C(68) 1 - Public Expenditure: Post-Devaluation. Social Security Consequences. Memorandum by the First Secretary of State

2 - Public Expenditure: Post-Devaluation. Postponement of the Raising of the School-Leaving Age. Memorandum by the First Secretary of State

3 - Salaries of Members of the Boards of Nationalised Industries. Memorandum by the Chief Secretary, Treasury

4 - Public Expenditure: Post-Devaluation Measures. Concorde Project. Note by the Secretary of State for Foreign Affairs

5 - Public Expenditure: Post-Devaluation Measures. Memorandum by the Chancellor of the Exchequer

6 - Public Expenditure: Post-Devaluation Measures. 1968-69 Estimates. Note by the Chancellor of the Exchequer

7 - Public Expenditure: Post-Devaluation Measures. Defence Cuts. Memorandum by the Secretary of State for Foreign Affairs and the Secretary of State for Commonwealth Affairs

8 - Public Expenditure: Post-Devaluation Measures. Local Authority Manpower. Memorandum by the First Secretary of State

9 - Public Expenditure: Post-Devaluation Measures. Civil Service Staff Numbers (Non-industrial). Memorandum by the Chancellor of the Exchequer

10 - Public Expenditure: Post-Devaluation Measures. The F.111. Memorandum by the Secretary of State for Defence

11 - Public Expenditure: Post-Devaluation Measures. Further Defence Cuts. Memorandum by the Secretary of State for Defence

12 - Race Relations Legislation. Memorandum by the First Secretary of State

13 - Public Expenditure: Post-Devaluation Measures. Defence Cuts: Far East. Note by the Secretary of the Cabinet

14 - Public Expenditure: Post-Devaluation Measures. Prescription Charges. Note by the Minister of Health

15 - Public Expenditure: Post-Devaluation Measures. Defence Cuts: Negotiations with Singapore and Malaysia. Memorandum by the First Secretary of State

16 - Public Expenditure: Post-Devaluation Measures. Foreign Exchange Costs of British Forces in Germany. Memorandum by the Minister of State for Foreign Affairs

17 - Public Expenditure: Post-Devaluation Measures. Space: ELDO and BLACK ARROW. Memorandum by the Minister of Technology
C(68) 18 - Public Expenditure: Post-Devaluation Measures. Passenger Transport Grants. Memorandum by the Minister of Transport

19 - Public Expenditure: Post-Devaluation Measures. Defence Cuts: The F.111. Memorandum by the Secretary of State for Defence

20 - Public Expenditure: Post-Devaluation Measures. Implications for the Construction Industry. Memorandum by the Secretary of State for Economic Affairs and the Minister of Public Building and Works

21 - Public Expenditure: Post-Devaluation Measures. Defence Cuts: Far East. Note by the Secretary of the Cabinet

22 - Public Expenditure: Post-Devaluation Measures. Defence Cuts: Far East. Note by the Secretary of the Cabinet

23 - Defence Cuts: Discussions with Governments of Australia, New Zealand, Malaysia and Singapore. Memorandum by the Secretary of State for Commonwealth Affairs

24 - Public Expenditure: Post-Devaluation Measures. Draft Parliamentary Statement. Note by the Secretary of the Cabinet

25 - Legislative Programme 1967-68. Memorandum by the Lord President of the Council


27 - Concorde: Production Finance. Memorandum by the Minister of Technology

28 - Britain and Europe. Memorandum by the Secretary of State for Foreign Affairs

29 - Statement on the Defence Estimates, 1968. Note by the Secretary of State for Defence

30 - Farm Price Review. Memorandum by the First Secretary of State


32 - The Age of Majority. Memorandum by the First Secretary of State

33 - Evidence to be Given to Select Committees. Memorandum by the Lord President of the Council

34 - Immigration Legislation. Memorandum by the Secretary of State for the Home Department

35 - Immigration Legislation. Memorandum by the Secretary of State for Commonwealth Affairs

36 - Immigration Legislation. Memorandum by the Attorney-General

37 - The Third London Airport. Memorandum by the President of the Board of Trade and the Minister of Housing and Local Government
Summary of the Paper

The Cabinet have already agreed that an increase in supplementary benefit will be necessary in 1968 of an amount and at a time to be decided later. This will not, however, meet the needs of the families of the lowest wage-earners in full employment and those subject to the wage stop.

2. Rate rebates are already available both to the very low wage-earning householders and to a much larger number with resources somewhat above supplementary benefit level. The total numbers eligible are, however, by now much below those envisaged at the start of the scheme in 1966 and there is a strong case for revising the income limits by affirmative order broadly to restore the original scope of the scheme. This would cost some £7.5 million (or possibly £10.4 million) in a full year and would need to be accompanied by a further publicity campaign to improve the take-up of the benefit. The new limits could be effective in the spring (April in England and Wales, May in Scotland) or the autumn (October in England and Wales, November in Scotland). Further consideration needs to be given to the timing.

3. Raising the income limits for rate rebate would, however, only marginally affect the lowest wage-earners. These would be helped more by an increase in the amounts of rate rebate. This would mean legislation. The amount of extra help would not however be very large; it would vary with the amount of rates payable and would not necessarily benefit the poorest most; and it would not take account of family size.

4. A housing allowance has been considered and found too complex a matter for immediate decision. A means-tested addition to family allowances is another possibility but this has the disadvantage for some of subsidisation and implied endorsement of low wages, that it would not achieve full take-up and that it would increase the means-tested group of social security benefit recipients. Moreover, substantial problems of machinery would be involved.
5. The selective principle would however be maintained if a general increase in family allowances were combined with appropriate adjustments in taxation. There would be great presentational advantages if such a link could be established and announced as part of a social security package which could cover both the increases in family allowances already decided upon for next April and such further increases as might later be determined in the light of devaluation.

Background

6. At their meeting on 23rd November (CC(67) 68th Conclusions, Minute 4) the Cabinet considered a paper by myself (C(67) 184) on measures to protect the most vulnerable sections of the community from hardship resulting from devaluation. These are the people who are eligible for supplementary benefit (including old, unemployed, sick and handicapped persons) and the lowest wage-earners whose resources are below the level of supplementary benefit for which they are, however, ineligible. The Cabinet agreed that it would be necessary to increase supplementary benefits during 1968, though it should not be necessary to decide on the precise amount or timing of such an increase before the spring: I had mentioned in my paper that, on the assumption that prices were likely to rise during 1968 by some 5 per cent to 6 per cent, increases of supplementary benefit of some 4s. Od. a week might be needed by the end of the year, at a cost of some £35 million net in a full year.

7. This would not however meet the needs of the families of the lowest wage-earners in full-time employment (and those subject to wage stop) and for them I suggested that an increase in family allowances might be appropriate. In discussion emphasis was laid on the desirability of providing for these families in a selective way and a suggestion was made that this might be achieved through the rate rebate scheme. I was asked to go into this with the Secretary of State for Scotland, the Minister of Housing and Local Government, the Minister of Social Security and the Chief Secretary, Treasury, and I have since done so, with help also from the Lord President and the Secretary of State for Wales.

Rate Rebates: Raising the Income Limits

8. Rate rebates are at present available for householders not entitled to full supplementary benefit whose recent gross incomes amount to not more than £8 (single) or £10 (husband and wife), plus 30s. Od. a child, with a tapering arrangement for those with incomes just above this limit. As such the scheme covers many of the 160,000 households with children and other very low wage-earners whom we have particularly in mind, as well as more than one million others whose resources are up to about £2 above supplementary benefit level. The total numbers eligible are well below those first envisaged when the scheme was introduced in 1966 owing to rises in wages and benefits which have occurred since, and the same process is likely to erode the total numbers further still. But rises in incomes have been accompanied also with rises in living costs and it seemed to my colleagues and myself that there was a strong case for a revision of the income limits to restore the ambit of the rate rebate scheme to broadly its original size.
9. The Minister of Housing and Local Government has had in mind for this purpose raising the weekly income limits for single householders from £8 to £9 and those for married householders from £10 to £11, with an extension of the allowances for children from 30s, 0d, to £2; this would bring or keep within the scope of the scheme about 650,000 householders and might cost £7, 5 million in a full year. A range of other choices is set out in the table at Annex. With family needs in mind we considered whether the allowances for children could possibly be increased to £2 10s. 0d. This alternative would bring or keep 900,000 householders within the scope of the scheme at a total additional cost of £10, 4 million in a full year. The numbers actually claiming rebates would however be less. At the moment out of some 1, 3 million entitled only one million take up their entitlement, of whom 800,000 are pensioners, and we agreed that a further publicity drive would be essential.

Timing

10. We have the choice of effecting this increase either in the spring (April in England and Wales, May in Scotland) or in the autumn (October and November). An autumn increase would cost less but there is the difficulty that owing to the differences between England and Wales on the one hand and Scotland in their financial years and income assessment periods, a deferment until autumn of a change in the rate rebate income limits would mean that there would be a reduction in the numbers eligible for rate rebate in Scotland during the preceding half-year when the Scottish assessment would reflect last autumn's social security benefit increases. There would be difficulty in adopting widely separate dates and it is a fact that a fair number of rebates are not actually paid or reflected in lower council rents until well on in the rating period: this is particularly true of tenants in private housing. On the other hand a spring increase in England and Wales would mean a temporary increase in the numbers eligible from April to September, 1968. We concluded therefore that the date of the increase required further consideration. An increase this spring could be brought about by an affirmative order which would need to be made as soon as possible to give time for publicity and the necessary administrative arrangements.

Rate Rebates: Raising the Amount of Rebate

11. Raising the income limits for rate rebate would be worthwhile in itself and would benefit many poorer families but its effect on the lowest wage-earners could not be more than marginal, since these are by and large already covered by the existing limits. We therefore considered whether one might also proceed to raise the amounts of rate rebate to cover in whole or in part the first £7 10s. 0d, "threshold" and the remaining one-third of the rates above that level which is not rebated. Such a method would have the merits that it would benefit the poorer families, that it would apply also to retired people and that rate rebates are known to be an acceptable form of selectivity. But after much consideration we concluded that this would not really be very effective for our purpose. For one thing the total amount of extra help could not be very large, on average not much more than, say, £15 a year with the most generous scheme and often much less than this. Secondly, the amounts of rebate would naturally vary with the amount of rates and the poorest families would not necessarily receive the most...
benefit. Thirdly, such a scheme would not reflect varying sizes of family except through the operation of the income scale, since the amount of benefit would be uniform. There might be problems of ensuring that sub-tenants, for example, took up their entitlement; there might be awkward differences between one area and another; and any such scheme would require legislation which might prove controversial.

**Housing Allowances**

12. We went on to examine other forms of selective benefit. A housing allowance had been propounded last summer by the Chancellor of the Exchequer but the Cabinet then considered that, more particularly in the light of the existing rate and local authority rent rebate schemes, this was too complex a matter for immediate decision and should form part of the longer-term studies of rent and rates now being undertaken by the Minister of Housing and Local Government.

**Means-tested Family Allowances**

13. We therefore looked again at the possibility of a selective addition to family allowances and examined first a means-tested system. As to this, we saw difficulties both of machinery and principle. The main difficulty of principle appears to some of us to be the subsidisation and implicit endorsement of low wages which this would involve and the disincentive effects. The second difficulty is that of achieving a full take-up. On machinery we were informed that it was very doubtful if the Supplementary Benefits Commission could take on a scheme on ordinary supplementary benefit lines and impossible if at the same time they were occupied with an uprating of supplementary benefits. It also appeared very doubtful whether the local authorities could be brought to administer a scheme dependent upon their rate rebate assessment machinery: they would argue with some justice that their rating mechanism ought not to be used for the purpose of social security benefits, especially of this nature. Moreover such an arrangement would mean tying the new allowance to the income limits for the rate rebate scheme which will be higher than for supplementary benefit and accepting the standards of accuracy which any local authority may apply and any lack of uniformity following from local authority variation of practice. We concluded, therefore, that the existing family allowance system was to be preferred, and this too seemed preferable to some of us on a longer-term view in that this would avoid increasing the means-tested group of social security benefits.

**Selectivity by "Give and Take"**

14. We were, however, clear that the selective principle must be maintained in any increase in family allowances. It followed, therefore, that any increase made across the board would need to be accompanied by appropriate adjustments in taxation to ensure that it had the required selective effect. How far one should go in this direction must, we thought, be a matter for the Chancellor of the Exchequer: so too, in the light of his decision on these points, should be the question of the tax machinery required. But it did seem to us that there would be very great presentational advantages if a link between family taxation and family allowances could be established and announced as part of a social security
package. Some of us thought that such a link should cover both the increases in family allowance already decided upon for next April and such further increases as might later seem to be warranted in the light of devaluation. The possibility was mentioned of an increase made in the latter part of next year related to family income as a whole and equivalent to a 3s. 6d. increase across the board: this would cost £35 million net of tax at existing rates and this figure could of course be further offset by any given amount of "take". The precise form which this should take needs further thought, but it would fall within the range of family size over and above the first child. The Chief Secretary acknowledged the presentational advantages of such a plan but wished to reserve the Treasury position on it.

Proposed Package

15. To sum up, therefore, the proposed social security package following devaluation would comprise:

(a) An increase in the income limits for rate rebates to restore the original scope of the scheme at an estimated additional cost of £7.5 million (or possibly £10.4 million) in a full year and effective in May or November for Scotland and April or October for England and Wales.

(b) An increase in supplementary benefits of an amount and at a time to be decided later.

(c) An increase in family allowances generally of an amount and at a time to be decided. This to be linked with counterbalancing tax adjustments which would apply also to the family allowance increases already authorised for next April.

M.S.

70, Whitehall, S.W.1.

INCREASING THE RATE REBATE INCOME LIMITS

The tables below show the estimated result (in terms of 1967-68 values) of raising the income limits for single householders from £8 to £9 and for married householders from £10 to £11 (Table A) or from £10 to £12 (Table B) with in each case the additional effect of raising the present 30s. 0d. extension for each child by 10s. 0d., 20s. 0d. or 30s. 0d.

<table>
<thead>
<tr>
<th>Extension per child</th>
<th>Estimated number of additional householders becoming eligible</th>
<th>Possible number of additional householders actually claiming</th>
<th>Value of additional rebates in full year (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>With children</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td><strong>Table A</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£2</td>
<td>420,000</td>
<td>650,000</td>
<td>500,000</td>
</tr>
<tr>
<td>£2 10s.</td>
<td>670,000</td>
<td>900,000</td>
<td>695,000</td>
</tr>
<tr>
<td>£3</td>
<td>945,000</td>
<td>1,175,000</td>
<td>905,000</td>
</tr>
<tr>
<td><strong>Table B</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£2</td>
<td>715,000</td>
<td>1,045,000</td>
<td>800,000</td>
</tr>
<tr>
<td>£2 10s.</td>
<td>960,000</td>
<td>1,290,000</td>
<td>990,000</td>
</tr>
<tr>
<td>£3</td>
<td>1,195,000</td>
<td>1,525,000</td>
<td>1,160,000</td>
</tr>
</tbody>
</table>

*These are probably underestimates, because the average annual rebate of £15 will in practice tend to become higher if more and bigger households well up the income scale are brought in.
At their meeting on 23rd November (CC(67) 68th Conclusions, Minute 3) the Cabinet asked me, after consultation with the Chancellor of the Exchequer, the Secretary of State for Scotland and the Secretary of State for Education and Science, to circulate a paper about postponement of the raising of the school-leaving age (RSLA).

I now attach at Annex an agreed note setting out the facts about RSLA and the various arguments for and against it.

M. S.

70, Whitehall, S. W. 1.

3rd January, 1968
Raising the School-Leaving Age

Existing Commitments

The present commitment is to raise the school-leaving age (RSLA) from 15 to 16 in 1970-71. The decision to do this was announced by the Conservative Government in 1964, and has been endorsed by the present Government on a number of occasions.

2. The effect of RSLA would be (assuming continuation of present trends towards voluntary staying on) to keep in secondary school in Great Britain about 400,000 pupils who would otherwise have left in that year. Advance preparations have been gathering momentum over the past two years, and some expenditure on acquisition of sites, planning of buildings and curriculum development (including the retraining of teachers) has already been incurred or committed. The teacher supply programme has been based on the assumption that the staffing ratio in secondary schools would be built up during the period of relatively static secondary school population in the late 1960's in order to take the extra load in 1970-71 before the numbers begin to rise again for demographic reasons during the following decade. But because, even without RSLA, the staffing ratio in secondary schools would not be sufficient for some years to secure the elimination of classes over 30, the teachers resulting from this programme would still be employed. The main savings to be obtained from deferment are therefore:

(a) the capital cost, incurred mainly before 1971-72, of the buildings to house the extra 400,000 pupils; and

(b) the additional non-teaching current costs incurred in educating these pupils.

Savings

3. The table below gives details of the savings that would be obtained by deferring RSLA from 1970-71 to 1974-75. In the early years these would be entirely on capital account and, because of the significance of the programme to comprehensive reorganisation generally not all of these savings could be guaranteed in practice. (About 70 per cent of the capital expenditure relates to building work, 10 per cent to equipment and the rest to fees and sites.)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>England and Wales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>30.7 (a)</td>
<td>43.5</td>
<td>43.5</td>
<td>26.2</td>
</tr>
<tr>
<td>Non-teaching costs(b)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18.0</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>2.8</td>
<td>4.7</td>
<td>3.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Non-teaching costs(b)</td>
<td>-</td>
<td>-</td>
<td>1.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Total (G. B.)</td>
<td>33.5</td>
<td>48.2</td>
<td>48.4</td>
<td>47.6</td>
</tr>
</tbody>
</table>

(a) On the assumption that all RSLA starts could be deferred; in practice the saving actually achieved might be £2-3 million less.


School Staffing

4. The immediate effect on the pupil/teacher ratio of deferring RSLA from 1970-71 would be to improve it in 1972 by about 1.8 (2.0 in Scotland) compared with the corresponding figure if RSLA went forward as planned and the elimination of classes over 30 (in Scotland over 40 in the first three years of the secondary course and over 30 in the subsequent three years) would almost be attained by 1974 if RSLA was deferred (thereafter of course the position would return to that which would result from a 1970-71 RSLA). From the stand-point of the pupil/teacher ratio, there is however no date in the 1970's which would provide conditions any more favourable for raising the age than those in 1970-71.

General Manpower Considerations

5. The number of extra pupils compulsorily retained at school by RSLA in 1970-71 would be about 400,000 at a time when the working population is expected otherwise to be virtually static. The working population is forecast to fall by about 290,000 between mid-1970 and mid-1972. (The effect of RSLA on the working population at the point when it takes effect would not be greatly different in any year up to 1975.)

6. This has to be seen against a background of large demands for manpower for the public sector. The report of the Official Working Group on Public Service Manpower has estimated that the present forecast public expenditure programme implies an increase in public service manpower between 1960 and 1972 of over 400,000; and a fall in the working population of about half a million (including the effect of RSLA) over the same period. If RSLA is not deferred these might thus have to be a reduction of about 8 million employees in the private sector and nationalised industries during a period when efforts are being made to strengthen our economic position and achieve a permanent improvement in our capacity to export.

7. On the other hand, since a 15-year old is much less productive than the average worker, RSLA will have less effect on the productive potential of the economy than on the total numbers in employment; and a sharp fall in the availability of unskilled young workers might encourage a better use of manpower. Moreover, the places in England and Wales where voluntary staying on beyond 15 is least marked (and where RSLA would therefore have most significance) are the development areas and areas of high unemployment. More generally, the country will increasingly require more adaptability in its labour force, and over a period of years RSLA should contribute to a better educated working population, although the full benefits of this would not be felt for a considerable time.

Educational and Social Considerations

8. The Crowther and Newsom reports recommended raising the school-leaving age mainly for social reasons. There is much more voluntary staying on after 15 in wealthier families than in poorer; and there are also widening geographical differences. For instance, between 1956 and 1966 the proportion of children in maintained schools staying voluntarily at school to 16 increased from 17 per cent to
31 per cent in the south-east but only from 10 per cent to 18 per cent in the north of England. There is no reason to believe that these trends will be reversed. Deferment would therefore prolong social and geographical differences, and would leave the less well-off areas with a less well-educated labour force.

9. On the educational side, RSLA would produce a short-term worsening of the staffing ratio in secondary schools. In the longer term, the consensus of educational opinion is that despite the marked increase in the proportion of children in maintained schools staying voluntarily at school to 16 (from 13 per cent in 1956 to 25 per cent in 1966 in England and Wales) there are considerable numbers still leaving at 15 who could profit from continued education.

Summary

10. The balance of argument for and against deferment of RSLA can thus be summed up as follows. In favour of deferment is the total saving of about £175 million over the period 1968-69 to 1971-72; the postponement of a temporary worsening in the pupil/teacher ratio; and the avoidance of a loss of some 400,000 school-leavers to the labour force. The arguments against deferment are that it would cause some disruption to the planning of the school building programmes as a whole; and the other manpower, social and educational considerations set out in paragraphs 7 to 9 above.
CABINET

SALARIES OF MEMBERS OF THE BOARDS OF NATIONALISED INDUSTRIES

Memorandum by the Chief Secretary, Treasury

The Cabinet has invited me, after consultation with the Secretary of State for Economic Affairs and the Ministers responsible for the nationalised industries, to put forward proposals on the salaries of members of nationalised industry boards (CC(67) 62nd Conclusions, Minute 3).

2. The attached annex summarises the background to the problem, and possible solutions of it. I have discussed its substance with some of my colleagues, as Cabinet asked. In the course of the discussion it has become clear that there is a deeply felt difference of view among us about the action which we should take in the situation which faces us after devaluation. It has therefore not been possible to put forward agreed proposals; and this memorandum can only set out the points of view which have been expressed, as a basis for a final decision.

The case for an immediate increase in salaries

3. There is a strong case for increasing the salaries of board members, and improving their pension rights, so that they are reasonably comparable with those paid in similar posts in the private sector. Some of my colleagues feel strongly that the present state of affairs is causing such serious damage to the morale and efficiency of the nationalised industries, and consequently to the whole economy, that it is essential at least to start to put it right without delay. Although there are clearly political difficulties in announcing large salary increases for board members in present circumstances, they point out that there would be great presentational difficulties whenever we chose to announce them. Successful management of the economy is the best way of convincing the country of the rightness of our policies - and an important ingredient in this will be improvement in the efficiency of the nationalised industries for which the highest calibre of management (matched by appropriate salaries and pensions) is a necessary condition. It can be argued that the difficulties for incomes policy in giving large salary increases to board members can be exaggerated. The man in the street will appreciate the need for good management in these vital industries and that good managers must be obtained in a highly competitive market. He will also appreciate that there is not all that much difference in take-home pay.
The case against an immediate increase

4. On the other hand, it has been strongly urged that it is almost impossible to imagine a worse time at which to announce large increases in the salaries of highly paid people, particularly in the public sector. The success of our prices and incomes policy is essential to the success of devaluation. We shall be asking many relatively low-paid workers to exercise restraint in wage demands. For many this will mean a fall in their standard of living. It is hard to see how we can ask this of them, if we announce massive increases in the salaries of some of the most highly paid members of the community: and it was not disputed that a modest increase at the present time offers no solution.

An immediate reference to an outside body

5. Some of my colleagues have suggested that, even if it is not possible for us to announce immediate salary increases, we should still take some action at once. They suggest that we should now refer the whole question of nationalised board salaries to some outside body, such as the National Board for Prices and Incomes (NBPI) or a powerful independent committee appointed ad hoc. This would at least demonstrate to the staff of the nationalised industries that the Government was aware of their problems and was taking steps to deal with them. It would stop the decline in morale which the present situation is producing. As for the appropriate body for the reference, the natural suggestion is the NBPI, which is the statutory and independent body set up to consider incomes cases against the criterion of the national interest. The NBPI is well fitted to bring a wide range of considerations to bear on the problem, and it is part of the Board's normal procedure to take account in its report of all the repercussions of its recommendations. This would be particularly important in this case, because of the consequential increases for Chief Officers of nationalised boards that are likely to follow. On the other hand, it must be remembered that the order of increases that might result from a reference is well beyond what the NBPI normally deal with. Indeed, the good faith of the NBPI should it recommend such large increases might be called into question since its recommendations might ultimately affect the pay of its own members, as members of a public board. Moreover it cannot be guaranteed that it would be possible for us to accept the NBPI's recommendations when it produced them. Either of these eventualities carries risks for the standing of the NBPI. There is therefore something to be said for referring the question to a specially appointed independent committee. Alternatively, the difficulties associated with a reference to the NBPI could be reduced or avoided if the terms of the reference incorporated a decision by the Government that, in the interests of efficiency, the nationalised industries were to be put in a position from which they could compete more effectively with the private sector for managerial talent.

6. However, there are arguments against making an immediate reference to any outside body. Such a reference would be almost certain to be regarded as indicating that the Government wished to give large increases in board members' salaries, but was unwilling to take responsibility for the decision to do so itself. Because of this, it can well be argued that the disadvantages of making an immediate reference to an outside body are substantially the same as those of immediately announcing large increases in board members' salaries.
The questions for decision

7. We have then to answer the following questions:

(a) Should we announce forthwith increases in the salaries of nationalised board members?

(b) If so, what should be the basis of those increases?

(c) If we decide against announcing immediate increases, should we make an immediate reference of the question of board members' salaries and pension rights to some outside body?

(d) If so, what should that body be: the NBPI, or some specially appointed committee?

(e) What should its terms of reference be?

8. Having put these questions forward, I think it only fair to say that my own view is that we cannot announce immediate salary increases for board members, at this of all times. The success of our incomes policy is essential to the success of devaluation. I do not see how we can ask the workers of this country to hold back wage demands in face of rising prices if we give large pay increases to well paid staff in the public sector. It is not only board members who would get these increases. Chief officers below board level in the nationalised industries would also receive higher pay. This would not go unnoticed. No doubt the present tariff of board members' salaries creates difficulties; I do not underestimate them. But I do not believe that the present position is untenable. Nor should we overlook that it is possible to pay ad hominem salaries above the tariff rate in order to maintain the salary of a man from outside industry whom we wish to recruit to a nationalised industry post. After all, the pattern of salaries of the directors of private concerns is by no means uniform. The public will accept that one cannot well ask a man to take a cut in his present pay; they will not, in my judgment, accept that existing board members should receive large pay increases when all other sections of the community are being asked to make sacrifices.

9. For much of these reasons, I think it would be wrong to refer the question now to an outside body. Such a reference would be certain, in my view, to be regarded as an indication that we wished to give board members large salary increases. The resulting damage to incomes policy would be just as serious as if we announced actual increases.

10. I therefore suggest that we should agree to resume our discussions in, say, six months' time, and reach a decision in the light of the situation then.

J.D.

Treasury Chambers, S.W.1.

29th December, 1967
ANNEX

SALARIES OF MEMBERS OF THE BOARDS OF NATIONALISED INDUSTRIES

At their meeting on 30th October, the Cabinet invited the Chief Secretary, Treasury, after consultation with the Secretary of State for Economic Affairs and the Ministers responsible for the nationalised industries, to arrange for proposals on the salaries to be paid in future to members of the boards of nationalised industries, including the reorganised British Railways Board, to be put forward for consideration by Ministers collectively (CC(67) 62nd Conclusions, Minute 3). Treasury officials have discussed the problem with their colleagues in the Department of Economic Affairs and the Departments with responsibilities for the nationalised industries.

2. Officials point out that there is a strong case for a review of the salaries of members of the boards of nationalised industries ("board members"). The gap between the salaries of board members and men with comparable responsibilities in private industry was significant when the level of salaries in the nationalised industries was set immediately after the war. It is now much larger; and there is good reason to believe that at any rate Chairmen, Deputy Chairmen and board members with the heaviest responsibilities are receiving only one half, or even less, of the salaries paid in similar top posts in private industry. Moreover, their other conditions of service tend to be less favourable. This has affected the efficiency of the nationalised industries because it has reduced their ability to recruit and retain able board members.

3. Officials also point out that the relatively low level of board members' salaries has depressed the general level of salaries of senior managers below board level ("Chief Officers"). There is extensive evidence of the difficulties which the nationalised industries are finding because of this in recruiting and retaining able managerial and technical staff. The importance of the nationalised industries to the economy, and the importance of good management in them at all levels, are unquestionable. Some of the nationalised industries, such as electricity, have expanded rapidly, increasing the complexity and size of the problems their management must solve. Others, such as coal, are contracting; but this contraction itself poses problems no less difficult.

4. The difficulties have been increased by the setting up earlier this year of the British Steel Corporation. It is not easy to defend the great disparity between salaries paid in the BSC and in the other nationalised industries (the salary tariff of the BSC is shown in the Appendix to this note).

5. There is thus a case for a review of board members' salaries. Officials suggest that there are two alternative bases on which such a review might be conducted. It might aim at pay increases of a relatively moderate amount, such as 10 or 12 per cent, calculated for example by reference to movements in earnings in the economy generally since the last review (April, 1964). Alternatively, one could aim at putting the nationalised industries in a position from which they could compete effectively with the private sector for managerial talent by paying comparable salaries.

-4-
6. Officials suggest that the first alternative should be rejected, it would not go to the root of the present difficulties of the nationalised industries; it would be difficult to reconcile with incomes policy; it would provoke criticism, since any increase in what many members of the public regard as already high salaries would be criticised; and it could well lead to repercussions on pay in the public services.

7. The second alternative, on the other hand, would presumably solve the problems which the nationalised industries may be thought to face because of inadequate salaries. Equally, it would present some formidable problems.

8. Because salary practice varies widely in the private sector, it is not possible to show statistically or otherwise what rates of pay would be implied by this approach. Officials suggest, however, that a tariff of the order illustrated below would be consistent with it. (The present tariff is also shown for purposes of comparison).

Possible new tariffs

<table>
<thead>
<tr>
<th></th>
<th>£ per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present tariff</td>
<td></td>
</tr>
<tr>
<td>&quot;Maximum&quot;(a)</td>
<td>&quot;Minimum&quot;(a)</td>
</tr>
<tr>
<td>1. &quot;Major&quot; boards (b)</td>
<td></td>
</tr>
<tr>
<td>Chairman</td>
<td>12,500</td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>10,000</td>
</tr>
<tr>
<td>Members (full-time)</td>
<td>7,000-9,500</td>
</tr>
<tr>
<td>2. &quot;Minor&quot; boards (c)</td>
<td></td>
</tr>
<tr>
<td>Chairman</td>
<td>11,000</td>
</tr>
<tr>
<td>Deputy Chairman</td>
<td>9,500</td>
</tr>
<tr>
<td>Members (full-time)</td>
<td>7,000-9,500</td>
</tr>
</tbody>
</table>
Notes

(a) The "maximum" and "minimum" figures are based respectively on the figures suggested by management consultants as the limits of an appropriate salary range for the Chairmen of the major nationalised industries. The relativities shown are roughly in line with those now current; they could readily be modified if necessary. The widening of the salary bands for ordinary board members is discussed briefly in the text below.

(b) At present this denotes the National Coal Board, the British Railways Board and the Electricity Council.

(c) At present this denotes the Air Corporations, the Gas Council, the London Transport Board and the Central Electricity Generating Board. (The Chairman of the Atomic Energy Authority receives £11,000 a year, but the Deputy Chairman £10,000).

9. Clearly these large increases would present the problems mentioned at the end of paragraph 6 above, and in a severer form. There could be serious damage to incomes policy. There would certainly be repercussions, sooner or later, on pay in the public services. And it would be exceptionally difficult to defend giving increases to existing board members. (This is one reason for the suggested widening of the salary bands in the illustrative new tariffs above; another is that it is in line with the usual practice in private industry to have wide disparities between the pay of directors, even on the board of one concern).

10. To adopt anything like the tariff outlined in paragraph 8 above would undoubtedly create great problems of presentation. Officials suggest that if the increases it would lead to are to be acceptable to public opinion, it would be necessary to secure the endorsement of some outside body, such as the National Board for Prices and Incomes, or a powerful independent committee. There is the further point that the good faith of civil servants, in advising on this topic, might be suspected, however unreasonably, because it might be thought that their recommendations were influenced by the prospect that they would eventually affect their own pay. It would probably be unwise to ask the NBPI to take the initiative in formulating recommendations; this could damage their standing, particularly since it might be thought that they were interested parties because their recommendations would ultimately affect their own remuneration as members of a public board. Moreover, what would be in question is not the application of incomes policy, but a general political decision on the nature of nationalised industry boards and the appropriate policy for their remuneration.

11. Finally, officials recommend that any review should include pension arrangements and the remuneration of part-time board members.
APPENDIX

BRITISH STEEL CORPORATION SALARIES

£ per annum

Chairman 16,000 (personal rate)
Deputy Chairman 20,000-24,000(a)
Full-time members 15,000-19,000(a)

Note

(a) Abated for two years by 12 ½ per cent.
CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

CONCORDE PROJECT

Note by the Secretary of State for Foreign Affairs

The papers attached at Annexes A and B were before a meeting of Ministers under my chairmanship on Tuesday, 2nd January, 1968.

The tables attached at Annex C have been prepared following that meeting.

I propose to report orally to my colleagues on the substance of this discussion.

G. B.

Foreign Office, S.W.1.

3rd January, 1968
CONCORDE

Memorandum by the Minister of Technology

The meeting referred to in my minute of 11th September to the Prime Minister between the Minister of State and the French Minister of Transport (M. Chamant) to review the Concorde project took place on 11th December.

2. They had before them the latest report from the Concorde Directing Committee (Appendix A). This covers the same ground and follows closely the lines of Annex A to my paper CPD(67)79. There has been no change in the overall appraisal of the project since then. As shown by the Minister of State’s report to me (Appendix B) all aspects of the project were reviewed by him and M. Chamant.

Effects of devaluation

3. In prior agreement with the Treasury, we deliberately avoided discussing with the French the consequences of devaluation because we want more time to consider these ourselves. As regards its effects on the application of the equal-sharing principle, our tentative view is that any change in the existing arrangements would probably be to the UK’s disadvantage. Devaluation will result in a slight increase in development costs on the UK side on account of materials and equipment imported from third countries (mainly the USA): this should not exceed £3 M. But it should increase the competitiveness of Concorde in world markets, since the UK element in it should be cheaper in terms of other currencies.

Development Costs

4. The outcome of our re-examination of the development costs may be summarised as follows:
(a) If the existing development programme and timetable are maintained and things go reasonably well, the extramural development costs might be in the region of £550M. This is the lowest cost that can reasonably be expected.

(b) If it proves impracticable to maintain the existing programme unchanged because, for example, of problems at present unforeseen arising out of the flight programme or changes in airworthiness requirements, the extramural development costs might rise to £650/700M. If more money than this had to be spent to complete development, it would imply that the viability of the project was in jeopardy either because such fundamental changes to the aircraft had been found necessary as would cast doubt on the basic concept, or because the timescale had slipped to such an extent that its ability to compete with the American SST would be lost, or both.

(c) For the reason given in the Minister of State's report it is important that no publicity should be given for the time being to any higher figure than £500M for the extramural development costs.

(d) On the basis of the present programme (assumption (a) above) the U.K. intramural costs are estimated at about £31 millions. Intramural expenditure in France is on a similar scale. Intramural costs depend in large measure on the success of the extramural programme. The best estimate of U.K. intramural costs likely to be involved in the case of assumption (b) is about £35 million.

Technical Appraisal

5. Inevitably success is uncertain, but, as of today, there is no ground for altering the conclusion reached in OED(67)79 that despite the continuing problems and uncertainties there is no technical justification for stopping the project.

Position of the French Government

6. I agree with the Minister of State's conclusion in his report that the French will give us no foothold at this stage for considering jointly the possibility of stopping the project. Any suggestion of this kind from us would
be interpreted as an attempt at unilateral withdrawal. Barring unforeseeable catastrophe this situation is not likely to change before the first half of 1969. Not until then shall we have sufficient information to reach a firm conclusion on the overall viability of the project. (Between the beginning of 1968 and the middle of 1969 we shall have had to spend about another £671M on development and another, say, £25M on production).

Conclusions

7. In my paper, OPD(67)79, I reached the following conclusions:

(a) The prospects of technical success inevitably remain uncertain, but are not in themselves sufficient to justify cancellation.

(b) The economic prospects considered in relation to balance of payments benefits are also uncertain, but on certain sets of defensible assumptions they support a case for continuing.

(c) The domestic industrial and unemployment consequences of cancellation would be serious in Bristol, far-reaching for BAC and the aircraft industry in general, and would accelerate the brain drain.

(d) The French appear determined to continue with Concorde, and were we to seek to cancel, they would be certain to exploit the issue to our disadvantage.

(e) Continued avoidance of further public pledges of support for the project while refraining from actively working towards its cancellation gives us the worst of both worlds.

I believe that these remain valid, and that we have no alternative but to continue with the project, and, subject to keeping in under continuous close scrutiny, to give it our full support and to discount rumours of its impending cancellation.

8. We must therefore take all the necessary steps (including legislation) to enable production finance to be provided as required. It is likely that about £100M of working capital will be needed between now and 1972. Up to £25M of this would come from bank loans backed by Government guarantee, and the rest from direct loans to the firms. The Export Credit Guarantee Department would participate at the later stage of sales financing. Assistance in providing fixed assets to the value of some £30M will also be required. The detailed arrangements were set out in ST(67)10.
Recommendations

9. (1) Subject to continuous scrutiny the project should proceed with our full support.

(2) Arrangements for financing production should proceed on the lines described above.

(3) Provision for the financing of Concorde production should be made in the Industrial Expansion Bill.

A.J.B.

Ministry of Technology
Millbank Tower, S.W.1.

20th December, 1967.
REPORT TO BRITISH AND FRENCH MINISTERS
BY THE CONCORDE DIRECTING COMMITTEE (CDC).

Introduction

The CDC believe that the British and French Ministers primarily responsible for Concorde will find it useful to have a report from the CDC as a basis for discussion at their meeting which has been arranged for the time of the roll-out of the first prototype aircraft. The CDC further believe that the most useful form of report is one in which officials describe and express their views on the principal problems bearing on the future of the project, rather than a report which catalogues what has already been achieved.

First Flight

2. The first flight of Concorde remains planned for the Spring of 1968, but a certain number of difficulties have still to be overcome. A delay of several weeks, or even of some months, on the planned date of 28th February thus remains possible.

Technical problems bearing on success

3. Concorde could not be reckoned a success unless the aircraft -

   (a) secures certificates of airworthiness from the British, French and American airworthiness authorities;

   (b) is accepted by civil aviation authorities around the world without operating restrictions that would be unacceptable to the airlines (the areas in which there is some cause for anxiety being noise, sonic bang, and to a lesser extent, runway loading);

   (c) offers a performance that most of the major long-haul airlines regard as adequate.

Unless these aims are achieved, the aircraft will not sell in large numbers, or even at all, no matter at what price it may be offered or what it would cost to operate.
Airworthiness

4. Before an airline can operate any type of aircraft, it must have a 'type' certificate of airworthiness (C. of A.) issued by, or acceptable to, the airlines' own government. For success in a world market, Concorde must meet the requirements of the British, French and American airworthiness authorities. American certification is necessary for 58 of the 74 aircraft for which delivery positions have so far been reserved. All three are working out regulatory codes for SSTs as the designs of these aircraft are being evolved. The British and French are working to a common code; the Americans are evolving their own code, which is not necessarily more stringent than the British/French code - it is merely different. It will be more difficult for the designers (both of Concorde and of its American rival) to meet both codes than it would be to meet either one. Therefore the British/French authorities and the American authorities are keeping in close touch with the aim of achieving as much commonality as possible. Complete failure to achieve certification is thought to be highly unlikely barring some quite unforeseen technical disaster; the anxiety rather is lest the airworthiness authorities qualify their approval by operating restrictions or insistence on expensive and time-consuming modifications to the design. This anxiety is not great with regard to British/French certification: it is slightly greater with regard to American certification. It is not thought likely that the American authorities will be deliberately obstructive in order to damage the prospects of a rival to their own industry's product, and provided Concorde is certified for operation by BOAC and Air France, American airlines will be exerting strong pressure on the FAA to give it American certification. The aim is to achieve British, French and American certification by June 1971. It is thought likely that this can be achieved.

Operating restrictions

5. Certification of airworthiness is essentially related to safety. Civil aircraft also have to meet the requirements of the authorities responsible for the airports from which they are to operate. There are only two such kinds of requirements that give cause for anxiety in the case of Concorde - they relate to runway loading and engine noise.

Runway loading

6. A balance is continually being struck between designing aircraft to suit existing airports, and improving airports to suit new designs of aircraft. When the present generation of American-built
Intercontinental jets first appeared on the world's air routes, they were barred from certain airports because the runways were too short. Their British rival, the VC.10, was designed specifically to suit these existing shorter runways, and other desirable features were sacrificed in order to achieve this. In the event, airport authorities lengthened their runways rather than lose the traffic of the American-built jets, so that the VC.10's advantage became irrelevant, whereas its built-in penalty continues. The next generation of American-built aircraft - the Boeing 747 (jumbo-jet) and Boeing 2707 (SST) require various airport improvements, some of which have already been put in hand. But airports that are adequate for existing subsonic jets should be quite adequate for Concorde, but for one characteristic for which Concorde's requirements are probably more exacting than those of the two new American types - that of runway loading. One way of expressing this is by the Load Classification Number (LCN) and is a function of wheel load, wheel spacing and runway thickness.

7. Concorde's LCN is likely to be high because the limited volume available in a supersonic aircraft largely decides its undercarriage design. This means, for example, that unless the relevant authorities alter their present regulations or strengthen their runways, Concorde would only be able to operate from certain airports at a reduced take-off weight. The airports in question are about one third of the total on the world's long-haul routes, and generally speaking they are the less important ones. Such limitations, even if they still apply when Concorde enters service, will not be crucial to its commercial success but, depending on their severity, they will cut into the potential market.

Engine noise

6. The noise that the engines of jet airliners cause in approaching to land, and immediately before and after take-off (that is to say, in the vicinity of airports) is a problem that is causing growing concern in many countries. (Once modern airliners have achieved their cruising height, the noise from their engines is too faint to cause much annoyance). Many airport authorities have stringent rules intended to keep this nuisance within acceptable limits and which oblige airlines to operate their aircraft in ways which add to their costs and are otherwise unwelcome to them.

9. The design aim for Concorde has been engine noise levels that are no worse than those currently accepted at major airports for existing subsonic airliners such as the Boeing 707 and the VC.10. Until the development programme is further advanced, and in particular until Concorde prototypes have been flown with engines at full power, predictions of noise levels must be based largely on theoretical calculations. The current assessment is that the noise on approach to land will be rather better
than that of existing subsonic airliners, that noise after take-off will be on balance about the same but that the so-called 'lateral' noise - the noise heard around the runway when the engines are at their full power for take-off - is likely to be considerably worse. Engine noise is difficult to predict, and difficult to express in simple terms even when it can be measured. The important point to note is that the lateral noise from Concorde is likely to be such as would not at present be accepted by the airport authorities at London, Paris-Orly or New York. There is nothing to be gained at the moment from approaching the New York authorities, but it is important that the British and French airport authorities should consider now how Concorde is to be operated from their airports. A great effort is being made to arrive at more reliable estimates of lateral noise, and to devise ways of reducing it with acceptable penalties in terms of time, aircraft performance and cost. There can be no guarantee that these efforts will be successful, and the problem thus justifies serious anxiety.

10. The British, French and American governments are working towards a policy of requiring all newly designed civil aircraft to have a noise certification (i.e. something akin to a certificate of airworthiness) without which they would not be allowed to operate. It is generally accepted that noise certification regulations should not be applied retrospectively, and the British/French position is that they should not apply to Concorde since the design of this aircraft is already under way. There are reasons for doubting whether this position will be wholly acceptable to the Americans (although it is clear that the Boeing 2707 will not meet the revised regulations) and this provides further grounds for anxiety regarding Concorde's engine noise.

Sonic boom restrictions

11. The exact nature of the boom that Concorde will make will not be known until the aircraft has flown supersonically, but this is not a gap in our knowledge that contributes materially to the difficulty in assessing its acceptability. Whatever the exact nature of the boom, it will be impossible to alter it significantly by modifying the design. The boom can be avoided entirely only by flying the aircraft at below supersonic speed. Concorde is in fact designed to have a performance (in terms of payload/range) at subsonic speed that is not greatly inferior to that at its design supersonic speed. But to fly subsonically is to lose the sole advantage that an SST has over subsonic aircraft, and would only be acceptable to the airlines for relatively short 'legs' at the beginning or end of a supersonic flight. There are other operating restrictions - for example, on rate of climb and on rate of change of direction - that would reduce sonic boom - but these too would be regarded by the airlines as penalties. In short, there is no foreseeable technical solution to the problem of the sonic boom, and the most important questions are, what are the nature and
extent of the operating restrictions that governments around the world will eventually apply, and what will be the effect of these restrictions on the market.

Performance

12. 'Performance' is a word that is capable of almost infinite extension of meaning in relation to aircraft design. The most important factors, however, are speed and payload/range.

13. Concorde is being designed for a cruising speed of over twice the speed of sound (i.e. over Mach 2). It has recently been decided to accept a reduced aim of Mach 2.05 instead of Mach 2.2 so as to give a greater margin of assurance in achieving other design aims. This is not likely to have a substantial effect on the attractiveness of Concorde to the airlines, and there is no serious doubt as to the likelihood of its being achieved.

14. As regards payload/range, Concorde is being designed to carry, on its entry into service in the winter of 1971/2, a payload of 20,000 lb. regularly between Paris and New York. (The London/New York requirement is more easily met, the distance being slightly shorter). With the installation of improved engines in 1973, the aim is to raise this payload to 25,000 lb. The standard version now being offered to the airlines provides for seating for 132 passengers, in a one class configuration. As with any aircraft, greater range can be had, within certain limits, at the cost of reduced payload, and vice versa. Payload/range is also dependent on meteorological conditions, and the figures given above are for a certain degree of regularity of service in certain defined critical meteorological conditions. Thus the figures need not be regarded as absolute requirements. At the same time, there can be no doubt that unless Concorde can carry something closely approaching the design payloads between Paris and New York in the defined conditions, airlines will not find it acceptable for North Atlantic operations, and this in turn would mean that at best the potential market was drastically reduced, but more probably that it collapsed entirely.

15. The main reason for anxiety about the achievement of the required payload/range - and it is a substantial reason - lies in the growth in the aircraft's actual and predicted weight. With two prototypes almost complete we now are in a very good position to estimate what would be the weight of the slightly larger pre-production and production version, provided they were built to the currently-proposed design. The difficulty that arises is that of estimating what weight increases are likely to result from design changes found to be necessary as a result of -
(a) development flight-testing;
(b) modifications that the airlines will insist upon.

Owing to deterioration (corrosion, accumulation of dirt, etc.) the weight of an aircraft increases significantly in service. When due allowance has been made for this, and for (a) and (b) above, the best available evidence suggests that we are very finely balanced between success and failure in relation to planned performance/range. Which way we are likely to fall should become much clearer by about the middle of 1969: by that time we shall know more definitely what modifications the airlines will insist on, and we shall have had a few months of development flying on which to judge the need for design changes.

**Inter-relationship of technical problems**

16. It should be appreciated that many of the problems so far discussed are inter-related. Other things being equal, additional weight exacerbates the problems of engine noise, runway loading, and the penalties resulting from sonic boom restrictions, and noise reduction may imply curtailment of payload/range.

**Progress in defining the technical definition of the production aircraft**

17. Last July, the manufacturers issued to the airlines a proposed technical specification of the production aircraft to serve as a basis for further discussions that are now proceeding and that are expected to be substantially completed in the Spring of 1968. The purpose of these further discussions is to evaluate the various modifications proposed by the various airlines in relation to their effect on payload/range and on development and production costs, so as to enable the manufacturers to arrive at an optimum definition which will serve as a basic production standard. These discussions between airlines and manufacturers are going well and are being closely monitored by officials.

**Development cost estimates**

18. The annual revision of the four manufacturers' estimates of their expenditure on development is due by the end of December. Preliminary indications are that their total will reach the official estimate of £500m. (7,000 MF) (at 1966 prices and the old exchange rate) to which the Governments are still publicly committed. The re-examination of the estimates being made by officials in Britain and France is not yet complete, but it is clear that the £500m. estimate will be substantially exceeded. British and French officials hope to be able to give Ministers their appraisal of the probable cost range at the meeting on the 11th December.
Incentive contracts

19. In recent weeks, some progress has been made, with difficulty, towards agreeing a basis on which negotiations can proceed with each of the four main contractors towards the conclusion of incentive contracts for the development of Concorde. It must be recognised that the firms maintain their refusal to risk their own money, so that incentives can only be made to bear on their profits. The aim is to have such contracts signed by 1st April, 1968. However, although officials have been encouraged by recent progress and believe that the negotiations are well worth pursuing, it is too early yet to be confident that their efforts will be crowned with success.

Unit production costs and selling price

20. The figures and the opinions thereon which are given in the following paragraphs are based on the exchange rate of £1 equals 13.8 F.

21. BAC and SUD have recently submitted revised estimates of the average unit production cost of the aircraft and the selling price that would result from this after the addition of a Government levy for the recovery of the investment in development. Details of these estimates are as follows:

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<thead>
<tr>
<th></th>
<th>£M</th>
<th>MF</th>
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<tbody>
<tr>
<td>Actual cost of manufacture</td>
<td>6.1</td>
<td>84.4</td>
</tr>
<tr>
<td>Other costs to be recovered by manufacturers from receipts from sales (finance charges, profit, etc.)</td>
<td>1.2</td>
<td>16.0</td>
</tr>
<tr>
<td>Government levy (at 4%)</td>
<td>0.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Total selling price</td>
<td>7.5</td>
<td>103.8</td>
</tr>
</tbody>
</table>

22. The above figures assume that 100 aircraft are sold, over which the costs can be averaged, and that they are produced at a rate of three to four aircraft a month. If it were assumed that the programme were continued, and a large number of aircraft produced and sold over which the costs could be averaged, then the selling price could be reduced slightly.

<table>
<thead>
<tr>
<th>Quantity of aircraft sold</th>
<th>Average unit selling price</th>
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<tbody>
<tr>
<td></td>
<td>£M</td>
</tr>
<tr>
<td>100</td>
<td>7.5</td>
</tr>
<tr>
<td>125-150</td>
<td>7.1</td>
</tr>
<tr>
<td>200</td>
<td>6.9</td>
</tr>
</tbody>
</table>
23. Officials have examined the composition of the estimates included in the above figures. Although they have doubts about some of the details, they have at present no specific ground for challenging their broad validity. However, in view of the history of under-estimation on this and other aircraft projects in the past, the CDC can give no guarantee that production costs will not rise above those now quoted by the manufacturers. The current estimates in fact show the following increase compared with those submitted in 1966 for a production run of 100 aircraft.

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<thead>
<tr>
<th></th>
<th>£M</th>
<th>MF</th>
<th>£M</th>
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<tbody>
<tr>
<td>1966 estimated price</td>
<td>6.0</td>
<td>82.3</td>
<td>16.8</td>
</tr>
<tr>
<td>1967 estimated price</td>
<td>7.5</td>
<td>103.8</td>
<td>21.1</td>
</tr>
<tr>
<td>Increase</td>
<td>25%</td>
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Economic conditions of June 1965
Economic conditions of June 1967

Estimated selling prices include an allowance for Government levy at 4%. It is of interest to note what would be produced by a levy on sales if the following assumption about the levy rates - the basis of tentative discussions with the firms - were adopted:

- First 50 aircraft: 4%
- Aircraft 51-100: average of 7½%
- Aircraft 101-150: 10%
- Spares (at 85% of value of each aircraft): 10%

<table>
<thead>
<tr>
<th></th>
<th>100 aircraft</th>
<th>150 aircraft</th>
<th>200 aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy on complete aircraft</td>
<td>£43</td>
<td>£593</td>
<td>£75</td>
</tr>
<tr>
<td>Levy on spares (cost of spares assumed to be 85% of the value of each aircraft)</td>
<td>£64</td>
<td>£878</td>
<td>£89</td>
</tr>
<tr>
<td>Total</td>
<td>£107</td>
<td>£1471</td>
<td>£164</td>
</tr>
</tbody>
</table>

Sales prospects

24. These calculations raise an interesting question: would the market not stand a higher selling price, and therefore a higher rate of levy? Alternatively, will the market stand levies as high as these? It is obvious that the number of Concorde sold will to some extent...
depend upon the price at which they are offered. Within limits, the promoters of Concorde (that is to say, the two Governments, and the four contractors collectively) are free to decide either the numbers of Concorde they will sell or the price at which they will sell them, although they cannot decide both the numbers sold and the price. In a completely free market, and again within certain limits, the demand for Concorde from the airlines might be very elastic in relation to price. But there is not a completely free market. The CDC believe that the airlines will show a strong tendency to adopt a common attitude to the price they will pay for Concorde. (The collaboration between the airlines that has been developed to deal with the problems of defining the basic standard, whilst it has in other respects been of advantage to the project, shows signs of developing into collaboration in regard to the negotiation of firm orders with BAC and SUD).

25. The CDC believe that the key to substantial sales of Concorde lies in the securing of initial firm orders from Air France, BOAC and PanAm. It should be noted that neither the British nor the French national airlines is yet firmly committed to Concorde. Assuming, however, that they do eventually place firm orders for the first six of the eight aircraft that have been reserved for each of them, the CDC believe that few, if any, further orders can be expected unless the Air France and BOAC orders are followed by a firm order from PanAm. But once firm orders from these three airlines are secured, it is likely that the confidence in the aircraft that these orders will engender and the competitive pressures on the other airlines to provide a supersonic service, will result in a chain reaction of substantial further orders.

26. A list of the delivery positions currently reserved is attached. It would be wrong to count on all these being converted later into firm orders; whether or not this occurs will depend on the considerations described in the preceding paragraph. On the other hand, what appears to be a lull in the negotiation of new options should not be regarded as proof that no more than about 74 can be sold. There are two main factors at present inhibiting airlines from negotiating further options.

(a) Virtually all the airlines that could make a profitable use of Concorde have already secured options. It would require the reservation of further positions by one of the leaders (for example, PanAm or TWA) to set off another chain reaction of further orders.

(b) The size and shape of the production programme planned in such that deliveries cannot now be offered until late in 1974. By this time the competition of the Boeing 2707 (discussed elsewhere in this report) is casting its shadow.
American and Russian competition

27. The Concorde Economics Prospects Committee, reporting in January 1967, thought it 'more likely than not that the Americans will eventually be obliged either to aim at an even later date for the introduction of their aircraft or to aim at lower standards of performance for the aircraft when first introduced than those hitherto contemplated'. Subsequent events have borne this out: the programme has slipped by at least six months. First flight is now planned for the end of 1970 and first deliveries to airlines at the end of 1971—about 3 years behind Concorde. Many of the difficulties that Concorde has encountered and surmounted are now being met for the first time by its American rival. All the evidence suggests that the increases in weight and the reduction in payload/range that have had to be accepted in relation to Concorde will also have to be accepted in due course in relation to the Boeing 2707.

28. Nevertheless, the maintenance of several years' lead over the Boeing 2707 remains of crucial importance for Concorde. There is no reason to believe, at present, that this lead cannot be maintained.

29. There are indications that, contrary to earlier rumours, the first flight of the Russian SST (the Tupolev 144) is likely to be some months behind that of Concorde. There is still no reason to consider this aircraft as a significant competitive threat to Concorde.

Size and shape of the production programme

30. The basis for the production of Concorde aircraft in quantity for sale to the world's airlines already exists in the capital facilities and experience required for the development, and it includes tooling sufficient for an output of 3 aircraft a month from the two final assembly lines in Bristol and Toulouse.

31. The manufacturers have presented to officials a choice of three production programmes based on this capacity. The following table shows the cumulative deliveries that would result from each of these three programmes.

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<td>31</td>
<td>58</td>
<td>91</td>
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Programme number 1 corresponds to the programme proposed by the firms at the end of 1965; programme number 2 corresponds to proposals by the firms for an accelerated programme; programme number 3 represents a counter-proposal being studied at the request of officials.
It is not necessary to decide upon which programme to embark before 1st April, 1968, and having decided to embark on a particular programme, it will be possible within limits to alter course as it becomes progressively earlier to assess the prospect of the technical, financial and commercial success of the Concorde project. Officials hope to make positive recommendations to the two Governments early in the New Year. Meanwhile, it may be noted that none of the proposed programmes offer delivery of more than about 100 aircraft before the shadow of the Boeing 2707 may be expected (on present plans) to fall across the market. It is therefore unrealistic to consider the possibility that numbers greatly in excess of 130 (the 'central' estimate of sales up to 1975 made by the CEPC) will be sold unless one is prepared to envisage one or more of the following possibilities being fulfilled -

(a) A substantial increase in the planned rate of production (which implies authorising additional tooling and capital investment and accepting greater risks in the event of technical or commercial failure.)

(b) A substantial weakening of the competitive threat posed by the Boeing 2707 (such as would result from a lengthening of the 3 year gap in availability between Concorde and its rival).

Financing production

32. A bill to provide the British Government with powers to finance the production of Concorde will shortly be placed before Parliament. Meanwhile the financial sanction required by the British manufacturers to proceed with production is being provided on an interim basis. On the French side the procedure permitting the firms to proceed with production has been adopted in the course of 1967. This procedure is similar to that put into effect for Caravelle.

(signed)

Chairman of the CDC and Leader of the British Delegation

Vice-Chairman of the CDC and Leader of the French Delegation
<table>
<thead>
<tr>
<th>Airline</th>
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<td>Air France</td>
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<td>BOAC</td>
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<td>Pan American</td>
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<td>American</td>
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<td>Eastern</td>
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<td>Qantas</td>
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<td>MEA</td>
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<td>Japan Air Lines</td>
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<td>Air India</td>
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<td>Braniff</td>
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<td>DLH</td>
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<tr>
<td>Air Canada</td>
<td>4</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>74</strong></td>
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You will wish to have an immediate report from me on my discussion on 11th December with M. Chamant. A full record of the meeting will be available in a few days time.

2. Our discussion was a long and frank one. I made quite clear our disquiet over a number of features of the Concorde programme, particularly development costs, payload/range capability, take off lateral noise, sonic bang restrictions and runway loading. M. Chamant readily accepted that there were serious problems ahead but gave no indication that they were such as to cause the French Government to waver in its determination to continue with the project. More than once he referred to the way in which many of the daunting problems already encountered had been overcome and he was hopeful that the efforts being made to solve the remaining problems would be equally successful.

Development Costs

3. On development costs we outlined the reasoning which led us to believe that the minimum would be £550 million and that it was only realistic to recognise that circumstances could well arise that might result in the development cost rising to £650/700 million. M. Chamant's officials argued that the only cost estimates which should be considered by Ministers were those formally agreed by the Concorde Directing Committee and that it would be three months before revised estimates from the Committee (which would be based on thorough study of the revised estimates by the firms due at the end of the month) would be available. M. Chamant did not try to argue that our appraisal was unreasonable but the furthest he would go was to agree that the figure of £500 million was going to be exceeded and that we must return to the matter at our next meeting in 3 months' time in the light of the further advice from the Concorde Directing Committee based on the revised estimates from the firm.

Payload

4. I referred to the disquieting statements on the payload/range problem in the Concorde Directing Committee's Report and tried to get M. Chamant to agree that a payload of less than 20,000 lbs. for the Paris - New York route on hot days would seriously jeopardise the sales prospects of Concorde. While he accepted the report of the C.I.C. he thought it impracticable at this
stage to put a precise figure on the minimum payload which would make Concorde saleable. He argued that this was a matter that could only be settled when the actual performance had been established by the flight test programme and the results discussed with airlines since the operational economic viability of Concorde must, among other things, be a function of the fare structure that airlines were willing to accept. In their view, firm judgments on these issues could probably not be made before the middle of 1969. This accords with advice of our own officials.

Lateral Noise

5. M. Chamant agreed with me that the lateral noise from Concorde at take off was a serious problem, and that if it led to the Americans forbidding Concorde to operate from New York we should be in serious trouble. He took the view that whilst we could not at present be sure that the New York authorities would not forbid Concorde to use John F. Kennedy airport there was some ground for hoping that this would not happen, since Concorde was unlikely to be any worse than the Boeing 2707, and the Americans were unlikely to take the political responsibility of imposing conditions on Concorde which would prevent its operation but which would later have to be relaxed to allow operation of the Boeing 2707. He was unable to give a categoric assurance that they would not place any restrictions on the operation of Concorde from their own main airports but said that in the case of the new Paris (Nord) airport the noise levels assumed were higher than those for existing jet aircraft and they thought that Concorde noise would fall within these assumed limits. I said that we had not yet made a decision concerning operation from Heathrow.

Sonic Bangs

6. On sonic bangs, M. Chamant said that the French Government had not yet taken a decision on whether or not supersonic transport aircraft should be allowed to fly at supersonic speeds over France. However, from comments on this question made by his officials, it seems unlikely that they will introduce an absolute ban on such flying but they may place restrictions on routes to be used in order to avoid the larger centres of population. They are against any further series of tests on the Oklahoma City pattern on the grounds that these produce atypical reactions from the public, and consider that in any case there will be little more to be learnt on public reaction until Concorde itself is flying at supersonic speeds. I said that we had not yet taken any decision about overland supersonic flights, and we agreed that if possible our two Governments should act jointly in dealing with other countries.
Runway loading

7. I stressed the serious view taken by our colleagues on the runway loading position in view of the effect on the economic prospects for Concorde if it was not able to use certain important airports. M. Chamant thought it unlikely that by the time the aircraft came into service it would be a serious problem. He argued that airlines who ordered Concorde would almost certainly bring pressure to bear in their countries to ensure that runways at the airports Concorde would use would be brought up to the required standard. He also pointed out that certain countries whose airlines had taken or were likely to take options on Concorde, such as Japan, the Lebanon and the Argentine, were at present considering improvements at their major airports. It should, of course, be borne in mind that the runway loading of the Douglas DC.8/63 series of airliners is as serious as that of Concorde. Improvements at airports are likely to be introduced to meet the requirements of the Douglas aircraft with its earlier in-service date (by some 4 years).

Selling price and options

8. I raised with M. Chamant the question of the selling price to be quoted to airlines for production aircraft. He agreed with me that the present option price of $16 million was obviously too low and that while the timing of the revision of this price to airlines who had already taken options was a matter which would require careful consideration, the manufacturers must be instructed not to quote a price on new options without consulting our two Governments. We were not able to agree immediately what the new option price should be but we have instructed the Concorde Directing Committee to study this matter and the question of revising the price of present options, to consult with the firms, and to report back at our next meeting. We agreed that an important factor in fixing the final selling price would be the price that Air France and BOAC would be prepared to pay but neither of us at present could state what that price would be. M. Chamant was, however, able to state that he had an assurance from the Chairman of Air France that if the performance and economics of Concorde could be shown to be satisfactory to them by the beginning of 1969 Air France would then place a firm order, and M. Chamant added that if the performance of the aircraft was satisfactory the French Government would bring great pressure to bear on Air France.
Incentive Contracts

9. We agreed that every effort should be made to achieve incentive contracts by 31st March 1968 and that while negotiations were proceeding no publicity should be given to any development cost estimate in excess of £500M.

Airworthiness

10. M. Chamant and I took note of the fact that since the Concorde Directing Committee’s report was prepared it had been decided that a high level Anglo-French team of representatives from the airworthiness authorities and the firms should discuss airworthiness problems directly with the F.A.A. We agreed that until the outcome of these discussions was known there was no further action that we could take.

Conclusion

11. The meeting provided the opportunity for a useful exchange of views. We agreed that while we could not reach conclusions on the various points raised in the discussion and in my letter of 6th December to M. Chamant, we must keep them under review between us and we should meet again in three months time.

12. From M. Chamant’s demeanour throughout the meeting I am sure that it would be dangerous to assume any weakening in the French resolve to carry the Concorde programme through to its planned conclusion. They will give us no foothold at this stage for considering jointly the possibility of stopping the project. Any suggestion of this kind from us would be interpreted as an attempt at unilateral withdrawal and as showing that we lacked faith in the future of European Technology and were unreliable partners.

13th December, 1967

JOHN STONEHOUSE
CONCORDE

Introduction

This paper discusses the feasibility of cancelling Concorde, and the legal, political, financial and economic implications. It does not seek to make the case for continuing with the project, which has been set out in AI(67) 6.

Technical and Financial Status of Concorde

2. This is summarised at Appendix I. Briefly, though there are inevitably technical uncertainties and the project is finely balanced between success and failure, there are no overriding technical grounds to justify cancellation now. The first aircraft is just about to fly and we are unlikely to know for another eighteen months, from progress with flight trials and from the number of firm orders placed by airlines, whether the project is viable or should, on its own merits, be cancelled.

3. By then, the current United Kingdom spend of £100 million will have risen to nearly £200 million.

4. The full development bill for ourselves and France has risen from a first (though incomplete) estimate of £135 million to a current estimate, in our view, of £550-700 million, depending on the technical difficulties encountered in the rest of the programme. The French agree that the currently published figure of £500 million will be exceeded, but do not admit our new estimate; they appear determined to continue the project.

5. Were it not for the possibility of an award of damages by the International Court, cancellation might be expected to save the Exchequer between £125 million and £200 million (depending on whether the development cost turns out to be £550 million or £700 million), though this saving would be reduced by the forfeiture of £30-60 million possible revenue from a levy on sales, we should also avoid the need to lend United Kingdom firms £125 million or so as working capital for production, and should avoid the risk of production losses several £100 million higher if disaster overtakes the aircraft when it goes into service. In the next two years, calls on the Exchequer would be reduced, as a result of cancellation (leaving damages on one side) by some £40 million in 1968-69 and £50 million in 1969-70. These figures include £30 million by way of loans for production.

-21-
6. Production must begin now, both to meet the needs of the programme and to catch the market. There is no prospect of selling enough aircraft to enable Governments to recover all their development expenditure. If we assume sales of 130 aircraft, up to one-third of this expenditure will be recovered, and the implied foreign exchange preference involved in footing the remainder of the development bill is some 17 to 33 per cent, depending on assumptions about selling price etc. Over a wider range of possible sales - say 90 or 150 - the implied preference would vary between 51 per cent and 14 per cent (see table in paragraph 7 of Appendix I).

Implications of cancellation

7. The remainder of this paper examines the legal implications for cancellation, and the economic, industrial and political implications.

Legal Implications

8. (a) The legal implications of the cancellation of the Concorde Project by the United Kingdom (other than of a political character) are examined in Appendix II

(b) The Agreement for the development and production of the Concorde Aircraft is an international treaty. Unilateral termination of the Treaty by the United Kingdom without lawful justification would be a breach of its international obligations.

(c) Although circumstances might develop which would justify unilateral termination, it is not considered that, at the present time, technical considerations, the escalation in cost or the uncertainty of operational success of the Concorde, would provide lawful justification. Accordingly, it is unlikely that unilateral termination would be held by the International Court of Justice to be lawful.

(d) The Treaty could, of course, be terminated at any time by agreement between the United Kingdom and France. But it is difficult to forecast the circumstances that might justify unilateral termination in the future.

(e) If France were to proceed against the United Kingdom before the Court basing its complaint on unilateral termination, the Court would probably hold the United Kingdom in breach of its international obligations and award damages to France.

(f) Any estimate of the amount the Court might order must necessarily be speculative. Unless the United Kingdom can take steps which would lead the Court to take a more lenient view, damages awarded might be about £150 million to £200 million. Therefore, it is possible that the
cost to the United Kingdom of the Court's award of damages would be no less than the cost of continuing with the Concorde project. However, the position might be ameliorated if a serious attempt were made to make a settlement with France resulting in termination of the Treaty, not unilaterally, but by agreement. The implications of this course would need further study, but at first sight the prospects of achieving a solution on these lines which would not at the same time erode the economic advantages of withdrawal, appear remote; and it would in any case be essential to avoid a prolonged period of uncertainty during the negotiations.

(g) The case both as to liability and as to damages could be submitted to the Court by agreement between the United Kingdom and France. There would not seem to be any advantage in agreeing to submit the issue of liability, but there might be some advantage to refer simply the question of damages either to the Court or to arbitration. In the absence of any such agreement, France would be able to bring the case before the Court by unilateral application.

(h) Any such proceedings would be likely to take two to three years.

(i) It would be difficult for the United Kingdom to make any plausible case on the legality of unilateral termination. Probably the best type of presentation would be one that picked up all possible threads with a view to demonstrating that it had become unreasonable to expect the United Kingdom to continue to fulfill the Treaty. The most effective considerations would be the doubts as to the success of the project combined with the escalation in cost. Although this kind of argument is not likely to be effective on the legal merits, the outcome of litigation is always uncertain and it might help in the question of damages. If the Court were satisfied that the United Kingdom had acted reasonably, there is a fair chance that the Court might be persuaded to award a sum of less than the amount indicated in paragraph (f) above.
Political Implications

9. Outright cancellation may be expected to bring the following consequences:

(a) World-wide

Our action would devalue international legality, and license others to do the same to us elsewhere. By abandoning an advanced project of world-wide interest we should strengthen the impression that Britain is on the way out, both as a Power and as a producer and exporter in fields of advanced technology. Some sections of international opinion, however, would regard our withdrawal from the project as evidence of our determination to get our economic priorities right; and if our action were presented as one of a series of drastic measures designed to restore the health of our economy it would improve international confidence in sterling.

(b) In France

The short-term effect of cancellation on Anglo-French relations seems unlikely to be great: it could hardly make French policies more negative towards us than they already are. French propaganda would however exploit cancellation, making the most of the contrast with our attitude at the roll-out; the timing of it, just before the first flight due in March; and its illegality. Our action would be presented as an example of British perfidy and unreliability; as a spiteful reaction to the veto; and as proof that de Gaulle is right about our unfitness for Europe. Such propaganda would have a significant effect on French public opinion. In the longer term, cancellation might be a factor in maintaining French hostility to us after de Gaulle's disappearance from the scene; especially if this happened soon.

It is unlikely that military joint projects (Jaguar, helicopters and Martel) would be affected, but the French might well try to exclude us from the European Airbus, to which no one is yet committed. If they abandoned Concorde, it would be within their power to do an Airbus either alone or with limited help from Germany and perhaps Italy, using French-built American engines.
Elsewhere in Europe

The following would be at risk -

(i) our credibility as a reliable collaborator and treaty-partner;
(ii) the credibility of our concern for European technological progress and of our ability to make a leading contribution to it (if we cancelled Concorde, we should be accused of having widened the "technology gap" and we should be forfeiting to France our claim to leadership in advanced technology);
(iii) the "post-veto exercise" in which we seek to separate the Five from the French and to rally them (from a largely "technological" platform) in support of our continuing candidature.

French propaganda will exploit the above among the five as showing how unfit we are for membership; and how right de Gaulle was.

Our action would naturally be welcomed by the United States from motives of self-interest. Some members of the United States Administration have in the past expressed doubts about the wisdom of both our and their going ahead so quickly with supersonic transports.

Industrial Implications

10. Unless the French continued alone and used British factories, our withdrawal would involve immediate loss of about 12,000 jobs of which some 10,000 are in the Bristol area and nearly 2,000 at Weybridge. BAC would probably close their Bristol factory. Some 4,000 people are employed on Concorde work elsewhere, but actual loss of jobs would be unlikely to amount to more than a few hundreds in any one place.

11. By 1972, Concorde would account for some 37,000 jobs, or 15-20 per cent of prospective employment in the aircraft industry.

12. Without Concorde, and if the French were to cut us out of the Airbus (see paragraph 9(b)), the aircraft industry would be without any advanced civil project (despite the fact that civil aviation has the prospect of being one of the biggest growth industries of the next decade). Ministers will recall that a study of the future of the aircraft industry is now in hand.
13. Rolls Royce would probably be deprived of an outlet for their new advanced technology engines, and would lose their present world status as suppliers of engines for civil aircraft, which is worth at least £50 million per year in foreign exchange. These effects might be mitigated by collaboration with American aircraft firms but it is unlikely that we should have more than subcontractor status, with little or no design responsibility. Our chances of undertaking any further European collaborative aircraft projects would be greatly reduced. It is to such projects that we have been looking, since the Plowden Report, to provide a future for the industry. The brain drain among aeronautical specialists, and perhaps more widely, would increase.

14. More broadly, we can look on Concorde either as an over-ambitious project which is diverting resources from sounder export-earning or import-saving ventures and which might ultimately fail, with far worse consequences than present cancellation; or we can look on it as one of the few areas in which Europe has a clear technological lead over America which we should seek to preserve in view of the increasing importance of civil aviation, and the virtual certainty that there will ultimately be supersonic civil aircraft.

15. If Concorde is dropped, it is highly likely that the Americans would slow down their supersonic transport, which is a considerably more ambitious project than Concorde and which promises to strain their resources; it is however unlikely that they will drop their project and leave the field clear to the Russians (whose supersonic transport may fly later in 1968).

General Economic Implications

16. These depend mainly on the outcome of the financial adjustments and on the industrial consequences. As has been seen, these are all impossible to predict with any certainty. On the side of disadvantage in cancellation, there must be counted the need to devote resources to payment of damages to France, the possible lack of confidence in future collaborative technological agreements, and the possible loss of markets for aeroengines and other products. On the side of advantages, the skilled manpower made available would be a great asset in the circumstances of export-led boom which it is the policy of the Government to bring about; and on the face of it, the range of "implied preferences" (see Appendix I, paragraph 7), even taking account of the benefits of
devaluation are so high that there must be a presumption that an alternative use of resources would give better value, and there would be a valuable saving in budgetary terms. Clearly the balance will tip strongly, if circumstances arise in the future in which lawful termination of the Treaty is available to us.

