CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Thursday, 27th February, 1958, at 11:30 a.m.

Present:
The Right Hon. HAROLD MACMILLAN, M.P., Prime Minister.
The Right Hon. SELWYN LLOYD, Q.C., M.P., Secretary of State for Foreign Affairs.
The Right Hon. The EARL OF HOME, Secretary of State for Commonwealth Relations.
The Right Hon. Sir DAVID ECCLES, M.P., President of the Board of Trade.
The Right Hon. LORD MILLS, Minister of Power.
The Right Hon. GEOFFREY LLOYD, M.P., Minister of Education.
Dr. The Right Hon. CHARLES HILL, M.P., Chancellor of the Duchy of Lancaster.
The Right Hon. VISCOUNT KILMUIR, Lord Chancellor.
The Right Hon. D. HEATHCOAT AMORY, M.P., Chancellor of the Exchequer.
The Right Hon. DUNCAN SANDYS, M.P., Minister of Defence.
The Right Hon. IAIN MACLEOD, M.P., Minister of Labour and National Service.
The Right Hon. HAROLD WATKINSON, M.P., Minister of Transport and Civil Aviation.
The Right Hon. JOHN HARE, M.P., Minister of Agriculture, Fisheries and Food.
The Right Hon. REGINALD MAULDING, M.P., Paymaster-General.

The following were also present:
The Right Hon. The EARL OF SELKIRK, First Lord of the Admiralty (Item 3).
The Right Hon. The EARL OF PERTH, Minister of State for Colonial Affairs (Item 3).

The Right Hon. EDWARD HEATH, M.P., Parliamentary Secretary, Treasury.

SECRETARIAT:
The Right Hon. Sir NORMAN BROOK.
Mr. B. ST. J. TREND.
Mr. M. REED.

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Parliament.

1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

British Forces in Europe.

(Previous Reference:
C.C. (58) 16th Conclusions.
Minute 6.)

2. The Chancellor of the Exchequer said that, although the Federal German Government remained unwilling to make a cash contribution to the foreign exchange costs of our forces in Germany in 1958-59, we had enlisted considerable sympathy for our case in the North Atlantic Treaty Organisation (NATO) and it would be to our advantage to try to reach an agreement on the financing of our forces in Germany over the next three years. We should therefore declare to NATO that we were prepared to maintain five brigade groups in Germany during the three years beginning in 1958-59, provided that the following conditions were fulfilled:

(a) In respect of 1958-59 the German Government should agree:

(i) To repay in that year the £45 millions of their post-war debt to us in respect of economic aid which would otherwise be repayable over the period 1967-72. The £67 millions already on deposit in London on account of repayment of the balance of this debt should also remain here.

(ii) To deposit at least £50 millions by way of advance payment for munitions orders in addition to orders already placed.

(b) In each of the two following years a contribution of at least one-third of the foreign exchange expenditure attributable to the five brigade groups should be provided through the agency of NATO.

(c) There would be no modification, during the three years, in basic NATO strategy and no major change in the international political climate in Europe.

(d) Economic co-operation in Europe should be developed in a manner comparable with the political and military co-operation established in NATO.

If we failed to secure agreement to an arrangement on these lines, we should reduce our forces in Germany to four brigade groups as rapidly as possible. Even this reduced force would entail an additional annual commitment of some £32 millions in foreign currency. On the other hand, a settlement on the basis outlined would provide us with a reasonable degree of Budgetary relief in 1958-59, while the foreign exchange liability of some £25 millions a year which it would involve in the two subsequent years would represent a price which might be thought to be unavoidable if we were to preserve the unity of the North Atlantic Alliance. Even so, it would constitute an unwelcome additional commitment at a time when our other external liabilities would be very heavy, and it would be necessary to seek economies elsewhere in mitigation of this new burden.

In discussion it was emphasised that we were committed, under the Western European Union, to maintain four divisions on the Continent. We should also face serious administrative problems if we attempted to reduce our forces in Germany below the level of five brigade groups during the next two years. Moreover, the expenditure involved in maintaining five brigade groups in Germany was little greater than the expenditure attributable to four brigade groups. For these reasons it would be to our advantage to seek to achieve a settlement governing the financing of the costs of our forces in Germany during the next three years rather than to attempt, in the face of German opposition, to secure an adequate contribution in respect of our expenditure in 1958-59 alone. We should therefore endeavour to enlist the support of the United States Government and the Secretary-General of NATO for a solution on the lines proposed.

At the same time, however, we should emphasise, in the discussions
in NATO, that an arrangement of this kind would involve us in a heavy additional commitment which we could discharge only if our Allies were prepared to contribute one-third of the foreign exchange expenditure involved in the second and third years of the period. We should also seek to ensure further economies by enforcing a simpler standard of support services for our troops in Germany, and by accelerating as far as possible the reduction in the strength of the Army as a whole.

The Cabinet—

(1) Invited the Foreign Secretary, in consultation with the Chancellor of the Exchequer and the Minister of Defence, to discuss with the Secretary-General of the North Atlantic Treaty Organisation the possibility that the Organisation might sponsor a settlement of the problem of financing our troops in Germany on the lines indicated by the Chancellor of the Exchequer.

(2) Invited the Minister of Defence to consider the possibility of accelerating the rate of reduction in the strength of the Army as a whole.

(3) Invited the Minister of Defence to examine the possibility of reducing the standard of support services for our troops in Germany.

