CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Tuesday, 23rd December, 1958, at 10·30 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. (Items 1–2 and 5–8).

The Right Hon. ALAN LENNOX-BOYD, M.P., Secretary of State for the Colonies.

The Right Hon. VISCOUNT HAILSHAM, Q.C., Lord President of the Council.

The Right Hon. JOHN MACLAY, M.P., Secretary of State for Scotland. (Items 1–5).

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 MAULDING, M.P., Paymaster-General.

The following were also present:

The Right Hon. GEORGE WARD, M.P., Secretary of State for Air. (Items 3–4).

The Right Hon. AUBREY JONES, M.P., Minister of Supply. (Items 3–4).

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

The Right Hon. JOHN BOYD-CARPENTER, M.P., Minister of Pensions and National Insurance. (Item 6).

The Right Hon. ERNEST MARPLES, M.P., Postmaster-General. (Item 5).

The Right Hon. F. J. ERROLL, M.P., Economic Secretary, Treasury. (Item 8).
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1. The Foreign Secretary informed the Cabinet that, during his recent visit to Paris to attend the Ministerial Council of the North Atlantic Alliance, he had had a frank and cordial discussion with the French Prime Minister, General de Gaulle, with particular reference to our project for the creation of a European Free Trade Area. He had emphasised that commercial discrimination by the Six Powers against the rest of Europe would be liable to convert the European Economic Community into an exclusive political bloc regulated by supra-national institutions of the kind which General de Gaulle himself rejected. The General had appeared to be impressed by this consideration; and, although he was mainly concerned to promote his own project for the creation of a tripartite directorate of the United States, the United Kingdom and France, he might be expected henceforward to show greater awareness of the political implications of the Treaty of Rome.

The Cabinet were informed that the Shell Oil Company had now reached agreement in principle with the Egyptian Government on the satisfaction of their claim for compensation, subject to a financial settlement being reached between the British and Egyptian Governments. Mr. Black, the President of the International Bank for Reconstruction and Development, had now indicated that, in an endeavour to expedite this settlement, he would be prepared to advance the date of his informal negotiations with the Egyptian Government to 31st December. Meanwhile, the Egyptian authorities had proposed that we should allow them to draw on their blocked sterling funds to finance an initial deposit on an order for British aircraft and to enable them to discharge the sum of £3.3 millions due to be paid on 1st January, 1959, as compensation to the Suez Canal Company.

In discussion the following points were made:—

(a) Some 40 per cent. of the payment to the Suez Canal Company would accrue to the benefit of shareholders in the United Kingdom, including Her Majesty's Government. If Mr. Black considered that his negotiations would be facilitated by our agreement to allow this payment to be charged to the blocked Egyptian balances, the point could probably be conceded.

(b) The release of blocked sterling, in advance of a general financial settlement, to enable the Egyptians to pay a deposit on an order for British aircraft was open to more serious objection. It would be liable to be regarded as giving one industry preferential treatment as regards the gradual re-establishment of commercial relations with Egypt and as giving priority to industrial interests over the claims of the British refugees from Egypt. It would be preferable that, until a financial settlement had been agreed, the Egyptian authorities should be required to charge to their free resources any payments other than the payment to the Suez Canal Company.

The Cabinet—

(1) Invited the Chancellor of the Exchequer, in consultation with the Foreign Secretary, to endeavour to arrange for Mr. Black, the President of the International Bank for Reconstruction and Development, to enter into informal negotiations at an early date with the view to reaching an Anglo-Egyptian financial settlement subject to the points made in their discussion.

The Foreign Secretary said that there had been unanimous agreement at the recent meeting of the Ministerial Council of the North Atlantic Alliance on the attitude which the Governments of the United States, the United Kingdom, France and Western Germany should adopt towards the question of the future status of Berlin. A draft reply to the latest communication from the Soviet Government on this issue should now be submitted to the Permanent Council of NATO as rapidly as possible. There would be advantages in
arranging for the reply to contain a full refutation of the distorted historical context in which the Soviet note had presented the issue. Thereafter it should emphasise that the Western Powers were prepared to discuss not merely the future of Berlin but all aspects of the German problem.