Presentation

17. In justifying a decision to cancel we should tell the same story to the French, to other governments and in our attributable publicity. We can and should argue that, taking the totality of the continuing cost escalation, the technical hazards and the commercial uncertainties, the viability of the project is a matter of judgment. And our judgment cannot but be affected by a new factor, namely the overriding importance of restoring the nation's economic health: to achieve this requires massive reductions in public expenditure and the release of scarce resources. We have therefore reached the conclusion that we must abandon a long sustained effort to maintain our participation. France, which was forced to cancel the VG for "budgetary reasons", will understand something of the pressures on us. Our own economic health, which has caused anxiety to France and others, will, we are confident, be improved by our painful decision.

Tactics and Timing

18. While the possibility of cancelling by agreement may be worth exploring and we should be ready to take advantage of it, there is probably no tenable middle course between either going on to completion (or until demonstrable failure) on the one hand, or withdrawing United Kingdom financial support on the other. Half-hearted continuation, or prolonged uncertainty, will save little money and will ensure technical and public failure. Nor would it make economic or technological sense to continue financing development, on the grounds that we are legally committed to it, but to leave production to the French. This would be well-nigh tantamount to paying a half-share towards a French project.

19. A clear-cut decision is therefore necessary now. But if the decision is to cancel Ministers have a choice whether to present it as a fait accompli, or to allow a short period of time after the decision for discussions with the French.
20. The first course would minimise the risk of leaks; in this case, the decision would be communicated to the French as near to the time of announcement as is compatible with minimum courtesy - that is, not more than twenty-four hours before publication here. We should simultaneously inform the Five.

21. The second course would permit us to offer continued physical (but not financial) co-operation to enable the French to complete the project if they wished and with a view to strengthening our position before the Court. The difficulties of this course are discussed in paragraph 8(f).

Possible French reaction

22. Technically, the French could complete the Concorde provided they got help from United Kingdom factories and establishments at near the present level, and General de Gaulle's view of it as a prestige project might outweigh Finance Ministry objections, particularly in the light of prospective damage payments by United Kingdom. Nevertheless, their difficulties would be great, and we can expect the French to try hard to make us change our minds.

Conclusions

23. The conclusions appear to be as follows -

(a) there are no present legal grounds for withdrawing from Concorde;
(b) there are grave legal and political implications in a unilateral abrogation of the Treaty;
(c) the financial saving on development might be between £125 million and £200 million, but an award of damages by the International Court (perhaps between £150 million and £200 million) might eventually wipe this out. In addition, the Exchequer would not be called upon to finance production with loans of up to £125 million with the possibility that these might not be recovered;
(d) unilateral cancellation of our Concorde obligations would have serious implications for our advanced technological industries;
(e) if Ministers decide that the general economic case for withdrawal is overriding, there is a choice between presenting the French with a fait accompli, and consulting them about the method of withdrawal.
Technical status of Concorde

1. The Concorde programme is designed to achieve deliveries for airline service in 1971, some two years later than foreseen at the time of the 1962 Agreement. Four development aircraft have been ordered; the first is due to fly in March 1968. So far, there are tentative orders for 74 aircraft; the airlines concerned are expected to sign firm contracts from early 1969 onwards. To meet these orders and exploit the market fully, production has to overlap development; £2 million has already been committed for tools and long-dated materials in the United Kingdom, with similar outlays in France. While production can and will be held back in line with development progress, there is no possibility whatever of avoiding a growing commitment, especially because the first three production aircraft are required for the development programme.

2. The prospects of technical success inevitably remain uncertain and the project is at present finely balanced between success and failure; but there is no technical justification for stopping it. In the absence of some major technical disaster, we are unlikely to have sufficient information to reach a firm conclusion on the overall viability of the project, and hence to justify cancellation if the facts pointed that way, before about the middle of 1969. For example, we should then have a clear definition of the operating economics of the aircraft, and a number of firm orders from airlines.

Financial status

3. If the existing development programme and timetable are maintained and things go reasonably well, extramural development costs (i.e., costs in industry) might be in the region of £550 million (as compared with the current published figure of £500 million, and a figure at the time of the Agreement of £335 million - which did not, however, cover the whole of the programme in present costings). There are in addition United Kingdom intramural costs (i.e., costs in Government Establishments) of about £30 million, of which some £20 million have already been spent or committed; there are similar costs in France.
4. If it proves impracticable to maintain the existing programme unchanged because, for example, of problems at present unforeseen arising out of the flight programme, we believe that the extramural development costs might rise to £650-700 million. The United Kingdom share of all these costs is one half, and is not significantly affected by devaluation.

5. These estimates cover the development of Concorde up to its full planned performance in 1973, including the construction of four development aircraft. They also include provision for tooling (to be used in the construction of the development and production aircraft) on a scale sufficient to build 100 "production" aircraft for sale to airlines, but do not provide for the materials to be used in the construction of these "production" aircraft, nor for their actual manufacture.

6. £100 million has so far been spent or committed in the United Kingdom. Spend is now at the rate of nearly £1 million per month. The additional spend to the middle of 1969 would be about £70 million on development and £25 million on production.

Economic Appraisal

7. Present doubts centre largely on the question whether the Concorde in airline operation will have an economic payload. The Concorde's Economic Prospects Committee estimated in January 1967, that about 130 aircraft would be sold, and enable the two Governments to recover up to one-third of their development expenditure. The project is thus expected to be uneconomic in the sense that more will have to be spent in developing and producing it than can be expected to accrue from sales. But since the expenditure is almost wholly domestic and receipts would be either in foreign exchange or could be considered as import saving, some loss might be justified in terms of "implied preference" for foreign exchange. In the calculation, it is legitimate to disregard past expenditure as irrelevant to the decision whether we should now cancel. The table below gives details on various assumptions as to development cost, aircraft selling prices, and sales. The calculation takes account of the benefits from devaluation, and of the fact that, without the Concorde, BOAC will have to buy more Boeing 747s and Boeing supersonic transport aircraft.
Implied Preferences

<table>
<thead>
<tr>
<th>Development Cost</th>
<th>£7 million</th>
<th>£8 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>£600 million</td>
<td>£700 million</td>
<td>£800 million</td>
</tr>
</tbody>
</table>

Sales

- 90 aircraft: 30% 30%
- 130 aircraft: 24% 17%
- 150 aircraft: 18% 14%

For sales of 130 aircraft, the benefit to the United Kingdom balance of payments would be of the order of £800 million.

Present French Attitude

8. The French agree that the figure of £500 million for development will be exceeded, but are not prepared to agree a new figure until the Concorde Directing Committee has studied revised estimates from the contractors and has produced a new considered estimate. This cannot be before late March.

9. The French will give us no foothold at this stage for considering jointly the stopping of the project. They appear determined to continue and, if we seek to cancel, will certainly exploit the issue to our disadvantage.

Financial consequences of cancellation

10. Unless arrangements were made for United Kingdom firms to continue working under contract to the French, our withdrawal from the project would probably involve extra payments to United Kingdom firms of some £50 million over and above £100 million already spent or committed.

11. The savings to be then expected from cancellation are shown in the following table, which is based on total development cost of £550 million.
## Financial Effect of Termination at 31st December 1967

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tr>
<td><strong>DEVELOPMENT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost of programme PESC</td>
<td>100</td>
<td>10</td>
<td>18</td>
<td>44</td>
<td>32</td>
<td>30</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Payments on cancellation</td>
<td>100</td>
<td>9</td>
<td>18</td>
<td>15</td>
<td>7</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Saving on termination (disregarding possibility in later years of damages and loss of levy)</td>
<td>1</td>
<td>30</td>
<td>29</td>
<td>25</td>
<td>29</td>
<td>10</td>
<td>1</td>
<td>125</td>
</tr>
<tr>
<td><strong>PRODUCTION</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(mainly Government loan) PESC</td>
<td>1</td>
<td>9</td>
<td>20</td>
<td>30</td>
<td>30 (+ in later years 35)</td>
<td>125 (say)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
On this basis, cancellation would save £125 million, or £200 million if a total development cost of £700 million is assumed - this saving would be reduced by the forfeiture of possible revenue from a levy of between £30 million and £60 million. We should also avoid the need to lend the firms some £125 million as working capital for production (and the risk of several £100 million investment in production being lost if the project failed at a later stage - though this must be regarded as comparatively unlikely in view of the extensive testing which will take place in the development programme). The total savings in the years 1968-69 and 1969-70 would be about £40 million and £50 million respectively.

12. Against this, must be set the possible award of damages by the International Court. This might well have to be paid in foreign exchange.
APPENDIX II

CONCORDE

LEGAL ASPECTS

Legal Feasibility of Cancellation

The Concorde Agreement is an international Treaty providing for collaboration between the United Kingdom and France in the development and production of the Concorde aircraft. The Treaty contains no termination article. The exact extent of the commitment is not specifically defined in the main Agreement but it clearly extends to production as well as to development.

2. According to present information, the technical considerations do not justify the conclusion that the Concorde project is, from the technical point of view, impracticable. If this hypothesis is correct, there is in this respect no change of circumstances that would provide legal justification for cancellation.

3. The last estimate of development expenditure approved by the two Governments was for a total of £500 million. French officials have conceded that the cost is likely to go beyond £500 million, but have not agreed a new figure. We now believe that the current programme will cost at least £550 million. Although the increase over the original estimates is high, it has not, in the light of advice previously given by the Law Officers, reached such a height that the expenditure could be regarded as having been outside that contemplated by the two Governments. Accordingly, it is considered likely that if the escalation of costs were made the ground for termination, although the point might not be entirely beyond argument, it would almost certainly fail before the International Court of Justice. The high estimate of £600-700 million (paragraph 4 of Appendix I) assumes that problems arise which are currently unforeseeable; it cannot therefore now provide a sure basis for legal argument.

4. The prospects for the operational success or failure of the Concorde are at present uncertain. Therefore, it cannot be said that the project is ultimately so certain to fail that the United Kingdom would be justified in terminating the Treaty on this ground now.
5. In the light of the above considerations, there is no ground on which the Treaty could lawfully be terminated unilaterally by the United Kingdom at the present time and it is unlikely that any such unilateral termination would be held by the International Court of Justice to be lawful.

6. The Treaty could be legally terminated by agreement between the two Governments. Such an agreement might be a simple decision to terminate or it might be in the nature of a settlement under which the United Kingdom would voluntarily make certain compensation to France. This might conceivably consist, for example, of an agreement to provide free technical information, to make available technicians and possibly to pay a contribution towards the cost that would be incurred by France in proceeding alone.

7. It is, of course, possible that future developments may provide valid grounds for unilateral termination. This would depend on the course of events. If cancellation in the future is contemplated, timing would of course be a vital factor. The time at which unilateral termination of the Treaty might become lawful would depend not only on the facts at the time, but also on the extent to which the two Governments may have become expressly or by implication committed through the work of the Concorde Directing Committee and the approval of the work of that Committee given from time to time by the Ministers of the two Governments.

International Legal Consequences and the Possibility of Limiting Losses

8. Since it appears that there is at present no valid ground for unilateral termination of the Treaty, the most likely legal consequence is that the United Kingdom would lose in any proceedings brought by France complaining of breach or wrongful repudiation of the Treaty.

9. As the Law Officers advised in 1964, it is unlikely that the Court would make any order for interim measures designed to preserve the position of the parties pending judgment, but the possibility cannot be excluded. The Court would be likely to declare that the Agreement is a Treaty binding on the United Kingdom and that by purported termination we were in breach of it. It is also likely that the Court would award damages to France.
10. Any estimate of the amount the Court might order must necessarily be speculative. A good deal would depend on the Court's finding on the exact interpretation of the obligation in the original Treaty and of the commitments that have flowed from it. The Court might act on the principle that a proper measure of compensation would be the additional cost to France of completing the project without our assistance. On the estimate of £550 million, this sum would be likely to be of the order of £175 million (i.e. one half of £550 million less £200 million already spent). France might be able to prove increases in cost flowing from our withdrawal which might increase this figure to around £200 million. If France decided (as she would be entitled to do) to abandon the project, the award would probably be for the amount of French expenditure and commitment which might be in the order of £150 million plus the Court's estimate of the prospective financial loss incurred by France as a result of the termination of the project. It is impossible to estimate this figure because it depends on imponderable factors such as prospective sales of the Concorde Aircraft and the general effect on the economic and technical development of France. Even though the commercial prospect for Concorde may not be good, it is likely that the Court would award substantial damages under this head. Taking the broad view, it is possible that the cost to the United Kingdom of the Court's award of damages would be no less than the cost of continuing with the Concorde project.

11. The amount of damages might conceivably be limited by various steps. Probably the most effective way of cutting the loss would be by a settlement with France on the lines indicated at paragraph 6 above. Short of this, any willingness to co-operate in facilitating the continuation of the project by France alone would be likely to be taken into consideration by the Court in reduction of the damages. The more the United Kingdom can appear to be acting reasonably, e.g. by preliminary discussion of the great difficulties and cost involved, by offering to continue work in British factories under contract to the French, by offering technical help and so on, the more are we likely to be able to persuade the Court to reduce the amount of damages.

Steps in the Legal Presentation of the Case

12. The case might be referred to the International Court of Justice, either by special agreement between the United Kingdom and France or by a French unilateral application.
13. There would be no apparent advantage in agreeing to refer the question of breach to the Court, but there might be some advantage in referring to the Court simply the question of the amount of compensation because this might be looked upon by the Court as an element demonstrating the reasonable behaviour of the United Kingdom. This is a psychological factor but might in practice be quite real. An offer of arbitration on the quantum of damages would have a similar effect and might be cheaper and less troublesome.

14. If however we decided not to agree to submit any issue to international adjudication, the matter might be brought before the International Court by France by unilateral application. There is nothing in the current French and British declarations accepting the compulsory jurisdiction of the International Court of Justice that could reasonably be relied upon to exclude the jurisdiction of the Court. Accordingly, it cannot be conceived that after the application there would be any preliminary objection involving written pleadings, oral hearing and preliminary judgment before the merits were reached. There might be some slight delay in the proceedings if France were to apply for interim measures but it is more probable that the case would proceed in the ordinary way with two sets of written pleadings on either side, followed by an oral hearing and judgment. The whole process would be likely to take about two years, but certainly not more than three years, from the date of the French application.

15. As the question of damages would be both difficult and complicated, it is possible that the Court would postpone its decision on that point until after its original judgment. This might involve a further delay of a few months.

16. If the Treaty were repudiated by the United Kingdom in present circumstances, it would be extremely difficult to make out any plausible case on the legality of the termination itself. The reasons for termination would be of a general economic and political character. It is open to question whether it would be advisable to contest the issue before the Court, although it would probably be necessary to make some plea of legality with one eye on the reduction of damages to a minimum. Probably the best type of presentation would be one that picked up all possible threads with a view to demonstrating that it had become unreasonable to expect the United Kingdom to continue to fulfill the
Treaty. The most effective considerations would be the doubts as to the success of the project combined with the escalation in cost. We would have to argue that, in the circumstances, the cost had gone beyond what could have been regarded as within the contemplation of the two Governments when the Treaty was made (the implication being that the French were lucky to escape from the Treaty at this stage). The argument would have no legal merit in itself but the outcome of litigation is always uncertain and one cannot be absolutely sure that it would be rejected by the Court.

17. On the issue of damages, it might be possible to make a good deal more of this kind of argument and to maintain, on the analogy of private law suits, that once we had made our intentions clear, France was under an obligation, vis-a-vis the United Kingdom, to mitigate her damage. This might involve abandonment of the project by France, and it could be argued, if France chose to continue, that she did so at her own risk. It is difficult to forecast how this line of argument would impress the Court but there is a fair chance that the Court might be persuaded to award the sum of less than the amount indicated in paragraph 10 above.
CONCORDE

The accompanying tables show, by comparison with existing plans, the effects on the Exchequer of:

(i) Continuing with the project for a further 18 months, on the assumption that we could then withdraw in agreement with France.

(ii) Cancelling now, without offering assistance to France in continuing with the project, and if maximum damages were awarded against us by the International Court of Justice.

It must be emphasised all the figures are speculative particularly those for receipts and for net outlay if we decide to complete the project.
<table>
<thead>
<tr>
<th></th>
<th>3 months to 31.3.68</th>
<th>1968/69</th>
<th>1969/70</th>
<th>1970/71</th>
<th>Subsequent years</th>
<th>Total</th>
<th>Remarks</th>
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<tr>
<td><strong>(A) CONTINUE TO COMPLETION</strong></td>
<td></td>
<td></td>
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<tr>
<td>Expenditure on development</td>
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<td>£29</td>
<td>£29</td>
<td>£29</td>
<td>£29</td>
<td>£29</td>
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<tr>
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<td>9</td>
<td>20</td>
<td>30</td>
<td>65</td>
<td>125</td>
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<tr>
<td><strong>TOTAL OUTLAYS</strong></td>
<td>11</td>
<td>57</td>
<td>64</td>
<td>62</td>
<td>106</td>
<td>300</td>
<td></td>
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<tr>
<td>Receipts from levies</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>60</td>
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<tr>
<td>Repayment of production loans</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>125</td>
<td>125</td>
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<tr>
<td><strong>TOTAL RECEIPTS</strong></td>
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<td>-</td>
<td>-</td>
<td>185</td>
<td>185</td>
<td></td>
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<tr>
<td><strong>NET TOTAL OUTLAYS</strong></td>
<td>11</td>
<td>57</td>
<td>64</td>
<td>62</td>
<td>{Receipt}</td>
<td>115</td>
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<td></td>
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<tr>
<td><strong>(B) CANCEL 18 MONTHS' HENCE</strong></td>
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<td></td>
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<tr>
<td>Expenditure on development</td>
<td>10</td>
<td>48</td>
<td>44</td>
<td>32</td>
<td>41</td>
<td>175</td>
<td>Could reach 250</td>
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<tr>
<td>Loans for production</td>
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<td>9</td>
<td>20</td>
<td>30</td>
<td>65</td>
<td>125</td>
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<tr>
<td>Cancellation payments to British firms for:</td>
<td>10</td>
<td>48</td>
<td>44</td>
<td>32</td>
<td>41</td>
<td>175</td>
<td>Could reach 375</td>
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<tr>
<td>- development</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>- production</td>
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<td>-</td>
<td>-</td>
<td>125</td>
<td>125</td>
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<tr>
<td><strong>TOTAL OUTLAYS</strong></td>
<td>11</td>
<td>57</td>
<td>64</td>
<td>62</td>
<td>106</td>
<td>300</td>
<td>Range 30 to 60, speculative</td>
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<td>Saving to Exchequer (A)-(B)</td>
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<td>nil</td>
<td>19</td>
<td>39</td>
<td>83</td>
<td>35</td>
<td>Repayment at risk</td>
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<td><strong>(C) CANCEL NEW</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Possibly lower and later</td>
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<tr>
<td>Cancellation payments to British firms for development</td>
<td>9</td>
<td>18</td>
<td>15</td>
<td>7</td>
<td>1</td>
<td>50</td>
<td></td>
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<tr>
<td>Legal damages to France</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>-</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL OUTLAYS</strong></td>
<td>9</td>
<td>18</td>
<td>15</td>
<td>207</td>
<td>1</td>
<td>250</td>
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<tr>
<td>Saving to Exchequer (A)-(C)</td>
<td>2</td>
<td>39</td>
<td>49</td>
<td>145</td>
<td>78</td>
<td>135</td>
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CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

Memorandum by the Chancellor of the Exchequer

The latest short-term economic forecasts indicate in broad terms that, in order to make a success of devaluation by establishing the balance of payments beyond doubt, we should take further action to reduce demand by an annual rate of something of the order of £850 million; this is needed to prevent a cumulative expansion which would soon become insupportable. The figure of £850 million is in terms of factor cost, but in terms of increases in taxes, or reductions in public expenditure, it would be a good deal more, perhaps in the region of £1,000 million. The Medium Term Economic Assessment is rather more cautious and puts the required budgetary improvement in the bracket £500-£1,000 million. As time is short, and the risks of failure exceedingly damaging, we need to err on the side of toughness.

2. The measures now taken by the United States to improve their balance of payments will make our own task somewhat more difficult - inflow of United States investment may be less, for instance. Our need to achieve a large current account surplus, involving the release of home resources from other activities, is correspondingly increased.

3. The difficulties of finding anything like £1,000 million from taxation are obvious. We must therefore find substantial sums from public expenditure - the alternative is to let the balance of payments slip fatally. If we were to let expenditure go ahead unchecked, there would be no room whatever for any rise in personal consumption; and since more people would be coming into employment, personal consumption per employed worker would actually have to fall if our balance of payments objective is to be achieved. This would not, in my view, be a viable prospect; consumers, in order to maintain their living standards, would frustrate the objective by reducing savings or by pressing for increases in money wages to offset the very stiff rise in taxation which would be required.

4. It follows from this that it is essential to get the biggest possible contribution towards diminishing demand by reductions in public expenditure. Obviously, there must be a large cut in defence expenditure. This can only come from decisions to make drastic changes in defence policy involving major reductions in overseas commitments. Such decisions would not reduce the rate of defence spending in 1968-69 but they would have a large progressive effect in later years. I am having discussions with the Foreign, Commonwealth and Defence Secretaries.

-1-
5. For civil expenditure I propose reductions which would yield about £325 million in 1968-69 and about £370 million in 1969-70. The Annex to this paper sets out in more detail the proposals which I have in mind; I have discussed some of them with some of the spending Ministers. The Annex as a whole is concerned primarily with major blocks of expenditure. In addition we must follow up the instructions we have given for making a specially strict scrutiny of the Estimates for 1968-69, by extending this approach to smaller items of public expenditure generally, and including 1969-70. This is dealt with in paragraph 66 of the Annex.

6. Looking at these proposals as a whole, it is obvious that it is essential to get the whole of these reductions; but, since they are clearly not enough in themselves in the light of the requirement, I am not setting a target for any level of reduction which could be regarded as adequate in itself. Reductions of the size indicated (together with the reductions in defence which will not begin to yield anything net until 1969-70) would still leave us with an extremely dangerous situation in which it would be by no means certain that the remaining part of the requirement could be secured effectively from taxation.

7. Against this background we must therefore not only get all these reductions but also look further afield, bearing in mind that the balance of advantage and cost on particular projects and programmes as originally laid out has been radically altered by devaluation. Concorde comes into this category (see paragraph 37 of the Annex). In addition I am exploring with the First Secretary ways and means of making Family Allowances (at present payable for second and subsequent children universally) more selective - see Annex, paragraph 13(c).

Conclusion

8. I ask my colleagues to endorse the general conclusions in paragraph 7.

R.H.J.

Treasury Chambers, S.W.1.

3rd January, 1968
It is necessary to make a substantial further reduction in the burden of defence. There is no effective prospect of achieving this in 1968/69; and the scope for dramatic reductions in 1969/70 is relatively limited. This makes it the more important that our decisions on defence, as announced in mid-January, should be both radical and credible in terms of our present and foreseeable situation.

Approach

2. Our standing in the world depends on the soundness of our economy and not on a world wide military presence. We must get our commitments and resources into a sensible long term balance. I have accordingly proposed to the Foreign, Defence and Commonwealth Secretaries that drastic changes should be made in defence policy, based on the following approach.

3. First, we should decide to cut our commitments outside Europe much more rapidly. Second, and as a consequence of this, we should accelerate sharply the planned reduction in the size of the forces. Third, we should curtail the equipment purchasing programmes. And fourth, we should aim to secure substantial reductions in the supporting infrastructure, in particular the U.K. base.

4. An approach on these lines, founded on firm decisions to cut our world wide commitments, would be coherent, consistent with the logic of the July Defence White Paper and convincing evidence of our determination to come to grips with the realities of our situation.

Commitments

5. Against this background, consideration of action on the following lines is inescapable.

(a) Acceleration of withdrawal from bases outside Europe, and ending of the associated treaty commitments, so as to complete the process of world wide military disengagement by 1970/71, our remaining dependencies and one or two other small exceptions apart.

(b) After our withdrawal from Malaysia and Singapore we should neither maintain a special capability for use in the Far East, if required, nor should we base an amphibious force on Australian facilities.

(c) We should be prepared to face the possibility that the bill for mitigating aid to Malaysia and Singapore may go up against us, and to inform the two Governments that we shall be ready to discuss this further with them.

(d) We should withdraw at the earliest possible date from the Persian Gulf, say in 1968 or 1969; and also from Cyprus.

(e) We should take such opportunities as may become open to us to withdraw further troops from Europe and disband them, in agreement with our allies.
Size and Shape of Forces

6. Decisions along the lines set out above would enable us not only to withdraw the troops from overseas much more rapidly; but, having withdrawn them, to disband them (or their equivalent). Thus -

(a) We should accelerate the reductions in uniformed (75,000) and civilian (80,000) strengths already announced for the mid-70s, so as to achieve the lower levels by 1970-71.

(b) We should aim at getting below these levels by that date, on the basis that our reduced commitments would result in a smaller strategic reserve. Its main function outside Europe would be to contribute to peace-keeping operations; the major effort would normally be directed towards collective peace-keeping, though forces would still be required to come to the assistance of our few remaining dependencies if required.

(c) The accelerated rate of rundown ought to begin early in 1968.

Equipment

7. A radical cut in commitments leading to big reductions in the role and size of the forces will also make possible substantial economies in planned equipment programmes. While all of these cannot of course be decided and announced by mid-January, some convincing examples will need to be given. The following possibilities should be considered: there are no doubt others -

(a) Navy: Carrier force and Fleet Air Arm (fixed wing) phased out by 1970/71, purchases of Phantoms reduced, naval construction programme reduced and slowed down and nuclear capability, including Polaris, abandoned.

(b) Army: Elimination of specific vehicles, weapons etc.

(c) Air Force: Cancellation of the Harrier, decision not to proceed with APVG successor, cancellation of the F.111 purchase, reduction in Phantom purchase, cancellation of Martel guided missile project.

(d) R&D: It should be possible to define approximately what further switch of R&D resources from defence to civil purposes is feasible.

Infrastructure and U.K. base

8. Decisions on the above lines will have far reaching consequences on the supporting infrastructure, in particular the U.K. base. Very big savings ought to accrue in the longer-term; a proportion of these should be realisable by 1970-71.

Transitional expenditure

9. It will be necessary to consider the likely size of transitional expenditure and how to treat it.

/ Presentation
Presentation

10. The January announcement, to be credible, will have to indicate very clearly our decision to reduce commitments more quickly, to run down the size of the forces more rapidly, and to curtail the equipment programmes - with convincing illustrations in each field. Consultation with other Governments concerned must take place before an announcement, which must include our decision to withdraw into Europe by 1970/71, our remaining dependencies and one or two other small exceptions apart.
II CIVIL EXPENDITURE

A. SOCIAL SECURITY

11. The main issues are:
(a) When should any class of benefit go up?
(b) By how much should they go up when they do?

12. In reaching decisions, we have to remember that
(1) Benefit increases have to be paid for by extra taxation or contributions. Generally these fall on the working population or industry on both of whom economic recovery depends.
(2) The living standards of the working population are at best unlikely to rise in the next two years if the essential shift of resources to exports is made. Better benefits for the non-productive or least productive sections of the community will penalise the working population and industry further.
(3) Benefit improvements cost a great deal as the following gross figures show:

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Cost (in £)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplementary Benefits (S.5s.)</td>
<td>£8.2m p.a.</td>
</tr>
<tr>
<td>Family Allowances (FAM)</td>
<td>£16m p.a.</td>
</tr>
</tbody>
</table>

When Should Benefits go up?

13. (a) Supplementary Benefits. An increase is likely to be justified in Autumn or early Winter 1968. We should allow for this with effect from end October - apart from cost an earlier increase would be likely to be forgotten by the time Winter came. The rise in prices by then might justify a 4s. to 5s. increase at a cost of up to £1 million per annum.

(b) N.I. Benefits. These have just been raised by 10s. on the basic pension. The next uprating is at present planned for Autumn 1969. In working out my economic strategy I must know for certain what is the earliest time at which such huge additional expenditure can occur. We should now decide firmly that there will be no uprating before October 1969 - on present forecasts the rise in prices by then will not be significantly more than was the rise before the March 1965 uprating. If price rises are less than expected, it could be right to wait till early December 1969 but probably not later.

(c) FAM. These are already planned to go up by 7s. for 2nd and subsequent children in April 1968, and the expected rise in prices in 1968-69 would not justify even 1s. more.

I am considering with great urgency whether this 7s. increase can be made selective and any net benefit confined to those with low incomes. I cannot yet say with certainty that this can be done in 1968-69. But such is the need to restrain expenditure that, even if my efforts are successful, I must ask my colleagues not to press for any further FAM increases in 1968-69.

/By
By how much should Benefits go up?

14. Any rise must be restricted to what is necessary to compensate for the rise in prices only. There can be no question of improving the real value of any benefits over the next two years at a time when the disposable incomes of the working population may well fall. I do not think the working population could be expected to have their standards reduced in order to improve the relative position of those on benefit.

15. This decision should be announced now. If it is not, people will expect real increases on the lines of recent upratings and this will make our task doubly difficult. In any case contributors and taxpayers ought to know that their liability will be limited. We cannot as an alternative announce a figure of intended savings. The starting point for calculating savings is current policy. For N.I. benefits, current policy is to uprate in October 1969 by an amount equivalent to halfway between the rise in prices and the rise in earnings. But this decision has never been announced. Clearly, to announce savings of £Xm without saying what they are a saving on would be useless; and, if it was explained, the policy underlying the figures would be obvious.

16. It is not possible to say what savings would be achieved by keeping any increase in benefits in line with the rise in prices because we cannot now forecast reliably the relative movements of earnings and prices. If, however, money earnings were to rise by, say, 3 per cent p.a. faster than prices between autumn 1967 and autumn 1969, then to keep the 1969 uprating in line with prices would save at least £35 million in 1969-70 and £70 million in the first full year (1970-71), compared with an increase halfway between prices and earnings as contemplated by Ministers in the summer.

<table>
<thead>
<tr>
<th>Social Security</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1967-68</td>
</tr>
<tr>
<td>Forecast expenditure</td>
<td>2909</td>
</tr>
<tr>
<td>Illustrative cut proposed</td>
<td>-</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>2909</td>
</tr>
</tbody>
</table>
17. About 13 per cent of total public expenditure goes on this, about half on schools. I cannot do without a large contribution from this field.

18. Postpone the Raising of the School Leaving Age (R.S.L.A.). This is one of the few self-contained and coherent decisions that could be taken at once to restrain expenditure and reduce public borrowing and pressure on the construction industry. I cannot impress on my colleagues too strongly the overwhelming need to take this unpalatable decision. It is now taken for granted in nearly all quarters that R.S.L.A. will be deferred. If we fail to defer now we shall cause a double and very serious loss of confidence. I propose a three year deferment to save £33 million in 1968-69, £48 million in 1969-70 and £48 million in 1970-71. This would be objected to by few, welcomed by many and it would of course be open to children to stay on voluntarily after age 15. But to ensure that our policies on "comprehensiveness" and on relieving squalor can be pressed ahead, I propose that the following measures should also be taken:

1. Defer R.S.L.A. for three years 33.0 48.0 48.0
2. Give back for "comprehensiveness" etc 3.0 8.0 8.0
3. Withdrawal of secondary school milk in September 1968 3.0 5.0 5.0
4. Student awards - 50% abatement of cost-of-living increase in September 1968 4.0 6.0 6.0
5. Further increase of 6d to 2/- in April 1969 in the price of school meals 1.9 3.4 1.3
6. F.E., Libraries, youth - -10.0 10.0
7. Total 38.9 64.4-68.4 62.3-67.3

19. Other Savings. To defer R.S.L.A. is not enough. In addition I must ask that the following measures should also be taken:

(1) Withdrawal of free milk in secondary schools (but not primary schools) from September 1968
(2) Some reductions in capital expenditure planned for Further Education, Libraries and the Youth Service.
(3) Student awards - a cost-of-living increase is due in September 1968 and this should compensate not for 100 per cent of the rise in the cost of living but only 50 per cent of it.
(4) It should be agreed and announced now that the price of school meals will be raised by a further 6d to 2/- in April 1969. This will give time to review arrangements for relief for low income families and ensure that rising costs are met by better off consumers.

20. The effect of these measures would be:

<table>
<thead>
<tr>
<th>Measure</th>
<th>1968-69</th>
<th>1969-70</th>
<th>1970-71</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defer R.S.L.A. for three years</td>
<td>33.0</td>
<td>48.0</td>
<td>48.0</td>
</tr>
<tr>
<td>Give back for &quot;comprehensiveness&quot; etc</td>
<td>-3.0</td>
<td>-8.0</td>
<td>-8.0</td>
</tr>
<tr>
<td>Withdrawal of secondary school milk in September 1968</td>
<td>3.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Student awards - 50% abatement of cost-of-living increase in September 1968</td>
<td>4.0</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Further increase of 6d to 2/- in April 1969 in the price of school meals</td>
<td>1.9</td>
<td>3.4</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>38.9</td>
<td>64.4-68.4</td>
<td>62.3-67.3</td>
</tr>
</tbody>
</table>
If it were felt that more savings still should be found in the education field it should be possible:-

(a) to make cuts in University capital and current expenditure totalling £5.2 million in 1968-69, £6.2 million in 1969-70, and £5.3 million in 1970-71.

(b) to allow no cost of living increase in students grants in September 1968 and a 50 per cent increase only in September 1969. This would save £4.0 million in 1968-69 and £2.0 million in 1969-70 and in 1970-71 over and above what is proposed in paragraph 19 (3) above.

But I must emphasize that there is no substitute in money or in confidence for not deferring R.S.I.A.

<table>
<thead>
<tr>
<th>Education (including local libraries and museums)</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>1967-68</td>
</tr>
<tr>
<td>Firm cuts proposed</td>
<td>1989</td>
</tr>
<tr>
<td>-40</td>
<td>-64 to 68</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>1989</td>
</tr>
</tbody>
</table>
C. HEALTH AND WELFARE

21. Current-year expenditure is about £1,620 million - about 11 per cent of total public expenditure. At constant prices, it is at present planned to go up by about 4 per cent per annum. But these are labour-intensive services, and their cost in terms of current prices rises fast. Nearly two-thirds of all expenditure is on hospitals.

It is not possible to achieve enough savings overall if this field is left untouched. We must get at least £60 million a year from it.

22. Prescription Charges. It is, I fear, essential that these should be reintroduced. Our efforts to restore the economy have no chance, otherwise, of carrying conviction. I propose that the charge should be 2s. 6d. per prescription item. The charges must be brought back at the earliest possible moment. It is only by reintroducing the scheme that existed up to 1965 that charges can be started quickly. This would be possible in the spring.

23. Those on Supplementary Benefits (about 4 million), those with incomes at or below S.B. levels (about 1.25 million) and war pensioners in respect of their disabilities (about 0.6 million) would be given relief. Allowing for this, the charges could produce about £50 million per annum from additional revenue and reduced demand. But estimating is very difficult. I am prepared to consider in due course extending relief from the charges rather more widely; but this is not technically possible in the near future and may never be so. I will discuss with the Minister of Health what might be said on this score.

24. Local Health and Welfare. The planned aim is to increase capital expenditure from £30 million this year to £40 million in 1967-71. I propose that we should hold down capital expenditure by £20 million between 1966-69 and 1970-71 - say, £5 million, £7 million and £8 million in the separate years. Local health and welfare current expenditure is not directly controlled but is expected to go up from £192 million this year to £235 million in 1970-71. Pressure to restrain this expansion should be brought to bear through the next Rate Support Grant settlement.

25. Dental Charges. The present charge per treatment is £1. This charge was fixed as long ago as June 1952. I propose that it should be raised to 30 shillings. This should yield some £1.7 million (G.B.) in a full year. This increase should be introduced at once - it can be done by Regulation.

<table>
<thead>
<tr>
<th></th>
<th>£1967-68</th>
<th>£1968-69</th>
<th>£1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>1,619</td>
<td>1,672</td>
<td>1,737</td>
</tr>
<tr>
<td>Cuts effectively proposed</td>
<td>-57</td>
<td>-57</td>
<td>-59</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>1,619</td>
<td>1,615</td>
<td>1,678</td>
</tr>
</tbody>
</table>
Housing

26. We are no longer in a position of overall housing shortage; whereas in 1950 there were 1½ million more families than houses, by the end of 1966 there were as many dwellings as households. By the early 1970s houses should outnumber households by rather more than 1 million. Serious housing problems remain, but local shortages are being progressively overtaken and slum clearance has been increased. This is largely because we have maintained house-building at a record level over the past three years. Clearly we must continue to give high priority to eliminating local shortages and to increasing the rate of slum clearance. But it seems impracticable to make any significant reduction in the payment of housing subsidies over the next two years and we must obtain some saving on the housing programme. While therefore I recognise that priority areas cannot be insulated from the effects of any substantial reduction in numbers, I propose that approvals in England and Wales should be cut by 15,000 in 1968 and 15,000 in 1969. These cuts should produce savings of £25 million in 1968-69 and £49 million in 1969-70 in England and Wales. Comparable savings should be sought by administrative means in Scotland.

27. Proposals for increased expenditure on repairs and improvements of existing houses are being considered. It may well be sensible to adjust the balance within the reduced total I now propose: but there can be no question of increasing expenditure for this purpose alone.

<table>
<thead>
<tr>
<th></th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1967-68</td>
</tr>
<tr>
<td>Forecast expenditure</td>
<td>1,048</td>
</tr>
<tr>
<td>Cut proposed (E. &amp; W.)</td>
<td>-</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>1,048</td>
</tr>
</tbody>
</table>
E. ROADS

28. Roads expenditure is planned as followed:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>England</td>
<td>560*</td>
<td>562</td>
<td>679</td>
<td>619</td>
</tr>
<tr>
<td>Scotland</td>
<td>64</td>
<td>65</td>
<td>69</td>
<td>76</td>
</tr>
<tr>
<td>Wales</td>
<td>31</td>
<td>31</td>
<td>34</td>
<td>38</td>
</tr>
<tr>
<td>G.B.</td>
<td>579</td>
<td>632</td>
<td>679</td>
<td>728</td>
</tr>
</tbody>
</table>

* Includes special "winter work" programme

29. I accept the economic case for a large-scale road programme. I also recognise that the scope for reducing expenditure in the short run is limited because of the extent to which expenditure over the next year or two is already committed.

30. Nevertheless, I consider that significant savings can be found on new construction and improvements on major roads. On this part of the programme I recommend a reduction in England of £15 million in 1968-69 and £25 million in 1969-70; for Scotland a saving of £5 million over the two years, and for Wales a reduction of £2 million over the same period.

31. In addition, I recommend that the Transport Ministers should be invited to issue a circular to local authorities asking them to make reductions in roads expenditure (primarily on maintenance) for which they are responsible. In my view they should be specifically asked to reduce their expenditures on maintenance and capital works (apart from principal road construction and improvements) by 15 per cent in each of the two years. This would yield savings (G.B.) of about £35 million in 1968-69 and £40 million in 1969-70.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>560*</td>
<td>632</td>
<td>679</td>
</tr>
<tr>
<td>Cut proposed</td>
<td>-</td>
<td>-54</td>
<td>-71</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>560*</td>
<td>578</td>
<td>608</td>
</tr>
</tbody>
</table>

* Excludes additional expenditure approved since Cabinet decisions in July.
In the public expenditure review last summer it was agreed that various new expenditures (mainly new forms of assistance to public transport) should only proceed provided that the additional cost was fully met by savings elsewhere in the transport block (including receipts from new freight charges). The Minister of Transport is now introducing freight charges estimated to yield some £20 million in 1968-69 and over £30 million a year thereafter. Nevertheless, I believe we should impose new limits on the grants in the changed circumstances. I propose the limits should be £10 million in 1968-69 and £20 million in 1969-70. This would not, in fact, involve major cuts since expenditure on the new grants is in any case now expected to be lower than originally forecast.

<table>
<thead>
<tr>
<th>Other transport</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68 1968-69 1969-70</td>
<td></td>
</tr>
<tr>
<td>Forecast expenditure</td>
<td>110 126 139</td>
</tr>
<tr>
<td>Cut proposed</td>
<td>-2 -5</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>110 124 134</td>
</tr>
</tbody>
</table>
33. Expenditure on the main Home Department services is running at well over £200 million per annum, which is 3 per cent of all public expenditure. Apart from Home Defence (see Annex G2), I propose that expenditure on other Home Department services in Great Britain in 1968-69 should be held back by £6 million and in 1969-70 by £12 million. These savings must be made to be consistent with the proposals I am making on other services.

34. Part of this reduction must be found from capital expenditure - I suggest that the forecasts should be reduced by £4.5 million in 1968-69 and £6 million in 1969-70 (the distribution of the reductions between the services being settled by the Secretaries of State) and that the resulting capital figures should be a firm ceiling within which any further improvements must be accommodated. This will not however meet the whole of the reduction, and the balance must come from current expenditure. Given the relative size of the programmes, the main contribution must come from the police service by controlling the growth of manpower, either by persuasion or by taking specific powers. In addition it needs to be fully agreed that unexpected excesses must be prevented and that effective control must be secured for the future.

### Home Department Services
*(Excluding Home Defence)*

<table>
<thead>
<tr>
<th></th>
<th>1967-68</th>
<th>1968-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>472</td>
<td>506</td>
<td>532</td>
</tr>
<tr>
<td>Cut proposed</td>
<td>-</td>
<td>-6</td>
<td>-12</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>472</td>
<td>500</td>
<td>520</td>
</tr>
</tbody>
</table>
35. Home Defence (H.D.) expenditure for the next few years is forecast on existing policies to run at about £27 million per annum; it has been held at £22 million for 1967-68 only by temporary expedients. A review has been done by officials on the instructions of the Home Secretary and myself. They advise (H.D.R.67)9(Final)) that:

(1) a minimum coherent programme, if active home defence preparations are to continue, would cost about £19 - £20 million per annum.

(2) but if H.D. were put on a care and maintenance basis, the annual cost might be cut to about £13 million in 1968-69, and thereafter to about £7 - £8 million per annum.

I am quite sure that in present circumstances we must put H.D. on a care and maintenance basis. This would mean that no new physical assets would be created, except for the new basement controls already at an advanced stage of planning, but existing physical assets would generally be preserved. Volunteer services would be disbanded, and planning and instruction would be limited to what was necessary to enable active preparations to be resumed at some future date. We would have to recognise that it would not be easy to recruit volunteers again after a lapse of time, or to bring ourselves back to the present state of readiness without intensive effort. But we cannot now afford to pay £20 million or more every year as an insurance premium against nuclear attack.

36. I ask the Cabinet to endorse a decision to put H.D. on care and maintenance thus saving £14 million in 1968-69 and £19-20 million per annum thereafter.

<table>
<thead>
<tr>
<th></th>
<th>1967-68</th>
<th>1968-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>22</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Cuts proposed</td>
<td>-</td>
<td>- 14</td>
<td>- 20</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>22</td>
<td>13</td>
<td>7</td>
</tr>
</tbody>
</table>
37. **Concorde.** My colleagues are familiar with the technical problems which threaten the success of this project, and with the continued and dramatic increase in costs - the development cost will be at least £550 million and might rise to £650-700 million (against the present estimate of £500 million) and there are heavy production costs also to come. They are familiar also with the legal difficulties which have so far prevented cancellation. But very large sums are at stake, and after allowing for commitments, cancellation charges etc. cancellation could reduce the burden on the Exchequer by £20 million in 1966-69, £50 million in 1969-70 and £55 million in 1970-71. An urgent re-assessment of the legal and practical possibilities of cancellation in the light of the latest financial and technical developments, and of our extreme need to secure these large savings by any means possible, is being carried out by a group of Ministers under the Foreign Secretary.

38. **Other aircraft projects.** I propose that aircraft projects which have not yet been approved should be removed from the Estimates 1968-69. By comparison with the 1967 PESC estimates, and after allowing for changes in the programme since last summer, this means a saving of £7.7 million in 1966-69 but an increase of £1.4 million in 1969-70. This would remove from the 1966-69 estimates a contingency provision which is too large because it assumes that each of a number of unapproved projects would in fact be approved in time for a substantial spend in 1966-69. The major items involved are the full development of the R.B.211 engine, the provision of working capital for Short Bros, and the study phase of a "Minibus". Some expenditure may well be incurred on at least the first two of these, but the uncertainties of time and amount make it sensible to follow the established practice of deleting the contingency provision from the Estimates on the understanding that a Supplementary Estimate will be accepted by the Treasury if the need arises.

39. **Space.** The larger part of our expenditure on space is devoted to our contribution to ELD0, from which we have been unable, because of our treaty obligations, to extricate ourselves; and indeed there may be some increased cost resulting from devaluation. But our existing commitment to ELD0 will soon start to run down, and we should resist proposals for new commitments from some of the other members. We should also urgently seek discontinuance of the Black Arrow project - (cancellation would save about £1 million in 1965-66, £2½ million in 1969-70).

40. **Government Research and Technological Support.** The PESC provision for these items (excluding the AEA) is £54.6 million in 1966-69 and £56.7 million in 1969-70. This expenditure is, of course, on projects which are intended ultimately to improve our economic performance. Nonetheless, in our present situation there must be a limit to what we can afford to devote to investment of this kind. I propose that provision under this head be cut by £10 million in 1966-69 and by the same amount in 1969-70; and that within this total only those projects should be approved which hold out the firmest promise of immediate and large economic returns. These figures would still allow for a significant increase over current out-turn, but do not include a specific contingencies allowance for possible new projects such as support for the proposed merger of computer firms. As regards the AEA, in the first
instance the task is to implement the cuts of £3 million in 1968-69 and £5 million in 1969-70 which were decided upon as part of the list of cuts in the programmes of public authorities at the time of devaluation; the AEA also have a problem of devaluation cost increases.

41. The figures in the table below do not allow for possible new (non-aircraft) projects or changes in existing projects, or for post-devaluation cost increases.

<table>
<thead>
<tr>
<th>Technology</th>
<th>£m.</th>
<th>1967-68</th>
<th>1968-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast expenditure</td>
<td>234</td>
<td>233</td>
<td>221</td>
<td></td>
</tr>
<tr>
<td>Cut proposed</td>
<td>-22</td>
<td>-17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>211</td>
<td>204</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Excluding any cuts in Concorde expenditure.*
42. Overseas expenditure bears directly on the balance of payments. The largest item is defence (£275 million before devaluation). The next largest is economic aid. On top of the normal aid programme of £205 million there is up to £10 million of increased subscription to the International Development Association (I.D.A.), about £5 million of food aid under the Kennedy Round, and mitigating aid to Singapore and Malaysia of the order perhaps of £43 million over the next three years, as assessed in the review made last summer. Diplomatic representation costs about £40 million, Information £30 million, subscriptions to international organisations £45 million, Board of Trade expenditure on trade fairs etc. £41 million, and military aid £8 million, apart from South Yemen which was £13 million in 1967-68.

43. Overseas Aid. The basic aid programme is fixed at £205 million cash until 1970-71. Devaluation will lead to some £10 million of increases in payments expressed in dollars and other currencies, over and above the rising costs in sterling. I consider that all these extra costs must be absorbed within the £205 million ceiling on aid.

44. International Contributions. Assessed contributions to international organisations are generally not immediately susceptible to action by the U.K., although where these fall within an expenditure ceiling, e.g. CERN and ESRO in the Science Budget, I must ask for the extra devaluation costs to be absorbed within the ceiling.

45. Military Aid. The Chief Secretary has written to his colleagues in the Overseas Departments asking for a substantial reduction in military aid.

<table>
<thead>
<tr>
<th>Overseas expenditure</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68</td>
<td>338</td>
</tr>
<tr>
<td>1968-69</td>
<td>381</td>
</tr>
<tr>
<td>1969-70</td>
<td>377</td>
</tr>
</tbody>
</table>
K. INVESTMENT GRANTS

46. The existing programme provides for the payment of grants in 1968-69 on five quarters' past investment, as a continuation of the process of reducing the time lag between the making of investment and the payment of grant from the initial 18 months to six months. In 1967-68 there have been two accelerations and the gap is now 12 months. Though the Government is committed to reduce the gap to six months ultimately, it is in no way committed to making a further reduction in 1968-69. It is estimated that the cost of paying five quarters will be around £440 million, compared with expected expenditure of £290 million in the current year. I am sure that having regard to the present urgency of securing savings in 1968-69 and the liquidity of industrial companies, we must at least limit payment to four quarters. This would cost about £360 million, yielding a saving of £80 million.

47. It would be possible to go further and pay out only three quarters grant in 1968-69, thus saving a further £80 million. From a budgetary point of view this would be very welcome. But it would mean that the average time between the making of investment and the payment of grant would be actually increased from 12 months, which it has now reached, to 15 months. It seems likely that industrial opinion would react very strongly against this. Confidence in the Investment Grant scheme as a whole might be undermined, and serious damage done to plans for new investment in 1968-69 and later. Moreover, the Government would come under great pressure to restore the position by paying out at least five quarters grant in 1969-70, when on general economic grounds this might be most undesirable.

Therefore, on consideration, I do not recommend this course.

<table>
<thead>
<tr>
<th>Investment Grants</th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68</td>
<td>1968-69</td>
</tr>
<tr>
<td>Forecast Expenditure*</td>
<td>189</td>
</tr>
<tr>
<td>Cuts proposed*</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>189</td>
</tr>
</tbody>
</table>

*Excluding grants to public corporations.
48. Public expenditure on the agriculture bloc (PESO basis) is expected to be £424 million in 1967-68, and is put at £388 million for 1968-69 and 1969-70. The big item here is Agricultural Support (£288 million in 1967-68, £290 million in the two following years). A later estimate for 1968-69 is £318 million. These are, however, not controlled figures, since the actual outturn in any year is affected by the level of world, and therefore of market, prices, the volume of home production of the guaranteed commodities and, finally, the level of guaranteed prices, which is fixed annually at the Farm Price Review in February/March.

49. There can therefore be no question of determining a cut of a defined amount. The actual expenditure in 1969-70 can be made higher or lower than it otherwise would be by policy decisions about the level of production aimed at, and by the size of the adjustments to guaranteed prices and production subsidies made at the Annual Review, in order to offset cost increases or provide farmers with higher incomes or better incentives. It is known that this year cost increases will reach a record figure of £40-£50 million and we shall have to decide how much of this farmers should be required to absorb by their increased productivity and how much should be allowed to them by raising guaranteed prices and production grants and so adding to the value of the guarantees. The further issue will be whether the existing selective expansion programme should be maintained as an objective, or even stepped up yet further on import saving grounds. The desirability and scope for this is being examined inter-Departmentally at the present time, for report in early January.

50. I suggest that, in the present circumstances, the coming farm price review should be conducted on the basis that (a) farmers should be required to absorb at least half of the cost increases which by then will have already been recorded, and (b) that the total increase in the value of the guarantees should not exceed the remainder of the cost increases. If these amount to around £40 million this would mean that the Review award must not give a net increase of more than £20 million at the outside. How much of such an increase would fall on the Exchequer and how much on the consumer (e.g. on milk) would have to be determined at the Review. If it is thought necessary to stimulate particular branches of production (e.g. cereals), this must be done by securing offsetting savings on other guaranteed prices or production subsidies.
51. I do not propose any reductions in the present planned expenditure on assistance to Development Areas, since the raising of the level of employment there towards the national average is an essential part of Government economic policy. But this expenditure now totals about £200 million compared with £50 million in 1964. (It covers Board of Trade Local Employment Act Assistance, R.E.P., the differential element in Investment Grants, and much of the Ministry of Labour expenditure on training and employment services.) It seems already that past expenditure is beginning to achieve significant effects, which will be cumulative over the next few years with the expenditure already planned; and great caution should therefore now be exercised in bringing forward proposals for new expenditure in this field on top of the existing forecast level. Such restraint is likely in fact to make the existing measures more effective, since industrialists are now looking most of all for more certainty when planning ahead, and are likely to be confused rather than assisted by further innovations in the short term.
52. Estimated expenditure under this heading in 1969-70 is £839 million, which is almost entirely expenditure by local authorities. Of this total about £385 million is capital expenditure. Possible reductions of £26-£27 million in 1968-69 have already been identified in capital expenditure on water and sewerage, other public health expenditure, parks and baths, acquisition of land in connection with town and country planning and miscellaneous services. I propose that we should decide to secure reductions of at least this amount in 1968-69 and again in 1969-70. Further savings may be possible in these years in response to the messages sent to local authorities by the Minister of Housing and the Secretaries of State for Scotland and Wales; and such savings should in any case be sought by a policy of actively discouraging local authorities from seeking approval for new projects, save where these are absolutely essential.

53. As to current expenditure, the principal means of exerting central control over local authorities is through the Rate Support Grant, on which see section 5.

### OTHER ENVIRONMENTAL SERVICES

<table>
<thead>
<tr>
<th></th>
<th>£m.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1967-68</td>
</tr>
<tr>
<td>Forecast Expenditure</td>
<td>732</td>
</tr>
<tr>
<td>Cuts proposed</td>
<td>-26</td>
</tr>
<tr>
<td>Total after proposed cuts</td>
<td>732</td>
</tr>
</tbody>
</table>
54. Other expenditure is estimated to total about £1,396 million in 1969-70. Of this total, however, a substantial element is accounted for by items to which we cannot realistically look for contributions to the savings which we need.

Railways Deficit Grant

55. It includes, for example, the railways deficit grant (£120 million). The railway deficit in 1967-68 is likely to be over £150 million. Relief to the Exchequer can only be achieved by a most vigorous attack on railways costs and, in particular, by keeping up the momentum on closures. The Government has announced its intention that the basic network should be reduced to 11,000 miles. We should set a date - I suggest 1st July, 1969 - when the review designed to achieve this should be completed. But even so, it would be unwise to count on being able positively to reduce the deficit by 1969-70 by a greater amount than that already assumed in the forecasts.

Employment, industry and trade

56. Another important element is "Other employment, industry and trade" (£229 million), which is forecast to be lower in 1969-70 than in 1968-69. This heading covers employment, services, promotion of local employment, the Industrial Reorganisation Corporation, as well as other assistance to industry and trade. Cuts here, even if feasible, would almost certainly be short-sighted. (See Section M on development area expenditure).

Financial Administration

57. "Financial Administration" (£194 million) represents mainly the cost of tax and rates collection, and other similar items of expenditure which are virtually inescapable.

Common Services, Miscellaneous Expenditure etc.

58. Among "Common Services" there is a substantial element (£66 million) for superannuation, which represents simply the effect of liabilities incurred in the past.

59. "Miscellaneous Expenditure" (£40 million) includes such things as the Land Registry, the Ordnance Survey and other minor Departments. No substantial savings can be looked for here.

60. Finally "Adjustments" (£379 million) is mainly Northern Ireland expenditure.

61. After subtracting these various elements on which, for a variety of reasons, major savings cannot be expected - though, of course, small economies, where possible, must continue to be looked for here as elsewhere - the rest of "Other Expenditure" totals about £321 million in 1969-70.
This is composed of the following items:—

<table>
<thead>
<tr>
<th>Item</th>
<th>1968-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Military Defence (excluding Military Aid)*</td>
<td>265</td>
<td>113</td>
</tr>
<tr>
<td>Research Councils, etc.</td>
<td>82</td>
<td>90</td>
</tr>
<tr>
<td>Libraries, Museums and Arts (other than local libraries etc. — see Section B)</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Common Services (excluding superannuation)</td>
<td>91</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>455</td>
<td>321</td>
</tr>
</tbody>
</table>

62. I propose that on these items we should secure reductions totalling £10 million in 1969-70, and that I should make specific proposals to the individual Ministers concerned. For example, the grant to the Arts Council should be held at £8 million in the next two years, and the Social Science Research Council should not be allowed to expand its activities further; reductions might also be secured in the estimated expenditure of the other Research Councils.

*United States military aircraft (net); allied services (provision for headquarters accommodation, civil superannuation, etc.); and miscellaneous small items.
Q. RATE SUPPORT GRANT

63. The spending of local authorities is a very significant element in public expenditure - about £2,700 million in 1968-69. It is distributed between the various functional programmes (Education, Housing, Roads, etc.). The capital expenditure (£1,750 million) is virtually all subject to central Government control and will be directly affected by the reductions which I have proposed on specific services. The larger part of local authorities' current expenditure (£2,950 million), and of the increase in this expenditure, is also determined by the policies laid down by the Departments concerned. It remains true, however, that individual authorities exercise some freedom in the rate at which they expand their current expenditure (particularly, for example, on Roads and on some of the miscellaneous Environmental Services - see Sections E and G); and that they are responsible for the efficiency and the economy with which they provide their services.

64. The Minister of Housing and the Secretaries of State for Scotland and Wales sent out personal messages in mid-December urging local authorities to exercise the greatest possible economy. I have suggested (Section E) that authorities should not be urged to pay particular attention to economies on Roads. But we ought to make it abundantly clear to authorities, as soon as possible, that savings will be as necessary in 1969-70 as in the coming year; and we should indicate the scale of savings that are needed. The Government will in any case have to determine, at the end of 1968, the total amount of local authority current expenditure which will be accepted as eligible for Rate Support Grant. I therefore propose that, as a reinforcement to the reductions which I have proposed on specific services, we should announce now that we shall not accept as eligible for Rate Support Grant in 1969-70 a total of local authority expenditure of more than 3 per cent in real terms above the amount eligible for Grant in 1968-69.

65. But if this is to lead to real savings in expenditure, and not merely to a shift in the financing burden from Grant to rates, it will have to be recognised that some expected improvements in local authority services must be sacrificed. The announcement to local authorities will have to assure them that the Government recognises this; and that it will be reflected in Departmental attitudes and policies towards the local authority services with which they are concerned.
66. The proposals outlined above are confined to major savings, and for the most part to major programmes. This is inevitable: Ministers cannot collectively examine in a short space of time all the individual items which make up total public expenditure. But it must not be assumed that the items of expenditure which are not discussed should be exempt from examination; on the contrary there is an urgent need for a searching and comprehensive review of all forms of public expenditure in 1968-69 and 1969-70, however small individual items may be. So far as Supply expenditure in 1968-69 is concerned, we have already instructed officials to scrutinise the Supply Estimates severely in order to secure all possible savings. I propose that we should issue similar instructions for a general scrutiny of the items of public expenditure in 1968-69 and 1969-70 on which we do not reach specific decisions. Given a general instruction of this kind, Departments in co-operation with the Treasury should be able to identify savings which may individually be small, and probably not very substantial even in aggregate by comparison with most of the proposals which are considered in this paper, but which we cannot afford to neglect.
Nationalised industries' investment programmes have already been reduced by some £70 million for 1968-69 and a corresponding amount for 1969-70. Total nationalised industry investment will be falling gradually from this year onwards. Nonetheless, it will be important to continue to keep their investment on a tight rein and to ensure that the criteria set out in the recent White Paper (Cmd. 3437) are very strictly applied. These considerations apply to the industries' main activities; in addition, it is proposed that, for the next two years, the extension of their ancillary activities, including purchase of subsidiaries to which we are not already committed, be stopped since it can only be financed by increased borrowing from the Exchequer.
IV. SUMMARY

68. In the table which follows are summarised the expenditure estimates and proposals for reductions (to the extent to which they can be quantified) discussed above. No allowance is made for items (such as reductions in expenditure on Concorde) which are not quantified in the text.
<table>
<thead>
<tr>
<th></th>
<th>1967-68</th>
<th>1968-69</th>
<th>1969-70</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL (1)</strong></td>
<td>2210</td>
<td>2167</td>
<td>2227</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>2167</td>
<td>3106</td>
<td>3161</td>
</tr>
<tr>
<td><strong>1967 SURVEY PRICES</strong></td>
<td>31.12</td>
<td>.67</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15398</td>
<td>15072</td>
<td>15563</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>15072</td>
<td>15563</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15563</td>
<td>-</td>
<td>15192</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>-</td>
<td>371</td>
<td>1316</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>14307</td>
<td>15398</td>
<td>15192</td>
</tr>
<tr>
<td><strong>1967 SURVEY PRICES</strong></td>
<td>31.12</td>
<td>.67</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15398</td>
<td>15072</td>
<td>15563</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>15072</td>
<td>15563</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15563</td>
<td>-</td>
<td>15192</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>-</td>
<td>371</td>
<td>1316</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>14307</td>
<td>15398</td>
<td>15192</td>
</tr>
<tr>
<td><strong>1967 SURVEY PRICES</strong></td>
<td>31.12</td>
<td>.67</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15398</td>
<td>15072</td>
<td>15563</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>15072</td>
<td>15563</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL AS AT 31.12.67</strong></td>
<td>15563</td>
<td>-</td>
<td>15192</td>
</tr>
<tr>
<td><strong>LESS REVISED TOTAL</strong></td>
<td>-</td>
<td>371</td>
<td>1316</td>
</tr>
</tbody>
</table>

**Deficit Grants**

- Estimate after Cabinet conclusions in July, 1967
- Includes military aid.
- Relevant expenditure shown under K, N and P.
- Includes other military defence apart from military aid.
<table>
<thead>
<tr>
<th></th>
<th>1967-68 TOTAL</th>
<th>1968-69</th>
<th>LESS RE-</th>
<th>TOTAL</th>
<th>LESS RE-</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEFENCE BUDGET</td>
<td>2218</td>
<td>2167</td>
<td>-</td>
<td>2167</td>
<td>2227</td>
<td>? 2227</td>
</tr>
<tr>
<td>CIVIL PROGRAMMES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. SOCIAL SECURITY</td>
<td>2909</td>
<td>3106</td>
<td>-</td>
<td>3106</td>
<td>3161</td>
<td>-35</td>
</tr>
<tr>
<td>B. EDUCATION (local libraries and museums)</td>
<td>1989</td>
<td>2103</td>
<td>-40</td>
<td>2063</td>
<td>2205</td>
<td>-66</td>
</tr>
<tr>
<td>C. HEALTH AND WELFARE (with welfare foods)</td>
<td>1619</td>
<td>1672</td>
<td>-57</td>
<td>1615</td>
<td>1737</td>
<td>-59</td>
</tr>
<tr>
<td>D. HOUSING</td>
<td>1018</td>
<td>1096</td>
<td>-25</td>
<td>1073</td>
<td>1124</td>
<td>-49</td>
</tr>
<tr>
<td>E. ROADS</td>
<td>560</td>
<td>632</td>
<td>-54</td>
<td>576</td>
<td>679</td>
<td>-71</td>
</tr>
<tr>
<td>F. OTHER TRANSPORT</td>
<td>110</td>
<td>126</td>
<td>-2</td>
<td>124</td>
<td>139</td>
<td>-5</td>
</tr>
<tr>
<td>(excl. British Rail Deficit Grant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>G.1. HOME DEPARTMENTS SERVICES (excl. Home Defence)</td>
<td>472</td>
<td>506</td>
<td>-6</td>
<td>500</td>
<td>532</td>
<td>-12</td>
</tr>
<tr>
<td>G.2. HOME DEFENCE</td>
<td>22</td>
<td>27</td>
<td>-14</td>
<td>13</td>
<td>27</td>
<td>-20</td>
</tr>
<tr>
<td>H. TECHNOLOGY</td>
<td>234</td>
<td>233</td>
<td>-22</td>
<td>211</td>
<td>221</td>
<td>-17</td>
</tr>
<tr>
<td>I. OVERSEAS EXPENDITURE</td>
<td>338</td>
<td>381</td>
<td>-</td>
<td>381</td>
<td>377</td>
<td>-</td>
</tr>
<tr>
<td>K. INVESTMENT GRANTS</td>
<td>189</td>
<td>440</td>
<td>-20</td>
<td>360</td>
<td>360</td>
<td>-</td>
</tr>
<tr>
<td>L. AGRICULTURE</td>
<td>374</td>
<td>336</td>
<td>-</td>
<td>336</td>
<td>336</td>
<td>-</td>
</tr>
<tr>
<td>M. DEVELOPMENT AREAS</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>N. SET ADDITIONAL PAYMENTS AND REP</td>
<td>170</td>
<td>156</td>
<td>-</td>
<td>156</td>
<td>131</td>
<td>-131</td>
</tr>
<tr>
<td>O. OTHER ENVIRONMENTAL SERVICES</td>
<td>732</td>
<td>797</td>
<td>-26</td>
<td>771</td>
<td>839</td>
<td>-27</td>
</tr>
<tr>
<td>P. OTHER EXPENDITURE</td>
<td>1433</td>
<td>1566</td>
<td>-</td>
<td>1566</td>
<td>1396</td>
<td>-10</td>
</tr>
<tr>
<td></td>
<td><strong>14397</strong></td>
<td><strong>15398</strong></td>
<td><strong>-326</strong></td>
<td><strong>15072</strong></td>
<td><strong>15563</strong></td>
<td><strong>-371</strong></td>
</tr>
<tr>
<td>NATIONALISED INDUSTRIES CAPITAL EXPENDITURE</td>
<td>1676</td>
<td>1695</td>
<td>-</td>
<td>1695</td>
<td>1564</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) Estimate after Cabinet conclusions in July, 1967
(2) Includes military aid.
(3) Relevant expenditure shown under K, M and P.
(4) Includes other military defence apart from military aid.
3rd January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

1968-69 ESTIMATES

Note by the Chancellor of the Exchequer

I am circulating this note for information, as invited by the Cabinet on 20th December, when some questions were raised about the 1968-69 Estimates of Supply expenditure (CC(67) 73rd Conclusions, Minute 2).

Reasons for the increase in the Supply Estimates

2. The draft Estimates for 1968-69 show an increase of more than £1,100 million, or nearly 12 per cent in money terms, over the Budget Estimates for 1967-68, or roughly 9 per cent at constant prices. Excluding SET, REP and investment grants these figures become about 10\frac{1}{2} and 7\frac{1}{2} per cent respectively. They make virtually no provision for additional expenditure arising from devaluation.

3. Apart from investment grants (paragraph 5 below) the major increases are:

<table>
<thead>
<tr>
<th>(£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Roads and transport</td>
</tr>
<tr>
<td>(ii) Health and welfare</td>
</tr>
<tr>
<td>(iii) Non-specific grants to local authorities</td>
</tr>
<tr>
<td>(iv) Technology</td>
</tr>
<tr>
<td>(v) Agricultural support</td>
</tr>
<tr>
<td>(vi) Family allowances</td>
</tr>
<tr>
<td>(vii) Social security benefits</td>
</tr>
</tbody>
</table>

4. The main reasons for these increases are as follows:

(i) and (ii) The increases for roads and transport and health and welfare are in line with the planned growth of these programmes under current expenditure policies; the pattern of expenditure in 1968-69 for these programmes was implied when the Cabinet endorsed the pattern of public expenditure in 1970-71 on 20th July, 1967 (CC(67) 50th Conclusions, Minute 3).
The very big rise in non-specific grants to local authorities is the result of increasing expenditure on education and other services, and higher pay and prices.

The technology figure is largely due to increased support for the aircraft industry including Concorde.

The cost of agricultural support is affected by the level of production and variations in market prices.

Provision for family allowances goes up because of the increase given in October, 1967, and those planned for April, 1968. These were approved by the Cabinet on 18th July, 1967 (CC(67) 49th Conclusions, Minute 2).

The increase in social security benefits is the effect upon Supply expenditure of a full year’s payment of the general uprating of all social security benefits which took place in October, 1967 (as agreed by Cabinet on 15th June, 1967: CC(67) 39th Conclusions, Minute 4).

A further £234 million of the increase between the two years is due to the expected rise in investment grant payments, from £166 million in the original Estimates for 1967-68 to £400 million in 1968-69.

Estimates compared with outturn

It is sometimes said that the published Estimates total ought to be discounted on the grounds that the total Supply outturn for the year as a whole is likely to be lower than the Estimates. This has not in general been past experience. The table in the Annex compares the Budget Estimates with outturn over each of the past 10 years. Over the whole period outturn has on the average been 0.4 per cent higher than the Estimate. The outturn has exceeded the Estimate total in seven out of the ten years. The biggest overspend was £181 million or 3.5 per cent. The biggest shortfall was £139 million or 2.3 per cent. In the current year present indications are that the outturn will be very substantially above the Estimate.

Relationship of Supply to total public expenditure

Although Supply expenditure shows this large increase, total public expenditure in 1968-69 is not forecast to rise quite so fast – between 6 and 7 per cent at constant prices, or some 9 to 10 per cent in money terms. To understand the reason for the difference it is necessary to consider the relationship between Supply and total public expenditure.

Supply expenditure represents the total of the cash expenditure of Government Departments which has to be voted annually by Parliament in the Estimates. It does not represent all central Government expenditure, because it excludes payments direct from the Consolidated Fund and extra-Exchequer payments, of which by far the most significant are the outgoings of the National Insurance Funds. At the same time it includes some £2,300 million of payments from one part of the public sector to another, the largest item
being grants to local authorities. Because total public expenditure covers all expenditure by local authorities, regardless of how it is financed, grants of this kind have to be netted out in computing total public expenditure.

9. Supply expenditure is therefore by no means co-terminous with total public expenditure, and there is no reason why the two should move in a precisely similar way. Any fast-rising block of expenditure - and in 1968-69 investment grants are a good example of this - which falls wholly within Supply will necessarily have a greater effect upon the increase in total Supply expenditure than on the increase in total public expenditure.

R. H. J.

Treasury Chambers, S.W.1.

3rd January, 1968
<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate</th>
<th>Outturn</th>
<th>Outturn compared with Budget Estimate</th>
<th>% overspend (+) or short-fall (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957-58</td>
<td>4,070</td>
<td>4,138</td>
<td>+ 68</td>
<td>+ 1.7</td>
</tr>
<tr>
<td>1958-59</td>
<td>4,259</td>
<td>4,317</td>
<td>+ 58</td>
<td>+ 1.4</td>
</tr>
<tr>
<td>1959-60</td>
<td>4,490</td>
<td>4,502</td>
<td>+ 12</td>
<td>+ 0.3</td>
</tr>
<tr>
<td>1960-61*</td>
<td>5,012</td>
<td>4,989</td>
<td>- 23</td>
<td>- 0.5</td>
</tr>
<tr>
<td>1961-62</td>
<td>5,187</td>
<td>5,368</td>
<td>+ 181</td>
<td>+ 3.5</td>
</tr>
<tr>
<td>1962-63</td>
<td>5,612</td>
<td>5,695</td>
<td>+ 83</td>
<td>+ 1.5</td>
</tr>
<tr>
<td>1963-64</td>
<td>6,139</td>
<td>6,000</td>
<td>- 139</td>
<td>- 2.3</td>
</tr>
<tr>
<td>1964-65</td>
<td>6,549</td>
<td>6,480</td>
<td>- 69</td>
<td>- 1.1</td>
</tr>
<tr>
<td>1965-66</td>
<td>7,134</td>
<td>7,120</td>
<td>+ 6</td>
<td>+ 0.1</td>
</tr>
<tr>
<td>1966-67*</td>
<td>8,079</td>
<td>8,108</td>
<td>+ 29</td>
<td>+ 0.4</td>
</tr>
</tbody>
</table>

*Published Estimates adjusted for BTC deficit (1960-61) and SET payments (1966-67)
3rd January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DEFENCE CUTS

Memorandum by the Secretary of State for Foreign Affairs
and the Secretary of State for Commonwealth Affairs

General

Given the present situation, we accept that the Government's defence expenditure has to be cut, in line with home civil expenditure, if the new economy measures as a whole are to be regarded as fair and sufficient.

2. We accept also that the stage has been reached where there can be no further cuts in defence expenditure unless the overseas commitments on which much of it is based are themselves reduced. We agree with the Secretary of State for Defence that to attempt to cut defence expenditure any further without reducing our overseas commitments would be to endanger the morale of the armed forces.

3. But after four Defence Reviews, the last of them announced only six months ago, the price is heavy. The cuts we make will inevitably damage our interests. We must remember that there is an important and inherent distinction between domestic cuts and overseas cuts. Civil cuts can be restored once our economic situation is easier; but our position and influence overseas, once lost, will be irretrievable. We need to weigh the political and economic risks with the greatest care.

4. We are involved overseas in many ways and have bonds with many countries. These bonds include our moral obligation to respond to Australia and New Zealand should they be in danger, as they did to us in two world wars; our obligations to a number of other countries and our international legal responsibility, which we cannot divest ourselves of unilaterally, for our dependent territories. What is now suggested is not just a reassessment and reinterpretation of these obligations; it is a question of breaking our obligations and our pledged word. Unilateral action could cause us in the long run economic as well as political harm, on a scale that would greatly outweigh any economies we should make, by damaging that confidence in us and our intentions which we must sustain. As a trading nation we cannot afford to have our word and our intentions doubted. If we are given adequate time for consultation, we may be able to achieve the necessary changes we seek and set some limit to the damage. But we must remind our colleagues that British economic interests are closely involved in the
areas from which withdrawals are proposed. These interests can suffer in two ways. First, precipitate withdrawal can occasion instability leading to revolution or political realignment in which British investments are lost and trading opportunities seriously diminished. Second, we must beware lest the world is led to conclude that if we are forced to such measures as the breaking of agreements reached only six months ago and reaffirmed in Parliament as recently as November, our position since devaluation must indeed have become desperate. There is a real danger they will feel that in fact this time Britain must beyond all question and at last be finished. If that belief ever became general the consequences politically, economically, and for the position of sterling, would be exceedingly grave. The consequences of the action now proposed could therefore prove to have a cost to our balance of payments far outweighing the savings which these measures could produce.

