CABINET 58 (51)

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Tuesday, 4th September, 1951, at 3 p.m.

Present:

The Right Hon. C. R. ATTLEE, M.P., Prime Minister (in the Chair).
The Right Hon. HERBERT MORRISON, M.P., Secretary of State for Foreign Affairs.
The Right Hon. HUGH DALTON, M.P., Minister of Local Government and Planning.
The Right Hon. J. CHUTER EDE, M.P., Secretary of State for the Home Department.
The Right Hon. T. WILLIAMS, M.P., Minister of Agriculture and Fisheries.
The Right Hon. ALFRED ROBENS, M.P., Minister of Labour and National Service.
The Right Hon. H. T. N. GAITSKELL, M.P., Chancellor of the Exchequer.
The Right Hon. VISCOUNT ALEXANDER OF HILLSBOROUGH, Chancellor of the Duchy of Lancaster.
The Right Hon. E. SHINWELL, M.P., Minister of Defence.
The Right Hon. P. C. GORDON WALKER, M.P., Secretary of State for Commonwealth Relations.
The Right Hon. RICHARD STOKES, M.P., Lord Privy Seal.

The following were also present:

The Right Hon. LORD PAKENHAM, First Lord of the Admiralty.
The Right Hon. P. J. NOEL-BAKER, M.P., Minister of Fuel and Power (Item 3).
Mr. A. G. BOTTOMLEY, M.P., Secretary for Overseas Trade.
Admiral of the Fleet LORD FRASER OF NORTH CAPE, First Sea Lord and Chief of Naval Staff.
The Right Hon. JOHN STRACHEY, M.P., Secretary of State for War.
The Right Hon. LORD HENDERSON, Parliamentary Under-Secretary of State for Foreign Affairs.
Sir WILLIAM STRANG, Foreign Office.
Lieut.-General Sir NEVIL BROWNJOHN, Vice-Chief of the Imperial General Staff.

Air Marshal Sir ARTHUR SANDERS, Deputy Chief of the Air Staff.

Secretariat:

Lieut.-General Sir KENNETH MCLEAN.
Mr. R. J. P. HEWISON.
Mr. R. W. JACKLING.

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1. The Cabinet considered a memorandum by the Prime Minister (CP. (51) 239) reviewing the policy to be followed (i) in the discussions which the Foreign Secretary was to hold in Washington first with Mr. Acheson and then with Mr. Acheson and M. Schuman together, and (ii) at the North Atlantic Council meeting in Ottawa.

In the course of a general discussion the following points were made:

(a) Containment of the Soviet Union and Satellites

The United Kingdom Government had done as much as any other Government to support this policy. It was still their conviction that war was not inevitable, and this must be brought home to the United States Government. It was as necessary to restrain the more impulsive elements in America as it was to avoid provoking the Soviet Union.

(b) European Integration

While we were willing to collaborate actively in all forms of European co-operation, we attached great importance to our membership of the Atlantic Community, and since the European members of the North Atlantic Treaty Organisation (N.A.T.O.) were uneasy at its predominantly military nature, we should seek to forward economic, social and cultural objects in the Organisation. Dr. Stikker, who had sponsored the recent declaration of the Organisation for European Economic Co-operation (O.E.E.C.) regarded this as a first step in gaining popular support for the Atlantic concept. While Mr. Acheson was expected to put forward proposals for developing these wider objects of N.A.T.O., we should not appear to be following an American lead in this matter, and should encourage Dr. Stikker to rally the support of the European countries, who would be suspicious of a purely Anglo-American initiative.

(c) The Middle East

The Foreign Secretary said that the United States were now beginning to take an interest in Egyptian affairs: this was a welcome development even though the crudeness of American thinking had its embarrassments. The breakdown in negotiations between the United Kingdom and Egypt had left as the most hopeful course that described in the Prime Minister's memorandum, viz., Egyptian participation in the new Allied Middle East Command. This would mean Egyptian representation on the various organs of the Command, and the present British base in Egypt becoming an Allied base with all British troops located in Egypt forming part of the Allied integrated Command. An offer on these lines (about which it was proposed tentatively and without commitment to inform the Americans) ought to satisfy not only Egyptian amour propre but also Parliamentary criticism in this country. The main disadvantage was that, if United Kingdom troops were required for purely United Kingdom purposes in the Middle East, they could no longer be drawn from the new Allied Command.