The Cabinet—

(2) Took note, with approval, of this statement.

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2. The Foreign Secretary said that recently there appeared to have been a certain improvement in relations between the Greek and Turkish Governments. During the meeting of the Ministerial Council of the North Atlantic Alliance he had been asked by the Foreign Ministers of these two countries whether the United Kingdom Government would see advantage in their pursuing the possibility of a new settlement in Cyprus whereby both the local communities would enjoy a measure of autonomy and the Island itself would become independent, apart from certain areas which would remain under exclusive British sovereignty. These arrangements would be guaranteed by treaty between the parties concerned.

In discussion the following points were made:—

(a) Past experience illustrated the risks inherent in seeking to maintain a strategic hold on limited areas in a country which was otherwise not under our own control. In the present case, however, the interests of the Turkish Government would largely coincide with our own; and, if Turkey guaranteed our strategic facilities in Cyprus by treaty, we should be able to maintain our position. Moreover, we should be relieved of the liability of military occupation of the whole Island: and, provided that we were assured of all the facilities which we should require for the efficient maintenance of our bases, an arrangement on these lines would have substantial strategic advantages.

(b) On the other hand there could be no certainty as yet that the Greek and Turkish Governments were genuinely committed to the proposals which their Foreign Ministers had put forward or that they would succeed in reaching agreement on them. While encouraging discussions to continue, we should refrain from endorsing the scheme too explicitly; and we should not relax our security measures against violence and terrorism in the Island. It could not be assumed that, even if the Governments concerned reached agreement, EOKA would disintegrate.

The Cabinet then considered a draft message to the Greek and Turkish Governments, agreeing that further discussions might usefully take place between them and that, when sufficient progress had been made in defining the institutional arrangements to protect the interests of the Cypriot communities under the new proposals, there should be consultations between the two Governments and ourselves on the arrangements for securing co-operation between the local communities in a new form of government and on the international aspects of the proposals, including the necessary safeguards for our rights in respect of our bases in the Island. Certain drafting amendments to this message were suggested, in order to emphasise in particular the importance which we attached to enjoying unrestricted communications between our bases and other parts of the island.

The Prime Minister, summing up the discussion, said that after this message had been despatched we should begin to make preparations for the possibility of an eventual tripartite conference. For this purpose officials should examine urgently the international and strategic interests which we should wish to safeguard.
The Cabinet—

(1) Invited the Foreign Secretary to inform the Greek and Turkish Governments; in the terms approved in the discussion, that we agreed that there would be advantage in their continuing discussions on the possibility of devising a fresh solution to the problem of Cyprus.

(2) Instructed the Secretary of the Cabinet to arrange for a committee of officials under his chairmanship to prepare, for their consideration at an early date, a report on the international and strategic safeguards which we should require to incorporate in any settlement of Cyprus of the kind now contemplated by the Greek and Turkish Governments.

3. The Cabinet had before them a memorandum by the Minister of Supply (C. (58) 257) on the aircraft industry.

The Minister of Supply said that this industry faced an uncertain future. Unemployment had risen and would rise still further; and some of the smaller companies would find increasing difficulty in surviving as independent entities. The prospects for recovery were largely dependent on the extent to which civil demand offset the progressive decline in military demand. But civil expansion itself would require a more positive policy on the part of the Government. The domestic market for civil aircraft was small and uneconomic; and it was confined to three customers—the two Airline Corporations and R.A.F. Transport Command—whose individual interests were not easily reconciled with a national policy for the industry as a whole. Our objective, therefore, should be to establish a new relationship between these three customers and the industry. If it was possible, for example, to arrange for orders by Transport Command to precede orders for comparable aircraft by the Corporations and for the proving of such aircraft to be carried out by Transport Command, we should avoid much of the public comment on their initial deficiencies which was unavoidable if the Corporations undertook their proving. Moreover, there would be greater hope of stimulating exports of aircraft if the Corporations were authorised to undertake the proving of new aircraft even if they did not themselves require them. Finally, we needed to return, at least to some extent, to the earlier practice whereby the Government encouraged the development of selected types of aircraft even though, at the outset, no domestic requirement for them could be foreseen. A combination of measures on these lines, designed to enlist more active support of the aircraft manufacturers by their customers, should do much to enable the industry to recover.