5. We and our officials have taken a long hard look at all our commitments, worldwide. This is what we have found.

Europe

6. NATO is the core of our security, and any unilateral breach of our undertakings could have the gravest consequences, both for our political aims in Europe and for our national security. To make reductions without agreement with our allies would risk a general reaction and the unravelling of the Alliance. Had we attempted to behave in this way we would not have retained the goodwill as we did so successfully in our recent negotiations over the re-deployment of a brigade from BAOR. But the Alliance will not stand still. Changes will come. For example, under the new force planning procedure NATO is re-assessing, and will continue on a year to year basis to re-assess, the force levels it requires. Quite apart from this it might prove possible to make progress towards mutual East-West reductions. Equally if our Allies refuse to maintain their fair share we would have to review our position. Any or all of these could provide an atmosphere for negotiating further reductions, but what we cannot do is to make unilateral reductions on our own. Meanwhile, we should seek, in conjunction with the United States, to settle the offset question and the numbers of our forces on the Continent with the Germans and other members of the Alliance on a proper long-term basis. All this will take time. We accept that, if we are to keep Europe as our main centre of effort, the principal cuts must come from other areas.

Malaysia and Singapore

7. Our Far East Defence policy has been under continuous review and adjustment over the last two or three years. A drastic reappraisal of defence expenditure was made earlier this year and major reductions announced as recently as last July. There was great difficulty in securing the acquiescence of our Commonwealth partners and allies in these reductions. Our Commonwealth partners and the United States were strongly opposed to our declaring a date for our final withdrawal and they all pressed for a continued British presence as a guarantee of stability in an area where historically we had a unique contribution to make. We were only able to secure their agreement to our proposed reductions by not giving a precise date for our withdrawal but stating that it would be in the "middle 1970s"; by reaffirming our intentions to honour our obligations; and by promising a continued military capability for use in the area if required. We also said we were determined that our reductions would take place in an orderly manner and offered significant aid to assist Malaysia and Singapore in effecting the necessary economic transition as smoothly as possible.
8. We recognise that if we are to achieve significant defence savings we must secure an acceleration of the pattern of the rundown in Malaysia and Singapore which has so far been agreed. But given the undertakings which we reaffirmed only last July it is clear that this can only be achieved at a political price and at the risk of economic retaliation. The extent of this damage will depend crucially on —

(a) The date of completion of the rundown.

(b) A reassurance of our intention to maintain a continuing general capability which could be used in the area if required.

(c) Adequate consultation with our Commonwealth partners and allies before a public announcement.

9. We are firmly of the view that the earliest date for the completion of the rundown that would be tolerable would be 31st March, 1972. In Singapore we shall be throwing on to the labour market something like 60,000 people now directly deriving their employment from the British forces, and if for example the rundown were to be completed by 31st March, 1970, this would lead to an unemployment rate of 25 per cent. In Malaysia about 19,000 persons would be put out of work. In Singapore, this could provoke widespread labour unrest possibly leading to the overthrow of Mr. Lee Kuan Yew and the assumption of power by a Communist regime. In that event, so far from our being able to achieve an orderly withdrawal, we might have to fight our way out. In Malaysia the announcement of our early withdrawal would give great encouragement to Communist subversion in a country with built-in communal problems. Moreover if instability developed in Singapore, Malaysia might be tempted to intervene with possible further international repercussions.

10. While we accept that there would be no special capability for use in the Far East after our withdrawal it will be important that the general capability we retain in Europe should be usable overseas when required. We must be able to assure our Commonwealth partners and allies that in this way we shall retain a capability to help them if circumstances in our own judgment demanded it. This would not be anything special to the Far East but simply an expression of the fact that our strategic reserve would be available to be used anywhere in the world where we thought it in our interests to do so.

11. If the above were agreed we should be quite frank and make clear to the Commonwealth countries in the area and to the Americans the limitations which our general capability would place on the nature of any military assistance which we could provide. In effect we should be telling Singapore and Malaysia that how we help them will have to be determined by the circumstances at the time, including the size and shape of the armed forces which we then had. The Anglo-Malaysian Defence Agreement has great psychological value in maintaining confidence in the area. There is in fact no provision for its termination and for us to abrogate it unilaterally would create a profound shock. We should negotiate with the Malaysian Government, so as to make it fit the new conditions.
12. We are glad to know that the Chancellor recognises that the Bill for mitigatory aid to Malaysia and Singapore is likely to be higher. Preliminary calculations indicate that - depending on the date by which the rundown is completed - the aid requirements of Singapore and Malaysia for the three years up to 31st March, 1971 would have to be revised upwards as follows:

<table>
<thead>
<tr>
<th></th>
<th>Singapore</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Rundown completed by 31st March, 1971</td>
<td>£70</td>
<td>£28</td>
</tr>
<tr>
<td>B. Rundown completed by 31st March, 1972</td>
<td>£43</td>
<td>£25</td>
</tr>
</tbody>
</table>

Substantial aid will also be required after 31st March, 1971, of the order of £40-£50 million per annum for Singapore and Malaysia together, for a period of several years. We must be able to tell the Malaysian and Singapore Governments, when we disclose our revised timetable, that we shall be willing to discuss the aid implications with them. Ministers should accept now that aid commitments of the order of magnitude mentioned above will be required. A request for negotiating instructions will be submitted later this month.

Hong Kong

13. Hong Kong will become increasingly isolated and the size of our garrison there (7.2/3rds major units), even allowing for the Hong Kong financial contribution, will become more and more out of scale with the overall pattern of our forces. We are engaged on a study of our policy towards Hong Kong in the longer term but, at the present stage of our relations with China, any immediate reduction in the garrison would cause loss of economic and political confidence in Hong Kong, with its attendant risks. The Communists appear to have recognised that they cannot attain their ends by violence; but they would probably be encouraged to try again, making it necessary for us to reinforce the garrison once more. Even more, the announcement now of a date for total withdrawal would result in a rapid total collapse of confidence, leading to political, administrative and economic chaos, and with real risk of a grave international crisis.

The Persian Gulf

14. The problems here are parallel to, and closely connected with, Far Eastern problems, except that in the Far East there is no direct and immediate British economic interest comparable to Middle East oil. We have a duty to leave our colleagues in no doubt about the nature of the risks to British interests that are involved here. 40 per cent of Britain's (and over 50 per cent of Western Europe's) oil supplies come from the Gulf and 40 per cent of Gulf oil is in British ownership and make a significant contribution to our foreign exchange earnings. Apart from the Kuwait commitment our position in the Gulf is indivisible. There can be no half measures. A phased withdrawal over two years could lead to an Aden-type situation. An immediate withdrawal would carry
with it the certainty of friction and the probability of hostilities, particularly between Iran and Saudi Arabia. Repercussions over this could put at risk not only our own, but all Western oil interests in the area. There would be domestic pressure on the Shah to occupy Bahrain. Resistance to such pressures could destroy the stability of his regime and jeopardise the Western connection. But if Iran occupied Bahrain Her Majesty's Government could find themselves ranged against her at the United Nations and generally, and our oil and other interests would be again endangered. Meanwhile, the Russians would take advantage of the situation (as they are already doing in Iraq, by arranging a political purchase of oil they do not economically need). If their initiative were successful our oil supplies could be ultimately under indirect but effective Russian control.

15. In order to guard as much as possible against the foregoing our action in the Gulf should be:

(a) To give up the Kuwait commitment at a very early date to be determined in discussion with the Amir.

(b) To withdraw wholly from the Gulf by the same date as the Far East withdrawal, i.e. 31st March, 1972.

Publicity: The Far East and the Gulf

16. The problem is the same we faced last July; but now it is in a heightened form. Our best chance for a successful consultation with our allies (who will be fearful of the effects of publicity upon stability in South East Asia and the Gulf) would be if we announced on 16th-17th January no more than that our defence plans are under stringent review; that the decisions published last July have had to be re-examined; that to produce meaningful savings substantial changes are needed involving consultations; and that these are proceeding urgently.

17. This would keep down to the minimum the risk of doing irreversible political and economic damage to ourselves and others abroad. But we recognise that to continue to make no announcement of overseas and defence cuts would not be understood at home and could cast doubt on the firmness of our intention to set our economic house in order.

18. In the last resort, therefore, and provided the date of final departure is accepted as 31st March, 1972, we would be willing to put to our Commonwealth partners and allies a form of announcement which made specific reference to this date for the Far East while, because of the high stakes and grave risks, preserving secrecy on the Persian Gulf other than Kuwait.

The Gulf: Consultation

19. We shall need to consult the Shah, King Faisal and the Amir of Kuwait in advance of any statement we may make, and we shall also need to reassure the Rulers of the Gulf States. In the light of the personal assurances given by the Minister of State on his recent visit to the area, and of the post-devaluation messages sent to a number of Governments, we are considering whether a Ministerial visit would be desirable.
20. The Foreign Secretary, who leaves London on Saturday, 6th January, for a visit to Japan, will return via the United States. He will have consultations with Mr. Rusk, the United States Secretary of State, in San Francisco on Saturday, 13th January. He will be back in London on Monday, 15th January.

21. The Commonwealth Secretary has arranged to visit Kuala Lumpur, Singapore, Wellington and Canberra between 5th and 14th January.

22. The purpose of the Commonwealth Secretary's visit would be to explain in general terms the background of the economic reasons for the decisions, making it clear why there have to be cuts both in the domestic and in the external field. If this course were approved, he would go on to state that the Government have decided that the rundown in the Far East must be accelerated and would inform Commonwealth Governments of our intentions, including our readiness to discuss a revised aid programme, our continuing general capability (located in Europe) after withdrawal and our new approach to the Anglo-Malaysian Defence Agreement. He would explain that we envisage our membership of SEATO continuing, on a restricted basis. He would make it clear that the final decision would be taken at a Cabinet meeting on 16th January with a view to an immediate public announcement thereafter, and that he would be returning for that meeting in order to convey any views which Commonwealth Governments wished to express.

23. We should inform the Thais, Filipinos and Pakistanis (as our partners in SEATO and Pakistan's case CENTO also) before the announcement is made. We should also inform Canada and our other NATO partners.

Other Areas

24. (i) Mediterranean
   (a) Cyprus

   Assuming we shed the Kuwait commitment we should reduce the number of our aircraft in Cyprus. Earlier in 1967 we took preliminary soundings with our CENTO partners about a possible reduction, and they appeared to accept it.

   It would not be practicable to withdraw from Cyprus in 1968 or 1969 since -

   (i) It is needed as a staging post until withdrawal from the Far East is complete.

   (ii) This could lead to the collapse of CENTO with grave effects on our relations with Iran and unforeseeable consequences for the stability of the regions.

   (iii) It would decrease the chances of a settlement of the Cyprus problem where we are playing the kind of role in collective peace-keeping which it is generally agreed we should continue to sustain.
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(iii) It would decrease the chances of a settlement of the Cyprus problem where we are playing the kind of role in collective peace-keeping which it is generally agreed we should continue to sustain.
(b) **Libya**

We should try to re-shape our treaty commitment so as to ensure a longer warning period. But if we go back on the commitment we should imperil arms orders estimated at up to £250 million over the next five years and a highly important source of oil supplies West of Suez.

(c) **Malta**

We have a defence agreement with Malta until 1974 and have already negotiated the fastest possible rundown of British forces there.

(d) **Gibraltar**

In the present political climate it would not be possible to withdraw the garrison from Gibraltar, although it cannot be justified militarily.

**Other Areas**

25. (ii) **Elsewhere**

A thorough study has been made of all our lesser commitments. These mainly affect our dependent territories. We are willing to discuss possible savings with the Chancellor, but these may not be substantial, and do not raise questions of major policy, with the possible exception of discontinuing the Beira patrol. These commitments include responsibility for military protection and evacuation of British nationals in Africa and the Middle East; the defence and internal security of Mauritius after independence; protection and defence of the Falkland Islands; the garrison in British Honduras; our obligations to Brunei; and Fiji which in the worst case requires a brigade group to be committed. But we must remember that we are legally and morally responsible for the defence of our dependent territories. This will continue to be an essential part of our peacekeeping role in the world and will make it necessary for us to maintain a general capability.

**Conclusions**

26. The effect of cuts on the foregoing scale will be severely to diminish British influence overseas, and their consequences will be unpalatable. In the worst case we might see a Communist Singapore, and a Persian Gulf whose oil supplies were either in chaos or under Russian control. The reactions of the United States which were made last July, will be even stronger, particularly since their problems in Vietnam will make it hard for them to take remedial action elsewhere in South East Asia; and, since our own position in the Gulf is unique, they cannot replace us there. Given our economic situation, heavy cuts seem inevitable, and the price is bound to be severe. But the more successful our consultations, and the smoother the transition, the less damaging the consequences will be.
If our recommendations on oversea policy are accepted we are advised by the Secretary of State for Defence that he could see his way to making further substantial savings. Leaving out of account transitional payments the Defence Secretary's preliminary, broad estimate is that budgetary savings of between £50 million and £80 million should be achieved in 1969-70, thereby reducing the defence budget in that year to, or a little below, the level achieved in 1968-69 after the £110 million devaluation cut had been made, and of about £150 million by 1972-73 which would result in a Defence Budget total of about £1650 million in 1972-73 at 1964 prices.

Against this background, our recommendations for cuts in commitments are that we should:

(1) decide to withdraw altogether from our bases in Singapore and Malaysia by 31st March, 1972, and announce this decision to Parliament in the third week of January, 1968. There would have to be consultations beforehand with our Commonwealth partners and the United States;

(ii) decide to withdraw wholly from the Gulf by the same date as the Far East withdrawal, i.e. 31st March, 1972, but not announce this decision;

(iii) decide to give up the Kuwait commitment at a very early date to be decided in discussion with the Amir;

(iv) subject to (iii), reduce the number of our aircraft in Cyprus;

(v) reshape our treaty commitment in Libya;

We should also:

(vi) examine the possibility of shedding:-

(a) responsibility for military protection and evacuation in the Middle East and Africa;

(b) the commitment for defence and internal security of Mauritius after independence;

(c) the British Honduras garrison;

(d) the protection and defence of the Falkland Islands;

(e) our obligations to Brunei;

(f) the Beira patrol.

We should also:

(vii) examine the scale of our military support for internal security in Fiji.

G. B.
G. T.

Foreign Office, S.W.1.
3rd January, 1968
3rd January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

LOCAL AUTHORITY MANPOWER

Memorandum by the First Secretary of State

As part of the economic measures now under consideration I was asked to consider with the Ministers concerned, and to report upon, the feasibility of restricting the growth of local authority manpower in 1968-69.

2. There has been a steady growth in local authority employment over the last few years, as the following figures show:

Numbers employed by local authorities and in police forces in Great Britain (full-time and part-time)

<table>
<thead>
<tr>
<th>Year (June)</th>
<th>Males</th>
<th>Females</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>842,434</td>
<td>605,657</td>
<td>1,448,291</td>
</tr>
<tr>
<td>1958</td>
<td>909,043</td>
<td>715,508</td>
<td>1,625,551</td>
</tr>
<tr>
<td>1961</td>
<td>962,032</td>
<td>793,230</td>
<td>1,755,262</td>
</tr>
<tr>
<td>1964</td>
<td>1,052,653</td>
<td>910,892</td>
<td>1,963,545</td>
</tr>
<tr>
<td>1965</td>
<td>1,066,933</td>
<td>957,793</td>
<td>2,024,726</td>
</tr>
<tr>
<td>1966</td>
<td>1,106,113</td>
<td>1,016,479</td>
<td>2,122,592</td>
</tr>
<tr>
<td>1967</td>
<td>1,140,255</td>
<td>1,076,560</td>
<td>2,216,815</td>
</tr>
</tbody>
</table>

A breakdown of the total figures for 1967 is given in the Annex.

Education accounts for nearly half the total. A notable feature has been the growth of part-time employment: over the period 1952-57 men and women employed full-time increased by 30 per cent and 40 per cent respectively but part-time employees by 135 per cent and 148 per cent.

3. The numbers of local government staff are obviously related to the policies which those staff are needed to implement, much of which spring from central government initiative. We therefore thought that the Home Affairs Committee should be asked to examine the possibility of postponing the appointed days in any legislation now pending which made increased demands upon local authority staffing.
4. It has to be recognised, however, that under the rate support grant system there is in general no central control of local government staffing, though the Home Secretary approves the establishments for police forces and the Minister of Transport has some control of the staff employed by local authorities as the Government's agents in trunk road construction and maintenance. While, therefore, it might be valuable to identify, if this were possible, local authority services in which staffing cuts might be made, we are in no position to enforce these. The only really effective instrument available to us is the financial one of the rate support grant itself. The next grant period will begin in April, 1969, and the negotiations for this will begin with the local authority associations this autumn. If it were made clear now that the Government intended a restrictive settlement on this next occasion, this might be expected to have some effect on staffing policies in 1968-69. It would be necessary to accept that some reduction in the standard of local authority services would be inevitable and the consequent restrictions upon employment might lead to difficulties, for example with the teachers over ancillary staff, and to presentational problems in the development areas.

5. The form of any such announcement needs further thought, more particularly in relation to local authority consultation over rate support grant. The Minister of Housing and Local Government and the Secretary of State for Wales have already sent a personal message to the Mayors and Chairmen of Councils about the need for economy in capital and current expenditure in which they asked local authorities to scrutinise with particular care proposals to recruit additional staff or start new services; and the Secretary of State for Scotland has circularised local authorities stressing the need for economy. We concluded that, in the light of this, the Minister of Housing and Local Government should be asked to consider, firstly the form of a statement about rate support grant in the next period to be included in any general announcement of measures to be taken, which would be sufficiently emphatic to bring about an immediate restraint on staffing; and, secondly, whether specific guidance could be given to local authorities in the resulting situation.

M.S.

70, Whitehall, S.W.1.

3rd January, 1968
The figures cover (a) all employees of the councils of all counties, boroughs (county, London and municipal), urban districts and rural districts in England and Wales and of counties and burghs (large and small) in Scotland, and (b) members of the police forces (including the Metropolitan Police).

All persons with a normal full-time engagement are included in the columns headed "full-time" and the persons in the columns headed "part-time" are those engaged on a part-time basis whose employment ordinarily involves service for not more than 30 hours a week.

### GREAT BRITAIN

<table>
<thead>
<tr>
<th>Department or Service</th>
<th>Males</th>
<th>Part-time</th>
<th>Females</th>
<th>Part-time</th>
<th>Total males and females</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Full-time</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education department:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Lecturers and teachers...</td>
<td>184,685</td>
<td>60,541</td>
<td>220,122</td>
<td>81,986</td>
<td>547,334</td>
</tr>
<tr>
<td>(b) Other staffs (clerical staffs, school cleaners, school canteen staff, etc.)...</td>
<td>67,302</td>
<td>15,348</td>
<td>116,535</td>
<td>298,661</td>
<td>498,345</td>
</tr>
<tr>
<td>Water supply...</td>
<td>15,305</td>
<td>164</td>
<td>724</td>
<td>251</td>
<td>16,444</td>
</tr>
<tr>
<td>Construction...</td>
<td>133,083</td>
<td>394</td>
<td>1,380</td>
<td>304</td>
<td>135,161</td>
</tr>
<tr>
<td>Transport services...</td>
<td>71,904</td>
<td>111</td>
<td>9,585</td>
<td>562</td>
<td>82,162</td>
</tr>
<tr>
<td>Health services, day nurseries, children's, aged persons' and other homes...</td>
<td>40,052</td>
<td>4,007</td>
<td>101,397</td>
<td>93,221</td>
<td>238,677</td>
</tr>
<tr>
<td>Restaurants and canteens (excluding school canteens); orchestras; entertainments; amusement parks; race courses, golf courses, etc...</td>
<td>6,539</td>
<td>1,358</td>
<td>4,958</td>
<td>4,249</td>
<td>17,604</td>
</tr>
<tr>
<td>All other local authority dept...</td>
<td>422,241</td>
<td>21,551</td>
<td>95,647</td>
<td>43,253</td>
<td>582,692</td>
</tr>
<tr>
<td>Police forces (including Metropolitan Police)...</td>
<td>94,670</td>
<td>-</td>
<td>3,725</td>
<td>-</td>
<td>98,395</td>
</tr>
<tr>
<td>Grand total...</td>
<td>1,035,781</td>
<td>104,474</td>
<td>554,073</td>
<td>522,487</td>
<td>2,216,815</td>
</tr>
</tbody>
</table>
CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

CIVIL SERVICE STAFF NUMBERS (NON-INDUSTRIAL)

Memorandum by the Chancellor of the Exchequer

Officials have now completed the first round of discussions on Departmental estimates of staff numbers at 1st April, 1968, and 1st April, 1969. I suggested that we should aim in the first instance at achieving a reduction of at least 50 per cent in the overall estimated increase (13,530) up to 1st April, 1969. The response has been helpful and we can get fairly close to this immediate target. The provisional revised figures show:

(a) An increase of about 240 over previously agreed forecasts up to 1st April, 1968 - making an estimated in-post figure of 474,000.

(b) An increase of about 7,350 in the financial year 1968-69 - making an estimated in-post figure for 1st April, 1969, of 481,350. (These figures and others in this note exclude casuals. Staff on casual or seasonal employment are however included in the three-monthly manpower returns from which public statements about the size of the Civil Service are taken. The figure for casuals is normally about 2,500-3,500 but can be as high as 5,000).

2. Even so, an estimated increase of 7,350 next year must give cause for concern. If we are to demonstrate that expenditure in the public sector is under-effective and critical control we must not neglect the need to limit the growth of the Civil Service and the desirability of demonstrating that this, like other forms of expenditure, can be contained. This is all the more the case since many critics of a high level of public expenditure are once again drawing attention to the continued expansion of Civil Service numbers. They imply that numbers could be substantially reduced without any noticeable effect on events or on Government policies. This criticism is in many ways misjudged but we have to be able to meet it and show that we are prepared to make economies in the use of scarce manpower resources.

3. The size of the non-industrial Civil Service (excluding those in the Post Office) has been increasing steadily since 1960-61 when the figure was about 385,000. Excluding casuals, the increase between 1st October, 1964 (when the figure was of the order of 414,000) and 1st April, 1968, will have been about 60,000. Such increases are not of course independent of the other activities of the Government; they are mainly the result of one of two things:-
(a) The increasing need for, or demand upon, existing services. This can cover activities ranging from the need of the Revenue Departments to deal with an increased number of taxpayers to increased demands for passports or driving tests. Few Departments which deal with individual citizens are exempt from pressures of this kind.

(b) The introduction of new Government policies. Those which involve discriminatory action between individuals or organisations (the Betterment Levy, Selective Employment Tax, for example) are particularly labour-intensive.

4. In terms of a staffing policy appropriate to the present situation, therefore, we should seek, as far as is compatible with other considerations, to avoid embarking on activities which will inevitably lead to appreciable increases in the size of the Service and, where we have to create new activities, to concentrate on schemes which are the more economical of staff. At the same time we have to control new demands for staff resources held to be necessary to cope with the pressure and development of existing work. We shall only be able to do this if we are prepared to accept in certain areas of activity a somewhat lower standard of service. Alternatively, we can look at existing policies, consider whether some can be eliminated and suggest areas where some slowing down of effort, with consequential staff savings, could be achieved.

5. I set out in Annexes A and B an indication of areas where further economies might be found. Annex A covers a group of relatively small economies, mostly by postponing or delaying work programmes already agreed. Annex B points to staff savings which would be possible as the result of major policy decisions in areas of expenditure at present under discussion.

6. There is also some scope for economy of staff by changes in employment policy, particularly in respect of auxiliary staff. For instance, and O & M Review team has been considering the use of messengers and will report within the next eight weeks. If the likely recommendations were to be implemented throughout the Service there could be a saving of some 300 posts. In the same way there are areas for economy in the use of paper keepers and laboratory assistants-a further saving of 300 could be possible here.

7. The most promising scope for this kind of economy, however, is a major extension of contract cleaning. There would also be a considerable financial saving. At present office cleaning is divided between contract work and directly employed Civil Service non-industrial staff. Contract work is usually much cheaper. A rigorous and complete transfer to contracts (with a few exceptions only for very special reasons) could reduce Civil Service numbers by up to 5,000 by end-1969, and save about £1.5 million a year. A less rigorous policy could save 2,500 staff and £0.5 million or £0.6 million a year. A reduction of 1,000-1,500 by 31st March, 1969, is certainly well within realisation. There would be difficulty with the small but vocal union concerned and a risk of unfavourable Press comment but this is an economy which in present circumstances ought to be made.
8. I conclude that there are possibilities of substantial economies, some as a result of changed policies, some as a result of delaying work and some as a result of changes in management and employment policies. I also believe that with a willingness to look again for ways of improving efficiency generally Departments can find further savings, however limited or marginal in some cases. I propose that we should control the size of the non-industrial Civil Service in such a way that the number of staff at the end of the financial year 1968-69 should not be greater than the new estimated in-post figure for 1st April, 1968, of 474,000. We should also make public our intention to do this. Considerable discipline and self-denial will be needed to achieve this limitation. The figure proposed assumes that expenditure cuts producing throughout the year staff savings of the scale set out in Annexes A and B will be made. It also means that we should be willing to permit further staff increases in any area only for genuinely new work and only if accompanied by compensating savings elsewhere.

9. I therefore seek agreement to our establishing and announcing the limitation of Civil Service staff numbers proposed in paragraph 8 above, using an estimated in-post figure for 1st April, 1968, of 474,000. Our officials would be instructed to settle the manpower forecasts and estimates for 1st April, 1968, to 1st April, 1969, on this basis, taking into account the managerial economies on messengerial and office cleaning work referred to in paragraphs 6 and 7.

R.H.J.

Treasury Chambers, S.W.1.

3rd January, 1968
Examples of Areas where Staff Economics could be Achieved
by a Slowing Down or Reduction in Effort

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
<th>Estimate of Staff Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs and Excise</td>
<td>reduction of staffing at Customs posts</td>
<td>75</td>
</tr>
<tr>
<td>Home Office</td>
<td>spreading of load on immigration officers to compensate for increased staff required to man additional facilities at London Airport</td>
<td>70</td>
</tr>
<tr>
<td>Housing and Local government</td>
<td>slowdown of programme of research of Water Resources Board</td>
<td>40</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>delay start of preliminary work at Valuation Office for the 1973 revaluation</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>alter tolerances on PAYE (this could be expensive in money terms)</td>
<td>250</td>
</tr>
<tr>
<td></td>
<td>slowdown of work on tax avoidance in the building industry</td>
<td>100</td>
</tr>
<tr>
<td>Labour</td>
<td>reduce speed of expansion of Factory Inspectorate</td>
<td>100</td>
</tr>
<tr>
<td>Land Registry</td>
<td>slowdown agreed programme of registration</td>
<td>260</td>
</tr>
<tr>
<td>Trade</td>
<td>slowdown expansion of work on statistics, distribution of industry and Companies Act. If these are to be exempt, compensating reduction in other work (except exports)</td>
<td>100</td>
</tr>
<tr>
<td>Transport</td>
<td>slowdown transfers from local authorities in respect of Road Construction Units</td>
<td>300</td>
</tr>
</tbody>
</table>
Examples of Staff Economies which could be Achieved as a result of Major Policy Changes

<table>
<thead>
<tr>
<th>Division</th>
<th>Description</th>
<th>Estimated Staff Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defence</td>
<td>Defence policy generally</td>
<td>1,200</td>
</tr>
<tr>
<td>Home Office</td>
<td>Civil Defence. If this were to be put on a care and maintenance basis there would be a saving of about 700 throughout the Service (including civilians in the Defence Departments). A less severe restriction would allow for a saving of about 100</td>
<td>700</td>
</tr>
<tr>
<td>Housing and Local Government</td>
<td>Delay implementation of the Countryside Commission</td>
<td>100</td>
</tr>
<tr>
<td>Technology</td>
<td>Cancellations of aircraft projects would have an immediate effect on staff numbers both at Headquarters and outstations, for example a saving of at least 80 on a project the size of Concorde. Economies in research staff at aero-space and civil research establishments and a limitation of plans for development on engineering work</td>
<td>300</td>
</tr>
</tbody>
</table>

There may, however, also be demands for staff increases as a result of policy changes. A selective scheme for Prescription charges might call for an extra 200 staff throughout the Service.
3rd January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

THE F. 111

Memorandum by the Secretary of State for Defence

We are buying the F. 111 to replace the Canberra, which is now, in face of the rapid progress of technology, obsolescent as an effective weapon of war. It has been in service with the Royal Air Force since 1952. The RAF's problems in operating ageing aircraft have become increasingly evident over the past year, when 60 aircrew have been lost in accidents. This includes four fatal accidents to Canberras.

The Military Requirement

2. The operational roles which the F. 111A would take over from the Canberra are primarily tactical and strategic reconnaissance, and long-range strike with conventional weapons; the latter against targets such as airfields (to neutralise the enemy air forces), ships (in maritime operations) and the transport systems with which the enemy supplies and reinforces his ground troops (in support of the army). This capability is an essential part of our military armoury, which we must have available if our soldiers or sailors are involved in any operations above the level of internal security.

3. The present Canberra force totals 150, of which all but 14 are permanently stationed West of Suez. Our order for 50 F. 111's will support a front line of 36 aircraft - a small force, but a very effective one for the operational conditions of the 1970s - which will be supplemented by keeping some V-bombers in service until the mid-1970s and by Buccaneers operating from carriers, and later from land bases. Although originally we had planned to base 14 aircraft permanently in the Far East we had always intended to hold the major part of the force permanently stationed in the United Kingdom. Last March we decided that since the main emphasis of our defence effort would be in Europe, the whole force would be concentrated in the United Kingdom, and assigned to the North Atlantic Treaty Organisation (NATO).

4. Among the distinctive characteristics of the F. 111 are range, flexibility and the ability to operate from an unprepared base. These characteristics make it suitable for use not only inside Europe but also anywhere in the world where we might be engaged in operations above the level of internal security after our withdrawal from permanent bases overseas. The unique characteristic of the F. 111A however, is its capability for penetrating sophisticated defences at night and in all weathers. This is indispensable for strike in the central European theatre.
5. Long-range strike/reconnaissance has acquired a new importance in NATO strategy as a result of changes in the strategic concept which, after three years pressure largely by the British Government, were formally endorsed by the NATO Council in December, 1967. Primarily NATO had aimed in theory at containing Soviet aggression by the deployment of conventional ground forces far greater than any country was prepared to provide; but failing the availability of such enormous ground forces, NATO assumed in practice that recourse to nuclear weapons would be well-nigh immediate and automatic. The new and more realistic strategy of flexible response, based on the forces countries actually plan to provide, aims at containing a minor conflict by conventional means alone, or in case of a massive attack, winning sufficient time for a rational decision on the use of nuclear weapons. A necessary condition of achieving these objectives is to deny the enemy air superiority over the battlefield during the conventional fighting. That is why in December, 1967 NATO decided to release for the conventional role 90 per cent of the aircraft it had till then planned to withhold for nuclear strike.

6. Control of the air has long been the key to success in ground fighting. This was most recently demonstrated during the Arab/Israeli war last summer. It is very much cheaper and easier to win control of the air by destroying enemy aircraft on their ground bases rather than over the battlefield. This is the prime purpose of the strike aircraft. The 1,600 tactical aircraft now deployed in Eastern Europe emphasise the scale of this problem in a conflict which must be brought to an end in a few days if it is not to escalate into nuclear war. The primary aim is of course not to fight the battle but to prevent it starting by raising the cost of aggression above the level which the aggressor can tolerate. Strike aircraft are vital to such conventional deterrence. NATO strike aircraft must therefore be seen to have the ability to penetrate the enemy defences at very low level and find their targets in any weather day or night.

7. Among the aircraft now planned to be available in the alliance in the 1970s only the American and British F. 111 have the range, performance and sophistication required to deal with the more difficult targets, although the French Mirage IV has a high-level strike capability. Details of alternative aircraft are given in Annex A.

The cost effectiveness of the current mix of F. 111's and V-bombers has been most thoroughly studied. This mix represents a very great saving on the TSR 2 programme. Any alternative programme, approaching the same military capability, would be much more expensive. In fact there is no alternative programme conceivable in the time-scale required.

The Political Requirement

8. If we decide on a rapid liquidation of our military commitments outside Europe, I believe that the size and nature of our defence contribution to NATO should be considered in the light of political, no less than military and economic considerations. The American Administration's current drive for savings in foreign exchange points clearly to significant reductions in America's contribution to NATO.
A British decision to withdraw rapidly from East of Suez may add weight and speed to this American trend. In such a situation our European allies are likely to give particular value to a British contribution of those advanced weapon systems which only the United States and France are also able to provide. This applies not only to the strategic nuclear capability of the Polaris force but also to the long-range conventional strike and reconnaissance capability, which is acquiring new importance as a result of the changes in NATO strategy. Since its inception, NATO has relied on the United Kingdom for the long-range strike and reconnaissance element represented by the Canberra and supplemented more recently by the V-bombers. The high quality of this contribution has compensated in part for the small size of our total air effort in NATO. If we do not replace the Canberras, we must in the next year or two abandon our contribution in this vital role to some other nation. The only other nations capable of assuming it are the Americans and the French. I do not believe it would be in Britain's political or military interest to face our other allies with such a choice. Nor would the choice be welcome to our allies.

9. One economic advantage of the F. 111 contribution is that it would be deployed in the United Kingdom and so avoid stationing costs in foreign exchange. It is therefore not one of our contributions to NATO which I would recommend reducing, should we fail to make satisfactory offset arrangements with Germany.

Economic consequences of cancellation

10. Discussions between senior officials of my Department and the Ministry of Technology held in Washington on 1st January, 1968, indicate the nature of the economic consequences which might follow from the cancellation of the F. 111 order. Details are given in Annex B. The salient factors are as follows:

(a) Cancellation of the order for 50 F. 111 aircraft would require us to pay $87 million in cash during the financial year 1968-69 as against the current planned payment of $23.7 million - a net increase of $64.3 million in a critical year for our balance of payments. A further $53 million (including $10 million in interest) would remain to be paid under the credit arrangement over the following six years, making a total of $140 million in nugatory expenditure. In addition there would be sterling cancellation charges of about £3 million in 1968-69.

(b) While we might hope that the American Administration would resist Congressional pressure to cancel the $180 million worth of offset contracts already placed, we would almost certainly lose the existing Jetstream contract and the orders for a further 150 aircraft which Handley Page hope to win later in consequence. Hundreds of British firms which have gone to great trouble, under urging from Her Majesty's Government to master the intricacies of American tendering procedures would find their efforts frustrated by action of the British Government. British industry as a whole would lose a
substantial and guaranteed foothold in the American defence market worth a further £250-300 million (as well as $135 million in collaborative sales) - a serious disadvantage if we are to effect a rapid and substantial recovery in our balance of payments. The value which British industry attaches to this opportunity, and the contribution it can make to their progress in advanced technologies is well brought out in three of the recent letters to the Press reproduced in Annex C.

(c) The additional $100 million to the offset target for direct sales which I have just negotiated at my colleagues' request would of course lapse.

11. The chances of Rolls-Royce winning the engine for the Lockheed airbus - a contract which could be worth $2000 million to $5000 million - would also be much reduced. This point is emphasised in two telegrams of 1st January from our Ambassador in Washington.

Conclusion

12. The only suitable aircraft which is available to replace the Canberra in 1969 is the F.111. I am satisfied that the operational need for this aircraft is not reduced by the accelerated withdrawals East of Suez now in prospect and is substantially increased by recent changes in NATO strategy for which the British Government has pressed. The economic consequences of cancelling the existing orders for the aircraft would be damaging to the balance of payments. Indeed there would be a substantial increase of the order of $65 million on the United Kingdom balance of payments and budget in 1968-69. Furthermore unless it was decided to renounce this capability no longer term savings could be expected. I therefore invite my colleagues:-

(a) to agree that the purchase of the 50 F.111 aircraft for the Royal Air Force should proceed as planned;

(b) to note that I have persuaded the United States Administration to increase the dollar offset target to $825 million in all, by increasing the target for direct sales to the USA by $100 million.

D. W. H.


Performance of the F.111

In all areas of Europe deep support missions in the next decade will demand an aircraft with an advanced strike and reconnaissance capability, able to pierce sophisticated defences at very low level, in all weathers, by day or night, to gather intelligence using a wide variety of sensors or to deliver a range of weapons, conventional or nuclear. This is the role envisaged in Europe for the F.111. It is a function that the V-bombers cannot take over from the Canberra strike/reconnaissance force. Although their range and bombload give them a useful role on the flanks of NATO, they have not the appropriate reconnaissance capability and their ability in the conventional strike role to penetrate the sophisticated defences of the Central Front in the 1970s will progressively diminish. Similar operations will also be required on the flanks of NATO - in the NORTHAG area and in the Mediterranean, where the defences, though no less sophisticated, may be less dense, and ranges will be longer.

2. The F.111 meets all these requirements. There is no other aircraft which can do so, and be in service when required in 1969. In development it has already demonstrated its ability to perform with full maneuvrability at twice the speed of sound. The ferry range of 3000 nautical miles now seems assured. The radius of action in various operational sorties relating to the European theatre is illustrated on the maps attached at Appendices A and B. The long range of the F.111 enables it to be operated from bases in this country, thus, incidentally, avoiding the foreign exchange costs of maintaining airfields on the Continent. Militarily this renders it secure from surprise attack, and any attempt by the Soviet powers to eliminate the force on the ground would involve an extension of the area of conflict, thereby increasing the risk of escalation into the nuclear phase.

3. In brief, the value of the F.111 as a NATO weapon is that:

   a. Its sophisticated characteristics and UK base make it an essential element in the credibility of the deterrent.

   b. Its reconnaissance and strike capability enable aggressions to be detected and identified, then dealt with rapidly, effectively and without premature recourse to nuclear weapons.

   c. The force can be based in the UK.

   d. It can be used wholly or in part for operations elsewhere, if required, with only a temporary detrimant to the capability of our NATO-assigned forces.

Possible Alternatives to the F.111K

4. We could not cancel the F.111 and put nothing in its place without reducing the size and value of our contribution to NATO in a field to which SACMIN attaches the highest importance. Our operational ability to deal with military contingencies outside Europe would also be affected. Theoretically, there are two possibilities which might be considered:

/a. ......
a. Increasing the size of the ground-attack force, i.e., buying and operating more Phantoms, Jaguars and Harriers. The Phantom, which was not designed as a strike aircraft, has nothing like the range of the F.111 (see maps at Appendices A - B): its maximum bomb load is far less and its reconnaissance capability and ability to attack targets is limited by weather conditions. The Jaguars and Harriers, though effective in the ground support role, have even greater limitations in the strike role, e.g. a complete lack of all-weather capability and very short range. Moreover, we are already under pressure from NATO to increase the size of our ground-attack force while maintaining our strike/reconnaissance contribution. But whatever the size of the ground attack force we provided they could never supply the operational capability provided by the small force of F.111s. Furthermore, ground attack aircraft would need to be deployed on the Continent, for reasons of range and readiness, and considerable deutschmark expenditure would be involved.

b. Buying a British strike/reconnaissance aircraft to fill the gap. The only type for consideration in the timescale is the Buccaneer. The current version of the Buccaneer has been in service with the Navy since 1961. It is designed for strike only against ships or easily identifiable land targets. Its introduction into service in the 70s even as a stop-gap until the arrival of a more advanced combat aircraft would not make military sense. A fully developed, but still subsonic, version of the aircraft, the Buccaneer 2k, possessing a nav/attack system of the full standard required for low level all weather strike against land targets could not be available until 1975. Moreover, although considerably greater numbers of Buccaneer 2ks could deliver the same weight of weapons as the smaller number of F.111s they could not perform the full reconnaissance task. It would also be necessary to fill the gap between 1969 and 1975 when the Buccaneer 2ks would enter service, by keeping the maximum number of V-bombers squadrons in the front line, though in terms of capability and numbers these would in no way compensate for the absence of the F.111s. Indeed, to rely exclusively on our remaining V-bombers to provide the spearhead of our NATO forces for the first half of the 1970s would be a weakness both in political and military terms which could not be compensated by the introduction at the end of that period of a type which we have already publicly rejected (Cmd 2901). The advance over the current design is not great enough to offer any technological benefit to industry, the gap in production would be awkward to overcome, and there would be no sales prospects for such a project outside this country.

5. Neither of these possibilities offers any military, economic or industrial advantages over the F.111 to make its worth pursuing.
ANNEX B

Financial consequences of cancelling or reducing the F.111 Programme

The total programme costs, i.e., capital, R & D and operating costs for the F.111 in sterling and dollars (at the new exchange rate) over the period up to April 1976 are now estimated at about £100 million, or some £10 million a year. The capital costs of the aircraft and its supporting equipment are spread over this period, and two later years under the credit loan agreement. We have an important protection against cost growth (except that attributable to increases in the prices of labour and materials) in the ceiling price for the basic aircraft settled in 1965, and the supplemental ceiling for the special features of the British version negotiated last October. Moreover our agreement to purchase 50 aircraft is paralleled by an American obligation to purchase or sponsor purchases of military equipment in this country to offset the foreign exchange cost of the programme (the Offset Agreement). The target figure for such purchases was originally set at 725 million dollars, which matched the estimated dollar content of the F.111 programme. This figure is now out of date due to inflationary increases in the US and cost growth in ancillary equipment since the order was placed. However, I have recently secured the agreement of the US Government to increase the target by 100 million dollars. The possibility of further extending the offset agreement to cover any further increase in dollar costs from whatever source is not excluded.

2. The advantage of the Agreement is that it enables us to by-pass American preference terms and to compete in the United States on equal terms with American competitors. We have already received orders worth 150 million dollars under this Agreement (and there are more on the way), as well as the Saudi Arabian deal, worth about 265 million dollars. Over the next three financial years our expected foreign exchange receipts from orders already placed exceeds our forecast outgoings under the F.111 contract by some 50 million dollars. A table of progress under the Offset Agreement is attached at Appendix A.

3. Officials of my department and of the Ministry of Technology have recently been discussing with the Department of Defense on a contingency basis the possible consequences of cancellation of our order for the F.111. While the figures must be treated with considerable reserve, the financial effects are estimated broadly as follows:

a. If we were to cancel the F.111 outright, and put nothing in its place, we should save all the £10 million a year referred to in paragraph 1. But we should have to pay cancellation charges estimated at about £60 million (265 million in dollars), of which £38 million would fall to be paid in 1968/69. This would amount to nearly four times our forecast dollar expenditure on the aircraft in that year.

b. Cancellation of the F.111 would in the American view so upset the overall balance between US/UK expenditure on which the offset arrangement was based that there would be virtually no more...
direct sales contracts - the order for Jetstream recently obtained would be lost and of course the increased target of 100 million dollars would be void. Whilst the Saudi Arabian deal worth 265 million dollars might not be at risk and most existing contracts would probably be completed, some might be in jeopardy because of political pressures on the Department of Defense. The balance of over 400 million dollars to come in the years ahead would be lost but in the circumstances an even more serious loss would be the unique opportunity, particularly for numbers of small firms, of establishing a firm and permanent foothold in the American market.
Sales to the United States

To meet the foreign exchange cost of the Flll programme the US Government agreed in February 1966 to use its best efforts to procure defence equipment from the United Kingdom. A target of $325 million was established for such purchases over the US Fiscal Years 1966-1977. This target has recently been increased to $425 million. To date orders have been received worth over $180 million. Details are shown in the attached appendix.

The opportunity to compete in the US defence market on equal terms with US industry has excited considerable interest in many areas of British industry. Nearly 400 firms have put their names forward to the US authorities as potential suppliers and the number is increasing steadily as time goes on. In addition details of many hundreds of items of British equipment have been sent to the US Department of Defense for evaluation.

This is no mean achievement in less than two years since the procedures involved in matching US military needs with British capabilities in the defence field are necessarily complex and time-consuming. It was not to be expected that every UK bid would succeed but the experience gained has been of great value for the future. Provided that the basis of the arrangement is not undermined, we may hope that a firm foundation is being laid for a continuing trade in this field.

The search for export outlets for British industry is continually widening and British businessmen are penetrating further into this important sector of the US market. As an example, a small mission from the British Aerospace equipment industry will be visiting US defence procurement agencies and US defence contractors in January 1968. Such contacts often bring business outside the defence sector but the reverse is also true and it is becoming increasingly necessary to evolve and develop an effective liaison between civil and military export efforts.

Marketing techniques are being adapted to the American scene. The US preference for face-to-face contact is being exploited although this often requires a radical change in traditional British business methods.

Representatives of British industry are also attending advance planning briefings held by the US Army to discuss future problems and it is hoped that this facility will shortly be extended by the US Navy and US Air Force.

All this is enabling the British defence industry to adapt its research and development, production and inspection methods and sales techniques to the requirements of the US defence market.
Co-operative Sales

In addition to procuring defence equipment from the United Kingdom, the US Government also agreed to co-operate in promoting sales to third countries when this was a mutual interest. One major deal worth about $265 million in foreign exchange for the supply of an air defence system to Saudi Arabia has already been achieved. A target of $400 million for such sales was established and we are strenuously resisting American claims that the Saudi deal is itself worth $400 million. It is often alleged that the Americans gave no help to us over the Saudi Arabian deal because their firms continued to compete with ours after the understanding was reached between the two Governments. The point is that the US Government stood aside and that we should not have got the contracts otherwise.

Receipts from Offset Sales

Over the next three years, receipts from offset sales will exceed the payments of interest and repayments of capital on the loan for the purchase of the F111 aircraft as the following table shows:

<table>
<thead>
<tr>
<th></th>
<th>1968/69</th>
<th>1969/70</th>
<th>1970/71</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payments</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual</td>
<td>22.7</td>
<td>67.2</td>
<td>119.0</td>
</tr>
<tr>
<td>Cumulative</td>
<td>22.7</td>
<td>89.9</td>
<td>208.9</td>
</tr>
<tr>
<td><strong>Receipts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to the US</td>
<td>41.4</td>
<td>51.4</td>
<td>67.0</td>
</tr>
<tr>
<td>Co-operative Sales</td>
<td>24.0</td>
<td>22.2</td>
<td>20.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>65.4</td>
<td>73.6</td>
<td>87.3</td>
</tr>
<tr>
<td>Cumulative Total</td>
<td>65.4</td>
<td>139.0</td>
<td>226.3</td>
</tr>
<tr>
<td>Item</td>
<td>Value ( Million $ )</td>
<td>Firm</td>
<td>Location</td>
</tr>
<tr>
<td>------------------------------</td>
<td>---------------------</td>
<td>-------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>U.S. Navy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Salvage Tugs</td>
<td>24.09</td>
<td>Brooke Marine</td>
<td>Lowestoft</td>
</tr>
<tr>
<td>2 Survey Ships</td>
<td>16.73</td>
<td>Fairfields</td>
<td>Glasgow</td>
</tr>
<tr>
<td>Arresting Gear</td>
<td>0.39</td>
<td>MacTaggart Scott</td>
<td>Loanhead</td>
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<tr>
<td>Catapult Equipment</td>
<td>0.18</td>
<td>Brown Brothers</td>
<td>Edinburgh</td>
</tr>
<tr>
<td>Radio Frequency Heads</td>
<td>0.12</td>
<td>A.E.I.</td>
<td>Leicester</td>
</tr>
<tr>
<td>Steel Wire Rope</td>
<td>0.03</td>
<td>Bruntons</td>
<td>Musselburgh</td>
</tr>
<tr>
<td>Fork Lift Truck</td>
<td>0.03</td>
<td>Cleco Electrical Industries</td>
<td>Leicester</td>
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<td>Cargo Jet Boards</td>
<td>0.02</td>
<td>Peter Evans</td>
<td>Bath</td>
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<tr>
<td>Boiler Tubes</td>
<td>0.01</td>
<td>Tube Investments</td>
<td>Birmingham</td>
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Additional locations: Southall, Leicester, and Letchworth.
Development work

From Sir Leon Bagrit

Sir,—Mr. J. H. S. Green in his letter (January 1) about the importance of the F.111 offset agreement seems to point out the value of the British scientific community to the United States and to Britain and its potential to the national economy.

The agreement has, for instance, made it possible for British engineers and scientists to undertake this work without the application of the "Buy American" Act.

Some 400 firms have tendered, some of them large, with a view to obtaining contracts for the F.111 aircraft. This, I understand, is to be expected to provide work for British industry from the present offset agreement, and which will certainly be lost if the F.111 is cancelled.

Under the existing agreement, the United States Government is committed to place $325 mn. of orders for defence equipment in this country. These orders may include anything such as typewriters or aircraft, and British firms are entitled to equal consideration, without the same strings attached.

It is not unreasonable to expect that the existing agreement, to an extent that could hardly be set aside.

Second, the United States Government has already made progress payments on 60 per cent of the British F.111 contract, for which the British Government are, presumably liable; third, and most important of all, British firms have succeeded, through this agreement, in establishing a bridgehead to more than thirty countries, until this opportunity arose.

We cannot comment on any individual case; but any action taken by our customers will be a cause for concern.

F.111 CONTRACT

From Mr. J. H. S. Green

Sir,—It is now widely realized that the Government may come to the point of cancelling the F.111 contract. It is not our responsibility as managers to make such a decision. But we would like to comment on the wisdom or otherwise of the original order for the American aircraft. Some of us have been convinced that your readership, and indeed the country as a whole, should be aware of the immense advantages which can flow to British industry from the present offset agreement, and which will certainly be lost if the F.111 is cancelled.

The existence of the agreement has, for instance, made it possible for British engineers and scientists to undertake this work without the application of the "Buy American" Act.

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We cannot comment on any individual case; but any action taken by our customers will be a cause for concern.

F.111 and Offset

Sir,—As one of the company's which has benefited from the offset agreement, against the cost of the F.111 contract, and in view of the US Navy Department for a prototype ship and salvage vessel used in the construction of the F.111, the cancellation of this type in September, 1967, having a total value of $245 mn., we are most perturbed that the Government's investigation into the cancellation of part or the whole of the F.111 contract. We cannot comment on any military necessity or otherwise of the F.111 aircraft. But the benefits of this offset agreement extend much further than compensating for part of the present costs of this aircraft.

We, and other firms, who have obtained some of the $180 mn. of work already placed under this offset agreement, have had our first opportunity of entering the American market. It is not unreasonable to expect that these companies, like ourselves, will expect to continue in the American market. Although we have sold our ships of this type to the U.S.A. for years ahead on equipment which has not been possible to sell to the U.S.A.

In the course of the discussions from a substantial cancellation of the F.111 contract, the reper-sons of this type to the U.S.A.

Finally, those firms and their products are among the most enterprising in the country—among whom we have genuinely accepted the challenge of the competition. After many years on research and development, for the American market and incurred other very heavy expenses, which would not have been satisfactorily recovered if the agreement were to be suddenly terminated to serve short-term political ends.

We submit that to choose such a course at this particular time of economic difficulty would both prove an unfair to the British firms concerned and a most damaging blow to the country's export effort and indeed it may well be that this net gold flow may well be in the interests of this country. We are most perturbed, as the result of the balance now outstanding (c. $245 mn.) but, as I have indicated, would also destroy any opportunity of continuing exports of this type to the U.S.A.

President Johnson has also, out of all the countries in Europe, given special emphasis to the U.K. from his company has an American investment overseas. It is unreasonable to suppose that we will, and a real knowledge of the implementation of these generous concessions if, on our part, we go back on our undertaking in respect of the F.111 contract. The repercussions from a substantial cancellation of this contract must be so damaging that they cannot be contemplated.
CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

FURTHER DEFENCE CUTS

Memorandum by the Secretary of State for Defence

There is some common ground in the suggestions put forward by the Chancellor of the Exchequer (C(68) 5) and the proposals made by the Foreign and Commonwealth Secretaries (C(68) 7). In particular, there is general acceptance that we should speed up our withdrawal from East of Suez; that cuts in commitments must precede further reductions in defence capabilities and costs; and that, given all the action that has previously been taken, there is little chance of further significant defence savings in 1968-69.

2. I strongly support the view that the first step must be to take decisions on reductions in our commitments. Once these decisions are taken it will take me several months to produce a revised force structure. The decisions that are envisaged will involve changes in the shape, size, structure and deployment of the three Services at least as great as flowed from the last major defence review which took many months to complete. I believe that provided the decisions on commitments are firm and clear, I shall be able to complete a new force structure within six months. Such a period, which will be very short for a task of this magnitude, should nevertheless enable me to get the most economical and cost/effective mix of capabilities and equipments for the new role of the forces in the 70's. This task is something which must be done as a whole since individual decisions will have implications which affect the size and shape of all three Services.

3. I shall also need time to work out carefully what is the best way in which to adjust our Service manpower to the smaller forces, substantially different in composition from those hitherto planned, to which we will have run down by about 1972. Our forces today are all volunteers on regular engagements and we have to offer careers and conditions of service which appeal to men of skill and spirit. We could do permanent harm to our forces if we handled the rundown in a way which lost their confidence. The Services have responded remarkably well to four major changes over the last two years. I have no doubt of their willingness to respond similarly to a fifth change provided we have time to examine the many vital personnel implications, and to bring them about in an orderly a manner as possible. For this reason we must at this stage avoid any firm commitment to, let alone public announcement of, new figures for the total strength of the forces and for civilian manpower in the early 1970's.
4. Nevertheless, provided that the discussions which the Foreign Secretary and the Commonwealth Secretary propose to undertake in the next few days enable us to reach firm decisions on our commitments on 15th January, I believe that the future pattern is already sufficiently clear for me to be able then to indicate the order of magnitude of the financial savings on the defence budget which should be achieved and to give one or two examples in broad terms of the major areas in each of the three Services which will be affected by these economies.

5. Paragraph 27 of C(68) 5 gives a broad bracket of the financial savings. It is important that these savings should be put in perspective with the economies which have already been made in the defence budget. The cumulative effect will be very substantial. A rough preliminary estimate is that by 1971-72 the defence budget will be down to about £150 million (at 1964 prices) and to £1650 million in 1972-73. This will represent a very significant fall in the percentage of the Gross National Product absorbed by defence. Moreover, we shall be getting maximum benefit from these savings at a time when our economy should be in a position to restore postponements on the civil programmes.

6. It is most important that the accelerated rundown in the Far East and Persian Gulf should be conducted in as favourable a local political atmosphere as possible if we are to minimise the risks of military conflict. This points to the need for urgent and realistic action in the fields of civil and military aid.

7. I believe, therefore, that in the middle of January, we should aim to announce:

(a) firm decisions on the bulk of the cuts in our defence commitments overseas;

(b) some specific illustrations of the consequent cuts in capabilities and forces which we expect to flow (for example, an earlier phasing out of the carriers and adjustments to the Naval construction programme, faster rundown of the Army, a decision not to build the variable geometry aircraft and reductions in transport aircraft; cuts in the size of the Ministry of Defence Headquarters and in support facilities in this country and elsewhere);

(c) a broad indication of the order of magnitude of the financial savings we expect to achieve (though details of manpower savings will not be practicable at this stage);

(d) an intention to publish a Summer White Paper on Defence giving full details of the changes that will result from a full study of the cuts in our defence commitments.
8. I believe that this approach is the only one that would appear credible to any serious student of the problem; to do otherwise would smack of panic, cause great difficulty with the Services and certainly be inefficient and probably wasteful.

D.H.

Ministry of Defence, S.W.1.

3rd January, 1968
8th January, 1968

CABINET

RACE RELATIONS LEGISLATION

Memorandum by the First Secretary of State

The Cabinet invited me on 21st December (CC(67) 74th Conclusions, Minute 2) to arrange for the Home Affairs Committee to give further consideration to the Home Secretary's proposals for legislation on race relations, with particular reference to the application of the proposed Bill to the sale of owner-occupied houses.

2. The Home Affairs Committee have considered the proposals in their present form. They reaffirmed their previous agreement that legislation was necessary to extend the scope of the Race Relations Act with the object not only of protecting immigrants against discrimination, but of educating public opinion and giving the support of the law to the majority of law abiding citizens who would be prepared to follow a firm lead from the Government in promoting toleration. The Committee considered, in particular, the sale of owner-occupied houses, the application of the Bill to the Crown, the Armed Forces and the police, and the legal machinery for applying sanctions.

Sale of owner-occupied houses

3. The Committee recognised that the application of the Bill to the sale of owner-occupied houses raises a number of difficulties. This is a highly sensitive area, but it will remain so whether the Bill is applied to it or not. From the point of view of the immigrant community housing is where discrimination hurts most. Nearly 50 per cent of houses in England and Wales are in the hands of owner-occupiers, and what we do here will be regarded as a touchstone of the Government's sincerity. The whole philosophy of the Bill and its educative effect would be greatly weakened if the owner-occupier were excluded.

4. The Committee consider, therefore, that the Bill should apply to the sale of owner-occupied houses, but that the Home Secretary should give informal guidance to the Race Relations Board (RRB) to ensure that in the conciliation work of the local committees and of the Board itself reasonable latitude is given to the exercise of legitimate discretion by the vendor and that legal proceedings are not taken unless there is such strong evidence of open and flagrant discrimination on grounds of racial prejudice that a court would have little difficulty in finding in the Board's favour. It would also be necessary that in the
Second Reading debate on the Bill the Home Secretary should be able to explain in detail how the machinery would work in relation to owner-occupied houses in order to prevent the exploitation by the Opposition of fears that any owner-occupier who sells his house to a white man in preference to a coloured will be in danger of being publicly pilloried and mulcted in damages.

5. We think that, subject to these safeguards, the application of the Bill to owner-occupied houses will not prevent an owner-occupier from selling to a white man notwithstanding that he has received an equal or better offer from a coloured man, provided that he has plainly not been actuated by racial prejudice. For example, he should be free to sell to a white man on grounds of friendship or personal preference and to take into account his obligation to his neighbours to prevent the house being used in a manner detrimental to them, for example for multi-occupation. We were informed that it is not uncommon in Scotland to make a condition of sale that the house shall be occupied only by the purchaser and his family. Restrictive covenants with a similar purpose, though rare in England and Wales, are not impossible, and we do not think that the imposition of such a condition should in itself be regarded as racial discrimination.

6. The Committee were informed that while the procedure had not been worked out in detail the intention would be that if a complaint were made of refusal to sell on grounds of racial prejudice the local conciliation committee would invite the comments of the vendor, either in writing or by interview, and if satisfied that he had legitimate reasons for his choice of purchaser and was not actuated by prejudice they would explain to the complainant that no discrimination was involved. If the complainant were not satisfied, the RRB would similarly investigate and would not take legal proceedings unless satisfied that the case was one of flagrant discrimination. Unless and until legal action were taken there would be no proceedings in public.

7. The Committee also considered whether in a flagrant case in which a court found discrimination proved the sanctions available to it would be adequate. The court will have power to order the defendant to pay damages to the complainant on whose behalf proceedings are taken in respect not merely of actual out-of-pocket expenses (as originally proposed), but of any provable loss resulting from the act of discrimination. This could, for example, enable damages to be awarded in respect of a job which the immigrant had been unable to take because he could not get accommodation locally. In addition the court could order the defendant to pay the costs of the action. The Committee recognised that these were unlikely to be large sums, and that the complainant who could prove no identifiable loss would not receive any tangible recompense. But the purpose of the Bill is not primarily either to inflict penalties or to provide monetary compensation for sufferers from acts of discrimination; its main purpose is to foster a climate of opinion and, on balance, we think that, provided in flagrant cases the law can be vindicated, it is better that the courts should not have power to inflict what could be regarded as Draconian penalties. Where a course of discriminatory conduct has been proved
the court will have power to issue an injunction to restrain the defendant from such conduct in the future, and disregard of such an injunction would be subject to the penalties of contempt of court. But while this could apply to a person dealing regularly in property, it would not apply to a single sale by an owner-occupier.

8. The Committee accordingly recommend by a majority that the Bill should apply to the sale of a house by an owner-occupier.

Application to the Crown

9. The Committee found that the arguments in applying the provisions of the Bill to the Crown were evenly balanced. The Home Secretary proposes that the Bill should bind the Crown as employer, landlord or provider of public services, with the exemptions necessary to preserve the rules as to nationality and length of residence for entry to the Civil Service and the Diplomatic Service and to protect the Crown's discretion where security is involved. Special arrangements would have to be made for the RRB to investigate allegations against the Crown. The Crown should not be subject to legal proceedings (the Crown cannot in any event be bound by an injunction), but it would be open to the RRB to draw cases of discrimination to the attention of the Minister concerned and, if not satisfied that appropriate action had been taken, to report the case in their annual report to Parliament. It is argued that unless the Bill binds the Crown at least to this extent it will not be politically acceptable and will not have the necessary impact on public opinion. Those who take this view attach overriding importance to the assertion of a universal principle of law to which the Government as well as the public at large will be subject.

10. The argument against applying the Bill to the Crown is that, since it is accepted that there must be some exceptions, enactment of them in the Bill will be seen to weaken the generality of the principle and the exceptions will in themselves appear to be discriminatory. It is suggested that the impact which the holders of both points of view want to produce would therefore be more effective if the Home Secretary announced on the Second Reading of the Bill that while there were technical difficulties in applying the Bill to the Crown, the Crown nevertheless accepted and would be governed by the principles of the Bill and would submit its actions to the scrutiny of the RRB.

11. A particular difficulty of making the Bill binding on the Crown lies in the problem of its application to the Armed Forces which already have their own statutory machinery for dealing with grievances with rights of appeal to the appropriate Service Board, the Minister, or, in some cases, The Queen. It is argued that it would be inappropriate to provide separate machinery through the RRB for dealing with grievances based on alleged racial discrimination and that the Armed Forces should therefore be excluded from the scope of the Bill, leaving the Secretary of State for Defence to establish an informal relationship with the RRB. To exclude this area from the scope of the Bill, however, would add substantially to the necessary exemptions, and to that extent further weaken its impact. The Home Affairs Committee were not convinced.
that there was no room for compromise here; and they asked the Home Secretary to consult with the Minister of Defence for Administration with a view to finding some means, while applying the Bill in principle to the Armed Forces, of ensuring that the existing statutory machinery for dealing with grievances continued to operate and that the Secretary of State for Defence was not made formally answerable in respect of the operation of this machinery to the RRB.

12. If it is decided in principle that the Bill should apply to the Crown it will be necessary for further consideration to be given to the position of the Royal Household and the Royal Duchies, but although legal and constitutional problems may arise here such limited exemptions as may be required would not have the same effect in weakening the principle of the Bill as the total exemption of the Crown. On balance and by a small majority the Committee accordingly recommend that the Bill should bind the Crown on the lines proposed by the Home Secretary.

The Police

13. Police officers occupy an independent position and are not employees either of the Crown or the Police Authority. The question how far the Bill should bind the police does not therefore turn on its application to the Crown. The Home Secretary proposes that the Bill should apply to the police in all respects except in their operational dealings with the public. In this field the existing statutory procedure should apply. This provides for the investigation of complaints against the police and for the punishment of police officers found guilty either of criminal or of disciplinary offences. It is consequently both more appropriate and more effective than the machinery of the Race Relations Bill, which will provide for no direct punishment of persons proved to have committed acts of discrimination.

14. The argument to the contrary is that, as with housing, the treatment of immigrants by the police in the execution of their duty is a sensitive area, and that immigrant opinion will not be satisfied that complaints are fairly dealt with by a procedure which does not usually result in investigation by an officer from outside the Force in question. The Committee concluded by a majority that, provided that acts of discrimination were made specific offences under the police discipline code, the balance of advantage lay in leaving complaints against the police in their operational aspect to be dealt with by the existing statutory machinery.

Appointment of assessors to sit with courts hearing proceedings brought by the RRB

15. The Home Secretary proposes that proceedings brought by the RRB to establish that an act of discrimination and contravention of the Bill has occurred should in England and Wales be brought before county courts specially designated for the purpose sitting with two assessors drawn from a panel appointed by the Lord Chancellor. It is argued that the presence of assessors, who may be either white or coloured but will be chosen for their experience of the relevant problems, is essential to give immigrant communities confidence that the court will deal with the case without bias. But to the extent that
the assessors are seen to be present to correct a bias against the immigrant they may be assumed by the white man whose conduct is complained of to be exercising an influence on the court prejudicial to himself; and their mere appointment can be said to be a reflection on the integrity of the judiciary. It was represented that the appointment of assessors would be particularly difficult to justify in Scotland where it is proposed that cases brought by the RRB should be heard by sheriffs whose jurisdiction is wider than that of county courts in England and Wales.

16. The Committee appreciated the difficulty of holding the right balance in this matter, but agreed by a majority that in the context of a measure designed to create confidence in the ability of the community to condemn racial discrimination it was presentationally important that the party most likely to fear that the machinery of the court would be biassed should have the reassurance provided by assessors. It was agreed that if assessors were to be appointed in England and Wales they must also be appointed by the Lord Advocate in Scotland.

Conclusions

17. The Home Affairs Committee were divided on several of the major issues that arise on the proposed Race Relations Bill. The arguments are fairly evenly balanced, and the Committee reached its conclusions by a majority. The importance attributed to the various considerations depends largely on how much weight is to be given to the need to give a striking public demonstration of the Government's determination to condemn racial prejudice and to reassure immigrant communities that the machinery which applies the ultimate sanction is not biassed against them. The Home Affairs Committee attach high importance to the demonstration of principle and to the impact which the Bill might be expected to have on public opinion.

18. I therefore invite the Cabinet to agree -

(a) that the Bill should apply to the sale of owner-occupied houses;

(b) that the Bill should bind the Crown, subject to necessary exemptions on recruitment to the Civil and Diplomatic Services and to exemption from legal proceedings;

(c) that the Home Secretary and the Secretary of State for Defence should consult further with a view to finding means of applying the Bill to the Armed Forces without prejudice to the operation of the existing statutory machinery for dealing with grievances;

(d) that the Bill should apply to the police except in their operational capacity;

(e) that assessors should be appointed to sit with county court judges in England and Wales and corresponding courts in Scotland.

M.S.

70, Whitehall, S.W. 1.

8th January, 1968
C(68) 13

9th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DEFENCE CUTS: FAR EAST

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the personal information of members of the Cabinet, the attached copies of telegrams which he has exchanged with the Secretary of State for Commonwealth Affairs.

(Signed) BURKE TREND

Cabinet Office, S. W.1.

10th January, 1968
IMMEDIATE  KUALA LUMPUR TO COMMONWEALTH OFFICE
Tel. No. 24  7th January 1968
SECRET

Following for Prime Minister from Commonwealth Secretary

Defence Redundancies.

I had my first meeting to-day, 7th, with Deputy Prime Minister who was accompanied by Finance Minister, Minister for Education, and senior officials. I explained British Government's decision on agreed lines against broader economic background. Basak said they would need time to consider the full implications of the statement, in particular as regards the Anglo/Malaysian Defence Agreement, before they could give firm views. He could say at once however that Malaysia had always depended on Britain particularly for more sophisticated forms of defence and had not the means to take this over themselves. They were also in economic difficulties, the price of rubber being the lowest for 18 years, and they had an extensive commitment in East Malaysia which was inherited from the British on the understanding that they could look to them for defence help for some time to come. The time left before Britain's final withdrawal at 31st March 1971 was very short. He doubted whether Australia and New Zealand would be able to take Britain's place, and the United States was preoccupied with Viet-Nam. When Britain had no defence capability in the area the ability of her forces in Europe to help in the Far East would be very limited, nor would they be trained for local conditions. It seemed to him that the defence agreement would then have very little military significance. Their main need was for air and naval defence, which we have previously promised to supply after our withdrawal. Indonesia was recovering and her future intentions unpredictable. The Communist threat was a real one and would be enhanced by the accelerated withdrawal. He asked that the Prime Minister should be told that they regretted the decision very much indeed which left them deeply anxious and were at a loss to know where to turn to for assistance.

3. (Sic). Tan Siew Sin spoke more sharply than Basak. He recited Malaysia's good behaviour in keeping highest proportion of reserves in sterling of any Commonwealth country. He recalled that in 1965 when sterling had been under pressure he had agreed, in response to representations and out of loyalty to the sterling area, to stop a programme of withdrawals at the rate of 20 million a week. He had done this even
though he had some doubts about the efficacy of the measures being taken in Britain to protect sterling. He had responded to assurances by the last Chancellor that devaluation was unthinkable, and as a consequence Malaysia had now suffered considerable economic loss. He wondered whether it might not become necessary for us to devalue again and whether they should expect a further visit proposing an even more drastic acceleration of our withdrawal. I replied that the very nature of our draconian measures was the best possible evidence that we did not allow this to happen.

4. There was further discussion of Malaysia's difficulty in maintaining a sophisticated air defence system after our withdrawal. Joint arrangements with Singapore were mentioned but the Malaysians felt that the system could not be run without our help by 1971 since it would be impossible to train the necessary personnel in time.

5. The Malaysians showed some interest in the effect of these decisions on our future relationship with Brunei. I said we would need to consider our Treaty with Brunei in the light of these decisions, we had already warned the Sultan last summer that this was not an obligation which we could carry indefinitely.

6. In response to a question about Hong Kong, I explained that we would be maintaining our garrison there, which should have some psychological value in the area as a whole.

7. In response to a question about SEATO explained that membership was possible without earmarking force contributions, as in the case of France and Pakistan.

8. Tan assumed that the rundown would now be faster up to 1971 and that their economic difficulties would be enhanced. He hoped that more aid would therefore be available. It was explained that in Malaysia the effects of accelerated withdrawal would be much less than in Singapore; but the acceleration would be taken into account in the aid negotiations.

9. Malaysian Ministers urged that we should help persuade Australia and New Zealand to play a larger role in our place. I accepted that regional arrangements would make sense and said that Britain would be prepared to take up with the other four Commonwealth Governments concerned the possibility of discussions about defence problems arising from our new decisions.
10. Razak asked if there was any possibility of delaying the public announcement next week but I explained why this would not be possible.

11. Tan asked whether, if the four other Commonwealth Governments had equal misgivings, the British Cabinet would maintain their decisions. I replied that the decisions were firm, but that I would report Malaysian Ministers views to my colleagues on my return as would the Foreign Secretary those of the United States Government and those of the Persian Gulf rulers.

12. There will be a meeting with the Tunku tomorrow followed by a second meeting with Razak and other Ministers.

13. Malaysian Ministers were clearly and with good reason gravely disturbed at the implications of those new decisions. Razak spoke in sorrow but without retribution as at the loss of a good friend and seemed genuinely nonplussed about where to turn next. They are now taking stock and there is likely to be considerably more discussion about the future of the Anglo Malaysian Defence Agreement tomorrow.

14. We agreed that nothing should be said after to-day's meeting, but we shall have to agree to a Communique tomorrow. I hope however to be able to get Malaysians to accept something analytic (sic) which makes no specific reference to an accelerated rundown.

15. I had an early round of golf (which the Tunku won without difficulty and without the help of your telescopic putter!) and will repeat this with Razak tomorrow morning. I am dining with Razak tonight and will give my assessment of Malaysian reactions after our talks finish tomorrow.
Following for Prime Minister from Commonwealth Secretary.

Defence cuts.

I had the inevitable game of golf this morning with Tun Razak and Ghazali. I then had an hour's meeting with the Tunku with only Ghazali present on his side and the High Commissioner and Garner on mine.

2. Tunku said that he had a report on our talks from his colleagues and that he was sad and gravely disappointed. However he did not want to go into it all over again and said that he would neither cry nor cringe nor turn to anyone else and, added Ghazali, not blackmail. Nevertheless he could not disguise his distress. Malaysia was dependent on Britain and had always trusted her and tried to be helpful. Unlike other countries on independence Malaysia had wanted the British to remain and relied on them to protect her. Without Britain's help she would be defenceless.

3. Of course the worst threat came from China particularly since Chinese Communists could stir up dissension among half the population of Malaysia. But he recognised that if this threat came Malaysia could not hope to meet it. What he was concerned with was possible threat from Indonesia or the Philippines, both of which were envious of Malaysia's prosperity and both of which laid claims to her territory. For the moment all might be well but who could foresee what ambitions another regime might develop? The only neighbour about whom he felt complete confidence was Thailand.

4. If Indonesia or the Philippines were to attack Malaysia she would of course resist. Unless her forces could hold off the aggressors for a month or two Malaysia would not deserve to be helped. But Malaysia could not hope to hold out longer than that and it was essential therefore that more sophisticated aid should be available and essential therefore that it was known in advance that such help would come.
5. In the light of this survey Tunku begged me to press for three things:
(a) He recognised our difficulties and that we could not continue our world-wide burden alone but other countries were also good friends to Malaysia and he hoped that a Five-Power conference could be held to go into all these matters. Tunku insisted we must take the lead or nothing would happen.
(b) He accepted that British forces as such would be withdrawn from Malaysia and Singapore, but it was vital that help should come from Britain if required. Clear implication was that he would wish Defence Agreement to continue.
(c) While he put less emphasis on this he nevertheless attached importance to effect on the economy of presence of British troops and asked for Malaysia's economic needs to be looked at sympathetically, and hoped that when talks were renewed with Sir Alan Dudley full account would be taken of proposals which I had made.

6. I replied that I would of course report fully to you all that he had said. I explained that I should be going on for talks with Prime Ministers of Singapore, New Zealand and Australia and that if there were a general readiness for a Five-Power conference we should be willing to take part. But that this could not hold up our announcement in Parliament, and that the conference must therefore deal with the circumstances following our decisions. As regards (b) I told him that I was anxious that there should be no misunderstanding and explained that after our withdrawal we could undertake no automatic commitment and that any help given would depend on our resources and on circumstances at the time. Nevertheless we should have a general capability and British forces would be in the area, e.g. because of our defence of Hong Kong to which Her Majesty's ships would go from time to time. For these reasons we were ready to continue the Defence Agreement with a re-interpretation to fit the new circumstances. On (c) I assured him that the implications of the accelerated rundown would be fully taken into account in the discussions which Sir Alan Dudley would have on mitigatory aid.