The Chiefs of Staff said that this offer was at any rate a lesser evil than giving up a base in Egypt altogether.

Some doubts were expressed about the value of the proposed arrangements, which would put the United Kingdom in the position of occupying only one out of a number of places in the Middle East Command. A settlement was in any case unlikely to be reached with the present Egyptian Government or with any other party Government in Egypt. Only an all-party administration in Egypt, and the influence of the King could lead to a helpful compromise. A solution was urgent, since the present Treaty expired in 1956 and the longer a settlement was delayed the less we should gain by it.

Doubt was also expressed about the wisdom of withholding, as had been suggested, the announcement that the United Kingdom
would provide the Supreme Commander until the Egyptians had accepted the offer to participate in the Middle East Command. The Egyptians would in any event require to be informed of the nationality of the Supreme Commander.

As for the Sudan, the Foreign Secretary said that the Sudanese, despite our pledge to give them self-government as soon as possible, were looking somewhat critically at the fact that Libya was to be given self-government in 1952. We must do all we could to develop internal self-government in the Sudan, even though defence and foreign affairs might continue to be reserved. The Egyptians also wanted to give the Sudan self-government, but on their own terms, including bringing the Sudan under the Egyptian crown—a proposition which the Sudanese would never accept. It was pointed out, however, that no agreement about bases would be possible with any Egyptian Government if the Sudan question were not covered. Some gesture on the point might be appropriate.

(d) Italian Treaty

The Foreign Secretary said that, since the Prime Minister's memorandum was circulated, he had learned that the United States Government did not agree with the two-stage approach to the problem there proposed. He was convinced, however, that the matter could not be rushed, and he would endeavour to persuade the Americans to accept the United Kingdom programme.

(e) Austria

The Foreign Secretary said that his view had been that it was too soon for the Deputies to meet again on the Austrian Treaty. But he understood that the French favoured an early meeting and had authorised their High Commissioner in Vienna to tell the Austrians so. The Americans appeared to think that it might be worth while to hold a Deputies' meeting “at an opportune moment,” i.e., not much before the end of the year. He proposed to maintain the line on Austria suggested in C.P. (51) 239.

(f) Spain

There was general support for the proposals in C.P. (51) 239. It appeared that the United States Government had both underestimated public feeling in this country against American military aid to Spain, and overestimated the value of the contribution which Spain might make to Western defence.

(g) Protection of Nationals in Eastern Europe

The question was raised whether Mr. Sanders was to continue indefinitely in prison in Hungary: was there not some means of securing his release, as the United States had secured that of Mr. Vogeler? The Cabinet were informed that the Americans had secured the release of Mr. Vogeler only at the expense of ill-advised concessions. To follow their example would serve only as an incentive to persecution of foreigners. We had already gone as far as we legitimately could to bring pressure to bear on the Hungarian Government, including the virtual cessation of all trade with Hungary. Nevertheless, the Foreign Secretary might try the effect of a further approach to the Hungarian Government, accompanied by the maximum publicity.

(h) Atlantic and Mediterranean Commands

The Minister of Defence said that the Command arrangements now proposed for the Mediterranean were not wholly satisfactory, but would be practicable in peace-time provided we obtained the appointment of a British Supreme Commander for the Middle East, who established effective liaison with Admiral Carney, and provided the Turks agreed to take their place in that Command. The Chief of Staff confirmed that these arrangements would permit the necessary
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advance planning for convoy operation and protection of lines of communication, but that, if war came, a Supreme Commander for the Mediterranean area as a whole would be necessary. It was agreed, however, that since the question of the Mediterranean Command was to be on the agenda of the North Atlantic Council, and would be affected by the question of Turkish membership of N.A.T.O., it would be useful if the Foreign Secretary, the Chancellor of the Exchequer and the Minister of Defence were to give further consideration to the manner in which this question should be handled.

(i) Greece and Turkey and N.A.T.O.

