CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Tuesday, 1st July, 1958, at 11 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. VISCOUNT HAILSHAM, Q.C., Lord President of the Council.
The Right Hon. Sir DAVID ECCLES, M.P., President of the Board of Trade.
The Right Hon. HENRY BROOKE, M.P., Minister of Housing and Local Government and Minister for Welsh Affairs.
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. VISCOUNT KILMUIR, Lord Chancellor.
The Right Hon. D. HEATHCOAT AMORY, M.P., Chancellor of the Exchequer.
The Right Hon. ALAN LENNOX-BOYD, M.P., Secretary of State for the Colonies.
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. 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. REGINALD MAUDLING, M.P., Paymaster-General.

Also present:

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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1. The Prime Minister reported to the Cabinet on the visit to Paris which he had paid, together with the Foreign Secretary, during the previous weekend. They had received a cordial welcome from the general public and, although they had not been concerned to negotiate on particular issues, their discussions with General de Gaulle had comprised a useful review of Anglo-French relations. The General's main preoccupations were to devise a scheme of constitutional reform, to promote a settlement of the North African problem and to establish France as a nuclear Power in her own right. He was not well-informed about the projected European Free Trade Area; but they had impressed on him the dangers of continued French intransigence in this context and there was some hope that he might exert his personal authority to secure a resumption of practical negotiations in the near future.

The Cabinet—

Took note of this statement.

2. The Prime Minister informed the Cabinet that the Bill to amend the McMahon Act had now been passed by Congress. The bilateral agreement between the United States and ourselves about the exchange of information on nuclear energy, which was to be executed under this legislation, would need to be initialled forthwith if it was to come into effect before Congress adjourned after first being laid before Congress for the statutory period of thirty sitting days. At this late stage, however, the United States authorities had sought to insert in its preamble words defining its purpose as the promotion of the maximum advantage to both countries in the application of nuclear energy to both civil and military purposes. This reference to the civil use of nuclear energy in an agreement to be concluded for military purposes was objectionable; for, although the wording of the preamble had no legal force, it might provide the United States authorities with a means of putting pressure on us to disclose information about the development of our civil nuclear power programme. He had therefore informed President Eisenhower that the amendment to the preamble was unacceptable; and he understood that the President had recommended the Atomic Energy Commission, with whom the final decision lay, to delete it. If they refused to do so, it was for consideration whether we should sign the bilateral agreement with an explicit reservation in writing that we should expect co-operation in the civil application of nuclear energy to continue to be governed by existing agreements.

In discussion there was general agreement with this suggestion. We must remain free, in the last resort, to disclose publicly the action which we had taken. But in the interests of facilitating the passage of the bilateral agreement through Congress, we should avoid, if possible, any reference to our reservation, and any public discussion of the agreement as a whole, until the statutory thirty days had expired.

The Cabinet—

(1) Agreed in principle that the draft agreement on the exchange of nuclear information with the United States Government should be initialled.

(2) Took note that, if the final version of the preamble to this agreement implied that the provisions of the agreement would extend to co-operation in the civil, as well as the military, application of nuclear energy, the Prime Minister would inform the United States Government that we should expect civil co-operation to continue to be governed by existing agreements.
3. The Cabinet were informed that the Prime Minister’s reply to the latest letter from the Soviet Prime Minister on the proposed meeting of Heads of Governments would be published that day. Meanwhile, the Soviet Government were to be represented at the conference of scientists on the supervision of the suspension of nuclear tests, the first meeting of which was to be held that day at Geneva.

The Lebanon.
(Previous Reference: C.C. (58) 49th Conclusions, Minute 1.)

The Foreign Secretary said that the situation in the Lebanon remained unsatisfactory. The Lebanese Government appeared to be unable or unwilling to crush the rebellion by force, while the Secretary-General of the United Nations was reluctant to take any action, apart from the despatch of the United Nations observers already in the country, to implement the resolution of the Security Council that infiltration of the Lebanon should be prevented. Moreover, the observers had so far been unable to obtain evidence of infiltration on any significant scale.