7. Tunku was extremely courteous throughout. But he did not disguise the depth of his feelings and his gentleness of manner made his case all the more impressive. You will notice that on certain key points emphasis he gave was at variance with views expressed by other Ministers but this is not a very quick thinking or efficient administration, and they had only been given overnight to formulate their views.

8. See my immediately following telegram for report of further talk with Razak.
IMMEDIATE SINGAPORE TO COMMONWEALTH OFFICE

Telex 23  8th January 1968

SECRET

My immediately preceding telegram

Following for Prime Minister from Commonwealth Secretary

Defence Cuts

At resumed meeting with Deputy Prime Minister and Minister of Finance, Razak said that after giving serious consideration to our proposals he wished me to convey to you the Malaysian Government's grave concern at their very serious implications not only for Malaysia and Singapore but for the whole region. Broadly their views were as follows:

(i) Malaysia had always regarded us as a staunch friend and ally; they depended on us and had no treaty with anyone else, even Australia or New Zealand. Our departure would leave them defenceless, and they had a deep sense of being seriously let down.

(ii) There was a Communist threat on the Northern border and, potentially, in Indonesia.

(iii) In 1963 they had agreed to the establishment of Malaysia on the clear understanding that we would work with them and assist them with defence and economic development since it was recognised that Sabah and Sarawak would be liabilities to them. They would never have taken these territories on without these assurances. Had they not agreed to take them on we should now still be left with responsibility for Sabah and Sarawak as for Brunei. They understood our economic difficulties but they faced these as well. Our devaluation had cost them money: they had accepted this as they thought Britain was their friend. They now felt very deeply let down particularly over the formation of the Malaysian federation.

(v) The decision, which appeared firm, to withdraw in three years left very little time. They would have to make appropriate adjustments and take measures to look after their own interests, and they thought it fair to say that some of them would affect us. If we had to survive they had to survive too.
2. I said I had been aware of the difficulties our decisions would create for them. We had made every effort during recent years to avoid these decisions in deference to our Commonwealth partners' wishes. It might possibly have been better if we had taken them earlier. If we were now accused of letting them down it was because we had bent over backwards to help them by limiting our earlier cuts to a greater degree than our economy could sustain. We could not be both economically strong and maintain the present sophisticated military deployment outside Europe at the present time. We had no alternative but to make our economy strong and plan our commitments according to our resources. Although three years was not a very long time Malaysia's relations with her neighbours were at present good and the stability of the area as a whole was better than in most parts of the world. We were in effect only accelerating a decision which had been taken in principle last July.

3. Razak argued that the difficulty was not simply an acceleration of our withdrawal but also that we would no longer retain forces in the region thereafter. I urged him not to take too pessimistic a view of our general capability until the military details had been worked out. I pointed to the forces we would be retaining in Hong Kong, which ought to have some psychological value.

4. Tan Siew Sin stressed the difference in the nature of our obligation to Malaysia and to Australia, New Zealand and Singapore. In essence this was that Malaya had at our request taken on East Malaysia a thousand miles away and no one would believe that they were capable of defending it themselves.

5. On Hong Kong, Tan said we should not underestimate the intelligence of Peking: after our announcement on the 17th we were likely to suffer the greatest humiliation in our history there. He felt our decision was precipitate and against our own interests. I said we had weighed all factors before taking these difficult decisions and pointed to the economic value of Hong Kong to China. Tan replied that Peking was playing for high stakes and that in this balance sheet the £150 million which Hong Kong was worth to them annually would not weigh significantly.
6. In view of the inconsistencies with what the Tunku had said (telegram No. 22) I pressed them on where they saw the external threat to Malaysia. They conceded that they discounted direct external aggression from China at present but stressed that local Communists would be encouraged by the announcement of our withdrawal and that we would be making their task of controlling internal subversion harder. The Communist party in Sarawak was one of the best organised in the world. Moreover with the new decisions the future of Singapore was unpredictable.

7. After some discussion a communique was agreed which has been telegraphed separately. The Malaysians pressed strongly for a phrase implying that the defence agreement with its commitments would continue but we got them to accept "they stressed the importance which they attached to the defence agreement". On the agreement, they are waiting to see what our general capability means in practical terms. They said they wanted substance and not shadow, but they accept that at the very least an agreed re-interpretation will be required.
Personal from Commonwealth Secretary to Prime Minister.

Soon after arrival and before any formal meeting, I saw Harry Lee for an hour alone tonight (8th January) and for a short time with Dr. Goh, Finance Minister. Lee was fighting mad at what he understood to be our decision. He had called an emergency meeting of his Cabinet on receiving an account of our proposals from Tun Razak. That he had to say, apart from his personal embellishment obviously had the collective support of his colleagues.

2. He first of all complained bitterly about my arrival with a unilateral decision and our determination to make a public announcement of the date next week. He professed that he had a personal undertaking from you during his talk in Melbourne that he would have the right to come and talk to you himself in February before any decision was taken. He now wants to come to London to see you.

3. I then had a row with him about the fact that before my arrival he had given an interview to the BBC television to be broadcast in the United Kingdom on night of 9 January, in which he has stated that if we decide to withdraw in 1971 he would have to consider taking measures against us including withdrawing the sterling balances of £200 million and that he would retaliate against British interests in Singapore including breaking up the monopoly position of British shipping, banking, insurance and the BMC franchise. I told him this was utterly the wrong way to go about trying to modify our position. We did not respond to blackmail and I could not think of anything better designed to undermine international confidence in the Singapore economy than this kind of public statement by its Prime Minister. He seemed to take this aboard and went off to try to send a personal message to Sir Hugh Greene to seek to postpone the broadcast. I do not know the result, but the reference to his threat to withdraw his balances has already leaked to the army of Press correspondents here and was carried on BBC world service news tonight.
2. Both Lee and Goh declared that they would make a token transfer out of sterling of £5 million or £10 million on Wednesday in London. They also professed to believe that Tan Siew Sin and Tun Razak would operate jointly with them in withdrawing their balances. Lee then went on to make wild claims that he was in a position to persuade Australia and New Zealand to leave the sterling area with them. His general thesis was that we were breaking solemn assurances to them made only last July on which confidence in Singapore depended. Our action would destroy Singapore's future and they were ready to bring this home to us if necessary by every form of retaliatory action that they could devise. He added that it distressed him deeply as a man who had been brought up in the British Labour Party to have to say these things but that it was now clear to him that this was the only kind of language we understood.

5. My officials reported to me that they had never in their experience been subjected to such a systematic campaign of pressurisation on the lines above at the dinner table not only by Lee himself but by all members of his team. This was a highly organised and militant response contrasting strongly with the readiness to co-operate shown in the last round. They do not believe that the accelerated date of our withdrawal has any direct relevance to our immediate economic problems, and they vigorously refuted figures I produced to demonstrate that they did.

6. Of course during the evening we strongly refuted the Singaporean's points and pressed on them our own case. At our formal meeting tomorrow I shall make a full statement which I will leave with them to insure there is no room for misunderstanding of why we have to take our decisions.

7. I am bound to warn you and Chancellor that while there is an element of bluff in these tactics it is clear that detailed study has been made of what retaliatory action Singapore could take and that Harry Lee is sufficiently committed to his colleagues and strong headed to mean business.

8. Harry Lee asked me to pass to you his request to come to London. I know that you will not welcome this and there is a possibility that if Lee comes the Malaysians will feel compelled to come as well. I will of course do my best to ride him off but if he presses this I shall be glad to know what you wish me to say by 0500 GMT 9 January.
TOP SECRET

FLASH
COMMONWEALTH OFFICE TO SINGAPORE

TELNO. 66 9th January, 1968

TOP SECRET
PERSONAL FOR COMMONWEALTH SECRETARY FROM PRIME MINISTER

Your Telegram No. 26

If Harry Lee is determined to come here we shall of course have to agree and I could arrange to see him (probably at Chequers) during the coming weekend.

But there are three points that I should like you to make absolutely clear to him if he does decide to come:-

(i) He must understand that there could be no question of any change in the arrangements for the announcement, on 16th January, of the Government's group of proposals, including the new date for our final withdrawal.

(ii) If he comes, he must do so to discuss our joint problems in a constructive spirit with our colleagues and myself and not in an attempt to preach and to proselytise in a public sense.

(iii) If he carries out the threat in first sentence of your paragraph 4 a new situation will have arisen. We should then have to consider whether any meeting with him could usefully be held.

2. I do not propose to send him any written message to the foregoing effect and gladly leave it to you to make these points in whatever way seems best to you. You were absolutely right to wash his head about his irresponsible remarks to the BBC which were broadcast here today and I hope you will let him know how strongly your colleagues and I endorse what you said. Our purpose in this exercise must be to bring about the essential changes in our dispositions in the area with the minimum of disturbance and the maximum of goodwill. Violent and ill-considered reactions such as those described in your telegram can contribute to neither. Indeed it will no doubt have occurred to you that if these were translated into action they could well effect our approach to such matters as mitigatory aid and E.G. Bloodhounds. But this is a point that I think you will wish simply to keep in mind for the present and not to use during your current exchanges with him.

3. Finally, I should make it absolutely clear that he never had from me any personal undertaking as alleged in the remark reported in your paragraph 2.
PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

PRESCRIPTION CHARGES

Note by the Minister of Health

My view about the proposals to reintroduce prescription charges remains unchanged. I now attach a memorandum which has been discussed with the Treasury and Ministry of Social Security setting out the problems arising from examination of each of the various classes suggested by my colleagues. If the Cabinet insist on restoring the charges they will no doubt wish me to elaborate orally on these problems; and my colleagues will, of course, give their own views, also.

K.R.

Ministry of Health, S.E.1.

11th January, 1968
### PRESCRIPTION CHARGES

The prescription charge of 2s. 6d. per item might produce a total Exchequer saving of about £55 million if paid without exception. If those who were formerly relieved of the charge (i.e., those receiving supplementary benefit, those whose incomes would be reduced below supplementary benefit level, and war pensioners - for their accepted disability) were excluded, this would reduce the saving to about £50 million.

2. Other classes who might be excused the charge, and the very rough reduction in the saving which would follow, are:

<table>
<thead>
<tr>
<th>Class</th>
<th>Saving (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) The elderly</td>
<td>12-14</td>
</tr>
<tr>
<td>(b) Children under 16</td>
<td>0</td>
</tr>
<tr>
<td>(c) Chronic sick (other than the elderly)</td>
<td>2-5 (according to definition)</td>
</tr>
<tr>
<td>(d) Expectant and nursing mothers</td>
<td>1/2</td>
</tr>
</tbody>
</table>

3. The problem in each case is to identify those entitled to the exception or refund. This would be easiest in the case of the elderly because their names have already been segregated by the Executive Councils for the purpose of paying a higher capitation fee to doctors for those over 65. This would reduce the saving by about £12 million. The best course would be for the medical card to be endorsed and for the doctor, when it was produced to him, to issue a prescription on a coloured form which would include a certificate above his signature saying that he had seen an endorsed medical card. There would be some addition to staff of Executive Councils to handle this work.

4. An alternative scheme, which would reduce the need for extra staff, would provide for exemption for all over 65 and women over 60 if they were drawing retirement pensions. The procedure would be for the doctor to issue the special prescription form if he had seen either an old age pension book or an endorsed medical card. The reduction in saving might then be about £14 million. The objection to this course is that most widows over 60 but under 65 continue with their (earnings free) widow's pension in preference to a retirement pension (subject to earnings). Extension of the field of entitlement to widow pensioners as such (over 500,000) would be a large extension of the field into the younger age groups and would repercuss on other forms of widow beneficiary, whereas it is probably the elderly (over 65) who will include a considerable number of chronic sick, who would suffer the most hardship from paying the charges.

5. Children under 16 present considerable problems because it is not solely a matter of identifying them in the first place but of withdrawing their entitlement when they pass the school-leaving age. (If the proposal was to enlarge the exemption to all remaining under full-time education the difficulties would become much greater). Again it would be necessary to identify those children by reference to their medical cards and the staff required to segregate and endorse...
the cards in the first place would be very considerable indeed: this class comprises about 25 per cent of all patients. It would be necessary to arrange for their exemption right to be renewed periodically because there would be no other way of ensuring withdrawal of the cards after they had passed the age of 16. The reduction in saving would be about £10 million but this considerable widening of the area of exemption would be bound to involve many loopholes and the loss of expected revenue from abuse would be likely to be even greater. In addition the cost of the large number of extra staff needed in Executive Councils might well exceed £1 million.

6. Children would suffer, if there were no exemption, less than the elderly because the cost would be borne by their parents and if the parents were on the supplementary benefit level they would already be exempt. However, not to exempt children would bear hardly upon families above supplementary benefit level, but earning below average earnings, and would mean that poor families including those below supplementary benefit levels but disqualified because their father is in full-time work could only qualify through a means test, which would be a disproportionate administrative effort in relation to the sums involved. Moreover this would depend on application and anything approaching an adequate take-up is unlikely. It is for consideration whether doctors could not operate exemptions on production (if necessary) of a birth certificate. This should only be necessary in the case of older children.

7. The chronic sick present great difficulties because it is not possible to produce a reasonable definition of who should be included in the exemption or to identify them. Some require regular drugs though able to undertake full-time work (e.g. diabetics). Others requiring regular drugs are handicapped and not in full-time work; still others will only be periodically classifiable as chronic sick by any sort of definition. The medical profession have already volunteered to us that they would not be prepared to operate a scheme for exemption based on clinical judgment. To prepare a list of ailments as a definition of chronic sickness would be unfair to others whose illness, though intermittent, might lead to hardship. To try to identify them by reference to length of time off work would be unfair to, e.g., the housewife. The only way of bringing in all the chronic sick would be some form of exemption by the doctor, on the basis of his own records of treatment over a minimum defined period in the past, if this proved practicable.

8. It does not seem possible to devise any way of relieving the chronic sick as such. Many of the chronic sick are already getting supplementary benefits and will automatically be able to obtain refunds without difficulty. A good many more would also benefit if the elderly were exempted from the charges.

9. Expectant mothers. Few drugs are normally required by expectant mothers by virtue of their condition and there would seem to be no real hardship in expecting them to pay the full prescription charge unless they were otherwise exempt. However, expectant mothers are already exempt from the charge for dental treatment and the exemption, which would seem to present no difficulty for doctors, might be justified in the light of this and other special benefits conferred in the interest of the unborn child.
10. Exemption arrangements involve the co-operation of the medical profession in varying degrees and it would be wrong to assume that this co-operation would be forthcoming. We should be in a much stronger position for negotiating with the medical profession the operation of exemption schemes if we could do this before any announcement so that we could let them think that the change of policy was dependent upon the schemes. This obviously cannot be done but if we are to have any chance at all of negotiating arrangements with them my announcement would have to be limited to saying that we intend to restore prescription charges with a repayment to those who received repayment under the former arrangements, but that we intend to hold discussions with the medical profession and others concerned to see whether we can arrange to widen the classes to include whatever other classes we decide upon and to provide for exemption where possible rather than repayment. Such an amended scheme could not begin for some little while after the introduction of prescription charges.
11th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES
DEFENCE CUTS: NEGOTIATIONS WITH SINGAPORE AND MALAYSIA

Memorandum by the First Secretary of State

BACKGROUND

Copies of telegrams exchanged between the Prime Minister and the Secretary of State for Commonwealth Affairs, reporting on the latter's discussions with Malaysian and Singapore Ministers earlier this week, have been circulated separately (C(68) 13). A further telegram is attached at Annex A to this paper. Briefly, in Kuala Lumpur the Malaysian reaction to the Commonwealth Secretary's approach was one of distress and grave disappointment, expressed in courteous terms. In particular, the Tunku urged that Britain should take the lead in convening a five-power conference (i.e., with Australia, New Zealand, Malaysia and Singapore) to go into all these matters; that after the withdrawal of British forces as such from Malaysia and Singapore, help should still come from Britain if required (the clear implication was that he would wish the Defence Agreement to continue); and that Malaysia's economic needs should be looked at sympathetically. In Singapore the response was angry and militant. Mr. Lee threatened retaliatory action, including switching out of sterling, and insisted that he wished to meet the Prime Minister in London before any decision was taken. This has been agreed to, on the understanding that the British Government's group of proposals, including the new date for our final withdrawal, will still be announced on 16th January; that he must discuss them in London constructively, and without any attempt at public proselytising; and that he must refrain from switching out of sterling meanwhile. Mr. Lee has emphasised the importance of retaining the confidence of investors in Singapore, the potential danger of Indonesian aggression, and the impossibility of Singapore training her defence forces with sophisticated weapons by 1971 (though he could accept 1973 or possibly 1972). On 10th January Dr. Goh, purporting to speak for the Singapore Government, told the British High Commissioner that if the British Government felt compelled to go ahead next week with announcing our withdrawal in 1971 despite the intervening consultations with Mr. Lee, the Singapore Government would feel obliged to take the following action:

(a) To withdraw their sterling balances, one-third each year up to 1971.

(b) To break the monopoly of the Far East Shipping Conference.
To give improved access to the Singapore market to other countries, thereby affecting British exports.

He said these actions would not be taken dramatically or suddenly, and accepted that they could not expect to get Bloodhounds or aircraft from us and that it might cause us to change our attitude about mitigatory aid. Dr. Goh claimed that these actions would not be aimed at hurting Britain (though they might have this effect); and that it was not the Singapore Government's intention to utter threats or attempt blackmail. He wished merely to set his Government's declaration of intention on the record so that we could take it into account in framing our own actions.

2. I now invite my colleagues to consider the line which the Prime Minister and other Ministers concerned might take when talking to Mr. Lee in London on 14th January (and on 15th January if discussions continue that day). In considering this line I would ask my colleagues to bear in mind that Her Majesty's Government's new decisions have suddenly presented Mr. Lee with a wide range of unwelcome and difficult problems, to which we must expect his initial reaction to be strongly adverse. In part our task will therefore be to induce him to examine these problems sensibly and constructively.

Summary of Recommendations

3. Defence

(a) It should be confirmed to Mr. Lee at the start that there can be no question of changing the new date for our final withdrawal.

(b) We should remind him that after our forces have withdrawn we should retain the ability to help him from our general capability, if the circumstances at any given time in our judgment demand it. We could also offer arrangements for periodic visits by our armed services.

(c) We should discourage Mr. Lee from any attempt to go it alone in defence matters; we should not consider making defence equipment available to Singapore in circumstances which would provoke an arms race with Malaysia; and we should take as our long-term objective the achievement of quadripartite defence arrangements between Australia, New Zealand, Malaysia and Singapore.

(d) If Mr. Lee accepts the principle of a joint defence system, and if the security difficulties in relation to Bloodhound missiles can be overcome, we should offer him the chance to take over the Ground-to-Air Missiles and the Master Radar in Singapore on the understanding that we would make a comparable offer to Malaysia in respect of the similar equipment at Butterworth.

(e) We should give Mr. Lee no undertaking that we might make Hunter aircraft available.

(f) If Mr. Lee is prepared to discuss a defence plan for Singapore (as part of an area defence system), we should be prepared to offer a team of British officers and technical personnel. If he presses for defence aid he should be told that we should be ready to consider each request on its merits, but that if we gave him defence aid it might affect the amount of economic aid we could give.
(g) If Mr. Lee revives his proposal for a five-power force under British command, he could be told that while we could not make any military contribution to such a force after our withdrawal, we would be prepared, if it were the wish of the other Governments concerned, to consider seconding personnel to its headquarters.

(h) If Mr. Lee presses the idea of a five-power conference on defence problems, we could say that in principle we would be ready to take part, but that our contribution would be largely advisory and directed towards helping the other four countries to take over those defence arrangements which we have largely been operating on our own.

Aid

(i) It will be convenient to turn the conversation from defence, on which we can offer little, to aid.

(j) No decision is needed now on aid levels after 1971, but we should recognise that continuing aid for Singapore is likely to have to be at the rate of at least £30 million a year for some years after 1971, and £10 million a year for Malaysia for at least two years.

(k) We should tell Mr. Lee that provided we continue to receive friendly co-operation in the rundown, and that measures are not taken by the Singapore Government which would be harmful to sterling or to our national or commercial and investment interests (but that, on the contrary, steps are taken to reassure British investors and traders), we would be willing to enter into commitments of aid amounting to £45 million in respect of the period up to 31st March, 1971. (The Prime Minister might be authorised to go up to £50 million if he thought that in spite of what is said in paragraph 19 an agreement on this level could be secured straightaway. If this does not appear likely, it would be better to reserve the higher figure for the later negotiations.) We would also be ready to commit ourselves to continuing aid thereafter, though not at a specified rate.

(l) We should add that so far as practicable the aid would be used for productive projects, but we would be ready to agree to a proportion of it being devoted to other purposes. Recognising this latter need, we should (as in Malta) be ready to provide aid in the proportions of 75 per cent grant/25 per cent loan. The loans would be on reasonable terms. We would expect import requirements for aid projects to be obtained from this country.

(m) We should make a similar offer to Malaysia, of £20 million for the first three years with a discretionary addition of £5 million if necessary to reach agreement.

ARGUMENT: DEFENCE

4. Mr. Lee's approach is likely to cover the following main issues:

(l) Security of Singapore, including:

(a) The date of our final withdrawal.
(b) Our capacity to help militarily after we have withdrawn.

c. Defence aid.

d. Multilateral defence arrangements.

(2) Economic assistance.

5. If my colleagues feel that there is still no ground for changing the date of our final withdrawal, I think this should be made plain to Mr. Lee at the start. He should be reminded that the Prime Minister's agreement to discussions in London was on the understanding that there could be no question of any change in the arrangements for the announcement on 16th February of the Government's group of proposals, including the new date for our final withdrawal. Mr. Lee should be told that we hope he can assure us that Mr. Goh's statement of 10th January (see paragraph 1 above) does not represent a considered policy decision on the part of the Singapore Government, since if it did we should see no basis for fruitful discussion with him.

6. Provided Mr. Lee satisfies us on this point, we could remind him that after our forces have withdrawn we should retain the ability to help him from our general capability, if the circumstances at any given time in our own judgment demanded it. Since Mr. Lee is likely to ask for undertakings in respect of the availability of specific force levels, which would mean in fact reverting to our original plan for a special capability for use in the area, we will have to divert his attention to other ways in which we can help him. For example, arrangements could be made for periodic visits by the forces of our three armed services to Singapore.

7. We must make it clear to Mr. Lee that once our forces have withdrawn, the security of Singapore will be bound up in the general security of the area as a whole. In defence matters, however much money Singapore might spend, she could not go it alone. We should therefore discourage Mr. Lee from any attempt to do so. He has asked to purchase the Bloodhound Missiles at present in Singapore and later on Hunter aircraft to provide an air defence system for the island. Preliminary technical talks have already been held in Singapore about possible British help towards an air defence system for the area, which would be concerted with Malaysia and Australia. In these discussions it has been made plain that the air defence of Singapore can only be considered realistically in the context of the air defence of the Malaysian Peninsula as a whole. While therefore we should be ready to consider making defence equipment available to Singapore, we should not do so in circumstances which would provoke an arms race between Singapore and Malaysia. Although we are familiar with Malaysia's plans for military expansion, which have been cut back to save their foreign exchange, Mr. Lee has never responded to our offer to discuss with him a rational defence system for Singapore. Now that we are finally withdrawing from Singapore and Malaysia it is all the more important that there should be joint arrangements between the two countries. Australia and New Zealand can play a crucial part in this, and we should take as our long-term objective the achievement of quadripartite defence arrangements between these four countries.
8. Provided Mr. Lee accepts the principle that a rational defence system for Singapore must be a joint one, as stated in the preceding paragraph, and provided also that we can overcome the security difficulties in relation to Bloodhounds, which are described in Annex B to this paper, I would be in favour of offering Mr. Lee the chance to take over the Ground-to-Air Missiles and the Master Radar in Singapore on the understanding that we would make a comparable offer to Malaysia, after consultation with the Australians, in respect of the similar equipment at Butterworth. Malaysia has no fighter aircraft, and I am strongly opposed to giving Mr. Lee any undertaking that we might make Hunter aircraft available. This role in the defence of both countries could best be filled by the Australians who at present contribute a fighter squadron to the defence of the Malaya/Singapore area.

9. Provided that Mr. Lee is prepared to discuss a defence plan for Singapore (as part of an area defence system) with our military advisers, we should be prepared to offer him a team of British officers and technical personnel to assist in training and in operating equipment which the Singaporeans cannot yet operate for themselves. If we do this we must of course maintain our existing arrangements for making British personnel available to the Malaysian armed forces. If Mr. Lee presses for defence aid for the purchase of military equipment in this country, he should be told that we should be ready to consider each request on its merits, but that if we gave him defence aid it might affect the amount of economic aid we could give.

10. If in the context of multilateral defence arrangements Mr. Lee revives his proposal for a five-power force under British command, he could be told that while we could not make any military contribution to such a force after our withdrawal, we would be prepared, if it were the wish of the other Governments concerned, to consider seconding personnel to its headquarters.

11. If Mr. Lee raises the Tunku's proposals for a five-power conference to consider defence problems in the area, we should say that this was very much a matter for the other countries concerned, since it would be looking ahead to the period after our withdrawal. If he presses the idea of such a conference, we could say that in principle we would be ready to take part, but that our contribution would be largely advisory and directed towards helping the other four countries to take over those defence arrangements which we have largely been operating on our own.

ARGUMENT: AID

12. Since we are not likely to be able to give Mr. Lee much satisfaction on the defence side, I consider it should be our aim to direct his attention, at the right moment in the talks, to our readiness to help in the adaptation of the Singapore economy to the situation arising from the complete withdrawal of our forces. We are already committed to providing aid to mitigate the economic effects of our departure, and the Chancellor has accepted that it will have to be at a higher level because of the acceleration of the rundown. We had intended to resume negotiations in early February, and it would have been necessary to make an offer then. We could with advantage make it at once.
13. The figures accepted by the Cabinet on 21st December (CC(67) 74th Conclusions) for aid commitments that might be made to Mr. Lee and Tun Razak by the Prime Minister at Melbourne, in respect of the first three years, up to the mid-point of the rundown, viz. 1st April, 1971, were £25 million for Singapore and £18 million for Malaysia. These were related to estimates of damage to their economies from 1967 to 1971 amounting to about £30 million for Singapore and £23 million for Malaysia; much of this money was intended to go into productive projects; not all of it was expected to be spent in the first three years, but to the extent that it could be quickly and productively invested it was expected to reduce the damage to the economies, and therefore the cost of aid, for subsequent years.

14. The damage resulting from the much swifter rundown will be greatly increased. Rough calculations show that up to March, 1971, it may be expected to amount to £60-70 million for Singapore and £25-30 million for Malaysia. In the following years it may be expected, for a time, to amount to a figure of the order of about £44 million a year for Singapore and £16 million a year for Malaysia, abated only by the return from such productive investment as may have been made.

15. A total British withdrawal by 31st March, 1971, will now not only produce larger economic effects than on the previous timetable but will produce them much more rapidly. It will be completed before productive investment can begin to bring in significant returns. The Singapore and Malaysian Governments will therefore have to take more direct measures to relieve unemployment, which is already at the 7-9 per cent level in Singapore.

16. During our negotiations with them on the basis of the old rundown plans the two Governments were asking for ten-year aid agreements on the Malta model. We promised Malta £50 million over ten years, and, as the Prime Minister said in Parliament on 27th July, "the problem in Singapore is no less formidable in nature than the Maltese problem and very much greater in size" (Hansard, col. 1103). When we were talking of a longer rundown on the basis of the old timetable our hope was, however, that we could persuade them to accept limited agreements for three years, linked to the half-way stage in the rundown, combined with assurances that aid would continue thereafter.

17. If the rundown is to be completed in 1971 it seems unlikely that a three-year aid agreement, even combined with promises of continued aid thereafter, will satisfy either Government. It is likely that when negotiations with Singapore are resumed the demand for a longer-term agreement, covering aid to continue for at least six years, will be pressed. The economic damage done to Singapore will be felt most heavily in the three to five years after our departure, and the Singaporeans are unlikely to accept anything less than a quantified assurance of a larger total of aid for Singapore in the second three years than in the first. They will expect a written agreement.
18. I am not asking for any decision now on the level of aid after 1971, but it should be recognised now that continuing aid for Singapore is likely to have to be at the rate of at least £30 million a year for some years after 1971, and £10 million a year for Malaysia for at least two years. If we find it necessary to accept five- or six-year, rather than three-year, agreements, the total figures involved are likely, if we are to reach a settlement, to be of this order. The larger the figure offered for a three-year agreement, the greater will be the chance of securing an agreement limited to that period.

19. The Prime Minister must clearly be in a position to make an offer of aid to Mr. Lee in order to secure his co-operation in the rundown now decided upon and to avoid a situation in which Singapore takes retaliatory measures. It is unlikely that Mr. Lee, even though Dr. Goh is with him, will feel able to reach a definite agreement while he is in London next weekend without personal discussions with his Cabinet after his return. Nevertheless he is more likely to accept a substantial offer of aid for a three-year period as a basis for continuing negotiations than to reject it outright.

20. In these circumstances I recommend that Mr. Lee should be made an offer on 14th January, by British Ministers, in the following terms:

Provided that we continue to receive friendly co-operation in the rundown, and that measures are not taken by the Singapore Government which would be harmful to sterling or to our national or commercial and investment interests (but that, on the contrary, steps are taken to reassure British investors and traders), we would be willing to enter into commitments of aid amounting to £45 million in respect of the period up to 31st March, 1971. (The Prime Minister might be authorised to go up to £50 million if he thought that in spite of what is said in paragraph 19 an agreement on this level could be secured straightaway. If this does not appear likely, it would be better to reserve the higher figure for the later negotiations.) We would also be ready to commit ourselves to continuing aid thereafter, though not at a specified rate. So far as practicable the aid would be used for productive projects, but we would be ready to agree to a proportion of it being devoted to other purposes. Recognising this latter need, we should (as in Malta) be ready to provide aid in the proportions of 75 per cent grant/25 per cent loan. The loans would be on reasonable terms. We would expect important requirements for aid projects to be obtained from this country.

21. A decision of this kind will mean that we must make a similar offer to Malaysia with the least possible delay after our offer has been made to Mr. Lee. For the three years we should offer £20 million, with a discretionary addition of £5 million if this were necessary to reach agreement.

M.S.

70, Whitehall, S.W.1.

11th January, 1968
IMMEDIATE SINGAPORE TO COMMONWEALTH OFFICE
Tel. No. 32 9 January 1968
SECRET

For Prime Minister from Commonwealth Secretary.

Many thanks for your message in telegram No. 60 which reached me just as I was going into meeting with Lee. I managed to have a word with him privately before full meeting and spoke to him as in your message. He said at once that he would accept your invitation and come this weekend with Dr. Goh.

2. At the full meeting I was able to make full statement of our case (though not without interruption). At the outset Lee was less hysterical and less threatening than he had been last night and emphasized above all following points:-

(i) Importance of retaining confidence of investors in Singapore.

(ii) Danger that announcement of early date would give notice to Indonesia to prepare for aggression.

(iii) Impossibility of Singapore being able to train Defence Forces with sophisticated weapons in time available.

He made it clear that he would accept withdrawal by 1973 or possibly 1972: but what appalled him was prospect of announcing next week a date as early as 1971.

3. In the course of discussion Lee made a number of comments about our domestic affairs on which we had some sharp exchanges. He reverted also to Singapore's losses on devaluation and both he and Goh quizzed us closely on savings likely to accrue from accelerated rundown in an effort to prove that this was not even in British interests.

4. After a hard-hitting session for two hours Lee concluded that there was not much more that could be said here and that they would have to thrash it out at Chequers. We, therefore, concluded with agreement that we should announce his proposed visit. Subsequently I spoke to him privately again and reminded him that it would do him no good to continue with his threats and that only purpose of his visit would be to have reasonable discussions about our joint problems. He asked me whether there was any prospect of getting a change in the decision. I told him that it was firm but reminded him that I had been authorised to report back to the Cabinet, and he concluded by saying he must hope for a change and, being an optimist, he would come anyway.

5. At Joint Press Conference afterwards Lee went out of his way to say that he had been misrepresented in what he had said about retaliatory action against Britain. He hoped that we would make a success of follow-up measures after devaluation and that our economy would be "thriving and pushful". I added that I hoped this would receive as much publicity as the earlier remarks attributed to him.
ANNEX B

SECURITY ASPECTS OF A POSSIBLE SALE OF
BLOODHOUND MK.2 TO SINGAPORE

SECURITY ASSESSMENT OF SINGAPORE

On the basis of our current assessment of the standard of security in Singapore we should not normally be justified in releasing information to the Singaporeans above the level of CONFIDENTIAL. This does not mean that exceptions could not be made for special reasons, but in each case the risk and the balance of advantage would have to be carefully examined. A factor to be taken into account in this instance is that the risk in Singapore may well increase after British forces have been withdrawn. It must be accepted that there is a considerable risk that information released to the Singaporeans will be compromised.

INFORMATION AT RISK IN BLOODHOUND MK.2

2. The main security problem with Bloodhound Mk.2 is that the weapon system includes certain TOP SECRET information, in particular the details of the Electronic Counter Countermeasures (ECCM) equipment. The ECCM capability of the system was one of the main reasons why the RAF bought Bloodhound MK.2. In fact the latest ECCM modifications have not been incorporated in the Bloodhound Mk.2 equipment at Singapore (because of the imminence of withdrawal); but what remains is still classified TOP SECRET.

EFFECTS OF COMPROMISE

3. Detailed knowledge of the system could make it possible for an enemy to develop countermeasures which could largely neutralize the effect of our Bloodhound defences. Under present plans the RAF intends to use Bloodhound Mk.2 at least till 1975 with some units deployed in Cyprus and others retained in the U.K. for overseas deployment as necessary. Their value might be much reduced if the system was compromised.

4. Furthermore, Bloodhound Mk.2 has been sold to both Switzerland and Sweden. Both countries would have to be informed of a sale to any other country and would want an assurance about the security of the system in the other country's hands.

ALTERNATIVES

5. A downgraded version of Bloodhound Mk.2 could be produced but this might take as long as 18 months and cost up to £1 million. If the Singaporeans were to bear this cost it would be difficult to conceal from them that they were getting a system of reduced capability. If there were to be any chance of concealment it would be necessary for us to keep the weapons under our own control (and presumably as our own property) while the modification work was done.

/CONCLUSION
CONCLUSION

6. If the Bloodhound Mk.2 equipment at Singapore were sold to the Singaporeans in its present form there would be a serious risk of compromise which could greatly reduce the value of the Bloodhound defences of the United Kingdom, Sweden and Switzerland. We should not necessarily know if the compromise had taken place. The alternative of producing a downgraded version would be expensive and would involve practical difficulties which might be insuperable. We are continuing however to examine the problem in detail.
The current tripartite offset arrangements expire at the end of this financial year. They are summarised at Annex A. It was largely owing to American intervention that we succeeded at the last minute in making this agreement, which enabled us to claim that we had covered the greater part of this year's foreign exchange costs (about £69 million out of £80 million, or 85 per cent). The German share was £49 million (60 per cent); the American £20 million (25 per cent). We recognised, however, that a substantial proportion of both German and American payments represented foreign exchange that we could expect to earn in any case, so that the value of the agreement was to this extent presentational rather than real. At the same time we obtained agreement for the withdrawal of one brigade group and one RAF squadron from Germany, which is now in progress.

2. Because of the great difficulties we had in negotiating the last agreement, because of the unrealistic elements in it, and because we could not expect the same help again from the Americans, the Defence and Oversea Policy Committee agreed on 20th July, 1967 that we should explore a new approach to the offset problem for future years. This would consist primarily in the negotiation of a long-term agreement with the Federal German Republic for collaboration on military research, development and production. We hoped that such an agreement would bring major offset benefits in the long run, especially from aircraft projects, and that this might enable us in due course to dispense with traditional offset accounting and the recurring friction caused by difficult annual negotiations. This idea was put to the Germans in general terms in August and again in more detail in October and was welcomed by them; but at their talks in London in October, the Prime Minister accepted Dr. Kiesinger's explanation that, owing to their problems with their defence budget, the German side would not be ready for negotiations until the New Year. Dr. Kiesinger recognised the need for a satisfactory offset arrangement for the coming year and thought that this could still be concluded before expiry of the current agreement on 31st March.
3. A meeting between British and German experts on 20th November and the Defence Secretary's conversation with the German Defence Minister at Brussels in December have since shown that there is no prospect that a long-term collaborative agreement with the Germans could bring offset benefits in the next financial year. This is because the German Government has felt obliged to delay decisions about joining in major projects which might have figured in the agreement, notably the Anglo-French Jaguar aircraft, which would have been the cornerstone of the agreement for purposes of early offset benefits. Nevertheless, the Germans are still interested, and the idea of a long-term collaborative agreement remains clearly well worth pursuing, both for its potential offset benefits and in the context of our European policy. It still holds out the best prospect of enabling us to dispense in the long run with traditional offset accounting.

4. But such an agreement has no relevance to the immediate problem of tiding ourselves over the next financial year. The supplementary statement on Defence Policy of 18th July stated that "it remains essential to our balance of payments to find satisfactory arrangements to meet these costs [i.e. the foreign exchange costs of British forces in Germany] in future, either by offset purchases or by other means". Devaluation has since reinforced the urgency of the problem. Instead of an overall reduction of costs by £5 million, which we hoped to achieve by means of the current redeployment, rising costs and the effect of devaluation now face us with an estimated total for 1968-69 of about £90 million in foreign exchange.

5. We must expect the Germans to continue to refuse to provide any form of offset which would constitute a direct charge on the Federal Budget, such as paying for part of BAOR's local labour costs. The continuing elements in a new agreement would therefore be:

(a) Direct defence sales to Germany, which may amount next year to about £15 million (as against £16.9 million this year);

(b) Civil public purchases, for which it may be possible to negotiate the same target as this year, i.e. about £26 million after devaluation. These consist almost entirely of purchases that would be made from us in any case, and their offset value is mainly presentational.

Since the deposit accounts, from which civil private purchases (which yielded £2.6 million this year) were promoted, are now virtually exhausted, we cannot count on any offset from this source next year. The foreseeable offset from German sources next year will therefore meet only 45 per cent of our costs (i.e. £41 million out of £90 million) as against 60 per cent of our costs this year (i.e. £49 million out of £81 million). Of this year's American contribution of £20 million, we can expect to be able to count again only the earnings from the United States air force squadrons transferred from this country to France which, after devaluation, will probably be about £8 million.
6. The situation has been affected also by President Johnson's measures to defend the dollar. Mr. Katzenbach has emphasised the renewed American desire to 'neutralise' the full foreign exchange cost of their forces in Germany. They will probably seek to meet their needs, as before, through German purchases of United States Government bonds. Mr. Katzenbach has also proposed multilateral discussion of this problem in NATO.

7. Until we know more of American intentions, we cannot take a final view of the advantages of multilateral discussions. But it seems clear that they could not be concluded in time to affect next year's offset; and the prospect of such discussions could be used by the Germans to delay a deal with us. Moreover it would seem that the Americans and Germans would be more likely to benefit financially from multilateral discussions than we should. Broadly similar arguments apply to any idea of new tripartite talks, with the added factor that these, although more manageable, would arouse fresh resentment among our other NATO Allies.

8. We still have Dr. Kiesinger's assurance of his desire to make a satisfactory new arrangement with us, and the time has clearly come to explore German intentions in formal negotiations to this end. I believe negotiations should have two objectives. First, to obtain German agreement to the principle of a long-term collaborative agreement on research, development and production in the defence and possibly also in the civil field. Such an agreement would be a valuable commitment for the future, even if it yielded no offset benefits for the coming year. Second, we should press the Germans to find means of closing the gap between the continuing elements of the current agreement, as outlined in paragraph 5 above, and our prospective foreign exchange costs. Methods worth considering may be:

(i) to take a leaf from the Americans' book and go for some form of medium or preferably long-term borrowing from the Germans, e.g. by German purchases of British Bonds;

(ii) German agreement to devote a further sum to facilitate major civil export sales, e.g. of aircraft.

9. The British Ambassador in Bonn could approach the German Government immediately to arrange negotiations in Bonn at the beginning of February (it will be better not to start negotiations until after the proposed post-veto consultations with the Five in Brussels at the end of January. It will be for consideration which Minister should lead our negotiating team.

10. I think the best way to take account of the offset problem when presenting the economy measures to the House on 17th January would be to refer to these negotiations, and I annex a form of words which I suggest would serve this purpose (Annex B).

F. M.

Foreign Office, S.W.1.

11th January, 1968
ANNEX A

Offsetting Payments 1967/8

Most of these are expressed in $ or DM in the agreements. It is therefore likely that the sterling equivalent will go up in respect of the period after devaluation. The following table gives (1) the payments as expressed in the agreements, (2) the pre-devaluation sterling equivalent, and (3) an indication of what the post-devaluation sterling equivalent might be in the financial year ending 31 March, 1968.

Offsetting Payments - United States

<table>
<thead>
<tr>
<th>Description</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Transfer of United States Air Force Squadrons</td>
<td>£7 million</td>
<td>£7 million</td>
<td>£7 million</td>
</tr>
<tr>
<td>(b) Additional United States purchases of defence equipment in the United Kingdom</td>
<td>$19.6 million</td>
<td>£7 million</td>
<td>£7.3 million</td>
</tr>
<tr>
<td>(c) One-half of additional United States purchases of defence equipment in the United Kingdom agreed in December 1966</td>
<td>$17.5 million</td>
<td>£6¹⁄₄ million</td>
<td>£6.6 million</td>
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</table>

Offsetting Payments - German

<table>
<thead>
<tr>
<th>Description</th>
<th>DM</th>
<th>£7 million</th>
<th>£18 million</th>
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</thead>
<tbody>
<tr>
<td>(a) Military Purchases</td>
<td>200 million</td>
<td>£18 million</td>
<td>£18.9 million</td>
</tr>
<tr>
<td>(b) Civil Public Purchases</td>
<td>250 million</td>
<td>£23.3 million</td>
<td>£23.3 million</td>
</tr>
<tr>
<td>(c) Other Civil Purchases</td>
<td>100 million</td>
<td>£8.6 million</td>
<td>£8.6 million</td>
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</table>

£69 million £71.7 million
As the House knows, there have already been informal preliminary talks in Bonn about ways and means of meeting the continuing foreign exchange cost of our forces in Germany after the current Anglo-German Offset Agreement expires on 31 March. We are now ready for formal negotiations, and have proposed to the Federal German Government that the talks should start early in February. My [rt. hon.] Friend ............... will lead the United Kingdom delegation.
Introduction

I recognise that the space budget must contribute to the economies in public expenditure that have to be achieved over the next five years.

2. In practice this means a re-examination of Black Arrow and the European Launcher Development Organisation (ELDO), which are the main national and international space programmes which lie within my responsibility.

3. Major economies in this field immediately raise the important policy issue: are we to opt out of space technology entirely? Whatever we decide our own national interest must now be paramount.

4. There is no doubt in my mind, or the minds of my advisers, that Black Arrow is the best buy for Britain. It is the only effective national space technology effort that we have, and at around £3 million a year it is very cost-effective in developing a capability in British industry without which future exports in space products will simply not be possible. It also finances, on a very small scale, some potentially valuable research projects, like the work on electrical propulsion.

5. Unfettered by legal or political difficulties I would unhesitatingly recommend our immediate total withdrawal from ELDO and the continuation of Black Arrow.

6. In considering the savings that we might possibly achieve by a decision to abrogate unilaterally our membership of ELDO, we would have to take account of the Attorney-General's advice. It appears that under the arbitration provisions of the Convention we would be liable to pay damages to our other ELDO partners which would be as much or more than the cost of discharging our existing obligation to ELDO.

7. However, in calculating the savings under alternative courses I have conservatively assumed the damages to be equal to but not more than our present obligations.
8. By the end of 1967-68, the United Kingdom will have contributed approximately £50 million to ELDO; and a further £25-26 million is due to be contributed in the years 1968-69 to 1971-72, under the programme to which we are currently committed following the Ministerial discussions in 1966 when we unsuccessfully sought to get out of ELDO.

9. Whether any further development programme will be started by ELDO depends on decisions to be taken by Ministers at the Space Conference due to be held in Bonn in May/June, 1968, following the review being carried out by the Advisory Committee on Programmes set up at the July, 1967 Ministerial Space Conference. Proposals for further development programmes will be put forward, and it is probably reasonable to assume that (as has happened in the International Organisation for Satellite Communications (Intelsat) programme) requirements for larger and larger satellites will emerge calling for more powerful launchers. If there is not a continuing ELDO development programme, launchers built for customers would have to carry a burden of overheads which is likely to make them impossibly expensive for most customers, unless production costs are subsidised. Against this background, the Minister's PESC forecasts assume further development programmes involving a continuing United Kingdom contribution of £8.5 million a year.

10. Our attempts to get out of ELDO in 1966 were abandoned in the light of advice from the Law Officers (MISC. 110(66) 3, 7th June, 1966) as to the consequences - in particular that we would be liable to pay more in damages than the cost of remaining in ELDO. I understand that the legal position (which is discussed in more detail in Annex A) has not changed in essentials. The political objections (discussed in Annex B) also remain strong - and are indeed accentuated by the facts that in 1966 our partners agreed to bear an increased share of the cost, and to reduce the United Kingdom's percentage, and that they are likely to offer us a moratorium on the increased contribution (in sterling terms) that is due as the result of devaluation.

Black Arrow

11. To cancel Black Arrow would mean that to all intents we abandoned any national space technology activity and that we should effectively be opting out, almost certainly permanently from a field of advanced technology in which virtually every other major industrial power thinks it important to retain a capability. For example Germany, France and Japan are all building up their national space capability.

12. It would mean that British industry would no longer be able (as it is at present) to get sub-contract work from the American prime contractors for satellites in the Intelsat programme (and it is the policy of the Communications Satellite Corporation (Comsat) to maximise the non-American content of this programme); it would rule out any possibility of British Industry getting any share of the space segment of any future European application satellite programmes, or those which may materialise outside Europe and America. It would almost certainly mean that we should get a reduced share of the contracts placed by the European Space Research Organisation (ESRO) (partly with our money).
13. A viable national programme of satellite technology, based on the Black Arrow programme could be maintained for about £3 million a year. This would avoid the consequences indicated in the previous paragraph, and would make a much greater contribution to the advancement of our industrial technology than does our present, much larger, investment in ELDO. And it would put us in a position to participate on a larger scale at a later date if, as other countries assume, satellite technology should prove to be an industrially or economically important growth point as other countries assume.

14. I should make it clear that although the Black Arrow programme includes the development of a small launcher, this is solely as the most economic means of achieving the objectives of the programme, which is to develop and test components and systems, and conduct research into basic satellite technology; it is not intended to lead to an independent large British launcher, and if it had been more economical to use a foreign launcher, this course would have been adopted.

The Alternative Courses

15. I set out in the succeeding paragraphs four courses, and the resulting savings based upon the table below of the annual expenditure in each of the next five years, broken down into ELDO (current commitments), ELDO (future programmes - see paragraph 9) and Black Arrow. These are as in PESC and represent the expected spend on the basis of existing policy against which the savings must be registered.

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<tbody>
<tr>
<td>ELDO - Current Commitments</td>
<td>11.3</td>
<td>8.8</td>
<td>4.78</td>
<td>0.69</td>
<td>-</td>
<td>25.57</td>
</tr>
<tr>
<td>ELDO - Future Programmes</td>
<td>-</td>
<td>1.5</td>
<td>3.72</td>
<td>7.81</td>
<td>8.5</td>
<td>21.53</td>
</tr>
<tr>
<td>Black Arrow</td>
<td>2.4</td>
<td>2.7</td>
<td>2.9</td>
<td>2.9</td>
<td>2.9</td>
<td>13.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13.7</td>
<td>13.0</td>
<td>11.4</td>
<td>11.4</td>
<td>11.4</td>
<td>60.9</td>
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</table>

Course 1: Cancelling Black Arrow and an announcement that we are withdrawing from ELDO immediately

16. The savings less the liability for damages and cancellation charges are estimated at £33.83 million total, or an annual average of £6.76 million over the five years.

17. The consequence of this course would be as follows -

(a) It would end Britain's national satellite technology capability.

(b) It would involve abrogating a European treaty with all the legal, financial and political consequences.
It would leave ELDO to continue on its existing programme which we, though no longer members, would be financing through our damage payments. Thus ELDO would not necessarily be fatally damaged but its continuance would be supported by British contributions, paid under arbitration. This would be hard to explain in Britain.

**Course 2: Cancelling Black Arrow, but retaining our commitment to support ELDO on its existing programme**

18. The savings would be exactly the same as under Course 1 (£33.83 million total; annual average £6.76 million).

19. But Course 2 would have the following disadvantages -

   (d) It would end Britain's national satellite technology capability.

   (e) It would sustain our European space effort which is less valuable than our national effort to Britain.

   (f) It would cause political difficulties in Europe and at home; but it would avoid the legal argument and damage payments.

**Course 3: Withdraw from ELDO in toto as in Course 1 but retain Black Arrow**

20. The estimated net saving from this course is £21.53 million over the five years, an annual average of £4.31 million.

21. This course would have the same legal and political consequences as Course 1 but would accentuate the political difficulty and the harm to our international reputation since we should be damaging ELDO while going on with our national programme. Moreover, because of the damages we would be likely to pay we would still be financing the limited continuation of ELDO without participating in it.

**Course 4: Phase out of ELDO as the present limited programme runs down and then withdraw and keep Black Arrow**

22. This would make a saving equal to Course 3 £21.53 million total; annual average £4.31 million).

23. This course would have the advantage of retaining our national capability; at the same time we should make substantial savings from running down our ELDO expenditure from its present level of over £11 million a year to just over £½ million in 1971-72 and nothing thereafter. It would also avoid the legal, financial and international difficulties of withdrawing immediately from ELDO. Thus it would be a policy decision to concentrate on our national programme and would also save substantial sums of money.

**Conclusions**

24. I therefore ask my colleagues to agree that we should adopt course 4.
25. One decision that would fall to be made would be whether we announce this in the statement on Tuesday or not. In many ways it would be more convenient not to make a public announcement until shortly after we have received the review, due at the end of the month, of the European space programme which followed the initiative we took last summer. However, if the Cabinet consider that an immediate announcement must be made we would have to seek to justify it on the grounds of our serious financial position and our re-assessment of the priorities within our space budget. Unless we are to make an announcement we cannot of course claim until later the savings under Course 4.

A. W. B.

Ministry of Technology, S.W.1.

11th January, 1968
ELDO: Legal Aspects

(Note by the Foreign Office Legal Adviser)

The attempts made in 1966 to terminate the United Kingdom's commitment to ELDO were abandoned in the light of the advice of the Law Officers (Misc 110(66)3, June 7 1966) that if our partners took us to arbitration (in accordance with the ELDO Convention) we would be likely to lose. If we lost, damages could well be in excess of the cost of our continued participation in the ELDO programme up to its completion. In the light of this advice, it was decided that we should seek an agreed solution on the basis of a reduction in the scale of our contribution, a fixed monetary limit on the level of that contribution, arrangements for annual reviews and provisions permitting the withdrawal of the United Kingdom if costs should escalate beyond the fixed monetary limit. Full satisfaction of these requirements was obtained at a series of ministerial meetings which concluded on 8 July 1966.

Although the resultant amendments to the Financial Protocol provided for the financing of a modified version of the programme and varied, to the advantage of the United Kingdom, its monetary commitments under the Protocol, the underlying obligations to which the Law Officers drew attention in 1966 were unchanged. What was achieved was full protection against automatic commitment to escalating costs above a certain ceiling. We did not seek, and could not have obtained, agreement to a right for the United Kingdom of unilateral repudiation of our obligations.
obligations. An attempt by us to repudiate these obligations now would attract the same legal consequences as the Law Officers foresaw in June 1966. We should risk losing, at arbitration, more than we would have to pay by completing the programme. We should, moreover, forego the substantial advantage gained in the 1966 settlement, namely the possibility of extricating ourselves legally from any liability to contribute to expenditure above a fixed overall ceiling if that ceiling should be exceeded through cost-escalation. We accordingly advise strongly against the course of unilateral repudiation.

The question has been raised whether the failure of the French rocket on two occasions gives rise to a right of unilateral withdrawal. In the absence of information as to the effect of these failures on the prospects of fulfilling the programme, it is not possible to advise on the question of withdrawal on this ground.
Political

(Note by Foreign Office Officials)

Our partners in ELDO despite H.M.G.'s sustained attempts to dissuade them, retain their belief that space (launcher and satellite development and applications) is an indispensable element in the development of advanced technology in Europe, and the elimination of the so-called "technology gap". The strongest adherents of this view are Italy, Belgium, Germany and France. The first two are heavily dependent on multilateral space programmes. They, with Germany, are the same countries on whose support we rely in pursuing our admission to the E.E.C. and whom we seek to rally against French obstruction.

Our attempt to extricate ourselves in 1966, pressed to the brink of repudiation, came as a severe shock to our partners who were all brought to increase their own contribution to ELDO in order to retain our participation. A renewed attempt now by the United Kingdom to withdraw must be expected to infuriate them.

The European Ministerial Space Conference meeting in Rome in June 1967 commissioned proposals for a co-ordinated European space policy and programme relating together in a coherent whole the various activities in launcher development, space research and satellite applications. Decisions on these proposals are to be taken in the early summer of 1968. The U.K., in particular, insisted that the proposals must include objective study of costs and benefits. This study is now well advanced and the problems of European space policy will therefore be brought to an issue in the next few months. If, without waiting for the result, we were to move against ELDO -
and with it the European launcher capability - we should find it hard to rebut the charge of duplicity and of having wasted nine months of our partners' time to no avail.

It will be plain from the foregoing and from the legal considerations set out in Annex A, that a further attempt now to repudiate our obligations would tend to maximise the attendant political difficulties.
11th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

PASSENGER TRANSPORT GRANTS

Memorandum by the Minister of Transport

At our meeting on 8th January I was invited to circulate a memorandum on how to effect the cuts agreed in my expenditure on passenger transport grants (CC(68) 3rd Conclusions).

2. I have already accepted that the additional rebate of fuel tax for buses should be deferred until 1st January, 1969, and this, together with the deferment of certain infrastructure projects agreed for the nationalised industries, should enable me to tolerate the proposed limit of £10 million for expenditure in 1968-69. In 1969-70 the requirement to make the additional rebates on fuel tax for buses and to make new bus grants will operate on a statutory basis for the whole year. Although I must make the grants for new buses if those entitled to them place orders for the new vehicles, it may well be that the rate will be a little slower than I had envisaged. But the only element on which cuts can effectively be made is on infrastructure grants for new transport investment. Thus the £20 million would have to be made up as follows:

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
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<tbody>
<tr>
<td>Additional fuel tax rebate</td>
<td>7</td>
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<tr>
<td>New bus grants</td>
<td>6</td>
</tr>
<tr>
<td>Rural bus grants</td>
<td>0.4</td>
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<tr>
<td>Infrastructure grants</td>
<td>6.6</td>
</tr>
<tr>
<td></td>
<td>20.0</td>
</tr>
</tbody>
</table>

3. Of the £6.6 million for infrastructure grants the Brixton extension of the Victoria Line in London, which is already under construction, will absorb £4 million in 1969-70. There are other large schemes at present under consideration which might qualify for grant, not only in London but in Merseyside (the Mersey Railway Extension) and Manchester, and something will also be needed for smaller projects - station car parks and bus stations, for example. I would not be able to accommodate more than a fraction of these under the agreed limits.

B. A. C.

Ministry of Transport, S, E, 1.

11th January, 1968
11th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DEFENCE CUTS: THE F.111

Memorandum by the Secretary of State for Defence

When we discussed the F.111 last week, the Cabinet (CC(68) 1st Conclusions, Minute 3) invited me to propose alternative economies with a view to securing defence savings comparable with those which I could make if the whole F.111 order were cancelled.

The Gross Saving from Cancellation

2. On the assumption that our withdrawal from East of Suez is completed by April, 1971 I can reduce the defence budget from £1,890 million in 1968-69 to £1,650 million in 1972-73 (at 1964 prices) while keeping the 50 F.111s and 170 Phantoms now on order. This saving would be reduced by £10 million if withdrawal is not completed until April, 1972. The impact on all three Services will be severe and rapid, though it will take some time to work out the consequences in detail. By the early 1970s there will be massive cuts in the numbers of fighting units. The size of the forces will be cut by 80,000 - representing an immense transfer of manpower to the civil sector - equivalent, with their families, to a town the size of Newcastle or Leicester. Apart from a radical reduction in the whole support organisation we shall have cuts in many "teeth" areas, including the aircraft carriers and the rate of new naval building; cuts in the number and organisation of regiments and battalions; cuts in the transport and maritime forces of the RAF and the elimination of the proposed VG combat aircraft. Against this background, if we are to maintain effective volunteer forces at all, the remainder must know they will have good conditions of service and such new equipment as is essential for their tasks.

3. If our reduced forces are to be given no protection whatever against the consequences of losing a strike/reconnaissance capability on which they have depended since the invention of the flying machine, and our NATO allies are prepared to see us remove all their best reconnaissance aircraft and an essential part of their longer-range strike force without making any compensatory increase in our contribution in other fields, cancellation of the F.111 order would save an average of £39 million a year or £390 million in all up till 1977-78, though owing to the incidence of credit repayments the saving in 1972-73 would be £57 million.
4. On the other hand, owing to cancellation charges our expenditure next year on the F.111 would increase from £16 million to £38 million, £33 million of which would be in dollars. We would also lose the substantial benefits under the offset agreement which I described in C(68) 10, and which ensure that if we keep the 50 F.111s, we shall earn at least $50 million more than we pay over the next three years. Annex A to this paper deals more fully with arguments against the offset agreement which were used by some of my colleagues at our meeting of 4th January.

The Military capability lost by Cancellation

5. The unanimous view of all four Chiefs of Staff on the importance of the F.111 to all three Services is summarised in the following statement: "The heart of the case for the quality of long-range strike and reconnaissance capability represented by the F.111 is that, broadly speaking, all other operations of war short of ultimate strategic nuclear attack take place either under cover of this capability or with the knowledge that we have it at our disposal if necessary. If this capability is abandoned then our sea, land and air forces are not only deprived of the ability to find out by reconnaissance what an enemy or potential enemy is doing, or is planning to do, but are also thrown back on an essentially defensive strategy with all that this means in surrender of the initiative. The loss of the F.111 would, therefore, carry the gravest military implications for the United Kingdom's ability to participate in military operations in Europe and overseas and remove an element of real significance in the process of control of escalation".

6. I described in C(68) 10 the critical importance of the F.111's strike capability in reducing NATO's reliance on nuclear weapons. I would like here to re-emphasise the importance of reconnaissance, not only in saving the lives of our fighting men, but also in checking the escalation of a crisis. Once we received intelligence that something was afoot we should want to have the most accurate information possible before deciding how to react. Aerial reconnaissance is the prime source of such information. The F.111 has two special attributes as a reconnaissance aircraft, one of which is possessed by no other aircraft planned for service in Europe; without crossing national boundaries it will be able to look "sideways" with camera and radar fro about 100 miles from within friendly air space or from international waters. If, however, at a later stage in the crisis fighting has started, the F.111 can pass over national boundaries, and its chances of being able to do so and return, whatever the weather conditions, are much greater than that of any other aircraft because of its supersonic speed, range and sophisticated electronic fit.

7. The Phantom offers no alternative. It is essentially an aircraft for operating in the battlefield area. It lacks the unique and valuable "sideways"-looking photographic facility. In the reconnaissance role it has not the performance at the relevant heights, it is limited in bad weather and its range is only a quarter that of the F.111. To give the Buccaneer an analogous but much inferior reconnaissance capability would take some seven years at a programme cost no less than that of the F.111A which would otherwise have replaced the Canberra some five years earlier.
When we originally reduced our F.111 order from 110 to 50, we assumed that they would supplement some 150 AFVG, coming into service primarily in Europe from 1975 onwards. The AFVG project collapsed last year, and it is now clear that there is no chance of collaborating in a UKVG aircraft in the same timescale. This has given a new importance to the 50 F.111, particularly in Europe.

8. For Britain to depend wholly on the United States and France providing aircraft for vital information in a crisis would gravely damage our political influence on events, quite apart from its military consequences.

9. The reconnaissance and strike capability could be equally important outside Europe both in the final stages of our withdrawal and in any operations we might undertake thereafter. Indeed it is clear that if our general capability in Europe does not include the F.111, our declared readiness to help outside Europe if we believe it our duty or interest to do so will be worth very little to those whose acquiescence in our withdrawal we are now seeking.

Our contribution to NATO

10. As I understand it, one purpose of our withdrawal into Europe is to maximise our influence with our continental neighbours, an objective of paramount importance whatever our relationship with the Common Market. I do not believe it would be politically possible or desirable to rob NATO of the 36 front-line F.111 (which is what a buy of 50 will permit) we have already promised, in replacement for the 100 Canberras assigned to NATO and the further 50 Canberras available to NATO in a crisis, without making some increase in our air contribution to compensate for their loss.

11. The tables at Annex B show how our own projected defence programme in 1972-73 will compare with that of France and Germany both in terms of money and of forces provided for West European defence.

12. The force figures show that without the F.111 contribution our effort in the common defence would compare more closely with that of Holland than with France or Germany. The expenditure figures (which are on the NATO definition for purposes of comparability and include, e.g. military aid) show that on the basis of present plans our total expenditure in 1972-73 would be some £4-500 million lower than that of France or Germany (even before taking account of the latter's heavy expenditure - some £275 million - on the support of Berlin). On the basis of expenditure per head of population, the figures would be:

- United Kingdom £36
- France £50
- Germany £40

The disparity would still be significant if the F.111 were included in our programme.
13. A big increase in our land contribution is undesirable on many grounds - including the additional foreign exchange expenditure and the doubt whether we could achieve it without conscription. There is no case for increasing our naval contribution. Any increase to compensate for loss of the F.111 would have to be made in aircraft.

14. At present the total number of combat aircraft we declare to NATO is 223. In 1972 without the 36 F.111s it would amount to only 100 aircraft (including 32 FV bombers whose operational value is steadily waning). In my view, there is no possibility of persuading our allies that a reduction on this scale, when we have disengaged from East of Suez and at a time when NATO strategy is being revised - at our urging - to lay greater stress on the flexibility of conventional air power, justifies the claim that we are bearing anything like our fair share of the defence burden. The German aircraft contribution would be several times larger than ours, while their Army contribution was five times greater. We should be offering fewer aircraft than Italy and at the best the same numerical order as the Dutch and the Belgians. Above all, the argument that we were making up in quality for a reduction in quantity would have been removed.

15. Both from the point of view of general capability and our relations with NATO, the work I have done suggests that if we have no F.111's the least unsatisfactory course would be to buy at least a further 75 Phantoms. These 75 Phantoms would produce a front line of some 50 to supplement the 20 already assigned to NATO and the 20 which would later become available to NATO from the Gulf and Far East. Besides being the only aircraft available when the Canberras are withdrawn next year, the Phantom's ability to shoot down enemy aircraft in the air would do something to compensate for ending our ability to destroy enemy aircraft more cheaply and effectively on the ground. Although in general it could be said that 50 Phantoms can carry about the same weight of weapons as 36 F.111s, this is not a meaningful comparison. Because of the quite different performance characteristics of the Phantom, in particular its inferior reconnaissance capability, its inability to strike in all weathers, and its shorter range, the overall operational effectiveness of our contribution would be greatly reduced, even if we substituted this larger number of aircraft.

16. The 10-year cost of 75 Phantoms required would be £275 million of which the dollar content would be £118 million and the additional DM stationing costs £12 million. The budgetary cost in 1972-73 would be £34 million. Apart from these financial implications, there would be other serious implications not least for the future of our aircraft industry.

The net savings from cancellation of the F.111

17. I therefore assume that we should have to add back some £275 million over the 10-year period to pay for an additional 75 Phantoms. The net saving we should secure by cancelling the F.111 would therefore be £115 million over the 10-year period and £23 million in 1972-73.
How to find a comparable saving

18. (a) Forces in Germany

An unknown factor in the equation is the extent to which we may reduce our forces in Germany before 1972 either because we are unable to make a satisfactory offset arrangement or because our allies cut their forces or because there are reciprocal reductions on both sides of the Iron Curtain. However, we cannot quantify such savings, still less announce them now - a problem which arises similarly from our general intention to introduce selectivity into family allowances.

(b) Restructuring of the Services

If concrete savings must be identified, the right way to do it, as I argued in C(68) 11, is to re-examine the whole of our force structure and support organisation in the light of our more rapid withdrawal into Europe, but it will take several months to do so. I can certainly undertake to find savings in 1972-73 to fill the gap - as I have found all the savings required of me on four previous occasions.

(c) Immediate possibilities

If however, my colleagues decide that for presentational reasons the Government must be able to announce specific further cuts in defence next week even though this might turn out to produce less desirable savings than a thorough study would allow, my views would be as follows:

(i) I would not propose cutting or cancelling the Harrier order, because though it has a low military priority I believe the general advantages of continuing the only British advanced combat aircraft now take precedence.

(ii) I would propose to cancel the order for the Anglo-French Martel missile, thus saving £79 million in 10 years and £17 million in 1972-73. The implications of this cut are explained in Annex C.

(iii) To find the balance of the comparable saving of £23 million in 1972-73 I would choose between the abandonement of the Bloodhound system (£2 million), phasing out some of the V-bombers more quickly (up to £10 million) and stopping research and development on an Airborne Early Warning (AEW) aircraft (£7 million). There are almost certainly other possibilities. Any of these cuts would be painful and unwelcome but they are in my view areas of less critical importance than the F.111 capability.
19. It may be suggested that the argument in paragraphs 15-17 about the net as opposed to the gross saving is unacceptable. I strongly disagree; although I acknowledge that in the short time available the assessment of a compensating capability could only be rough and ready. Some may say it is too big. Some may argue that it should not be made at all although this can only be tantamount to asking me to find another £390 million off the defence budget over the next 10 years in addition to the cuts which already reduce the programme to £1,650 million in 1972-73. This would be a still more difficult and speculative task and inevitably involves looking forward into the second five years (1973-1978) of the period as there is such a long lead time in the defence procurement areas.

20. I have been able to examine such a proposition only very cursorily. The area I have indicated in paragraph 18(c)(ii) and (iii) would save at least £100 million in the first five years. Their continued effect, together with the elimination of firm assumptions in our 10-year costings such as the purchase of United States C5 transport aircraft and a United Kingdom built AEW aircraft in the second five years, would result in a total saving of some £400 million equivalent to the gross cost of the F.111 programme less only cancellation charges. I quote these only for illustrative purposes, but here again I can assure my colleagues that I would be prepared to forgo these or other items as of less importance, both short and long term, than the F. 111's contribution to our military capability and credibility.

Conclusions

21. I conclude that:

(a) To eliminate the F.111 from our defence programme without replacement would put our fighting men at risk and seriously damage our political and military influence in NATO.

(b) It would also mean spending an additional $60 million in 1968-69 and losing the advantages of the $825 million offset target I have just negotiated.

(c) There is no aircraft available which could replace the Canberras from 1969 and provide an equivalent military capability. The nearest substitute would be the Phantom. The programme costs of 75 Phantoms would amount to some £275 million compared with the next F.111 saving of £390 million. The comparable saving that I set myself to find is therefore £115 million, of which £23 million would fall in 1972-73.

(d) I could guarantee to find this comparable saving in the course of restructuring the forces following upon our decisions on commitments.

(e) If there is a desire for presentational reasons that I should identify these savings now, my proposals are set out in paragraph 18 c (ii) and (iii). These cuts include a complete and publicly known weapons system, Martel, which we are currently undertaking in collaboration with France.
(f) If we ignore the costs of any substitution programme and take the ten year gross costs of the F. 111 programme less cancellation costs - £390 million - I could guarantee to find savings over the 10-year defence budget. Such savings would include those in (e) above and would go on in the second half of the 10-year period to include the elimination of such major new equipment purchases currently in the programme as the United States C5 transport aircraft and the construction of an AEW aircraft.

Recommendation

22. I therefore recommend my colleagues to confirm the purchase of 50 F. 111s.

D. W. H.

Ministry of Defence S. W. l.

11th January, 1968
The Offset Arrangement

1. Some of the arguments used at the last meeting to write down the value of the offset arrangement seem to me to be unsound and I seek in the following paragraphs to explain the position as I see it.

2. It was argued that "export earnings under the agreement did not bring in net benefit to the balance of payments; they simply prevented the deterioration which would otherwise result from purchase of the aircraft". This argument I do not accept. We cancelled the TSR 2 partly because it was not going to be ready in time, partly because of its very high and rapidly escalating cost and partly to diversify resources to civil industry, thus benefiting the economy. It was implicit in that decision that a foreign aircraft would have to be bought in its place, since there was no other British aircraft in prospect that could meet the requirement. Indeed the F.111 was the only aircraft that could do so. It was because I was conscious that this unavoidable purchase would involve expenditure in foreign exchange that I obtained the offset arrangement. It would have been unrealistic to expect the Americans to undertake to do more than offset its cost; but, as shown below, there is a good chance that they may in the long run do much more than merely "prevent deterioration". Meanwhile, during the immediate future, the receipts from sales to America under the offset are considerably exceeding the payments to be made for the F.111.

3. It was argued that "there was a good prospect that the industrial resources now devoted to securing sales under the offset agreement could be diverted to exports which would bring a positive balance of payments benefit". I should like to see some positive evidence to support this statement. The facts are that during the 4 or 5 years preceding the signing of the offset arrangement the US defence market had been virtually closed to our industries. Under the Buy American Acts, foreign competitors had long suffered a discrimination of 6% (or in some cases 12%) as compared with the American producer, and this applied to all US Government competitions. In 1960 the US Department of Defense introduced a price-differential of 50% inclusive of duty which could be applied in the defence field whenever it gave a more penal handicap to the foreign competitor than the 6% or 12% plus duty. These restrictions made it virtually impossible for British firms to obtain defence contracts in the United States unless the US has no source of their own or for some special reason wanted to buy abroad. What the offset arrangement did was to break down these barriers and give British firms once more an opportunity of competing for contracts on equal terms with the Americans. Moreover the American Forces were instructed to search out British equipment which would be suitable for their needs and to provide opportunities for British companies to tender for contracts. I am sure my colleagues will agree with me in attaching importance to maintaining access for as many British industries as possible to the enormous US market. Over 14% of our exports go to the United States, which is nearly three times as much as we export to any other country. This seems to indicate that maintaining access to the US defence market for as long as possible must be in itself beneficial and more worthwhile than seeking to transfer the effort to other exports which in many events we are doing all...
we can to obtain. Firms such as Elliott Automation who get their foot in the American door have a chance of establishing production lines out of all proportion to those appropriate for other markets. The competition is healthy for both countries; the Americans benefit from reduced prices even when the British firm does not win and the British firms have valuable lessons to learn from the high standards of American competition.

4. It was argued that gaining a foothold in the US market was "of limited advantage, since it was certain that, once the target for offset sales had been reached, the barriers to sales in the United States would immediately reappear". I do not know on what evidence this statement is based. The Americans obviously could not make the offset arrangement open-ended; and they have naturally been cautious about public statements. There is, however, good reason to suppose that the target figure will be exceeded. Moreover, before the target (including the extra $100 million) is reached, the US balance of payments may improve, in which case the 50% price-differential would be removed since the American Forces would be glad to make the budgetary savings which access to our highly competitive products would afford. In any event the arrangement is due to run for nearly 10 more years.

5. Finally, the provisions of the offset arrangement dealing with collaborative sales have already given us access to a market hitherto regarded as a US preserve; this would also be true of any further collaborative sales, for otherwise we should not accept them as truly collaborative.
## ANNEX B

### COMPARISON OF EUROPEAN DEFENCE EXPENDITURE

#### A. Expenditure

<table>
<thead>
<tr>
<th>Country</th>
<th>68/9</th>
<th>69/70</th>
<th>70/71</th>
<th>71/72</th>
<th>72/73</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) less provision for</td>
<td>£M</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) per head of population</td>
<td>£</td>
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<td>(iii)</td>
<td>£M</td>
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<td>2,550</td>
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<tr>
<td>(iv) per head of population</td>
<td>£</td>
<td>49</td>
<td>51</td>
<td>50</td>
<td>50</td>
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<td><strong>German Defence Budget</strong></td>
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<td>(v)</td>
<td>£M</td>
<td>2,150</td>
<td>2,210</td>
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<td>(vi) per head of population</td>
<td>£</td>
<td>35</td>
<td>36</td>
<td>33</td>
<td>39</td>
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</tbody>
</table>

(i) UK figures are based on NATO definitions.

(ii) Population figures for all 3 countries projected at the annual UK rate of increase of 0.72% assumed in The National Plan.

(iii) Record of meeting held between S. of S. and French Minister of the Armed Forces on 26th October, 1967. Increased expenditure of 30 milliard francs in 1969/70 assumed to remain at that level from thereon.