The Foreign Secretary said that we wished to ensure that, if Turkey and Greece were admitted to N.A.T.O., Turkey would still be primarily associated for defence purposes with the Middle East Command under a British Commander. The extent to which the Americans would support our views was doubtful, since Admiral Carney was believed to want the Turks as part of his Command. He had found the Turkish Ambassador a stubborn negotiator; and, although the Ambassador had categorically assured him that the Turks would in fact join in the Middle East Command, no written confirmation of this had been forthcoming or could be expected until the North Atlantic Council had decided whether Turkey was to be admitted to N.A.T.O.

The Cabinet considered that we should make it clear to the Turks and to the Americans that our support for Turkish membership of N.A.T.O. must be subject to an undertaking of Turkish participation in Middle East Command, which might be announced simultaneously with the admittance of Turkey to N.A.T.O.

The Cabinet—
Subject to the points made in discussion, took note with approval of C.P. (51) 239.

2. The Cabinet considered a memorandum by the Prime Minister (C.P. (51) 240) seeking approval, for the guidance of the Foreign Secretary in his discussions with Mr. Acheson and M Schuman, of certain principles upon which to base the future relations of the German Federal Republic with the Occupying Powers and German participation in Western defence.

The Foreign Secretary said that United States opinion now favoured the concept of a European Army which would include German forces, because such an arrangement would both meet German claims to equality of treatment in defence matters and lessen French apprehensions of a resurgence of German militarism. We could accept the force of these arguments, recognising the danger that, unless Germany were satisfied both about her future political relationship with the Occupying Powers and about her participation in the defence of Europe, she might tend to look to the Soviet for the satisfaction of her aspirations. He was, however, concerned to ensure that the plan for a European Army could be made militarily effective, and some examination of the proposals by the Standing Group was desirable.

In discussion the following points were made: —

(a) The United States military authorities had initially considered the concept of a European Army to be militarily unpractical, but they now favoured it, probably under the influence of General Eisenhower who, while recognising the many military difficulties, believed that the political difficulties of obtaining French approval to the raising of National German forces were insuperable. He was understood to be prepared to serve both as Commissioner for the
European Army and as Supreme Commander of the N.A.T.O. forces in Europe, and to believe that in this dual capacity he would be able to integrate German forces into a European Army which would form part of his N.A.T.O. forces.

There were still serious divergences of opinion among the countries concerned on the form which a European Army should take. On the one hand, it had been proposed that national forces should be merged into an Army with a European uniform, common pay scales and full integrated units. M. Schuman had, in his letter to Mr. Acheson of 9th August, stressed the need to ensure that the first German recruits should wear the European uniform. Such a concept offered political advantages, but would present formidable difficulties in execution. General Eisenhower, however, was understood to favour the raising of German forces as national units in the first instance, which, after completion of training, would come under his control as European Defence Commissioner and he would then decide how they should be fitted into the N.A.T.O. forces available to him. It was probably because the details were so uncertain that the French and American representatives on the Standing Group had been unwilling to consider the military aspects of a European Army in advance of the tripartite discussions.

It was suggested that it would be inadvisable for us to become involved in detailed consideration of the form and structure of a European Army at the tripartite talks, and that in order to permit progress we should express agreement in principle to the European Army concept, leaving the details for later settlement through the Military Committee of N.A.T.O. It was pointed out, on the other hand, that, unless we first established precisely the manner of German participation and the degree of control over German forces to be exercised, we might find that we had permitted the creation of forces over whose use we had little say. There were already signs of a resurgence of extreme nationalism in Germany, as instanced by a recent speech of a Minister of the Federal Government calling for the restoration of the Eastern provinces lost to Poland. While too much attention should not be paid to claims of this nature to territory whose future, in our view, still depended on an eventual peace treaty, it was important that the forming and arming of German forces should not get out of step with the rearmament of the war-time allies.

It was, in any event, essential to ensure that the equipping of German forces was not done at the expense of the need for arms of ourselves and our N.A.T.O. partners.

The Cabinet—

(1) Invited the Foreign Secretary to inform Mr. Acheson and M. Schuman that, while we were disposed to favour the plan for a European Army, of which German forces should form part, the arrangements proposed should be worked out in more detail and examined by the appropriate military authorities of N.A.T.O. before final approval could be given to the raising and incorporation of German units.

(2) Invited the Foreign Secretary to seek the agreement of Mr. Acheson and M. Schuman to the principle that the provision of arms to the members of the North Atlantic Treaty should receive priority over requirements for German military forces.

