First: whatever varieties of association might in theory be possible, the following points are relevant to all:

(a) Association could not take the form of a free trade area. None of the Six would be prepared to go back to 1956. At the least, therefore, association would involve accepting some of the common external tariff. It would therefore involve some degree of common economic and commercial policies as between the Community and the associate. The associate could not enjoy an equal voice in decisions affecting common policies unless it was given an equal position with full members whenever decisions were taken in the Community's institutions. Association with a full voice in the institutions would be equivalent to full membership. Without a full voice, the associate's status would be that of a colony. Consequently, the more acceptable the content of association would be to us, the less acceptable it would be, by definition, to France.

(b) Even if a satisfactory arrangement were possible to give the associate a fair voice in the fields covered by the association agreement, there would be two further problems. Community decisions are often bargains resulting from concessions in different fields (e.g. industry and agriculture). A country with a voice in only limited fields would be at a severe disadvantage. Secondly, there is the problem thrown up by the development of the Community in other fields, or by new decisions in existing fields: in technology and monetary questions, or in the establishment of a new agricultural regulation (e.g. mutton). This
problem incidentally demonstrates the fallacy of imagining that full membership could be "automatic" at the end of a period of association: no government or parliament could commit itself to accept and operate far-reaching economic, and even political decisions in the taking of which they had no voice, and of the number and direction of which they could have no prior knowledge.

(c) in consequence, Britain's freedom of action would be limited by the terms of association without the counterpart of being able to limit the freedom of action of the Six through the enjoyment of a full voice in the institutions. With the passage of time, and the development of the Community, it would become difficult to join and equally difficult to withdraw.

6. Second: As long as we are applying for full membership on the basis of acceptance of the Treaty of Rome, and the rules adopted under it, the negotiation of our accession is comparatively simple, since it must take place on the basis of agreed texts. But as soon as something short of full membership became the object of negotiation, the room for differences between the Six, in view of their conflicting national interests, would be endless and the time likely to be taken by the Six in working out common positions on points of detail would mean a very much longer negotiation. Moreover, on this basis the Five would no longer be united; and France would have much more scope for blackmailing the Five into accepting French terms as the conditions of a successful negotiation than would be the case under negotiations for full membership where the room for argument (considerable though it may be) is much more limited.

16. Third, the fact that the Commission would be the body designated by the Community to negotiate on its behalf with Britain would mean further delays and would put our own negotiators in a more difficult position. There would be further
ays because of the time required for the Commission to report to the Council and get a new mandate at every stage; and our negotiators would at each stage be required to expose their own and without being able to uncover that of the Community.

There would be other disadvantages in showing interest in association, of whatever form. Once it were accepted by Britain that association was a legitimate objective, the present atmosphere of crisis within the Community would disappear and the Six as well as France would feel free to make progress in the Community's internal development without waiting for the outcome of prolonged negotiations with Britain. Our position during these developments would be the worse for the fact that it could be argued that since Britain would not necessarily have to accept the outcome immediately in the particular field under discussion, there was no reason to delay the internal development of the Community. On the other hand, the inevitably prolonged negotiations, and uncertain final content, of association would mean continuing uncertainty for British industry and foreign investment. The period of uncertainty which we face may well be shorter, and will certainly not be longer, if we continue to demand "full membership or nothing". And this latter course gives a greater chance of holding up the development of the Community while we wait.

Conclusions

16. In the light of the above we must conclude:

(i) whoever puts forward a proposal for association for Britain as an alternative for full membership will do so for motives which are not designed to help us;

(ii) the Six would find the greatest difficulty in agreeing on the detailed content of their proposals; and for this reason, and because of the nature of the negotiations, a very long time would elapse before the outcome would be known;

(iii) meanwhile the Community would feel free - freer than it
is today or would be while we seek full membership -
to intensify its internal development;
and at the same time British industry and foreign
investment would face a longer period of uncertainty;
whatever form association took (assuming that the Six
could agree to it taking any form at all) the essential
common element of all forms would be a position for
Britain in the institutions of the Community which
would be less effective than the positions enjoyed
by full members, even in respect of common policies
which Britain would have to apply at once;
if the purpose of association were to prepare for full
membership, the number of decisions taken without our
voice being properly heard would, because these
decisions would have to be applied by us as a condition
of full membership, postpone the day of full membership,
perhaps indefinitely;
we should be denied for an indefinite period the
advantages - political, economic and institutional -
which determined H.M.G. to apply for membership; and we
should have allowed the Six to circumscribe our own
freedom of action without any corresponding influence
on theirs:
If, therefore, a proposal of this kind is put forward in
the coming weeks, we should not be deterred from our present
line. Our line should be that we have applied for full member-
ship under Article 237 in accordance with the advice given to us
by five out of the six governments (France, too, if we take the
advice given by M. Couve in 1961 and M. Pompidou in 1966.)
This has been recognised by the Commission as well as by the Five
to be the right course and the Commission has proposed that
negotiations should now open. The Six agreed at the Rome Summit
to apply the Treaty in respect of applications for membership.
To await a reply to our application from the Six as a whole.
If the suggestion for association is made by the French, we would encourage the Five to refuse to consider it.

In comparison with association, some form of pre-negotiations, either with representatives of the Six or with the Commission, would have two advantages:

(a) the French would probably not agree. So it could be a useful tactical position for us to adopt vis-à-vis the Five, that as long as the objective was full membership, we were flexible as to the form in which the problems were discussed;

(b) if the French did agree, full membership (which is what we want) would be maintained as the objective.

But it would be difficult, if we followed this course, to avoid certain risks:

(i) it would be hard to avoid uncovering our negotiating position during pre-negotiations, and easier for the Six to avoid uncovering theirs;

(ii) there would be the danger that the Community might seek to use the results of pre-negotiation talks (however unreasonably) as an excuse to go back on their acceptance of full membership as the right solution;

(iii) the Community might feel that, once pre-negotiation talks had started, they would be free to agree further development within the Community without our being involved.

2. The dangers in the previous paragraph would be limited if, as part of the agreement to conduct pre-negotiation talks, the Six fixed a firm date for opening formal negotiations. But for this very reason, it is most unlikely that the option would present itself in this form.
CABINET

APPROACH TO EUROPE

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate herewith the text of the Prime Minister's speech at the Parliamentary Press Gallery Lunch on 29th November, 1967.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

5th December, 1967
Mr. Chairman, first I should like to thank you for your consideration in postponing this lunch, originally fixed for last Wednesday when, as you will recall, I was due to make another speech in the House.

The passage of seven days, I think, emphasises the truth of the words attributed to me, correctly, that a week is a long time in politics. I understand that a week is a long time in politics. I understand that the passage of seven days, I think, emphasises the truth of the words attributed to my successor at No.10 has improved on it. Speaking in the "Ten" at the Strand Theatre, Mr. Alistair Sim has referred to the words of my predecessor, Lord Wilson of Huyton, and pronounced that 24 hours is a long time. Certainly, twenty-four hours on Monday, when President de Gaulle spoke of French Governments, creates a situation on which you will now expect me to comment.

At Guildhall just over a fortnight ago, I said that, in the European context, to our intention, every time the ball was kicked into touch, to return it unswerving accuracy and determination into the Community's twenty-five.

I think yesterday's press interpretation of Monday's event is that this time the ball has not been so much tapped into touch as booted over the grandstand. You will be glad to know that it has been retrieved: the Foreign Office statement on Monday evening has put that ball right back where it belongs.

I do not intend to dramatise the whole history of Britain's postwar relations with Europe into a five-act play, not least because the sixth and successive acts are still to come. But the references on Monday to the Maudling negotiations, and there was some confusion in what was said, were, all the same, singularly apt. Because the Maudling negotiations of 1957/58 could almost have been dubbed in the very words used on Monday, namely as seeking "some arrangement under the name of association or any other would promote as from now commercial changes between the Continentals on the one hand and the British, the Scandinavians and the Irish on the other".

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Mr. Chairman, first I should like to thank you for your consideration in postponing this lunch, originally fixed for last Wednesday when, as you will recall, I had to make another speech in the House.

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But the Maudling negotiations were vetoed. Britain was told we must apply for membership. We did negotiate for membership in 1961/62 - that was vetoed. This we have applied again. Now we are told we should go back to the Maudling approach.

We have made clear why association is out. In the first place, Britain cannot accept the obligations which would run through every aspect of Britain's economic and social life - and her international relationships - without having any say in the formulation of future rules and future changes in these rules. But there is a second reason. France has always rejected any suggestion of Britain being linked with the Six in an industrial free trade area, understandably because of the importance of the French economy on her domestic agriculture. After all they have about Britain's cheap food and its implication for our wage levels, and our industrial competitiveness, it is inconceivable that negotiations for association would not involve even more complex, indeed perhaps "interminable" discussions. Because, unlike an application for full membership, where we are already within the Treaty of Rome and the subsequent decisions taken under the Treaty, here we should, all of us, be entering into uncharted seas, and with no-one to guide us.

An application is in. It remains in. Time is on our side in a narrow sense - for getting in is concerned. But in another sense, as we have repeatedly said, time is not on the side of Europe, including Britain in Europe. It is on the side of those who want to take European action to stop the technological industrial gap between Europe and America widening year by year, indeed month by month. It is not on the side of those of us whose concern about American dominance of our national industries has been shown not by words but by deeds. Therefore great debate will continue, not only in Britain but throughout Europe.
As my contribution to this debate today, I should like to take up some of the points made on Monday and put them in a truer perspective. I will take them in order.

1. It was said that it is contradictory to propose the opening without delay of negotiations with the Six while declaring our willingness to accept all the provisions and regulations governing the Community. If we accept those clauses in advance, what, we were asked, is there to negotiate about?

Answer:

I quote the Treaty of Rome. Article 237 provides that "Any European State may apply to become a member of the Community. It shall address its application to the Council which, after obtaining the opinion of the Commission, shall give a unanimous decision thereon."

The conditions of admission and the adjustments to this Treaty necessitated by shall be the subject of an agreement between the Member States and the applicant State."

This speaks for itself, since any agreement has to be negotiated.

2. It was said that the Report of the Brussels Commission showed that the Common Market was incompatible with the economy of Britain in a number of respects.

Answer:

Did the Commission recommend or did they not recommend that "Negotiations should be opened in the most appropriate form with the States which have applied for membership"?

3. It was said, as proof of this incompatibility, that Britain's chronic balance of payments deficit proved the permanent dis-equilibrium of her economy.

Answer:

What was France's balance of payments dis-equilibrium in the two years after signing the Treaty of Rome? without going into the unprofitable question of what balance of payments would have been this year, but for the Middle East, have the French Government not seen that the international staffs of the I.M.F. and OECD strongly support the view that the decisions we have taken offer a firm prospect of transforming our balance of payments within 12 months?*

4. It was said that the British economy was incompatible because of its sources of supply, credit practices and conditions of work."

Answer:

On sources of supply and channels of trade we have stated that we accept the Treaty of Rome. And the present members of the Community, acting under that Treaty, have themselves accepted the Yaounde Convention which ensures that developing countries with whom France - and others - had long-standing trading - indeed political - connections should be able to trade freely with the Community. We have said it clear that we should expect to follow this precedent.

This brings me to

4. The reference to our credit practices. I am not clear what the reference is here. But if the French President is referring to the working of the City of London and considers perhaps that our arrangements for financing industry on the free market of the City of London are not in accordance with the doctrines of the Treaty of Rome, I feel it right to point out that it is the French credit system, not ours, which controls the allocation of specially favourable credit, Industry by industry, in accordance with the priorities laid down by the Commissariat du Plan.

In the same sentence there was, as I have said, a reference to our "Editions du travail".
If the French President was referring to recent strikes in Britain, let me deplore these as profoundly as General de Gaulle deplores strikes in his country. But, to put this into perspective, let me also point out that in Britain lost, through industrial disputes, for every 1000 persons employed, 250 days against 210 in France. Figures to be published tomorrow show that of the five years 1962-66, our figure was 230 against a French figure of 322. Of both the figures are too high. We must both do better.

It was said that the Common Market is incompatible with the way in which we run ourselves, with our agriculture "subsidised to the hilt".

Let us see at least an elementary knowledge of the facts. Both agricultures, both of them, are substantially supported and look for their returns both to the taxpayer and to the consumer, but in the Community the latter is more from enhanced prices to the consumer than from the taxpayer. In a statement to the House on May 2, I made it clear, as I had done before, that we recognised that the Community's agricultural policy was an integral part of our Community and that we must come to terms with it. And we recognised too that it would involve far-reaching changes in the structure of British agriculture. Agreements we had in mind to discuss with the Six were spelled out in the Foreign Secretary's statement to the Western European Union, Command Paper No. 3345, of June for great accuracy a copy was given to the French Government.

It was said that we could never really accept the "crushing" levies laid under the Common Market's financial regulation for agriculture.

Again I quote what I said in the House in announcing our application - and the thought was repeated in Command Paper No. 3345. These financial arrangements, if applied to Britain as they now stand, involve an inequitable sharing of a financial cost and impose on our balance of payments an additional burden which should not in fairness be asked to carry. But the point that the automatic operation of a mathematical formula of calculating contributions could involve feasible burdens was strongly pressed by Germany in May 1966 and a solution was found. Is the French Government really saying that no solution could be found for this, particularly as Britain's succession would certainly lead to an increase in France's net income from the Fund?

It was said that the Common Market was incompatible with British restrictions on capital movements abroad as compared with the freedom of such movements among the Six.

Again we have made clear that we fully accept the obligations of Community membership in this field, subject only to a transitional period during which we shift by stages bring our policies into line with those of the Community.
I would add that freedom of direct capital movement within the enlarged un-ity is essential to secure our aim of a European-wide industrial and nutritional base and to give reality to the concept for which we, and others, are pressing of the European Company. If we are to build up, as we must, the material independence of Europe, the first call on the capital arising in any form the thrift of Europe's citizens must be for that purpose and for the end of the underdeveloped world and not to be diverted for gain to Manhattan, for purposes of fertilizing American technological development at a time when we need capital in Europe to close the gap.

2. It was said that the Common Market was incompatible with the state of sterling, as devaluation has again demonstrated.

3. Did not France devalue? And is it not a fact that Monsieur Couve de Gode's carefully worded statement at Luxembourg earlier this month was widely interpreted in Europe — and further afield — as a call for devaluation of the pound?

4. Critical reference was also made to the international loans required by Britain before and concurrently with devaluation.

5. International financial facilities were freely offered by the International Monetary Community, including France, as a means of ensuring international stability of financial and trading arrangements. We have made clear that the facilities extend on and since November 18 are a means of seeing the devaluation operation through with a minimum of disturbance to the world and ensuring that there is sufficient backing while the effects of devaluation are working themselves through the economy.

6. It was said that membership of the Common Market was incompatible with the state of sterling because of its character as an international currency and the encumbrances of the vast sterling balances.

7. Is the General prepared to respond to the Chancellor of the Exchequer's offer to discuss on a European basis all aspects of the international position of sterling, including the possibility of a European currency?

8. We were told that any attempt to impose British entry would lead to the break-up of a community whose rules would not bear such a "monumental exception".

9. It is not Britain whose policy on such basic questions as foreign affairs, defence and international monetary policy is the "monumental exception" to the general European consensus on these questions. Nor is it Britain which is now neglecting the article of the Treaty of Rome which provides that "any European state may apply to become a Member of the Community".

10. To start negotiations now for British entry, so it was said, "would be for the Six to consent in advance to all the artifices, delays and make-believe which would tend to conceal the destruction of an edifice built with so much effort and at such hope".
This is based on a static conception of Europe, when, unless all of us move quickly, we, as Europe, will fall behind. It is a laboured example of a European train slowed up by adding more coaches. What it fails to see is that a European train, for which Britain and other countries would provide the motive force, could be much more powerful and would continue to move on the track which will lead to our common objective of a united Europe.

I have tried to make clear to all our friends in Europe that those who rely on a static concept in a rapidly moving world are moving backwards. We want to work with all those in Europe who are forward-looking in a determined move forward.

We were told that a negotiation with Britain would not be the way to ensure Europe was not "dependent on a foreign economic monetary and political system"; but Europe should be a "counterweight to the immense power of the United States". What matters here is not words but action. Such action as the creation of European technology for which I called in my Guildhall speech. But while I am prepared to take an initiative in this field in advance of negotiations, initiative will become a reality in terms of European industrial independence only if those in Europe are ready to take all the steps necessary to create a single European industrial market.

Our attention was drawn to the coincidence between the American deficit in its balance of payments and the total of American investments in Western Europe: that France "wishes this abuse to be ended".

We are not going to solve our problems in Europe by attacks on one another's economic systems, or on the balance of payments of the United States. Beggar-my-neighbor policies are not the answer, and, if we were to embark on them we should know that not all the cards are held on this side of the Atlantic.

But we have to do is to build up a vigorous and independent European industry. Europe - Britain has opted for independence. Aero-engines - Britain, together with its European partners, can lead the field. But only if those partners, notably France, will take the same independent line. Atomic energy? We in Britain can lead the world, but not if our partners insist on tying themselves together. Using the know-how of Britain as well as that of our European partners, we could make Europe both competitive and independent.