(iv) W. German reply to the Questionnaire for the 1967 Defence Planning Review.
B. Force Proposals 1972

(UK figures as reported but modified to take account of latest cuts, and excluding F.111)

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>W. Germany</th>
<th>Holland</th>
<th>France</th>
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<tr>
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<td>Mechanised</td>
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<td>Other Brigades</td>
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<td><strong>NAVY</strong></td>
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<td>Aircraft Carriers</td>
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<tr>
<td>Cruisers, Destroyers, escorts</td>
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<td>SSBN</td>
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<td>Other submarines</td>
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<td>Maritime patrol aircraft</td>
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<td><strong>AIR FORCE</strong></td>
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</tr>
<tr>
<td>Fighter/bomber</td>
<td>44²</td>
<td>180</td>
<td>79</td>
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<tr>
<td>Medium bomber</td>
<td>32</td>
<td>76</td>
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<td>Light strike</td>
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<td>72³</td>
<td>396</td>
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<td>Fighter/Reconnaissance</td>
<td>-</td>
<td>144</td>
<td>18</td>
<td></td>
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<tr>
<td>All weather fighter</td>
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<td>72</td>
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<tr>
<td>SAM Units</td>
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<tr>
<td>SSN Units</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

² Figures for France are from Intelligence sources, France not having made any recent declaration to NATO. They exclude the non-naval element of the Force de Dissuasion, which will consist of about 50 bomber aircraft and 27 IRBM's.

+ Commando carriers
ANNEX C

Implications of Reducing or Abandoning the Martel Programme

The development of the Anglo/French Martel air-to-air guided missile, in both its anti-radar (AR) and television-guided (TV) versions, is nearing completion but we have not yet placed any production orders.

2. If we abandon Martel our strike aircraft will be without any stand-off capability for attacking defended targets both on land and at sea. They will be forced to use less accurate weapons and to approach the target more closely, thus increasing their vulnerability. Retention of the AR missile would allow radar targets to be attacked, which would be particularly useful at sea, but there would still be no stand-off capability against visual targets.

3. Abandonment of Martel might cause difficulties with the French who might find unattractive the extra cost of developing and producing their own small requirements unilaterally and might be less willing to collaborate with us on other projects. They would be more likely to consider withdrawing from the helicopter programme than from Jaguar. Their withdrawal from the helicopters would be serious though not catastrophic.

4. On the other hand our judgment is that the French have strong motives of self interest (as we have) in continuing with both the Jaguar and helicopter programmes. On balance therefore, although the French might complain at being let down on Martel, particularly so soon after the signing of the Jaguar production agreement, there are reasonable chances that we might avoid any serious repercussions. The chances would be considerably increased if we could complete development of the weapon and continue with the AR programme.

5. Abandoning production of Martel completely would save about £75M in the ten-year period (£17M in 1972/73). Confining production to the AR requirement as currently stated would save about £50M (£13M in 1972/73).

6. Cancelling the development of Martel at this late stage would save only £24M out of the £25M which is the UK half share of the cost of the joint development programme. We could therefore complete development for a relatively small extra cost. This would:
   a. help considerably to avoid difficulties with the French which might affect other collaborative programmes;
   b. establish a stronger claim to a share of production to meet French requirements, although the share may not be large.

The savings quoted in the main paper assume that development is not completed.
11th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

IMPLICATIONS FOR THE CONSTRUCTION INDUSTRY

Memorandum by the Secretary of State for Economic Affairs
and the Minister of Public Building and Works

As requested by the Cabinet at their meeting on 9th January, we summarise in this paper the implications for the construction industry in the next two years of the total programme of public expenditure savings proposed by the Chancellor. Our concern is that our colleagues should have a quick assessment of this kind before them in reaching final decisions.

Summary of Conclusions

2. The total increase in demand for new work in 1968 over 1967 which was estimated last December to amount to about 5 per cent will now be reduced to about 3 per cent, a figure below the long-established annual increase in productivity in the construction industry. For 1969, the corresponding figures are about 5.5 per cent and 2 per cent. These figures are less reassuring than they may seem, for output will go on rising during the next six months until the cuts begin to take effect. When they do there is likely to be a relatively steep decline in output. This would lead during next autumn and winter either to a marked loss to the labour force or to a sharp fall in productivity.

3. The main implications are as follows:

(a) In recent years the industry has achieved an improvement in productivity (output per worker) of about 4 per cent per annum. This rate was exceeded in 1967, due to exceptional economies in the use of labour. The increase in demand previously expected was thought to be manageable, although likely to lead to some shortages of craftsmen in 1969, particularly in the Midlands and South East, with some pressure on costs and prices. The smaller increases now in prospect will either reduce the productivity gain substantially or result in the emergence of some spare capacity, lower employment levels, and the loss of some labour.
The existing shortage of work for many architects and other consultants will be accentuated.

Some capital equipment is likely to be under-employed, particularly in the road construction industry, which is capital intensive, highly mechanised and specialised.

There would also be effects on the construction materials industry, general confidence, and no doubt an increased flow of bankruptcies, especially among contractors.

4. All forecasts of the load on the industry are subject to a good deal of uncertainty. At the present time it is far from clear what the net effect of the various influences arising from devaluation and the associated measures will be. Moreover, however energetically the cuts in public programmes, as finally agreed, are implemented, the timing of their impact on demand for construction cannot precisely be foreseen. Nor is it possible to estimate how the revised programmes will affect different regions and areas of the country. Nevertheless we must recognise that the economies will constitute a blow to the industry which is unavoidable if the proposed cuts in public expenditure are to be achieved. Second, we should ensure that planning and design work continues, so that the revised programmes are implemented as efficiently as possible. Finally, we should keep under review the employment prospects for next winter, since if we later decide that some extra work needs to be brought forward to keep hard-core unemployment in particular areas down to an acceptable level, the preparations, even for minor works and maintenance, cannot be left to the last moment.

The Forward Load on the Industry

5. The main estimates on which the above assessment is based are as follows. The official Group on the Construction Industries recently prepared a forecast of supply and demand in the construction industries up to 1970 taking into account so far as possible the effects of devaluation but without allowing for any reductions in public expenditure programmes. Thus the forecast covered the additional demand for capital investment associated with the expansion of export industries and attempted to assess the uncertain effects of the devaluation measures on private housing demands and on private miscellaneous building (shops, offices, etc.). The provisional conclusion was that demand for new work might rise in 1968 by about 5.3 per cent in total over 1967, i.e. from £2,535 million to £2,670 million. A slightly bigger increase, of 5.5 per cent, was forecast for 1969 over 1968. £1,485 million of work in 1968 was in the public sector. (All these figures are at 1958 prices). Within the totals, there was a continuing sizeable increase in the public sector (housing and non-housing), a much smaller increase in private housing, and a pick-up in 1969, after little change in 1968, in private non-housing work (see Table 1 attached).

6. We have attempted a quick assessment of the construction element in the cuts in public expenditure programmes proposed in the Chancellor's paper C(68) 5. Table 2 attached estimates the reductions in the forecast increases in expenditure on all fixed assets. We have made a broad estimate of the proportion (a large one) of construction
work in the proposed cuts, also adjusted to 1958 prices and to a calendar year basis to compare with the previous construction estimates. The result is a reduction of £55 million in 1968 and £145 million in 1969. There would be further effects in 1970. This means that the total increase in demand in 1968 would be reduced from 5.3 per cent to 3.2 per cent and in 1969 from 5.5 per cent to 2.1 per cent. (See Table 1, last line).

7. Our colleagues may also like to see how public and private sector housing starts would look, as we understand it, before and after the cuts; see Table 3 attached.

P.S.
R. J. M.

Department of Economic Affairs, S. W. 1.

11th January, 1968
### Table 1: New Work by Sectors

<table>
<thead>
<tr>
<th></th>
<th>Output 1966</th>
<th>Demand Forecast 1967</th>
<th>Demand Forecast 1968</th>
<th>Demand Forecast 1969</th>
<th>Demand Forecast 1970</th>
<th>Per cent change on previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New Housing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1958 Prices</td>
</tr>
<tr>
<td>Public</td>
<td>4.72</td>
<td>530</td>
<td>585</td>
<td>615</td>
<td>635</td>
<td>12.3</td>
</tr>
<tr>
<td>Private</td>
<td>4.52</td>
<td>475</td>
<td>495</td>
<td>500</td>
<td>540</td>
<td>5.1</td>
</tr>
<tr>
<td>Non-Housing Public</td>
<td>762</td>
<td>840</td>
<td>900</td>
<td>955</td>
<td>995</td>
<td>10.2</td>
</tr>
<tr>
<td>Private ind.</td>
<td>394</td>
<td>365</td>
<td>365</td>
<td>400</td>
<td>430</td>
<td>-7.3</td>
</tr>
<tr>
<td>Private Misc.</td>
<td>341</td>
<td>325</td>
<td>325</td>
<td>345</td>
<td>385</td>
<td>-4.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>21.21</td>
<td>2535</td>
<td>2670</td>
<td>2815</td>
<td>2965</td>
<td>4.7</td>
</tr>
<tr>
<td>New Work before cuts</td>
<td>21.21</td>
<td>2535</td>
<td>2670</td>
<td>2815</td>
<td>2965</td>
<td></td>
</tr>
<tr>
<td>after cuts</td>
<td></td>
<td>2615</td>
<td>2670</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

(1)
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Housing</td>
<td>27</td>
<td>54</td>
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<tr>
<td>Environmental Services</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Roads:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Major</td>
<td>19 (1)</td>
<td>31 (1)</td>
</tr>
<tr>
<td>Local Authority</td>
<td>20 (2)</td>
<td>20 (2)</td>
</tr>
<tr>
<td>Home Office and Technology</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Local Health and Welfare</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Transport Infrastructure</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>129</td>
<td>192</td>
</tr>
</tbody>
</table>

Of which:

<table>
<thead>
<tr>
<th></th>
<th>1968</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction element</td>
<td>115</td>
<td>170</td>
</tr>
<tr>
<td>Adjusted to 1958 prices</td>
<td>95</td>
<td>135</td>
</tr>
<tr>
<td>Converted to a calendar year basis</td>
<td>55</td>
<td>145</td>
</tr>
</tbody>
</table>

(1) These figures for major roads may be slightly reduced when the impact of the proposals on Scotland has been considered further.

(2) Excluding allowance for maintenance.
### Table 3. Housing Starts

**Actual and Forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Before Cuts</th>
<th>Public After Cuts</th>
<th>Private Before Cuts</th>
<th>Private After Cuts</th>
<th>Total Before Cuts</th>
<th>Total After Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>179</td>
<td></td>
<td>247</td>
<td></td>
<td>426</td>
<td></td>
</tr>
<tr>
<td>1955</td>
<td>131</td>
<td></td>
<td>211</td>
<td></td>
<td>392</td>
<td></td>
</tr>
<tr>
<td>1956</td>
<td>186</td>
<td></td>
<td>193</td>
<td></td>
<td>379</td>
<td></td>
</tr>
<tr>
<td>1957</td>
<td>218</td>
<td></td>
<td>230</td>
<td></td>
<td>448</td>
<td></td>
</tr>
<tr>
<td>1958</td>
<td>220</td>
<td>208</td>
<td>185-200</td>
<td>405-420</td>
<td>393-408</td>
<td></td>
</tr>
<tr>
<td>1959</td>
<td>226</td>
<td>215</td>
<td>220</td>
<td>445</td>
<td>435</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>230</td>
<td>225</td>
<td>230</td>
<td>460</td>
<td>453</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** The figures in this table do not include any allowance for reductions in Scotland.
C(68) 21

12th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DEFENCE CUTS: FAR EAST

Note by the Secretary of the Cabinet.

By direction of the Prime Minister I circulate, for the personal information of members of the Cabinet, a copy of a telegram sent to him by the Secretary of State for Commonwealth Affairs.

(Signed) BURKE TREND

Cabinet Office, S. W. 1.

12th January, 1968
From Commonwealth Secretary to Prime Minister.

Since I am unable to be present at today's Cabinet I felt I ought to let you and the Cabinet have a note of my views on the issue at today's meeting in the light of reactions I have received from Commonwealth Governments.

2. All the Commonwealth Governments I have met, and particularly the Australians and New Zealanders attach critical importance to F.111 being included in our general capability. Any reduction in the numbers of the original purchase would certainly make them feel that this confirmed we were concerned purely about European defence and that our talk of a general capability was simply a sugar coating for the pill I am asking them to swallow. I therefore support the Defence Secretary's paper a summary of which has been telegraphed to me.

3. In every capital I have visited there has been deep concern about the shortness of the rundown now being proposed and the impossibility of Singapore making the necessary economic adjustments in the time and of all four countries being able to readjust their collective defence arrangements as quickly as this. All Commonwealth Governments have expressed strong views which I have undertaken to convey to the British Cabinet. I should like to do this at Monday's Cabinet and indeed it is vitally necessary that I should be known to do so if any kind of confidence in Britain is to be maintained amongst our Commonwealth Allies in this part of the world.
CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DEFENCE CUTS: FAR EAST

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate, for the personal information of members of the Cabinet, copies of telegrams sent to him by the Secretaries of State for Foreign Affairs and Commonwealth Affairs.

(Signed) BURKE TREND

Cabinet Office, S.W.1.
12th January, 1968
FROM SECRETARY OF STATE.

DEFENCE CUTS.

I had a bloody unpleasant meeting in Washington this morning with Rusk. His courtesy and moderate Southern manner did not disguise the depth of feeling and at times even contempt which he expressed. Bruce and certainly the Malaysians had obviously informed him pretty fully of what is in our mind and he was not altogether surprised by anything I told him. Nonetheless he expressed more than once his "deep distress" at the decisions we had taken.

2. Rusk's main argument was that our decisions would have a profound influence on the total world situation. He was inclined to dismiss as an illusion the idea that our forces in Europe and the United Kingdom could have some general capability. If, pending our entry into the EEC, we were to withdraw into a sort of "little England", he thought British interests in the Middle East and South East Asia would suffer progressively. Rusk was also very concerned about the effect of our cuts on the American position. "If you scratch any American you find an isolationist". In the 30's and 40's we had set the Americans an example which they had followed to the extent of suffering 300,000 casualties since 1945 in support of peace in various parts of the world. If the teacher was now leaving the pupil Americans would be deeply affected. They would ask why they should be interested in the peace of the world if the British were opting out. He found it embarrassing to say to his British colleagues quote for God's sake be Britain unquote.

3. Rusk had not had time to do his sums, but he was inclined to argue that the savings we hoped to make would be offset by the damage which would cause by our withdrawals to British commercial and other interests in South East Asia and the Middle East. He also tried to suggest that a withdrawal from the Persian Gulf coming on the heels of a decision not to supply maritime equipment to South Africa indicated that we had got our priorities wrong. I took him up sharply on this. I said that this sort of criticism did not come appropriately from a Government which for ideological reasons had frustrated the efforts of a British company to sell civil aircraft to South Africa. Rusk also argued that the present was an inopportune moment to withdraw from South East Asia and the Middle East since both areas were in turmoil. I said I did not agree with this assessment. The situation in the Gulf, for example, was better now than it had been for some time. The risk of trouble between Iran and Saudi Arabia was less than previously. Some of the rulers in the Gulf had already been thinking of the sort of arrangements they would have to make after our departure.
4. Rusk obviously resented what he called the "acrid aroma of the fait accompli". He summed up our discussion by urging us to maintain a tangible presence in South East Asia and the Gulf. He was not making a choice between the two areas. He believed British interests would be damaged if we withdrew. He had got the impression from reports reaching him from London that our insistence on announcing our withdrawals was a response to political pressures and that we were therefore subordinating the world issues which were paramount at this time to political considerations.

5. I am bringing a full record with me.
IMMEDIATE CANBERRA TO COMMONWEALTH OFFICE

Telegram No. 78 11th January, 1968

SECRET

From Commonwealth Secretary for Prime Minister.

I had discussions with Holyoake, Minister of Defence (Thomson) and senior New Zealand officials today, 11th. I gave them a full account of our proposals and of my talks in Kuala Lumpur and Singapore.

2. Holyoake's reaction was in general understanding. There was a sense of sadness rather than anger at what they clearly regarded as the ending of an era, he recognised decision was for us and was well aware of economic pressures; but he did not conceal his deep concern and sense of shock at some of the implications of our proposals.

3. Their main anxiety centres round the nature of our general capability after our withdrawal and our continuing will and ability to deploy it east of Suez. They regard this as the test of our intention to fulfil our frequently re-affirmed moral obligation to come to New Zealand's assistance as she had come to ours in two world wars. Holyoake said New Zealand could not live through it if Britain went back on this. They feel that British willingness to respond depends on troops properly trained and with the right equipment for the area and the ability to get there in time. They are therefore anxious to have a clear indication of our future force structures and deployment and an assurance that the general capability will not be tied down by NATO commitments.

4. I said it would take a little time to work out the details of our general capability. Although I thought that the question of commitment to NATO was not an insuperable difficulty it was necessary to face up honestly to the limitations of our general capability under our new policy.

5. Holyoake attached great importance to the wording of our announcement about our general capability after 1971. He would be very concerned if the announcement gave the impression that our general capability would be such that our forces could not be deployed east of Suez or were to be shaped exclusively to our needs in Europe. He hoped we would have the possibility of operation east of Suez in the front rather than in the back of our minds when planning our new force structures even though we could not retain a special capacity. If we said or implied that we had washed our hands of the area this would be a very great shock and have serious and continuing repercussions in New Zealand. We had publicly admitted that the Far East and Southern Asia was the area where the greatest threat to peace in the next decade lay. He hoped therefore that our announcement would make it clear that the forces we retained after 1971 would be such as could be deployed east of Suez when in our judgment we thought it right. I said I would convey this important presentational point to you and my colleagues.
6. On the question of a five power conference I explained that the initiative had come from the Tunku and I had undertaken to discuss it with the other Governments concerned. I was not authorised to commit myself to any particular conference at any particular time. Our announcement could not be held up to await the conference; any conference would have to take place in the framework of the situation created by our decision to withdraw. We were however anxious to minimise the effects of our withdrawal and to discuss practicalities with our Commonwealth partners, including, for example, the extent to which Australia and New Zealand might take over our existing role.

7. Holyoake made it clear there could be no question of New Zealand assuming our burdens. They could only stay in Malaysia and Singapore in association with a great power and if that was not us it would have to be the United States, who showed no disposition to step in. A conference at the appropriate level and after the necessary preparation would probably be useful but they must first clear their lines with Australia. Their Minister of Defence would be visiting Malaysia and Singapore in about three weeks and Hasluck a little earlier. After that they would be in a better position to know where they stood.

8. The New Zealanders thought the main value of any such conference would lie in discussing the future of British defence facilities in Malaysia and Singapore. This was a subject which caused them considerable concern. They hoped that in particular it would be possible to arrive at some alternative arrangements for the continued maintenance of these facilities after our withdrawal, and that they would be available to friendly Commonwealth Governments. This would ensure a point of re-entry in the event of an emergency.

9. Following additional points came up:

(i) SEATO. I spoke in accordance with the brief.

(ii) Anglo/Malaysian Defence Agreement. The New Zealanders showed no especial interest in its survival in a re-interpreted form unless it was backed up by an effective general capability.

(iii) Gurkhas. My advisers explained the present position and that we must re-examine it in the light of the new decisions.

(iv) Commonwealth Brigade. My advisers explained that the accelerated rundown need not affect the timing for the withdrawal of our present contribution to the Commonwealth Brigade.

(v) The Minister of Defence urged that we should announce our date of withdrawal as a target rather than as a firm decision. I explained that this would not be possible.

10. At the subsequent Press Conference Holyoake kept to his undertaking to play the matter in a low key. I assured him that his moderation would add weight to the expressions of concern which he had made clear to me, in particular in relation to the structure of the general capability and what we said about it in our announcement.
15th January, 1968

CABINET

DEFENCE CUTS: DISCUSSIONS WITH GOVERNMENTS OF AUSTRALIA, NEW ZEALAND, MALAYSIA AND SINGAPORE

Memorandum by the Secretary of State for Commonwealth Affairs

As my colleagues know, I have just returned from consultations about our new defence cuts in the Far East with the four Commonwealth Governments in the area. I outline below the principal reactions of these countries, and then draw some general conclusions.

General

2. Though there are many differences in emphasis and still more in tactics between the four Governments (and I set out the details below), the main reactions of all four Governments were basically the same, viz, that -

(i) the speed of our withdrawal by 31st March, 1971 would allow no prospect for any other force to be trained and equipped in time to take our place;

(ii) our general capability lack[ed] credibility;

(iii) therefore there would be a lack of confidence in the area which ran the risks of -

(a) communist troubles in Malaysia;

(b) encouragement to communists in both Singapore and Malaysia;

(c) renewed Indonesian aggression and possibly even intervention by the Philippines in East Malaysia; and

(d) endangering global security by sparking off in one of the danger spots of the world a local conflict which, with Communist China in the background, could escalate into a great-power confrontation.
3. All of course drew attention to our past and sometimes very recent assurances. All thought our action would have wider and unfortunate economic repercussions for us. Mr. Lee specifically threatened retaliatory action; but the Australians and Malaysians made it equally clear that, if the decision stood, they would be compelled in their own interests to take action which would hurt us. And Malaysia and Singapore drew attention to the serious economic consequences for them of our accelerated withdrawal. There was scepticism, especially in Australia and Singapore, that we would achieve worthwhile savings by a precipitate withdrawal and everywhere I met the belief that for short-term economic reasons we were taking historical decisions which would be irreversible and might have disastrous consequences in years to come.

4. All emphasised for different reasons that the Americans could not and should not take our place even if they were willing to. Australia and New Zealand are willing to maintain their present contribution, but could not operate in a vacuum. Australia maintained that she could not significantly increase her contribution without making a defence effort relatively more than Britain's; and so did New Zealand, who are facing economic difficulties of their own.

5. Many (especially the Australians) made the point that if rumours proved true that orders for the F. III were to be cancelled, then our general capability to operate outside Europe would indeed totally lack credibility.

Malaysia

6. The Malaysian Government have a deep feeling of being let down, considering how closely our new proposals follow on the assurances we gave last July and the shock of devaluation. It would be almost impossible for them to acquire and operate by 1971 the sophisticated military equipment they consider necessary and which we had previously said we could provide. They are worried about the implications of our decisions for the security of East Malaysia, responsibility for which they only assumed from us on the basis of our undertakings under the Defence Agreement. They are doubtful of the meaningfulness of our general capability for operations in their area until we can give them more specific information about it. The outcome of this will to a large extent govern their response to our offer to reinterpret the Anglo-Malaysian Defence Agreement after 1971; they stressed the importance they attach to the continuation of the Agreement, but they do not want the shadow without the substance. They would like our help in involving Australia and New Zealand in future defence commitments to them. Although the Minister of Finance indicated that they would now consider themselves free from restraint on economic matters and free to protect their interests even at the expense of ours, the Tunku significantly dissociated himself from Mr. Lee’s retaliatory threats and blackmailing tactics.
On my arrival in Singapore I faced the situation that the Government was already aware of the substance of our proposals and following an emergency Cabinet meeting had put into effect a militant campaign against them before even hearing them from me at first hand. Thus, Mr. Lee had already recorded a BBC interview in which he threatened retaliatory measures against us if we decided to withdraw by 1971, including withdrawal of his sterling balances and retaliation against British commercial interests in Singapore. Mr. Lee may to some extent have been bowing to the views of some of the more militant of his colleagues, such as the Minister of Finance, Dr. Goh; or he may have been trying to recover ground lost by what he had come to believe were mistaken past tactics based on optimistic co-operation; or he may have been influenced by Mr. Mintoff's visit. What is incontrovertible is that his whole team of Ministers and senior officials were united in their mood of bitterness and frustration, leading them to resort to any tactics which might enable them either to influence our decision or to make good the damage by all means at their command. Whatever the outcome I fear we have inevitably lost much good will. The strength of their reaction is aggravated by the short time which has elapsed since our assurances last July and by their belief that our new decisions are not justified on economic grounds alone.

In my talks with Mr. Lee I did my best to convince him that blackmailing threats were a mistaken policy; and at our joint Press conference he went some way to retract. I think he regretted his BBC interview: and we know he kept his promise to me to try to stop it, but a version had already been broadcast. But he is in a near-hysterical and unpredictable state. Dr. Goh has subsequently restated in more considered terms the action the Singapore Government will take if we confirm the decision to withdraw by 1971. This includes the withdrawal of their sterling balances phased evenly over the three intervening years.

During the official talks the Singapore Government's position emerged as follows. They face the dilemma that they must above all maintain confidence in the security of their future if they are to survive economically; they feel this to be vital for the overseas investor. While aid on a substantial scale from us would help in the short term, they are more concerned about the provision of a credible military deterrent in succession to our presence. They do not consider our new policy, as at present defined, will provide this. Their main anxieties centre on Indonesia (though they clearly have Malaysia in mind). They therefore feel they must invest heavily in the sophisticated equipment such as air defence, fighter aircraft and ships which they had previously believed we would provide; but they are dismayed by the knowledge that it will be quite impossible for them to acquire the skills to operate them by 1971. While therefore they would like no announcement of our date of withdrawal, they attach even more importance to an extension of the date beyond 1971, so as to give them a better chance to make the necessary economic and military adjustments.
10. Mr. Lee was determined to come to London to state his case in person and is now here.

New Zealand

11. The New Zealand Government's understanding of our economic difficulties and their recognition that the decisions were for us to take did not conceal their deep sense of shock and sadness at what they clearly regarded as the end of an era. Their main anxiety centres round the nature of our general capability after our withdrawal and our continuing will and ability to deploy it East of Suez. They regard this as the test of our intention to honour our frequently reaffirmed assurance that we will come to their assistance as they came to ours in two world wars. In their eyes this implies a general capability with troops properly trained and with the right equipment for the area and the ability to get there in time. They were apprehensive about their continuing ability to maintain, far less increase, their forces in Malaysia and Singapore after our withdrawal. They could only do so in association with a great power, and the United States showed no inclination to take over our role. Moreover their defence planning was very dependent on Australia, who were still undecided on a number of important issues.

12. In his Press statement Mr. Holyoake stressed the importance the New Zealand Government attached to the existing arrangements for Commonwealth defence co-operation in South East Asia and to the continuation of a meaningful association with Britain. He indicated the marked concern they would feel if there were to be any significant acceleration of the plans for withdrawal which we announced last July.

Australia

13. Australian Ministers presented their case impressively, without recrimination but with deep feeling. This was the third occasion in two years that they had been asked to adopt a new basis for their own defence planning. They were intensely sceptical of the relevance of our general capability to the problems of their own security. It was not a question of fulfilling our moral obligation to them by fighting on the Australian mainland. Their security lay further north, where we still had a vital part to play in ensuring stability until a credible regional defence system emerged. This would require time, and 1971 would allow far too little time. They were prepared to continue their contribution, but they could not afford to increase it significantly, and they certainly could not themselves provide the defence umbrella in South East Asia under which our lucrative commercial interests could continue to prosper. They felt it was not a matter only of regional security but of global security and they thought it was most important to carry the United States with us. They did not think it would be possible or even desirable for the United States to take our place. We were presenting them with cruel decisions in Malaysia while they were fighting in Vietnam, where they did not even have our support in words. They felt the savings we would make from hastening our withdrawal from such a sensitive area were small in relation to the issues at stake and they thought that we should find the savings from some other area. In brief, the Australian Government urged that we should make no announcement of a date for our final withdrawal; that we should extend the date "considerably" beyond 1971; that our general capability should be meaningful in their context and should be seen in our announcement to be
so; and that we should be as flexible and helpful as possible in settling
the future of our defence installations in Malaysia and Singapore and in
the detailed timing of the rundown of our forces so as not to leave the
Australian forces unnecessarily exposed.

14. The Australian Government later handed over a memorandum,
a copy of which is annexed to this paper. They also made clear in a
Press statement that they could not accept our proposals and expressed
their keen concern at them.

Five Power Conference

15. In Kuala Lumpur the Tunku pressed on me strongly the idea he
had advanced last year for a conference of the Commonwealth countries
directly concerned in order to discuss the defence problems thrown up
by our withdrawal. In order to moderate the reactions to our proposals
I felt it impossible to dissent, and indeed saw some possible advantage
in such a conference at the appropriate level and at the right time.
I therefore undertook to convey his suggestion to the Governments of
Australia, New Zealand and Singapore. I made it clear that such a
conference could only be held on the firm understanding that it would
take place on the basis of decisions we would already have taken.

16. Singapore and Australia expressed their readiness to take part
in such a conference though Australia was sceptical about its usefulness.
New Zealand were cautious, in advance of the Australian reaction on
which they are absolutely dependent.

17. While I fully reserved our position about the timing and the level
of representation of the conference, I believe personally such a meeting
would be both in our own interests and the least we can do to seek means
to mitigate the dangers of a vacuum caused by our own withdrawal. The
situation is different and the problems more urgent than when the
Tunku first proposed a conference last summer. A number of practical
issues have to be settled quite soon if we are to speed up our withdrawal.
These include the future of a whole range of our defence facilities
including the airfields and air defence systems, some of which like
Butterworth are shared with and all of which are of concern to other
Commonwealth Governments. I do not think these matters can be
carried to speedy finality in bilateral exchanges. A conference would
also be the only way of bringing together all those who will be concerned
with the defence of Malaysia and Singapore after our withdrawal in order
to discuss what arrangements will be necessary when we leave. In
particular it seems the best way of persuading Malaysia and Singapore
to tackle their defence problems jointly and to induce Australia and
New Zealand to decide the extent of their future association with them.

Conclusion

18. In accordance with the wishes of the Cabinet, I presented our
proposals as firm decisions, although I made it clear that these would
not become final until after my return and until I had had the opportunity
to convey the views of Commonwealth Governments to my colleagues.
Their arguments fall broadly into two parts: the first concerning the
date of our withdrawal, and the second concerning our military capability
to operate in the area thereafter.
19. My general conclusions on these issues are:-

(i) We should decide that our final withdrawal from Malaysia and Singapore should be on a date later than 31st March, 1971. I believe strongly that this is right on the merits of the case, both because it would give more time for adjustments and because the economic savings are small. If, for example, we extended the date to 31st March, 1972, this extension of only one year would increase the time scale by one-third and very greatly ease many of the attendant problems both for ourselves and our allies. In addition it would make the Commonwealth countries feel that their strong representations had been heeded, that consultation had been more than merely the presentation of a fait accompli. Thus it would mitigate the damage to our relations with countries in which we have strong economic interests.

(ii) In designing our general capability after 1971, we should ensure it will carry credibility with our Commonwealth partners in the Far East. It ought to be shaped so that if we decide British interests are at stake at any time in the Far East, we have the military means to deploy our capability. This ought to be made clear in the announcement.

(iii) We should be willing to take part in a conference with Australia, New Zealand, Malaysia and Singapore to consider the practical problems thrown up by our new timetable, while making it clear that the timetable itself and the abolition of the special capability cannot be reopened at the conference.

(iv) We should be flexible and helpful in disposing of our defence facilities in Malaysia and Singapore with a view to ensuring the future security of the area and preserving the interests of other Commonwealth Governments.

(v) We should also be generous in providing training and seconding expert personnel after withdrawal in view of the fact that according to CinCFE it would take Singapore and Malaysia approximately five years to train specialists to operate their own air defence.

(vi) We should reach very early decisions on substantial aid for Malaysia and Singapore up to the time of our withdrawal.

G.M.T.

Commonwealth Office, S.W.1.

14th January, 1968
AIDE MEMOIRE

TALKS WITH THE RT. HON. GEORGE THOMSON, MP,
SECRETARY OF STATE FOR COMMONWEALTH AFFAIRS
IN THE BRITISH GOVERNMENT

The Australian Government has received from the Secretary of State the proposals of his Government providing for complete withdrawal of British defence forces from bases in Malaysia and Singapore by 31st March, 1971. The proposals make no provision beyond that date for any form of continuing British military presence in the region. The only provision spoken of, which in itself must be open to question as to its availability and effectiveness, is a possible provision derived from a general military capability located in Europe.

2. It is stated by the Secretary of State that announcement of withdrawal and other aspects of the policy is to be made next week and that there is no possibility of postponement, either of decision or announcement.

3. The Australian Government has heard these proposals with dismay and anxiety. They represent a basic and drastic change in the British decisions taken and announced in mid-1967, which were themselves a considerable modification of previous understandings.

4. There is at the outset one fundamental point. It is that questions of security are global questions and the security of all countries, including Britain, would be threatened by conflict in South East Asia. The presence of allied forces in Malaysia is not only, or even principally, a question of the defence of continental Australia, though obviously that is not absent from the situation. But wider security is the present issue. There are present and potential threats to peace in South East Asia. The most aggressive nuclear power is in Asia. Furthermore, while Australia appreciates British statements that Britain will rally to the assistance of Australia if it is attacked, aid in extremity is not our chief present worry. The real objective must be to prevent global or regional security ever deteriorating to such a point that Australia and its neighbours come under attack, or that conflicts develop, however small or local in origin, which consume world peace. British policy hitherto has contributed, in concert with other allies, to regional security. Its newly decided policy can do no other than damage the regional security system.

5. Furthermore, even though the withdrawal may not be finally accomplished until 1971, the announcement of final withdrawal from the mainland without provision for continuing presence in any form will inevitably produce in the short term as well as the long term political uncertainties and risks in the South East Asian region.

6. These defence policy changes are permanent and perhaps irreversible. Their consequences in the short and long term for morale and security in this critically important region, and in our opinion for Britain itself, outweigh the contribution which they can make to the necessary objective of restoring Britain's economic position.
Given that expenditures must now be reduced in the order spoken of by
the Secretary of State, there is surely justification for pressing from
Europe more saving so that in the sensitive area of South East Asia,
where dangers are now more present, a continuing presence could be
maintained. In relative terms, the magnitude of the outlay required
for this is small.

7. It appears that the British proposals place emphasis on British
forces for the future being oriented to Europe and European requirements.
This suggested to the Australian Government that such forces would not
be sufficiently mobile or be of a nature suited for use in South East
Asia. Moreover, their use appeared to be subject to approval by
Britain's NATO allies. Mr. Thomson suggested that these difficulties
might be overcome. Very relevant were the structure and character of
the British forces. This was a matter calling for examination by the
defence authorities in London after Cabinet had made its decision in
broad principle. The Australian Ministers emphasised that the availability,
mobility and suitability of the British forces for use in South East Asia
were of crucial importance and should not be regarded as a matter of
detail to be worked out subsequently.

8. It is essential that neither in appearance nor in fact should the
responsibility for regional security in the Malaysia/Singapore area be
transferred, virtually in total, to the United States. It would be an error
on the part of the United Kingdom to formulate their policy upon the
promise that the vacuum that would be created by the withdrawal of
the United Kingdom would, since it cannot be filled by Australia, be
automatically filled by the United States for reasons of its own total
strategy. As the Australian Government sees it, there is already
abundant evidence of the great risks that attend any world power, however
great, being seen or placed in the position of sole guarantor, and in any
case, it is a question whether the United States electorate would accept
any extension of United States commitments.

9. If withdrawal must proceed, the Australian Government believes
that the timetable for it should be stretched out. More time is a prime
requirement in both a military and diplomatic sense. For instance, the
current position is complicated by the existence of the Vietnam conflict
and by the facts of the United States Presidential election year. Time
is also needed to allow Malaysia and Singapore to make economic and
other adjustments.

10. The Australian Government has been and still is prepared to
work in association with Britain to preserve the concept of Common-
wealth defence co-operation in this part of the world. We have
indicated our readiness to take part in Five Power talks to discuss
the arrangements required for this purpose for the future. But we
do not have the capacity to replace Britain. We believe most emphati-
cally that Britain has continuing obligations for the security of
Malaysia/Singapore while these countries build up their own defence
forces and a better basis for stability in the region is established.
Here again time is a vital factor.
II. It is our view that it is in the interests of the partner countries that United Kingdom, Australian and New Zealand forces should continue to be in Malaysia and Singapore within at least for the time being the framework of the Anglo-Malaysian Defence Agreement, which provides the best basis for Commonwealth co-operation. But any decision by the United Kingdom to create a situation where there would be no effective military presence by Britain must bring into the most serious question the continuing significance and value of the Agreement. Moreover, whereas in the discussion in 1967 the British Government clearly recognised the importance of the Commonwealth Strategic Reserve for Australia as the essential basis for the presence of our own forces in Malaysia, there seems to be no future for the Reserve under the proposals as they have been outlined by Mr. Thomson.

Conclusion

12. For the reasons set out above and more extensively elaborated in discussion with the Secretary of State, the Australian Government profoundly disagrees with what the British Government now proposes and asks that it reconsider its proposals. If the British Government is not prepared to depart from the fundamental bases of its proposals, the Australian Government asks that the time now set for the major withdrawal of British forces in Malaysia and Singapore be extended as long as possible and that thereafter some British forces should still remain available in the area to provide balanced forces in concert with those contributed by other partner Governments. Finally, the Australian Government urges that the public announcement of policy should make clear Britain's continued interest in the maintenance of security in the South East Asia areas and its intention to continue to play such part in this as it can.

Prime Minister's Department
Canberra A.C.T.

12th January, 1968
15th January, 1968

CABINET

PUBLIC EXPENDITURE: POST-DEVALUATION MEASURES

DRAFT PARLIAMENTARY STATEMENT

Note by the Secretary of the Cabinet

The attached draft of tomorrow's Parliamentary statement will constitute the agenda for this afternoon's meeting of the Cabinet, to be held at 3.30 p.m. Various sections of it, including the passage on defence, are still under discussion between the Ministers concerned in terms of presentation; and further amendments may have to be proposed at Cabinet. But all Departments are asked to ensure that their Ministers are briefed on the factual accuracy of the passages which are their departmental responsibility. The timetable for printing the statement as a White Paper will make it impossible for the text to be further amended after Cabinet.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

15th January, 1968
Tuesday Statement

1. On December 18 I informed the House that the Government was engaged in a major review of every field of public expenditure as one of the measures necessary to achieve a progressive, orderly and massive swing of resources from home consumption, public and private, to the requirements of exports, import replacement and productive investment.

2. The objective first is to release resources from home use, in order to reinforce the balance of trade, and to do this in a way which realises every practicable opportunity to reduce Government expenditure overseas. Second, it is to ensure that, as the economy swings into expansion, led by the priority areas I have mentioned - exports, import replacement, and investment - the total level of demand, public and private, is kept in line with what the productive machine can make available without lurching into inflation and excessive strain on our national resources. Third, and immediately, at a time when unemployment, contrary to widespread expectation six months ago, is falling - seasonal factors apart - and demand for labour increasing, it is to ensure that the growing consumer-expansion now under way, gives way to an export-led expansion.

3. Our aim is not deflation, but expansion, based on the growing use of our resources at an ordered pace so that the build-up of exports and the other priority categories, does not lead to undue pressure on those resources. A higher proportion of our growing national production must be shifted decisively for the benefit of the balance of payments and
Investment and a smaller proportion will be left therefore for rising consumer demand and government expenditure.

The measures which I shall announce this afternoon, relate to public expenditure. These will be progressively reinforced, as I indicated on December 18, by all appropriate further measures budgetary and non-budgetary to hold back private consumption.

In order to secure the required swing in our balance of payments, starting this year, to achieve it next year and to maintain it thereafter we have to hold back home demand in relation to the growth of production by getting on for £1000 m. by the time the measures we are taking have worked through the economy. From every point of view it would be wrong to seek to achieve this solely by restraining the growth of personal consumption. Public expenditure also must make its full contribution: indeed if the rate of increase of public expenditure were not severely restrained in the years immediately ahead, insufferable burdens on the standard of living of the ordinary family, would be required.

The measures I shall announce follow a detailed and deep review of policy in every major field of expenditure, with no exceptions, on the basis that no spending programme could be sacrosanct. All these are in addition to the measures announced by my Rt. Hon. Friend the Home Secretary on November 10.

The House will be aware, from long experience, that the expenditure of any given year is to a very large extent committed by decisions taken two and three years before,
particularly where major works such as roads, hospitals and schools, and many items of defence production are involved. Because of this time-lag, and the difficulty of making an impact on many continuing projects, we have concentrated on expenditure in the financial year 1968-70, though in some cases the full saving resulting from our decisions will not be seen until 1970-71 and subsequent years. At the same time, substantial reductions in expenditure in 1968-69 will be achieved. I must however tell the House that so great is the proportion of expenditure governed by programme decisions taken two, three and more years ago, that there will still be a considerable rise in public expenditure in 1968-69 compared with 1967-68, and a further small rise in 1969-70.

I begin with defence expenditure, the whole of which has been reviewed against the background of our commitments and alliances. Our decisions have been based on two main principles. First, while we intend to make an appropriate contribution, related to our economic capability, to the alliances of which we are members, the overriding need, not only in our own interests but in those of our friends and allies, is for this country to strengthen its economic base quickly and decisively. There is no military strength, whether for Britain or our alliances, except on the basis of economic strength. Second, reductions in capability, whether in terms of manpower or equipment must follow and be based on a review of the commitments the Services are required to undertake. Defence must be related to the requirements
of foreign policy, but it must not be asked in the name of foreign policy to undertake commitments beyond its capability. Major foreign policy decisions therefore are a prior requirement of economies in defence expenditure. And in taking these decisions we have to come to terms with our role in the world. It is not only at home that, these past years, we have been living beyond our means. Given the right decisions, above all given the full assertion of our economic strength, our real influence and power for peace will be strengthened by realistic priorities.

9. We have accordingly decided to accelerate the withdrawal of our forces from their stations in the Middle East and Far East which was announced in the Supplementary Statement on Defence Policy of July 1967 (Cmd. 3357). The broad effect is that, apart from our remaining dependencies and certain other necessary exceptions, we shall not be maintaining military bases outside Europe and the Mediterranean by the end of the financial year 1970/71.
10. By that date we shall have withdrawn completely from Malaysia and Singapore. We have told both Governments that we do not thereafter plan to retain a special military capability for use in the area. But we have assured them both, and our other Commonwealth partners and allies concerned, that our general capability based in Europe will be available for deployment overseas. We shall thus retain the ability to lend assistance if circumstances in our judgment were to demand it. [We shall come to a new understanding about the Anglo/Malaysian Treaty.] We have also informed the Governments of Malaysia and Singapore that we will discuss with them the aid implications of this accelerated withdrawal. We shall amend our force declarations to SEATO as our forces in the area are run down.

11. We shall make an early reduction in the number of aircraft based in Cyprus while maintaining our membership of CENTO.

12. On the Persian Gulf we have indicated to the Governments concerned that our basic interest in the prosperity and security in the Gulf is not lessened [and repeated that...] the general military capability based on Europe will be available for deployment overseas if circumstances in our judgment were to demand it. But it is not realistic to maintain a military presence in the Gulf after our withdrawal from the Far East and we have therefore decided to withdraw our military forces from the Gulf as part of the same operation.
13. As the House already know my r.h.f. the Foreign Secretary has visited Washington to discuss our intentions with the U.S. Administration. And my r.h.f. the Commonwealth Secretary has paid special visits to the four Commonwealth countries concerned with Far East defence so as to acquaint their Prime Ministers of the changes in our [political commitments and consequent] military dispositions and to discuss the consequences with them. My right hon. Friend the Minister of State, Foreign Office, has paid a special visit to the States of the Gulf for a similar purpose. Other Governments and Organisations concerned have already been made fully aware of our decisions.

14. We recognise the deep feelings and anxieties of our allies and Commonwealth partners. We recognise too that these changes involve risks, but measuring our resources against our priorities we believe they are risks that must be accepted. One risk we are not prepared to take is to shoulder burdens and commitments beyond the capacity of the forces we can afford.

15. These decisions will entail major changes in the role, size and shape of the forces, in the nature and scale of the equipment which they will require and in the supporting facilities which are necessary. Time will be needed to work out the precise implications: these will be embodied in a White Paper to be published and, if the House so
wishes, debated later in the year. Nevertheless, I can now give some specific illustrations of the effects of our decisions in advance of the further detailed work.

16. Manpower. Command 3357 envisaged withdrawal from certain East of Suez stations by the mid-seventies, and planned for a reduction by roughly the same date in the establishment of the Services of 75,000 uniformed manpower, and 80,000 civilians. The House will understand that with the much earlier withdrawal from the Far East which I have announced and our decision to withdraw from the Gulf, it will not in these altered circumstances be possible to achieve the run-down in numbers at the same pace as withdrawal. Because of considerations affecting the orderly run-down of the forces including such matters as their restructuring, resettlement and the need to maintain recruitment for volunteer forces a further short time will be needed. As a result of our decisions, and of others that will result from the further planning which is now starting, the active strength of the forces will be reduced by [April, 1971] well below the levels forecast last July in Cmd.3357. We would expect that, within about 5 years or so from now, we shall have reduced the total size of the forces below the long term strengths we had previously planned. Thus the eventual saving in Service manpower will be greater than the total reduction of about 75,000 forecast previously for the mid-1970s and we shall achieve it earlier. We shall also
be reducing civilian manpower at a faster rate over the
same period, and our aim will be to increase the forecast
reduction of 80,000 civilians and to achieve this
significantly earlier than previously planned.
17. The Navy. The aircraft carrier force will be phased
out during [1971] after our withdrawal from Malaysia,
singapore and the Persian Gulf has been completed. [? We
have decided to stop the refit of the Ark Royal and not to
proceed with the plans for refitting Eagle.] There will also
be reductions in the rate of new naval construction, for
example in the nuclear-powered Hunter/Killer submarines.
18. The Army. There will be a considerable increase in
the rate of rundown of the Army and in the disbandment or
margination of major units. As a result of our accelerated
withdrawal from Singapore and Malaysia, the rundown of the
Brigade of Gurkhas to 10,000 by the end of 1969 will continue
at the same rate until [1971] bringing the total strength of
the Brigade to 6,000. The future of the Brigade after [1971]
will depend on developments obtaining at that time; there
is no question of reducing the strength or effectiveness of
the Hong Kong Garrison. There will also be substantial
savings on Army equipment and stocks and many of these will
be achieved between 1969/70 and [1972/73.]
19. The Royal Air Force. We have decided to cancel the
order for 50 F.111 aircraft. Further study is being given to
the consequences of this decision on the future equipment of
the Royal Air Force. Leaving out of account the results of this study, the cancellation of the F.111 is estimated to yield total savings on the Defence Budget of about £322 m. over the period of 1977/78. This figure allows for likely cancellation charges. The saving in dollar expenditure over the period, again allowing for likely cancellation charges, will be in the region of £[740]m. Because of the credit arrangements, these savings will mature over a period of years. [The U.S. Government have agreed to maintain both the existing credit arrangements for the Phantom and Hercules aircraft and all the offset orders already firmly placed. We are grateful to the U.S. Government for their action, and recognise that we cannot expect further offset orders in respect of our reduced U.S. aircraft purchases.] The reduction in our overseas commitments will make it possible to cut down the transport force.

20. **Support Facilities.** The more rapid withdrawal of our forces from outside Europe and the changes we intend to make in their role and equipment will impose a massive task on those responsible for providing the most efficient and economical logistic support for the three Services. Very substantial savings in base facilities staff overseas will follow as a consequence of withdrawal. The rundown in the forces will be increasingly reflected in reduced support facilities, such as training establishments in this country, but it is too early yet to indicate the extent of the total
reduction of the U.K. base as a whole. In spite of the extra planning load placed upon it, we shall energetically continue the process of cutting the size of the Ministry of Defence.

21. **Financial effects.** The financial effects of policy changes on this scale will inevitably take time to work themselves through. The immediate effect will not be to reduce the level of defence expenditure: indeed, in 1968/69 the level will be increased through cancellation payments and other transitional costs. These are expected to be relatively modest thereafter. From 1969/70 onwards, accordingly, leaving transitional cost on one side, there will be an increasing relief to the Budget, accompanied by a release of valuable resources for civil production. The scale of what is involved for the economy can be measured by my expectation that in 1969/70 the Defence Budget which was planned to be about £1,950m. at 1964 prices will be reduced by about £1,30m. By [1972/73] the Defence Budget is expected to be between £1,600m.–£1,850m., at 1964 prices.
22. The Government are very conscious of the effect that these further cuts will have on the Services and of the upheavals they will cause. Nevertheless, they are necessary in the national interest so that we can restore the strength of our economy. The accelerated rate of rundown in the Services, and in the civilians associated with them, is bound to cut short the careers of some who would otherwise have expected to have served for some years to come. There will inevitably be a considerable amount of disruption in all three Services and one of the major problems will be to arrange this very large reorganisation so that hardship to individuals is minimised and at the same time efficiency is maintained. The Government intends to ensure that the changes I have indicated are worked out as carefully as possible and implemented in as humane a way as possible, so as to ensure that at the end of them the Services remain cohesive and viable and still offer a good career to those who serve in them.

23. So far I have been dealing with the redeployment of our defence effort in terms of Europe rather than the more far-flung battle line of a century ago. But we still face the problem of the heavy continuing cost in foreign exchange of stationing our troops in Germany. As the House knows, there have already been informal preliminary talks in Bonn about ways and means of meeting this after the current Anglo-German Offset Agreement expires on 31st March next. We are now ready for formal negotiations and have proposed to the Federal German Government that the talks should start, early in February.
24. Now I turn to civil public expenditure. While in the current year the Estimates for Defence provided for an expenditure of £... mms., the Civil Estimates amounted to £... mms., and this of course excludes Consolidated Fund expenditure. A review of planned expenditure programmes would be realistic, or adequate for the task we have set ourselves as a nation, which failed to go deeply into every aspect of home expenditure. This we have done. Nothing was sacred. Our decisions reflect the national priorities we have applied and which we commend to the House. In almost every major area of expenditure economies have been made in the rising programmes which we had before us. Within each major area we have of course been extremely selective in the cuts we have made. Our objective, as I stated a month ago, is to produce a total of economies which is coherent, credible — and fair.

25. Social Security. I begin with Social Security. Expenditure this year, 1967-8, is £2909m., an increase at current prices of 48% since 1963-64. Last year the House approved a general uprating of National Insurance and other Benefits, which took effect last autumn. In our forward planning we do not envisage that a further general up-rating can be undertaken before at least the autumn of 1969.

26. Sir, in the statement made by my Right hon. Friend the Home Secretary on November 20, an assurance was given that the most vulnerable classes of the community will be protected against hardship resulting from those price increases which must result from the effect of devaluation on import costs.
We shall be watching price-rises very carefully and we intend in the light of this to raise Supplementary Benefits in the autumn of this year. But more is needed to cover the needs of less well-off families and we therefore intend also to raise the income limits for the Rate Rebate Scheme. The qualifying limit for the full rebate will be raised from £8 per week to £9 per week, and the rate for each child from 30sh. to £2. The effect will be to extend the coverage of Rate Rebates from the present figure of just over 1 million householders to between 1½ and 2 million householders.

27. It has already been decided that Family Allowances will go up by 7 shillings in April. But it is essential that this increase should be confined to families most in need and my Right Hon. Friend the Chancellor of the Exchequer intends to recover the full amount of the increase from taxpayers at the standard rate and above through the tax machinery, taking back lesser amounts from those who will pay tax only at reduced rates. I should add that my Right hon. Friend is examining the possibility at a later stage of extending this principle of selectivity based on tax adjustments more generally through the family allowance system, not just the 7 shillings increase.

28. Education. Next Education, one of the biggest, and most rapidly expanding expenditure programmes. Total expenditure is estimated this year at £1,989m., an increase at current prices of ...% since 1963-4. Here again it is a question of priorities. We have decided we have no alternative to deferring from 1971 to 1973 the raising of the school leaving
age, a postponement of two years. I need not tell the House how difficult, indeed repugnant, this decision has been to my right hon. Friends and myself. It means that two annual generations of school children, up to ....... hundred thousand in all, will, and for all time, be deprived of the benefits of an extra year at school. The fact that our action affects only the mandatory school leaving age, and that many — indeed an increasing number — are voluntarily staying on an extra year is, of course, relevant but we have to put on record the fact that there is still a severe /and growing/? regional differentiation in the proportion who decide and are allowed to stay on, as between North and South.

29. This decision will mean a saving of about £33m in 1968-69, and £48m. in 1969-70 principally in the school building programme. But the basic school-building programmes will be increased by extra starts of £8 million both in 1968-69 and in 1969-70 to ensure that comprehensive reorganisation is not held up, and to provide that additional resources beyond the extra £8 m. starts in each of these years announced by my right hon. Friend the Secretary of State to the House last year, for improving conditions in educational priority areas.

30. We propose to cease the provision of free milk in secondary schools from September of this year. This will require legislation.

31. The capitation grants to direct grant schools will be reduced.

32. Some new capital projects in the universities, colleges
of further education and elsewhere will be held back during 1968-69. At the next review of students' awards next September, the increase will only cover half the rise in the cost-of-living since the last review.

The combined effect of all these measures in the field of education will be to make a net saving of £43 millions in 1968-69 and £64 millions in 1969-70.

Health and Welfare. I turn next to health and welfare, with a 1967-68 expenditure of £1619 millions, an increase at current prices of 45% over the past 4 years.

We are proposing no reductions in the hospital building programme which will go ahead as planned.

The Government have, however, decided after the most serious consideration and with the utmost reluctance, to reintroduce a system of charges for prescriptions issued under the National Health Service, at the rate of 2s. 6d. per item. Regulations will be made to bring these charges into operation in the spring which is the earliest that arrangements can be made to introduce simultaneously refund of charges to those in need on the pre-1965 basis, namely ...........

This would, if no further mitigations or exemptions were proposed, save about £50 millions in a full year. But my right hon. Friend will immediately enter into discussions with the medical profession with a view to introducing as soon as possible a system of exemption for particular categories of patients. Those we have in mind are the elderly, over 65, children up to 15, war pensioners, expectant mothers and the chronic sick. Exemptions on this scale, and we regard them
is fair and necessary, will reduce the saving from £50 million to about £25 millions, and we propose to make this good by increasing the N.H.S. employees' contribution by 6d. as soon as possible.

38. The maximum charge for dental treatment which has not been changed since 1952 will be increased from £1 to 30s, and this will yield a further £1½ million. As the House knows, young people up to 21 and expectant mothers receive free treatment and will continue to do so. In addition, some reductions in local health and welfare capital expenditure are being made averaging rather less than £5 millions a year over the three years 1968 to 1971.

39. I have referred to the N.H.S. stamp. The House ought to know that quite apart from the expenditure review, and for quite other reasons, a further shilling, 6d. for employees, 6d. for employers will be needed to prevent the National Insurance Fund from going into deficit. This will be done at the same time as the 6d. increase in the N.H.S. contribution which is collected on the same stamp.

40. Home Department Services. Now I turn to Home Department Services, including Home Defence. We have decided to reduce Home Defence to a care and maintenance basis, with a saving of about £14 millions in 1968-69, and £20 millions in 1969-70 and in subsequent years. This will involve the disbandment of the Civil Defence Corps, the Auxiliary Fire Service and the Territorial and Auxiliary Volunteer Reserve. The Government propose to restrain the grants of expenditure on other Home Department services by £6 millions in 1968-69 and £12 millions in 1969-70.
1. Housing expenditure this year is £1018m. The Government have decided to reduce planned approvals of new houses by 35,000 in England and Wales and 1,500 in Scotland in both 1968 and 1969, saving in terms of Government expenditure £27 mns. in 1968-69 and £55 mns. in 1969-70. But even with these withholdings, we shall be able to maintain the momentum of the programmes for slum clearance and for the relief of serious local housing shortages. These will be no cut in the 141 housing priority areas.

2. Transport. Next, Roads. The estimated expenditure in 1967-68 is £560 m., an increase of 52 per cent at current prices, compared with 1963-64. Of the present programme £300 m. is on the major road programme of my Right Hon. Friends, and the remainder, nearly all local authority expenditure, includes some £200 m. on road maintenance. The Government have decided that, overall, the programme should be reduced so as to produce savings of £53 m. in 1968-69 and £39 m. in 1969-70. Of this, local authorities will be asked to find £75 m. over the two years out of their expenditure on the maintenance and improvement of their roads; and the planned growth of expenditure, including maintenance and minor improvements, on major roads will be cut by £18 m. in the first year and £29 m. in the second.

3. At the same time expenditure on the new forms of assistance to public passenger transport, provided for in the Transport Bill, is being limited to £10 m. in 1968-69 and £20 m. in 1969-70, a reduction against the planned programme of £... and £... m. respectively.
44. Industry. There will be no reduction in the programmes providing now at the rate of ... m. a year for industrial expansion and regeneration in the Development Areas.

45. In the Ministry of Technology's programme for speeding the modernisation of industry there will be a careful selection of priorities. The reorganisation of the shipbuilding industry will continue, the work of the N.R.D.C. will be maintained at the higher level which it has reached and programmes will go ahead for other industries including computers, electronics and machine tools. The planned expansion on industrial research in the Ministry of Technology's own ex-DSIR stations will be held back, and there will be economies in the research and development programme of the Atomic Energy Authority. There will be a further cut in the Ministry's defence research programme in 1968-69. The saving on planned expenditure from all these measures will be £10 m. a year both in 1968-69 and in 1969-70. This is in addition to savings by the A.E.A. which were foreshadowed by previous announcements and which involve £3 m. in 1968-69 and £5 m. in 1969-70.

46. On investment grants, where in the current year the Board of Trade have accelerated their programme so as to pay grants on five quarters of investment, the Government consider that further shortening of the period between the making of investment and the payment of grant must be postponed for the time being. It therefore intends that in 1968-69 grants will be paid only in respect of four quarters' past investment, so
that the average time between investment and payment will remain at the twelve months which it has already reached. This will reduce planned payments in 1968-69 by £50 m. Decisions about 1969-70 will be taken in the light of circumstances nearer the time.

7. Local Authorities. The House will be well aware that a substantial area of public expenditure lies within the control of local authorities, whose expenditure has risen by £8... m., or... per cent at current prices over the past five years. A considerable part, though by no means the whole of local authority expenditure, is in response to national programmes endorsed by this House by statutory or other provision. Much of it is, however, subject by various means, indirect and direct to a measure of Government control or influence, and some of it will be affected by the measures I have announced. But it is vital that local authorities, no less than Government expenditure, make their full contribution to restraint in their programmes, the release of resources for the reinforcement of our trade balance and the avoidance of inflation.

Taking local authority expenditure as a whole, the Government hopes that in 1969-70 local authorities as a whole will restrain the level of their expenditure so that it does not in total exceed a figure in the region of 3 per cent in real terms above that has already been agreed for purposes of the Exchequer contribution in 1968-69; and the Government will propose rate
support grant for 1969-70 on this basis when the time comes. As regards 1968-69, the Government will expect local authorities to absorb any increases in cost which they cannot avoid by making savings elsewhere, and it does not contemplate any further increase of Exchequer grant in respect of them.

9. Finally, Public Service manpower. Special measures will be taken to arrest the growth in the number of people employed in public service. Despite the ever-growing demand for the services provided by Government Departments, these departments will, under the guidance of the Treasury, so plan their complementing that over the year 1968-69 there is no further nett increase in the number of civil servants in post. This is estimated to save £15 m. The economies which we are asking Local Authorities to make should produce similar results in that area.
Sir, to avoid unduly wearying the House I have given the facts only about the main expenditure programmes of any size. In addition there are other reductions totalling £26m. in 1968-69 and £37m. in 1969-70. These come from environmental services in 1968-69 and from those Services and certain other expenditure in 1969-70. There may well be other savings as the consequences of these major decisions work through the whole field of public expenditure.

Summary. The results of all the changes I have announced will be to reduce planned expenditure in 1968-69 by £302 million and 1969-70 by [...] million. This implies an average annual rise in public expenditure in the period 1967-68 to 1969-70 of [...] per cent. [I am circulating in the Official Report a table showing public expenditure in 1968-69 and 1969-70 as forecast before the reductions, and the details of the reductions themselves.]

I must again remind the House of the severe limitations within which any expenditure review must operate, particularly so far as the period immediately ahead of the review is concerned. In many of the continuing programmes, particularly where major and lengthy capital projects are concerned, the basic decisions were taken 2 or 3 or 4 or more years ago, and cuts which act quickly can be achieved only with great disruption and great dis-economy. Some of the Government's decisions will have an immediate and major impact on
expenditure in 1968-69 and subsequently, others will have a more limited effect in 1968-69, a growing impact on 1969-70 when a decisive switch of resources will be needed. In defence large-scale savings will be achieved only in 1970-71 and later years. But in this case, if the decisions are not taken now, they will not make any impact until well into the Seventies, and Parliament in 1970, 1971 and later years will be impotent to secure major savings in those programmes.

53. Finally, Mr. Speaker, I repeat that the review whose conclusions I have announced today is only part of a continuing process which will dominate national financial and economic management for the next two years. Other measures including budgetary decisions will be required.

54. But in a wider sense, no measures of a purely financial character, however necessary, can by themselves solve our problems, and ensure that the opportunities presented to us by the decision to devalue are fully realised.

55. I must again emphasise the paramount importance of prices and incomes policy. The measures we have decided on and those which will be announced in succeeding months will be adequate if and only if the advantages we have gained are not dissipated in increased incomes over and above the very austere levels the country can afford, on the basis not of what it — or individual sectional interests would like or would seek to extract, but on the basis of what we are earning.
56. But, sire, success in securing the massive shift we need to get from home consumption to the priority requests of exports and import saving depends above all on the response of industry, at all levels, to the challenge of winnable export markets, import replacement and productive investment. The House will feel that a mood of determination that these challenges must be met, is growing in the country, characterised by the thousands, soon millions, each of whom is asking himself what, in his own individual circumstances he can do to back the national effort, a mood which will I believe give short shrift to individuals in industry - and organisations too - which for selfish reasons or force of ingrained and irrelevant habits of thought, seek to resist what the country as a whole needs to be done.

57. To the efforts of those who in industry are responding to the challenge and opportunity which the new situation has created, the measures I have announced, cutting deep, comprehensive, but the Government believes balanced and fair, provide essential help and backing. What these measures can not do is to provide a substitute for the efforts that now have to be made by all in industry, indeed by the whole nation.
CABINET

LEGISLATIVE PROGRAMME 1967-68

Memorandum by the Lord President of the Council

The Cabinet invited me to arrange for the Future Legislation Committee to review this Session's legislative programme and to decide whether any Bills would need to be deferred to a later Session, and, if so, which (CC(67) 64th Conclusions, Minute 1).

2. The Future Legislation Committee have agreed that the programme for the remainder of the Session was overloaded, partly because of delays in bringing forward Bills as promised for the beginning of the Session and partly because it had become necessary to add other Bills to the programme; and that if Parliament is to rise as planned by the end of July some Bills must be deferred to next Session. The Committee's proposals are set out below.

Additional Bills

3. Since the Cabinet approved the programme (C(67) 96) in June (CC(67) 39th Conclusions, Minute 5) events have necessitated the addition of Bills not then foreseen, mainly for economic purposes. The Committee agreed that a shortened version of the Restrictive Trade Practices Bill, which in July the Cabinet relegated to the Reserve List, should be passed this Session to enable the Government to exempt from the Restrictive Trade Practices Act agreements which will benefit the economy by improving efficiency and productivity in industry. They also noted that it might be necessary to add an Immigration Bill if the threatened influx of Asian holders of United Kingdom passports materialises; and possibly a second Air Corporations Bill if the Bill to implement the Government's undertaking to enable British European Airways to operate in a fully commercial manner is not ready when it is necessary to increase BEA's borrowing powers. In addition, since the Committee met it has emerged that as a result of the post-devaluation measures a Miscellaneous Provisions Bill will be necessary; and a further Family Allowances Bill may possibly be needed if it is decided to increase family allowances later in the year to protect poorer families against rising prices. I am convinced that it would not be wise, particularly in this year, to try to tack such a provision on to the Finance Bill. Other urgent requirements for legislation may arise during the remainder of the Session and we must have room to meet them.
Deferment of Bills

4. Some Bills included in the original programme will not now be needed. These, and the state of the remainder of the programme, are indicated in the Annex. The Future Legislation Committee recommend that the following Bills be deferred until the next Session:

**Post Office**
(To establish the new Corporation to run the postal services) - the Postmaster General has agreed to this and to the necessary deferment of the vesting date for the Corporation.

**Vehicle Registration**
(To set up a centralised system of registration under the Minister of Transport).

**London Transport**
(To reorganise London Transport and traffic management) - Transport Holding Company (see Annex) to be regarded as substituted for this.

**Mines and Quarries (Amendment)**
(To implement such of the recommendations of the Aberfan Report as require legislation).

**Law Reform (Miscellaneous Provisions) II**
(Rights of illegitimate children and age of majority).

With the exception of London Transport and Law Reform (Miscellaneous Provisions) II, these Bills were mentioned in The Queen's Speech.

Second Reading Committee

5. The Future Legislation Committee further recommend that the following Bills due to be taken on the floor of the House (none of which was mentioned in The Queen's Speech) should be taken instead under the Second Reading Committee procedure:

**Hovercraft**
(Required to establish the legal status of air-cushion vehicles and to enable the Board of Trade to make safety and other regulations). The President of the Board of Trade has offered to take this by the Second Reading Committee procedure.

**National Theatre**
(To remove the limit of £1 million on Government contributions to the cost of the theatre).

**Baltic Claims**
(To give effect to an agreement reached with the USSR on claims made by both Governments arising out of the incorporation of the Baltic States into the USSR).
The Committee also recommend that, whilst Immunities and Privileges should be drafted in case there were spare time available later in the Session, it should be replaced, if there were not, by a shortened European Coal and Steel Community (Amendment) Bill which would preserve the essential part of the full Bill - the amendment of the ECSC Act to take account of the change of the status of the ECSC delegation in London - and which would be taken under the Second Reading Committee procedure.

6. Since we can expect to obtain only about 15 Bills through the Second Reading Committee procedure, the Future Legislation Committee recommend that those Bills not already introduced should be taken on the basis of "first come, first served".

Conclusion

7. I invite the Cabinet to approve the recommendations of the Future Legislation Committee:

(a) That Restrictive Trade Practices be added to the main programme.

(b) That Post Office, Vehicle Registration, London Transport, Mines and Quarries (Amendment), and Law Reform (Miscellaneous Provisions) II be deferred to the next Session.

(c) That Hovercraft, National Theatre, Baltic Claims and, if necessary, ECSC (Amendment) be taken under the Second Reading Committee procedure.

(d) That the Bills not already introduced under that procedure should be taken on the basis of "first come, first served".

R. H. S. C.

Privy Council Office, S.W.1.

18th January, 1968
### STATE OF GOVERNMENT BILLS

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**5 Second Reading:**
- Education (10)
- Civil Aviation (Miscellaneous Provisions)
- Theft
- Civil Evidence

**Priority List:**
- Land Obligations
- Redundant Churches
- Fire Precautions
- Criminal Offences
- Juries
- Medical Act 1956 (Amendment)
- Registration Fees
- Bank Notes
- British Nationality
- Water Resources Act 1963 (Amendment)
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**B(S) Suitable for Scottish Grand Committee**
- Erskine Bridge Tolls (Already counted - see Al)
- Teachers' Superannuation (Scotland)
- Legitimation (Scotland)
- Sewerage (Scotland)

**Social Work Service (Scotland)**

**Law Reform (Miscellaneous Provisions) (Scotland)**

**Slaughterhouses and Slaughter of Animals (Scotland)**

**TOTAL**
- (30)
- (39)
- (59)

**NOTE**

It will be seen that the Programme as approved by the Cabinet in June (C(67) 96) has been modified. Two Bills in the Essential List (Al) Social Services (Northern Ireland) and Open cast Coal and one in the Main Programme (B) Employment Agencies are no longer needed. Further, Industrial Expansion has taken the place of Concorde, Aircraft Industry (Finance) from the Main Programme (B) and Beagle Aircraft from the Essential List (Al). But Anti-dumping has taken the place of Employment Agencies; and Education (to deal with the consequences of the Enfield case), Revenue (which makes the agreed changes in selective employment payments and export rebates) and Transport Holding Company (to provide for the acquisition of British Electric Traction in the current financial year so that the Transport Holding Company can take immediate control) have been added to the programme. In addition, two bills in the Contingent List (A2), are no longer needed. Development of Inventions (Amendment) and Computer Services and others may drop out, but the calculation on which the programme is based assumes that only some of the Contingent Bills will be required.
CABINET

HOUSE OF LORDS REFORM: REPORT ON THE PROGRESS OF THE INTER-PARTY CONFERENCE

Memorandum by the Lord Chancellor

Following the Cabinet's conclusions on 12th October (CC(67) 59th Conclusions, Minute 1), discussions have taken place between representatives of the Government and the Conservative and Liberal Leaders on the composition and powers of a reformed House of Lords. These discussions have now identified the main points of what might become an agreed scheme for the reform of the House of Lords, and although some of them need to be worked out in greater detail, both sides think the issues have now become clear enough for us to report back to our colleagues the progress we have made.

2. The Government's principal objectives in opening these negotiations, as set out in paragraph 2 of my earlier memorandum (C(67) 157), were:

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

(b) that the Government of the day should be able to secure a reasonable working majority over both Opposition Parties;

(c) that the power of the Lords to delay legislation should be restricted and their power be abolished to withhold consent to subordinate legislation against the will of the Commons;

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

3. At the beginning of the discussions we suggested that the simplest scheme would be a single-tier chamber, consisting only of nominated peers - i.e. life peers and hereditary peers of first creation, but excluding all the present peers by succession except those few who would have been given life peerages. We also proposed the "separate session" procedure that had previously been endorsed by the Cabinet (i.e. a scheme by which the present requirement for one
year's delay between second reading in the Commons in the first session and the repassing of the Bill in the Commons in the second session would be abolished so that the requirement would in effect become Prorogation, followed by just over a month in the new session, coupled with re-passage of the Bill in the Commons). The Opposition's opening position was that they wished to keep the hereditary principle, with hereditary peers remaining permanently at least as speaking members of the House, and that, with a reformed composition, the powers of the House of Lords to delay measures should be increased rather than decreased.

4. We found in discussion with the Leaders of the Opposition Parties that we were able to move together on the basis of a two-tier scheme which distinguished between 'voting' and 'speaking' members of the reformed House, essentially as described in Annex II to C(67) 157 (reproduced as an Annex to this paper). The main features of the scheme as they emerged from the discussion are set out in the following paragraphs.

Composition

5. The reformed House would be based on a two-tier structure comprising voting peers with a right both to speak and vote, and speaking peers with a right to speak but not vote. The voting peers would constitute the working House and would consist of existing peers of first creation, supplemented by additional life peers created as necessary to give an appropriate size and balance between the political parties. On the Conservative side the addition would be made from existing peers by succession. There would be upwards of 200 members; the precise number needs further consideration, but would depend partly on how many members were necessary for the efficient conduct of business. They would be expected to give a substantial part of their time to the business of the House and would be paid provided that they attended an appropriate proportion of sittings. The relative strengths of the Parties would ensure the Government of the day an adequate majority over other Parties, but not of the House as a whole including Cross Benchers.

6. In addition to these working members there would be a number of other members who would be entitled to speak but not vote. These 'speaking' members would be those peers of first creation who because of other commitments preferred not to accept the obligations of full working and voting membership but would be able to make a valuable contribution to discussion from time to time. In order to meet the Opposition's point of view, they would also include existing peers by succession, but only as a transitional measure and these would not be able to transmit their rights to their descendants. Membership of the 'speaking' House would not be restricted to any particular number.

7. There would be likely to be a place in the reformed House for Law Lords and Bishops, but the detailed arrangements require further consideration.
8. The negotiating Ministers were attracted by these proposals for two reasons. First, peers by succession would be eliminated from the exercise of Parliamentary power in the Lords, wholly and immediately, subject only to the qualification that a number of prominent existing peers by succession would be created life peers and as such would in future sit in their own right as ordinary members of the reformed House. Secondly, the in-built Conservative majority in the Lords would at one stroke be totally eliminated. These are substantial gains from the Government’s point of view. The Conservatives were attracted because existing peers by succession would be able to retain their speaking rights in the House, though not to transmit these rights to their successors. One aim of the two-tier structure of the reformed House is indeed to meet the Conservatives on this point; and it can be argued that the two-tier structure is complicated. But the scheme nevertheless stands on its merits as the best way of combining the two functions of a working legislative chamber and a debating chamber of distinction. The speaking House would include a substantial number of life peers whose contributions to debate lend distinction to the House, and there would remain a place for the cross-bench and expert element which forms a valuable part of its present membership.

Powers

9. The scheme which emerged from discussion provides for a specified period to be available to the House of Lords for considering a public Bill and for a further period of delay which the House could impose on the enactment of a Bill from the time when disagreement between the two Houses became apparent. The period of delay would be capable of running over into the next session of a Parliament, and at the end of the period of delay the Bill could be presented for Royal Assent following a simple resolution of the House of Commons. The period would also be capable of running into the opening session of a new Parliament, when the Bill could similarly be presented for Royal Assent following a resolution of the new House of Commons. The period for consideration of the Bill would be two Parliamentary months; the period of delay would be six calendar months.

10. The negotiating Ministers had offered first the ‘separate session’ proposals already described. This proposal did not, however, commend itself since it was pointed out that any disagreement might be likely to occur in the summer when the Government would be able to hold a separate session during the Long Recess. There would thus be no disturbance of the Parliamentary programme or any significant delay in the passage of legislation, and the Administration would not be compelled to give serious consideration to the Lords’ amendments.