(3) Subject to Conclusions (1) and (2) above, approved the conclusions in the Prime Minister’s memorandum (C.P. (51) 240).

Economic and Financial Implications

The Cabinet also had before them a memorandum by the Prime Minister (C.P. (51) 238) covering a report by an interdepartmental committee of officials regarding the economic and financial implications of raising a German defence contribution.
The Chancellor of the Exchequer stated that, if the Germans made a military contribution to Western defence, they would argue that they should be relieved of occupation costs. If we ceased to receive occupation costs altogether, the additional charge on the Budget and on our balance of payments would be at the annual rate of about £150 million in the current year rising to £180 million in subsequent years. It was essential that the United States authorities should be brought to understand that such an additional burden on the United Kingdom could not be accepted; and he proposed to bring this matter up in the course of his talks with the Americans on economic and financial matters, so that they could be fully seized of it before the Foreign Secretary began his discussions with Mr. Acheson and M. Schuman. He was in agreement with the report, except for the proposal in paragraph 26 that German arms production should continue to be severely restricted. He was concerned at the threat to our overseas markets which German industry, unhampered by heavy arms production, might present; and he considered that, if it was impossible to reach satisfactory arrangements on occupation costs, and if the creation of a European Army afforded adequate safeguards against German militarism, there might be a case for a measure of German arms manufacture.

In discussion the following points were made:

(e) While C.P. (51) 238 concluded that the economic capacity of Western Germany was adequate to meet both the probable defence costs which would fall on the Federal Budget and essential Allied deutschmark expenditure, this did not appear to accord with the views of the Allied High Commission. In any event, if these costs could not be met by Germany, it was clear that the United Kingdom could not meet the additional burden, and the Americans should find means to preserve us from any additional charge.

(f) Any question of permitting the revival of German munitions manufacture on an extensive scale would need careful and separate consideration.

The Cabinet—

(4) Agreed that the question of permitting the manufacture of heavy arms and equipment in Germany would require further consideration if satisfactory arrangements could not be made for the continued payment of occupation costs.

(5) Subject to Conclusion (4) above, approved the recommendations contained in the Report annexed to C.P. (51) 238.

3. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C.P. (51) 241) explaining the special facilities at present accorded to Persia in the use of her sterling for dollar payments and for the purchase of scarce supplies, and recommending that the Order placing all Persian transactions in sterling under control should now be made, after consultation with the United States Government, and in any event if abnormal movements of sterling should be attempted.

The Chancellor of the Exchequer said that the Order had been held in abeyance for some time lest the negotiations undertaken by the Lord Privy Seal should have been prejudiced, but in present circumstances we could not afford the continued drain of dollars, which might give rise to justified criticism in this country. We should, however, first inform the United States Government of our intentions. If the Order were issued, a public statement should also be made of the reasons for the withdrawal of the facilities in order to counter any Persian accusation of economic pressure.
In discussion, consideration was given to the effects of making an export control order revoking existing licences for exports of scarce goods complementary to the proposed control Order.

(a) The Secretary for Overseas Trade reported that the Vulcan Foundry Company were seeking guidance on an order, obtained in the face of severe German and American competition, for 64 locomotives for delivery starting in January. It was not certain that, if manufactured, these locomotives would be suitable for use elsewhere than in Persia.

The point was made that the productive capacity being devoted to the locomotives might be useful for other purposes.

(b) While we could properly refuse transfers of sterling for transactions relating to oil, and for other scarce commodities such as iron and steel, it was suggested that different considerations arose in connection with sugar. We should be accused of depriving the Persian people of a basic food, and this might serve to consolidate Persian opinion behind the present Prime Minister rather than weaken his position. On the other hand, we purchased this sugar for dollars and then made it available to Persia for sterling, and it would be illogical to stop dollar transfers while at the same time permitting the purchase of sugar for sterling. Nor would this be understood by the public in this country, where sugar was still rationed.

The Cabinet—

(1) Approved the recommendations of the Chancellor of the Exchequer contained in C.P. (51) 241.

(2) Invited the Foreign Secretary to arrange for an appropriate public statement to be prepared in consultation with the Lord Privy Seal and the Minister of Fuel and Power, to be issued simultaneously with the Sterling Control Order.