But above all, we recognise that none of us can meet the threat to our industrial independence unless we are prepared to work together within a single and wider Community, with a powerful technological base, the only foundation for economic and political independence, for a truly European voice in world affairs.

Britain accepts the challenge - the European challenge. But let everyone here abroad recognise we have enormous reserves of economic strength and we intend to put that strength to the full by our own efforts.

That British industry must now show is a sense of urgency about the situation that must now seize the opportunities, to take the decisions that the new situation devaluation affords us.

Yet industrialists must now force the pace with his export plans, his sales overseas - and everyone who has the opportunity must now consider how they can help the home market in a fully competitive basis goods for which until now we have depended on imports.

This is the constructive approach that the nation now expects of Britain's industry. If anyone wants to indulge in criticism, let them reinforce their words by first going out and getting their export orders and then by ensuring those export orders are going to be met - and on time. Then they have done the criticism they want to offer will carry greater authority.

And the other urgent priority on the industrial agenda for both sides of industry is to make a reality in the new situation of the national policy for prices, incomes and productivity. The trade union movement has already made an encouraging declaration on incomes. We must now ensure that the spirit of that declaration goes right down the line, by industry, right to the factory floor.

And all industrialists must realise that while success in incomes policy is of paramount importance, changes of success will be imperilled unless we show an equal sense of urgency about incomes.
Industry now has an unparalleled opportunity. If profit is truly the
motivation of private industry, then let them go out and earn those profits in
the markets of the world.

Mr. Chairman, let the debate continue; but now let us all get on with the
job.
CABINET

BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT

Memorandum by the President of the Board of Trade

Last month, I invited my colleagues (C(67) 177) to agree to British European Airways (BEA) request that they should order 30 of a new type of British aircraft, the BAC 2-11 (with an option on a further 10). Before a final decision could be reached, devaluation occurred and made it necessary to re-examine my proposal. The outcome of this re-examination is set out in a revised memorandum by officials at appendix. This shows that the new exchange rate has had a marked effect on most of the calculations, and strengthens the arguments which led me to recommend the BAC 2-11, in the first place.

2. Before coming to the details, I make a preliminary observation. First, devaluation does not alter the need for positive action to strengthen the balance of payments. It is so crucial to make a success of devaluation that we must over-insure; that is, we must take micro-economic steps to aid exports in addition to the macro-economic effects of devaluation. Secondly, devaluation in no way alters the need to be on the lookout for every opportunity to use public sector expenditure to help the balance of payments and the BAC 2-11 decision should be judged in this light.

3. Now as to details. First, and most important, is the probable effect of devaluation on the export sales of the BAC 2-11. For foreign operators it should now be cheaper to buy and so cheaper (by about 10 per cent) to operate than the Boeing 727/200, and we can think in terms of potential foreign exchange earnings of £300 million or more. By paying (as compared with the alternative of the Trident 3B) an extra £46 million Exchequer finance for the BAC 2-11, we could earn on the basis of 150 sales an extra £258 million of foreign exchange, both figures discounted. It is hard to see where in the economy £46 million could earn as satisfactory a return in terms of foreign exchange.

4. Thirdly, the increase since devaluation in international air fares will greatly improve the operating results of BEA; at the end of 10 years, instead of showing an accumulated deficit, they will be well in surplus. The Exchequer will therefore save substantially because of devaluation with any of the fleets under consideration; but BEA will be some £30 million better off at the end of the period if they have the BAC 2-11 than they would be with the Trident.
5. Fourthly, the price advantage of the RB 211 new technology engine over its rivals has already been increased following devaluation. Rolls Royce have already stated that, in their view, the chances of selling the RB 211 in the United States of America would be decisively helped if that engine is first launched in the BAC 2-11.

6. Lastly, the consequences of devaluation for the European airbus have not yet been fully worked out with the French and Germans. I do not myself believe that the two projects are mutually exclusive, or that our decision to proceed with the BAC 2-11 will, by itself, lead to the abandonment of the airbus. Both are speculative, but there should be substantially larger and earlier, foreign exchange earnings to be had from the BAC 2-11 than from the airbus. Moreover if the European airbus is not purchased but BEA have the BAC 2-11, then they will have an aircraft sufficient for their needs over the next 10 years. Without either of these aircraft they will, like Air France, need an American aircraft larger than the Trident 3B well within 10 years.

7. To approve the BAC 2-11 rather than the Trident 3B means that an extra £79 million would be required from the Exchequer over the next five years. Our primary object now, however, is to encourage exports. It would be reasonable not only to apply resources to this purpose, in the form of the BAC 2-11, but by doing so to demonstrate the Government's intention to take advantage of the new situation to develop our technological resources and sell the product overseas.

C.A.R.C.

Board of Trade, S. W. 1.

11th December, 1967
Joint Memorandum by Board of Trade and Ministry of Technology Officials

Ministers will recall that in the summer of 1966 BEA were refused permission to purchase a fleet of Boeing aircraft. It was announced that BEA would buy British aircraft and that aircraft under consideration were developed versions of the VC-10, the Trident and the BAC 1-11; the Government were prepared to give launching aid for the types selected and would "take steps to ensure that BEA is able to operate as a fully commercial undertaking with the fleet it acquires".

2. The BEA requirement fell into two parts. The first was met by the purchase of an improved and larger version of the BAC 1-11 - the BAC 1-11/500. The second and larger requirement was for an aircraft to match the Boeing 727 which is being acquired by continental competitors and to provide the larger capacity aircraft which will be needed as traffic grows on many routes at home and abroad. Without further aircraft BEA will be badly short of capacity to meet the growth in traffic from about 1969 until the Airbus is available in 1973, but the aircraft they acquire will continue to be needed for many years after the Airbus is available.

3. To meet this requirement for a larger aircraft intermediate between the jet aircraft now operated by BEA (e.g., Trident with about 100 seats) and the Airbus (about 270 seats) there were in August 1966 only the VC.10 which might be modified for short-haul use (175 seats) and an enlarged Trident which has now emerged as the Trident 3B (146 seats). Meanwhile the British Aircraft Corporation have proposed a substantially new aircraft the BAC 2-11 (203 seats). BEA asked in February 1967 for permission to buy the BAC 2-11 on the ground that it was the right intermediate size (about 200 seats) on the way to the Airbus, and had the attraction of being first in the field of a new generation of quieter aircraft with good operating economics.

4. Of the five possibilities theoretically before us, two appear to be ruled out in practice. First, we assume that Ministers will adhere to their previous decision not to permit the purchase of Boeings, even though Air France and Lufthansa have been allowed to acquire them. Secondly, there seems no case for a modified VC.10, to which consideration was given earlier, since this aircraft is rejected by BEA on operational grounds, and has no advantage on financial grounds.

5. Accordingly, in more detail, the paper discusses

(a) various possible fleets;
Since any aircraft purchased are integrated with the whole of BEA's operations it is not possible to isolate their particular costs and earnings; one has to work on the total fleet.

(b) the consequences for BEA's operational efficiency in financial terms;

(c) aid to BEA;

(d) incidence of Exchequer expenditure;

(e) launching costs;

(f) effect on the aerospace industry;

(g) consequences for the balance of payments;

(h) noise.

6. The figures on which this paper was originally based have been altered by devaluation and they have been reworked by BEA, the Board of Trade and the Ministry of Technology. The significant changes are:

(a) The nett present value of BEA's investment is substantially less unfavourable and the improvement is greater with a BAC fleet than with a Trident fleet.

(b) The nett present value of the total investment is also improved both as reflecting BEA's improved position and by virtue of contributions by the manufacturers.

(c) The balance of payments calculations are affected by the improved export prospects, particularly of the BAC 2-11. The implied preference involved in the BAC 2-11 is reduced.

Possible fleets for BEA

7. BEA have reaffirmed unequivocally since devaluation that they still want the BAC 2-11. They have, however, re-evaluated other possible courses. The various "mixes" of aircraft for which a detailed analysis has been made, which are unaltered by devaluation, are shown in Table I. The main assumptions which BEA have made and discussed with Departments are set out for reference at Annex A. These have been altered, and are in some respects, open to qualification. As far as Tridents are concerned it will be seen that a fleet with a reduced number of Tridents and a greater number of airbuses has been included as well as the "mix" that BEA themselves would prefer. The new aircraft of whatever sort would be absorbed gradually throughout the 1970s.

<table>
<thead>
<tr>
<th>Types of Aircraft</th>
<th>Seats</th>
<th>BAC 2-11 Fleet</th>
<th>Trident Fleet</th>
<th>Reduced Trident Fleet</th>
<th>Existing Types Fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAC 1-11 (18 on order)</td>
<td>97</td>
<td>23</td>
<td>21</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>Trident 2 (15 on order)</td>
<td>106</td>
<td>21</td>
<td>17</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>BAC 2-11</td>
<td>203</td>
<td>34</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Trident 3B</td>
<td>146</td>
<td>-</td>
<td>47</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Airbus</td>
<td>267</td>
<td>15</td>
<td>18</td>
<td>31</td>
<td>42</td>
</tr>
</tbody>
</table>
Consequences for BEA

8. (a) Effect on BEA's investment and profit and loss account

The results now expected by BEA, on the assumptions they are using, with each of these fleets are shown in Table II. This is done in two ways. First is shown how long BEA would expect to make losses; what their accumulated deficit would be at the end of that period; and how far that would be reduced, by 1976/79, by subsequent annual surpluses. Second the nett present value of these results is shown in terms of discounted cash flow with the internal rate of return this represents. It is to be observed that the figures represent nett results of very large sums of revenue and expenditure over the years.

**TABLE II**

<table>
<thead>
<tr>
<th>B.E.A. FINANCIAL FORECAST</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10 year period</td>
</tr>
<tr>
<td>Accountancy Terms</td>
<td>D.O.F. Terms</td>
</tr>
<tr>
<td>Period of losses from 1968/69</td>
<td>Accumulated surplus/deficit</td>
</tr>
<tr>
<td>BAC 2-11</td>
<td>6 years</td>
</tr>
<tr>
<td>Trident 3B</td>
<td>6 years</td>
</tr>
<tr>
<td>Reduced Trident 3B</td>
<td>7 years</td>
</tr>
<tr>
<td>Existing Types</td>
<td>8 years</td>
</tr>
</tbody>
</table>

9. (b) Exchequer Aid to B.E.A.

When B.E.A. were refused permission to buy Boeings the Government undertook to ensure "that B.E.A. is able to operate as a fully commercial undertaking with the fleet it acquires". These are the same words as were used when the Government dealt with the financial consequences of the equipment decisions taken for B.O.A.C. The problem is different because B.O.A.C. had a heavy accumulated deficit; the objective here is to avoid such an accumulation as a millstone round the neck of B.E.A. and the Government. It is important to give B.E.A. aid during the next few years when otherwise, even taking account of devaluation, they would be accumulating a deficit, and to avoid the implication that the deficit (or the aid) is directly related to the economics of the British aircraft.
10. Against this must be set the fact that over the 10 year period B.E.A. will, with the B.A.C. 2-11 or the Trident 3B fleets expect to show a profit. The profit will, however, only accrue in the latter part of the period, and on B.E.A.'s figures, even with the best fleet, B.E.A. would be in deficit for about 6 years. Provided there are adequate means of recouping the aid when B.E.A. can afford repayment, devaluation does not provide an adequate ground for saying that the Government's pledge no longer need apply. It remains true that even the B.A.C. 2-11 solution would be less profitable for B.E.A. than the Boeing fleet it originally chose, although the margins are very much narrowed as a result of devaluation.

11. The method proposed, after discussion with B.E.A., is that their existing borrowings should be reduced by a given sum and that a special "fund" of the same amount should be created for the purpose of sustaining their revenue account during the period of anticipated losses. This transaction would not require the provision of additional Exchequer money, but because it would involve writing off part of the Corporation's debt to the Exchequer, it would require legislation. Although the creation of the special "fund" reduces the interest payable by B.E.A. and receivable by the Exchequer, B.E.A.'s need to borrow during the same period is reduced to the same extent and, thus, the call on Exchequer funds remains the same. A predetermined sum would be transferred from the "fund" to the revenue account each year so as to afford B.E.A., on the basis of present forecasts of operating conditions and out-turn, the opportunity to achieve a reasonable margin of profit. From these profits a reserve would be gradually built up. At the end of the period for which aid is required B.E.A. could be expected to be able to operate in a fully commercial fashion without support. It would then be open to the Government either to reclaim the reserve (which could be done under existing powers) or to convert it into interest-bearing borrowings or equity capital.

12. These matters will have to be settled before BEA finally commit themselves to the purchase of aircraft. Negotiations are continuing about the exact size of the fund involved but they should not exceed the following amounts for the various fleets discussed.

- B.A.C. 2-11 Fleet £23M
- Trident 3B Fleet £35M
- Reduced Trident 3B Fleet £50M
- Existing types Fleet £55M

These sums do not, of course, modify the financial figures given in paragraph 8, since they represent no more than the method to be adopted, for helping BEA to deal with the shortfalls shown there. The Board of Trade are resisting BEA's claim to be compensated to the full amount of the difference between the fleet they acquire and the Boeing Fleet.

13. **Relative National Cost**

The figures in Table II are the results for BEA on the assumption that launching costs are borne by the Government. Table III shows these costs, combines them with the value of BEA's investment as in Table II, and shows therefore the total net present value of the investment.
TABLE III
PRESENT VALUES OF TOTAL INVESTMENT
1968/9 to 1977/8 at 8% DISCOUNT

<table>
<thead>
<tr>
<th>Fleet</th>
<th>Nett Launching Costs to HMG</th>
<th>Nett Present Value to B.E.A.</th>
<th>Total Nett Present Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existing types</td>
<td>48</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Reduced Trident 3B</td>
<td>-11</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>Trident 3B</td>
<td>-11</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>B.A.C. 2-11 (100 sales)</td>
<td>-77 (-54)</td>
<td>17</td>
<td>94 (-71)</td>
</tr>
<tr>
<td>B.A.C. 2-11 (150 sales)</td>
<td>-70 (-47)</td>
<td>-17</td>
<td>87 (-54)</td>
</tr>
<tr>
<td>B.A.C. 2-11 (200 sales)</td>
<td>-63 (-40)</td>
<td>-17</td>
<td>80 (-57)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets are those applicable to the B.A.C. 2-11 Fleet if the basic engine launching costs can be attributed to the American airbus.

14. The above figures of nett launching cost take account of the levy receipts expected from increased sales, subsequent to devaluation. They also reflect the contribution the manufacturers have now agreed to make to these launching costs.

Exchequer Expenditure

15. An analysis has been made of the incidence of the funding by the Treasury of B.E.A. and of the aircraft industry (in its civil role) over the next five years in respect of the different B.E.A. fleets considered in this paper. In this context it is the gross launching cost (not discounted as above) that is relevant, £120m for the B.A.C. 2-11 and £15m for the Trident 3-B. The results are shown in Annex B and for completeness cover Concord development and production which is of no relevance to B.E.A.

SUMMARY OF B.E.A.'s POSITION

16. These tables show that the B.A.C. 2-11 is rightly preferred by B.E.A. on financial grounds - in nett present value terms it is £13m better than the full Trident fleet or £27m better than the reduced Trident fleet - as well as because of its advantages in size and quietness. Equally they make it clear that the B.A.C. 2-11 is the most expensive investment with launching cost taken into account, involving an additional cost in discounted terms of some £40-45m and in Exchequer terms, an outlay of some £80m (undiscounted) greater from 1967/8-1971/2. It provides, however, the balance of payments advantages discussed below.

Cost and Balance of Payments effects on B.A.C. 2-11 and Trident 3B

17. The calculations below take into account, as far as they can at present be assessed, the effects of devaluation on the costs, prices and sales of aircraft.
18. Launching costs for the Trident 3B will because of devaluation rise by a small amount to £17.4M but the cost to the Government has been reduced to a ceiling figure of £15.225M by the contribution of 12.5 per cent which H.S.A. has now offered. In addition royalties of about £4M may have to be paid in respect of the booster engine.

19. B.A.C. have not increased their estimate for the B.A.C. 2-11 and have now offered to contribute 10 per cent towards the airframe launching costs provided they receive an initial order from B.E.A. for not less than 20 aircraft. On the formula they have adopted, this works out at about £7.5M and reduces the estimated cost to H.M.G. for airframe and engine to some £120M. This is not a ceiling figure, since B.A.C. are not prepared to accept an upper limit to their 90 per cent contribution. It does, however, include a contingency margin of £10M and is probably a safe figure. B.A.C. would propose to recover their contribution over approximately the first 40 sales; H.M.G.'s contribution would be recovered over about 250 sales.

20. The price to B.E.A. of both aircraft will remain unchanged.

21. B.A.C. and H.S.A. propose to increase the export price of the aircraft to allow for the higher costs of imported materials and equipment, but, provided wage levels do not rise in the United Kingdom, there will be a net price improvement of 9-10 per cent to overseas operators. The Ministry of Technology believe that in consequence the operating costs of the B.A.C. 2-11 to overseas operators should be 10 per cent cheaper than the Boeing 727-200 while the operating costs for the Trident 3B would be about the same as the Boeing.