In discussion there was general agreement with these views. The following main points were made:

(a) There was little prospect of any significant expansion of international demand in the near future. In deciding to concentrate on the development of a turbo-prop, rather than a turbo-jet aircraft, the British airline operators had been at fault. The turbo-jet aircraft had proved the more appropriate instrument, and sufficient aircraft of this kind had now been ordered by the major international airline operators to meet foreseeable requirements until about 1963. Our wisest course, therefore, might now be to exploit such opportunities as occurred for the development of, e.g., an aircraft to replace the D.C.3.
(b) The measures proposed by the Minister of Supply would demand, as their counterpart, a more positive effort by the industry itself to rationalise its structure by the elimination of the smaller and more uneconomic units.

(c) The future of the industry would not be assured without very substantial expenditure on research into the application of such new principles as vertical take-off and landing.

(d) We should take all possible steps to ensure the continued pre-eminence of Rolls Royce Limited in the development of aero-engines. But in terms of air-frame manufacture our domestic market was too small to enable us to face international competition; and we should therefore seek to promote a closer association between our own airline operators and the operators in other countries of the Commonwealth and of Europe. If, by this means, we could enlarge the market for our own industry we should be better able to face the competition of the United States.

The Prime Minister, summing up the discussion, said that the important issues outlined in C. (58) 257 merited more detailed consideration. For this purpose he proposed that the Ministerial Committee on Civil Aviation, under the chairmanship of the Minister of Power, should be given new and wider terms of reference. He would himself preside over the initial meetings of the reconstituted Committee.

The Cabinet—

(1) Took note of C. (58) 257.
(2) Took note, with approval, that the Prime Minister would arrange for the Ministerial Committee on Civil Aviation, under the Chairmanship of the Minister of Power, to be reconstituted in order that it might examine in greater detail the issues discussed in C. (58) 257.

4. The Cabinet had before them a memorandum by the Secretary of State for Scotland (C. (58) 263) on the affairs of Scottish Aviation Limited.

The Secretary of State for Scotland said that this Company manufactured a short-range light aircraft at Prestwick Airport, where they provided employment for about 2,000 men. The Finance Corporation for Industry (F.C.I.) had lent the Company some £3½ millions but had decided that they could make no further advances. As a result the Company would be unable to meet their commitments after the first week in January. The unemployment which would result from the closure of the only firm in Scotland making air-frames would provoke considerable political criticism; and the Chancellor of the Exchequer had, therefore, agreed that the Ministry of Supply should be authorised exceptionally to make a special payment of £50,000 to the Company in respect of four aircraft which were at present being constructed for the Royal Air Force, on condition that F.C.I. would contribute an equal sum. The Corporation, however, had refused to do so, on the ground that the Ministry of Supply could themselves provide additional support for the Company by reassessing a contract price which had been originally underestimated and by accelerating payment of an ex gratia grant in compensation for a reduction in the scale of their original order for the Company's aircraft. These measures might result in the payment of some £225,000 to the Company; but they would involve detailed enquiries which could not be completed in time to save the Company from bankruptcy in January. Alternatively, the Ministry of Supply...
might make a further advance against certain spare parts which had been manufactured for aircraft already delivered to the Royal Air Force. If the solvency of the Company could be assured during the next few weeks by one or other of these means, it would be possible to expedite negotiations for the projected merger between the Company and the English Electric Company, which appeared to offer the only prospect of maintaining employment in the area.