11. The Opposition Leaders then argued that the scheme should provide for a period of delay after disagreement had become established, partly to give the Lords a genuine sanction which would force the Government to consider their amendments, and partly to allow public opinion to express itself on the matter in dispute. They proposed a period of nine months. The negotiating Ministers at first proposed that if there were to be a period of delay at all it should be related not to disagreement but to third reading in the Commons and should be limited to three months. The Opposition could not accept this proposal.
on the grounds that it would in effect mean in the case of a major Bill a delay of only some two or three weeks (the Lords take up to nine or ten Parliamentary weeks to pass major legislation at present). The Opposition thought that a delay of six months from disagreement might be acceptable, but the negotiating Ministers felt that it would still be unreasonable until the Opposition proposed the very important concession that the period of delay should be capable of being carried over into the next session or even the next Parliament. This provision would have the very important practical advantage of allowing the Government to send a Bill to the Lords comparatively late in the session and, even if it were disagreed, to present it for Royal Assent without much loss of Parliamentary time in the second session. It commended itself to the negotiating Ministers as achieving in practice the objective of protecting the Parliamentary timetable and as representing if anything an improvement on their original proposal from the point of view of flexibility and business management. The objection that this arrangement would constitute a precedent for extending the period for consideration of legislation generally was considered and rejected, on the grounds that the proceedings in the second session would be limited to a resolution of the House of Commons and would in effect be similar to the present Parliament Act procedure, but in a more modern form.

12. As regards subordinate legislation, the negotiating Ministers proposed that the Lords should be deprived of their existing right in effect to veto any subordinate legislation, and that instead the House of Commons should be able to override, by subsequent direction, the rejection by the House of Lords of a motion for any order requiring affirmative resolution. The operation of any negative resolution passed by the Lords would also be suspended for a period, and provision made for it to become ineffective if subsequently a corresponding resolution were rejected by the Commons or the instrument were approved by resolution of the Commons overriding the Lords resolution. These proposals were accepted in their entirety.

Functions

13. In all the discussions with the Opposition Leaders, there has been growing appreciation that all sides have been considering in a positive and constructive way the part which the House of Lords should play, both as a deliberative and as a scrutinising chamber, and the direction in which it should develop as part of a modern Parliamentary structure complementing the elected chamber but subordinate to its will. It has also been generally accepted, on all sides, that the reformed House as it develops will not seek to obstruct the Government's legislative programme but rather to identify issues on which it would be right to require the Administration to think again. These issues are most likely to arise on subjects which are not in dispute between the Parties as such, and none of those taking part in the discussions envisaged the reformed House rejecting a measure which formed an important part of any Party's political programme. Finally, it has become evident that the Opposition Leaders are anxious to find an agreed scheme for the reform of the House of Lords and that an extremely favourable climate now exists for completing the discussions as rapidly as possible.
Conclusions

14. To sum up, the scheme achieves in full the Government's objectives of abolishing:

(a) the hereditary principle;

(b) the built-in Conservative majority; and

(c) the power of the Lords to withhold consent to subordinate legislation.

Although it retains power for the Lords to impose some delay in the passage of a public Bill, an important 'carry-over' provision is introduced which represents an effective safeguard for the crucial requirement - the protection of the Parliamentary timetable - and it is particularly attractive to the managers of Parliamentary business. The scheme also provides a basis for developing the House of Lords in a way complementary but subordinate to the House of Commons and for enabling it to take a full and valuable part in modern Parliamentary business. Finally, it is a scheme to which the Opposition might be expected to agree, and it might therefore be carried into law without the need to invoke the Parliament Act procedure, thus avoiding a disturbance of the present working relations with the Opposition in the Lords which might threaten or cause delay to the Government's legislative programme over a period of a year or more.

15. For these reasons, the Cabinet is invited to approve the scheme described in this paper as a basis for further discussions with the Opposition Leaders. If it is approved, and if the Opposition Leaders also agree, it would seem right to publish, perhaps after the Budget, a White Paper describing the scheme and the extent of the agreement between the Parties which it has been possible to achieve. The Cabinet is also invited to agree that the discussions with the Opposition Leaders should have an agreed White Paper in view.

G.

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

26th January, 1968
ANNEX

A Plan for Reform of the Lords

Introduction

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

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

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

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

Case for Reforms

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

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

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

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

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

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

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

Proposals for Reform

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

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

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

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

Functions of Procedure

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

Powers

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

Conclusion

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

14. The effect of our proposals would be that the hereditary Peers would immediately and totally lose their legislative power and would be eliminated from Parliament altogether after a transitional period. At the same time the powers of the Lords would be so reduced that the elected majority in the Commons could always prevail. The House of Lords, thus reduced, could play a fuller and more useful complementary role to the Commons, while in no sense being a rival in power or authority.
Following the Cabinet decisions on 5th January (CC(68) 2nd Conclusions), about the Concorde, I discussed with the Chief Secretary, Treasury, the Attorney-General, and the Legal Adviser to the Foreign Office, the question of the conditions we should seek to agree with the French Government for continuance of the project beyond the spring or early summer of 1969.

2. We have instructed our officials to prepare a draft letter for me to send to M. Chamant, the French Minister of Transport, expressing our views about the conditions necessary to the success of the project and which, if not reasonably met by mid-1969, might lead us to conclude that the project should be discontinued.

3. We took the view that the Industrial Expansion Bill should not include, on its publication, the clause authorising the provision of production finance for Concorde, since the additional contingent commitment of £125 million might well have been ill received if it were made public at the very time that public expenditure cuts were being announced. We agreed, however, to propose to the Cabinet that the clause should be restored to the Bill at Committee stage.

4. The reasons for seeking the powers in the Concorde clause now are:

(a) The initial stages of production have already begun and under interim arrangements are being financed 100 per cent by direct Government grant (the materials and parts vesting in the Minister). We could continue as we have been doing to advance money on an ad hoc basis as and when required in order to maintain the programme. But as preparations for production gain momentum, the extent of our commitment will increase to a point when, given the large sums, and in particular the large contingent liabilities, which will be involved in more permanent arrangements, constitutional practice and proprieties will, in the opinion of the Law Officers, require that specific legislative powers should be taken.
If we do not seek these powers by a clause in the Industrial Expansion Bill as we decided earlier, we shall need to have a separate Bill, for which there is no provision in the programme.

The proposed new powers will allow advantage to be taken of an agreement in principle by the Banks to contribute up to £25 million, a considerable relief to the Exchequer. Under present powers, it is not possible to provide the guarantee which the Banks would require.

So long as the existing system of grants continues, it will not be possible to charge interest to the firms, and more importantly, there is no way of placing an Incentive on them to change over to a system in which they share the potential burden.

Under present powers it is not possible to give the companies adequate cover against the risks of loss (e.g. in the event of major technical failure) and it is not safe to assume that they will be prepared to continue with the present interim arrangements much longer.

5. I therefore propose that the necessary powers should be sought by reinstating the Concorde clause in the Industrial Expansion Bill at the Committee stage. For tactical reasons I should not propose to make such a decision known until I have the results of the initial approach to the French.

6. I ask the Cabinet's agreement to this proposal.

A. W. B.
24th January, 1968

CABINET

BRITAIN AND EUROPE

Memorandum by the Secretary of State for Foreign Affairs

I shall be reporting to my colleagues tomorrow on my discussions in Bonn on Friday, 19th January with the German Foreign Minister. I shall also describe recent developments relating to our relations with the European Economic Community (EEC) with particular reference to the recent proposals that have been made by the Benelux Governments for continuing contacts between members of the EEC and applicant States. A summary of the Benelux proposals, and also the full text, are attached.

2. These proposals are, to a considerable extent, due to the activities and exploration that we have been conducting in Europe during the post-veto period and are, in this sense, a response to our desire to maintain the momentum towards closer European integration.

G.B.

Foreign Office, S.W.1.

24th January, 1968
The Benelux Proposals

A. Summary

The Benelux proposals involve consultation and action in four ways:

(i) the European Commission would be invited to continue to examine with countries seeking membership those questions the examination of which they did not complete in their "Opinion" of 30 September, 1967;

(ii) the member States of the Community would consult the four applicant countries on all questions covered by the Rome and Paris Treaties, whether these questions have been the subject of work between the Six or not. Patents and European Company law are given as examples. It is proposed that the existing agreement of 1954 between Britain and the E.C.S.C. should be used as the model for consultation under this head;

(iii) joint action should be undertaken in fields not covered by the Community Treaties (the countries participating varying according to the project). Arms development, production and purchasing; technological co-operation, and aid to developing countries are given as examples;

(iv) the Benelux countries have agreed to consult each other before each decision on "questions of common interest or important questions of foreign policy" to try to reach similar positions. Examples are European political co-operation, political and economic relations with East European countries and relations with developing countries. No new institutions are proposed. Other European countries are now invited to join in consultation on these lines.
AIDE MEMOIRE

I. Following the deliberations of the Council of Ministers of the E.E.C. on 19 December, it was agreed to concert together with a view to examining proposals which could be made to mitigate the impossibility of arriving at a decision on opening negotiations on the applications for membership of the European Communities from Britain, Ireland, Denmark and Norway.

The Benelux states think it right to inform their partners in the European Community, the European Commission and the states which are candidates for membership, of the result of their consultations on this subject.

II. Objectives. The Benelux states, in making their suggestions, are inspired by the following underlying ideas and principles:

1) To pursue their action in favour of the construction of Europe: this demands, in conformity with the provisions of the Treaty, the development and enlargement of the European Communities:

2) To respect, in what they do, the letter and spirit of the Rome Treaty:

3) The desirability of drawing closer the links between the member states of the European Community and the states which have sought accession.

In considering the European idea, it is necessary to go beyond words and the present state of economic construction in Europe within the Community. Europe is not limited to the six states which are united by the provisions of the Rome Treaty: Europe must equally pursue its unification in the sectors which are not yet the subject of Community decisions.

In the light of the arrangements set out below, the Benelux states envisage a positive programme of European construction in the economic and political fields.

III. Proposals in the Economic Sector

1) The Benelux states are determined to participate actively in the programme of development of the European Communities.

2) The Benelux states propose the establishment of a concrete procedure for consultation between the Community and the member states on the one hand and the states which are candidates for membership of the Community on the other, with the object in particular of avoiding an increase in the differences existing between the Common Market and the candidate states.

Several kinds of action are suggested:

/(a)
(a) Continuation of the study undertaken by the Commission on the difficulties and advantages of accession of the candidate states. This would involve continuing with these states the examination of the questions which the Commission was unable to complete in its "opinion". The Council of Ministers of the Community could charge the Commission with this task, asking it to report regularly to the Council on the consequences which it draws from this "joint analysis". If this suggestion as regards procedure could not be adopted, it would nevertheless be necessary to undertake this analysis by another method.

(b) The establishment of a precise procedure for consultation between the Community, the member states and the candidate states in order to facilitate the rapprochement, and to avoid the increase in differences, between the systems of the candidate states and those of the Community. This consultation covers questions which have been settled both in principle and as regards procedural implementation by the EEC, as well as those questions which have so far only been settled in principle within the Community or which have not yet been tackled in the Community even though they are explicitly envisaged by the treaties. By way of example, one can mention the following fields which although the Community has begun work on them would nevertheless permit the achievement of agreements covering the candidate states: European patents, European company law, and steps in the field of insurance. As regards procedure, the Benelux states suggest following (s'inspirer de) the agreement regarding relations between the ECSC and Britain of 21 December, 1954. Now that there is only one Council and one Commission it would be convenient to extend this procedure, which at present is limited to questions of common interest relating to coal and steel, to questions of common interest relating to the Treaties of Rome and Paris. If the extension of this agreement cannot be formally approved by a decision of the Council, then it would be necessary to seek another procedure which would enable the same objectives to be achieved.

(c) The realisation of common action between the European states which desire it in fields which are not covered by the Treaties. This action should cover specific subjects: the number of participants could vary according to the projects. For example: the development, production and joint purchase of military material, co-operation in specific technological and scientific fields and aid to the developing countries.

IV. Proposals in the Political Field

The Benelux states believe that these proposals, aiming at a European "relance" would be incomplete without a strengthening of relations in the field of political unification.

The three Benelux states have decided to strengthen their political co-operation and to consult together before any decision, or the adoption of any attitude, on questions of common interest and on important questions of foreign policy, with a view to reaching similar positions. This consultation will take place with due respect to obligations undertaken particularly under the Treaties of Washington, Paris and Rome and will cover among other things the following subjects: European political co-operation, relations with the countries of Eastern Europe in the political and economic fields, and relations with the /developing
countries.

Without wishing for the moment to create a new institution, the Benelux countries have decided to perfect their arrangements for consultation with a view to harmonizing their positions. They hope that other European states will associate themselves with their experiment and will thus give a further proof of their will to achieve European political unification.

The Benelux states are at the disposal of their partners in the Community, the European Commission and the candidate states, to reply to questions which these proposals, necessarily outline proposals, may raise and to examine these questions in depth.
CABINET

STATEMENT ON THE DEFENCE ESTIMATES, 1968

Note by the Secretary of State for Defence

I circulate herewith for the approval of my colleagues the draft Statement on the Defence Estimates, 1968.

D.W.H.

Ministry of Defence, S.W.1.

29th January, 1968
STATEMENT ON THE DEFENCE ESTIMATES 1968

CHAPTER ONE
DEFENCE POLICY

Preamble

1. The Defence Budget for 1968/69 totals £2271M. In comparing it with the 1967/68 Estimates of £2205M, allowance has to be made for three factors. First, in 1968/69, for the first time since 1949/50, the cost of Armed Forces housing will be met entirely from voted monies; in 1967/68 £13M was provided from housing loan drawings. Secondly, the current Estimates include £52M for the effect of devaluation on our foreign purchases and the cost of stationing forces overseas. Thirdly, other pay and price increases during the year total some £59M. When allowance is made for these factors (£121M in all), therefore, the current Estimates present a decrease of £258M at constant prices on the 1967/68 total.

2. The Estimates do not provide for cancellation payments in respect of the abandonment of the Flail programme. Supplementary Estimates for these will be presented in due course.

3. Defence Estimates for 1967/68 were about 6.5% of the Gross National Product. In 1968/69 this proportion will be about 6%.

REVIEW OF DEFENCE POLICY

4. As announced in the House of Commons on 16th January, 1968, HMG have carried out a detailed and searching review of the whole range of public expenditure as one of the measures necessary for a radical solution of the country's balance of payments problems. The financial result of the review is that a cut of £110M will be made on the forecast estimates of 1969/70 and that by 1972/73 the Defence Budget will be reduced by a further £210M - £260M.
5. It has been a fundamental principle of the current examination that reductions in capability, whether in terms of manpower or equipment, must be accompanied by reductions in the tasks imposed by the commitments which we require the Services to undertake. We have no intention of allowing the situation, which existed in 1964, to occur again when, because of the lack of balance between military tasks and resources, our forces were seriously overstretched.

6. The major decisions which the Government has taken may be broadly summarized as follows:

a. Britain's defence effort will in future be concentrated mainly in Europe and the North Atlantic area.

b. We shall accelerate the withdrawal of our forces from Malaysia and Singapore and complete it by the end of 1971. We shall also withdraw from the Persian Gulf by the same date.

c. Service manpower will be eventually reduced by more than the 75,000 forecast in Cmnd 3357 and the reduction will be spread over a shorter time.

d. The carrier force will be phased out as soon as the withdrawals from Malaysia, Singapore and the Persian Gulf have been completed, and the rate of some new naval construction will be reduced.

e. The Brigade of Gurkhas will be run down to 6,000 by 1971.

f. The order for 50 F111 aircraft will be cancelled and the RAF transport force will be cut.

g. Support facilities, including HQs, and the Ministry of Defence will be cut.

h. No special capability for use outside Europe will be maintained when our withdrawal from Singapore and Malaysia, and the Persian Gulf, is complete.
We shall, however, retain a general capability based in Europe, including the United Kingdom, which can be deployed overseas as in our judgement circumstances demand, including support for United Nations operations.

7. These decisions mean big changes in the role, size and shape of the forces, their equipment and support. It will take some time to plan all this in detail. We intend, therefore, to present later in the year a Supplementary Statement, in which we shall report progress. In the meantime, since the end of "confrontation" in August 1966, we have been withdrawing units from the Far East; up to the beginning of this year, a total of 12,000 service personnel have returned to this country and have been accommodated here. A further 18,000 personnel have been brought back from South Arabia and elsewhere.

8. In November, we announced a cut of £110M on the defence programme. The further decisions that have now been taken will not immediately affect the level of defence expenditure in 1968-69. The savings already announced will in fact be offset to some extent by cancellation payments and transitional expenditure. The remaining chapters of this Statement are primarily concerned with the Defence Estimates for 1968-69, though they occasionally look forward beyond that year.

9. The Government recognise that the reorganisation of the services will involve difficult re-adjustments. It will be one of our major aims to reduce individual hardship and to maintain efficiency during the period of transition. Thereafter, the Government's intention is to ensure that the Services remain cohesive and viable and offer a good career to those who serve in them.

10. The foundation of Britain's security now, as for
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9. The Government recognise that the reorganisation of the Services will involve difficult re-adjustments. It will be one of our major aims to reduce individual hardship and to maintain efficiency during the period of transition. Thereafter, the Government's intention is to ensure that the Services remain cohesive and viable and offer a good career to those who serve in them.

10. The foundation of Britain's security now, as for
centuries past, lies in the maintenance of peace in Europe. Our first priority must, therefore, still be to give the fullest possible support to the North Atlantic Alliance. Our contribution will be formidable. The size and striking power of the Royal Navy is, after the US Navy, greater than that possessed by any other member of the Alliance. Our army is well-trained and superbly-equipped, and has more recent and varied fighting experience than any other European army. The Royal Air Force, equipped with the most modern combat aircraft, will be second to none in Europe. We shall thus be able to contribute to the security of NATO on a scale corresponding to our efforts to forge closer political and economic links with Europe.

11. With our active encouragement, a major step forward has been taken in NATO defence planning. In the light of the political, strategic and economic guidance given by the NATO Defence Ministers in May, the NATO military authorities have developed a new strategic concept to replace that of 1956. This new strategic concept was approved in December and reflects our views, as set out in the Statement on the Defence Estimates 1966 (Cmnd. 2901). Firstly, it is recognised that the assessment of the military threat which the Alliance faces should take into account the political intentions as well as the military strength of the Warsaw Pact countries. Secondly, it is also recognised that we should receive timely, possibly prolonged, warning of any change in the political situation that might make war in Europe more likely. Thirdly, it is now accepted that NATO strategy should be based on the forces that member countries are prepared to provide. It is also agreed that, within the total resources available to NATO, adjustments should be made, particularly in the air forces, with the object of extending the conventional phase in order to give more time before the decision to use nuclear weapons has to be taken. The next stage is to draw up military plans and adjust future force planning on the basis of the new military concept.
12. The approval by NATO Defence Ministers in December of a NATO force plan for the period up to 1972 completed the first stage in the new procedure for establishing NATO force requirements for five years ahead. This change will make it possible to modify future force planning in the light of changing circumstances; it will also enable countries to plan the force contributions to NATO on a firmer basis.

13. Our NATO and WEU allies have now accepted the move of a brigade of BAOR and a squadron of RAF Germany to the United Kingdom. This redeployment is now taking place. The brigade, equipped and trained for its NATO role, will remain under the operational command of C-in-C BAOR and be ready to return to Germany at short notice should the need arise; it will go to Germany each year for training alongside the other formations of BAOR. By these steps we shall save over £4.5 million a year in foreign currency at present rates of exchange. But devaluation of the pound will increase the foreign exchange cost of maintaining our forces in Germany. We are, therefore, discussing with the German Government ways and means of meeting our stationing costs after the current Anglo-German offset agreement expires on 31st March, 1968.

14. At their meeting in December, NATO Defence Ministers decided to establish a Standing Naval Force, Atlantic, which, subject to the control of the North Atlantic Council, has been placed under the operational command of SACLANT in peacetime. This multi-national force of five or six frigates, to which the United Kingdom contributes one, operates in the Atlantic. The establishment of this force enables NATO to demonstrate in a more timely and effective way its will and cohesion in the face of a developing maritime threat. The first of the British POLARIS submarines will become fully operational this year and will then be assigned to NATO.
15. HMG attributes the greatest importance to associating the non-nuclear members of NATO closely with the Alliance's nuclear planning and thus to strengthening the nuclear interdependence of its members. The new permanent nuclear planning machinery in NATO - the Nuclear Defence Affairs Committee and the Nuclear Planning Group - is designed for this purpose and has now completed its first year's work.

16. The Nuclear Planning Group has already concluded that the Alliance disposes of sufficient strategic nuclear forces and that the plans for employing them are appropriate to deal with the threat to NATO. It has also agreed that the number of tactical nuclear weapons available to the Allied Commanders in Europe and the Atlantic is adequate and that their disposition should be kept continuously under review. Within this broad framework, a number of highly important studies is in hand. Among the subjects being studied are the relevance of anti-ballistic missiles to the defence of NATO Europe; role of tactical nuclear weapons in different NATO conditions; and arrangements for improving national participation in military nuclear planning. European members of the Alliance are taking the lead in much of this detailed programme of work.

17. Because of the importance of the issues involved for the future of the Far East and Persian Gulf, the Governments concerned in both areas were consulted by Ministers before we took the final decisions. We shall continue to discuss the implications of our withdrawal with our friends and allies in these areas.

18. We shall find it necessary to reach a new understanding with the Government of Malaysia about the Anglo-Malaysian Defence Agreement after 1971. Our force declarations to SEATO will be reduced as our forces are withdrawn from Singapore and Malaysia. We shall, however, maintain our interest...
interest in the stability of the Middle East and the Far East; and one of the ways in which we shall demonstrate this will be by our continuing membership of CENTO and SEATO. We shall honour our commitments to our dependencies and maintain a garrison in Hong Kong sufficient to fulfil our responsibilities.

**HOME DEFENCE**

19. The Government has decided that in future civil defence preparations should be on a care and maintenance basis. So far as practicable, existing physical assets will be preserved. Civil defence training and planning will continue at the minimum level necessary to preserve knowledge and techniques and to enable more active preparations to be resumed, if necessary, without too much loss of ground. Most of the volunteer services will be disbanded, but the Royal Observer Corps will be retained as part of the Warning and Monitoring Organisation. The Women's Royal Voluntary Service will also be retained because of its value in peacetime. Total annual public expenditure will be reduced to about £13M in 1968-69, and fall in later years, to about £7M.

**HEADQUARTERS ORGANISATION**

20. In the Statements on Defence of 1966 and 1967, we reported changes in the higher organisation for defence. They were designed to give a more effective machinery for policy-making and planning and for managing the unified Ministry of Defence created in 1964. Following the appointment in January 1967 of two Ministers of State with functional responsibilities - the Minister of Defence for Administration and the Minister of Defence for Equipment - in place of the three single Service Ministers, some further steps have been taken.

21. **Military Organisation.** The organisation of the Chiefs of Staffs has been improved in two important ways.

22. Firstly, we have appointed a Deputy Chief of the Defence Staff...
Staff (Operational Requirements). He is responsible to the Chief of the Defence Staff (as Chairman of the Chiefs of Staff Committee). His main duty is to produce, in conjunction with single-Service staffs, proposals for weapon concepts which conform to defence policy and strategy. He also keeps under review the range of future weapons and equipment, so as to make the best use of available resources, and co-ordinates studies of the assessment of proposed weapons concepts and of operational logistics.

23. Secondly, the machinery for policy-making and planning has been improved. The system of Joint Planners, developed in the last war, has worked well for many years. But it was designed to meet circumstances very different from those of today. What is now needed is a staff that is able to concentrate on the examination of broad policy issues without being diverted by the needs of current operational problems and contingency planning. We have therefore reshaped the organisation, separating the responsibility for operations and that for policy and placing one under the ACDS (Operations) and the other under the ACDS (Policy). The former is responsible for ensuring that operational and contingency plans are drawn up, examined and kept up to date, and for undertaking and co-ordinating operational studies and joint Service exercises; the latter is responsible for preparing advice on military policy, both immediate and long-term, for formulating and carrying out military studies concerned with defence policy, including the size, shape and deployment of the forces and distribution of resources within the defence programme, and for surveying the whole field of policy and ensuring that the necessary studies are identified, put in hand and followed up.

24. In the 1967 Statement we announced the setting up of a Programme Evaluation Group. This has justified itself to such an extent that we have decided to bring it into the central machinery for policy making. It will carry out its
work in a wider forum, more closely linked, within the Chiefs of Staff organisation, to the staffs concerned with operational and contingency planning.

25. These changes have been made without any increase in staff numbers.

Civilian Organisation

26. In August 1967, the responsibilities of the Deputy Under-Secretaries of State were adjusted so as to provide the Minister of Defence for Equipment with a DUS to help him in dealing with general questions of research and development, procurement, production, and sales of defence equipment.

27. At the same time an additional Deputy Under-Secretary of State was appointed. He is responsible for co-ordinating the management of all civilian staff employed throughout the Ministry of Defence and the Service Departments and for establishing a single civilian management organisation.

28. These changes, too, involve no increase in staff numbers. They are part of the general development towards a more unified control of policy within the Ministry.

Financial Re-organisation

29. Experience has shown that, to be fully effective, the functional Ministers require stronger organisational support and a more direct executive line of command. We have therefore decided to take the major step of functionalising control of defence finance.

30. Although the 1964 re-organisation of the Ministry of Defence brought together under unified control the four previously separate Departments, four Accounting Officers have continued to exist in the Ministry of Defence. The Permanent Under-Secretary of State has been responsible for the Central Defence Vote, and each of the three Service Second Permanent Under-Secretaries of State has been responsible for one set of the single Service Votes.
Ministry of Defence has therefore had a federal structure. It has now been decided to streamline this organisation and to bring it into line with the financial responsibilities of the functional Ministers. As from 1st April next, there will be two functional Second Permanent Under-Secretaries of State, a Permanent Under-Secretary (Administration), who will be responsible for all the Votes concerned with the functions under the Minister of Defence for Administration, and a Permanent Under-Secretary (Equipment), who will be responsible for the Votes concerned with the functions under the Minister of Defence for Equipment. The posts of the Second Permanent Under-Secretary of State (Royal Navy), (Army), and (Royal Air Force) will lapse; that of Second Permanent Under-Secretary of State (Defence Secretariat) has also been abolished. The Permanent Under-Secretary of State will, therefore, have two Second Permanent Under-Secretariat of State responsible to him, instead of the four instituted in the 1964 Central Organisation of Defence.

31. Initially, the two functional Permanent Under-Secretariats of State will be the Accounting Officers for the relevant parts of the present single-Service Votes. This is an interim arrangement. As soon as practicable, a new unified Defence Vote structure will be introduced. This fundamental change in the Vote structure is an intricate operation, involving the Treasury, the Comptroller and Auditor General, and Parliament. We aim to introduce revised Defence Votes by 1st April 1970. In the meantime, a unified finance organisation is being established within the Ministry of Defence to provide a common service to the Accounting Officers.

32. This financial re-organisation does not involve - nor imply - any departure from the decision to maintain the three separate Services. The new higher defence structure will provide for unified control of finance as well as unified control of policy, but, as in any large organisation, detailed management ...
management must be de-centralised.

Service Boards

33. The three single-Service Boards of the Defence Council will therefore continue to be responsible for the day-to-day management of the three Services. Since the appointment of the functional Ministers of Defence, the Service Boards have normally been chaired by the single Service Parliamentary Under-Secretaries of State, although the Secretary of State is formally the Chairman of each Board and the Ministers of State are formally members and take the chair on occasions. This arrangement will continue.

34. The main effect on the constitution of the Service Boards will be that the single Service Deputy Under-Secretaries will replace the existing Second Permanent Under-Secretaries as Members of their Boards and become responsible, under the Permanent Under-Secretary and the functional Second Permanent Under-Secretaries, for providing the Board with financial and administrative guidance. The functional Second Permanent Under-Secretaries of State will attend meetings of the Board as appropriate. The arrangement for providing financial and administrative guidance will thus be similar to the present arrangements for providing political guidance.

Changes in Service Board membership

35. Changes will also be made in the composition of Service Boards to bring representation on them more into line with their current management functions, and to make economies in senior staff within the Department. We intend to reduce representation at a convenient time to the extent of one serving officer from each Board. Functions will be reallocated so that the remaining Board members will, so far as possible, each have the same responsibilities as the corresponding members of the other Service Boards.

36. All these measures - the changes in the Chiefs of Staff organisation, the introduction of functional Permanent Under-Secretaries and the changes in the Service Boards - provide
a further streamlining of the Headquarters organisation
and will improve efficiency and lead to reductions in staff.
While single-Service day-to-day management will continue,
questions of inter-Service co-ordination and the relation­
ship between single-Service matters and defence policy in
general will more effectively be taken into account in the
formative stages of policy.
CHAPTER II, paragraph 7. Delete last two sentences (now covered in chapter I).

CHAPTER III, paragraphs 9 and 10. Delete and substitute:

We are making progress in planning the new Royal Defence College, the establishment of which was foreshadowed in the Statement on the Defence Estimates 1967 (Cmd. 3203), Chapter III, paragraphs 23 and 24. We are, however, considering the timing and organisation in the light of recent economic developments and the changes in the size and role of the forces resulting from recent Government decisions. A supplementary statement on defence, which is to be published later in the year, will contain decisions on these points.

CHAPTER IV, paragraph 29, second sentence. Delete: "and there will be a minor reduction in Malta in 1968."

CHAPTER V, paragraph 5. Delete first sentence and substitute:

5. The Government has since decided to reduce home defence to care and maintenance. We are discussing with the Council of Territorial and Auxiliary Forces Associations the proposed disbandment of T & AVR, Category III.

CHAPTER VIII, paragraph 19. Delete and substitute: "As a result of the decision to phase the carrier force out earlier, we have discontinued the entry of fixed-wing pilots; but observers entered up to September 1968 may be required to train for service in fixed-wing aircraft. We shall continue to train helicopter aircrew in order to meet the needs of commando ships and smaller ships. The operational flying training of anti-submarine helicopter crews will include a final spell at sea with fleet units embarked in a new Royal Fleet Auxiliary Engadine".

CHAPTER IX, paragraph 9. Delete first sentence and substitute: "No more fixed-wing pilots are to be recruited".
II

DEPLOYMENT, OPERATIONS
AND EXERCISES

DEPLOYMENT

1. The following is an outline of the deployment of our forces throughout the world.

UNITED KINGDOM

2. Royal Navy. Last year, sea command was reorganised. In the United Kingdom a single major operational commander, the Commander-in-Chief Western Fleet, now exercises command over a sea area comprising the North Sea, the North and South Atlantic Oceans, the Mediterranean, the Caribbean and part of the Pacific Ocean. Frigates, submarines and coastal minesweepers on home sea service carry out training, trials and fishery protection. Ships of all classes on general service commissions also spend periods at home on operations and for refit, leave and work-up. Royal Marines are based in the United Kingdom for embarkation in H.M. Ships or as part of the Army strategic reserve. Operational Fleet Air Arm squadrons are also temporarily based in the United Kingdom while their parent carrier is being refitted.

3. Under a phased programme beginning this year, the naval shore commands will be brought under a single Commander-in-Chief ashore. He will be based in the Portsmouth area. He will control, in addition to his own area, three other Flag Officers i.e. Plymouth, Scotland and Northern Ireland, and Medway. He will also superintend certain aspects of shore training and administration throughout the United Kingdom. The responsibilities of the Area Flag Officers will include those now carried out by the Admirals Superintendent of the Royal Dockyards in their areas. The posts of the Admirals Superintendent will be abolished.

4. Army. The following regular Army forces are stationed in the United Kingdom: units in the Strategic Reserve, other front-line units and skeleton headquarters, units engaged in training, public duties and logistic tasks. A reorganisation of the home command structure will take place on 1 April 1968. Most of the field force units and headquarters stationed in the United Kingdom, except for the brigade from B.A.O.R., will come under command of a new Army Strategic Command. Southern and Eastern Commands will be amalgamated to form a new geographical Southern Command. This will save about 750 uniformed and civilian posts.
5. Royal Air Force. This year will see the amalgamation of Bomber and Fighter Commands into one large operational formation, to be based in the United Kingdom and known as Strike Command. The command will comprise V-bomber, Lightning, strategic reconnaissance and tanker aircraft. The strategic and tactical transport aircraft of Air Support Command will retain, with an increased capacity, their ability to maintain and reinforce units overseas: and the Command’s ground attack/reconnaissance force will continue in its main role of supporting the Army. Flying Training and Technical Training Commands will be merged into a new Training Command in June 1968. Signals Command will be replaced by a functionally independent group—No. 90 (Signals) Group—within Strike Command in January 1969. As soon as the necessary accommodation and communications have been provided, Coastal Command Groups will be disbanded, and the Command itself replaced by No. 18 Maritime Group, which will also be in Strike Command. Because of its specialised and international commitments, the Maritime Group will be commanded by an officer of three-star rank. The Signals and Coastal Command reorganisation is expected to save about 500 uniformed and civilian posts. Long-range maritime reconnaissance aircraft, in conjunction with the Royal Navy, will afford protection for our sea routes: and search-and-rescue facilities will cover the country and its coastal waters. Units of the Royal Air Force Regiment, which train in the United Kingdom, will provide any necessary protection for R.A.F. formations overseas.

EUROPE

6. Royal Navy. Ships of the Western Fleet operate in sea areas around Europe. Ships are earmarked for assignment to the appropriate N.A.T.O. command in order to fulfil commitments in the Channel, Eastern Atlantic and Mediterranean.

7. Army. Ground forces consist of the British Army of the Rhine (B.A.O.R.) and a brigade group in Berlin. B.A.O.R. is organised into a corps of three divisions, each of two brigades, and forms part of the shield forces of the North Atlantic Treaty Organisation. With the agreement of our allies we are now stationing a brigade in the United Kingdom. This brigade, equipped and trained for its N.A.T.O. role, will remain under the operational command of the Commander-in-Chief, B.A.O.R., earmarked for assignment to N.A.T.O. and ready to return to the Continent should the need arise. It will go to Germany each year for training alongside the other formations of B.A.O.R.

8. Royal Air Force. A tactical air force including light-bomber, fighter-reconnaissance, photographic-reconnaissance and air-defence squadrons, is assigned to N.A.T.O. No. 18 Squadron, Wessex helicopters, has returned to the United Kingdom, but remains earmarked for assignment to N.A.T.O. and ready to return quickly to Germany.
MEDITERRANEAN AND NEAR EAST

9. Royal Navy. Destroyers, frigates and minesweepers maintain a naval presence in the Mediterranean, supplemented from time to time by other major units of the Fleet.

10. Army. There are small garrisons in Gibraltar, Malta, Libya and Cyprus. In addition, the Army provides 1,000 men (over 20 per cent of the total) in the United Nations force in Cyprus (UNFICYP).

11. Royal Air Force. The forces in the area consist of strike, reconnaissance, and tactical transport squadrons, air-defence units, a Bloodhound 2 surface-to-air missile squadron and two R.A.F. Regiment squadrons. Two helicopters stand by for search and rescue, and a flight of helicopters supports the United Nations peacekeeping force. A small detachment of Lightnings in Cyprus was replaced in May 1967 by a full squadron (No. 50) of Lightning aircraft.

MIDDLE EAST AND GULF COMMAND

12. Our land forces in the Persian Gulf (under a unified command, British Forces Gulf) consist of infantry supported by artillery, armoured cars and engineers stationed at Bahrein and Sharjah. The Royal Air Force forces in the Persian Gulf are also based in Bahrein and Sharjah and include ground-attack and fighter-reconnaissance aircraft, tactical transport of both fixed and rotary wing types, and long-range maritime-reconnaissance aircraft. The stations in the Persian Gulf regularly receive detachments of aircraft from other theatres. Frigates and coastal minesweepers of the Royal Navy are based in Bahrein for operation in the Persian Gulf.

FAR EAST COMMAND

13. Royal Navy. Ships provided for the Indonesian "confrontation" have been withdrawn. The forces which remain contain most types of warships and fleet auxiliaries. They include one carrier, a commando ship and an assault ship, destroyers, submarines and frigates. These ships operate as required in the Arabian Sea, the Indian Ocean and the Pacific Ocean and undertake patrol duties in the Mozambique Channel. Headquarters 3rd Commando Brigade, 40 and 42 Commandos and 95 Commando Light Regiment Royal Artillery are at present based in Singapore. Royal Australian and Royal New Zealand naval ships are attached to and operate with the Far Eastern Fleet.

14. Army. All forces sent to the Far East in connection with "confrontation", and those units not required for our commitments to S.E.A.T.O. and for the defence of Malaysia, Singapore and our dependent territories have been withdrawn from the theatre. The reduction of the Brigade of Gurkhas to 10,000 began in October 1967, and, by June 1968, its strength will be about 12,500 men. This reduction will continue at the same rate, bringing the strength of the Brigade to 6,000 by 1971. It has been necessary to
reinforce the Hong Kong garrison temporarily by one Ghurkha battalion from Malaysia. We plan to withdraw our small Gurkha garrison in Brunei by September 1968.

[15. As stated in the Supplementary Statement on Defence Policy 1967, the Government will continue to honour its S.E.A.T.O. obligations, but the forces declared to specific S.E.A.T.O. plans will be progressively altered in nature and size. We have informed our S.E.A.T.O. allies of the immediate changes to be made, which will enable us to reduce our troops and locally employed civilians by about 4,500 next year. We are examining, in consultation with Australia and New Zealand, the problems which will be created for them by the reductions in our force levels to see how they might be mitigated.]


CARIBBEAN AND SOUTH ATLANTIC

17. Royal Navy. A small force, normally carrying a detachment of Royal Marines, is maintained in the Caribbean. H.M.S. Protector operates in the Falkland Islands and dependencies and in the Antarctic during the southern summer months. In the 1968-69 season, her place will be taken by H.M.S. Endurance, undergoing her first commission as the Navy's ice patrol ship. [During the southern winter a small resident Royal Marine force is maintained in the Falkland Islands.]


OTHER AREAS

19. Royal Navy. Royal Navy submarines are based in Australia to assist the Royal Australian Navy.

NUMERICAL DISTRIBUTION

20. Our forces are distributed numerically in the following rough proportions:

<table>
<thead>
<tr>
<th>Region</th>
<th>Numerical Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>255,400</td>
</tr>
<tr>
<td>Europe</td>
<td>63,700</td>
</tr>
<tr>
<td>Mediterranean and Near East</td>
<td>18,500</td>
</tr>
<tr>
<td>Middle and Far East</td>
<td>56,400</td>
</tr>
<tr>
<td>Elsewhere</td>
<td>42,300</td>
</tr>
</tbody>
</table>

A more detailed distribution by Services is shown on the map at Annex G.
THE YEAR'S OPERATIONS

FAR EAST

Malaysia

21. Since the end of "confrontation", the area has remained comparatively quiet and stable. We completed the withdrawal of our forces from East Malaysia, with the exception of a few Army and Royal Air Force personnel, in April 1967. The Royal Air Force continued to assist Malaysia with 6 Whirlwind helicopters at Kuching; personnel were also provided to assist in operating the airfields of Kuching and Labuan. The helicopters were withdrawn in November 1967. We expect that no assistance will be needed in East Malaysia after March 1968. Army survey teams have also helped the Malaysians by mapping the remote areas of East Malaysia and North East Malaya. Royal Engineers are clearing large stocks of bombs and torpedoes left behind by the Japanese at Penang during the second world war.

Hong Kong

22. The garrison in Hong Kong supported the local police in operations to break up a Communist campaign aimed at intimidating the population, suborning the police and damaging the economy. The resolute behaviour of our troops did much to sustain the morale and determination of the Colony. The Army assisted the police by cordoning areas to be searched. After a border incident, in which five Hong Kong border police died, it took over responsibility for the security of the frontier. Gurkha battalions played a distinguished part in these operations and fully maintained their high reputation.

23. The terrorists resorted to murder and the indiscriminate use of bombs, killing and injuring innocent civilians. Men of the Royal Army Ordnance Corps, Gurkha Engineers and Royal Naval fleet clearance diving team, working with experts in the Hong Kong police, neutralised many bombs and booby traps. Some of them were killed and others wounded, as they carried out this dangerous task.

24. In their internal security operations, the garrison was helped by the continual presence of Royal Naval units and visits by Royal Air Force aircraft on exercises. In May, the presence of a commando ship, with the commando embarked, helped to sustain public confidence; in August, Naval helicopters were used to assist the police in roof-top raids. During periods of tension, the defence forces were further reinforced by units of the Royal Air Force Regiment from Singapore, which guarded the airfield at Kai Tak. The six Royal Air Force helicopters which were sent from Seletar in September have been used for moving troops, for evacuating casualties, and for internal security purposes generally.

Thailand

25. Royal Engineers have been helping the Thai Government with a programme of road-building in the remote North East of the country. They
will leave shortly, by which time they plan to finish an all-weather road, linked up with the Thai road network.

**British Solomon Islands Protectorate**

26. In Guadalcanal, R.A.O.C. ammunition experts examined decomposing ammunition left from the second world war and cleared enough of it to enable a start to be made on extending an airfield there.

**Rhodesia: the Oil Embargo**

27. Ships of the Royal Navy, supported by ships of the Royal Fleet Auxiliary Service, kept up a continuous patrol of the Mozambique Channel off Beira. Shackleton aircraft of Royal Air Force Coastal Command, operating from Majunga, flew regularly over a wide area, locating and identifying tankers, and obtaining information for the naval patrols. These joint operations prevented the arrival at Beira of tankers carrying oil for Rhodesia.

**MIDDLE EAST**

**The Withdrawal from Southern Arabia**

28. The last elements of our forces left Aden on 29 November 1967 after 128 years of British rule. In spite of a very difficult political situation, the final operations by air and sea were carried out without casualties and in perfect order. The withdrawal involved the movement to schedule of about 25,000 servicemen and families, and their equipment and stores. The task would have been challenging in any conditions. Its successful planning and execution in a context of military and political uncertainty must be rated an outstanding success for the Commander-in-Chief and his staffs, and the many others who were concerned.

29. Our forces, by their courage, patience, restraint and professional skill, maintained authority against a threat of anarchy that became clear in 1963 and reached such proportions that there were 2,600 incidents in Aden State and the Federation in the last eleven months.

30. The pattern of violence altered during the year. There were fewer clashes up-country, where our troops had an identifiable enemy and were relieved by the South Arabian Army in July, but terrorist activity in Aden increased. In the warrens of the Aden townships—Sheikh Othman, Ma’alla, Crater, Tawahi, Steamer Point, Khormaksar—no less than 500 incidents occurred in August alone. Here the security forces were at a disadvantage. A terrorist was indistinguishable from an innocent bystander until he showed his colours by flinging a grenade or pistolling a victim. Often he could not be seen as he sniped, or lobbed mortar bombs, or fired rockets from long range. Our forces were conducting an internal security operation in the most difficult circumstances. Yet the troops ensured that public order did not break down.
31. Authority was not maintained without cost. In the period from December 1963 until shortly before the withdrawal, 135 British Servicemen lost their lives, and more than 900 were wounded. Ninety individual acts of gallantry were recognised by awards of decorations or medals, and 74 Royal Marines, soldiers and airmen were mentioned in Despatches or earned the Queen's Commendation.

32. Royal Marines and Army units operated in intense heat against a provocative and unrecognisable enemy who was able to take the initiative in all local affrays; yet their spirit did not falter. The tragic events of 20th June when British soldiers were shot down on the outskirts of Aden and in the Crater district by mutinous Aden police might have daunted men of lesser morale. Indeed, many elsewhere seemed convinced that the dissidents had won the day, when our troops abandoned this commercial heart of Aden. But the withdrawal was only temporary; two weeks later, when things looked blackest, infantry and armoured cars moved back into Crater and re-established law and order, which was kept until the final withdrawal. This highly successful operation affected more than the security of Crater. It provided the catalyst needed to consolidate the local forces. In re-imposing their authority, our troops encouraged South Arabia's soldiers and police to combine in asserting their own authority with results that were crucial for the final political settlement and orderly withdrawal.

33. Concurrently with these operations, the Army also helped in training the South Arabian Army. A special team was sent from the United Kingdom to convert five Federal Guard units to infantry battalions; and instructors from British units in Aden trained and formed South Arabian artillery batteries and armoured-car troops. At the same time, the Royal Engineers aided the Federation with a considerable road-building programme and opened up roads and improved communications, despite their being harassed by hostile gangs. The Royal Air Force gave advice and help with the setting up of the South Arabian Air Force.

34. After April’s unprecedented floods, the Services were primarily responsible for restoring normal working of public utilities; and, again, for maintaining essential services and supplies when the port of Aden was closed for three months during the Arab-Israeli war. The Royal Corps of Transport sent in port operating units from the United Kingdom, and the Royal Navy supplied food and fuel in its support ships and tankers. The port operating units with the Royal Pioneer Corps worked fast and, in the last 22 weeks of operations, loaded or unloaded 61,700 tons of stores and 2,000 vehicles, and handled almost 10,000 tons of oil.

35. Aircrews of all three Services effectively assisted our troops. Ground-attack Hunters of the Royal Air Force gave tactical support to the Royal Marines and soldiers and the South Arabian Army; Fleet Air Arm aircraft from the carriers H.M. Ships Victorious and Hermes, and, in the last stages, from H.M.S. Eagle, joined in demonstrations of force over Aden and the Federation. Helicopters of the Royal Navy, the Royal Air Force and the Army Air Corps were a boon to the sweating ground troops, seeking out
dissident gangs, carrying out soldiers to posts on craggy heights, and saving life by quickly moving casualties to hospital.

36. The final withdrawal was covered by a naval task force made up of nine major units of the Fleet and numerous Royal Fleet Auxiliary vessels. Six Wessex helicopters of the Royal Air Force, operating from H.M.S. Intrepid and fitted with searchlights and guns, patrolled continuously for five nights in the area of Khormaksar airfield, from which the last troops departed. Air Support Command flew over one million miles between 5th and 30th November and lifted more than 6,000 troops and 400 tons of equipment from Aden to Britain or Bahrein. Every type of transport aircraft was used, including Hercules Squadrons from the United Kingdom and Far East. During this, the largest operation since the Berlin airlift, the Command maintained all its scheduled trunk route services to the Far East and the Mediterranean.

37. Throughout the strenuous period of operations, our forces never relaxed their grip of the general situation. Without their skill and grit, it would have got out of control, with results that would have been tragic—not least for the people of South Arabia.

Botswana
38. The infantry company, stationed at Francistown to guard the B.B.C. relay station, was withdrawn on 31 August 1967.

Congo
39. A Royal Engineer reconnaissance party visited the Congo in June to advise on the reconstruction of bridges in Oriental Province, north east of Kisangani.

Kenya
40. In June, when roads were cut off by heavy rains, two Royal Air Force Beverley aircraft brought in food supplies. In 30 sorties from Eastleigh between 23rd May and 1st June, they delivered 231 tons of food.

MEDITERRANEAN AND THE NEAR EAST

Libya
41. British forces in Benghazi in co-operation with the Libyan Security Forces did much to protect British and American lives during the riots on 5 June 1967. The United States Government expressed appreciation of the aid given by the British military and diplomatic personnel in rescuing and evacuating the staff of the American Embassy.

Cyprus
42. The United Nations peace-keeping force had much success in preventing serious trouble between Greek and Turkish Cypriots, which, as the disturbances that brought on the crisis of November 1967 showed, could
easily lead to war. British Army units continued to play a prominent part in this force, our soldiers behaving with restraint and fortitude, often in extremely trying circumstances. During the crisis, Royal Navy frigates and other vessels stood by in case it should become necessary to evacuate British nationals.

43. Royal Air Force helicopters, detached from the United Kingdom to Nicosia, continued to support United Nations' forces.

WEST INDIES

44. Frigates operated off the Bahamas to prevent Cuban rebels from using smaller islands as bases. They were also available to assist in the event of hurricane damage in the Caribbean, and to help with defence, and the preservation of law and order, in those territories in the area for which we still have responsibilities.

SOUTH ATLANTIC

45. As in previous years, H.M.S. Protector spent the southern summer months in the Antarctic. She not only performed the duties of Falkland Islands guardship, but undertook much valuable scientific work and supported the British Antarctic Survey. A S.R.N. hovercraft and naval support party have also been sent to the Falkland Islands on trials. In July, H.M.S. Lynx visited Port Stanley. A squadron consisting of H.M. Ships Kent, Lynx, and Arethusa and R.F.A. Olythus made a series of very successful visits to the east coast of South America and exercised with the Argentinian and Brazilian navies. Subsequently, H.M. Submarine Opportune carried out a similar visit to the Argentine and Brazil.

UNITED KINGDOM

46. In June 1967, at the request of the insurers, H.M. Ships Dreadnought and Salisbury destroyed and sank the Federal German ship Essberger Chemist, which had been damaged by an explosion; she was drifting with 1,500 tons of highly volatile petro-chemicals aboard and was a danger to shipping.

47. In the first quarter of 1967, H.M.S. Valiant visited the Far East. She completed the return passage submerged from Singapore to the United Kingdom via the Cape, a distance of about 11,000 miles. H.M.S. Dreadnought also visited the Far East and will be followed by H.M.S. Warspite in early 1968.

48. Ships and submarines of the Royal Navy and Royal Fleet Auxiliaries took part in exercises, national and N.A.T.O., around the British Isles. They also completed a programme of visits. Throughout the year coastal minesweepers of the Royal Navy's Fishery Protection Squadron patrolled the United Kingdom's fishery limits, while frigates of the Western Fleet carried out fishery protection duties in waters off Norway, Iceland and Greenland.
The extended fishery limits around the coasts of Great Britain have now been in force for four years, and the increase in the Fishery Protection Squadron from five to six coastal minesweepers has proved adequate for the increased task. The Commander-in-Chief, Western Fleet has become responsible for frigates employed on fishery protection duties; this change gives greater flexibility without diminishing the effectiveness of fishery protection. Minesweepers and minehunters have been engaged on countermeasures work, and in locating and recovering crashed aircraft, sunken craft and explosive stores.

49. Permanently-manned staging posts were set up at a number of airfields on Canadian and United States territory to form the “Westabout” reinforcement route. Aircraft can now be sent to the Far East by this new route or by the more conventional standard eastwards route; both are regularly used. Two Lightning squadrons were successfully deployed, one to Cyprus and one to Singapore. Using the latest in-flight refuelling techniques the Lightnings, in company with Victor tankers, reached their destinations precisely as planned and were quickly available for the air defence of the surrounding areas. At home, Fighter Command maintained its full alert force and, where necessary, Lightning aircraft intercepted and identified aircraft approaching the United Kingdom. Coastal Command long-range maritime-reconnaissance squadrons continued their watch on surface vessels and submarines in sea areas around the United Kingdom and co-operated in N.A.T.O. activities.

50. The strategic and tactical transport force of Air Support Command carried out routine movements of Service and civilian personnel and freight to and from the main overseas bases. Strategic aircraft flew an average of 57 flights monthly, excluding special commitments, such as Ministerial and V.I.P. flights, to world-wide destinations. An average of four aeromedical flights took place each month from overseas bases. Special tasks included flying troop reinforcements to Aden and to Hong Kong; the withdrawal of Service families from Aden; and the movement of evacuees, flown by the U.S.A.F. from Jordan during the Arab-Israel war, from Tehran to Nicosia.

MILITARY AID TO THE CIVIL COMMUNITY

51. In the Statement on the Defence Estimates 1967, we drew attention to the ways in which the armed forces can be of service to the civil community in time of peace. We said that we were examining how far the scope of such assistance could be broadened. Within a few weeks, this issue was brought sharply into relief by the Torrey Canyon disaster.

52. The Torrey Canyon ran aground on the Seven Stones Rocks with a cargo of 117,000 tons of crude oil. The threat of oil pollution was on a scale which had no precedent anywhere in the world. A full account of the events that followed was published in Cmd. 3245.

53. The armed forces were involved right from the start. They worked in close co-operation with the local authorities; the police, fire and civil
defence services; and voluntary organisations. Naval vessels sprayed detergent and assisted in attempts to salvage the tanker. Aircraft of the Royal Navy and Royal Air Force kept a constant watch on the movement of oil slicks at sea and, in the later stages, bombed the wreck to open it up and fire the remaining oil. The Army protected and cleared polluted beaches.

54. The size of the effort put in by the Services can be gauged by the following figures. The Royal Navy employed 25 ships and small craft, with 21 strike aircraft and 42 support aircraft; the Army used over 2,000 men with motor transport, engineer plant and aircraft, some T. & A.V.R. III personnel helping at weekends; and the Royal Air Force flew over 1,100 hours in 14 types of aircraft.

55. The public interest, which the Torrey Canyon story naturally evoked, should not be allowed to overshadow other services which the forces rendered to the community during the year. Shackletons and helicopters of Coastal Command and Royal Air Force mountain rescue teams rescued 21 Servicemen and 177 civilians. 86 seriously-ill civilians were moved to hospital by helicopter. The Services were again called upon when foot and mouth disease broke out with unparalleled virulence last Autumn. About 600 soldiers and 100 airmen assisted the Ministry of Agriculture, Fisheries and Food to deal with the epidemic. They were mainly employed on disinfecting buildings and disposing of carcasses. Assistance included the use of a number of R.A.V.C. officers and the loan of 140 vehicles.

56. Emergencies of this kind will constantly recur. We are, therefore, preparing to improve the arrangements for helping the civilian community as a normal Service activity, in so far as this is compatible with peacetime training. There are problems still to be solved. Care must be taken, for instance, to ensure that Servicemen are not used on tasks which fall properly within the field of civilian labour; at the same time, the selection of tasks must be such that soldiers, sailors, and airmen are not used merely as unskilled labour. Such problems are now under discussion between the Ministry of Defence, other Government Departments, and outside bodies e.g. the T.U.C. and the Confederation of British Industry.

THE YEAR’S EXERCISES

57. During 1967, we maintained our policy of taking part in exercises with our allies. The following is a summary of the major exercises in which United Kingdom forces participated:

a. N.A.T.O. Six maritime exercises in the Atlantic, North Sea, Western Approaches and Mediterranean, and one Army exercise involving air support.

b. CENTO. A maritime exercise in the Persian Gulf, an air-defence exercise and a search-and-rescue exercise.

c. S.E.A.T.O. An air-defence exercise and a maritime exercise in the treaty area.

d. National. Two maritime exercises, one in the Atlantic and one in the Far East, and four joint Army/Royal Air Force exercises in Germany.
58. During the year, Air Support Command provided airlift for some 260 exercises in some 14 different countries. Parachute and air-mobility exercises in the U.K. are included in this total.

N.A.T.O. EXERCISES

59. A N.A.T.O. exercise in the North Sea and Channel areas, involving convoy, minesweeping and naval control of shipping, was held in May, the Royal Navy making the largest single contribution. The exercise featured chartered merchant ships in convoy. R.A.F. Shackletons provided the largest national air effort in anti-submarine offensive operations and in the support of shipping against submarine attack. Royal Marines went to Norway and the Netherlands on exercises, and a Netherlands unit exercised in this country.

60. SACEUR’s Allied Command Europe (A.C.E.) Mobile Force, to which the United Kingdom contributes Army and Royal Air Force contingents, held two live exercises during the year, one in Sardinia and the other in Greece. The British artillery battery assigned to the A.C.E. Mobile Force also carried out cold-weather training in Canada and Norway.

61. British Army units have both trained in Germany and held smaller-scale exercises in Canada, the U.S.A., Italy, Norway, Denmark and Belgium. In return, units from all these countries have trained in the United Kingdom with British units. The visit by a Norwegian unit was the first since the war of 1939-45.

62. Squadrons from Royal Air Force, Germany took part in many allied exercises and exchanges. They won the night phase of a photo-reconnaissance competition, in which seven nations participated; earned a trophy for the best day-reconnaissance squadron in the Second Allied Tactical Air Force; and distinguished themselves in strike and air-defence competitions with Canberras and Lightnings respectively.

63. All three Services also contributed at various levels to the regular N.A.T.O. command-post and tactical exercises. Royal Air Force squadrons kept their high efficiency ratings in tactical evaluation exercises. Shackleton long-range maritime-reconnaissance aircraft participated in six exercises, ranging from the North Sea to the Mediterranean.

CENTO EXERCISES

64. In August 1967, a team from the United Kingdom took part in a tactical study period in Turkey covering part of the CENTO area.

65. Canberras of Near East Air Force acted as the attacking force for a successful CENTO air-defence exercise. They have also exercised the Lightnings defending the Akrotiri base. Shackletons from the Gulf and the mountain-rescue team of the Near East Air Force took part in the annual CENTO search-and-rescue exercise. In November, naval ships and Royal Air Force aircraft participated in the annual anti-submarine and mine countermeasures exercise, which was again conducted by the Iranian Navy.
S.E.A.T.O. EXERCISES

66. In March, Royal Navy and Royal Air Force units took part in an air-defence exercise; Shackletons were present for the annual major maritime exercise in July, but naval units were unable to attend as they were preparing to support the withdrawal of our forces from Aden.

NATIONAL EXERCISES

67. In October, a major joint exercise of limited war operations was held by the Commanders-in-Chief Committee (West) for U.K.-based units. It was conducted in a training area in Germany. The Army's 3 Division and 38 Group Royal Air Force practised the rapid overseas reinforcement of a force equipped at light scale. VC10 aircraft of Air Support Command and helicopters from R.A.F. Germany also took part.

68. The Western Fleet, with Coastal Command, conducted a major maritime exercise in the Western approaches and the Gibraltar area in November. It was preceded by a large-scale submarine exercise, in which Shackleton aircraft were used in the long-range anti-submarine role; aircraft of Bomber and Flying Training Commands were also employed in the exercise. Shore headquarters, manned mainly by the Reserves, were concerned in a series of command post exercises, the accent being on the control of merchant shipping in war. In the Far East, a major joint maritime exercise was held in March, the long-range maritime air requirements being met from the resident Shackleton force. A reduced programme of fleet and amphibious exercises was undertaken when operational commitments have allowed.

69. U.K.-based forces staged many exercises in air-portability to allied and Commonwealth countries in order to maintain their skills and techniques in differing environments. Army units were flown in aircraft of Air Support Command to Libya, Germany, Norway, France, Denmark and to the Persian Gulf. Royal Marines Commandos were also deployed overseas. An Army battalion and a Royal Marines Commando from the Far East took part in a joint exercise in Australia, and a company visited New Zealand for an exercise. Training took place in Jamaica, British Honduras, Guyana, Kenya, Cyprus, Malaysia and Malta, as well as Canada; units from Jamaica made a reciprocal visit to the U.K.

70. Bomber Command Vulcan squadrons flew two reinforcement exercises to Malta and two to Singapore, one of the latter by the "West about" route. While in the Far East, part of the Vulcan force moved to Darwin for an Australian air-defence exercise. The Victor tanker force conducted regular flight-refuelling exercises with Lightnings of Fighter Command and with the Near East and Far East Air Forces.

71. Exercises were also held in the Far East with Naval, Army and Air Force units of the Australian and New Zealand forces.
MINISTRY OF DEFENCE

1. The numbers employed within the Headquarters on 1 April 1968 are expected to total about 16,730. This figure is nearly 7,500 less than the Headquarters total on 1 April 1964. In spite of the extra work at Headquarters arising from the planning and execution of far-reaching defence policy decisions, further reductions will be made during the coming year.

2. As stated in the Statement on the Defence Estimates 1967, Chapter III, paragraph 2 (Cmnd. 3203), certain staffs, hitherto borne on the Headquarters Vote, are being reclassified. The aim is partly to show the staffs of the four main Departments of the Ministry in the Defence Estimates with greater consistency, and partly to indicate the distribution of staffs in a way which, in some cases, gives a more accurate picture of the costs of the various services shown in the Estimates.

3. As a result, about 5,220 staff hitherto shown on Headquarters Votes will be transferred to the appropriate functional votes of the Navy Department or to the civilian outstations Votes of the Army and Air Force Departments. These staffs are primarily employed on design, development, production and provision of stores and equipment, and on accounts and audit. Although some further changes will be made, the majority of the staffs likely to be affected have been reclassified in the 1967–68 and 1968–69 Estimates.

4. Although the reclassification referred to above increases the number of staff to be counted against the total of civilians employed at outstations, this latter total will be reduced during 1968–69 by over 7,300, bringing the total reductions in outstation civilian staff to about 19,000 since 1 April 1967.

HIGHER DEFENCE STUDIES

5. Reference was made in the Statement on Defence Estimates 1967, Chapter III, paragraph 21 (Cmnd. 3203) to the arrangements concluded with certain universities to appoint an additional lecturer to specialise in the defence aspects of his discipline. In addition to those already made at Edinburgh, Oxford (All Souls College) and Southampton, further appointments have since been made at Aberdeen and King’s College (London).

6. The first defence fellowships have been awarded. Three Service officers and one civil servant are undertaking a year’s research and advanced study at universities. Further fellowships will shortly be announced for the academic year 1968–69.
7. Studies carried out by universities and other outside academic institutions can make a useful contribution to the formulation of defence policy within the Ministry of Defence. Our contacts with these bodies are therefore being extended. Machinery has been established in the Ministry to co-ordinate the examination of proposals received from the academic world. We are also organising seminars and conferences to study higher defence policy.

8. The need has long been felt for an independent national institute, which would examine defence and oversea problems from a U.K. standpoint. Encouragement and support has been given to plans for developing the Royal United Service Institution to enable it to meet this need. We welcome the initiative taken in this by the R.U.S.I. as an important contribution to improving the understanding of British defence problems.

THE ROYAL DEFENCE COLLEGE

9. We are making progress in the planning of the new Royal Defence College, establishment of which was fore-shadowed in the Statement on the Defence Estimates 1967 (Cmd. 3203), Chapter III, paragraphs 23 and 24. The college will be at Shrivenham where existing premises will be extended. It will provide for all young officers of the non-technical arms a balanced one-year course based on three main schools—applied science and weapons technology, political and strategic studies, and economics and management. While this course will be complete in itself, it will also constitute Part I of a three-year degree course for those young officers who have the ability and the wish either to remain or to return for the further two years. Degrees will be offered at honours or at ordinary level.

10. The Royal Military College of Science will be absorbed into the Royal Defence College as a school of engineering for Army officers whose duties require them to obtain an engineering degree.

RATIONALISATION

LOGISTICS

11. Aircraft Support. A considerable measure of common logistic support has been introduced for certain aircraft used by more than one of the Services; for example, for Phantoms and Hunters in the Royal Navy and the Royal Air Force. The overhaul of airframes and third-line servicing of some electronic equipment for both Naval and R.A.F. Phantoms is to be undertaken by the Royal Air Force, and a joint team for provisioning Phantom aircraft spares works under Royal Air Force management. The Royal Navy undertakes certain servicing of Royal Air Force Whirlwinds. We are looking into the possibility of extending this common logistic support.

12. Food. The rationalisation of food supplies under the Naval Victualling Department has proceeded very smoothly. The planned economies in staff,
storage and office accommodation have been made. With the co-operation of N.A.A.F.I., we are conducting in Army Northern Command and in five R.A.F. stations trials of alternative methods of supplying food to the Services in the United Kingdom in order to discover what scope exists for further rationalisation. Results of the trials should be available for evaluation towards the end of 1968.

13. Guided Weapons Support. Common support arrangements have been agreed for the Sparrow, Sidewinder, Rapier and Martel missiles. For example, the Army will be responsible for supplying Rapier spares to both the Army and the Royal Air Force, and a common servicing policy will be adopted.

14. Hovercraft Support. The Navy Department is to take over responsibility for base repair and for co-ordinating the provision and procurement of spares for all Service hovercraft.

15. Motor Transport. The Army is now providing spares for a number of types of Service vehicles, and the range is being progressively widened as vehicle spares are given common stock numbers in accordance with the N.A.T.O. system. The Army is now assuming responsibility for repairing all vehicles (other than those within the capacity of individual units); the possibility of inter-Service assistance in repairs that are normally carried out at unit level is being studied.

16. Water Transport. The Navy Department is to become responsible for research, development, design, production and procurement of marine craft for all three Services, except Army Landing Ships Tank (L.S.T.s), Landing Ships Logistic (L.S.L.s) and amphibians. It will also be responsible for major repairs and refits, and the provision, procurement and supply of associated spares and stores. The Navy Department will also operate and control Army inter-communication craft (e.g. small launches, M.F.V.s used for ferrying personnel and stores) where practicable geographically. Detailed schemes for implementing these measures are being worked out. The possibility of the Navy Department's undertaking training in maritime subjects for all three Services is also being examined.

17. Supply Co-ordination. The aim of the Director General of Supply Co-ordination is to improve logistics management by developing a common supply terminology and common logistic procedures and by standardising equipment. During last year, the following progress was made:

a. About 160,000 new items of equipment and 175,000 items already in Service inventories have been identified with N.A.T.O. stock numbers.

b. About 250 defence standards have been completed, and the preparation of a further 500 has been put in hand. One of the aims of these standards is to reduce the variety of items stored by listing those whose use is recommended. Items not listed will drop out of inventory when no longer required for maintaining existing equipment.

c. A single specification for fork-lift trucks for the Services to replace the many single-Service specifications hitherto in force, is being prepared.
under the “master specification authority” scheme. Other items are being studied under the scheme.

d. The Directorate of Systems Co-ordination is engaged on a number of detailed studies, in close association with the Service Departments, in order to rationalise terminology and to evolve common practices and procedures. It will provide support for a Supply Planning Group, which has recently been established to foster in the most effective way the development of the Services’ systems of supply along compatible lines.

INSPECTION SERVICES

18. A special examination has been made of the arrangements for the inspection of chemicals and textiles for defence use. Some re-organisation will be made in order to produce a more economic and efficient service.

MEDICAL SERVICES

19. The Army Department becomes responsible in 1968 for procuring medical stores for all three Services. A single medical and dental equipment depot is to be established at Ludgershall. This will be operated by the Army and will open in April 1968.

20. It has been decided to set up two joint Service Medical Rehabilitation Units to replace three single-Service facilities. These will be operated by the Royal Air Force.

EDUCATION SERVICES

21. Studies continue into the most effective and economic way of bringing together certain educational functions hitherto carried out on a single-Service basis (see Statement on the Defence Estimates, 1967, Chapter III, paragraph 20 (Cmnd. 3203)). In particular, the administration of Service children’s schools overseas is being further examined in the light of the re-deployment and rundown of the Services.

22. Following discussions with the Government of Gibraltar, we are to build two new Service primary schools there. These are expected to be opened during 1969.

23. University extra-mural departments have continued, through local Services Education Committees and the Committee for University Assistance to Adult Education in the Forces, to give valuable help in the further education of Service personnel, particularly in international affairs and military history. A seminar and short course on strategic studies is run for senior officers.
IV
COMBAT FORCES

1. The Combat Forces consist of:
   a. Nuclear Strategic Forces.
   b. European Theatre Ground Forces.
   c. Royal Navy General Purpose Combat Forces.
   d. Army General Purpose Combat Forces.
   e. Royal Air Force General Purpose Combat Forces.
   f. Air Mobility Forces.

NUCLEAR STRATEGIC FORCES

Medium Bomber Force

2. In 1968, the main United Kingdom contribution to the western strategic nuclear deterrent will, as hitherto, be the medium bomber force of the Royal Air Force. But the Royal Navy will begin to take over the role when the first of the Polaris submarines becomes fully operational during the year. The two Victor B Mk 2 Blue Steel squadrons will then be withdrawn from service during the second half of 1968.

The Polaris Force

3. H.M.S. Resolution, the first of the four Polaris submarines referred to in the previous paragraph, was accepted into service by the Royal Navy in October 1967. She is undergoing her final trials and work-up, which include test firings off Cape Kennedy. She will be operational in the Spring of this year as planned. The second and third submarines, H.M.S. Renown and H.M.S. Repulse, will carry out sea trials later this year, becoming operational in 1969; they will be followed by H.M.S. Revenge in 1970.

4. The Clyde Submarine Base, which commissioned as H.M.S. Neptune in August 1967, is now supporting not only H.M.S. Resolution but also a squadron composed of Fleet and patrol submarines.

COST OF NUCLEAR STRATEGIC FORCES

5. The cost of nuclear strategic forces during 1968–69, in terms of money and manpower, is estimated to be:

<table>
<thead>
<tr>
<th>£m. Service Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium bomber force: control and support including headquarters and bases.</td>
</tr>
<tr>
<td>Submarines and Polaris missile systems: Polaris support.</td>
</tr>
<tr>
<td>Totals</td>
</tr>
<tr>
<td>018</td>
</tr>
</tbody>
</table>
EUROPEAN THEATRE GROUND FORCES

6. The European Theatre Ground Forces consist of the British Army of the Rhine (B.A.O.R.) and a brigade in Berlin. B.A.O.R., which is organised into a corps of three divisions, each of two brigades, is part of the shield forces of the North Atlantic Treaty Organisation. One brigade is being stationed in the United Kingdom (see Chapter II, paragraph 7 above).

EQUIPMENT

7. Armoured Regiments. Armoured regiments are continuing to be equipped with Chieftain tanks. Three regiments have been equipped so far. The performance of the tank in service has come well up to the high standards expected of it.

8. Field Artillery. The re-equipment of the field artillery supporting our ground forces in Europe is now complete. Tactical nuclear support will continue to be provided by the Honest John free-flight missile and the 8-inch towed howitzer.

9. Communications. A semi-automatic, multi-channel trunk system for communications in the combat area will come into operation this year.

10. Infantry. Further issues of tracked armoured personnel-carriers will bring infantry battalions in B.A.O.R. to their full entitlement during the year. Some armoured personnel-carriers in each battalion will be converted so that 81 mm. mortar or the Wombat anti-tank gun can be fired from them, and some will be fitted with a mount from which the general-purpose machine-gun can be used.

11. Army Aviation. By the end of 1968, the Sioux helicopters of the headquarters of brigades in B.A.O.R. will be replaced by Scouts, which have a greater range and carrying capacity.

COST OF EUROPEAN THEATRE GROUND FORCES

12. The cost of European theatre ground forces in 1968-69, in terms of money and manpower, is estimated to be:

<table>
<thead>
<tr>
<th>Service Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
</tr>
</tbody>
</table>

a. B.A.O.R.
b. Berlin.

**Totals**

<table>
<thead>
<tr>
<th>Service Civilian</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ROYAL NAVY GENERAL PURPOSE COMBAT FORCES**

13. The naval general purpose combat forces are the ships of the Fleet at home and overseas, other than the Polaris Submarines; the Fleet Air Arm; the Royal Marines Commandos; the fleet support ships; the overseas shore bases, dockyards, supply depots, etc.
COMPOSITION

14. The Fleet contains the following naval general purpose elements:
   a. Amphibious forces
   b. Aircraft carriers and squadrons
   c. Submarines
   d. Cruisers.
   e. Destroyers and frigates
   f. Mine countermeasures forces
   g. Support and other ships

In an emergency, all these forces can be sent, if required, to other theatres either as reinforcements or to undertake joint operations with the Army and the Royal Air Force.

EQUIPMENT

15. A part of the Government's measures to curb public expenditure, the rate of naval new construction, including the nuclear powered hunter/killer submarine programme, is now being examined in relation to the reduced commitments which are a consequence of our withdrawal from the Far East and Persian Gulf. The eventual rate at which we can build the three new classes of ship announced in the Supplementary Statement on Defence Policy 1967 (Cmd. 3357) will be one of the things that we shall consider in this exercise. The three classes are frigates to succeed the Leanders, destroyers to carry the Sea Dart surface-to-air missile system, and cruisers to follow the converted Tiger Class. Design work on them is going ahead.

16. Aircraft Carriers. The carrier force will be phased out when the withdrawals East of Suez have been completed. The effect of this earlier phasing out on the carrier refit programme and the naval Phantom aircraft is being urgently examined. H.M.S. Eagle and H.M.S. Hermes will be in commission during 1968.

17. Amphibious forces. H.M.S. Intrepid has now joined the Fleet and relieved H.M.S. Fearless East of Suez. H.M.S. Albion and H.M.S. Bulwark will both be in commission during 1968.

18. Cruisers. H.M.S. Blake and H.M.S. Tiger are being converted to carry Sea King helicopters. It is planned to convert H.M.S. Lion later.

19. Destroyers and frigates. The keel of the Type 82 destroyer was laid in November 1967. She is to be launched in April 1969. H.M.S. Fife and H.M.S. Glamorgan have joined the Fleet. Two more County Class ships, H.M.S. Antrim and H.M.S. Norfolk, have been launched and should join the Fleet in 1969.

20. Two new Leander Class frigates join the Fleet in 1968, and a further six are being built. In addition, it is probable that some existing Leanders will be modified to carry the Ikara anti-submarine weapon system.
21. **Helicopters.** All ships of frigate size and above will carry helicopters. The Wessex Mark 3, with its new anti-submarine weapon system, is now in service with the Fleet. Our anti-submarine forces will be further strengthened in 1969 with the introduction of the Sea King helicopter. Other ships carry the Wasp, which will be replaced by the WG 13 in the mid-1970s. These aircraft, in addition to their anti-submarine function will, if required, be able to carry out reconnaissance and light surface attack. In the latter role they will carry air-to-surface missiles.

22. **Submarines.** The fifth nuclear-powered submarine was laid down in December 1967; the keel of the sixth will be laid down in October 1968. An order for the first of an improved design was placed in November 1967.

23. **Mine Countermeasures Forces.** Six coastal minesweepers are being converted into minehunters, as an addition to the eight minehunters already in service.

24. **Survey Ships.** The last pair of four new coastal survey ships (Fox and Fawn) will be delivered in April or May. This completes the present plans for modernising the surveying fleet. Two-thirds of its ships are new or have been modernised within the last three years.

25. **Support Ships.** We are examining the future role of support ships in the light of our reduced commitments overseas. As a result of the reduction in overseas storage ashore, three large tankers have been chartered from commercial trade, in order to meet immediate requirements.