22. These improvements will increase the export prospects of the aircraft but officials consider that both Companies are over-optimistic in their assessment of export sales. B.A.C. estimate 200-350 aircraft sales but officials consider a more realistic estimate would be 150-200 including 100-150 exports.

23. H.S.A. forecast 30-100 export sales for the Trident 3B. Officials think this is optimistic and rank the prospects as only small. However about 20 import saving sales might be achieved.

Prospects for the RB 2-11 Engine

24. On past experience the export potential is greater for engines than for airframes. It is therefore of the utmost importance to give Rolls-Royce a secure basis for developing at least one of their new technology engines, RB 207 or RB 211. The RB 207 will go into the airbus, but we shall not be sure until the middle of next year that the airbus will go ahead. The RB 211 is on offer for an American Lockheed or Douglas airbus, but it faces strong competition from American engines. In these circumstances, the BAC 2-11 provides the one present application for a new technology engine entirely within our control.

25. Rolls-Royce's chances of winning contracts for the RB 211 in the American Airbuses are improved by devaluation.
and therefore the possibility of relieving the BAC 2-11 of some of the engine launching costs should be greater. However, before devaluation, the RB 211 already had a price advantage over its American rivals and, whilst a reduction in Rolls-Royce price must be in the Company's favour, it is not possible to assess the extent to which chances have improved.

**Airbus**

26. For the Airbus the United Kingdom share of development costs before devaluation was 50% (made up of 37.5% for the airframe and 75% for the engine). After devaluation, assuming United Kingdom internal prices do not rise, maintaining the United Kingdom share in terms of francs, will be approximately 46%. To restore this to 50% in terms of francs would mean transferring some £7M of work to the United Kingdom.

27. In the general context of all collaborative projects thought is being given to the way in which this situation on the Airbus, together with implications on shares of levy on sales, should be handled in consultation with the French and Germans as is provided for in the Memorandum of Understanding.

28. Because of devaluation the price of the Airbus to BEA will be increased by some 10%. To overseas customers the price could either be held to provide a larger levy or be reduced. Which of these alternatives is best cannot be decided before the contractors have provided comprehensive information about costs and prices, as they are required to do, in April next. However, in general, it is clear that devaluation improves the chances of making the Airbus a viable project.

**Aircraft Industry Policy**

29. Aircraft industry policy is now firmly based on partnership with Europe, since we do not rate very highly the chances in future of selling large civil aircraft in world markets, in the face of increasing American and Russian competition, unless they have as a starting point an assured market in Europe. This was the basis of the decision to start the airbus.

30. The BAC 2-11 would run counter to this policy. On BEA's plans, assuming they buy the BAC 2-11 in the numbers now proposed, they would not require more than 15 airbuses by 1980. Unless BEA were prepared to adjust this figure upwards - and Sir Anthony Milward has indicated a readiness, if necessary, to consider some adjustment between numbers of the two types - it would be difficult to achieve the assured market of 75 aircraft which we regard as a minimum for continuing the airbus project, particularly as Air France have already been allowed to buy Boeings as an intermediate aircraft. To the extent that the BAC 2-11 sold abroad it would constitute a threat to airbus exports.

31. The Trident 3B would also, to a less extent, run counter to the European policy. If BEA have no new type of aircraft they will have to take something like 40 airbuses; their optimum Trident fleet would leave a demand for only 18 airbuses and even the reduced Trident fleet which has been considered calls for no more than 26 airbuses. But no exports of the Trident 3B that would further prejudice the airbus market are expected.
32. As a continuation of a European policy we should, in the view of the Ministry of Technology, plan towards a 200-seat aircraft of advanced design (a "minibus") as a collaborative project entering service in 1975 or later and aimed at a wider market than the purely national BAC 2-11. Conceived as a Boeing 727/200 successor, and sufficiently up to date in concept to go on selling into the 1980s in the face of competition, such as aircraft might hope to achieve sales of 200/250 in all, earning for the United Kingdom foreign currency to a nett present value of £150/200M. We should lay claim to design leadership (since the French are leading on the airbus). The minibus, following the airbus, might possibly be the start of a European family of aircraft and therefore lead to continuing export sales.

33. The policy will, of course, not be without difficulties. There can be no assurance that the technical improvements necessary for a successful minibus will prove feasible, or that other countries can be persuaded to join in or accept our leadership. It is likely to be in direct competition with the American design. The French have agreed that officials should discuss this project, and are thought to have accepted the philosophy of a European family of aircraft, but we know that French finances are already strained by the current aircraft programme. Alternatively they may propose a smaller aircraft of some 100 seats capacity, and this will have to be considered on its merits.

Manufacturing considerations

34. The BAC 2-11 would be designed and built by BAC at Weybridge where a sharp rundown of design work is threatened on completion of the BAC 1-11. All things being equal, we should aim to maintain this team, since it is the only one which has achieved real success in the major civil aircraft field. However, in the absence of the BAC 2-11 we might employ the nucleus of the team in preliminary studies to establish the feasibility and economics of a minibus concept (at a cost in the order of £1-2M a year). The Trident 3B would be designed and built by HSA at Hatfield. Without it there would be a shortage of work at this factory until the airbus gets underway. HSA might decide to close production there (and build the Airbus at Caestor) in which case there would be several thousand redundancies at Hatfield during the next 12 months, starting immediately.

Balance of Payments

35. A summary of the balance of payments implications is given in Table IV below including figures for the devaluation forecast of 100 total sales for the BAC 2-11 (including BEA). The totals show the very large positive balance if the BAC 2-11 fleet were chosen, and the significant deficit if BEA were left to adopt the "existing type" fleet.
TABLE IV
FOREIGN EXCHANGE ACCOUNT
(ALL COSTS AT CURRENT PRICES DISCOUNTED TO 1968/9 AND INCURRED BEFORE 1977/8).

<table>
<thead>
<tr>
<th>BAC 2-11</th>
<th>Trident 3B (Reduced Buy)</th>
<th>Existing Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 sales</td>
<td>150 sales</td>
<td>200 sales</td>
</tr>
<tr>
<td>£M</td>
<td>£M</td>
<td>£M</td>
</tr>
<tr>
<td>+12</td>
<td>+12</td>
<td>+12</td>
</tr>
<tr>
<td>+186</td>
<td>+307</td>
<td>+436</td>
</tr>
<tr>
<td>+171</td>
<td>+284</td>
<td>+405</td>
</tr>
</tbody>
</table>

Notes:
1. Figures for the import content of the domestic production of each fleet include airbuses in excess of the minimum requirement of 15 since this is the least number needed before 1977/78 for any of the fleets.
2. The addition shown to BEA's foreign exchange earnings arises because BEA's overall results would be improved comparatively with the BAC 2-11 fleet, both because foreign travellers are expected to prefer it with its quieter engines and because of its somewhat lower costs abroad in relation to capacity.
3. In the figures account is taken of the expected import saving element in sales to United Kingdom independent airlines. For example, the BAC 2-11 figure of £307M is based on expected export and import saving sales (with spares) of 116 aircraft (on top of which are 34 home sales to BEA, making 150 in all).

Aircraft noise
36. The noise characteristics of the aircraft under consideration are set out in Annex C. The BAC 2-11 and the Airbus are the only two types which would incorporate advanced technology engines, intrinsically much quieter than those in use now. The Trident 3B, like the Boeing 727-200, is not significantly different from current aircraft.
37. If BEA buy the BAC 2-11 in the numbers they propose, by 1973 something like 40% of BEA's movements to the London airports or about 16% of the total of all airlines, would be with these quieter engines. Similarly, maximum deployment of the airbus would have attraction from this point of view. Existing types of aircraft, or 'stretched' versions of them, would precede the new noise certification scheme and at least initially, not be affected by it. It has to be recognised, however, that noise suppression will have growing importance during the lifetime of the aircraft now to be ordered and it is possible that the Trident 3-B which, like the Boeing 727, is well above the criteria to be applied, will have to be re-engined or retired well before the end of its service life.

38. BEA are well aware of the advantages to them of quieter engines, and have assumed that they would obtain a higher utilisation of the quieter BAC 2-11, especially at night, than of the Trident 3-B. BEA are also aware of the danger of restrictions on the Trident 3-B and Sir Anthony Milward has made it clear that, if he is compelled to take it, he will want a guarantee that it will be exempt from the noise certification scheme. Clearly no such guarantee can be given and it may be necessary instead to promise here also to make good any losses incurred as a result of noise policy.

39. In addition to the advantage to BEA, an attempt has been made to evaluate the amenity benefit of the BAC 2-11 to the public. At busy airports, like Heathrow which is BEA's main base and where there is a high rate of air transport landings and take-offs with a general high noise level and intermittent bursts of high intensity, the presence of some quiet aircraft will only marginally affect amenity nearby. At less busy airports the relative importance of some quieter aircraft will be greater but the loss of amenity due to noise at those places is, in total, very much less. Furthermore the number of movements that BEA will make with their new aircraft at these places is small in relation to their activity at Heathrow. Overall, the value of the improvement in amenity near airports where BEA operates is considered to be marginal in relation to the other sums involved in choosing an aircraft for BEA but so far as there is an advantage it lies with the BAC 2-11.

BEA's position

40. Finally, it is necessary to have regard to BEA's position in all this. By refusing their first choice, the Boeing 727 and 737, the Government have already once overruled their judgment. If now HMG refuse to make the BAC 2-11 available against their considered preference (and furthermore insist on reducing the number of Trident 3-3s below what they regard as the optimum) HMG's judgment will have been substituted for that of the BEA Board. BEA is a national asset and HMG are bound to attach importance to their success in carrying out their statutory responsibility to provide an efficient and economic airline.

41. On the other hand the BAC 2-11 had not been conceived at the time BEA were refused permission to buy Boeing aircraft. The alternatives under consideration then were much less expensive in launching aid than the BAC 2-11 and it was these smaller sums the Government was prepared to pay when it made its decision. While the BAC 2-11 fleet gives the best internal rate of return on BEA's investment on their
assessment none of the fleets of British aircraft examined by BEA ensures an 8% a year return on capital invested in BEA, even after devaluation, the criterion laid down in the recent White Paper on financial objectives for the nationalised industries as the minimum return on new investment.

**Summing-up**

42. While the figures in the tables in this paper are reasonably reliable as a guide to the relative values of the fleets considered they are not entirely solid in absolute terms. In particular, the total capacity in aircraft the airline needs to meet forecast traffic demand cannot be certain and, indeed, could be influenced by the conclusions of the Edwards Committee. It is not necessary to decide the precise numbers of aircraft to be purchased now. When the type to be bought has been chosen BEA would, in accordance with usual practice, place an initial order for fewer aircraft than they expect to need and take options, which may be turned into firm orders later, on additional aircraft.

43. There is no dispute that for BEA the BAC 2-11 is the best purchase; it presents the only worthwhile prospect of earnings from export enhanced since devaluation; that it is attractive from the point of view of noise; and that it is the only project wholly within our control that will provide a basis for Rolls-Royce's new technology engines. On the other hand this is the most expensive solution although these advantages might perhaps justify a heavy expenditure on launching costs if this were also desirable on industrial grounds. Against this has to be set the judgment of the Ministry of Technology that to develop the BAC 2-11 would seriously prejudice, if not even put an end to, the Airbus project and the prospects of an integrated European aircraft manufacture on which we are predicated our present policy for the aircraft industry and our future hopes of selling large civil aircraft in world markets.

44. If we do not proceed with the BAC 2-11 it would be possible to go to the other extreme, refuse to develop the Trident 3B and leave BEA with no alternative to making do with the existing types, i.e. Trident 2 and BAC 1-11/500. This, because we shall have no launching costs to meet, gives a relatively good present value for the whole investment, and would have the effect of maximising BEA's need for the Airbus. But it is not only financially less attractive to BEA than other courses but would leave them with more obsolescent and too small aircraft to meet the competition of airlines which are acquiring larger American aircraft and a very difficult transition to the Airbus.

45. Accordingly if we do not proceed with the BAC 2-11, the best alternative to be offered to BEA, in the view of the two Departments, is the Trident 3B. If that course is chosen it is necessary also to decide whether BEA should be allowed to acquire what they regard as the optimum "mix" of Tridents and airbuses, or whether, as the Ministry of Technology would wish, the number of Tridents should be kept to a reasonable minimum so as to maximise BEA's support for the Airbus. The reduced Trident fleet which has been considered is shown in Table II to leave BEA with a deficit after 10 years some £24M greater than would the full Trident fleet, and to have present value, as shown in
Table III, some £14M worse than that fleet. It could on the other hand lead BEA to order 31 airbuses instead of eighteen and the advantage of the larger seating capacity of these more economic aircraft would show increasingly in the later years outside the period surveyed by this paper.

46. If it were decided not to proceed with the BAC 2-11 the Ministry of Technology would propose a small study contract to cover preliminary design investigations into a minibus and with the aim of conserving the nucleus of a team at BAC, Weybridge, which would lead on such a project.

Board of Trade, S.W.1.
8th December, 1967.
B.E.A.'s ASSUMPTIONS

B.E.A. have based their calculations of the fleet they require on the main assumptions set out below.

1. Fleets are based on matching expected traffic growth, international and domestic. This is taken as 10\% falling to 8\% annually for international passenger traffic and at varying amounts, according to the fleet chosen, falling to 7\% for domestic traffic. Freight is assumed to increase at 20\% annually.

2. All jet operations as soon as possible are assumed on international routes and parity of equipment and opportunity with independent airlines is assumed for the 1970s on domestic routes.

3. The results assume actual anticipated cost and revenue for the first three-four years at expected fares and wage rates. In subsequent years fares and wage rates are assumed to move in parallel.

4. The results are much affected by the extent to which B.E.A. consider they will be short of capacity, or unable to operate matching services with their competitors, in the early years. All fleets, including the Boeing fleet originally asked for, would be expected to become profitable, though to differing extents.

5. The notional Boeing fleet assumes payment of Import Duty.

6. Adjustments for devaluation

(a) International fares: Passenger fares and cargo rates, expressed in sterling, have been raised by 12\% on average. It is assumed that an increase of 4\% in passenger fares in April, 1969, previously forecast, will not now take place. Mail rates have risen automatically by 14\% per cent but may be reduced by negotiation. It has been assumed that over the next 10 years the increase will average 10\%.

(b) Traffic: U.K. originating holiday traffic will be adversely affected in 1968/69 by the higher fares and holiday prices abroad, the maintenance of the £50 overseas travel allowance and uncertainty during the booking season of the effects of devaluation and the accompanying economic measures. On the other hand incoming tourist traffic and business traffic is expected to be increased. Overall international passenger traffic in 1968/69 is now forecast to be only 3\% more than in 1967/68; 6\% less than was forecast before devaluation. It is expected to recover to the rate previously forecast by 1971/72 and to continue as in the pre-devaluation forecast until 1977/78. No change in the previous forecasts for international cargo and mail are expected; increased carriage of exports being offset by reduced carriage of imports.
Board of Trade Comment

B.E.A.'s traffic forecasts made before devaluation are considered reasonable though cautious. Their cost and revenue figures are more open to doubt in detail, but it is considered that in the earlier years they indicate fairly the likely trends with each fleet and the relativities between them.

The adjustments that B.E.A. have made to take account of the effects of devaluation seem to be pessimistic. No traffic increase has been forecast in the 1970s from the higher personal disposable income per head, after allowing for price changes, that will result from the success of devaluation and the Government's other economic policies. B.E.A. agree that if their traffic grows faster by one per cent a year after 1971/2, as a result of devaluation, the net present value to them of the additional traffic, after deducting the cost of carrying it, is about £7 million. Furthermore, the assumption that an increase in 1969 in European international fares to meet rising costs will not occur and that fares will continue to lag behind costs for a decade without affecting the volume of traffic must be questionable. The net present value of the fare adjustment, or the traffic generated without it, might be about £25 million.

The financial consequences of these assumptions are substantial but may not materially affect the differences between the fleets.
ANNEX B

Treasury Funding of aircraft industry and B.E.A.

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<td>106</td>
<td>96</td>
<td>84</td>
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</table>

(1) New borrowing by B.E.A. less payment of interest.
If B.E.A. is relieved of some part of the interest payable, then new borrowing is reduced by the same amount. The above figures would, therefore, remain unchanged.