3. The Cabinet had before them memoranda by the Foreign Secretary and the Attorney-General (C. (58) 52 and 54) reporting the progress of discussions, at the International Conference on the Law of the Sea, on the breadth of territorial waters and the limit of exclusive fishing rights.

The Attorney-General said that, while these discussions had disclosed some support for the retention of the present three-mile limit of territorial waters, it remained unlikely that the Conference would reaffirm this limit. If we failed in our efforts to persuade them to do so, we must choose one of two possible compromises:

(i) Retention of the three-mile limit, together with an extension of exclusive fishing rights up to a twelve-mile limit.

(ii) Adoption of a six-mile limit for all purposes, with the reservation of rights of passage for warships, without prior authorisation, and rights of passage for aircraft, outside the three miles.

The United States delegation were canvassing support for the first of these proposals, and we must therefore decide whether we ourselves should endorse it or whether we should advocate the second proposal and seek to persuade the United States representative to support us in doing so, without putting forward the first proposal at all.

In discussion there was general agreement that we should continue to press, as long as possible, for the retention of the three-mile limit for all purposes. But if we failed to secure this objective, it would be dangerous to sponsor the concession of exclusive fishing rights up to twelve miles. This course would expose our fishing industry to severe damage; it would prevent us from arguing, before the International Court of Justice, that claims to exclusive fishing rights outside the limit of territorial waters had no validity in international law; and it would tempt other States to seek to extend the breadth of territorial waters proper to the twelve-mile limit initially conceded in respect of exclusive fishing rights. Moreover, if two compromise proposals were put forward independently, the chances of success for either would be prejudiced. We should therefore seek to persuade the United States delegation to support us in advocating a six-mile limit for all purposes. It would, however, be important to couple with this proposal a specific reservation of rights of passage for warships and aircraft.

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The Conference was also likely to be invited to endorse a proposal that all nuclear tests at sea should be prohibited. This proposal would receive considerable support. But we should probably not be alone in opposing it; and the Conference might eventually break down on this issue. This would not necessarily be to our disadvantage.

The Cabinet—

(1) Invited the Foreign Secretary, in consultation with the Attorney-General, to seek to enlist the support of the United States Government for the adoption of a six-mile limit on territorial waters for all purposes, with the reservation of rights of passage for warships, without prior authorisation, and rights of passage for aircraft, outside the three miles.

(2) Invited the Attorney-General to be guided, in the discussions at the International Conference on the Law of the Sea, by the considerations which had emerged in their discussion and to report progress to the Cabinet.

4. The Cabinet reviewed the political risks of proceeding with legislation to amend the Agriculture Acts and the Agricultural Holdings Acts. They recognised that this legislation was likely to give rise to a considerable amount of controversy, especially in Scotland. They were, however, informed that the agitation against the proposed abandonment of disciplinary powers was subsiding, and that agreement had now been reached between the Country Landowners' Association and the National Farmers' Unions on the proposals affecting security of tenure. The Government's supporters in the House of Commons were in favour of the Bill, and the Government were likely now to gain more credit by proceeding with it than by abandoning it.

The Cabinet—

Reaffirmed their decision to proceed with legislation to amend the Agriculture Acts and the Agricultural Holdings Acts.

5. The Cabinet had before them memoranda by the Chancellor of the Exchequer (C. (58) 48) and the Minister of Power (C. (58) 50) on the proposal to raise loans from the International Bank for Reconstruction and Development (I.B.R.D.) to assist in financing the United Kingdom nuclear power programme.

The Chancellor of the Exchequer said that officials had now discussed this possibility with representatives of the I.B.R.D. Their report was annexed to his memorandum. It envisaged a loan of $50 millions from the I.B.R.D., in conjunction with a loan of the same amount from the New York market. We could not afford to dispense with any potential source of gold and dollars which would strengthen our reserves in the long term; and, on a balance of all the considerations, he was disposed to recommend that negotiations for these loans should now be opened. He would prefer that both loans should be raised by the electricity authorities; but, if on further enquiry it seemed disadvantageous for them to borrow on the New York market, he would be content that the Government should themselves raise that loan.

The Minister of Power said that this proposal was open to objection on the grounds summarised in paragraph 2 of his memorandum. He was concerned about the effect on the British
public, who had taken pride in the success of our nuclear power programme and would be shocked to think that it could not be carried through without American help. He was even more concerned at the risk of submitting this programme to the scrutiny of technical experts engaged by the I.B.R.D., since an unfavourable report would seriously damage our export prospects. He would not maintain his objections to the proposal if the Chancellor were satisfied that there was an overriding financial need to borrow this $100 millions. But he hoped that, in that event, the electricity authorities would not be asked to borrow on the New York market, for the reasons set out in paragraph 3 of his memorandum.

In discussion serious misgivings were expressed about the expediency of proceeding with this proposal. Special importance was attached to the risk that the I.B.R.D. might seek technical advice on our nuclear power programme from United States experts in atomic energy who were known to be jealous of its success and might be disposed to take a critical view of its future prospects. Attention was also drawn to the possibility that the request for this loan might affect the attitude of Congress towards the amendment of the McMahon Act.

The Prime Minister said that he would be glad of a further opportunity to weigh these arguments before a final decision was taken.

The Cabinet—

Took note that the Prime Minister would give further consideration to the issues raised by C. (58) 48 and 50.

Cabinet Office, S.W. 1,
27th February, 1958.