The Minister of Supply said that he had already accelerated normal progress payments to the maximum possible extent. These payments had probably taken full account of the Government's liability in respect of aircraft spares; and any additional advance of this kind, which would be contrary to all normal practice, could only be defended to the Public Accounts Committee on the basis of an express direction by Ministers. It might, however, be possible to make some payment on account of the Company's claim for a revision of the contract price and for compensation in respect of the reduction of the initial order.

In discussion there was general agreement that, if possible, the Company should be enabled to meet their liabilities for a further short period but that they should be made clearly aware that the Government could not accept an indefinite commitment to support them and that, unless they could secure additional finance from commercial sources, their interests clearly lay in pressing to a conclusion as rapidly as possible the projected merger with the English Electric Company.

The Cabinet—

(1) Invited the Minister of Supply to ascertain whether the progress payments already made to Scottish Aviation Limited had taken full account of the Government's liability in respect of certain aircraft spares attributable to aircraft already delivered, or in process of delivery, to the Royal Air Force.

(2) Invited the Minister of Supply to consider whether it would be possible to make the Company some payment on account of their claim for a reassessment of the original contract price of certain aircraft ordered by his Department and for ex gratia compensation in respect of a reduction in the initial order.

(3) Agreed that the Company should, if possible, be enabled to meet their liabilities in the immediate future by either of the methods indicated in Conclusions (1) and (2) above, but that they should be encouraged, in the interests of employment in the Prestwick area, to merge their enterprise with the English Electric Company as rapidly as possible.

5. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C. (58) 255) on the investment programme in the public sector in the years 1959–60 and 1960–61.

The Chancellor of the Exchequer said that the total of £1,585 millions proposed for public investment in 1959–60 was substantially higher than the figure which had been provisionally agreed by the Cabinet in the previous summer. It reflected the substantial body of additional measures which had recently been authorised to promote employment; and it represented a maximum commitment which could not safely be exceeded. For 1960–61 he proposed a total of £1,595–£1,600 millions which it might be appropriate to increase.
at a later stage by allowing higher allocations for housing and educational minor works as a further measure of reflation. A decision on this point should, however, be deferred until the summer of 1959.

In discussion the following main points were made:

(a) The successive reductions imposed upon investment by the Post Office were severe—the more so because the definition of "capital investment" included such items as the repair of telephone installations, for which the Post Office were reimbursed. In recent years, however, the Post Office had enjoyed a generous allocation; and there was no scope for increasing their share of the programme in the immediate future.

(b) Discussions with local education authorities since the publication of the White Paper on Secondary Education had shown that the £14 millions which had been agreed for educational minor works in 1959-60 would be insufficient. The allocation to education, however, had already been substantially increased; and no further expansion could be contemplated.

(c) If it proved possible to make rapid progress on the roads programme during the following year, it might be difficult to conceal the fact that in the later part of the current year the programme had to some extent been deliberately retarded. In these circumstances it might be necessary to consider a revision of the investment allocation to roads.

(d) Certain issues were outstanding as regards the provision for housing, both in England and Wales and in Scotland, which the Ministers concerned would pursue further with the Chancellor of the Exchequer.

(e) The Secretary of State for Scotland would also discuss with the Chancellor of the Exchequer the allocation for educational investment in Scotland.

The Cabinet—

Approved, subject to the points made in their discussion, the investment programmes in the public sector in 1959-60 and 1960-61, as proposed in C. (58) 255.

6. The Cabinet had before them a memorandum by the Home Secretary (C. (58) 259) on the possibility of improving pension increments under the new pensions scheme.

The Home Secretary said that the Ministerial Committee on Pensions had considered a proposal to reduce the period for which an individual who deferred retirement had to work in order to earn an increment on his basic pension and, in addition, to improve the rates of increment so earned. They recommended an arrangement whereby a increment of 1s. would be provided in return for every twelve contributions paid after the contributor had reached the minimum retirement age, in place of the present arrangement under which twenty-five contributions in deferred retirement earned an increment of 1s. 6d. This proposal had the political advantage that it would offer some improvement to those earning less than £9 a week, who would otherwise derive no benefit from the new pensions scheme apart from a reduction in their contributions. Moreover, it was the logical complement to the concession, already approved by the Cabinet, whereby the amount which a retired person was allowed to earn without abatement of his pension was to be raised from 50s. to 60s.