(2) If the BAC 2-11 is rejected, a study contract for a "Minibus" should be placed, at a cost of, say, £1M. in 1968/9 and rising to £2M. per year thereafter.
## Estimated Noise Levels of Aircraft Considered

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<th>Aircraft with existing engines</th>
<th>Effective PNdB</th>
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<tr>
<td></td>
<td>Flyover 4 statute miles from take off, throttle back to 500 ft./min. climb, 1,000 st.miles range</td>
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<tr>
<td>Trident 5-B</td>
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<tr>
<td>Boeing 727/200</td>
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<tr>
<td>Air. B. 11/500</td>
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</tr>
<tr>
<td>Trident 2-E</td>
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<tr>
<td>Aircraft with new technology engines (RB207 or 211)</td>
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</tr>
<tr>
<td></td>
<td>Flyover 4 statute miles from take off, throttle back to 500 ft./min. climb, 1,000 st.miles range</td>
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<td>DC 2-11</td>
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<td>Airbus</td>
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12th December, 1967

CABINET

BRITISH EUROPEAN AIRWAYS RE-EQUIPMENT

Memorandum by the Minister of Technology

Failures of past policy

The choice of aircraft for British European Airways (BEA) involves major problems of aircraft industry policy. Too often in the past we have embarked on civil projects without adequate appraisal of market or economic justification; aircraft have been designed to meet the needs of British users, with no sufficient base of firm airline commitments; costs have escalated. The result has been disappointing sales and a failure to recover both industry’s and the Government’s investment. The VC.10 and Trident are examples of this policy.

The importance of an assured market

1. We should not start another major civil aircraft project unless there is an assured market, in terms of some foreign airline commitment, and prospects of a worth-while return on the investment.

The growing impact of United States competition

2. American competition must be a major factor in our calculations. They have the largest home market in the world, and their industry produces 80 per cent of aircraft outside Russia. Their companies insist on securing commitments from two or three major airlines before they start a new project. They were able to brush aside competition from the VC.10 and Trident, and have been able to restrict even the BAe 1-11 so far to about a fifth of the market, although it was first in the field, some 24 months earlier than the Douglas DC.9 and 46 months earlier than the Boeing 737, its two rivals.

Why we adopted a European aircraft policy

4. There is little chance in future of any European country meeting this challenge alone, and the arguments point inexorably towards European co-operation if we are to avoid American domination. The combined domestic market in Europe, though still substantially smaller than that in America, is potentially big enough to sustain a competitive aircraft industry.
5. The total Western World demand for civil aircraft from 1967 to 1976 is estimated both here and in America at some £15,000 million, of which, a properly organised European aircraft industry supported by co-ordinated European purchasing policies could obtain more than one-third. The United Kingdom part of this European share could be a half, or some £2,750 million. This compares with about £1,500 million worth of orders which we might expect to secure in the light of past achievement by the United Kingdom industry going it alone.

6. Therefore the best long term future for the British aircraft industry, and the best sure outlet for Rolls Royce engines, lies in co-operation with Europe. This in turn will strengthen engine sales prospects in the United States of America; Rolls Royce itself could not expect to survive without a European airframe industry.

The criteria laid down for the Airbus

7. It was on this basis that the Cabinet decided to enter on the first stage of the Airbus. The Cabinet rightly laid down conditions as to use of a Rolls Royce engine, with the assured orders from the French, German and British national airlines, and carefully established prospects of a wider market.

Progress report on Airbus

8. The first stage is going reasonably well; the framework of industrial co-operation is taking shape, and, though it is too early yet for firm estimates, the sales prospects remain hopeful. It is quite untrue to say that Lufthansa have decided not to buy the Airbus; under the terms of the international Agreement, each Government has until the middle of next year to secure a commitment from its national airline.

Devaluation marginally improves Airbus prospects

9. Though devaluation will make the Airbus dearer for BEA, it should make it cheaper in overseas markets, and thus more likely to succeed. British equipment for the aircraft will also now be more competitive.

Our European policy is the right one

10. From all this, I conclude that:

(a) the European policy that we have embarked on is the right one;

(b) after the Airbus, our next major project should be cast in the same mould, and meet similar criteria. This almost certainly points towards a 200 seat aircraft of advanced design, entering service in the second half of the 1970s and aimed at a later, bigger, and more secure market than the BAC.2-11.
The case against the BAC 2-11

11. Our choice of aircraft for BEA must be consistent with this policy. The BAC 2-11 runs counter to it, and suffers from the following drawbacks:

(a) **BAC 2-11 will prejudice Airbus;**
    it is likely to reduce orders for the Airbus and jeopardise that project. If there is no European Airbus, BEA will have to buy an American one in the late 1970s;

(b) **BAC 2-11 will prejudice Rolls/Snefma link;**
    it will, by endangering the Airbus, put at risk the collaboration which is being built up between Rolls Royce and Snefma on the basis of the RB 207 airbus engine, and which is aimed at breaking the Snefma/Pratt and Whitney connection, and thus at preventing the domination of the European market by American engines;

(c) **BAC 2-11 export prospects very uncertain;**
    the project would be a gamble. If BAC's estimates were right, there would be no need for 90 per cent Government launching aid. Export sales are 5 to 10 years away, and there must be considerable doubt whether the price advantage now offered by devaluation will survive so long; the aircraft may prove unable to break the hold on world markets of the Boeing 727/200, which goes into service next year; to the extent that it looks likely to succeed, it will impel the Americans to build a rival (perhaps an improvement of the 727/200), which could get on the market by 1973 or 1974. The BAC 2-11 would not be available in quantity for export before that time, because the bulk of the first two years' production would be required by BEA. It would thus not be substantially ahead in world markets;

(d) **BAC 2-11 involves heavy public expenditure;**
    launching costs to the Exchequer would be an open-ended commitment of some £120 million compared with a maximum commitment of some £15 million for the Trident 3B. This would mean some £20 million per year extra at a time when there is heavy pressure to restrain Government expenditure. The attached table shows the implied preference or subsidy rates involved in the project.

(e) **BAC offer on launching costs is not serious;**
    the recent offer by the British Aircraft Corporation to contribute some £7.5 million does not affect the picture significantly. On the formula which they have offered, their contribution would be recovered over the BEA order and there would be no ceiling on the Government contribution. Nor are BAC yet prepared to quote a firm price for the aircraft. They are therefore not at risk;
Financial advantage of BAC.2-11 to BEA is within the margin of error
BEA’s earnings with the BAC.2-11 would be greater, but only by some 1 per cent or 2 per cent as compared with the Trident over the 10 years to 1978.

Rolls Royce’s Interests

12. Rolls Royce need to have an application for their new technology engines. This is provided by the Airbus. If we launch the BAC.2-11 the French may -

(a) press to return to the American JT.9D engine, which they have wanted all along, on the grounds that development of the RB.211 might imperil the timely development of the Airbus engine;

(b) in the last resort, withdraw from partnership with us, on the grounds that we have launched a competing aircraft and engine, and form a new partnership within EEC, probably with the Germans and Italians, thus effectively excluding us from European civil aircraft for the foreseeable future.

Devaluation points towards the Trident 3B

13. Devaluation -

(a) makes the Airbus project marginally more attractive, and hence makes less desirable any competition to it;

(b) improves the prospects of Rolls Royce winning the competition with the RB.211 engine for the American Airbuses, and, therefore, reduces the need for the BAC.2-11 as a means for launching the engine. Development of the engine for the BAC.2-11, so far from preceding and therefore helping, might conflict with the development of the engine for the American Airbuses;

(c) makes the Trident 3B at least as economical for BEA as the Boeing 727/200;

(d) calls for a more stringent review of public expenditure: the fleet with Trident 3B will be some £79 million cheaper over the five year period to 1971-2 than the fleet with BAC.2-11.

Case for the Trident 3B

14. The Trident 3B -

(a) will be available at least a year earlier than the BAC.2-11;

(b) will be at least as economic in operating costs as the Boeing 727/200;
(c) is the cheapest way of providing BEA with a satisfactory aircraft. It will cost the Exchequer some £79 million less over five years to 1971-72 than BAC. 2-11;

(d) will cost a maximum of £15 million to launch, with Hawker Siddeley Aircraft (HSA) carrying the risk of excess costs, compared with the open-ended commitment of £120 million for the BAC. 2-11;

(e) has some, even though small, export/import saving prospects;

(f) will have similar noise characteristics to the Boeing 727/200;

(g) will enable BEA to achieve savings, both in pilot training and operation, from commonality with other Trident fleets.

15. BEA need a decision urgently. Both BAC and Hawker Siddeley have been keeping open our option by continuing design work on the BAC. 2-11 and Trident 3B at their own expense. They will not continue to do so. We must therefore take a decision now.

16. I accordingly invite my colleagues to agree that, if BEA re-equipment is to go beyond their existing types, it should be on the basis of a minimum buy of Trident 3Bs.

A. W. B.

Ministry of Technology, S.W.1.

11th December, 1967
ANNEX

BAC. 2-11

A. Implied Subsidies

The table below gives the Government loss (i.e., launching cost minus recoveries from sales) expressed as a percentage of export/import saving. For example, if 150 BAC. 2-lls are sold the discounted loss (at £46 million) will be 18 per cent of the net foreign exchange benefit (£258 million). There is hence an implied subsidy of 18 per cent. All figures are discounted and allow for savings achieved by not having Trident 3B.

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<thead>
<tr>
<th>Sales</th>
<th>100 sales</th>
<th>150 sales</th>
<th>200 sales</th>
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<tr>
<td></td>
<td>37% (20%)</td>
<td>18% (9%)</td>
<td>10% (4%)</td>
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</table>

B. Implied Preferences

The table below gives the percentage by which the national resources used exceed the foreign exchange benefit (by export earnings or import saving). For example, if 150 BAC. 2-lls are sold, export earning/import saving would be some £284 million. The national resources used would be some £345 million, i.e., 21 per cent higher. All figures are discounted.

<table>
<thead>
<tr>
<th>Sales</th>
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<td></td>
<td>41% (26%)</td>
<td>21% (15%)</td>
<td>11% (3%)</td>
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</table>

NOTES:

The figures in brackets assume that the basic cost of launching the RB. 211 engine is borne by an American Airbus.

BEA is assumed to buy 34 BAC. 2-lls in all cases.

The implied preference or subsidy now acceptable is, of course, less than it was before devaluation.
13th December, 1967

CABINET

PUBLIC EXPENDITURE

Note by the Prime Minister

It will be clear to my colleagues that the proposals contained in the latter part of the attached paper (C(67) 193) must be seen in the context of the situation described in its first three paragraphs. I therefore think it right to circulate the whole paper, although the sensitivity of the information contained in those paragraphs is such that the stability of sterling could well depend upon that information being imparted to no-one save the recipients of the paper. These are the members of the Cabinet, and the Ministers in charge of the main spending Departments who are not in the Cabinet, to whom the memorandum is being circulated on my instructions under TOP SECRET cover, together with an extra copy for the eyes of their Permanent Secretaries only. It is, I repeat, imperative that the existence and contents of this memorandum should not be disclosed to any person other than those I have indicated above, and that its safe keeping be assured accordingly.

H. W.

10 Downing Street, S. W. 1.

13th December, 1967

Distribution:

Members of the Cabinet
Chief Whip
Minister of Overseas Development
Minister of Health
Minister of Social Security
Postmaster General
Minister of Public Building and Works
CABINET

PUBLIC EXPENDITURE

Memorandum by the Chancellor of the Exchequer

The economic situation remains extremely menacing. The November trade figures were the worst we have ever had. In part this was due to dock disruption, but in part also it was due to an underlying deterioration of export performance, which started in July and was gathering momentum at least up to devaluation.

2. Devaluation, however, will not correct this situation in the short-term. The reverse is indeed likely. The deterioration in the terms of trade will bite more quickly than export orders will build up. Over the first half of 1968, we cannot therefore expect favourable trade figures.

3. A reasonable pre-devaluation expectation was that we could be carried through this difficult period by the reflux of funds (and the consequent build up of our reserves) which would follow from sterling becoming a cheap currency and London offering very high short-term interest rates. This has not happened. Sterling is cheap but it has not become attractive. And the effect of the 8 per cent bank rate is being more than nullified by the high forward premiums. In the two weeks following devaluation we gained considerably less than we lost on the Friday before it took place. The massive losses of the rest of November remain unrequited. And since the beginning of this month we have again begun to lose reserves.

4. It is against this background that I put certain general public expenditure considerations before the Cabinet. The Supply Estimates for 1968-69 as submitted to the Treasury provide for an increase of 11.8 per cent above this year's figure. Additional expenditure arising out of devaluation will certainly tip the increase over 12 per cent. In any event the rate of increase would still be substantially the highest since that produced by the Korean War. The 1963-64 increase, which was part of the bonanza producing the £800 million deficit, was the nearest rival with an increase of 9.4 per cent. Last year's figure, which, in apparently much easier circumstances, produced a chorus of criticism, was 8.5 per cent.
5. The announcement in February (when it would have to take place) of a projected increase of 12 per cent would in my view create a totally untenable situation both with internal and external opinion. This announcement would coincide with the next discussion with the IMF, and very likely also, in the absence of any measures to restore confidence, with the need to make a substantial drawing on the stand-by credit. In these circumstances, while the assumptions on which they were based would remain false, the fears aroused by the Letter of Intent might become only too real.

6. Nor does the menace of this rate of increase lie only in what people will think of it. It lies also in what it means in terms of resources. To make devaluation work we need to shift resources of about £900 million. (This is higher than earlier estimates which included no figure for increased investment. I think this should be at least £100 million. The remainder is made up of £500 million for improvement in the balance of payments - which is the absolute minimum - and £300 million for deteriorating terms of trade.) This means that nearly all the extra resources we can hope to produce in 1968 will be needed for one of these three purposes. The Economic Advisers current estimate is that these will also apply in very large part to 1969. Any increase in personal consumption for next year, and any substantial increase for 1969, given the present public expenditure programme, is therefore ruled out.

7. For many the position would be worse than this. Improving standards are inevitable for those who will be brought back into employment or who are now somewhat underemployed but will in future work more overtime. The Government is also committed to protect the most vulnerable sections of the community. For the majority at present in full-time employment the prospect might therefore be one of slightly falling living standards for up to 2 years to come, I doubt if this is politically tenable.

8. We must therefore in my view look at the main areas of public expenditure without being bound by past rigidities and commitments. Unless we do this neither the economy nor the Government will recover. This fresh look should apply equally to defence and civil spending. We could not hope to secure approval for a package which regarded present defence assumptions and commitments as inviolable. Equally there can be no question of defence carrying the whole burden.

9. In both fields, however, we shall need to go for savings which are clearly identifiable and not merely parings down (which will not carry conviction) within the framework of existing policies. Here again the needs of confidence are buttressed by those of the resources situation. Whatever we do we will still be left with a formidable increase in expenditure for 1968-69. This can in my view only be containable if we have already announced changes which will mean bigger savings in the succeeding years. And such savings as we make for 1968-69 must not, from the resources point of view, involve pushing expenditure back into the subsequent year. On the contrary we shall need more and not less elbow-room in that year, for 1969-70 is bound to be a year with considerable pressures for a reasonable increase in personal consumption.
10. There would clearly be disadvantages in trying to rush decisions before Christmas. I hope the reserves position can be held for them to be made in early January. But I thought it wrong to allow the Cabinet to disperse without these basic considerations before it.

R.H.J.

Treasury Chambers, S. W. 1.
13th December, 1967
14th December, 1967

CABINET

SOUTH AFRICA: MARITIME DEFENCE SUPPLIES

Note by the Deputy Secretary of the Cabinet

As agreed at Cabinet (CC(67) 70th Conclusions) this morning I attach* for the information of Ministers, who have not already seen it, the memorandum by the Secretary of State for Foreign Affairs and the Secretary of State for Defence on South Africa: Maritime Defence Supplies.

(Signed) W.A. NIELD

Cabinet Office, S.W.1.

14th December, 1967

*Not attached for recipients of CPD(67) 95.
C(67) 195

15th December, 1967

CABINET

INDUSTRIAL EXPANSION BILL: DRAFT WHITE PAPER

Memorandum by the Secretary of State for Economic Affairs

A meeting of Ministers under the Chairmanship of the First Secretary of State considered, on 12th December, a draft of the White Paper which had been revised to allow for the different outlook since devaluation. I attach a revised text of the White Paper which takes account of points raised during the Ministers' discussions. The text includes no reference to Concorde, since it has not yet been decided whether this will be handled under the Bill.

2. I was invited by the Cabinet on 9th November (CC(67) 64th Conclusions, Minute 4) to consider further with the Minister of Technology and the Chief Secretary, Treasury, the limit to be incorporated in the Industrial Expansion Bill on expenditure other than Cunard, Concorde and the National Research Development Corporation. There are foreseeable requirements which might lead us to commit up to £105 million by the end of 1968 in support of the airframe merger, the aluminium smelting project, the acquisition of Beagle, and a merger in the computer industry. Other schemes are not yet firm. We are agreed that it would be reasonable to provide in the Bill for an initial limit of £100 million, with power to increase this by Order to an amount not exceeding £150 million.

3. I recommend that we should make provisions on these lines in the Bill.

P.S.

Department of Economic Affairs, S.W.1.

15th December, 1967
The Queen's Speech announced the Government's intention to introduce legislation to extend their ability to assist financially in the modernisations and technological advance of industry and in the expansion of its capacity.