(3) Invited the Board of Trade to make an Export Control Order as proposed in paragraph 3 of C.P. (51) 241 when the Sterling Control Order was issued.

(4) Agreed that sugar should not be excluded from the operation of the Export Control Order.

(5) Invited the Secretary for Overseas Trade to investigate and report on the possibility of alternative markets for the locomotives being manufactured by the Vulcan Foundry Company for later consideration.

The Foreign Secretary reported that the Anglo-Iranian Oil Company’s (A.I.O.C.’s) representative in Tehran, Mr. Sedden, had recommended the cessation of payment of wages to Persian employees in Abadan. His Majesty’s Ambassador in Tehran was of the opinion that we should not be deterred from this step for fear of consequences to the British staff remaining in Abadan, since the Persians were determined to ensure the protection of British personnel in order to give us no excuse for landing British forces there. Nor did he think that the termination of these payments would of itself lead the Persians to cancel residence permits for the British staff.

The Cabinet considered, however, that the cessation of payments to the Persian staff in Abadan might have more serious consequences than the cessation of payments to Persian staff in the oilfields from which British personnel had been withdrawn, and that further information was required before a decision could be taken.

The Cabinet—

(6) Invited the Foreign Secretary to arrange for a full appreciation of the risks involved to be obtained for subsequent consideration.

The Foreign Secretary reported that the A.I.O.C. proposed to issue a general warning to prospective purchasers of oil from the National Iranian Oil Company to the effect that any such purchases...
would be of oil to which the title was in dispute and that they would take action, wherever available to them, to protect their rights.

The Cabinet—

(7) Agreed that there was no objection to the issue of such a statement by the A.I.O.C.

4. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C.P. (51) 242) on the balance of payments position and also a memorandum by the Ministry of Defence (C.P. (51) 243) on supplies of finished military equipment from the United States.

The Chancellor of the Exchequer said that the outlook described in his memorandum was serious. The prospective dollar deficit for 1951-52 might approach $1,200 million. The three main causes—all new factors since June—were the need to replace Persian oil, our July and August deficit in the European Payments Union and the fall in prices of Commonwealth sterling products. The £4,700 million defence programme could not be blamed for the deterioration of the situation since June. The situation had serious domestic implications, about which he would make further positive proposals after his return from North America. His immediate purpose, however, was to discuss the line he was to take while in North America. While we must take all possible steps to reduce this deficit by cutting dollar imports and encouraging dollar exports, these would be only partial remedies, and if substantial United States assistance were available on conditions which were politically satisfactory our position would be much easier. He did not wish to seek general economic aid, but wished to be free to explore the possibilities of using United States supplies of finished military equipment in relief of our difficulties since aid in that form was free of political objection. There were three aspects to our defence planning. First, there was the £4,700 million programme, for which we now seemed unlikely to receive any direct United States dollar aid. If, however, some of the military supplies required could now be provided as "end items" by the United States, and our own production programmes reduced accordingly, we could use capacity thus released for exports and thus relieve our own position. Next, there were the forces we should have to equip on mobilisation to meet both our interim contribution commitments to N.A.T.O. and strategic requirements elsewhere. After completion of the £4,700 million programme there would still remain a deficiency in the equipment needed for these forces of the order of £2,000 million. Finally, there was the full medium-term defence plan, implementation of which might impose still larger requirements on the United Kingdom. In C.P. (51) 243 the Minister of Defence suggested that we should not at present approach the United States with a full statement of the prospective deficiencies in the equipment of our forces, but should confine ourselves to a request for adequate supplies of raw materials and machine tools. In these particular fields the United States had been fairly generous, but their help had had little or no effect on our dollar position. In his view, the right course was fully to inform members of the United States Administration of the worsening of our situation, making it clear that the carrying-out of the £4,700 million programme would give us considerable difficulty; that the equipment of the forces available on mobilisation could be achieved only with considerable help; and that we could certainly make no additional contribution for the purpose of the full Medium-Term Defence Plan.