In discussion it was agreed that a situation which we had originally envisaged in terms of foreign subversion had developed into a civil war for which a primarily political solution must be devised. It remained important, however, that the Lebanon should remain a stable and independent State, capable of resisting the pressure of the United Arab Republic; and the continued threat of intervention by the Western Powers, combined with pressure by the United Nations, might succeed in inducing the opposing factions to agree upon a settlement which we could accept. It would be necessary, for this purpose, to seek to persuade the Secretary-General to take more positive action to give effect to the resolution of the Security Council. We should also give further consideration, in concert with the United States Government, to the best means of ensuring that, when President Chamoun’s term of office expired in the near future, he should be succeeded by an individual who would be likely to maintain the Lebanon in general alignment with the West.

The Cabinet—

Invited the Foreign Secretary to be guided by the considerations which had emerged during their discussion.

4. The Cabinet had before them:—

(i) A note by the Chancellor of the Exchequer (C. (58) 133) covering a memorandum by officials on the possible resumption of financial negotiations with Egypt.

(ii) A memorandum by the Foreign Secretary (C. (58) 134) discussing the administrative feasibility of distributing a lump sum payment of compensation by the Egyptian Government.

The Chancellor of the Exchequer said that the Egyptian Government had now rejected the earlier concept of a limited financial settlement, which would have excluded both the Egyptian claim for compensation for “war damage” and our own claim for damage to our property in the Suez Canal Base, and had proposed a lump sum settlement which would be deemed to take account of both these claims. Such a settlement would be in full satisfaction of our claims in respect of Egyptianised property and damage to sequestrated property; and it would comprise both the restoration of the sequestrated assets to their owners and the release to the Egyptian Government of such part of their blocked sterling balances as remained after the lump sum payment had been discharged.

There would be advantages in resolving the present deadlock in negotiations as soon as possible; but the figure of £25 millions, which the Egyptian Government had privately indicated that they

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would be prepared to consider as the basis of a lump sum settlement, was inadequate. The total of the claims which British claimants against Egypt could advance, even if reduced to a realistic level, was of the order of £40-£45 millions; and unless the Egyptian Government could be persuaded to increase their offer to a figure in the neighbourhood of £35 millions, there would be considerable political difficulty in defending a lump sum settlement. Moreover, the Government would be subject to heavy pressure to supplement the Egyptian lump sum payment from the United Kingdom Exchequer, with the additional disadvantage that, until relations with Egypt were restored, there would be no means of reliably assessing the extent of the damage which the sequestrated British assets had suffered.

In discussion it was agreed that a financial settlement would be advantageous in principle, in so far as it should enable us to resume diplomatic and commercial relations with Egypt. The trading community were increasingly concerned about the continued closure of the Egyptian market and the risk that British goods would gradually be supplanted by exports from other countries. In addition, public pressure for the satisfaction of British claims in respect of Egyptianised and sequestrated assets was mounting; and it would not be possible to avoid an embarrassing Parliamentary debate on this subject unless the spokesmen for the claimants could be assured that the Government intended either to negotiate a final settlement with the Egyptian Government in the near future or to provide compensation from the Exchequer. The fact that the distribution of a lump sum payment, though a lengthy and complex operation, should be within the competence of the Foreign Compensation Commission was a further argument in favour of seeking to reach agreement with Egypt on this basis.

On the other hand, there was little likelihood that a settlement would result in any reduction in the subversive pressure which the Egyptian Government were systematically exerting against Western interests throughout the Middle East and in Africa; and if we were to contemplate reaching an agreement with Egypt without alienating our friends in the Arab world, we should need to present it as a purely financial settlement based on practical considerations and not as the prelude to a political reconciliation between Egypt and ourselves. In particular, we should ensure, if possible, that it was not represented as conditional on a concession to Egypt in respect of the Egyptian claim to compensation for "war damage," which must be regarded as offset against our own claim for compensation in respect of damage to United Kingdom property in the Suez Canal Base. Moreover, the amount of the lump sum payment must be sufficient to enable us to demonstrate to public opinion in this country that we had secured reasonable satisfaction of British claims having regard to the fact that we held blocked Egyptian sterling balances of the order of £70-£80 millions. Although it would be impossible to confiscate these balances without severely shaking foreign confidence in the sterling area as a banking system, the amount applied in discharge of the lump sum payment should bear a reasonable proportion to the amount to be released thereafter to the Egyptian Government. The owners of Egyptianised assets were, on the whole, substantial concerns; and they might acquiesce, however reluctantly, in a level of compensation which fell short of full satisfaction of their claims. The owners of sequestrated assets, however, were for the most part individuals, whose claims to full compensation were likely to command greater sympathy. If public pressure on behalf of British claimants was intensified, it might become necessary to concede either some Exchequer supplementation of the Egyptian lump sum payment or some extension of the present arrangements for making ex gratia advances to claimants. For this purpose it would be advisable to
keep in being the Anglo-Egyptian Resettlement Board, who had nearly completed their existing task.