2. During the subsequent debate the Government explained that these provisions would not be used to displace existing sources of finance available to companies from commercial sources or from general schemes of fiscal or other incentives. They were needed to enable the Government to help projects which were in the national economic interest but which, because of a divergence between national and private costs and benefits, especially in the short term, could not be expected to go ahead solely on the basis of finance from existing sources. This measure is needed to launch successful projects in co-operation with private industry, the legislation will not confer any compulsory powers.

3. Specific projects in the private sector have in fact received special support from successive Governments in the past. It is generally recognised here and in other advanced industrial countries that cases of this kind will continue to arise.

4. Since November 18th, the Government have been reviewing the need for additional measures in the light of the new situation created by devaluation. Devaluation should encourage investment in British industry and, in particular, in those industries whose opportunities for increased exports and import saving have been enhanced; although particular projects that might otherwise have needed the stimulus and assistance of the Industrial Expansion Bill may, in these new circumstances, now proceed without Government help, the main reasons for the Bill are unchanged by devaluation.
The need for wider powers

5. First, there is the need for the more rapid application of advanced technology in industry. The Ministry of Technology has wide powers to support research and technological development but there is very little scope for supporting the exploitation of results. If the Government are to play their full part in industrial expansion which technological development now makes possible, they must be able to operate more directly and more flexibly in support of production itself.

6. Second, there are currently a number of cases where Government financial support for industry is contemplated and the approval of Parliament will be required. In the absence of new general legislation, separate Bills would be necessary for the acquisition of the Beagle Aircraft Company, for further finance for the reorganisation of shipbuilding, for authorising an additional loan for the completion of the Queen Elizabeth II, and to provide additional capital for the National Research Development Corporation. The Government are also considering proposals for aluminium smelting which, under present arrangements, would require separate legislation to authorise financial participation.

7. Third, the Government is concerned not only with legislative authority for proposals which have already been worked out with industry or which are under negotiation but with the ability to respond promptly to further needs as they emerge. There has been and is likely to continue to be a succession of cases requiring Government help. The timing of financial assistance will be of critical importance in some of these cases.

8. The fourth consideration follows from this fact. It is time to establish a rigorous, independent and consistent system of appraisal for these cases to ensure that Government help is provided fairly and economically. At the same time, provision
should be made for more effective and rapid Parliamentary scrutiny of individual projects.

An Industrial Expansion Bill

9. In order to meet these needs, the Government propose to introduce legislation to authorise the Minister of Technology and other Ministers with responsibilities for industry to provide direct assistance to projects designed to promote efficiency; to support technological advance; or to create, expand or sustain productive capacity. 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 legislation would enable the Minister to support the design, development and production of other products, in addition to civil aircraft.

10. The Minister concerned, with the consent of the Treasury, would be empowered to give financial support to agreed industrial investment schemes which might, according to circumstances, take the form of loans, grants, guarantees, the underwriting of losses or the subscription of share capital. 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.

11. The Bill will not confer any compulsory powers, either directly or indirectly. For the Government to use compulsion would clearly not accord with their purpose of launching successful projects in co-operation with private industry. It follows that the Bill will 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. An object of a Government shareholding in certain projects would be to provide for a return to the Exchequer if the
profits justified it without imposing too great a burden of fixed interest debt at the outset. In some circumstances this might be achieved by a preference shareholding; in others an investment in ordinary shares might be more suitable.

12. The powers under the new legislation would be available to support eligible projects in any industry (including services) in the private sector. The Government do not intend to use the new legislation where the same object could be achieved under existing provisions relating to the industry in question, for example agriculture (to the extent that existing legislation provides for Government support). Nor does the Government intend to take action under this Bill which would duplicate work already in the province of the Industrial Reorganisation Corporation. The Corporation has authority under Section 2(1)(b) of its Act to assist the establishment or development of individual enterprises, but the scope for action here is limited by the need to concentrate on the priority task of promoting industrial reorganisation.

13. The powers under the new legislation will be used only for projects which would not take place without Government support and where the Government judge it to be in the national interest to give that support. It is not intended to use them as a general substitute for investment grants in industries which do not qualify under the Industrial Development Act, 1966. Projects to be considered for support will be carefully selected and the provision of Government finance to them will be subject to no less stringent examination than that applied to investment in the private sector or in the nationalised industries. In the ordinary course, companies will continue to rely on their own resources, augmented by general schemes of fiscal and other incentives, or to secure support from commercial sources and existing financial institutions. The Government have no intention of displacing these sources of finance.
14. The Government will submit these projects to a comprehensive evaluation and an advisory committee will be set up, including members of the Industrial Reorganisation Corporation and the National Research Development Corporation and drawing on their staff, to which it will be the Government's general intention to refer individual projects for assessment and advice. The Advisory Committee will also be asked to consider whether any aspects of these projects involve unfair discrimination between firms and what action might be appropriate to meet this.

15. Inquiries into the needs of particular industries - normally by committee specially appointed by the Government but possibly carried out by other bodies such as the Economic Development Committees - may lead on occasion to recommendations for general schemes of support for the industry concerned, as distinct from support for individual projects. Where these recommendations are accepted, the responsible Minister may wish to set up an independent board to advise him on their detailed application and the Bill will enable this to be done. If the suggestion for the establishment of an industry board does not stem from some form of independent inquiry it will first be considered by the Advisory Committee.

16. The arrangements for evaluation and advice will be reviewed in the light of experience.

17. In order to ensure that schemes put forward under the new legislation are subject to proper scrutiny by Parliament, the Bill will provide that no Minister will be allowed to make use of the new powers granted under it without first having to define the scheme or specific proposal in an Order laid before Parliament and obtaining the approval of the House of Commons for proceeding with it.

18. In exercising the powers under the new legislation, the Government will take full account of regional needs and pay due regard to international obligations.
Conclusion

49. The proposed measure is designed to deal with a number of schemes which are already well advanced. It is also required in order to provide machinery for helping desirable future schemes which involve industrial expansion and the more rapid application of technology.
15th December, 1967

CABINET

RACE RELATIONS LEGISLATION

Memorandum by the Secretary of State for the Home Department

Introduction

On 19th July, 1967, the Home Affairs Committee approved my predecessor's proposals to extend the Race Relations Act 1965 to employment, housing, insurance and credit facilities and to a wider range of public places. The Government's intention to introduce an amending Bill this Session was announced in The Queen's Speech.

Scope of the Bill

2. Since the Home Affairs Committee discussion, there have been extensive interdepartmental discussions at official level and a number of informal meetings between interested Ministers. In view of the controversial and novel nature of some of the proposals, I think it right to consult my colleagues at this stage about the scope of the Bill.

3. I accordingly attach a summary of the provisions in Annex I. Their main effect would be:

(a) To make discrimination on the grounds of colour, race, ethnic or national origin unlawful in places which are open to the public at large or in the provision of services which are available to the public at large.

(b) To make discrimination by an employer or a trade union unlawful. Domestic employment in a private household and, initially, employment by employers with ten or less employees, will be exempt. A special provision will enable an employer to refuse temporarily to recruit employees of a particular race for the purpose of preserving a balance between different racial groups.

(c) To make discrimination in disposing of a house or other property unlawful. The Bill will apply to all local authority housing, to those who make a business of selling and letting property and to the private owner-occupier, with certain exemptions for shared accommodation and lodgings.

(d) To make discrimination in the provision of insurance and credit facilities unlawful, with certain safeguards for the exercise of commercial judgment.
(c) To make all discriminatory advertisements unlawful.

(f) To make special provision in the field of employment for industry to establish its own voluntary machinery to attempt conciliation in the first instance.

(g) To strengthen the role and status of the Race Relations Board and to empower it to seek injunctions or damages in specially designated county courts sitting with assessors in England and Wales (with corresponding arrangements in Scotland).

(h) To bind the Crown, with appropriate exceptions.

(i) To replace the National Committee for Commonwealth Immigrants by a statutory board.

**Enforcement**

4. Many of the provisions set out in Annex I will be difficult to enforce. But the enforcement of sanctions is not the primary aim of legislation in the delicate field of race relations. Its main purpose is more general: to proclaim that racial discrimination is not in the public interest and that the Government are opposed to it on grounds of public policy; to educate public opinion; to lend support to those who do not want to discriminate but are under pressure from others to do so; and to make available effective conciliation machinery.

5. To achieve these aims the legislation must be as comprehensive as possible. If we avoid the central issues because they are sensitive and controversial, many people including the coloured communities themselves, will doubt our sincerity. We shall then have the worst of both worlds.

6. I consider that most complaints of discrimination under the Bill will be settled by conciliation and that few of them will reach the courts. There will, however, be some cases where conciliation fails and where there is clear evidence of discrimination, perhaps accompanied by financial loss. For them a remedy should be available in the courts, both as a matter of justice and as an ultimate sanction to give the necessary backing to the conciliation procedures of the Race Relations Board and industry.

7. The enforcement arrangements I am proposing differ from those under the existing Act. Discrimination will be defined to include a single act, and not only a course of conduct. The power to seek an injunction in the courts, which at present rests with the Attorney-General in England and Wales, would instead rest with the Race Relations Board itself which would be empowered to seek both injunctions and damages on behalf of complainants in specially designated county courts sitting with assessors. Individual plaintiffs would not be able to institute proceedings before the courts. The county court limit on damages would not apply. I hope it will be possible to make comparable arrangements in Scotland.
The Private Owner-occupier

3. Probably the most difficult and controversial issue is the proposal to include the sale of a house by a private owner-occupier in the provisions of the Bill, and it is in respect of this that I seek my colleagues' views. This will be attacked by those who will consider it unacceptable to restrict the right of an individual to dispose of his private property as he wishes. They will argue that people can have good reasons for deciding not to accept a particular offer for their house and that such people may feel that they will at the least attract adverse publicity, if nothing worse, in refusing an offer from a coloured person. It will be said that the legislation is entering the field of private and personal transactions and moving away from overt and public conduct, that the private citizen will be required to satisfy an outside body about a private transaction, that injunction procedures will seldom be effective and that damages will be difficult to quantify.

9. On the other hand, there is widespread agreement that the question of housing sales is the touchstone against which our genuineness in the field of race relations will be tested. About 50 per cent of all accommodation is owner-occupied and it is this type of property that the coloured communities most want. A big threat to community relations is the development of residential ghetto areas occupied not only by new immigrants but also by second generation coloured citizens of this country. Any measure we can take to prevent this development or to make it easier for those already in segregated areas of bad housing to move elsewhere will be valuable. Since most people obey the law, the inclusion of private housing in the new legislation would be an important contribution. I therefore propose that it should be included.

The Crown

10. I think it essential presentationally and politically that the Crown, both as an employer and as the provider of public services, should be seen to be bound in the Bill. There would be suitable safeguards for security and the nationality rules for the public services. I would also propose to exclude the Crown from court proceedings though there will no doubt be pressure not to do so.

Finance and Staff

11. Details of finance and staff are given in Annex II.

Conclusion

12. I think the principal weakness of the legislation is that enforcement in the courts will usually be difficult; but against this, the legislation must be comprehensive if it is to influence public opinion and must include a legal sanction if the procedures for conciliation are to have a chance to succeed. It is against this background that I invite my colleagues to endorse the proposals in the attached summary.

L. J. C.

Home Office, S.W.1.

15th December, 1967
Discrimination, as further defined in subsequent paragraphs, on the grounds of colour, race, ethnic or national origin will be unlawful.

2. The Bill will extend the present definition of discrimination as a course of conduct to include a single act of discrimination.

3. It will be unlawful for any person or organisation covered by the Bill to discriminate through an agent or to incite, coerce or seek to persuade another person to discriminate. It will be unlawful for an agent* to discriminate.

Places and Services open or available to the public at large

4. A person will be held to discriminate against another if, being the proprietor or manager of a place which is open to the public at large or to a recognised section of the public, he refuses or neglects to afford him on grounds of colour, race, ethnic or national origin access to the place in question or to any facilities or services in the like manner and on the like terms to those available to other members of the public.

5. The provision is to be wide enough to include:

(a) Places which offer food, drink and/or overnight accommodation to the public at large with an exception for establishments which provide sleeping accommodation for four persons or less and where facilities, other than means of access, are shared with the householder or proprietor.

(b) Places of entertainment or recreation, open to the public at large on payment or otherwise.

(c) Premises, vehicles, vessels or aircraft used for transport services available to the public.

* including estate agents. Agents for principals overseas will not be included. See paragraph 6 for a special provision about employment agencies.
(d) Persons and places offering goods, services or facilities to the public at large or to a particular section of the public, including services which are not offered at a particular place, e.g. mail order firms.

(e) Commercial undertakings offering goods and services to the public at large or to a particular section of the public.

(f) Places of public resort maintained by a local authority or other public authority.

(g) Places offered for hire to members of the public for their own functions.

Employment

6. An employer will be held to discriminate if he refuses on grounds of colour, race or ethnic or national origin to employ, or continue to employ, a person or class of persons or refuses or neglects to afford a person the same conditions of employment or opportunities of promotion as other employees in like circumstances.

7. A trade union or an employers' organisation will be held to discriminate if, on grounds of colour, race or ethnic or national origin, it refuses to admit persons, who are otherwise qualified, to membership or to the benefits of membership on equal terms with other members or fails to take action on behalf of a group of its members.

8. Notwithstanding any general provision about agents, an employment agency will be held to discriminate if, on grounds of colour, race or ethnic or national origin, it refuses to register persons who are suitable for employment of the type dealt with by the agency, or to submit them to such employment (whether or not in consequence of instructions from employers utilising the services of the agency) save where the employment is of an excepted kind.

9. The Bill will apply to all employment in Great Britain except domestic employment in a private household.
10. The Bill will not apply to employers with ten or less employees. It will contain a provision for amending or rescinding this figure by statutory instrument.

11. Existing statutory restrictions on the employment of aliens will be preserved.

12. Refusal to engage a person on grounds of colour, race or ethnic or national origin will not be regarded as unlawful discrimination by an employer if he can establish that, having regard to the racial composition of an existing labour force, his action was in order to preserve a balance between the different racial groups in that labour force and that he was not otherwise pursuing a discriminatory policy. (This provision should enable an employment exchange or employment agency to act on the instructions of an employer to whom it applies.)

Housing and other property

13. Subject to paragraph 14, a person disposing of housing or other property will be held to discriminate against another person if he refuses or neglects to afford him on grounds of colour, race or ethnic or national origin like treatment in the like manner and on the like terms to that afforded to other members of the public.

14. The Bill will apply to all the housing functions of local authorities, to the housing functions of New Towns Development Corporations, the Commission for the New Towns and the Scottish Special Housing Association and to the activities of Housing Associations.
Local authorities and these other bodies will be held to discriminate if in the discharge of their statutory functions they refuse or neglect to afford a person on grounds of colour, race, or ethnic or national origin like treatment in the like manner and on the like terms to that accorded to other members of the public.

15. Apart from an exemption for persons sharing accommodation with tenants or lodgers, the Bill will apply to all persons, including owner-occupiers, selling or letting property, including houses, flats, land and premises, such as shops and factories.

16. The exemption will apply to the selling or letting of any living accommodation in which the vendor or lessor, or any member of his immediate family, remains in part occupation.
and shares any part (other than a part used for purposes of access only) with the other occupant. Where a person shares his house with lodgers or tenants, the exemption will only apply to those householders who accommodate not more than four lodgers or tenants.

Insurance

17. An insurer will be held to discriminate if, on grounds of colour, race or ethnic or national origin he:
   (a) refuses insurance cover which he is prepared to provide to other persons in like circumstances;
   (b) limits the extent of the cover to less than he is prepared to provide to other persons in like circumstances and;
   (c) requires a higher premium than he charges other persons for the same cover in like circumstances;

   unless, in the case of ordinary long-term insurance or industrial assurance (i.e. "life" insurance) he has reasonable grounds for supposing that persons of the race, ethnic or national origin of the applicant might create a risk that claims would arise at an earlier date than would other persons.

Credit Facilities

18. Persons or organisations holding themselves out as willing to lend to the general public will be held to discriminate if on grounds of colour, race, ethnic or national origin, they:
   (a) refuse to enter into financial transactions or to lend money which they would be prepared to lend to other persons in like circumstances;
   (b) refuse to fix the same terms and conditions as for other persons in like circumstances.

Advertisements

19. A person will be held to discriminate if he publishes or allows to be published any advertisements containing discriminatory conditions based on colour, race, ethnic or national origin.
20. As under the present Act, the Race Relations Board will be required to appoint such local conciliation committees as it considers necessary. These committees will retain their existing functions in relation to all complaints of discrimination under the Bill other than those in employment. In addition the Board will be required to establish machinery which, in the opinion of the Home Secretary, will be competent to deal with cases which cannot be satisfactorily settled at the local level either by the conciliation committees or in employment cases, by appropriate voluntary conciliation machinery within industry.

21. The Board will be given powers:

(a) to direct a local conciliation committee as to which complaints or classes of complaints other than complaints in employment it should deal with;

(b) to perform conciliation functions on the same lines as a local conciliation committee either

(i) where a conciliation committee or the voluntary machinery within industry has failed to secure a settlement, or

(ii) where the Board itself decides to investigate a complaint other than a complaint in employment and has directed a conciliation committee accordingly;

*It is proposed that the following undertakings should be given during the passage of the Bill through Parliament:*

(a) At least three members of the Board will have experience of industrial relations and will be appointed after consultation with the C.B.I., the T.U.C. and the Minister of Labour.