26. Three small fleet tankers of a new design were ordered in January 1968 to replace some of the Wave and Ranger Class tankers. These ships will provide a much better service to the Fleet because of their higher speed; they will carry not only fuel but a limited quantity of victualling stores. They will be equipped with full facilities, including helicopters, for replenishing H.M. Ships at sea.

### COST OF ROYAL NAVY GENERAL PURPOSE COMBAT FORCES

27. During 1968–69 the cost of the naval general purpose combat forces, in terms of money and manpower, is expected to be:

<table>
<thead>
<tr>
<th>Description</th>
<th>Service</th>
<th>Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Amphibious forces</td>
<td>£14.00</td>
<td>6,200</td>
</tr>
<tr>
<td>b. Aircraft carriers</td>
<td>£16.00</td>
<td>3,600</td>
</tr>
<tr>
<td>c. Submarines</td>
<td>£39.00</td>
<td>2,500</td>
</tr>
<tr>
<td>d. Cruisers</td>
<td>£4.00</td>
<td>500</td>
</tr>
<tr>
<td>e. Destroyers and frigates</td>
<td>£76.00</td>
<td>17,400</td>
</tr>
<tr>
<td>f. Mine countermeasures forces</td>
<td>£6.00</td>
<td>1,200</td>
</tr>
<tr>
<td>g. Other ships</td>
<td>£39.00</td>
<td>4,000</td>
</tr>
<tr>
<td>h. Aircraft</td>
<td>£81.00</td>
<td>3,800</td>
</tr>
<tr>
<td>i. Bases overseas</td>
<td>£23.00</td>
<td>3,400</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>£298.00</td>
<td>42,600</td>
</tr>
</tbody>
</table>

021
ARMY GENERAL PURPOSE COMBAT FORCES

28. Army general purpose combat forces consist mainly of the ground forces deployed outside Europe to meet our treaty obligations and other commitments; the strategic reserve; and other front-line units in the United Kingdom. We have started to implement the plans, which were described in the Supplementary Statement on Defence Policy 1967 (Cmnd. 3357), for reducing the size of these forces and for redeploying them. The reduction of the Brigade of Gurkhas to a strength of 6,000 by 1971 has begun. The Army will be reduced by 17 major units by early 1970.

29. All our troops have left South Arabia; the garrison stationed in the Persian Gulf will meet our remaining obligations until the end of 1971. The reduction in the Cyprus garrison was completed last year and there will be a minor reduction in Malta in 1968. The garrison in Libya was reduced earlier this year. In the Far East, reductions in the number of troops in Malaysia and Singapore will continue until all our forces have left by the end of 1971. Small increases have been made to the garrisons in Gibraltar and Hong Kong. We intend to maintain the strength and effectiveness of the Hong Kong garrison.

EQUIPMENT

30. The general-purpose machine-gun and the 9 mm. automatic pistol have been introduced. All infantry battalions are now equipped with the 81 mm. mortar. An improved version of the Mobat heavy anti-tank weapon, the Conbat, will be issued to some battalions during the year.

31. A limited number of surveillance devices, which give advance warning of intruders and can detect the movement of vehicles and men on foot, are available for use worldwide. Issues will continue of special binoculars and better flares to improve the ability of the soldier to move and fight by night.

32. A British designed and developed bridge, which can be transported by air, is due in service in early 1969. It is constructed of light alloy and is adaptable as a raft, a floating bridge or a dry gap bridge. The use of high strength, weldable, light alloy in the manufacture of military bridging is a new development and represents an important advance in the use of this material in the United Kingdom.

33. Further issues of Scout and Sioux helicopters will continue throughout the year. Armed helicopters were successfully used in operations in South Arabia. Further trials of the use of helicopters in this role are being undertaken in B.A.O.R. and the United Kingdom.

34. The first issues of Field Artillery Computer Equipment (FACE) will be made to training units in the United Kingdom. This equipment automatically computes information for command posts and survey sections: it will help to reduce the response time, and improve the accuracy, of support artillery.
COST OF ARMY GENERAL PURPOSE COMBAT FORCES

35. The cost of Army general purpose combat forces in 1968-69, in terms of money and manpower, is estimated to be:

<table>
<thead>
<tr>
<th></th>
<th>£m.</th>
<th>Service</th>
<th>Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. United Kingdom</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Far East (excluding Hong Kong)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Hong Kong</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Middle East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Mediterranean</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Caribbean</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td></td>
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</tbody>
</table>

ROYAL AIR FORCE GENERAL PURPOSE COMBAT FORCES

36. The general purpose combat forces of the Royal Air Force comprise all the front-line formations and units, except the medium bomber, transport and tanker forces. They fall into five main categories:

a. Air-defence; ground-attack; and fighter/reconnaissance.
b. Light bomber and tactical reconnaissance.
c. Maritime-reconnaissance.
d. Headquarters.
e. General support.

EQUIPMENT

37. *Air-Defence, Ground-Attack and Fighter/Reconnaissance.* Lightning fighter aircraft are based in the United Kingdom, Cyprus, Germany and Singapore. The remaining Javelin squadron is now being withdrawn from the Far East.

38. Because of development problems, the introduction of the United Kingdom Phantom into Royal Air Force service will be delayed for a short time. The training of crews at the Operational Conversion Unit will begin during the second half of the year, and the first operational squadron will form about the Spring of 1969. The development of the Harrier aircraft (which, with the Phantom, is to replace the Hunter) continues satisfactorily. The aircraft will enter service in 1969-70.

39. *Royal Air Force Regiment.* The short-range Tigercat surface-to-air missile will enter service this year, thereby making it possible rapidly to provide low-altitude air defence world-wide. It will make a useful contribution to our defences until the Royal Air Force Regiment is re-equipped with Rapier.
40. *Light Bomber and Reconnaissance.* As already announced, the order for 50 F 111K aircraft, which were to replace the Canberra, has been cancelled. The effect of this decision on the future equipment of the Royal Air Force is now being studied. Meanwhile, the plan to transfer V-bombers to the tactical role, as they are released from their strategic nuclear role, remains in force.

41. *Maritime Reconnaissance.* The long-range maritime-reconnaissance force is now fully equipped with modernised Mk 2 and Mk 3 Shackleton aircraft. The development of the Nimrod, which will begin to replace the Shackleton Mk 2 in 1969–70, is satisfactory. The flight test programme involving two of these aircraft is well advanced.

**COST OF ROYAL AIR FORCE GENERAL PURPOSE COMBAT FORCES**

42. The cost of Royal Air Force General Purpose Combat Forces during the year 1968–69, in terms of money and manpower, is estimated to be:

<table>
<thead>
<tr>
<th></th>
<th>£m.</th>
<th>Service</th>
<th>Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Air-defence, ground-attack, fighter/reconnaissance squadrons; surface-to-air missiles; conversion units and associated stations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Light bomber/reconnaissance squadrons; conversion units; and associated stations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Maritime-reconnaissance squadrons; operational training units; and associated stations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Command and group headquarters</td>
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<tr>
<td>e. General support including radar, communications and other base facilities</td>
<td></td>
<td></td>
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<tr>
<td><strong>TOTALS</strong></td>
<td></td>
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**AIR MOBILITY FORCES**

43. Air mobility forces comprise the strategic transport force; the medium and short-range tactical transport aircraft; support helicopters; the tanker force; communications aircraft; headquarters and bases in the United Kingdom and overseas; the Service and joint-user airfields used as staging posts. The latter now include the facilities on the alternative "West about" route to the Far East.
EQUIPMENT

44. **Strategic Transport.** This force includes Comet 4C, Britannia, Belfast and VC 10 aircraft. The United Kingdom bases for this force are Lyneham and Brize Norton. The VC 10 build-up will be completed in mid-1968, and that of the Belfast in 1969.

45. **Tactical Transport (Medium-range).** By mid-1968, the medium-range transport force will have been equipped with Hercules aircraft, all front-line Beverley and Hastings aircraft having been withdrawn. The force will then consist of only two types, the Argosy and the Hercules. The introduction of the Hercules has been a major task of organisation and training, and it is being carried out with exceptional speed and smoothness. All operational conversion training for the Hercules is now undertaken at Thorney Island. The United Kingdom Hercules squadrons are based at Lyneham and Fairford: the Fast East Squadron at Changi.

46. **Tactical Transport (Short-range).** All Andover aircraft for the Royal Air Force have now been delivered, and squadrons have now been re-equipped. All outstanding deliveries of the Wessex will be received early in 1969.

47. **Tanker Aircraft.** The equipment of tanker force with the three-point Victor tanker has been completed.

COST OF AIR MOBILITY FORCES

48. Included in the air mobility programme is the cost of chartering aircraft for the movement of personnel, families and priority freight of the three Services to overseas theatres.

49. During 1968–69 the cost of air mobility forces, in terms of money and manpower, is estimated to be:

<table>
<thead>
<tr>
<th>Service</th>
<th>£m.</th>
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<tbody>
<tr>
<td>Civilian</td>
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<table>
<thead>
<tr>
<th>Category</th>
<th>£m.</th>
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<tbody>
<tr>
<td>Strategic transport force: tanker</td>
<td></td>
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<tr>
<td>aircraft</td>
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<tr>
<td>Tactical transport force</td>
<td></td>
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<tr>
<td>(medium-range)</td>
<td></td>
</tr>
<tr>
<td>and communications aircraft</td>
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<tr>
<td>Control and support facilities</td>
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<tr>
<td>Civil charter</td>
<td></td>
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</tbody>
</table>

**TOTALS**

£m.  Service  Civilian
RESERVE FORCES

ROYAL NAVAL RESERVE FORCES

1. The composition and functions of the Royal Naval Reserve Forces were described in the Statement of the Defence Estimates, 1966, Part II, Chapter V, (Cmnd. 2902).

2. To assist with training the voluntary reserves, the 11 Royal Naval Reserve Divisions each have one coastal minesweeper allocated to them. These vessels are employed on many duties, from training reservists in minesweeping to goodwill visits abroad. Last year they all participated in a N.A.T.O. exercise.

3. In all, nearly 14,000 officers and 23,000 ratings can be mobilised; of these, over 3,800 officers and 4,400 ratings belong to the voluntary reserves.

ARMY RESERVE FORCES

4. The composition and functions of the new Territorial and Army Volunteer Reserve (T. & A.V.R.), which replaced the Territorial Army and the Army Emergency Reserve on 1 April 1967, are as outlined in the Statement on the Defence Estimates, 1967, Chapter V (Cmnd. 3203).

5. The Government has since decided to reduce home defence to care and maintenance, so that T. & A.V.R. III will no longer be kept in its present form. Training in the new Territorial and Army Volunteer Reserve I and II has had an encouraging start. Individual reservists and sub-units from T. & A.V.R. II have undergone intensive training with the Regular Army in Germany, Aden and Singapore. Members of the Special Army Volunteer Reserve (S.A.V.R.), the successor to the “Ever Ready” scheme of the Territorial Army, took part in exercises in Cyprus and Malta.

6. As stated in the White Paper on the Reorganisation of the Army Reserves (Cmnd. 2855), units of the T. & A.V.R. I and II are being issued with much-improved scales of modern vehicles and equipment, which conform generally to the standard of those in equivalent Regular Army units.


8. Territorial and Auxiliary Forces Associations will, as indicated in last year’s Statement on the Defence Estimates, Chapter VI (Cmnd. 3203), be reorganised on 1 April 1968 and reduced in number from 86 to 14.
ROYAL AIR FORCE RESERVE FORCES


10. The Regular and Volunteer Reserves provide a pool to reinforce regular units, and certain officers and men are earmarked for specific tasks in an emergency. The Royal Auxiliary Air Force is composed of three Maritime Headquarters Units, whose functions are to back up Coastal Command's operational control organisation if an emergency arises.

11. Royal Air Force auxiliaries took part in a live exercise in September in the United Kingdom and overseas; they acted as aircraft controllers and operational staffs.

12. The Royal Air Force Reserve Forces have a strength of approximately 12,300 officers and 71,600 airmen.
VI
RESEARCH AND DEVELOPMENT

1. Total expenditure on research and development for 1968-69 is estimated at [£m]: this figure takes account of the reduction announced immediately following devaluation and of the further cut referred to in paragraph 48 of the Prime Minister's statement on 16th January, 1968.

2. The provision covers work being undertaken in the same fields as last year:
   a. Aircraft
   b. Guided-Weapons
   c. Military space
   d. Electronics (other than electronics associated with a, b and c above and e below)
   e. Ship construction, naval weapons and equipment
   f. Ordnance, military ground vehicles, Royal Engineer stores, and biological and chemical defence.

An analysis of the estimated expenditure under these headings is given in Annex [D].

3. As announced in the Supplementary Statement on Defence Policy 1967, a comprehensive review of the research and development programme has been carried out, resulting in a cut of about £30m. in the previously planned expenditure for 1970-71. Work is now in hand to establish what further adjustments to the programme will be necessary in the light of the Prime Minister's statement.

4. Subject to any changes that may emerge from the review referred to above, the main items in the programme for 1968-69 will be as follows:

   AIRCRAFT

5. Major Projects. Major development projects on which work will be carried out include:
   a. Jaguar, the Anglo-French strike/trainer aircraft.
   b. The Spey-engined Phantom aircraft.
   c. Nimrod, the maritime reconnaissance aircraft (formerly HS801).
   d. Harrier, the V/STOL aircraft for the R.A.F., together with a dual-seat trainer version.
   e. The Buccaneer Mk 2, which is being adapted to carry Martel.
6. Other Projects. Studies of a new combat aircraft will continue as a basis for a possible collaborative project.

GUIDED WEAPONS

7. Major Projects. Major development projects on which work will be carried out, include:
   a. The Seadart medium-range surface-to-air guided-weapon system for ships.
   b. The Rapier air-portable surface-to-air guided weapon for ground defence against low-flying aircraft.
   c. The Martel stand-off air-to-surface guided-missile.
   d. Ikara, an Australian long-range anti-submarine weapons system.
   e. A naval close-range self-defence surface-to-air guided weapon.

ELECTRONICS (other than those associated with aircraft, guided weapons and ships)

8. Major Projects. Major development projects on which work will be carried out include:
   a. Linesman/Mediator, an integrated control and reporting system for air-defence and air-traffic control.
   b. Clansman, a net radio system for communications in the field.
   c. Mallard, a tactical trunk communication system for the 1970s, which is being developed in collaboration with the U.S.A., Canada and Australia.
   d. Weapon-locating radars for the Army.
   e. A continuing programme of development work for all three Services on electronic devices and components.

9. Other Projects. Work will also continue on communications, navigation and display equipment for aircraft and ground forces; airborne radars for reconnaissance, anti-submarine warfare, etc.; night-vision equipment.

SHIP CONSTRUCTION, NAVAL WEAPONS AND EQUIPMENT

10. Major Projects. Major development projects, on which work will be carried out, include:
   a. Nuclear propulsion.
   b. Gas-turbine development for ship propulsion.
c. Automation of ships' data handling systems.
d. The Mark 24 and Mark 31 anti-submarine torpedoes.
e. Shipborne launching and fire-control systems associated with Seadart and other naval guided-weapons detailed above.
f. A submarine command and operator trainer for the Faslane base.

11. Other Projects. Work will continue on the improvement of ships' auxiliary machinery, electrical control equipment, supply systems, and navigational aids: communications systems, including shipborne terminals for satellite communications; sonar equipments and their associated trainers; and the use of new materials.

ORDNANCE, MILITARY GROUND VEHICLE, ROYAL ENGINEER EQUIPMENT AND BIOLOGICAL AND CHEMICAL DEFENCE

12. Major Projects. Major development projects, on which work will be carried out, during the year include:

a. Computing equipment which will enable the Royal Artillery to engage targets more speedily and accurately.
b. A lightweight close-support gun for use by the Royal Artillery.
c. A towed medium gun.
d. An armoured vehicle-launched bridge and armoured recovery vehicle and an armoured vehicle for the Royal Engineers, all based on the Chieftan main battle tank. There will also be continuing development work on the tank itself.
e. A wheeled reconnaissance vehicle to replace the Ferret Scout car.
f. An amphibious combat engine tractor to provide armoured engineer support in forward areas and to assist in river crossing.
g. A family of airportable tracked armoured vehicles for reconnaissance, surveillance and fire support.

13. Other Projects. Development of minor projects continues in the following fields:

a. Weapons, fire-control and night fighting equipment, ammunition and fuses, mines and explosive equipment, pyrotechnics and survey equipment.
b. Military ground vehicles, specialist vehicles and trainers, materials handling equipment, and the adaptation of commercial vehicles for military use.
c. Royal Engineer equipment, such as bridging; plant and materials for earth-moving, road-making and airfield-surfacing; electrical generating equipment for use in the field; and equipment for storing and distributing fuel.
d. Equipment and procedures for biological and chemical defence.
MILITARY AUTOMATIC DATA PROCESSING EQUIPMENT

14. During the year, steps have been taken to rationalise the short-term requirements for military automatic data processing equipment and to see that the longer-term military requirements are co-ordinated with similar equipment being developed for the civil market. This should eliminate duplication of valuable resources and lengthen the production runs.

MICRO CIRCUITS

15. We are encouraging the use of micro-circuits in defence equipment wherever they are justified, and we are giving greater attention to the standardisation of these circuits. The stringent defence requirements play a significant part in stimulating the development of British industry. Here we have tried to strike a balance between the advantage of standardisation and the risk of stifling progress in this rapidly advancing field with too much rigidity.
SALES ORGANISATION

1. The Statement on the Defence Estimates 1967, Chapter VII, (Cmnd. 3203), outlined the new arrangements within the Ministry of Defence for the promotion of sales of defence equipment within the framework of Government policy. They are working well. Sales of military equipment have increased; we think that they will amount to over £150 million in 1968-69, the Ministry of Defence share being estimated to be about £50 million.

SALES TO GERMANY

2. We were able, as reported in the Supplementary Statement on Defence Policy 1967 (Cmnd. 3357), to cover nearly the whole of our foreign exchange costs for 1967. The sale of military equipment to Germany made a big contribution. Discussions are taking place with the Federal Government about arrangements for 1968-69.

SALES TO THE UNITED STATES

3. Contracts awarded or manufacturing arrangements entered into, under the F 111 offset arrangement, included the production of head-up display equipment for the U.S. Air Force A7 aircraft (worth 40m. dollars); two salvage tugs for the U.S. Navy (16m. dollars); eleven mission support aircraft for the U.S. Air Force (5m. dollars); machine tools (3m. dollars); general stores (3m. dollars); and miscellaneous naval and military equipment worth more than 1m. dollars. We hope that, even with the cancellation of the order for the F 111 aircraft, these contracts and arrangements will still stand.

4. The absence of the offset arrangement means inevitably that it will be more difficult to sell defence equipment to the United States, and great efforts will, therefore, be required. But British manufacturers have gained valuable knowledge and experience of the U.S. defence market and of U.S. procurement methods and management, which should be of lasting benefit.

5. We shall continue to promote the sale of British equipment when the opportunity occurs. We hope that the U.S. Department of Defense will continue to advise us of their requirements.
SALES TO OTHER COUNTRIES

6. Orders and enquiries received from overseas during the past years reflect the continued confidence which the forces of other countries have in the quality and value of British defence equipment of all kinds. International competition is fierce; but the shipbuilding, aircraft, electronics and other defence industries have all had considerable success. Great credit is due to all the many firms and establishments concerned.

7. Among the countries which the Head of Defence Sales visited during the past year are France, Italy, Sweden, Norway, Canada, Australia and Iran. These visits have been welcomed by the countries concerned and have given encouragement to many British exporters.

SALE OF CHARTS

8. Some information about the sale of charts is contained in Chapter VIII, paragraph 77.
TRAINING AND SUPPORT

INITIAL AND SPECIALIST TRAINING

1. Technology advances, and the equipment and components introduced into the Services grow more and more complex. The Services must, therefore, make certain that training methods are fully effective and that every use is made of modern teaching aids and techniques.

2. Co-operation in training between the Services grows closer as the exchange of ideas and information increases. This is particularly true in the field of training research. The training staffs meet frequently to discuss and plan studies. Such studies include, for example, electronic maintenance and programmed instruction. The Royal Air Force has taken the lead in the former; in the latter, all three Services are playing a part. The naval effort is described in the next paragraph. The Army has sponsored several extramural studies. The Royal Air Force is producing programmes on many technical subjects and hoping to follow up one of the Army's studies by supporting research on the use of adaptive trainers at the University of Essex. Joint-service training is being pursued to the greatest extent that differing operational requirements and trade structures, and the lack of suitable premises permit.

ROYAL NAVY

3. Programmed Instruction. The use of programmed instruction has been further extended. One major programme on arithmetic has been published; and a companion one on English, and several smaller programmes, are almost completed. These were all written by naval personnel. Commercial firms, with naval technical advice, are producing a programmed book on the "Rule of the Road" at sea and an experimental programme designed to teach machine-tool operation to technicians.

4. Training of Artificers H.M.S. Rapid was commissioned in May 1967 to provide practical sea and professional training for artificer apprentices. A review of the training of engine-room and shipwright artificers has led to an eight-month reduction in the length of the course; it may prove possible to reduce the training time for other categories of artificer in due course.

5. Upper Yardmen Scheme. The recently-introduced Upper Yardmen (Supplementary List) scheme, designed to give ratings more opportunity for promotion to officer rank at an early age, is a success. (It in no way supersedes the arrangements which allow promotion to the general and special duties lists.)
6. Commonwealth etc. Training. The Royal Navy last year provided over 350 courses within the United Kingdom for Commonwealth and foreign officers and ratings. 120 officers and 180 ratings of the Royal Navy were serving with Commonwealth and foreign navies on loan and in training teams.

ARMY

7. Last year's comprehensive review of the Army training organisation has been successfully consolidated. New courses for training all junior instructors engaged in the basic training of recruits and for teaching tactics to infantry sergeants have started. A decision to put the hovercraft training of all three Services under the Inter-Services Hovercraft Unit at Gosport will eliminate duplication.

8. 50 rifle ranges and 60 minor training areas throughout the country (about 12,000 acres) are to be given up. Other small areas are to be reviewed again during the next two years. The adequacy of the large training areas to meet the needs of the forces in the United Kingdom is under investigation.

9. The Army's Director of Technical Training, in consultation with the other Service departments and appropriate civil organisations, is instituting methods of technical training which will improve the training of military technicians and tradesmen. An important aspect is the provision of information from operational units to ensure that the training is always up-to-date. Studies of parallel developments by allied countries are also proving valuable. A new course to instruct chief instructors of army schools in designing a trade training course was instituted in November. This was the first of a series of courses which aim to teach the management of trade training to commandants and instructors of army schools. The Army technical training organisation gives intensive instruction to tradesmen and technicians and encourages them to qualify earlier. The thorough grounding they receive is of considerable value not only during their subsequent military service, but later on in civilian life.

10. Commonwealth etc. Training. About 1,000 officers and 900 men from Commonwealth and foreign countries attended Army training courses last year. 386 officers and 378 soldiers were on loan to 13 Commonwealth and 10 other countries to assist in training.

ROYAL AIR FORCE

11. There are three main centres for training Royal Air Force officers on initial entry. All cadet entrants to general list permanent commissions, whether destined for general duties (aircrew), for technical duties (engineer branch), for the secretarial or equipment branches, or for the Royal Air Force Regiment, now take initial training at Cranwell. Graduate and other direct entrants to the general duties branch are given their initial training at Church Fenton; entrants to all other branches (including the Women's Royal Air Force and Princess Mary's Royal Air Force Nursing Service) are trained at Henlow.
12. Graduate entrants are normally commissioned in the rank of pilot officer, and their seniority is ante-dated, on first commissioning, to ensure their accelerated promotion to flight lieutenant. There were 87 graduate entrants to the Royal Air Force in 1967, or about 8 per cent of the total officer entry from all sources.

13. Cranwell also provides the basic and advanced specialist training for engineer officers. All officers receive staff and management training at the Royal Air Force Staff Colleges at Bracknell and Andover; at the Junior Command and Staff School at Ternhill; and the Management and Work Study Training Squadron at Upwood. Correspondence courses lasting two years in staff subjects are provided by the Individual Studies School set up in 1966. Successful completion of this course is now an essential qualification for selection for Staff College.

14. In October 1967, the first course of technician apprentices completed three years' intensive training as systems specialists, diagnosticians and servicing co-ordinators. During such training the apprentices can qualify for the Ordinary National Certificate in engineering. On completion of their formal training, they spend a further two years as "improver" corporals, gaining practical experience on the systems and equipments for which they will be responsible. 18 cadetships and 10 direct entry commissions were awarded to the first course of technician apprentices to pass out from training.

15. Adult entrants receive recruit training and then proceed to basic training in their trade. Many airmen are able to advance their careers by being selected for further training to increase their knowledge of their trade or to fit them for specialised work.

16. The aircraft and electronics trades, whose boundaries have in some cases been found to be too limited, have been reorganised with the aim of affording a broader basic training. The new engineering tradesman is being trained to understand the general principles governing the whole of his specialisation and to apply those principles to the equipments which he is called upon to maintain. The reorganisation was formally introduced in April 1967. Assimilation and conversion training is proceeding.

17. Some specialist tradesmen have been trained in the United States on the Phantom aircraft.

18. Commonwealth etc. Training. Last year the Royal Air Force held training courses for 950 Commonwealth and foreign personnel from 41 countries. Royal Air Force personnel were loaned to other air forces to assist with local training.

**FLYING TRAINING**

**THE ROYAL NAVY**

19. Fewer fixed-wing pilots are to be trained as a result of paying off H.M.S. Victorious in 1967 and the decision to withdraw H.M.S. Hermes from the operational fleet. On the other hand, intensive training will con-
tinue to produce sufficient helicopter crews to meet the needs of ships carrying helicopters in the fleet. The idea of training specialist pilots for helicopter duties only is proving very successful and economical. Operational flying training for anti-submarine helicopter crews will include a final period at sea with fleet units embarked in a new Royal Fleet Auxiliary, Engadine.

20. Measures to cut down the cost and improve the standards of aircrew under training include further civilianisation of aircraft maintenance in support of the flying tasks and the provision of flight simulators. Simulators are being constructed for the Phantom, Buccaneer 2 and Sea King aircraft, and also for navigation training.

THE ARMY

21. The School of Army Aviation, Middle Wallop continues to train all the officer and non-commissioned officer pilots required by the Army Air Corps, and other arms and corps equipped with light aircraft and helicopters. During recent years approximately 130–140 pilots annually have successfully completed the seven-month course, with an average of 185 flying hours, and have been posted to operational units all over the world.

THE ROYAL AIR FORCE

22. The reduction in the number of front-line squadrons will decrease the requirements for pilots from the Flying Training Schools. Plans have therefore been made to concentrate basic flying training at three schools instead of four.

23. Advanced training for Commonwealth and foreign pilots is now carried out by a Hunter flight of dual and solo aircraft, which replaces a similar Vampire flight.

24. A contract has been placed for building a navigation simulator for use in the initial training of navigators. Each of the 10 cubicles of the simulator will contain a navigator's console similar to that to be found in the training aircraft. A digital computer will provide the information displayed on each console, and students will be able to navigate independently. The new simulator will replace the obsolescent dead-reckoning trainer, and it will be possible to delete some flying exercises from the syllabus. Visual flight systems are being incorporated into Vulcan and Lightning flight simulators.

25. The Royal Air Force needs more and more experienced officers, competent to initiate operational requirements and to progress development work on modern aircraft and their associated weapons systems. The introduction of a general duties aero-systems course at the Royal Air Force College of Air Warfare, Manby, in place of the traditional specialist navigation course, will meet this need. The course, which will last for 50 weeks, will be open to suitably-qualified pilots, navigators and air electronic officers. It will embrace all aspects of present and future aircraft and missile systems.
COST OF INITIAL, SPECIALIST AND FLYING TRAINING

26. The cost in 1968–69 of initial, specialist and flying training the three Services in terms of money and manpower, is estimated to be:

\[
\begin{array}{lll}
\text{£m.} & \text{Service} & \text{Civilian} \\
\hline
a. Initial training & \ldots & \ldots \\
b. Service colleges (some of the colleges provide professional training) & \ldots & \ldots \\
c. Professional, trade and other training & \ldots & \ldots \\
d. Flying training & \ldots & \ldots \\
\hline
\text{Totals} & \ldots & \ldots \\
\end{array}
\]

The above figures cover both instructors and trainees.

SUPPORT PLANNING

REVISED WITHDRAWAL PLANS

27. The acceleration of withdrawals from Malaysia and Singapore, and from the Persian Gulf, and the changes in the future role and equipment of the Services, will create a large complex task for those responsible for the support of the Services.

28. It is too early yet to give any details of the extra measures required to ensure that new plans for bringing home our forces, and for reorganising and reducing them in this country, are smoothly carried out over the next few years. Nor is it possible to give any firm forecast of the share of the total savings to be made in the defence budget by the early 1970s which will be attributable to logistic reductions.

REDUCTIONS OVERSEAS

29. The greatest part of the savings in support will be made overseas as a consequence of our withdrawal from base facilities outside Europe. Much planning is still to be done: the first problem will be to match the withdrawal of units with the contraction or closure of barracks, camps, schools, hospitals, repair and storage depots, and other supporting services, and with a programme for the discharge of locally-engaged civilian and locally-enlisted uniformed personnel.

"30. In Malaysia and Singapore, for example, we shall be relinquishing the naval base facilities, which were developed for our Fleet in the Far East, many army camps, depots and other military installations and several major air stations. We are still negotiating with the Governments concerned the terms of their disposal. Feasibility studies are being carried out to establish whether it is a practical and economic proposition to covert the Singapore naval dockyard to a commercial ship repair yard. Subject to a satisfactory outcome of these studies, we would consider giving this development financial support."
the British-Government, the Singapore Government may decide to have the
naval dockyard converted for commercial-ship repairing, if feasibility studies
which are—now being made—demonstrate that it is likely to be a good
economic-proposition to do so. Over 30,000 locally-engaged civilians and
locally-enlisted uniformed personnel will be discharged over the next three
years or so. The scale of the rundown will be much smaller in the Persian
Gulf, but we shall be withdrawing from there some 6,000 Service personnel
and giving up the barracks and other support facilities at Bahrain and
Sharjah.

REDUCTIONS IN THE UNITED KINGDOM

31. We cannot at present expect to make reductions in the United Kingdom
on the same scale or at the same pace. The forces returning from over­
seas will require some additional facilities for several years to come—for
e.g. extra housing, as explained in Chapter X. The technological
advances in ships, aircraft, weapons, and equipment (described in Chapter
VI) will continue to impose new and more exacting tasks on the maintenance,
repair, and supply services at home. The U.K. base will provide the
operational troops for any emergencies outside this country, so that the
general military capability which will be retained must be supported by
effective, as well as economical, support facilities. There is a large and
continuing task ahead, much of which will depend on the progress made in
the detailed planning of force structures on which we are now embarked.

32. But thorough examinations are already in hand. We are already
engaged on a comprehensive review of all naval establishments in the United
Kingdom, and of all naval holdings of stores, weapons, and ammunition,
with the intention of rationalising and reducing the support required by the
fleet in the 1970s. This will lead to the closure of a number of shore estab­
lishments and depots, including those in the Naval Air Command which will
no longer be required when fixed-wing flying has been phased out. The
Army are working out detailed plans for the future allocation of military
manpower as a basis for planning eventual reductions in the whole range
of army support facilities, including training establishments, schools, pay
and record offices, workshops and storage depots. During 1968–69, as a
consequence of the Infantry reorganisation announced last year, 13 brigade
or large regiment Headquarters will be replaced by the 5 Headquarters of
the new Infantry Divisions; and some eventual savings will result.

33. The Royal Air Force is combining reductions in front-line and support­
ing units with further measures of reorganisation. Their plans will take time
to complete, but at least 10 stations are expected to be reduced between

34. The changes in Command structure described in Chapter II will not
only produce economies in themselves, but also increase efficiency and con­
tribute to the process of cutting defence overheads in this country. The
possibility of further changes in structure will be kept under review in the
longer-term examination which is now in hand.
35. **Improvements in Management.** A central feature of all plans to redeploy, rationalise or reduce the support of the Services is the major effort now being devoted to improving the management of all logistic functions. It will produce significant savings in staff and facilities quite apart from those resulting from reduced commitments and smaller forces. Subsequent paragraphs report the latest developments in this field. They include changes in the arrangements for supplying forces abroad, as logistic facilities on the spot are reduced; more economical storage; progress with the introduction of computers for the R.A.O.C. and R.E.M.E.; and the installation this year of a computer into each of the four equipment supply depots of Maintenance Command.

**PRODUCTION, REPAIR AND SUPPLY ORGANISATION IN THE UNITED KINGDOM**

**THE ROYAL NAVY**

36. **H.M. Dockyards.** The process of modernising equipment and of improving organisation continues. Functional management, already established at Chatham and Rosyth Dockyards and largely complete at Portsmouth, is being introduced at Devonport. New computers have been installed at each of the three southern yards (and a fourth will shortly be installed at Rosyth) to replace earlier punched card equipment used for payroll and cost accounting. The new machines will not only save staff but assist management control by means of critical path analysis and similar techniques.

37. The Dockyards have a full programme of refitting and production. Devonport is engaged on the major refit of H.M.S. **Ark Royal** which began in February 1967. H.M.S. **Danae** was completed in October 1967. A start has been made on the conversion of H.M.S. **Tiger** and upon the construction of a further **Leander** class frigate. At Portsmouth, the conversion of H.M.S. **Blake** and the construction of H.M.S. **Andromeda** (another **Leander** class frigate) will be finished during 1968. Chatham Dockyard completed the second of three **Oberon** class submarines for the Royal Canadian Navy in June 1967 and will complete the third during 1968; the conversion of H.M.S. **Exmouth** as a gas-turbine trials vessel will be finished during the summer. The first refit and refuelling of H.M.S. **Dreadnought** is to begin at Rosyth in April 1968. The programme of modernising frigates and submarines continues.

38. **Royal Naval Supply and Transport Service.** Further steps, bringing economies in common administration and staff management, have been taken in the unification of this service.
39. A lot of practical experience has been gained from the use of “first generation” computers for stock control and stores provisioning, which have at the same time saved some staff and opened the way to other savings—of potentially greater significance—in inventory costs. In order to exploit statistical and other advanced techniques more fully, we are studying means of augmenting or replacing the existing computer systems for general naval, victualling and armament stores by more modern and more powerful machines.

40. Meanwhile new computers, linked by a data communication network, have been set up during the past year in the stores depots at Faslane, Coulport, Copenacre and Eaglescliffe to meet the special and novel problems of supporting the Polaris force.

THE ARMY

41. Maintenance in the Army of today, which uses a very wide range of often highly-complicated equipment, presents formidable problems of organisation to ensure that the most efficient use is made of the resources available. The Army has continued its policy of introducing and developing the most modern techniques of management.

42. Computers. Planning is well advanced for the introduction of a computer of the latest type at the R.A.O.C. depot at Bicester. It will ultimately control holdings, enabling them to be adjusted in relation to world-wide stocks and will make it easier for management to focus attention on the most important and expensive items. It will also analyse the data fed back so as to provide information on the reliability of ammunition.

43. As foreshadowed last year, the Royal Electrical and Mechanical Engineers have recently installed a new computer to provide data about the use and effectiveness of the repair of Army equipment, its serviceability in units and the consumption of spares, as well as information about the performance and reliability of equipment in the hands of troops. This information will improve day-to-day management, assist design staffs, and guide the development of future equipments.

44. Outside Consultants. Studies by outside consultants have facilitated the introduction of budgetary control techniques into the supply and repair organisation to obtain better value for money. These techniques have already been introduced into several R.A.O.C. depots and R.E.M.E. workshops and will be adopted in other similar units. Outside consultants have also reviewed the structure and methods of the Royal Engineers’ Resources Organisation.

45. Catering Control. The Army Catering Corps Group Headquarters now runs a group system of catering control, in which administration, provisioning, butchery, and the preparation of food are centralised. It is more efficient and economic than the independent unit messing which it replaces. The group system is now being used in Aidershot where 5,000 troops in 17 units are fed, and will be extended there in 1970 to 40 units feeding 17,000 troops. The Army plan to bring in further group catering schemes elsewhere in the United Kingdom in the early 1970’s.
THE ROYAL AIR FORCE

46. Further ranges of equipment have been brought under the control of the computer at the Royal Air Force Supply Control Centre, Hendon. Units are already feeling the benefit of better supply support as a result of the centralised computer control of stocks.

47. Depot Computers. One of the major functions of Maintenance Command is to service, issue and maintain a very broad range of material to support the Royal Air Force all over the world. There are at any one time about 800,000 different items in store, while issues and receipts run at the rate of over 300,000 a month. These items, which range from split pins to complete aircraft wings, present obvious problems of storing and handling, as well as of disposing them in coherent and manageable groups within the storage areas. Such complex tasks lend themselves to automatic data processing. Maintenance Command is therefore to introduce a computer into each of its four equipment supply depots during 1968 to take over the job of recording, identifying and processing demands made on the depots. The computer will also provide immediate information about the quantities and precise locations of the items demanded. This will not only simplify and speed up the collection and despatch of the various consignments but will also be much more economical in manpower. We estimate that up to 500 posts can be saved in this way during 1968-69 with further savings in the following year.

48. Ready Access. The introduction of computers has also permitted the Command to adopt a new approach to the storage of equipment and spares. Items are to be stored and classified in multi-tier racks on the basis of their size and the frequency of demand. The computers will pre-sort the demand vouchers and present them in sequence, so that the stores staff will be able to collect the individual items in the most economical manner. This change will lead to much more intensive working, to less arduous labour, to better supervision and to a marked reduction in the area required for storage. It is estimated that a further 500 posts will be saved.

49. Cost of Production, Repair and Supply Organisation. The overhead costs in 1968-69 of the production, repair, and supply organisation, in terms of money and manpower, in the United Kingdom are expected to be about £160m. They include those of storage, repair and production establishments in the United Kingdom: the costs of similar units overseas are attributed to the combat forces.

<table>
<thead>
<tr>
<th>Description</th>
<th>£m.</th>
<th>Service</th>
<th>Civilians</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Naval dockyards, etc</td>
<td>29</td>
<td>200</td>
<td>44,700</td>
</tr>
<tr>
<td>b. Factories</td>
<td>11</td>
<td>—</td>
<td>26,700</td>
</tr>
<tr>
<td>c. Repair, maintenance and storage</td>
<td>96</td>
<td>11,500</td>
<td>65,400</td>
</tr>
<tr>
<td>d. Inspection</td>
<td>24</td>
<td>100</td>
<td>16,100</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>160</strong></td>
<td><strong>11,800</strong></td>
<td><strong>152,900</strong></td>
</tr>
</tbody>
</table>
WAR AND CONTINGENCY STOCKS

50. The level of reserves we must hold to meet the demands of war and other contingencies has been reviewed and reduced. Expenditure on these reserves in 1968–1969 is expected to be about £37m.

MOVEMENTS

51. The movements programme covers the air, sea and surface transport of Service and civilian personnel and their dependents, stores and equipment. The pattern and level of movements, both of personnel and freight, will reflect the planned reductions and redeployment of forces, though this may be offset by a greater incidence of short unaccompanied tours overseas.

52. Less than 2 per cent of all personnel moved to and from the United Kingdom now travel by sea; the number of single journeys by air is expected to be about 420,000. Seven years ago almost three-quarters of all personnel movement to and from the United Kingdom was by sea. Two years ago, Air Support Command handled about 13 per cent of the total number of personnel movements. In 1968-69, it will handle 35 per cent by number, but its real contribution will be greater than this because it will fly the longer routes to the Persian Gulf and Far East, the shorter routes to North-west Europe being left to charter companies. The Royal Air Force's VC10 aircraft, which can carry up to 152 passengers, are now flying personnel on the long-distance routes as part of route familiarisation and continuation training.

53. Reliefs for H.M. ships stationed permanently outside the United Kingdom, for all overseas naval shore establishments, and for Royal Marine Commandos travel by air. We expect also to recommission by air certain other ships abroad in 1968-69. This will mean flying out about 2,000 personnel and flying home an equivalent number.

54. Freight for the routine maintenance of garrisons and stations overseas will continue to be moved mainly by sea. Air freighting by Air Support Command, supplemented if necessary by civil charter, will be used for stores which are required for urgent operational and administrative needs, or can be transported more cheaply by air. More stores, particularly high-cost items, will be moved by air where it is possible to meet urgent requirements overseas rapidly and economically.

55. Much of the Navy's sea freight is carried in the Royal Fleet Auxiliary overseas store carriers Hebe and Bacchus. In all they make 8 or 9 round voyages a year between the United Kingdom and the Far East. The Navy's liquid marine fuels are shipped from the refineries to the storage and usage points in Royal Fleet Auxiliary support tankers, supplemented as opportunity offers by fleet tankers. Both types are equipped for replenishment at sea.

56. Six Landing Ships Logistic (L.S.L.) will be in service during the year. Landing Ships Tank (L.S.T.) are progressively being withdrawn. When not required for their primary role in support of operations, these ships are used for major training exercises and for other movement tasks.
57. In 1968-69, the total volume of Service sea freight (outward, inward and inter-theatre) should be in the region of 870,000 measurement tons; about 81,000 measurement tons will be carried in Hebe and Bacchus, and about 200,000 measurement tons in Army Landing Ships Logistic and Landing Ships Tank. The amount of Services freight to be forwarded from the United Kingdom to overseas destination by air is likely to be about 8,000 short tons.

58. Within the United Kingdom, Services freight is moved by rail to the maximum extent possible.

59. The closure of the Suez Canal since June 1967 has meant that sea freight for destinations east of Suez has had to be sent by the Cape route, with higher costs and longer transport times, and that some stores, which would otherwise have been shipped by sea, have had to be sent by air.

-COST OF MOVEMENTS-

60. The total cost of surface movements in the three Services during 1968-69 will be about £ m. of which some £ m. has already been attributed in the various costs of the combat forces. Included in the former figure are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Movement of personnel by rail</td>
<td>8.2</td>
</tr>
<tr>
<td>b. Movement of personnel by sea</td>
<td>0.9 (i)</td>
</tr>
<tr>
<td>c. Movement of freight by rail</td>
<td>6.9</td>
</tr>
<tr>
<td>d. Movement of freight by sea</td>
<td>8.4 (ii)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>24.4</strong></td>
</tr>
</tbody>
</table>

(i) Excludes payments in compensation for cancellation of troopship contracts.
(ii) Includes amounts for freight shipped in Royal Fleet Auxiliary vessels and Army Department logistic shipping.

The cost of movements by air is covered by Chapter IV, paragraph 55.

COMMUNICATIONS

61. The Controller, Defence Communications Network now discharges his responsibilities through a joint-Service headquarters which was established in June 1967 for the control of the network. The planning of the future networks is based on the assumption that the Royal Air Force and the Royal Navy will man, operate and maintain the Defence Communications Network. The Army will provide the bulk of ground tactical communications including those point-to-point communications required by the Royal Air Force.
62. Progress continues with the rationalisation of the communications networks. The integration of Service communications in Cyprus has been completed and, apart from the benefits of increased efficiency, the project has produced savings in manpower and running costs estimated to exceed £0.6 m. a year. In the current year, work to rationalise communications in Singapore will be put in hand.

63. Satellite Communications. As explained in last year’s Statement on the Defence Estimates (Part II, Chapter VI) (Cmnd. 3203), the United States are procuring and will launch for us two satellites.

COST OF COMMUNICATIONS

64. The cost of communications networks in the United Kingdom for 1968-69 is estimated to be about (£ m.). All other expenditure on communications in the three Services is attributed to the costs of the combat forces.

METEOROLOGY

65. The United Kingdom delegation played a prominent role in the proceedings of the Fifth Congress of the World Meteorological Organisation held in April 1967, when a comprehensive scheme to improve meteorological services throughout the world (known as “World Weather Watch”) was launched. During 1968-71 the United Kingdom contribution to the scheme is expected to be about £2.5m. The Meteorological Office Headquarters, Bracknell has been offered as a regional meteorological centre and a regional telecommunications hub. The United Kingdom plans to extend its observational coverage, particularly in ocean areas, to give free training to meteorologists from overseas, to help developing countries and to assist generally in meteorological research.

66. The research activities of the Meteorological Office continue to expand. One of the world’s leading authorities on geophysical fluid dynamics has given up a full professorship at the Massachusetts Institute of Technology to establish a laboratory in the Meteorological Office in order to study the motions of the atmosphere and other aspects of geophysical fluid dynamics. A successful experiment was undertaken in the United Kingdom satellite Ariel 3 to measure the concentration of molecular oxygen in the atmosphere at levels of about 160 kms. The cloud physics branch formed in 1966 is undertaking, in conjunction with the Royal Radar Establishment, Malvern, extensive studies of rain-producing clouds, using radars, specially instrumented aircraft and sounding balloons. To find better ways of forecasting rainfall, experiments are being conducted on selected cloud systems around the Scilly Isles where their approach from the west is unaffected by land masses.

67. A machine to replace the hand-plotting of weather observations by direct transfer from teleprinter information is under trial. Services to industry are still being extended. A special service of forecasts for building sites is now available. Trials have been undertaken of a service to provide regular forecasts to ships at sea to enable them to follow the best route.
The number of hydrometeorological enquiries has risen steeply in recent years: one example of work undertaken in response to such enquiries is a study, now well-advanced, of flood-producing rainfall in the Trent basin.

68. Arrangements have been made by which suitably qualified scientific officers joining the Meteorological Office can undertake Ph.D. work under the joint supervision of the Office and the Imperial College, London. A further exchange of scientists has taken place with the United States Environmental Science Services Administration.

COST OF METEOROLOGICAL SERVICES

69. The net cost of meteorological services to the defence budget is estimated at (£ m). This includes: firstly, the cost of operational services directly provided for defence purposes, mainly at Royal Air Force stations, at home and overseas; secondly, the cost of meteorological research; and, thirdly, the net cost of services for the general public and for other civil purposes, including World Weather Watch, after recoveries have been made from certain users, including primarily the Board of Trade in respect of civil aviation.

LANDS

70. Despite the heavy workload created by the house-purchase programme (see Chapter X, paragraph 1), reorganisation within the Defence Lands Service, and the transfer of day-to-day work from Headquarters to local offices, has enabled further reductions in staff to be made. It is estimated that, by 1 April 1968, a 16 per cent reduction on the 1964 complements will have been achieved.

WORKS SERVICES

71. An important element in support is the work carried out by the Ministry of Public Building and Works. The Ministry is responsible not only for the works services associated with the accommodation programmes referred to in Chapter X but also for those required to maintain operational effectiveness and to make possible the introduction of new weapons and complex equipment. Examples are a new factory for the repair and inspection of ammunition at Kineton and a number of projects to house new computers. The Ministry also undertake a variety of work associated with other programme elements, e.g. the Polaris submarine base at Faslane and Coulport, new facilities at Chatham Dockyard for refitting and refuelling nuclear-powered submarines, and the improvement of airfields to take new types of aircraft.

SURVEY
ROYAL NAVY

72. Surveying vessels of the Royal Navy carried out hydrographic and oceanographic surveys at home and abroad, with particular attention to
oceanographical and geophysical observations. H.M.S. *Vidal* has been operating in the Indian Ocean for most of the year. H.M.S. *Dampier* completed her final commission in December and is now at Chatham paying off for disposal after 19½ years continuous surveying on the Far East Station. The three modern *Hecla* class vessels continued to give reliable service in the rigorous conditions of the North Atlantic; and the six smaller vessels were occupied in surveys on the west and east coasts of the United Kingdom.

**THE ARMY**

73. Military survey units at home and overseas continued to provide the maps, aeronautical charts and geodetic data needed by the three Services. Units in Borneo and Aden have been engaged in field surveys for the production of new maps, in both cases making extensive use of air photography. A British unit is taking part in the United States geodetic satellite programme, which will improve map and navigational accuracy throughout the world. Modern weapons and the navigational aids to be fitted in new aircraft present difficult new problems which will absorb more effort in future.

**ROYAL AIR FORCE**

74. Photographic reconnaissance aircraft of the Royal Air Force, based in the United Kingdom and in overseas theatres, undertook important aerial surveys in Europe, the Far East, the Middle East and Africa in 1967. A number of beach and tidal photographic surveys were also flown. Further overseas surveys are planned for 1968. More use is being made of colour photography which has advantages, e.g. for determining the depth of water.

**HYDROGRAPHY**

75. The primary function of the Hydrographer of the Navy is to produce a series of about 3,500 navigational charts and associated publications, covering the world, for the needs of the Royal Navy, other defence organisations, and the Merchant Marine. Modern printing machinery, which yields a much higher output for each operator, is being introduced into the Hydrographic Department to replace over-age and obsolescent equipment. The Department will thus be able to meet rapidly-growing demands without increasing the number of industrial staff.

76. The first of the new charts in the modern format and metric system will be available for overseas areas in 1968 and for Home Waters probably from mid-1970.

77. The public sale of charts to British, Commonwealth and foreign navies, and to mercantile marines, is still increasing. Chart sales are running at a rate 20 per cent higher than last year. Provision is being made for receipts of £64m. in current estimates compared with £526m. in 1967–68. About 75 per cent of sales now are to overseas customers.
SUMMARY OF OTHER SUPPORT COSTS AND MISCELLANEOUS EXPENDITURES

78. The total cost in 1968-69 of support functions (other than training, production and repair) and war and contingency stocks in the United Kingdom, in terms of money and manpower, is estimated to be ( ). This comprises:

<table>
<thead>
<tr>
<th>£m</th>
<th>Service</th>
<th>Civilian</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>Whitehall organisation ... ...</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>Local administration, movements and tele-communications in the United Kingdom (with associated services) ... ... ... ...</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>Meteorological services ... ...</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>Other support services (including land services, contributions to international defence organisations and the costs of supernumerary personnel) ... ... ... ...</td>
<td></td>
</tr>
<tr>
<td>e.</td>
<td>Service pensions ... ... ...</td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>Family and personnel services in the United Kingdom ... ...</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>TOTALS</strong> ... ... ... ...</td>
<td></td>
</tr>
</tbody>
</table>
1. Expenditure on advertising for recruits to the Services will continue at about [£  m].

**LONG TERM PROSPECTS FOR MANPOWER**

2. To follow up the enquiry referred to in the Statement on the Defence Estimates 1967 (Chapter IX), we have set up a Defence Manpower Studies Unit within the Ministry of Defence. It is responsible for co-ordinating manpower statistics; for examining systematically the management's requirements for manpower statistics, and statistical methods, including computer facilities; and for developing better forecasting techniques; and for associated studies.

3. The original enquiry had shown that such factors as the low birth-rate in the 1950s, the tendency for boys to stay longer at school, and the demand for higher education could have important consequences for the manning of the Forces. The Unit is carrying out further detailed studies into these matters.

4. The Defence Manpower Studies Unit is working closely with Government Departments, University Departments and other research organisations with interests in manpower problems. Useful contacts with manpower planning organisations in industry have also been established.

**STRENGTHS OF THE SERVICES**

5. The strengths of the Services are summarised in the following table:

<table>
<thead>
<tr>
<th>Service</th>
<th>1 January 1967</th>
<th>1 January 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Navy and Royal Marines</td>
<td>97,342</td>
<td>96,015</td>
</tr>
<tr>
<td>Army</td>
<td>195,697</td>
<td>190,750</td>
</tr>
<tr>
<td>Royal Air Force</td>
<td>124,300</td>
<td>121,414</td>
</tr>
</tbody>
</table>

6. The manning situation in the medical services gives cause for concern. Recruitment is not keeping pace with requirements and in particular is not compensating for the outflow.
OFFICER RECRUITING
THE ROYAL NAVY AND ROYAL MARINES

7. Cadetships and Scholarships. 175 cadets entered Britannia Royal Naval College, Dartmouth last September. A considerable increase is needed in the number of general list cadets entering the engineering specialisation; more seamen are also required. Recruiting effort is being directed towards an improvement. 72 Royal Naval and 6 Royal Marines Scholarships, 136 Royal Naval Reserved Cadetships and 3 Royal Marine Reserved Appointments were awarded during 1967. The number of applications was less than in previous years.

8. University Cadetships and Graduate Entry. 14 University cadetships were awarded in 1967. This is not as high as the number of awards in the previous year. It is hoped to do better in 1968. The Royal Navy needs many more graduate entrants in the seamen and engineering specialisation of the general list.

9. Supplementary List. Entries of supplementary list aircrew have been satisfactory. At present the number of suitable applicants is sufficient to meet reduced requirements. Minor deficiencies in trained strength will persist until about mid-1969.

10. The entry of seamen officers into the supplementary list is still adequate. The Navy is trying to obtain more professionally-qualified engineers as well as young men suitable to train as engineers to graduate standards within the Service.

11. Instructor Medical and Dental Branches. Sufficient instructor and dental officers were entered in 1966, but more qualified medical officers are wanted. The medical and dental cadetship schemes continue to attract students.

12. Royal Marines. Entries of both permanent and short-service officers into the Royal Marines remain satisfactory. Entry into the Royal Marines Flying Service List has been discontinued; because of reduced aircrew requirements, it is expected that all rotary-wing pilots can be provided for the Fleet Air Arm from the Royal Navy Supplementary List.

THE ARMY

13. Regular and Short Service Officers. The Army is now up to strength in total numbers of officers, although certain deficiencies remain. For example, there are shortages of junior officers in some technical and specialist corps.

14. The Special Regular Commission (which offers 16 years’ commissioned service initially) was introduced in 1967. It replaces the Limited Service Regular Commission and offers improved terms of service. We hope that this commission will prove attractive to civilians, to officers serving on short-service commissions, and to serving soldiers of all ages. The annual target for Special Regular Commissions and Short Service Commissions remains at 500.
15. In 1967 [ ] appointments were made to non-permanent commissions. The intake at the Royal Military Academy, Sandhurst, for September 1967 was 201. The numbers for January 1968 were up to requirements. Twenty scholarships were awarded at both the Spring and Autumn competitions, the general standard of applicants being good. 75 boys entered Welbeck College in 1967. There were fewer applicants for entry in January 1968.

16. University Entry. Under the University Cadetship Scheme, 23 cadetships were awarded in 1967 compared with 19 in 1966. The number of graduates who have taken commissions in the combatant branches of the Army remains between 25 and 30, against the annual target of 76.

17. Medical. The number of medical cadets qualifying as doctors reached its highest point in 1967. One-third of the doctors in the Royal Army Medical Corps are now ex-cadets. Unfortunately, the recruitment both of cadets and of qualified and registered doctors has declined, and the number of voluntary retirements has risen.

THE ROYAL AIR FORCE

18. Cadetships and Scholarships. Recruitment to the Royal Air Force College, Cranwell in 1967 was generally satisfactory, although a shortfall in the Spring pilot entry occurred because some of those previously selected for Royal Air Force Scholarships did not reach the required academic standard. The entry of engineer cadets to Cranwell is now annual: the last bi-annual entry in Spring 1967 was satisfactory, but the first annual entry in October 1967 was below requirements. The full quota of Royal Air Force scholarships was awarded in 1967.

19. University Cadetships and Graduate Entry. The numbers and quality of applicants for University Cadetships improved. 50 awards were made during the year, 4 more than in 1966, but the total number of Cadets in residence at universities still falls well short of the target. 25 university cadets and 10 ex-Henlow cadets graduated during the year; and 52 graduates were recruited.

20. Other Commissions. The requirement for pilots, which has been reduced, has been met without difficulty, and the improvement in navigator recruitment has been sustained. No improvement has been made in recruitment to the engineer branch. The number of officers recruited in the other main ground branches was below the level of a year ago.

21. Medical and Dental Branches. 36 medical and 6 dental cadetships were awarded. Only 2 qualified registered doctors were recruited during the year; at the same time, the number leaving the Service short of a full career has risen sharply.

RECRUITMENT OF RATINGS, SOLDIERS AND AIRMEN

ROYAL NAVY AND ROYAL MARINES

22. Recruitment is running at the rate of 7,000 a year. This is lower than was desired; in particular, a shortage of recruits for the most highly-skilled
categories, e.g. artificer and mechanician apprentices, and in the electrical mechanician, engineering mechanic and communication branches, is being experienced.

THE ARMY

23. During 1967 [ ] male adult soldiers were enlisted into the Army, of whom [ ] or [ ] per cent were young soldiers aged 17 to 17½ years. This compares with 19,511 (22 per cent young soldiers) recruited in 1966. Adult recruiting during 1967 was running at [ ] per cent below the 1966 level. The number of junior soldiers enlisted (ages 15 and 16) also decreased from [ ] to [ ].

24. The increase in the number of adults and young soldiers who elected to serve for nine years (as opposed to six years) on enlistment, has been maintained. The figure for 1966 was 50—2 per cent of the total enlisted—and for 1967 it was [ ] per cent.

THE ROYAL AIR FORCE

25. During 1967, 5,161 adult males were recruited into the ground trades, virtually the same result as in 1966 (5,306). Recruiting in the engineering trades was generally satisfactory, but shortages of recruits in the trades of electronic mechanic (ground communications), photographers, safety equipment worker, gunner, police, supplier, steward, and trade assistants general persisted. In addition 609 young airmen were recruited.

26. The requirement for engineering technician apprentices was largely met. 790 craft apprentices were recruited in 1967, compared with 533 in 1966, but this was only half the requirement. The recruitment of administrative apprentices was insufficient.

THE WOMEN'S SERVICES

27. Recruitment for the Women’s Royal Naval Services has been good.

28. Officer recruiting for the Women’s Royal Army Corps has fallen short of expectations. For Queen Alexandra’s Royal Army Nursing Corps, it is slightly better; the corps is, however, still some [ ] per cent below requirement. Recruiting for other ranks of both corps has been down on 1966.

29. Recruitment for the Women’s Royal Air Force has been satisfactory. A new scheme has been introduced for recruiting trained state-enrolled nurses and pupil nurses into the Princess Mary’s Royal Air Force Nursing Service. It is too early to assess the likely response.

CADET FORCES

30. Naval assistance to the Combined Cadet Force and the Sea Cadet Corps in 1967 was on a similar scale to that in 1966. An encouraging increase in the number of sea cadets joining the Royal Navy again took place: the figures rose from 647 to 762.
31. The total strength of the Army Sections of the Combined Cadet Force and the Army Cadet Force is 75,500. About 80 per cent of the Army officer entry had served in the Combined Cadet Force; and the Army Cadet Force provided 30 per cent of the boy entry, and 8 per cent of the adult entry, of the Regular Army.

32. In order to remedy the training deficiency caused by the re-organisation of the Territorial Army, 34 Regular Army training teams have been established. The majority of the Army Cadet Force detachments, formerly accommodated in centres no longer required for the Territorial and Army Volunteer Reserves, have been re-accommodated. It is planned to complete their rehousing during 1968-69.

33. The total strength of the Air Training Corps and the Royal Air Force Sections of the Combined Cadet Force is 37,000. Former cadets continue to form a substantial proportion of entrants to the Royal Air Force. A committee was set up in April 1967 to conduct a fundamental review of the organisation, administration and training of the Air Training Corps so as to ensure that the Corps will adequately meet the needs of the 1970s. Its report is now under consideration.

RE-ENGAGEMENT
THE ROYAL NAVY AND ROYAL MARINES

34. Following measures taken in 1966 to stimulate it, re-engagement has improved, though not to the rate that we would have liked. Much attention is being devoted to further measures to improve it. The rate for men completing nine-year engagements has risen from 25 per cent in 1966 to 29 per cent in 1967; and, for men completing 12-year engagements, from 45 per cent in 1966 to 48 per cent in 1967.

THE ARMY

35. Over the last year considerable effort has been put into re-engagement within the Army with satisfactory results. The aim is to push up the present rates in order to cut the demand for new recruits from civil life. During 1967 about 77 per cent of all soldiers completing six years' service remained in the Army to serve on to nine years; of those who have completed 9 years, about 55 per cent have remained to serve on for 12 years or more; and of those reaching the 12 years' service point, about 87 per cent are serving to complete the full 22-year engagement. The career prospects of long-serving soldiers have been improved. This should materially help to retain the most suitable soldiers to fill the senior N.C.O. and warrant officer posts, and the important technical and administrative posts in the Army.

THE ROYAL AIR FORCE

36. The rate of re-engagement increased in the first half of 1967-68, after the decline in the previous six months. This was particularly encouraging, as no special incentive had been offered during this period. All re-engag-
ments are now controlled by selection boards. Each trade has a quota calculated so that careers can be systematically planned. This enables future peaks and troughs in the age and rank structure to be avoided, promotion prospects, to be maintained so that they do not fluctuate too widely between trades, and skills to be employed to the best advantage. Extensions of service continued at the same rate as 1966: they are reasonably satisfactory.
PERSONNEL AND FAMILY SERVICES

MARRIED QUARTERS AND HIRINGS

1. Return of Servicemen and their families. The reductions overseas and the return of a large number of Servicemen and their families to this country clearly present problems of morale and welfare. The timely provision of decent accommodation, to which we have always attached particular importance, is fundamental to the solution of such problems. We have, therefore, taken exceptional measures over the last twelve months to speed up the building programme and to buy housing in the open market. We now aim to purchase over 8,000 houses, an increase of nearly 5,000 on last year’s target. About 6,000 of these have already either been bought or are under negotiation. Almost all the houses will be on new estates, and over half will have been finished by the Spring. We have also acquired every suitable hiring that we could find. The total cost of the programme is £32.58m.

2. At the same time, we are not relaxing our efforts to speed up and expand the normal married quarters programme.

ROYAL NAVY

3. The Royal Navy now has over 10,000 married quarters and 2,800 hirings in the United Kingdom. About 1,400 quarters were completed during 1967-68. The first phase of the new naval housing estate at Gosport, which consists of 1,000 houses and flats, built by industrialised methods has come to an end. The second phase has started; the construction of a community centre and shops will receive high priority. At the same time, close attention is being directed to the social needs of this large estate and the cultivation of a spirit of community.

4. About 3,500 more married quarters are planned for the Royal Navy in the current building programme, on which £4m. will be spent in 1968-69. As in the past, the requirement for married quarters in the Navy is being kept under close review, in order that future building programmes can be decided in the light of the demand.

5. Overseas, no significant programme for building married quarters is planned. We shall rely mainly on hirings to provide family accommodation at a cost of £4m. in 1968-69.

6. Naval requirements under the special programme (referred to in paragraph 1) for housing families returning from overseas are relatively small.
About 100 houses will have been bought by 31 March 1968; expenditure on the balance is expected to be £5m in 1968-69, and the cost of hirings £1.17m.

ARMY

7. On 1 April 1968, the Army will have about 29,500 married quarters. A further 2,000 are due to be completed in 1968-69. By the mid-1970s, the requirement in the United Kingdom should have been substantially met.

8. Until the reduction and redeployment of the Army has taken place, there will, owing to the return of troops from overseas, be a temporary requirement, for additional married accommodation. This will be met mainly by the purchase of houses, and by additional furnished hirings.

9. We estimate the permanent building programme in the United Kingdom in 1968-69 at £6.98m. We expect to have bought 3,700 houses by 31 March 1968 at a cost of £18.18m.; the cost of the remainder is likely to be about £10m. in 1968-69. The cost of hirings will be £1.6m.

10. Overseas, work is expected to start early in the year on a number of British and Gurkha married quarters in Hong Kong, the cost of which will be refunded by the Hong Kong Government. Provision is also being made for a number of married quarters in Gibraltar.

11. A new organisation to manage married quarters estates will be introduced in 1968. It is modelled on civilian housing management methods, adapted for the special needs of the Army. It will be integrated with local authority services and will compare favourably with their standards.

ROYAL AIR FORCE

12. On current assessments, the deficiency in the Royal Air Force long-term requirement for permanent married quarters in the United Kingdom is about 4,500; this is being made good at the rate of approximately 1,300 quarters a year. The permanent building programme in 1968-69 is expected to cost £6.5m. We expect to have completed the purchase of 1,700 houses by 31 March 1968; purchases in 1968-69 are likely to amount to £1.64m. The cost of hirings will be £2.5m.

13. Overseas, the Royal Air Force has some 7,000 married quarters and 6,200 hirings. The cost of this accommodation in 1968-69 will be £2.7m.

BARRACK ACCOMMODATION

ROYAL NAVY

14. The programme for bringing Fleet shore establishments up to modern standards continues within the resources available. Much remains to be done to modernise or rebuild barracks and training establishments in particular. We aim to complete this by the late 1970s. Schemes which have a total value of £18m. are already going ahead; others are in an advanced stage of planning.
THE ARMY

15. Accommodation for personnel, depots, schools of instruction, etc., continues to be modernised or replaced to meet the needs of the Army in the United Kingdom. In 1968-69, £19-1m. is allowed for this work, including provision for starting 8 personnel accommodation projects. Ten such projects are due for completion in 1968-69.

16. Work will continue on the renovation of various temporary camps required in the short term to accommodate troops returning to the United Kingdom.

17. Expenditure overseas on new and improved accommodation will include £1-8m. for work in B.A.O.R.

ROYAL AIR FORCE

18. Temporary single accommodation will continue to be replaced by permanent accommodation as necessary; and the programme modernising the older types of permanent barrack blocks is going ahead. The construction of domestic accommodation at West Drayton in connection with the Joint Military and Civil Air Traffic Control project will be well under way this year.

COMPENSATION FOR DEPENDANTS INJURED THROUGH TERRORIST OR SIMILAR CRIMINAL ACTIVITY OVERSEAS

19. A scheme for paying compensation to the dependants of Servicemen and other Crown servants who are injured overseas as the result of terrorist or similar criminal activity overseas, came into force on 24 July 1967.

FUTURE REVIEWS OF FORCES' PAY

20. The last general review of the pay of the armed forces took place in 1966 when, following the recommendations of the National Board for Prices and Incomes, the Government decided to grant increases with effect from 1 April 1966. The Government have now made the pay and allowances of the Forces the subject of a standing reference to the National Board, who will keep them under continuous review. The Board's first report under these arrangements is expected to be made early this year.

MANPOWER EFFECTS OF RUNDOWN

21. The detailed plans that had been worked out following the reductions announced in the Supplementary Statement on Defence Policy, 1967 are now being revised to take account of the accelerated rundown announced on 16 January 1968. It is not yet possible to be precise about the numbers that will be declared redundant in 1968.
22. The redundancies will as far as possible, be met by voluntary applications from officers and men in the prescribed age and rank zones, but some compulsory selection will be necessary where there are not sufficient suitable voluntary applications.

RESETTLEMENT

23. Most men leave the Forces at an age when they must look for a second career in civil life. We recognise that it is important for them to be prepared in advance for resettlement and to be given advice, training—if what they have received in the Service has not fully fitted them for civilian employment—and help in finding jobs, when the time comes for them to leave the Service. Such assistance is given through the Forces Resettlement Service. This is run by the Service Departments, the Ministry of Labour, and the voluntary organisations that cater specially for the employment of ex-officers and of former sailors, soldiers and airmen.

24. Advice is given, mainly at personal interviews, well in advance of the date of the man's leaving the Service. It deals with every side of the return to civilian life, e.g. housing and, particularly, the choice of employment and training courses.

25. Many Servicemen acquire skills which have an accepted value in civilian life. Over a period of years, arrangements have been made with professional bodies and with the trade unions to recognise Service qualifications. Men are also encouraged to study to obtain qualification for civilian appointments. For example, one course, which lasts two years, leads to the Higher National Certificate in Business Studies. Another on systems analysis has recently been introduced. The courses are financed partly from public funds and partly by the individual.

26. The Forces also offer short pre-release courses in a wide variety of technical and general subjects for those who want training at the end of their service. These may be taken either at a Forces Resettlement Centre or by attachment to select firms where appropriate. The courses may be complete in themselves, or they may be preliminary to the post-release courses at Government Training Centres. They are run by the Ministry of Labour, and ex-servicemen are eligible to take them. Short pre-release courses in business training and for potential supervisors in industry are provided under the auspices of the Ministry of Labour.

27. Help in finding men jobs to match their qualifications is given through the Ministry of Labour Employment Services, the Officers' Association, the National Association for the Employment of Regular Sailors, Soldiers and Airmen, and the Services' own resettlement organisations. At each employment exchange (of which there are about 900) and at each regional office, a Minister of Labour official has a special responsibility for ex-members of the Forces.

28. Now that we have decided to accelerate the rundown of the Forces, we have to examine very closely the adequacy of current arrangements in the new situation. A committee of officials from the Ministry of Labour
and Ministry of Defence is reviewing resettlement arrangements and considering where they need strengthening. The Regional Resettlement Committees set up for the 1957–62 rundown are being reactivated where necessary. The Ministry of Labour are increasing the number of Government training centres and taking steps to speed up the allocation of ex-Servicemen to vacancies on courses.
### Overseas Expenditure

**Table 1: Local Defence Expenditure in Areas other than Germany**

<table>
<thead>
<tr>
<th>Area</th>
<th>1967-68 Estimate</th>
<th>1968-69 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediterranean</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Middle East</td>
<td>24</td>
<td>16</td>
</tr>
<tr>
<td>Far East</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td><strong>150</strong></td>
<td><strong>144</strong></td>
</tr>
</tbody>
</table>

**Notes**

1. The 1968-69 figures reflect the devaluation of the £ in November 1967; at pre-devaluation rates the total would have been about £130m.

2. Figures for Germany, which will depend on the outcome of talks now in progress with the Federal German Government, as announced by the Prime Minister on 16th January, are excluded. The provisional forecast of foreign exchange expenditure by our forces in West Germany for 1968-69 is of the order of £90m.

3. Some reclassification of expenditure has taken place since Cmd. 3203 was published; the 1967-68 figures shown are those in Cmd. 3203 adjusted to reflect these changes.

4. Quite apart, from specific offset agreements, it should be borne in mind that the figures given above represent the drawings of foreign exchange used to support our forces overseas. They do not, even if the forces concerned were disbanded immediately, represent the benefit to the balance of payments which would accrue from withdrawing them. This is a significantly smaller sum because the balance of payments derives some benefit from this expenditure (e.g., on British exports) as it does from almost all Government expenditure overseas, and
### Overseas Expenditure

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<table>
<thead>
<tr>
<th>Area</th>
<th>1967-68 Estimate £m</th>
<th>1968-69 Estimate £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediterranean</td>
<td>34</td>
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</tr>
<tr>
<td>Middle East</td>
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</tr>
<tr>
<td>Far East</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>150</strong></td>
<td><strong>154</strong></td>
</tr>
</tbody>
</table>

**Notes**

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men repatriated to Britain will, whether in the forces or not, consume products which cost foreign exchange.

Table 2 Headquarters Expenditure and Receipts
(excluding Military Equipment)

<table>
<thead>
<tr>
<th></th>
<th>1967-68 Estimate</th>
<th>1968-69 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td>34</td>
<td>35</td>
</tr>
<tr>
<td>Receipts</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>Net debit</td>
<td>5</td>
<td>9</td>
</tr>
</tbody>
</table>

Notes
1. These figures cover invisible transactions including subscriptions to NATO etc, certain research and development expenditure and receipts from US forces in the UK.
2. Some reclassification of expenditure has taken place since Cmd. 3203 was published; the 1967-68 figures shown are those in Cmd. 3203 adjusted to reflect these changes.

Table 3 Headquarters Expenditure and Receipts for Military Equipment

<table>
<thead>
<tr>
<th></th>
<th>1967-68 Estimate</th>
<th>1968-69 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cost of equipment purchases</td>
<td>87</td>
<td>122</td>
</tr>
<tr>
<td>UK components included in above</td>
<td>13</td>
<td>21</td>
</tr>
<tr>
<td>Ministry of Defence Sales</td>
<td>17</td>
<td>52</td>
</tr>
<tr>
<td>Total credit:</td>
<td>62</td>
<td>73</td>
</tr>
<tr>
<td>Net debit</td>
<td>27</td>
<td>49</td>
</tr>
</tbody>
</table>

Notes
1. Against this, the following are the estimates for:
   a. Private expenditure by US forces in the United Kingdom - at least £35
   b. Sales of defence equipment by firms - about £110
   c. 14.5
2. There is also a Consolidated Fund liability of £4m in capital and interest payments under the arrangements announced in Cmd. 2982.

3. The figures exclude the dollar element of Fill cancellation costs, which are not yet known.
30th January, 1968

CABINET

FARM PRICE REVIEW

Memorandum by the First Secretary of State

It has not proved possible for the Ministerial Committee on Agricultural Policy to reach agreement on the limits to which Agricultural Ministers should go in negotiations on this year's Farm Price Review. I set out below the divergent views and my own recommendations on the main issues.

Background

2. Officials have carried out a review of the extent to which the commodity objectives of the existing selective expansion programme for agriculture might need to be modified in the light of devaluation. Their general conclusion was that, apart from some minor adjustments of individual commodity objectives, the broad pattern of the programme remains appropriate. The review showed, however, considerable divergences of view between the Treasury and the Agricultural Departments. The Treasury emphasised that the continuation of the expansion programme must be considered in the light of the Exchequer cost and other relevant factors, on which information was not then available. Particularly on the major issue of beef, the Treasury doubted whether the proposed expansion could be achieved without a disproportionate cost to the Exchequer, and they argued more generally that the resources needed for agricultural expansion might make an even bigger contribution to the balance of payments if deployed elsewhere.

3. The officials' report was considered by the Economic Advisers. They concluded that -

(i) the level of support for agriculture should be re-examined because, as a general proposition, devaluation should reduce the level of Exchequer support that can be justified to produce a given import saving in the economy generally;

(ii) there should therefore be a further examination after the Farm Price Review when additional information will be available on the cost in resources and in Exchequer money of achieving the present expansion objectives; but
we should not decide to make radical changes in the selective
expansion programme until we have actually achieved an
improvement in the balance of payments, though the emphasis
in the present Price Review should be thrown on commodities
where the response will be quick and the benefit to the balance
of payments will accrue in the next year or two.