*The Prime Minister,* summing up the discussion, said that the balance of advantage appeared to lie in seeking to effect an agreement with the Egyptian Government, provided that this was confined to an adequate settlement of financial claims and could not be regarded as implying any modification of our political attitude towards the Egyptian Government. The Cabinet should be given a further opportunity to study the detailed terms of such an agreement, which might thereafter be communicated to the Egyptian Government without commitment as regards the amount of the lump sum payment which we should be prepared to accept. Our objective in the subsequent negotiations should be to secure the maximum payment from the Egyptian Government by indicating that the rate at which we should be prepared to release the remainder of the sterling balances would depend on the amount of the figure finally agreed for the lump sum. The negotiations should, if possible, be substantially completed during the summer recess in order that the settlement of individual claims might have made some progress before Parliament reassembled in the autumn.

The Cabinet—

(1) Approved in principle the resumption of financial negotiations with the Egyptian Government on the basis indicated in C. (58) 133.

(2) Invited the Chancellor of the Exchequer to circulate the detailed provisions of the draft agreement to be communicated to the Egyptian Government.

(3) Invited the Home Secretary to circulate a report on the work of the Anglo-Egyptian Resettlement Board.

5. The Cabinet had before them a memorandum by the Foreign Secretary (C. (58) 135) on the proposed Suez Canal surcharge.

*The Foreign Secretary* said that the Secretary-General of the United Nations intended shortly to announce the arrangements for collecting the proposed surcharge of 3 per cent. on the transit tolls of ships using the Suez Canal. It had already been agreed in principle that the Government should reimburse British shipowners, provided that the Governments of other countries ensured that their own ships would also pay the surcharge; and since there was evidence that we might expect a substantial measure of co-operation in this respect he proposed to indicate, in answer to an arranged Parliamentary Question, that we endorsed the arrangements made by the United Nations and were prepared to co-operate in putting them into effect on the understanding that we reserved our right to review this decision from time to time in the light of the working of the scheme and the extent of the co-operation afforded by other countries.

In discussion it was suggested that the Parliamentary statement should make it clear that, since the United Nations expenditure to be recovered by the surcharge included the costs of the Anglo-French salvage fleet while it was under the command of the United Nations, these costs would themselves be reimbursed to Her Majesty's Government in due course.

The Cabinet—

Approved the proposal in C. (58) 135 subject to amendment of the proposed Parliamentary statement on the lines suggested during their discussion.
6. The Cabinet had before them memoranda by the Lord President and the Home Secretary (C. (58) 129 and 132) discussing the advisability of legislation to control immigration from the Commonwealth.

The Lord President said that the Committee on Colonial Immigrants had come to the conclusion that legislation was not yet required to control coloured immigration from the Commonwealth. Administrative action should, however, be continued and, if necessary, intensified, in order to restrict emigration from India, Pakistan and the West Indies; and the Committee should keep developments under review with the object of making a further report to the Cabinet in the early autumn.

The Home Secretary supported these proposals. Legislation directed against the Commonwealth would be controversial in itself and might need to be accompanied by no less controversial legislation on the immigration of aliens.

Discussion showed that there was general agreement with this view. But unrestricted coloured immigration might have serious social consequences in the longer term; and although it would be desirable, if possible, to avoid legislation on this subject in the last full session of the present Parliament, the situation should be closely watched.

The Cabinet—

(1) Agreed that legislation to control immigration from the Commonwealth was not yet required.

(2) Invited the Lord Chancellor to arrange for the Committee on Colonial Immigrants to keep the question under close review.

Cabinet Office, S.W. 1,