(b) At least one member will have special knowledge of local authority housing and will be appointed after consultation with the Local Authority Associations and the Minister of Housing.

(c) The Home Secretary will ensure that the machinery of the Board is such that the members who deal with employment and housing cases will include those with special experience of industrial relations and of housing respectively.
(c) to make enquiries where it has reason to believe that discrimination is being practised (otherwise than on receipt of a specific complaint) and, where it appears to the Board that discrimination has occurred, to try to secure a settlement or to proceed further as provided by the Bill;

(d) to appoint assessors to assist it in the consideration of particular cases, such assessors to have special knowledge and experience as appropriate of the circumstances in which discrimination is alleged to have occurred and of relevant local circumstances.

22. Where the Board or a local conciliation committee receives a complaint of alleged discrimination by an employer, a trade union or an employers' organisation, it will be required to refer it to the Minister of Labour. The Minister will consider whether there is, in his opinion, any suitable voluntary conciliation machinery established by agreement between organisations of employers and organisations of workers which can appropriately consider the matter. If such suitable machinery exists, the Minister will refer the complaint to it. If no such machinery exists, the Minister will refer the case to the Board.

23. The voluntary machinery will make such enquiries as it thinks necessary with respect to the facts alleged in the complaint, and will endeavour to reach a settlement. If it is unable to reach a settlement within four weeks of receiving the complaint itself, or fails to reach agreement, it will report the facts to the Minister, at the same time informing him whether, in its opinion, discrimination within the terms of the Bill has taken place.

24. On receiving this report from the voluntary machinery the Minister of Labour will refer it to the Board.

25. Where in the opinion of the voluntary machinery there has been no discrimination, there will be no obligation on the Board to re-hear the case, and no automatic right for
the complainant to have his case re-heard. Where, however, the complainant alleges to the Board that the voluntary machinery had dealt inadequately with his complaint, either because it has not given him a fair hearing or because it has reached a conclusion not justified by the facts, it will be open to the Board, if it sees fit, to discuss the case with the voluntary machinery, to refer the complaint back to them for further consideration, or alternatively, to make its own investigations. If, after receiving a further report from the voluntary machinery or after making its own investigations, the Board shares the view that there has been no discrimination, it will attempt to satisfy the complainant of this. If he persists in his charge, the Board will tell him that the case is closed.

26. Where the voluntary machinery reports that it has been unable to reach agreement among itself or to reach a settlement when in its opinion discrimination has occurred, or where after further investigation (as provided for in paragraph 25 above) the Board itself reaches this conclusion despite a report to the contrary by the voluntary machinery, the Board will attempt to reach a settlement with the employer or trade union concerned. If it fails it may take further action as appropriate under the provisions of the Bill.

27. Where the Board or a local conciliation committee receive a complaint of alleged discrimination by a private employment agency, the Board will, if the complaint does not appear to involve discrimination by an employer, deal with the complaint through its own machinery for handling employment cases. Where the complaint appears to involve discrimination by an employer rather than by the agency, the Board will refer the complaint to the Minister of Labour who will refer it to any suitable voluntary machinery covering that employer.

28. If complaints are made direct to the Minister of Labour he will refer them to any suitable voluntary machinery or, failing that, to the Board. If complaints are made direct to the voluntary machinery they will be considered by it and the outcome reported to the Minister.
29. In England and Wales, enforcement will be through designated County Courts, the presiding judges sitting with two assessors selected from a panel appointed by the Lord Chancellor.

30. Individual plaintiffs will not be able to institute proceedings before the designated Courts. The power to do so will lie solely with the Race Relations Board. Where the Board can establish that discrimination has occurred in contravention of the Bill it will be empowered to seek from the Courts an injunction to restrain further acts of discrimination or such other injunction as may in the opinion of the Courts, be appropriate. It will also be empowered to seek damages on behalf of someone against whom discrimination has been established for provable loss directly resulting from the act of discrimination.

31. The designated Courts will have sole jurisdiction, with the normal rights of appeal. The County Court limit on damages will not apply.

32. Comparable arrangements in Scotland will be necessary.

Community Relations Board

33. The Home Secretary will be empowered to appoint a Community Relations Board to replace the National Committee for Commonwealth Immigrants. Its terms of reference will be

(a) to promote and co-ordinate on a national basis efforts to secure harmonious relations between people of different race, colour or ethnic or national origin within the community and, in particular to

(i) provide a comprehensive advisory service for local organisations concerned with community relations, and
(ii) provide an information service, training courses and conferences;

(b) to advise on questions referred to them by the Home Secretary and to make recommendations to him on matters which they consider should be brought to his attention, and

(c) to make such grants to assist such local organisations concerned with race relations as the Home Secretary may with the consent of the Treasury, approve.

34. The Board will have power, subject to the Home Secretary's approval, to appoint such advisory bodies for such purposes as it considers necessary.

The Crown

35. The Bill will bind the Crown except that it will not be open to the Race Relations Board to proceed against the Crown in the Courts. The Bill will preserve the nationality rules for the Civil Service, the Diplomatic Service and the Armed Forces and the Crown's discretion in dealing with cases where security is involved; and will provide special machinery for dealing with cases affecting the Public Services.

Research

36. The Bill will provide that the Home Secretary may conduct or assist other persons in conducting research into any matter connected with race relations and that any expenditure incurred with the consent of the Treasury will be defrayed out of moneys provided by Parliament.
FINANCE AND STAFF

In his memorandum to the Home Affairs Committee (H(67)74) my predecessor estimated that the effect of his proposals would be to increase the staff of the Race Relations Board to about eight officers at Headquarters, 15 conciliation officers in the field and appropriate supporting staff, and that its current budget of £60,000 a year might rise to about £150,000 - £175,000. This is still the best estimate but the Treasury have now agreed to carry out an O & M enquiry into the future organisation of the Board to meet its new responsibilities and more precise figures should be available in due course. The Minister of Labour estimates that the proposals will not involve any increase in his departmental staff beyond those already engaged on race relations work. It is not possible at this stage to estimate the additional cost of the proposed enforcement procedures through designated County Courts since this will depend on the number of cases coming to the Courts.
15th December, 1967

CABINET

THEATRES

Memorandum by the Secretary of State for the Home Department

On 27th November my predecessor circulated a memorandum (C(67) 186) on the question whether the Theatres Bill should prohibit the representation of living persons in stage plays. Since then:

(a) Mr. Strauss, who will be bringing in the Bill with Government help, has indicated in emphatic terms his opposition to any such provision. If the Government seek to move such a provision into the Bill the ensuing controversy will endanger the Bill this Session, as the sponsor would probably withdraw.

(b) On the other hand I have discussed with the Lord Chamberlain whether a general provision prohibiting the representation of living persons is needed if only for the purpose of protecting The Queen and members of the Royal Family. He would like to see a general protection included in the Bill - but not one limited to The Queen and the Royal Family.

(c) Lord Goodman, to whose proposals reference was made in paragraph 2 of C(67) 186, has now produced a rough draft clause. It would prohibit the representation of living persons, whether by name or implication, unless the subject had consented, or unless the reference was an authentic quotation from a work already published in the United Kingdom in some other medium, or unless the reference was to the subject's public office or public activities.

2. Lord Goodman's formulation does not satisfactorily solve the difficulties, and if there is to be a provision about living persons I would prefer a simple, if arbitrary, provision which would solve most of the problems, but not set out to solve all. This could take one of two forms:

(i) prohibition of the representation of a living person as a character in a play, whether by name or by implication, without his consent; or

(ii) prohibition of any reference, express or implied, in a play to a living person without his consent. Either could be extended to include persons recently dead as well as living persons.
The latter is needed if we are to aim for complete protection, because a living person can be injured in a play without being represented as a character in it. But so stern a prohibition would be open to the criticism that the new law would be more restrictive than the old, and we could hardly contemplate it. The main objection to (i), which is much less extreme, is that it departs substantially from the principle, to which the Select Committee attached importance, that the law should be the same for plays and books. Moreover, the inclusion of representation or reference by implication, although necessary, would lead to trials which would so much resemble trials of actions for defamation that in my view it would be better to rely on defamation.

3. An alternative course is to make no provision prohibiting the representation of living persons, but to make defamation in a play a ground for action for libel rather than for slander (as recommended by the Select Committee). This would remove the necessity for the plaintiff to prove that actual damage resulted to him from the presentation. If we follow the precedent of 1952, when defamation in broadcasting was treated as publication in a permanent form (and therefore a ground of action for libel rather than slander), defamation in a play will come within the field not only of civil but also of criminal libel. This would provide some protection, and without unduly restricting dramatic freedom, as the defence of fair comment on a matter of public interest is available.

4. I have reached the conclusion that the difficulties of a provision prohibiting the representation of living persons are such that we should not try to persuade Mr. Strauss to accept one in the Bill as introduced. (He would not do it anyway). We should, however, take into account the reactions of the House on Second Reading and if there is a general desire to include some provision to protect living persons we can consider the matter again. For the present the Bill would simply make defamation in plays a ground of action for libel. But Mr. Strauss will understand that there is likely to be pressure for the adoption of some prohibition of the representation of living persons, and he would be told that the Government are not to be taken as committed to rejecting this course or some other means of dealing with the matter at a later stage of the Bill.

L. J. C.

Home Office, S. W. 1.

15th December, 1967
CABINET

OIL PRICES: DEVALUATION AND SURCHARGE

Memorandum by the Minister of Power

Immediately after devaluation the oil companies informed my Department that their costs and the price of oil products would be affected. I requested them to make no changes until the effects of devaluation had been examined and a further review of the temporary Middle East surcharge had been undertaken. The companies expect a decision by 22nd December, i.e. within the month provided for in the early warning procedures.

2. Devaluation and the surcharge are quite distinct. The former will have a continuing effect on oil prices because of the large foreign exchange content in the cost of supplying oil; the latter is a short-term addition to oil prices to meet the additional costs arising from disruption of the normal pattern of supplies as a result of the Arab/Israel war and, in particular, from the closure of the Suez Canal. However, they need to be considered together in determining whether changes should be made in the current maximum prices of oil products.

Devaluation

3. In examining the effect of devaluation of oil prices I have taken a normal pre-crisis pattern of supplies, and have assumed pre-crisis freight rates. The United Kingdom market is supplied to the extent of 55 per cent by foreign companies, of whom Esso has far and away the largest market share (25 per cent of the total); and as to 45 per cent by Shell Mex-BP, of which Shell is 40 per cent British owned and BP wholly British owned. Devaluation affects companies differently according to the foreign exchange content of their costs. BP requires an increase of 0.6d, a gallon to offset devaluation, Shell 0.9d, Esso 0.9d, and the suppliers of the remaining 30 per cent of the market upwards of 1.0d. The average comes out at 0.9d a gallon or about £1 a ton.

4. This average is the amount by which I consider that we should allow pre-crisis oil prices to rise to offset the effects of devaluation. It is not possible to set different prices for different companies and it would be dangerous to pitch the price increase well below what the foreign companies need to meet their overseas payments commitments when we depend to the extent of 55 per cent on wholly foreign-owned suppliers. Even with an increase of 0.9d per gallon, many foreign companies will suffer by devaluation; by contrast BP (when supplies
return to normal) and to a lesser extent Shell, will gain by it and have their competitive position strengthened. But taking the United Kingdom market as a whole, an increase of 0.9d. would fairly reflect the effects of devaluation and would, I believe, be regarded as reasonable by the companies. It would also be in line with the prices at which Esso, Shell and BP, our principal suppliers, supply crude oil to their affiliates in Europe, an important consideration in dealing with the domestic price of an international commodity such as oil.

**Surcharge**

5. The surcharge stands at about £2 a ton. It was introduced specifically to meet the additional costs of maintaining oil supplies to this country during the period of disruption caused by the Arab/Israel war. Except in the case of Esso, the surcharge has not so far fully recovered the extra costs incurred by the companies and BP has been particularly badly hit. Nevertheless, with the reopening of short-haul Mediterranean sources of supply, costs are falling despite the continued closure of the Suez Canal and there is scope for reducing the surcharge.

6. My Department has examined with the companies the effects of the crisis on their costs up to 31st December, 1967, and their forecasts up to 31st March, 1968. The circumstances of the companies differ widely and to meet their additional crisis costs up to 31st March Esso would need about 20s. Od.; Shell a little less; BP about 45s. Od.; Mobil and the other suppliers of the remaining 30 per cent of our requirements upwards of 32s. 6d. These figures take account of recoveries to date. These estimates would in my opinion justify a surcharge of about 27s. 6d. a ton, a decrease of 16s. Od. from the present level. This should adequately cover the additional costs of Shell's and Esso's supplies though not of the remaining 50 per cent.

7. However, if we allow a surcharge of 27s. 6d. in addition to £1 a ton for devaluation, some increase in oil prices will be necessary. I have therefore considered whether the surcharge could be reduced further to £1 a ton without undue risk to supplies. This is, of course, entirely a matter of judgment; with the surcharge at £1, many suppliers would undoubtedly suffer by comparison with their pre-crisis position and might compare their treatment and opportunities unfavourably with their experience in Northern Europe where in general they are still recovering £2 a ton more than pre-crisis. Moreover, the companies plan to run down their stocks this winter more quickly than normally so as to get chartering costs down, a move that will also benefit our balance of payments although at some risk to our supplies. Nevertheless, it seems to me that this is a calculated risk which we should take so as to avoid any increase in oil prices over their present levels. In due course, prices should, of course, come down further when the surcharge is again reduced and finally eliminated.

8. There remains the question of product prices. My preference would be to leave them unchanged, particularly as the scope for variation is limited. But if my colleagues attach exceptional importance to even a small decrease in fuel oil price it would be possible to balance a decrease of 0.25d. per gallon on fuel oil by an increase of 1.0d. per gallon on motor spirit.
9. I invite the Cabinet:-

(i) To agree that maximum oil prices should remain unchanged, with a reduction of the surcharge to £1 a ton balanced by an increase of £1 on account of devaluation.

(ii) To note that I shall be announcing this decision on or before 22nd December.

R.W.M.

Ministry of Power, S.W.1.

19th December, 1967
Cabinet

Race Relations Legislation

Memorandum by the Minister of Labour

I wish to make suggestions on three points in the Home Secretary's paper (C(67) 196).

I Crown (Paragraph 10)

2. The Bill is to bind the Crown. Is it intended that this should cover the police? It hardly seems right to cover other services for which Ministers are responsible if the police (including the Metropolitan Police) are not covered.

3. If the Crown is to be bound it will be necessary to provide for special procedures for handling complaints. It would not be appropriate for me to handle employment complaints against other Ministers; and for complaints against Ministers who provide services a procedure modelled on that of the Parliamentary Commissioner would probably be appropriate.

4. To include procedural modifications in the Bill would weaken its impact. Would it not be preferable, therefore, for the Crown to submit its actions to the scrutiny of the Race Relations Board, not in the Bill, but by the more usual practice of a Government undertaking?

II Small Employers (Annex I, Paragraph 10)

5. I agree that the Bill should not apply initially to the smaller employers so as to give the machinery for handling complaints a chance to get run in. But would it not be desirable to make it clear to all employers that they will eventually be covered by providing, in the Bill, that the lower limit will be reduced to five employees after two years and removed altogether after three?

III Machinery for Handling Employment Complaints (Annex I, Paragraph 20)

6. It is essential that the machinery for handling employment complaints should have the confidence of industry, and in particular of the Confederation of British Industry and the Trades Union Congress. I think the best way of achieving this would be to appoint the President of the Industrial Court ex officio Vice-Chairman of the Board and to make him responsible for the machinery for handling employment complaints.

R. J. G.

Ministry of Labour, S.W.1.

19th December, 1967
20th December, 1967

CABINET

DOCKS: LONDON WEEKLY GUARANTEE

Note by the Minister of Labour

The Prices and Incomes Committee, who considered the attached memorandum today, invited me to circulate it to the Cabinet, and, in view of the urgency of the situation, to raise the matter at tomorrow's meeting.

R. J. G.

Ministry of Labour, S. W. 1

20th December, 1967
Memorandum by the Minister of Labour

I seek my colleagues' views as to whether or not we should attempt—by reference to the National Board for Prices and Incomes and by a direction under Section 15 of the Prices and Incomes Act, 1966—to delay further the implementation of the agreement reached last March for a weekly guarantee for registered dock workers in London of £17 (now £16).

Background

2. Last April, with the agreement of my colleagues (PI(67)30), I informed the London Modernisation Committee that the Government could not approve implementation of their local agreement reached in March for the introduction on decasualisation of a £17 weekly guarantee in London since, in the Government's view, it went beyond the Devlin recommendations for a £15 guarantee in other ports and negotiations on a suggested London differential of £1. I have re-affirmed this decision in the intervening period in reply to requests for reconsideration.