4. Devaluation will mean higher prices for imports and therefore
lower deficiency payments to farmers on some commodities. It is
estimated that the resultant saving to the Exchequer will be in the range
of £30–£40 million in the full year, though only part of this will be
felt in 1968–69.

5. The divergent recommendations by Departments for the present
Price Review are summarised in the table at Annex I. Since these
recommendations were made, the estimate of cost increases incurred
by farmers since the last review has been increased from £66 million
to £68.5 million (plus some £14 million in feed for pigs and egg
production which will be recouped automatically under the Review
procedures) and all Departments accept that their recommended total
awards should be adjusted to take account of this. The figure for
costs may yet go even higher.

Total Size of the Award

6. The Agricultural Departments recommended an award totalling
£73 million. This would meet all the increased costs and leave a
margin to the farmers of £7 million. This sum, together with gains
from increased productivity conventionally estimated at £30 million,
would represent an addition to total net farm income (£500 million
approximately) of 7½ per cent). It has to be remembered that out of
net farm income there must be provided a large proportion of finance
for new investment as well as the return on past investment and personal
income to the farmer; so an increase in farmers' net income is not
comparable with a wage increase. If account is taken of the decline
in the number of farms, the increase in net income per farm on the
basis of the Agricultural Departments' recommended award would be
about 8 to 8½ per cent.

7. The Treasury recommended an award of £33 million, equivalent
to half the increase in costs: the balance of cost increases would mop
up all the estimated productivity gains and still leave the farmers to find
a further £3 million.

8. The Department of Economic Affairs (DEA) take an
intermediate position, recommending an award of £51.5 million.

9. In my view, the Treasury recommendation is too low. It would
be in conflict with the assurance we have given the farmers that their
gains from productivity would be used not only to help to meet rising
costs but also to finance further investment and improve the farmers'
standard of living. On the other hand, I cannot accept that in our
present economic situation farmers should be reimbursed for the whole
of their increased costs and given additional incentives besides, which
would be the effect of the recommendation by the Agricultural
Departments.
10. I recommend a total award of £53.5 million. This is in line with the DEA recommendation, adjusted for the revised figure of increased costs. It would leave the farmers to meet £15 million cost increases from their expected productivity gains. They would thus be able to retain half those gains - i.e. £15 million, representing some 3 per cent of total net farm income.

11. It is not possible to put a precise figure on the extra cost which would fall on the Exchequer in the financial year 1968-69 as a result of such an award. Exchequer costs in 1968-69 are estimated to rise by £18 million, largely as a result of last year’s award, before any account is taken of the present award. To this must be added the total cost of the award (£53.5 million), less the value of the individual awards on milk and sugar, which fall on the consumer, not the Exchequer (£13 million on my proposals) - i.e. a net addition of £40.5 million, making a total increase of £58.5 million. But the call on the Exchequer in 1968-69 would be less than this because some of the actual payments to farmers flowing from the present award will not be made until 1969-70. Against this, however, there will be the additional Exchequer subsidy on any increased production stimulated by the present award. Taking account of these factors, it is likely that the Exchequer would have to pay out in 1968-69 something like £50 million more than in 1967-68. But the full saving on support costs accruing from devaluation effects on market prices will not be felt until 1969-70; the devaluation price effects will reduce the Exchequer bill in a full farm year by some £30-£40 million below what it would otherwise have been.

Beef/Milk

12. It is on the beef/milk complex that there is the sharpest divergence between Departments. The position is summarised in Annex II. In considering what I should recommend to my colleagues, I have borne in mind the view of the Economic Advisers (Paragraph 3(iii) above) that we should place the emphasis on commodities which will show the quickest returns to the balance of payments; this argues against higher incentives for beef, where the production cycle is three years. On the other hand, we are committed to providing adequate resources to the livestock sector to meet the needs arising from the foot-and-mouth epidemic; moreover, it would be premature at this stage to abandon the expansion target for beef, and an award which did not meet the increased costs, estimated at about 12s. 6d per live cwt., would in my view put the target at risk. I therefore recommend an increase in the guaranteed price of 12s. 6d per cwt. In order to secure the necessary expansion the Agricultural Departments argue that we should also give an assurance that the guaranteed price will not be reduced at the next two Reviews. But the Treasury and the DEA argue that such an assurance might involve excessive Exchequer costs in the future. The considerations are evenly balanced and I ask the Cabinet to resolve this issue. On milk, I recommend an increase of 1½d in the guaranteed price per gallon; this will mean that the increase in the retail price from 10d to 10½d, now expected to take place in December, 1968, will be brought forward to July.
Wheat

13. We are committed to an increase in the guaranteed price for wheat. Wheat expansion offers the prospect of substantial and rapid savings of imports. In my view, a substantial incentive is justified and I recommend an increase of 1s. 6d in the guaranteed price. Hitherto, expansion of wheat production has been inhibited by our bilateral commitments to overseas suppliers. As a result of the Kennedy Round, we have now disentangled ourselves from these commitments. The Agricultural Departments believe that my proposal (or indeed theirs for an increase of 1s. 9d) would not cause international difficulties; but the Foreign Office think that, because our commitments are still formally in being until next July, the increase in the guaranteed price this year should not go beyond 1s. 3d.

14. The Agricultural Departments propose that we should also abolish the standard quantity arrangements which govern the amount of wheat production to which the guarantee relates, on the ground that this would give a valuable boost to confidence in the industry. The Treasury and the DEA, however, argue that while abolition would cost little or nothing in the immediate future, it might be very costly in the longer term, and that the arrangements should therefore be retained. The considerations are balanced and I ask my colleagues to resolve this point.

Pigs

15. This again is a commodity where expansion can bring substantial import saving quickly. Cost increases are equivalent to an increase in the guaranteed price of 9.15d a score. I think an additional incentive is justified and I recommend an increase of 1s. We have to watch our relations with Denmark, but we are already below our quota under the Bacon Market Sharing Understanding and I do not think my proposal should cause undue difficulty in this respect.

Remaining Commodities

16. While there are substantial divergences of view between Departments on the remaining elements in the award, these stem largely from the differences in the recommended total awards. Given decisions on the total award and the awards for the major commodities discussed above, I do not think I need trouble the Cabinet with the distribution of the balance. I recommend that this should be worked out by the Agricultural Departments in consultation with the Treasury, and with the other Departments as necessary, referring back to the Ministerial Committee on Agricultural Policy if agreement cannot be reached.

Conclusion

17. I recommend the following negotiating limits:

(i) A total award of £53.5 million.

(ii) An increase in the guaranteed price for beef of 12s. 6d per cwt.
(iii) An increase of 1½d per gallon in the guaranteed price of milk.
(iv) An increase of Is. 6d per cwt. in the guaranteed price for wheat.
(v) An increase of Is. per score in the guaranteed price for pigs.
(vi) Distribution of the balance of the £53.5 million between the remaining elements of the award to be worked out by the Departments concerned, referring to the Ministerial Committee if agreement cannot be reached.

I ask the Cabinet to decide:

(vii) whether the farmers should be given an assurance that the guaranteed price for beef will not be reduced at the next two Reviews (paragraph 12 above); and

(viii) whether the standard quantity for wheat should be abolished (paragraph 14 above).

M.S.

70, Whitehall, S.W.1.

30th January, 1968
SCHEDULE OF PRICE CHANGES PROPOSED BY THE AGRICULTURAL DEPARTMENTS,
THE TREASURY AND THE DEPARTMENT OF ECONOMIC AFFAIRS

All figures in this schedule are given to the nearest £1 million: the commodity figures may therefore not add up to the total figures for each column.

<table>
<thead>
<tr>
<th>Agricultural Departments</th>
<th>Treasury</th>
<th>Department of Economic Affairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change</td>
<td>Value</td>
<td>Change</td>
</tr>
<tr>
<td>(1) (4) guaranteed price per gal.</td>
<td>1s. 6d.</td>
<td>16</td>
</tr>
<tr>
<td>increased price per cwt.</td>
<td>10s. 6d.</td>
<td>18</td>
</tr>
<tr>
<td>cow and beef cow subsidies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>increased price per lb.</td>
<td>2s. 6d.</td>
<td>5</td>
</tr>
<tr>
<td>(2) guaranteed price per lb.</td>
<td>1s. 9d.</td>
<td>7s.</td>
</tr>
<tr>
<td>guaranteed price per lb.</td>
<td>1s. 9d.</td>
<td>6s.</td>
</tr>
<tr>
<td>standard quantity increase</td>
<td>Abolition</td>
<td>Negligible</td>
</tr>
<tr>
<td>increased guaranteed price</td>
<td>6s. 6d.</td>
<td>4</td>
</tr>
<tr>
<td>standard quantity</td>
<td>increase</td>
<td>2s. 6d.</td>
</tr>
<tr>
<td>guaranteed price per lb.</td>
<td>6s. 6d.</td>
<td>1s.</td>
</tr>
<tr>
<td>(1) guaranteed price per doz.</td>
<td>No change</td>
<td>Minus 3d.</td>
</tr>
<tr>
<td>no change in guarantee arrangements</td>
<td>Minus 1</td>
<td>Minus 1</td>
</tr>
<tr>
<td>Overhead</td>
<td>15s. 6d.</td>
<td>3s. 6d.</td>
</tr>
<tr>
<td>increased price per ton</td>
<td>5s. 6d.</td>
<td>1s.</td>
</tr>
<tr>
<td>maize subsidy</td>
<td>Increase</td>
<td>5</td>
</tr>
<tr>
<td>Saucerage grant</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>73</td>
<td>33</td>
</tr>
</tbody>
</table>

The Board of Trade do not propose a complete schedule of price changes, but are only closer to the Treasury line than to that of any other Department. On beef and lamb they consider that support should be concentrated on beef rather than on milk, whereas milk should be restricted to 3d. a gallon, more than sufficient to meet the Government's commitment in regard to dilution of the pool price and the additional of the standard quantity. They would propose a bigger reduction in the guarantee than other Departments.

The Treasury reserve their position on changes in the standard quantity arrangements, but not on dilution.

The price proposals on pigs are linked with alterations in the guarantee arrangements, discussed fully in Section VI of the Official Team's Report.

The cost of the milk and sugar beet guarantee is met by the consumer. An addition of 3d. a gallon to the milk guarantee is required as a result of existing commitments (see Note 1).

The Government are committed to the introduction of the saccage grant for field beans.
The objective for beef production under the selective expansion programme is 787,000 tons by 1970-71. The Report on Agricultural Objectives says it is still feasible to aim at 781,000 tons by then. This would call for an increase of 54,000 tons, involving an expansion of the dairy herd and an additional 200 million gallons of milk which would not be needed for the liquid milk market but would go to milk products. Achievement of the target would save £15 million of beef imports and £14 million of imports of milk products.

2. The Treasury believe that this target could only be achieved at a disproportionate cost to the Exchequer. They argue that it cost £95 million to secure an expansion of 50,000 tons between 1964 and 1967 and a total subsidy payment over that period of £200 million on beef alone. But the Agricultural Departments argue that over half of this related to milk and therefore fell on the consumer rather than the Exchequer; that of the total Exchequer spending on beef, only £14 ½ million represented the excess of awards over increased costs; and that the total cost of Exchequer support should properly be compared not with the increased production of 50,000 tons but with the total value of beef and milk output (£1,000 million and £1,670 million respectively).

3. Beef production is still expanding, but the rate of expansion is slowing down. Cost increases since the last Review are equivalent to 12s 6d per live cwt.

4. The Agricultural Departments recommend an increase in the guaranteed price for beef of 13s 6d, and increases in the hill cow and beef cow subsidies by 40s and 30s respectively, with assurances that there will be no reductions in the guaranteed price or the beef cow subsidy at the next two Reviews.

5. The Treasury recommend an increase in the guaranteed price of only 5s; DEA recommend an increase of 12s 6d (which would cover the cost increase); neither recommend an increase in the cow subsidies or assurances for the next two Reviews. The Foreign Office is also opposed to giving assurances until there has been a further examination of our long-term expansion objectives.
6. On milk, the Agricultural Departments recommend an increase in the guaranteed price of 1½d per gallon, which includes an increase of 0.27d which is due under automatic adjustments. DEA recommend an increase of 1½d and Treasury 1d. If there were no increase at all in the present guaranteed price, the retail price would be expected to go up to meet higher distributive margins from the present 10d a pint to 10½d in December 1968. This increase would be brought forward to May if the recommendations of the Agricultural Departments were accepted, to July if the DEA view were accepted, and to August on the Treasury recommendation.
2nd February, 1968

CABINET

1971 CENSUS OF POPULATION; INCLUSION IN 1968 PRE-TEST OF QUESTIONS IN INCOME AND COUNTRY OF ORIGIN

Memorandum by the First Secretary of State

The Home Affairs Committee have been unable to reach agreement on a proposal by the Minister of Health to include questions about income and parents' country of origin in the schedules to be used in the pre-test this April of the 1971 census of population, and, in view of the importance on the one hand of testing public reaction to these questions and of the possibility on the other that the pre-test would provoke public criticism, the Committee considered it desirable that the matter should be brought before the Cabinet.

The income question

4. A small majority of the Home Affairs Committee considered that the question should be included in the pre-test, for the following reasons:

(a) The information could not be obtained from any other source. The Inland Revenue do not possess it in relation to non-taxpayers or to households or geographical areas, and such information as they have cannot be correlated with other census information, for example on education or employment,
(b) It was not clear whether there would in fact be widespread public objection to the question, and the only way of finding this out was to include it in the pre-test.

(c) If the information could be obtained it would be invaluable in relation to the Government's social and economic policies.

(d) The experience of other countries and of other forms of enquiry made in this country suggested that fears of public resentment might be exaggerated.

5. The minority of the Committee who took the opposite view did so on the grounds that:

(a) The public were in fact likely to object to being asked to state their income, and in particular to state it through the head of the household, unless they explicitly asked to make a separate return.

(b) The information obtained by the question would in any event be likely to be inaccurate and would not be susceptible to checking.

(c) To ask the question, even in a pre-test in which participation was voluntary, would expose the Government to criticism for "snooping".

(d) It was likely that the purpose of the enquiry would be misunderstood, and at the present time it was particularly undesirable in relation to the Government's policy on prices and incomes that there should be any cause for suspicion that they were seeking by some unusual means to obtain information in this field.

(e) While there was no compulsion to supply the information asked in the pre-test, the public would take the point that if the question were included in the census itself it would be a criminal offence to refuse to answer it.

Country of origin

6. The Committee were divided in the same manner on whether this question should be included in the pre-test and for much the same reasons. Additional arguments against the inclusion of the question were that the public would interpret it, however phrased, as a question about colour and resent it accordingly, and that in so far as it was in fact desired to distinguish immigrants with an Asian or African background from those with a European background the question would fail to do it; for example, a statement that the country of origin of a man's parents was South Africa would be unhelpful. On the other hand, the majority in favour of the inclusion of the question pointed out that if both this question and that on income were asked the correlation between the answers would provide vital additional information; that information on ethnic origin was important to the development of the Government's social policies, (and to gauging their success) and to that of racial integration in particular; and that some sections of public opinion might consider that the information asked for ought to be available.
Conclusion

7. In the light of these considerations I ask the Cabinet to decide whether a question —

(a) on income;

(b) on the country of origin of the respondent's parents;

should be included in the voluntary pre-test of the census to be conducted in April, on the understanding that the question whether similar enquiries should be made in the census itself would be brought before Ministers for consideration at a later stage in the light of experience of the pre-test. An early decision is essential if the questions are to be included in the material for the April test.

M. S.

70, Whitehall, S. W. 1.

2nd February, 1968
Memorandum by the Minister of Health

The Committee have agreed that a census of population should be taken in 1971 and that, as part of the preliminary planning, field tests should be conducted during the next two years (H(67)16th Meeting, Minute 2; and 25th Meeting, Minute 5).

2. The first pre-test will be carried out in April 1968, in ten selected areas in England and Wales, covering a total of 40,000 households; in Scotland a similar test is planned in ten areas with 3,600 households. The primary objective is to test procedures, including some innovations, for field staff. In order, however, to carry out these procedures realistically, it will be necessary to give householders a schedule to complete, though this need not resemble at all closely the form which will be finally adopted for the census itself. The completion of the form in the pre-test will be entirely voluntary.

3. Whilst the primary object of the test is procedural it could, if the Committee approve, be made to serve the further important purpose of testing public reaction to the inclusion in the census form of two new subjects, namely income and ethnic origin. Although both are covered by the censuses in a number of other countries (e.g. United States of America and Canada), neither has featured in previous censuses in this country, but I am satisfied in both cases that there is now a substantial and increasing demand for them. Their inclusion is supported by the Statistical Policy Committee, to whom the wording of the questions set out in the Annexes hereto is acceptable.

4. The case for an income question has been pressed by the Department of Economic Affairs, the Department of Education and Science, the Central Statistical Office, the Board of Trade and other Departments, and also by the National Institute for Economic and Social Research and other academic and local authority interests. The main reasons advanced in support of it are as follows:

(1) It would provide a more detailed geographical breakdown of income distribution than is available from other sources. This would be of value:
(a) to Government Departments, for whom it would provide background information necessary for decisions on the fields of economic development, the social services and the incomes policy;

(b) to regional and local planning bodies concerned with housing and other aspects of land use;

(c) to research workers in economic and social studies;

and (d) to those sections of the business world engaged in marketing and forecasting demand.

(2) Income could be tabulated against the whole range of data collected through the census. Although smaller-scale surveys may collect information on incomes, together with some other social data, only through the census would it be possible, for example, to relate income to both occupation and education.

(3) It would provide information on household as well as individual incomes.

(4) It might enable other investigations, such as the Family Expenditure Survey, to be adjusted for non-response and would thus improve the quality of the data they obtain.

5. I realise that the political implications of an income question may have an impact on the quality of the data obtained: public resistance, or even resentment, could result not only in this particular question's yielding information of poor quality, but also in a general lowering of the standard of response to the census as a whole. The resistance could arise from unwillingness to reveal income to the Government, to the enumerator or to the head of the household, who is responsible for collecting information from the other members (unless they opt to put in personal schedules). These objections are, however, conjectural and, in view of the demand for an income question, it seems desirable to put them to a practical test. The 1968 pre-test, when there will be no compulsion to answer, presents an opportunity to take some measure of public reactions: refusal to complete the schedule would itself be a crude measure of resistance and, in addition, householders will be asked to record any comments they may wish to make. The intention is to put the income question to approximately fifty per cent of the householders covered by the pre-test, so that their response to the questionnaire as a whole can be compared with that of the other fifty per cent.

6. The form in which I propose to ask this question in 1968 is shown in Annex A. It is on the same general lines as the form used in the United States and is not necessarily the form which would be adopted in the census itself, if it were decided to include a question on this subject.
7. The proposal to include a question on ethnic origin is derived from the view that integration of the coloured population, including the rapidly increasing numbers of coloured persons born in this country, is now, and will for many years continue to be, a major objective of Government policy.

8. The success or failure of this policy can only be measured by periodically comparing the position of white and coloured persons in such matters as housing, employment and education. The subject will therefore be important not only to the Home Office, which has a general responsibility for race relations as well as for immigration, but also to such Departments as the Ministry of Labour and the Housing and Education Departments. The census, I suggest, is the appropriate instrument for presenting a general picture of the relative position of coloured people in all these fields and for highlighting the areas in which more detailed studies are required.

9. By providing a tool which will help to measure progress in integrating the immigrant population and their descendants. The census would play a valuable part in determining what might be acceptable rates of immigration in future years.

10. There is a further pressing need for distinguishing immigrants and their descendants in order to improve the work of the General Register Office in projecting the natural increase of the population. At present there is wholly inadequate evidence on the question how far immigrant fertility tends to conform with that of the native population rather than with the much higher levels which obtain in most of the countries from which they came.

11. The form in which I propose to ask the question is set out in Annex B.

12. I am satisfied that unless we can include these new topics in our 1958 pre-test, they cannot be included in 1971, because we shall not have sufficient experience of their general effect on response to the Census. I therefore invite the Committee to agree to their inclusion in the pre-test in the form set out in the annexes to this paper.

K. R.

Annex A

Question 14
Write the person's income during the last twelve months from each of the following. If none, write "None".

(a) From wages, salary, bonus, commission or tips from all jobs, before deduction of tax, National Insurance, etc.

(b) From profits or fees from a business, professional practice, partnership or farm, after deduction of capital allowances, but before deduction of tax.

(c) From any other source (before deduction of tax where applicable), for example: State retirement, old age and widow's pensions; other State benefits; occupational retirement pensions; annuities; rent from property; interest and dividends; educational grants, etc. Do not include capital payments.

Annex B

Question 7

(a) Was this person's father born in the United Kingdom? (Write Yes or No) If "No", what was father's country of origin?

(b) Was this person's mother born in the United Kingdom? (Write Yes or No) If "No", what was mother's country of origin?
12th February, 1968

CABINET

THE AGE OF MAJORITY

Memorandum by the First Secretary of State

On 2nd November (CC(67) 63rd Conclusions, Minute 5) the Cabinet considered the report of the Committee on the Age of Majority (the Latey Committee). They were on balance in favour of the proposals of the majority of the Committee that the age of full legal capacity should be reduced to 18 for all purposes, but deferred a final decision pending debates on the report in Parliament and consideration by the Home Affairs Committee of the implications of reducing the age of majority on the age of voting and on the wages of young people between 18 and 21.

2. The Home Affairs Committee have now considered these matters and have reaffirmed their view that the recommendations of the majority of the Latey Committee should be accepted. The Parliamentary debates aroused comparatively little interest and raised no new considerations to affect the decision. On voting, the Committee considered that a reduction in the age of full legal capacity would result in pressure for a corresponding reduction in the age of voting, but they considered, nevertheless, that acceptance of the Latey Committee's recommendations would not commit the Government to any particular view on the age of voting and that the principal factor here would be the recommendations of the Speaker's Conference. On wages, the general view was that the income policy was not likely to be seriously prejudiced by a reduction in the age of majority, though some members thought that it would be unwise at the present time to make any change which might invite pressure for higher wages however small that pressure might be foreseen to be.

The Parliamentary Debates

3. The Latey report was debated in the House of Commons on 20th November, immediately after the statement by the Chancellor of the Exchequer on devaluation. In the circumstances it was hardly surprising that the debate attracted only moderate interest. Generally speaking, members who spoke from the Government side supported the Latey Committee's recommendations, including those made by the majority. So also did the spokesman for the Liberal Party and the Scottish Nationalist, Sir John Hobson and Mr. Quintin Hogg, for the Conservative Opposition, expressed doubt whether the case for change had been made out and found little evidence of a demand for a change. Several speakers thought that consideration of the age of majority should not be divorced from that of the age of voting.
4. In the House of Lords the majority of speakers were in favour of the Latey Committee's recommendations, including those of the majority, but on the question of reducing the age of marriage without parental consent there was a fairly even division of opinion. As in the House of Commons, some speakers thought that it would be unsatisfactory for the age of majority to be different from the voting age.

Voting Age

5. The Home Affairs Committee considered a memorandum by the Lord President which indicated that public opinion, as shown in a succession of public opinion surveys, appeared to be moving towards a greater readiness to accept a reduction in the voting age to 18. A Gallup Poll in 1954 showed that 63 per cent disagreed with a reduction. In a National Opinion Poll in 1963 the figure had dropped to 61 per cent, and in 1965 to 49 per cent. A higher proportion of older people than of the young were opposed to change, and a Gallup Poll last year showed that among the 18 to 20 age group 56 per cent were in favour of a reduction of the voting age to 18. Such surveys as have been carried out on the voting preferences of the 18 to 21 age group give differing results and point to no firm conclusion. The group is probably fairly equally divided between supporters of the Government on the one hand and of the Opposition parties on the other. It is significant, however, that in the Gallup Poll last year 33 per cent of the age group said that they would either not vote or did not know whether they would vote. The effect of reducing the voting age seems likely to depend, therefore, on the success of the parties in persuading the newly enfranchised age group to go to the polls.

6. The majority of the Latey Committee, from whose terms of reference the age of voting was excluded, said that it did not seem to them that changes in the civic field were at all likely to follow changes in the private field, and added: "It is a very different thing to cope adequately with one's own personal and private affairs and to measure up to public and civic responsibilities". The Home Affairs Committee thought, however, that if the Government accepted the recommendations of the majority of the Latey Committee they would certainly be pressed to bring the voting age into line, if only because it would be illogical to give young people adult status in the respects proposed but not the elementary right to a voice in national affairs. The pressure from our own supporters would no doubt be sharpened by the fact that our Manifesto for the General Election of 1966 mentioned that the Labour Party's evidence to the Speaker's Conference advocated a voting age of 18. Nevertheless, the Committee took the view that by accepting 18 as the age of legal majority the Government would not be committed to a corresponding reduction in the voting age. The Speaker's Conference are understood to be about to report, and it may be that they will advocate some age other than 18. Normally the Government would accept the recommendation of a Speaker's Conference, and, since the Conference are reporting in the knowledge of the fact that the Government have found themselves in broad sympathy with the recommendations of the majority of the Latey Committee, it may be assumed that if they recommend an age other than 18 it will be because they consider that there are sound reasons for distinguishing between the age of full legal capacity and the age for enjoyment of the franchise.
The implication for wages of reducing the age of majority to 18

7. The potential cost

The Home Affairs Committee were informed, on the basis of a joint examination of the problem by officials of the Treasury, the Department of Economic Affairs, the Scottish Office and the Ministry of Labour, that the information required to form a reliable estimate of the cost of paying adult rates to employees under 21 was not available, but that a broad estimate of the order of magnitude of the extra cost suggested about £100 million, or 0.5 per cent of the national wages and salaries bill, subject to a significant margin of error. If it did arise, this increase would be spread over a period.

8. This calculation is based on the following facts. Already most women in the manufacturing industries are paid adult rates at 18. Therefore, any increase would be largely confined to male workers. The average earnings of women aged 21 to 24 are about 35 per cent higher than those of women aged 18 to 20. This is because the older are at higher levels on incremented scales, greater skill, in more senior posts etc. A similar differential would probably exist on the male side, even if adult rates were paid at an earlier age. A differential of 35 per cent between the earnings of boys aged 18 to 20 and those of men aged 21 to 24 would be produced by increasing the earnings of boys by 10 per cent. This would cost £70 million, and consequential increases for boys between 15 and 17 would bring the total up to £100 million.

9. Would adult wages in fact have to be paid at 18?

The question remains whether reducing the age of majority would in fact result in successful pressure for the wages of 18 year-olds to rise to the adult level. Here a distinction is drawn between manual and non-manual occupations, and in the first category between the skilled and the unskilled.

10. In non-manual occupations many employees are covered by agreements providing for annual increments related to age, from school-leaving age to well past 21. It can be assumed that such employees would not be directly affected by a reduction in the age of majority, and it is thought unlikely that there would be widespread pressure for the payment of adult rates at 18 in non-manual occupations.

11. In manual occupations the important factor is the length of apprenticeship, since it is unlikely that adult rates could successfully be claimed before apprenticeship was completed. On the other hand, a reduction in the age of majority would give some support to the existing pressure for shorter and more condensed apprenticeship. It is thought unlikely, however, that the period would be reduced to less than three or four years, and hence that many youths would have completed their apprenticeship by 18.

12. It is unlikely that male manual workers who are not apprentices could form an effective pressure group to secure adult rates at 18; most girls in manufacturing industries already have them.
13. Scottish experience

Under Scottish law the age of majority is also 21, but minors (i.e., boys over 14 and girls over 12) have for a very long time enjoyed certain rights not paralleled in England. These differences have not led to pressure for the payment of adult rates earlier in Scotland than in England, but it would not necessarily follow that a reduction in the age of majority in England and Wales would not lead to some pressure for the payment of adult rates at 18, and, if it did, Scottish organisations would plainly follow suit.

14. The Home Affairs Committee considered on the basis of this information that, while some pressure for adult wages at 18 might result from a reduction of the age of majority, the effect on prices and incomes policy would not be considerable, and the pressure would not make itself felt for some time bearing in mind that legislation to implement the Latey report could not be introduced before the 1968-69 Session. The majority of the Committee thought that in these circumstances the possible effect on wages was not sufficient to justify a decision not to implement the Latey report, but they recognised that there would be some psychological effect, and some members considered that even this ought to be avoided in the current situation.

Conclusion

15. The Home Affairs Committee accordingly reaffirmed their view that the Government should accept the recommendations of the majority of the Latey Committee. They consider that a decision on the full age of legal capacity can be taken independently of a decision on the age for the exercise of the franchise, which need not be the same, and that the somewhat speculative effect of a reduction of the age of majority on the wages of young people is not in itself sufficient ground either for rejecting the recommendations or for deferring a decision.

M. S.

70, Whitehall, S. W. 1.

12th February, 1968
This memorandum is relevant to Item 1(ii) and (iii) of the agenda for the meeting of the Cabinet at 11.00 a.m. on Tuesday, 6th February, 1968.
5th February, 1968

CABINET

EVIDENCE TO BE GIVEN TO SELECT COMMITTEES

Memorandum by the Lord President of the Council

The Ministerial Committee on Parliamentary Procedure today considered the problems raised by the lines of enquiry which the Select Committee on the Parliamentary Commissioner for Administration and the Select Committee on Agriculture propose to follow.

2. It is understood that the Select Committee on the Parliamentary Commissioner intend themselves to conduct an investigation, including the re-examination of Foreign Office officials, into the matter already covered by the recent report of the Parliamentary Commissioner for Administration on the refusal to pay compensation to certain survivors of the Sachsenhausen Concentration Camp. In establishing the Select Committee on the Parliamentary Commissioner, it was not envisaged that it could in effect retry individual cases already considered by the Commissioner, and although its proposed enquiry is strictly within its present terms of reference, the Ministerial Committee are agreed that it is open to the strongest objection.

3. The Select Committee on Agriculture propose to enquire into the Ministry's Departmental assessment of food requirements over the next few years; of how far it would be both practicable and in the national interest to increase the proportion of production from home sources; together with the methods of ascertaining the costs of production, returns to producers, and all matters relevant thereto. They have asked for extensive information covering the very wide issues of policy which arise in this field. The Ministerial Committee are agreed that considerable restraint will have to be exercised in providing the Select Committee with the information for which they are asking. In addition to the objections of principle to giving information of this sort, its provision would place a substantial burden on the Departments concerned. (A copy of this Memorandum circulated to the Ministerial Committee by the Minister of Agriculture is annexed.)

4. The Ministerial Committee were further agreed that it was neither practicable nor desirable to seek to direct the lines of enquiry which could be followed by Select Committees. The question therefore is one of the extent to which Ministers should be willing to co-operate with the Committees in furnishing them with information for their intended enquiries. In previous discussion the Ministerial Committee
were agreed that Ministers should exercise their own discretion in furnishing such Committees with confidential material, bearing in mind the risk that Committees might insist on its publication and the degree of damage which might result from such publication in any particular case, and exercising special caution in relation to confidential material of a commercial nature. In view of the number of Departments concerned in the information requested by the Select Committee on Agriculture, however, the Ministerial Committee consider that collective consideration should be given by the Economic Ministers to the extent to which the information requested can or should be given.

5. Committee Chairmen are already aware that Ministers and Departments cannot necessarily undertake to furnish all the information for which they are asked, but a refusal to produce information is best conveyed at the time and in the context of a specific request when the reason for refusal can be adequately explained. If the Cabinet agree that the confidential information and the attendance of witnesses necessary to enable the Select Committee on the Parliamentary Commissioner to conduct its proposed investigation should be refused, I should myself propose to explain the difficulties to the Committee. As regards the Agriculture Committee, pending consideration by the Economic Ministers of the extent to which the information requested should be given, it is suggested that the Minister of Agriculture should write to the Chairman explaining that more time is required for consideration by the Government of its provision because of the scope of the information for which the Agriculture Committee has asked.

6. I seek the agreement of the Cabinet that we should proceed accordingly.

R. H. S. C.

Privy Council Office, S.W. 1.

5th February, 1968
SELECT COMMITTEE ON AGRICULTURE

Memorandum by the Minister of Agriculture, Fisheries and Food

1. I have had from the Select Committee on Agriculture the lines of enquiry and programme of work which they propose to follow. These are appended to this memorandum.

2. My Permanent Secretary has been formally required by the Clerk to the Select Committee to submit a memorandum by 7th February and to appear before the Committee on 14th February. I have asked him not to reply before the Cabinet has been able to consider the important issues that arise.

3. When, last session, the Select Committee examined the effect on British agriculture of acceptance of the general agricultural policy of the E.E.C., they were examining the basis of a policy decision which had already been taken. Now, in pursuing the line of enquiry they have proposed, they will be concerned with matters relating to future policy formation and with work which in many cases will have to be done within the Government for the purpose of future decision making.

4. Consideration by the Select Committee of the extent to which expansion of agricultural production would be in the national interest would inevitably raise very wide issues of policy involving many other Departments besides the Ministry of Agriculture, and ultimately the Government itself.

5. In pursuing the more detailed topics which they propose to investigate, the Committee will be asking for economic forecasts of a kind which my Department and others have not in the past disclosed. For example, projections of food requirements and supplies involve forecasts of the rate of growth of personal income and would reveal the food component in the balance of payments forecasts. Again, the practical possibilities of expansion of home agriculture cannot be considered apart from our international relations or from alternative uses of resources. An enquiry into rewards and incentives to secure labour and capital resources for home agriculture raises the question of Government expenditure as well as prices and incomes policy. These are all matters which I and my Department will not be able to deal with alone.

6. Issues of this kind arise immediately on the memorandum which my Department has already been asked to provide. They are likely to become even more prominent when the Committee opens its public examination of officials.

7. I do not think therefore, if the Committee are to go ahead as they want, that we can avoid telling them that we shall not be able to give them much of the material they will be asking for. And as it is not only I and my Department who are involved, it seems right that they should be told this on behalf of the Government.
8. If this problem is left unresolved until the Committee open their public sessions, I see serious risk of our then being accused of refusing to provide the material necessary for the Committee to pursue the line of enquiry which we have left them to choose.

9. Apart from these points of principle the programme suggested, which will be pursued by sub-committees with specialist help, will throw a very heavy burden of work on my Department and other Departments concerned, and give rise to serious staff problems.

10. The decisions we take as regards this Select Committee are bound to create precedents for any future enquiries affecting other Departments.

11. I invite my colleagues to consider what advice should be given to the Cabinet on the points mentioned in this memorandum and in particular on the line to be taken in regard to the Committee's immediate request for information from my Department.

T.F.P.

Ministry of Agriculture, Fisheries and Food, Whitehall, S.W.1.

2nd February, 1968
SELECT COMMITTEE ON AGRICULTURE

Subject of enquiry

To enquire into the Ministry of Agriculture, Fisheries and Food's departmental assessment of food requirements over the next few years; of how far it would be both practicable and in the national interest to increase the proportion of production from home sources; together with the methods of ascertaining costs of production, returns to producers, and all matters relevant thereto.

Detailed topics

1. The assessment of U.K. food requirements over next few years.

2. On existing policies and price structure what levels of home food production are expected? i.e. on basis of '67 or '68 Price Review.


4. Demand/Supply studies of commodities on World/UK basis.
   a) Cereals
   b) Beef and Mutton
   c) Pig meat and Bacon
   d) Dairy products
   e) Eggs and Poultry products
   f) Fruit and Vegetables including Potatoes
   g) Other - including sugar
   h) Fish

5. The economic/cost value of extra production, i.e. National Plan target of £200 m. extra. Could this be more? Effect of devaluation.

   Relationship between extra home food production and
   a) alternative use of resources
   b) likely available world surpluses
   c) savings on balance of payments

6. Methods of securing higher levels of home production
   a) How effective are existing methods?
     Deficiency payments and subsidies arising under guaranteed prices and production grants in Annual Review Tariffs quotas
   b) Effect of Long-term guarantees, legislation, Taxation and Investment policy
   c) Availability of land, labour, capital
   d) Rewards and incentives

7. Side effects of increased home food production on
   a) food prices and consumers
   b) Treasury and Social Services
   c) Trading relationships and export trade with Commonwealth, Foreign Countries and E.E.C.
   d) International agreements, G.A.T.T., Danish Bacon agreements and prospects of world commodity agreements
   e) On existing mechanism of import regulation
      (i) methods of obtaining balance of food imports not grown at home
      (ii) relative cost/efficacy of minimum import prices or levies, tariffs or other methods.

8. Conclusion
12th February, 1968

CABINET

IMMIGRATION LEGISLATION

Memorandum by the Secretary of State for the Home Department

Introduction

We need, as a matter of urgency, to introduce a Bill:

(a) extending immigration control to citizens of the United Kingdom and Colonies who do not belong to the United Kingdom;

(b) restricting the right of entry of dependent children; and

(c) dealing with clandestine immigration and a number of other minor loopholes.

Dependent children and clandestine entry

2. The Ministerial Committee on Commonwealth Immigration has considered these questions and has agreed on the need to legislate as well as the form which the legislation should take. It is agreed that the present statutory right of a child under 16 to join either parent in this country should be amended to require, in general, the presence of both parents here. This will help to stem the tide of very young immigrants (in 1967 they numbered about 35,000 compared with the maximum of 8,500 employment vouchers we were prepared to issue to adults) and to reduce the welfare problems presented by all-male households. I believe there will be support for this in Parliament and in public, as there will be also for the proposal that we should be seen to be doing all that we can to stop clandestine entry.

Uncontrolled entry of citizens of the United Kingdom and Colonies

3. This is more difficult. The Home Affairs Committee considered the question last October and agreed that the position should be reviewed again early this year. The Ministerial Committee on Commonwealth Immigration will be considering on Tuesday, 13th February, my latest assessment of the situation and my conclusion that the time has now come to legislate. For convenience I attach in the Annex a summary of the facts and relevant background.
4. Our best hope of developing in these Islands a multi-racial society free of strife lies in striking the right balance between the number of Commonwealth citizens we can allow in and our ability to ensure them, once here, a fair deal not only in tangible matters like jobs, housing and other social services but, more intangibly, against racial prejudice. If we have to restrict immigration now for good reasons, as I think we must, the imminent Race Relations Bill will be a timely factor in helping us to show that we are aiming at a fair balance all round. Conversely, I believe that the reception of the Race Relations Bill will be prejudiced in many minds, and support for it weakened, if people think that the numbers entering are unlimited or unreasonably high.

5. In 1967 the number of Commonwealth citizens entering under control of the Commonwealth Immigrants Act 1962, and settling here was about 60,000. Against this, the uncontrolled entry of Asian immigration from East Africa was about 13,600. The monthly total for January, 1968, was nearly 2,360; this could mean an annual entry of 20,000 or more. The difficulty arises principally from our wish to be fair to these Asians who are undoubtedly suffering from the policy of Africanisation adopted by the Kenya Government. I think, however, that we have to look to the greatest good, and balance fairness to them against the need to be no less fair to the many thousands of other Commonwealth citizens who cannot come here, though they would like to do so.

6. The effect of the legislative amendment proposed (Appendix III to the Annex) will be that Asians in East Africa and others similarly placed will be treated exactly as all other Commonwealth citizens; and it is proposed to allow them a special quota of employment vouchers, thus leaving the scheme untouched in respect of those countries who already benefit from it. I believe that this equality of treatment and our general policy of a fair deal all round, as evidenced by the forthcoming Race Relations Bill, should be sufficient to show that we are not dishonouring any of the international obligations referred to in Appendix IV of the Annex.

7. It would be important that the legislation should go through quickly. Once a decision to legislate was announced there would be a risk of large numbers trying to come here before the control came into operation.

Summary

8. I ask my colleagues to endorse the proposals in paragraph 1 above.

L. J. C.

Home Office, S. W. 1.

12th February, 1968
Asian Immigration from East Africa

1. Under the existing control of Commonwealth immigration which was introduced by the Commonwealth Immigrants Act 1962 citizens of the United Kingdom and Colonies are subject to the immigration control in the same way as citizens of independent Commonwealth countries, provided that they hold a passport issued by or on behalf of the Government of any part of the Commonwealth outside the United Kingdom. But they are not subject to control if they hold a passport issued on behalf of the Government of the United Kingdom. There are something like 12 million people who have no real connection with the United Kingdom but who are eligible for the issue of such a passport. The great majority of these people are also citizens of an independent Commonwealth country (dual citizens), and they may well be in ignorance of their right to enter the United Kingdom free of control. They have so far shown no desire to come here. But something like 350,000 hold only citizenship of the United Kingdom and Colonies. About 200,000 of these are Asians living in East Africa, nearly all of whom already hold United Kingdom passports. These people retained citizenship of the United Kingdom and Colonies when the local States proceeded to independence because they did not automatically obtain local citizenship under the law of the new State, and failed to exercise an option during the permitted period following independence. In most cases they no longer have a right to obtain local citizenship, but the State has a discretion to grant it. (The citizenship position is set out in detail in Appendix I).

2. The Asians in East Africa have been coming to the United Kingdom in increasing numbers. (Full particulars are given in Appendix II.) We first started to keep figures in 1965 when some 6,000 came here. In 1966 the figure was 6,800, but in 1967 it doubled to 13,600. For the last six months the figures have been running at a level much higher than in 1966. The main reason for the increase in the number of arrivals from East Africa appears to be the action taken by the Kenyan Government, in pursuance of their policy of Africanisation. In August 1967 an Immigration Act was passed the effect of which is that anyone who is not a Kenyan citizen is liable to be deemed to be unlawfully present in Kenya, irrespective of place of birth or length of residence, and if so deemed
must obtain an "Entry Permit" or be liable to expulsion. Since the Kenya law gives citizenship to people born in Kenya only if one parent was also born there, the effect is to take power to make many people, by order, immigrants in the land of their birth and liable to expulsion. The first order under the Act, requiring applications to be made for Entry Permits, was brought into force before the end of 1967 and it applied to clerical, sales and some factory staff. Permits so far issued have been valid for periods up to two years and are often accompanied by warnings that they will be renewed only in exceptional circumstances. And employers are being required to enter into bonds to cover the cost of the passage "home" of the employee and of his dependants (even though they may be Kenyan citizens). A further measure is the Trade Licensing Act 1967 which came into force on 8th January and prevents non-citizens from retailing specified goods unless they operate in specified urban areas or obtain licences to trade.

An approach to President Kenyatta in October 1967 suggested that there was no scope for diplomatic intervention by us, to attempt to moderate the policy of Africanisation.

The position in South Yemen

While citizens of the United Kingdom and Colonies in other parts of the Commonwealth show no disposition as yet to come here, the position in South Yemen must also cause some concern. Under the citizenship law of the Federation of South Arabia people born in Aden, or whose fathers were born there, would have become citizens of the new State, and I could have made an Order withdrawing citizenship of the United Kingdom and Colonies from them. However, this law is not effectively the law of the new State and so in practice there is as yet no local citizenship law. The present position is that perhaps one half of the 240,000 inhabitants of Aden could now apply for United Kingdom passports which would exempt them from our immigration control. There is no present indication that they wish to come here. More serious are the indications that when the new Government does pass a local citizenship law it is likely to exclude from citizenship some 40,000 people who are not of Arab descent (mainly Indians and Somalis), and these will become an addition to the pool of citizens of the United Kingdom and Colonies who are exempt from our control. Numbers of them might in time wish to come here.

The form that an extension of immigration control might take

The form that an extension of immigration control might take is set out in Appendix III. Legislation would amend the Act of 1962 so that a citizen of the United Kingdom and Colonies holding a passport issued on behalf of the Government of the United Kingdom would be exempt from control only if he belonged to the United Kingdom in the sense that he, his father or his father's father had been born, naturalised or adopted in the United Kingdom or registered as a citizen of the United Kingdom and Colonies in the United Kingdom or in a country which was an independent Commonwealth country at the date of the registration. This is the formula that has been adopted in the Independence Acts to define the citizens of the United Kingdom and Colonies who, although acquiring the citizenship of the newly independent country, are not to lose their citizenship of the United Kingdom and Colonies, and it seems appropriate for the present purpose. It would render subject to our immigration control not only people of Asian descent in East Africa, the South Yemen and South-East Asia, but also citizens of the United Kingdom and Colonies of the third and later generations born in foreign countries who had retained their citizenship through registration with a consul; for example, the British community in the Argentine.
The arguments for an extension of immigration control

5. The strongest argument for extending our control to include the exempt citizens of the United Kingdom and Colonies is perhaps the straightforward one that they have no greater claim on merits to settle in the United Kingdom than have Commonwealth citizens living in independent Commonwealth countries or citizens of the United Kingdom and Colonies living in colonies. The full extent of the problem was by no means realised when the Act of 1962 was passed. In moving the Second Reading of the Bill the Home Secretary of the day said that the intention was that control should apply to all those who in common parlance did not belong to the United Kingdom. These people have no substantial connection with the United Kingdom and, the question of citizenship apart, it is not equitable that they should be admitted freely while we apply rigorous control to all those who live in the independent Commonwealth countries, and to the citizens of the United Kingdom and Colonies who live in colonies. To extend control would not mean that no-one would be admitted. Visitors including business visitors, students, people of independent means and dependent relatives of people already resident here would be admitted in accordance with our normal criteria. In addition, I consider that it would be reasonable to make an addition to the overall quota of employment vouchers, which is at present 8,500 a year for the whole Commonwealth, so that the inclusion of these people within the control would not reduce the number of vouchers available for the rest of the Commonwealth. On the other hand, they should not be given treatment so generous as to attract criticism from the rest of the Commonwealth. Officials should study the size of the addition to the voucher total, and make a recommendation.

6. Apart from the question of principle, there is the practical point that the inflow of citizens of the United Kingdom and Colonies free of control, together with those coming in from the New Commonwealth under the control, is creating serious problems for us, particularly in the schools, in the field of youth employment and in housing. The combined total of those entering under these two heads increased from 53,000 in 1960 to 71,000 in 1967. As well as placing education and the other services under strain, the existence of this uncontrolled element in the flow is bad for race relations in this country, and makes it less easy for us to justify our rigorous control of entry from the Old Commonwealth.

The arguments against an extension of immigration control

7. However, the argument for extending our immigration control to the exempt citizens of the United Kingdom and Colonies is by no means a one-sided one. The citizens of the United Kingdom and Colonies who hold a passport issued by the Government of a colony has an unrestricted right of admission to that colony. But the exempt citizens may well have no unrestricted right of entry anywhere. The East African Governments are treating them more and more as immigrants, notwithstanding that they may have been born in East Africa and lived there all their lives. If we take away their right of entry to the United Kingdom, it may well be argued that, while we are not leaving them Stateless, we are leaving them with no more than the husk of citizenship. Given that these people would not have left India but for the existence of the British Empire, it can be argued that we have an obligation to accept the consequences, as other consequences of the end of the Empire. Further, to deny these people entry to the United Kingdom may be inconsistent with the latter, if not the spirit, of a number of international agreements that we have signed and ratified, or are contemplating doing so. (Details are given in Appendix IV.) The most pertinent appears to be the European Convention of Human Rights, Article 3(2) of the Fourth protocol of which
states - "No-one shall be deprived of the right to enter the territory of the State of which he is a national". This Convention has enforcement machinery in existence - the European Commission of Human Rights, before which Commonwealth citizens have already brought one or two cases arising under the Act of 1962. If we extend control to these exempt citizens, it is likely that a case will be brought against us before the European Commission, and we shall have to argue that this protocol has not been infringed in substance and in spirit, whatever the letter of the law.

8. Apart from the question whether the extension of control would be in breach of specific International agreements is the question whether it would be in breach of customary international law. The position is not clear. But it would be a breach of international law for a State to refuse to receive its own nationals if they had been expelled by another State of which they were not nationals, and there is some support for the wider proposition that a State is under a general duty not to refuse admission to its own nationals. The proposed legislation would not make specific provision for the grant of political asylum - there is no such provision in respect of Commonwealth citizens under the Act of 1962. But we would by administrative practice grant asylum to individuals if they could establish that refusal of admission would mean their return to a country in which they would face danger to life or liberty, or persecution of such a kind as to render life insupportable, for reasons of race, religion, nationality, membership of a particular group, or political opinion. These are the criteria according to which we currently grant asylum to aliens from, for example, South Africa. Against this background of practice in granting asylum, the legislation should be defensible as being in conformity with international law.

9. Apart from these difficulties of principle, a decision to extend control to certain holders of United Kingdom passports is likely to raise practical problems at our ports of entry. It may to some extent disrupt traffic, and it will give rise to individual cases that may be difficult to decide. Further, if the East African Governments were to refuse to accept people whom we had refused to admit, this would give rise to a difficult situation which could be overcome only by our telling the airline companies that anyone allowed to embark from East Africa for this country without an entry certificate would be carried at the companies' risk. Even this would not solve the problems of the person who set out from East Africa ostensibly for a country on the Continent of Europe, and then made his way to the United Kingdom, since Continental countries might not be prepared to re-admit holders of United Kingdom passports to whom we had refused entry. It is not possible to say in advance how intractable these difficulties might be. We should have to rely largely on the announcement of the control, and of our intention resolutely to enforce it, to deter would-be immigrants from setting out.

10. There is also the question of the Commonwealth reaction to the extension of the control, and of reaction in this country. Some will say that the extension of control is based on colour prejudice, and some Commonwealth Governments may retaliate by imposing restrictions on the entry of British travellers. We would defend extension of the control by explaining that this course is the one most likely, in the long term, to be conducive to good race relations in this country since it is only if immigration is seen by the British public to be effectively controlled that we can create the conditions to foster good race relations. We would also point to the equity of the extension, in that all Commonwealth citizens (including citizens of the United Kingdom and Colonies) who did not belong to the United Kingdom would be treated in the same way, and we would make the point that relations with the independent Commonwealth countries are unlikely to be as good as we would like to see them if relations between the races in this country are not good.
Manpower

11. The extension of control to citizens of the United Kingdom and Colonies not belonging to the United Kingdom, and the curtailment of the right of dependent children to enter to join a single parent, will give rise to increased work, and will call for some addition to the strength of the Immigration Service, and perhaps also at headquarters. In addition, it will be desirable to station one or two experienced officers in East Africa, at least temporarily, to act as entry certificate officers. Further, an extension of the voucher scheme to cover the exempt citizens of the United Kingdom and Colonies will require some additional staff for the Ministry of Labour. It is not possible to make an exact calculation of the additional manpower required, but it should not exceed 20.
The existence in East Africa of large numbers of United Kingdom citizens who have no connection with the United Kingdom is due to a concurrence of two causes: (a) the fact that the United Kingdom and Colonies form a single unit for citizenship purposes, and (b) the refusal of the emergent countries of East Africa to agree to their citizenship being conferred automatically at Independence on all persons born, registered, or naturalized in those territories as citizens of the United Kingdom and Colonies.

When successively Tanganyika, Uganda and Kenya approached Independence their governments wanted to exclude as many Asians as possible from automatic acquisition of the new citizenship and accordingly in each case the constitution gave citizenship (i) to persons born in the territory, only if one parent also had been born there, and (ii) to persons born outside the territory of fathers born there, only if also one grandparent had been born there. This excluded from citizenship many people of Asian race whose parents had been born in India, Pakistan or Ceylon; and most of these will have been citizens of the United Kingdom and Colonies at Independence, either by reason of birth in a colony (Kenya Colony) or by birth in a protectorate of a father who was British at the time of the birth by reason of his own birth in British India or Ceylon.

In addition there were in all three territories before Independence a large number of citizens of the United Kingdom and Colonies by registration (Asians who had not been born in the territories but, being citizens of India or Pakistan, or British subjects without citizenship, were entitled to acquire our citizenship by registration after a period of residence in a colony or protectorate); and a smaller number of citizens by naturalisation (mostly aliens from Europe).

It is usual, when Independence is granted to a colony or protectorate, for Parliament to take away citizenship of the United Kingdom and Colonies from all who automatically become citizens of the new country at Independence unless the person, or his father or father's father, was born, naturalised or registered in the United Kingdom or a remaining colony. In no case has citizenship been taken away from anyone not acquiring the new citizenship, for that would have made the person stateless.

*The Colonies could not be given a separate citizenship, because they do not constitute an entity for international purposes and the United Kingdom is responsible for their external relations.

**Persons born in India or Pakistan but who, not being domiciled there at the appropriate dates in 1950 or 1951, did not become citizens of those countries.
5. The remaining Asians who were not citizens of the United Kingdom and Colonies at Independence will have been either British protected persons (if born in a protectorate of a father born in an Indian Native State) or citizens of India or Pakistan (if domiciled there at the appropriate date), or British subjects without citizenship (if they left India or Pakistan too soon to qualify for citizenship of those countries). All these are already subject to the Commonwealth Immigrants Act and are not the concern of this paper, but are mentioned for the sake of completeness.

6. All those citizens of the United Kingdom and Colonies referred to in paragraphs 2 and 3 above were given the right to be registered as citizens of Tanganyika, Uganda and Kenya respectively within two years of Independence, on condition of renunciation of their citizenship of the United Kingdom and Colonies. Upwards of 10,000 Asians took advantage of this facility; no doubt the others were either unaware of it or preferred to retain their connection with the United Kingdom in case life should be made difficult for them in an African country.* These people may still apply for registration as citizens of Tanzania, Uganda or Kenya, but in the former two countries registration is at the discretion of the authorities, and in Kenya it is subject to a residence qualification.

7. The dual citizens who exist in large numbers in Malaysia and the West Indies have acquired this status in quite different circumstances.

8. When in 1957 the Federation of Malaya became an independent Republic the usual provisions withdrawing United Kingdom citizenship (see paragraph 4 above) were not included in the Independence Act because an implicit undertaking had been given to the "Queen's Chinese" (inhabitants of the Colonies of Penang and Malacca) that their connection with the Queen and the United Kingdom would remain unaffected.

9. When Independence was granted to Jamaica, Trinidad and Tobago, British Guiana and Barbados, the usual withdrawal provisions were included in the Independence Acts, but because our citizenship is citizenship of the United Kingdom "and Colonies" the usual exemption from loss of citizenship (see paragraph 4 above) extended to (a) those numerous people whose fathers or grandfathers had been born in some other West Indian territory which was still a colony when the country of their birth became independent; and (b) others who acquired the new citizenship by virtue only of their father's birth in the country acquiring Independence, having been themselves born in what was still a colony. It would have been impossible to deprive all these people of their United Kingdom citizenship without doing injustice to some people who would have felt that they properly belonged to the United Kingdom and remaining Colonies rather than to the newly independent territory.

*In Zanzibar a number of Asians who automatically acquired local citizenship and lost United Kingdom citizenship were later deprived of their local citizenship and were left stateless. This may well have discouraged other Asians in East Africa from taking steps which would have led to their giving up United Kingdom citizenship.
An estimate of the number of citizens of the United Kingdom and Colonies who could be brought within immigration control by legislation along the lines proposed is:

<table>
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<tr>
<th>Citations of the United Kingdom and Colonies with no other citizenship</th>
<th>Number</th>
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<td>Kenya</td>
<td>167,000</td>
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<tr>
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<td>Tanzania</td>
<td>20,000</td>
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<tr>
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<td>Malaysia</td>
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<tr>
<td>Singapore</td>
<td></td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>40,000</td>
</tr>
<tr>
<td>Jamaica</td>
<td>3,000</td>
</tr>
<tr>
<td>Cyprus</td>
<td>4,000</td>
</tr>
</tbody>
</table>

(There may be an unknown but substantial number of dependants in addition to this figure)

(High Commission have been asked for latest estimate)

(No estimate is available, but there are believed to be substantial numbers of Chinese with dual Singapore/United Kingdom citizenship)

(Mainly from India and Pakistan. In addition there are some 22,000 who have a right to United Kingdom citizenship if they choose to apply for it)

(Chinese with Malaysia/United Kingdom citizenship)

(Jamaica/United Kingdom citizens)

(Cyprus/United Kingdom citizens)
EXEMPT UNITED KINGDOM CITIZENS FROM EAST AFRICA

MONTHLY FIGURES OF ADMISSION

- SUMMARY, 1965-7

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<tr>
<td>December</td>
<td>470</td>
<td>483</td>
<td>1,907</td>
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</tr>
<tr>
<td>Total</td>
<td>6,149</td>
<td>6,846</td>
<td>13,600</td>
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APPENDIX III

THE FORM OF LEGISLATION

1. Section 1 of the Commonwealth Immigrants Act 1962 exempts from immigration control
   (a) a person born in the United Kingdom;
   (b) a person who holds a United Kingdom passport and is a citizen of the United Kingdom and Colonies, or who holds such a passport issued in the United Kingdom or the Republic of Ireland; and
   (c) a person included in the passport of another person who is excepted under (a) or (b).

   For the purpose of (b) and (c), "passport" means a current passport, and "United Kingdom passport" means a passport issued to the holder by the Government of the United Kingdom, not being a passport so issued on behalf of the Government of any part of the Commonwealth outside the United Kingdom.

2. The effect of section 1 is to apply immigration control to citizens of the United Kingdom and Colonies only if they were born outside the United Kingdom and their passport were issued by or on behalf of the government of some other part of the Commonwealth. After a territory has become an independent member of the Commonwealth, its government issues passports only to those of its inhabitants who have become citizens of the new state. The others, who remain citizens of the United Kingdom and Colonies, must then obtain their passports from the United Kingdom Government through the British High Commission; passports so obtained, being United Kingdom passports within the meaning of section 1, exempt the holders from control.

3. To bring these "non-belongers" within the scope of the control, it will be necessary to amend section 1 so as to provide that a citizen of the United Kingdom and Colonies who holds a United Kingdom passport shall be exempt from the control only if he "belongs" to the United Kingdom in a sense to be specified in the amended provision. The qualifying connection thought appropriate for this purpose is that the person concerned or his father or his father's father
   (a) was born in the United Kingdom, or
   (b) was naturalized in the United Kingdom, or
   (c) was registered as a citizen of the United Kingdom and Colonies in the United Kingdom or in a country which at the date of registration was mentioned in section 1(3) of the British Nationality Act 1948, or
   (d) was adopted in the United Kingdom.

*that is, a country which was an independent Commonwealth country at the date of the registration.
This is similar to the formula adopted in Independence Acts to define those citizens of the United Kingdom and Colonies who, although acquiring the citizenship of the newly independent country, are not to lose their citizenship of the United Kingdom and Colonies.
APPENDIX IV

RELEVANT INTERNATIONAL AGREEMENTS

(a) Universal Declaration of Human Rights

Article 13(2) states: "Everyone has the right to leave any country, including his own, and to return to his country".

The Declaration does not impose legal obligations but, as the Prime Minister said in Parliament on 4th February 1965 "it does of course have great moral authority which Her Majesty's Government, for their part, will do all in their power to support". Further, 1968 is International Human Rights Year.

(b) United Nations Convention on Racial Discrimination

Article 5(b)(ii) states: "States who are parties undertake to prohibit and to eliminate racial discrimination in all its forms and to guarantee the right of everyone, without distinction as to race, colour, or national or ethnic origin, to equality before the law, notably in the enjoyment of the following rights ............ The right to leave any country, including one's own, and to return to one's country".

The United Kingdom has signed the Convention and is considering ratification. Assuming that we ratify, the proposed extension of immigration control might be challenged, and might have to be justified before the United Nations as not discriminating on grounds of race, colour or national or ethnic origin.

(c) International Covenant on Civil and Political Rights

Article 12(4) states: "No one shall be arbitrarily deprived of the right to enter his own country".

Similar considerations apply as at (b) above and the extension of control might have to be justified on the ground that it was not "arbitrary".

(d) European Convention of Human Rights

Article 3(2) of the Fourth Protocol states: "No one shall be deprived of the right to enter the territory of the state of which he is a national".

The United Kingdom has ratified the Convention and has signed but not yet ratified the Fourth Protocol. In the case of (a), (b) and (c) above we could, in addition to the specific points noted under (b) and (c) argue generally that we were not in breach of the Instruments because the persons to whom immigration control is to be extended, although technically our nationals, are not so closely connected with the United Kingdom as to belong to it. But it would be more difficult to mount and sustain this kind of argument in relation to the European Convention since it is in such specific terms. We should be forced to rely on arguments drawn from the anomalous nature of citizenship of the United Kingdom and Colonies.
12th February, 1968

CABINET

IMMIGRATION LEGISLATION

Memorandum by the Secretary of State for Commonwealth Affairs

I must record my dissent from the Home Secretary's proposal to extend immigration control to citizens of the United Kingdom and Colonies (C(68) 34).

2. I accept without reservation that this is a most serious problem and I am anxious to contribute in any way possible to its mitigation. But I believe the legislation proposed would

(i) be widely condemned as an act of racial discrimination;

(ii) be construed as a breach of faith towards those Asian residents in Kenya who were accorded as recently as 1963 by a British Government full United Kingdom citizenship without reserve or condition;

(iii) be contrary to international principle and practice;

(iv) be unworkable in practice in respect of any Asians refused continued residence in Kenya.

3. These basic considerations are discussed in paragraphs 6, 9, 10 and 11 of the Annex to the Home Secretary's memorandum. The proposal is undesirable because it creates a second-class category of citizens of this country (i.e. the United Kingdom and Colonies) who have no right of entry into any part of it. Since their United Kingdom citizenship is the only one that most of them possess, they would be left with no legal right of entry into any country at all. We would in practice, if not in law, be rendering them stateless. The proposal lays us open to the charge of breaking faith with many Kenyan Asians who, because of actions by past British Governments for their own purposes, now find themselves possessing citizenship of the United Kingdom and Colonies. There is a moral issue of fundamental importance here. The proposal raises difficulties in relation to international agreements by which we are bound, and to customary international law. It would undoubtedly come under challenge internationally. The practical problems it raises are very considerable.

I cannot accept the contention in paragraph 10 of the Annex to the Home Secretary's memorandum that the onus for preventing these people from leaving Kenya (the country from which the majority of them would come) could be placed on the airline companies. The problem would be much more complicated. Numbers would undoubtedly arrive here having lost...
the right to re-enter Kenya, and much odium would attach to us for a refusal to allow airlines to land these people, carrying a United Kingdom passport. I am doubtful whether we could successfully keep out people in this category in face of the Parliamentary and public outcry which would follow. The proposal is certain to provoke great bitterness in many Commonwealth countries. There would be strong criticism by certain Governments on the score that Her Majesty's Government, motivated by racial prejudice, were openly discriminating against coloured citizens.

4. I believe therefore that the right course is to impose the restrictions on dependent children and clandestine entry proposed by the Home Secretary, which I fully support, and bring maximum pressure to bear on the Kenya Government to control the flow of Asian emigration to this country. Reports over the weekend indicate growing criticism within Kenya of the policies responsible for the emigration.

G.M.T.

Commonwealth Office, S.W.1.

13th February, 1968
14th February, 1968

CABINET

IMMIGRATION LEGISLATION

Memorandum by the Attorney General

Appendix IV to the memorandum by the Home Secretary (C(68) 34) sets out the provisions of the relevant international agreements or declarations in respect of which we might be in difficulties if the proposed legislation is passed.

2. To take the first three instruments first, the memorandum states arguments which we could use if we are accused of a breach, with which I generally agree. The question of ratification of the Convention on Racial Discrimination and the Covenant of Civil and Political Rights will have to be examined in the light of the proposed legislation. We have taken a leading position in support of the Covenant, and failure to ratify it would be unfortunate. We also have the general argument that the persons to be dealt with, although technically our nationals, are not so closely connected with this country that they can be said to "belong" to it. In the case of the Convention on Racial Discrimination we can argue that the proposed legislation is based on criteria of territorial connection with the United Kingdom and does not discriminate on grounds of race, colour or national or ethnic origin.

3. In relation to the European Convention on Human Rights, and the Fourth Protocol, the position is somewhat different.

(a) Article 3 of the Fourth Protocol to the European Convention of Human Rights provides that "No one shall be deprived of the right to enter the territory of the state of which he is a national". It would be difficult to argue that refusal of entry to an Asian immigrant as proposed would not be in breach of this provision. But, though we have signed this Protocol, we have not yet ratified it.

(b) Article 8 of the European Convention itself provides that "Everyone has the right to respect for his .... family life ...." It can be contended that refusal of entry to the dependent child of one parent who is here is contrary to this provision. It is possible that the European Commission, in a case now before it, might indeed so hold, though I think there are cogent
arguments to the contrary, e.g., that parents who come here without their children have themselves broken up their family life. It will however be unfortunate if we legislate at the very time when this case is before the Commission. Is there some way, e.g., by giving the Home Secretary a special discretion tied to this provision of the Convention, which would avoid an apparent conflict with the Commission?

4. The position if we were to be held in breach of the European Convention is as follows. We have accepted the right of the individual to petition the Commission, and the compulsory jurisdiction of the European Court. The effect is that the Commission, on accepting a petition referred to it, investigates the case and tries to effect a friendly settlement. If it fails in this, it reports to the Committee of Ministers whether the State is in breach of the Convention. The case may then be considered by the European Court of Human Rights. The Court may, if it finds the State in breach of the Convention, "afford just satisfaction to the injured party". If the matter does not go to the Court, the Committee of Ministers decides whether there has been a breach, and prescribes the measures the State is to take to remedy it. If the State refuses to obey the decision of the Court or of the Committee of Ministers that is presumably an end of the matter. But to refuse would be a serious step, as the Parties to the Convention have undertaken to accept as binding the decisions of the Committee of Ministers and of the Court.

5. That is now the position in relation to the "family life" provision of Article 8 of the Convention. As we have not yet ratified the Fourth Protocol, we have not yet incurred these obligations in respect of the "right to enter" provision. We would have to consider whether the proposed legislation would not prevent our ratification of it, or whether we could perhaps make an appropriate reservation.

F, E, J.

Law Officers' Department, W.C.2.

14th February, 1968
THE THIRD LONDON AIRPORT

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

The Prime Minister has directed that the timing of the Special Development Order (SDO) on Stansted should be referred to the Cabinet in view of its bearing on current negotiations for reform of the House of Lords.

2. Since the Cabinet last discussed the SDO for Stansted (CC(67) 64th Conclusions, Minute 3) the following developments have taken place:

(a) Attitude of House of Lords

A major difficulty has been clearly revealed in the attitude of the House of Lords. When the timing of the SDO was being discussed last summer, it was the view of Government and Opposition Leaders in the House of Lords that while an Order laid before the Summer Recess was likely to be negatived, an Order deferred until the autumn was likely to avoid this fate. Opinion in the House of Lords, however, has clearly hardened and the present view is that an SDO whenever laid has negligible chances of getting through. It is thought that the House of Lords would either refer the Order to a Select Committee, or negative it outright. In the first case, there would be no alternative but to co-operate with the Committee. In the second case, the only course would be to introduce at the beginning of next Session a hybrid Bill which would itself be subject to committee procedure in the House of Lords. In either event, therefore, this important decision would be subjected to an investigation by the House of Lords, whose outcome could not be forecast and might well be humiliating to the Government.

(b) Views of the Local Interests

Runway realignment, though undoubtedly beneficial in substantially reducing disturbance from noise, has in the event in no way mollified the local opposition. They are clearly in no mood for compromise and we are convinced that further consultation will not produce agreement. It is clear that only some form of further enquiry will meet local demands, and our refusal to afford the opportunity for a further enquiry will itself almost certainly lead us to trouble with the Lords.
(c) Foulness

Another new factor is the proposal of Sir John Howard for a so-called private enterprise scheme to build an international airport, to be leased to the British Airports Authority (BAA) and docks on reclaimed land off Foulness. Copies of memoranda on this subject have been submitted to the Prime Minister and other Ministers and there have been initial discussions between Departments and Sir John Howard and his associates. We believe that all the arguments against the feasibility of this scheme remain very strong, but it has aroused substantial interest in the Press and elsewhere.

(d) Expenditure and Defence Reviews

The question of the deferment of Stansted was raised during the Cabinet's discussions of the economy measures, even though an investment at Stansted is expected to be a highly profitable one. It can also be argued with some plausibility, and despite present views to the contrary, that the recent cuts in the defence programme may now invalidate some of the assumptions which made the choice of Stansted almost inevitable. These assumptions should be scrutinised afresh.

(e) Greater Capacity at Heathrow

It has now been estimated that the sustainable hourly capacity of 64 movements an hour at Heathrow might be increased to 70-72 in the early 1970s. This may put off for two more years (i.e., until 1976) the date when a third London airport is estimated to be needed.

In the light of all these factors, we have concluded that we should not proceed with the SDO but should require the BAA, as a Statutory Undertaker, to apply for planning permission. This would involve a further enquiry and we have considered how such an enquiry might best be organised.

The Enquiry

4. It would be essential that the enquiry should be sufficiently authoritative to command public confidence and to lead to a final decision. This perhaps suggests, though it has its dangers, an attempt at prior agreement with the Opposition on terms of reference, composition and procedure.

Scope of the Enquiry

5. The main pressure is for a fresh enquiry into the real alternatives to Stansted as a third London airport. The real issue is London's airport requirements. While it would be possible in the interests of speed to conceive of an enquiry which examined only a number of named sites, it seems preferable to allow it to enquire at large into the location of a third London airport.
6. The Town and Country Planning Bill embodies provisions for planning enquiry commissions whose functions will be to investigate planning applications of precisely the scale and nature of the airport project. This innovation has been widely welcomed both inside and outside Parliament and during the Second Reading debate there were several suggestions that this new machinery should first be used for reopening the Stansted question.

7. Planning enquiry commissions will consider planning applications. They will consist of up to five members and will be required to examine the general underlying technical and economic background of a proposed development before coming to consider a specific site or sites where the development should be carried out. Such a commission would thus proceed in relation to this project first through a general examination of the issue leading to the selection of perhaps one, but more probably two or three, favoured sites. These would then be the subject of a series of public local enquiries conducted by an Inspector of the Ministry of Housing and Local Government who would be a member of the Commission. He would report the results of these local enquiries to the Commission who would submit a report, with a recommendation, on the general issues and on the proposed site or sites. The Minister, probably in conjunction with the President of the Board of Trade, could then issue a planning permission without reference to Parliament.

8. If a further enquiry is to be instituted, this new procedure appears to be the most satisfactory and expeditious method of carrying it out. It could lead in a continuous process to a final recommendation which could then be acted upon without further procedures other than those relating to the compulsory acquisition of land. However, there will be no power to set up planning enquiry commissions until the Town and Country Planning Bill has received Royal Assent. It is hoped that this will be given in July, though delay until October cannot be ruled out. It is obviously undesirable to accept so long an initial delay, and it is likely that the passing of the Bill could be anticipated by setting up an ad hoc commission to carry out some preliminary work, this commission being converted into a planning enquiry commission as soon as the powers are available. It is, however, essential, particularly in this case, to avoid all danger of challenge in the courts to the ultimate decision on the site, and the opinion of the Law Officers is, therefore, being sought on the validity of this course of action.

9. The composition of the planning enquiry commission provides for members with a particular expertise in the issues involved. It will not be easy in this case to assemble such a commission composed of people of authority, who command public confidence, can spare the time, possess relevant expertise and are not committed to a particular solution. They will also need to be persons who can have access to all the defence considerations which affect the various sites which may be mentioned. Their suitability for this purpose will have to be cleared in advance and it may, therefore, in any case be some months before the commission can be set up.
10. The presentation of the case for a new enquiry will require careful consideration. Although it is doubtful whether any presentation can avoid the comment that the Government have been belatedly forced into accepting an enquiry by the apprehended attitude of the Lords, there are certain new factors which can be emphasised. The opportunity can be taken to look again at the defence implications. The proposal for a realignment of the runways was and is a genuine attempt to reduce the number of people affected by noise. The decision to consult local opinion on this proposal carried with it the intention to consider seriously the results of that consultation, and the process of consultation has brought to light a number of considerations which the Government could argue need to be explored further. At the same time a new project for Foulness has been brought forward which cannot be ignored. Moreover, the proposal for planning enquiry commissions and the welcome given to it provides a new machinery which is well adapted and indeed designed for this type of enquiry, and also provides a new opportunity for a further look at the issue of a third London airport. We suggest that, in presenting any new course, the major emphasis should be put on the planning enquiries commission aspect.

11. The main difficulty is one of delay. From the date of establishment of a commission it will be two years at least before Ministers are in a position to take a final decision. At best, therefore, the decision may be ready to be taken during the first half of 1970. The BAA estimate that it would take from four to four and a half years to bring Stansted to the first phase of operation as a major international airport; six years in respect of another inland site; and seven and a half years for an estuarial site (though the proponents of Foulness would dispute this). If, as we should expect, Stansted is finally recommended, this delay would be acceptable.

12. It is impossible to forecast what would be the recommendation of the new enquiry. If it named one site, it must be accepted that the Government would find it extremely difficult not to accept the recommendation. And a more remote sea or estuarial site would certainly involve higher construction and surface access costs and would be less attractive to airlines because of the continuing penalty of longer and more expensive journeys to and from central London. It is also the case that the BAA are not under a duty to own or manage airports other than the four they already own; and they might seek financial assistance to cover any additional costs.

13. The commission might, on the other hand, suggest alternatives. If so, we should not have escaped from our present dilemma. But provided we did not propose to differ from the recommendations of the commission, we could take the final decision ourselves without further procedures of any sort, save as regards land.

Conclusion

14. We invite our colleagues to agree to the holding of an enquiry into the siting of the third London airport on the lines described and to a very early public announcement to this effect.

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

Board of Trade, S.W.1,
19th February, 1968

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