The Minister of Defence said that, while discussions with the Americans on our general economic position and the particular problems of rearmament were desirable, he did not believe that we should at this stage make a request for any specific relief, partly because were were unlikely to receive aid and partly because of the
conditions which might be attached. Nor was he in favour of requests for considerable supplies of military equipment. Moreover, our defence programme did not arise solely out of our North Atlantic Treaty Organisation obligations. Much of the £4,700 million programme was to be devoted to other commitments, e.g., in the Middle East and the Colonies. The receipt of free military equipment might make it difficult for us to continue exporting arms to some of these countries. He suggested that it was of greater importance to secure American help for our raw material and machine tool requirements, not only for our defence programme but also to maintain domestic investment and exports.

In discussion it was pointed out that our difficulties on external payments could not be met on one front alone and that we should need American help on supplies of steel, on a reasonable approach to East-West trade, on raw material supplies and a number of other matters. The Cabinet felt that we should keep open the possibility of switching orders for some of our military requirements from the United Kingdom to the United States, and that the Chancellor of the Exchequer should be free to discuss this if it should seem appropriate.

The Cabinet—

Authorised the Chancellor of the Exchequer to inform the United States Government of the worsening of our dollar situation, and to discuss possible remedies on the lines proposed in C.P. (51) 242.


5. The Prime Minister said that at a Tripartite Conference between officials of the United Kingdom, Canadian and the United States Governments it had been suggested that United Kingdom security arrangements in connection with staff to be employed on atomic energy work should be brought into line with the methods in force in Canada and the United States. A group of Ministers under his Chairmanship had considered a new procedure which would replace the "negative" vetting of the past by a form of "positive" vetting. The chief feature of this was that the candidate for atomic energy work, whether already in the Civil Service or a new recruit, would be required to complete a questionnaire. This would ask, among other things, whether he was or ever had been a member of the Communist or Fascist Parties or of allied bodies, and would require him to name referees of whom (and indeed of other persons) enquiries would be made on the specific question of his suitability for employment on atomic energy work. The Ministry of Supply, and in particular Lord Portal, had been most anxious that this new procedure should be adopted, in the hope that the Americans might be induced to be more forthcoming in the sharing of atomic energy information. His Majesty's Ambassador in Washington had been asked to inform the United States Government of the proposed new procedure, but had now sought further instructions on the ground that this step was unlikely to lead to any immediate positive results, in particular the amendment of the McMahon Act which severely limited the amount of atomic energy information which the United States could impart to the United Kingdom. The Prime Minister said that, in the light of this, he was in some doubt whether the new procedure should be adopted, particularly as, in his view, existing United Kingdom security precautions were probably as effective as American, and would not really be improved by the new procedure. Moreover, he felt some distaste for United States methods, with their tendency to disregard the liberty of the subject.

In discussion the following points were made:—

(a) At the Tripartite Conference United Kingdom officials had given an undertaking that the new procedure would be adopted.
They had had no authority to do so, but the fact was that we were committed.

(b) The new procedure did not appear to constitute a gross infringement of the liberty of the subject, and could in any event be justified by the extreme importance of atomic energy security. The procedure to be adopted was current also in Canada, where its administration lacked the objectionable features of American security procedure.

(c) It had never been expected that United Kingdom adoption of the new procedure would lead forthwith to amendment of the McMahon Act. The constitutional position made it in any event impossible for the United States Administration to give a firm undertaking about amending legislation. Adoption of the new procedure would, however, improve the atmosphere, with the result that, if the question of amending the McMahon Act arose, the prospects of amending it favourably to ourselves would be better. The Foreign Secretary, when in Washington, might endeavour to ascertain whether this result could be expected.

The Cabinet—

(1) Invited the Foreign Secretary to discuss with the United States Government the probable effect of adopting a "positive" vetting procedure in connection with new appointments to atomic energy work.

(2) Subject to the outcome of the discussions referred to at (1) above, approved in principle the adoption of the new procedure.

6. The Foreign Secretary said that the attendance of the Union of Soviet Socialist Republics at the San Francisco Conference for the signing of a Peace Treaty with Japan might make it difficult to complete the proceedings by the date agreed. While we did not wish the Conference to be unduly prolonged, he considered that some extension of perhaps two days would be reasonable and proposed to inform Mr. Acheson accordingly.

The Cabinet took note with approval of the Foreign Secretary's proposal.

Cabinet Office, S.W. 1,
4th September, 1951.