3. In view of this the London employers have, since decasualisation was implemented on 18th September, been voluntarily limiting the guarantee to £16, against mounting pressure from the unions both officially and unofficially for implementation of the agreed figure of £17.

4. Both the 'Transport and General Workers' Union (T.G.W.U.) and the National Amalgamated Stevedores and Dockers (N.A.S.D.) are now pressing for immediate implementation of the £17. The union leadership see militancy on this issue as the only way to prevent a further damaging challenge to their authority from the unofficial Liaison Committee, who have threatened unofficial action if the agreement is not implemented by 1st January. The T. & G.W.U. London Docks Committee have said that they will apply to their union's General Executive Council for plenary powers. In view of this the London employers have informed me that they intend to implement the agreement from 8th January. This cannot be prevented except by use of the Government's statutory powers.
5. At national level the T. & G.W.U. are backing the demand for a £17 guarantee in London. They have included it in a claim recently presented to the National Association of Port Employers (N.A.P.E.) together with demands for a £16 guarantee in other ports, and an increase to £15 in the basic minimum wage (now £11 ls. 8d. plus £2 modernisation payment). The N.A.P.E. are expected shortly to reject all these demands, but they have been unable to dissuade, and have no power to prevent, the London employers from going ahead.

Possible Courses of Action

6. The question for decision is whether we acquiesce in implementation of the agreement from 8th January, or whether we refer the issue to the National Board for Prices and Incomes and give a direction under Section 15 of the Prices and Incomes Act, 1966 to delay implementation pending the Board's report.

7. The main argument against reference to the Board and a direction is that it could well be the signal for the liaison Committee, who still command considerable support in London, to call for unofficial stoppages or other disruptive action which would have a serious effect on exports and confidence. If that happens, we cannot count on the support of the T. & G.W.U. We would be faced with demands from the employers and the country generally to use the penal provisions of the Act against the unofficial strikers. Any attempt to use these provisions might lead to extensions of the dispute to other docks and further disruption of the economy.

8. The alternative is to allow implementation of the agreement from 8th January. The arguments against this are the difficulty of justifying it within the incomes policy, and the risk of repercussions and of consequential damage to the policy. On a strict interpretation it is difficult to accept that the agreement conforms to the White Paper criteria, though as a matter of presentation some justification might be found for the agreement under the productivity criterion. The difference between a £16 and £17 guarantee in London is estimated by the employers to add about £60,000 a year - i.e. about a quarter of one per cent - to the wages bill. They regard it as a necessary condition for securing the improvements in working practices which are being introduced. The P.L.A. have given an assurance that it would lead to no increase in charges and a similar assurance would need to be obtained from the other employers. The risk of repercussions is greatest in Liverpool, though there too, in view of
the recent pay settlement, the cost of raising the weekly guarantee from the present nominal £15 to £16 - or even to £17 if demands for parity with London are pressed - would be negligible, and should not result in increased charges.

9. More widely we must consider the bearing of our decision in this case on other difficult incomes policy issues in other industries, e.g. buses and engineering, on which we will soon have to take decisions, and also on the T.G.W.U's campaign for a £15 basic minimum wage in the docks and generally.

Conclusion
10. The question for decision is whether we regard delaying implementation of this agreement as so crucial to incomes policy that we are prepared to accept the risk of renewed disruption in the London and other docks.

R.J.C.

Ministry of Labour,
8, St. James's Square,
LONDON, S.W.1.

19th December, 1967
CABINET

SCOTTISH TEACHERS' SALARIES

Note by the Secretary of State for Scotland

The attached memorandum was considered by the Prices and Incomes Committee today. I was unable to accept the Committee's conclusion; and the Chairman agreed that the matter must be referred to the Cabinet. I propose, therefore, to raise it at tomorrow's meeting.

W.R.

Scottish Office, S.W.1.

20th December, 1967
Scottish Teachers' Salaries

Memorandum by the Secretary of State for Scotland

Scottish teachers' salaries are due to be revised with effect from April 1968. It will be necessary for the management side to make an early offer in January in the negotiating committee, and I seek the agreement of my colleagues to my proceeding on the basis set out in this memorandum.

Under the new machinery set up under the Remuneration of Teachers (Scotland) Act 1967 my position is the same as that of the Secretary of State for Education and Science in relation to teachers' salaries in England and Wales, i.e., through my representatives on the management side I control of the overall cost of an offer to the teachers but I have control over the way in which an increase is distributed. I am bound by agreements reached and, failing agreement, I am also bound by the findings of the arbiters unless national economic circumstances require that effect should not be given to an arbitration award, in which event affirmative resolutions are needed from both Houses of Parliament.

I have come to the conclusion that the right course is to have the management side offer based on an overall increase of 7½ per cent. in the salary bill, with authority to go up to 8 per cent. if this were seen likely to bring about a settlement. The offer on salaries as such would be accompanied by proposals, on lines already endorsed by the Cabinet, for a scheme of supplementary payments to certain teachers in order to improve the distribution of the teaching force in favour of the worst-staffed areas: the cost of this inducement scheme is equivalent to about 0.75 per cent. of the salary bill. It is to these two proposals taken together that I would like to have the agreement of the Committee.

With effect from 1st April 1966 Scottish teachers were given an increase of 13 per cent. over salaries fixed in 1963. This settlement was imposed by me in face of one involving an overall increase of 15 per cent. recommended by the Scottish Joint Council. Teachers in England and Wales had been given an average increase of 13 per cent. with effect from 1st April 1965, and the National Board for Prices and Incomes (N.B.P.I.) were asked to report whether, on an overall comparison, the per cent. increase proposed by the Government for Scottish teachers was as substantial as to put them generally into a fair relationship with teachers in England and Wales. In May 1966 N.B.P.I. reported in the sense that on the basis of an overall comparison there were no grounds for varying the per cent. award, and this award was made final in regulations issued in May 1966 with effect from 1st April 1966 to last until 31st March 1968.
In their report (No. 15, Cmd. 3005) N.B.P.I. challenged the validity of the concept of an overall comparison between salary increases in Scotland and in England and Wales and suggested instead that future settlements should be based on analysis of the particular problems of the separate education systems. They also recommended that the timing of salary revisions in the two countries should be brought into phase.

The forthcoming revision relates to the salaries of teachers employed in primary and secondary schools and in further education colleges. The current basic scales are set out in the Appendix; addition to basic salary teachers in posts of responsibility receive allowances of varying amounts related to the measure of responsibility involved. The salaries of teachers in colleges of education are determined by me in the light of separate negotiations but traditionally a measure of increase has been the same as the overall increase settled between teachers in schools and further education colleges.

In considerations

The teachers' side claim has just been tabled: it involves an increase of some 20 per cent., and there is obviously no prospect of getting a claim of this order. The problem is to devise a basis for the acceptance side offer which is rational and defensible and consistent with the needs of the situation and with considerations of incomes policy.

An essential feature must be a significant upward revision of Scale 7. This scale runs from £680 to £1,384. This scale manifests a salary which is indefensibly low. Hitherto teachers paid on it have been mainly women non-graduate three-year college of education-trained teachers in primary schools (15,200 at present); in addition, secondary school teachers of technical subjects with no more than basic qualifications have been paid on it (some 300 at present). From this section, however, men are now admitted to the three-year course for primary teachers and it is most important to encourage recruitment from this source. It is plainly impracticable to seek to perpetuate the relatively low salaries payable on this scale. The employing authorities will certainly consider a significant improvement of Scale 7 essential; they wanted to improve it in 1966. Because of the large number of teachers involved an improvement of Scale 7 is inevitably costly.

Some improvement must also be given on the other scales, including the further education scales. I could not defend leaving the other scales as they are when English teachers got 7 per cent. this summer and we set so much store, last time, on keeping the teachers in both countries broadly in line. I would have liked to bring about some equalisation of the structure of Scottish salaries, both in schools in further education, but this would be too costly at present.

We are, of course, publicly committed to go ahead with the scheme of incen- cument payments for teachers in schools designated as schools usually affected by the staffing shortage. This involves an addition salary at the rate of £100 per annum to the teachers concerned - a total of £4,000 out of £0,000.

The local authority associations' representatives cannot be expected to agree to the making of an offer unless it can be seen to bear some relationship to the realities of the situation and to be such as can be upheld in arbitration. As I have said, the essential elements in this significant improvement in Scale 7, a lesser improvement in the other scales and additional moneys to implement the scheme of incen- cements in the shortage schools. If the cost of the inducements scheme to be met out of the amount otherwise available for a general salaries
We are clear that neither the local authority associations' representatives on the management side nor the teachers will accept my proposals. It must be kept in mind that although these inducements payments are in my view extremely important, it is inherent in their nature that they benefit only a small minority of teachers and offer no solution to the great majority of education authorities; since they benefit only the few in whose areas there are critical shortages, either the local authority associations on the management side or the teachers would accept any suggestion that, in effect, teachers generally would bear the cost of the scheme. There has all along been an expectation that the cost of the scheme of inducement payments would be separately and additionally.

The improvement of Scale 7 for which I must provide involves pitching at something like £750-£1,450 (the Burnham basic scale is £800-£1,500); this means an overall increase on this scale of about 10 per cent. Reasonable improvement on the other scales means an increase on average of about 6 per cent. on them. The overall increase in the salary bill for primary and secondary teachers is on this basis about 7.5 per cent. It seems to me to match very reasonably the 7 per cent. increase authorised for teachers in England and Wales in terms of the arbitration award effective from 1st July 1967.

I have in mind that the increase I propose should be for two years, i.e., to 31st March 1970. This would mean postponement of the time when salary revisions in Scotland and in England and Wales are brought into effect as recommended by N.B.P.I. I am not in principle against a one-year settlement for Scottish teachers but I would be opposed to this if it meant pitching the measure of increase at an appreciably lower figure than I have proposed above since this would make it impossible to devise a viable management side offer. I would myself prefer to see the salary settlements brought into line after a reference to the Prices and Incomes Board of salaries in both countries.

Conclusion

I ask my colleagues to agree that, through my representatives on the management side, I should proceed on the basis set out above, i.e. that the management side offer should be related to an overall increase in the salary bill of 7½ per cent, with authority to go to 8 per cent, if this is seen likely to bring about agreement in the negotiating committee; and that this should be accompanied by the scheme of inducement payments to shortage schools as an additional item amounting to about 0.75 per cent of the salary bill.

W.R.

Scottish Office, Mitchell, Union, S.W.1.
8th December 1967.
## THE PRESENT BASIC SCALES FOR TEACHERS IN PRIMARY AND SECONDARY SCHOOLS

### Scale Application

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<th>3rd Class Honours Graduate employed in a Secondary School</th>
<th>Other Graduates not wholly employed in a Primary or mainly employed in a Primary School</th>
<th>Other Graduates</th>
<th>Teachers of Physical Education and certain teachers of technical subjects</th>
<th>Non-graduates with 4 years training at a College of Education</th>
<th>Non-graduates with 3 years training at a College of Education</th>
<th>Other certificated teachers not covered by Scales 1 - 7</th>
<th>Certain Uncertificated teachers of technical subjects with &quot;reserved rights&quot;</th>
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<td>£ 910</td>
</tr>
<tr>
<td>&quot; 15</td>
<td>£ 1,980</td>
<td>£ 1,960</td>
<td>£ 1,660</td>
<td>£ 1,550</td>
<td>£ 1,550</td>
<td>£ 1,440</td>
<td>£ 1,340</td>
<td>£ 1,120</td>
<td>£ 1,040</td>
</tr>
</tbody>
</table>

*The following additional increments are available for teachers who entered upon training before 1st January, 1920.*

<table>
<thead>
<tr>
<th>Years</th>
<th>16</th>
<th>17</th>
<th>18</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>1,470</td>
<td>1,510</td>
<td>1,550</td>
<td>1,550</td>
</tr>
<tr>
<td>1,470</td>
<td>1,510</td>
<td>1,550</td>
<td>1,550</td>
</tr>
<tr>
<td>1,510</td>
<td>1,550</td>
<td>1,550</td>
<td>1,550</td>
</tr>
</tbody>
</table>

*These details give only a very general indication of the teachers to which each scale applies.*
### THE PRESENT BASIC SCALES FOR TEACHERS IN COLLEGES OF FURTHER EDUCATION

**Salary Scale Group of teacher and Grade of Post held**

<table>
<thead>
<tr>
<th>Salary Scale</th>
<th>Group of teacher and Grade of Post held</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Group IA teachers, and other teachers occupying Grade I posts</td>
</tr>
<tr>
<td>33</td>
<td>Group IB teachers occupying Grade II or Grade III posts</td>
</tr>
<tr>
<td>34</td>
<td>Group II teachers occupying Grade II or Grade III posts and Group III teachers occupying Grade II posts</td>
</tr>
<tr>
<td>35</td>
<td>Group III teachers occupying Grade III posts</td>
</tr>
</tbody>
</table>

The scale applicable to any one teacher depends partly on qualification and partly on the grade of post held. There are four qualification Groups, viz. -

- Group IA - 1st and 2nd Class Hons. graduates
- Group IB - 3rd Class Hons. graduates
- Group II - Pass degree graduates
- Group III - Non-graduates

and three Grades of Post, viz. -

- Grade I - Higher National Certificate level
- Grade II - Ordinary National Certificate level
- Grade III - Other courses

Given his Group and Grade of Post, a teacher's salary is then determined in accordance with the following Table.
C(67) 202

22nd December, 1967

CABINET

THE APPROACH TO EUROPE

Note by the Secretary of the Cabinet

By direction of the Prime Minister and in accordance with his summing up of the Cabinet's discussion on 20th December (CC(67) 73rd Conclusions, Minute 3) I circulate the attached study of the consequences of our exclusion from the European Economic Community (EEC) for our future economic, military and other policies. This study was, of course, prepared before the outcome of the meeting of the EEC Council of Ministers on 18th-19th December was known.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

22nd December, 1967
CONSEQUENCES OF UNITED KINGDOM EXCLUSION FROM THE EEC

The Cabinet, at their meeting on 30th November (67/69th Conclusion, Item 4), requested a study by officials of:

"The consequences of our exclusion from the Community for our future economic, military and other policies, on the lines suggested by the Secretary of State for Defence and elaborated in discussion. This study should cover inter alia agricultural policies; defence, including NATO, WEU, and the offset arrangements for the British Army of the Rhine, as well as defence procurement; the United Kingdom relations with EFTA and EFTA relations with EEC."

2. This paper proceeds on the assumption that the conclusion reached by the EEC on our application, whenever it comes and whatever form it takes, will mean in effect that we shall be unable to join the Community for, say, as long as President de Gaulle is in office. On this assumption we examine, as requested, whether we can develop alternative economic and political relationships; whether we might still find it advantageous to pursue "European" policies or whether, if we felt free to disregard the possibility of shaping some of our policies with an eye to their eventual assimilation to those of the EEC, we might obtain advantages which we have so far had to forego. The paper is, thus, concerned with the policies open to us in face of exclusion from the Community and not with the tactics we might then follow.

3. The basic choice for the United Kingdom will still remain whether to abandon our European policy or to reaffirm our intention to join the Community as and when circumstances permit it. It must be recognised here that a reaffirmation now of our European policy would only mean a restraint on the scope for changing existing policies insofar as viable alternative policies actually exist. We therefore examine first the variants of the basic choice before us:

(i) we could seek some alternative grouping to EEC, i.e., we could attempt to build an Atlantic Free Trade Area (AFTA) or seek closer Commonwealth association or a permanent and strengthened EFTA;

(ii) we could continue as we are, preserving as far as possible our existing trade relationships with the Commonwealth and EFTA, while:

(a) reaffirming our intention to seek membership of EEC as soon as this was possible;

or

(b) taking the position that we intended to leave open for future decision whether or not we would apply for entry to EEC when this was possible.
In the following paragraphs we examine alternative (i) under the heads of AFTA, the Commonwealth and a permanent strengthened EFTA; and having concluded that none of these courses is likely to prove feasible we go on in the remainder of the paper to consider the possibilities under alternative (ii).

Atlantic Free Trade Area

4. The possibility of an AFTA (which as a working hypothesis was assumed to consist of the United States, United Kingdom, Canada, Denmark, Norway and Sweden, Australia, New Zealand and the Republic of Ireland) was studied at length earlier this year. The study was circulated to the Cabinet last April as C(67) 52. The conclusion was that in the then existing circumstances AFTA was not a negotiable option. Subsequent events have if anything strengthened the validity of that conclusion. The lack of interest of the United States Administration in such arrangements will have been confirmed by the successful conclusion of the Kennedy Round and the agreement in principle reached at Rio on a special drawing rights scheme, though the present state of the gold and foreign exchange markets makes prediction of United States attitudes in the longer term hazardous.

For the present we conclude from the increase in pressures from protectionist lobbies in the United States, from the continuing interest of the United States Administration in our joining the Community rather than in looking to America, and from the fact that the United States Administration are unlikely to embark upon such a major political and economic realignment in the 1968 Election year, that an AFTA is no more a negotiable option now than it was six months ago. This conclusion is not invalidated by private studies of the economic implications of an AFTA undertaken in recent months, for example by Maxwell Stamp Associates on behalf of the Atlantic Trade Study, since they did not deal at all with the question of whether an AFTA would be negotiable.

Extension of Commonwealth trading links

5. As the study prepared for the Cabinet in April 1967 pointed out (paragraphs 39-40 of the report attached to C(67) 52), consideration has been given from time to time to seeking ways in which intra-Commonwealth trade might be expanded to the advantage of the United Kingdom, but on the whole the results have not been promising. Trade with all Commonwealth countries currently accounts for about 30 per cent of our exports and it is clearly in the United Kingdom interest to maintain a favourable position in these markets for as long as possible. Nevertheless, the United Kingdom position has been steadily eroded and this process is likely to continue.

The conclusion in April was that it might be possible to negotiate fresh benefits for some United Kingdom exports in some Commonwealth markets if
Ministers were prepared to make fundamental changes in their Commonwealth policy, such as imposing mfn rates of duty on some Commonwealth imports and offering to renegotiate preferences. On recent experience, however, there is no reason to expect that most other Commonwealth countries would be willing to increase preferences or to enter into closer trading arrangements with the United Kingdom: Canada and Australia, who are the most important United Kingdom markets in the Commonwealth, have been seeking markets elsewhere and bargaining away the preferences which they give to this country, since they appear to regard the potentialities of expanding markets elsewhere as more important to them than maintaining a preferential position in the United Kingdom.

6. We see no reason to dissent from the conclusions reached last April. While devaluation should enable British firms to increase their sales in Commonwealth markets as in other markets, it will have no effect on the possibility of negotiating increased preferential arrangements within the Commonwealth. Whatever we may say and do, Commonwealth countries, especially Canada, Australia and New Zealand, will expect that if a favourable opportunity arises in the future for United Kingdom entry into the EEC we shall take it. Furthermore, any possibilities there may be for closer trading links with Commonwealth countries would depend on our willingness to pay the price and accept the consequences involved in importing greater quantities of Commonwealth agricultural produce.

A more permanent role for EFTA?

7. We have also considered the possibility of creating a more permanent role for EFTA. One of the stated objectives of the Stockholm Convention establishing EFTA was the achievement of wider European Union and any proposals to make EFTA a semi-permanent body would be unwelcome to a number of other members (notably those who are anxious to join the EEC with us) and would therefore be likely to have a disruptive effect within the Association: and, as in the case of the Commonwealth, the other members of EFTA will continue to believe, whatever we may say, that we shall make a fresh bid to join the EEC (and leave EFTA members then to make what arrangements they may) as soon as the opportunity presents itself. And from our own point of view, even if EFTA could be built up as a semi-permanent organisation, it would not be a satisfactory alternative to EEC membership. EFTA is not large enough; it does not provide the industrial resources needed to match the other major world economic groupings; nor would it meet our political requirements as part of a United Europe.
Nevertheless, if we wanted to build up the solidity and cohesion of EFTA, it would be for consideration whether we could take an initiative in such sectors as agriculture, tariff harmonisation and economic union: but we are satisfied that, while it may be necessary to discuss these matters from time to time, for the reasons given below it would neither be necessary nor desirable to take any action. Indeed, proposals of this kind made by us at this time would not lead to any general consensus within EFTA and could well prove disruptive. Proposals for the geographical extension of EFTA might prove rather less controversial, but as shown below the prospects for making any real progress are very slim.

(i) Agriculture. We might try to give EFTA greater agricultural content, for example by co-ordinating internal agricultural policies or promoting a greater degree of free trade in agriculture by removing existing duties and other barriers. Such policies are unlikely to be generally acceptable to the other EFTA countries since they would entail sharp falls of agricultural income in those EFTA countries which have the least advanced agricultural industries but the largest proportion of the population in agriculture. Nor would they be welcome to us: we have already given EFTA agricultural exports extensive access to our markets (90 per cent of Danish agricultural exports already enjoy free entry) and further concessions could only be at the expense of our own agriculture and of Commonwealth and other overseas suppliers.

(ii) Harmonisation of tariffs. A common external tariff for EFTA would seem likely to lead to a closer relationship between the members. But the low-duty EFTA countries like Switzerland and the Scandinavians, whose economies are narrowly based and therefore rely on imports for a wide range of manufactures, would not want to raise their tariffs on these goods; and the less developed members like Portugal and Austria would in general be reluctant to lower theirs. There would also be very serious objections from the point of view of the United Kingdom: we should presumably have to abandon Commonwealth preference, and, as a relatively high-duty country within EFTA, under the rules of the GATT have to reduce our tariffs on imports from our main industrial competitors. While such extensive changes in our tariff structure can be justified as part of the complete orientation required in going into the EEC, the additional trade we might secure from a strengthened EFTA (in 1966, United Kingdom gross national product accounted for 57 per cent of the gross national product of the whole of EFTA) would not be worth the disruption to Commonwealth and other trade.
(iii) **Economic Union.** More intensive work on the removal of non-tariff barriers or the acceptance of fresh obligations leading in the direction of economic union might possibly produce some advantages for our export trade. But the existing provisions of the Stockholm Convention on non-tariff barriers have already caused us considerable trouble — for example over the export rebate and currently over the aluminium smelter project. Moves towards economic union with EFTA would further restrict our freedom to pursue flexible economic policies — and interventionist policies — without a worthwhile return in compensation. Economic union within a small economic grouping of the size of EFTA of which only one or two members apart from the United Kingdom have a highly developed industrial economy would in any case be of much less value to us — for example, in developing advanced technology — than economic union with a market of the size and resources of the enlarged EEC.

(iv) **Geographical extension of EFTA.** We have again considered whether EFTA might be extended to include such other countries as Iceland, Yugoslavia, Israel and Spain. But the latter two have shown no interest in EFTA; Iceland is a tiny market which would pose awkward problems on fish; and Yugoslavia which has recently liberalised its economic policies to some extent and is in many ways an attractive market for British goods, could still have serious difficulty in adapting her commercial practices, with their strong element of central control, to make them consistent with EFTA membership.

9. There remains the possibility that a formal trade association between EFTA and the EEC might be developed. While this trade seems likely to expand in any case — although less quickly than it would if there were a single European market — the prospects for creating new institutional links between the two ("bridge-building") do not seem any more promising or likely to succeed than they were in 1964-65. There is every reason to believe that any suggestion that the EEC as a single unit might join EFTA would be as unfavourably received today as it has been in the past, both by the French and the convinced "Europeans". We would not, however, rule out the possibility of working out free trade arrangements between EFTA and the EEC for particular sectors of trade, possibly using the precedent of the United States/Canadian arrangement for free trade in motor cars and motor car parts.
FUTURE UNITED KINGDOM POLICY

10. The conclusion we draw is the same as that drawn from the previous examination of alternatives in April (C(67) 52), namely that there is no new trade bloc or grouping which we could hope to establish in the foreseeable future as an alternative to joining the EEC. In the longer term therefore we can see no alternative to seeking membership of the Community as soon as the opportunity presents itself. We still need to form part of the enlarged Community in relation to our political objectives in a united Europe; in relation to EFTA which might not cohere indefinitely in the face of the counter attractions of the Community for Austria and possibly Denmark; and in relation to our industrial and commercial needs for a wider domestic market, if British industry is to play a full part in the future development of the advanced technological (and growth) industries; and as an insurance against the development of more illiberal policies among our main trading partners. In relation to our defence and overseas policies, membership of an enlarged Community would be helpful both because it would give us greater long-term economic strength and because the emphasis for these policies is increasingly on our European role. Annex A is a fuller note on defence and overseas policy in relation to Europe.

11. In the light of these conclusions about longer term policy we now examine the consequences for us of continuing with our present arrangements - economic, political and military - for a number of years; and to consider whether in the face of exclusion from the EEC we should re-affirm now our intention of joining as soon as we can, or whether we should say that we will decide about that in the light of the circumstances and of our interests when the opportunity for membership becomes open.

12. The significance of continuing our present trading arrangements, which we then described as "abstention", was also examined in April. The conclusion then was that in the short to medium term the United Kingdom should be able in such circumstances to prosper and enjoy a satisfactory rate of economic growth provided that world trading and monetary conditions remained liberal and we pursued internal policies to make industry competitive in international markets. In the longer term, however, we should suffer increasing disadvantages from the lack of the large domestic market which will become increasingly necessary for the development of competitive advanced technology industries, and also from the risk that the existing major powers and trading blocs might over the years become less liberal.
The prospects for the United Kingdom of continuing as at present have, however, been substantially improved since the April survey was made. The Kennedy Round has been successfully concluded. So far as the EEC is concerned the Commission have calculated that the median common external tariff for industrial goods will be reduced from 12 to 8 per cent and two-fifths of this reduction is due on 1st July 1968. British industry has thus been presented with significant new opportunities worldwide and, in particular, with some part of the opportunity which it was expecting from United Kingdom membership of the EEC; in addition its competitive position has been strengthened meanwhile by devaluation. Our purpose must be to do all in our power to promote British exports in EFTA, in the Commonwealth, in the EEC, indeed worldwide.

External economic policy should for the next few years be concentrated wholly on the overriding economic priority — the improvement of the structure of the British economy and of the balance of payments. In seeking to do this we should favourably consider any arrangements — whether in relation to the EEC, the Commonwealth or EFTA — which furthered this end; and reject those which hindered it. If we were confronted with a veto, with no compensating offers of real and advantageous co-operation from the Five, we could do this wholly untrammelled by considerations arising either from membership of, or candidacy for, the Community. A note on United Kingdom economic policy after a veto, prepared by a group of Economic Advisers under the chairmanship of Sir Alec Cairncross, is at Annex B.

Concentration now on the policies needed to put the economy right will not reduce our future prospects of joining the Community. On the contrary each of the Six has shown in various degrees concern about the affect on the future prosperity of the Community of the entry of the United Kingdom in its present weakened state. The present objections on the part of France to our obtaining membership — or whatever other relation we judge in the future to be most appropriate — will be greatly reduced if we are then economically strong. This means making full use of the opportunities presented by devaluation to improve our balance of payments and reserve position and to strengthen the efficiency and stability of the economy generally.

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SECRET
16. There can be no doubt that the achievement of these objectives is both a prime national interest for us and one in which we should have the fullest support of the Six: continued instability on our part is bound to affect them adversely. The question may arise in some cases whether the methods which we use to achieve these objectives will be such as to narrow or widen the gap that separates our arrangements from those of the Community. Clearly we must choose those methods best calculated to promote our recovery, and only where there is no significant difference of advantage in terms of economic recovery can we consider, as a further factor, how far one method or the other would fit with those used by the Six. As it happens, their progress in harmonisation of economic measures has not yet gone far save in the agricultural sector. We shall in any event have to face the views of the Six on our post-devaluation policies and measures in the discussions of our economic progress in the IMF and OECD.

17. If, whilst our economic recovery was proceeding and whilst we were still excluded from the Community, we were able to influence the Community and prevent it from developing in directions which made our future entry more difficult or more costly for us this would obviously be advantageous; but we must recognise that we are unlikely in practice to have more success in this direction than will result from the ever-present internal conflicts within the Community, which will be sharply exacerbated by a French veto on the opening of negotiations, coming as it will on top of the long record of French chauvinism in the Community.

18. We should therefore, after a veto, seek as close consultation with the Five as they will allow; how far they will go may well depend on the circumstances in which a veto is imposed. We have concluded (paragraph 10) that in the long-term there is no satisfactory alternative to United Kingdom membership of the EEC. Nevertheless, at this stage it would be premature to decide as soon as it became clear that we had no prospect of immediate entry, whether we should reaffirm immediately and unconditionally our intention of joining as soon as we could and offer our readiness to press on meanwhile with collaboration in technological and other fields: or whether to adopt a less precise and more cautious position. The manner in which we were excluded and the strength or weakness of support for us among the Five up to and at the stage of decision would be important and possibly decisive factors in determining how we should react.
DEFENCE AND OVERSEA POLICY IN RELATION TO EUROPE

Considerations of overseas and defence policy do not run counter to the conclusions reached in the economic field. We have made it clear that our security depends primarily on preventing war in Europe, and that we regard the continuation of a politically cohesive and militarily effective North Atlantic Alliance as vital to this purpose. Outside Europe we are engaged essentially in a policy of withdrawal and disengagement from our remaining obligations on a basis agreed with our Allies. The studies undertaken earlier this year showed that if we are to be able to compete economically with our main competitors, then our defence expenditure must be reduced to a level which is in keeping with our resources; we accordingly decided on both political and economic grounds to plan on the basis of withdrawal from our main bases in the Middle and Far East by the mid-1970s. The circumstances we are now considering are a powerful argument for pressing ahead as quickly as feasible on the course we have already set ourselves so as to ensure the early restoration of our economic strength.

2. Our defence links in Europe go much wider than the EEC countries and our relationship with France and in our future policy towards Europe we shall still wish to carry the Five with us in our defence objectives in Europe. NATO itself includes all members of the EEC (though France is not now a fully participating member), some of our EFTA partners, the United States and Canada. In NATO, while we should still do nothing to push France further out of the Alliance, we need have less hesitation in pressing the line that France cannot be allowed to stop the rest of the Allies doing what they want to do and, in particular, we can continue to encourage initiatives such as those which led to the present revision of NATO strategy. The United States have said, in the context of the possibility of our exclusion from the EEC, that they would have no objection to a European "caucus" within NATO and we should encourage this. While progress is bound to be slow, this field is one where a United Kingdom initiative at an appropriate time might prove useful. We are also members, along with the EEC countries, of Western European Union but most of its defence responsibilities and interests have passed to NATO.

3. So far as the deployment of our forces on the Continent of Europe is concerned, all the necessary action is in hand to ensure the redeployment to the United Kingdom of one brigade and one helicopter squadron, starting during the current financial year, in accordance with the decision of
Ministers in March. A preliminary report is being submitted, initially to the Ministers concerned individually, on the question of offset arrangements. This will show that, so far as we can see, there is no real prospect of covering the foreign exchange costs of our forces remaining in Germany next year to anything like the same extent as they have been covered hitherto. The possibility of securing our Allies' agreement to further withdrawals of troops in the near future is remote.

4. In the context of longer-term arrangements for covering our foreign exchange costs, and in accordance with our general policy including technological co-operation with Europe, the most promising field is that of equipment projects. The present programme of bilateral co-operation (Jaguar, Harvel and helicopters) with France is based on self-interest. There is already a policy ruling not to enter into any new bilateral projects with France; this derives from the fact that our main co-operative projects are all with France and it was for this reason considered unwise to commit ourselves to any further projects with France alone. As regards the rest of the EEC and other Western European countries, we should do our best not only to persuade them to buy our equipment but also seek, despite the considerable difficulties, to find areas of co-operation where it is in our interests to do so. The aviation field, where all European countries are feeling the pressure of United States technology and a number of them, excluding France, are facing major decisions about their re-equipment programme, presents the most obvious opportunities. There is a possible coincidence of interests in this field, but it is not going to be easy to find common ground unless the United States can be persuaded to give benevolent co-operation rather than competition and unless the European countries concerned are prepared to show the determination, including a willingness to override national pressure groups, that would be necessary.
Our primary purpose over the next few years should be to get the economy on a sound footing, with an adequate surplus in the balance of payments as a firm foundation for continuing expansion.

2. Even before devaluation there were major structural adjustments to be accomplished. Devaluation enlarges the scale of the adjustments necessary although it also makes some of them easier. Serious additional burdens, as has been publicly stated, would be involved in an early entry into the Community.

3. A veto on our membership of the Community would not fundamentally alter this picture. It would mean that we were free to give absolute priority to getting the economy straight without the additional burdens involved in entry.

4. We can see no fresh initiative in commercial policy that would be likely to be helpful to our recovery in the near future. Because of devaluation we now have sufficient competitive strength to bring about the necessary changes in our balance of payments provided we are willing to make all the necessary adjustments in domestic policy. While there is no reason why we should throw away the advantages we derive in our trading relationships with other Commonwealth and EFTA countries, we should regard any economic advantages that might conceivably be obtained by strengthening these relationships as entirely subsidiary to the opportunities which are opened up by the depreciation of the pound.

5. Whatever posture we adopt in relation to future membership of the EEC, we ought not to embark on changes in domestic policy designed to align these policies more closely with those of the Community unless this would be in our own immediate economic interest. We have ahead of us such painful and difficult adjustments that it would be foolish to aggravate them by anticipating obligations which we may one day have to fulfil as members of the Community but which we need be in no hurry to take upon ourselves. We have in mind obligations in relation to agricultural policy (which would raise the cost of living); in relation to taxation (which would have a strongly regressive effect); or in relation to overseas investment (involving premature relaxations in exchange control).
6. It would both strengthen foreign confidence in the way in which we are managing our affairs and at the same time in no way diminish our eventual chances of joining the Community if we made it clear that in the next few years our primary purpose would be the strengthening of the British economy and that this would override other international objectives.

7. Once this has been accomplished we will be in a stronger position to seek admission to the Community and to face the consequent adjustments.