The Chancellor of the Exchequer said that he did not share this view. The cost of the proposal, although relatively small at the
outset, would rise gradually to about £20 millions a year in twenty years' time. Moreover, it would probably be necessary during the next Parliament to raise the minimum age of retirement to sixty-seven; and the concession on pension increments, if made at that point, would be a valuable offset to this unwelcome change.

Discussion showed that the balance of opinion in the Cabinet was in favour of the proposal. Deferred retirement was advantageous to the finances of the scheme and would remain so even if the proposed improvement in increments was conceded. The Government Actuary had now recalculated the estimated surpluses and deficits of the new scheme and, even if the proposal were adopted, both would be more favourable than the original estimates contained in the White Paper on Provision for Old Age.

In further discussion the Chancellor of the Exchequer said that the draft National Insurance Bill provided that deficits on the new scheme should be financed by Exchequer borrowing and that surpluses should be lent to the Exchequer. It would be preferable that, when a surplus or deficit was in prospect, the contributions of both the contributors and the Exchequer should be increased or reduced by an appropriate amount in order to preserve the relationship between the contributors and the Exchequer which the Cabinet had already approved.

In discussion it was suggested that it would be difficult to make so fundamental a change in the method of financing the new scheme when the draft legislation was at an advanced stage and that, if it was subsequently decided that the modification proposed by the Chancellor of the Exchequer should be made, amending legislation should be introduced in a later session.

The Cabinet—

(1) Agreed that provision should be made in the forthcoming National Insurance Bill for an improved scheme of pension increments on the lines indicated in C. (58) 259.

(2) Agreed that no change should be made in the provisions in the draft Bill governing the treatment of surpluses and deficits in the new pensions scheme.

7. The Cabinet had before them a memorandum by the Minister of Transport and Civil Aviation (C. (58) 260) about the use of London Airport by jet aircraft.

*The Minister of Transport and Civil Aviation* said that satisfactory conditions had now been agreed with the British Overseas Airways Corporation (B.O.A.C.) and Pan-American Airways for the reduction of the noise created by Comet and Boeing 707 jet aircraft using London Airport. It had not yet been possible to obtain the agreement of the Soviet authorities to the imposition of similar conditions on the Soviet jet aircraft TU-104. We had now been informed, however, that new operating procedures would reduce the noise level of this aircraft to that of the Comet and the Boeing 707. It was not possible to verify this claim unless the aircraft was made available for noise tests in London. But the Soviet authorities had refused to agree to arrangements for this purpose and we should find it impracticable to carry out such tests around airports on the Continent. So long as the present deadlock continued British European Airways were unable to inaugurate a service to Moscow and were at a disadvantage in relation to their Dutch, French and Belgian competitors who already operated Moscow
services. In addition, B.O.A.C. were precluded from starting negotiations with the Soviet authorities for a service across Russia to Tokyo. The wisest course, therefore, might be to allow the TU-104 to operate a regular service to London Airport for a trial period of thirty days. If, at the end of this period, the noise level of the aircraft was found to be acceptable, scheduled operations could continue under appropriate conditions. If, on the other hand, the noise level proved higher than that of the Boeing 707, stricter conditions would need to be imposed on the Soviet operations.

In discussion, there was general agreement that, provided that the operating conditions were interpreted with reasonable flexibility, it would be to our advantage to seek to reach agreement with the Soviet authorities on this basis.

The Cabinet—

Approved the proposals in C. (58) 260.

8. The Cabinet had before them a memorandum by the Economic Secretary, Treasury (C. (58) 253) on recent developments in the affairs of the British Aluminium Company (B.A.C.).

The Economic Secretary, Treasury said that the Chairman of B.A.C. had addressed a letter to the shareholders explaining the reasons for the proposed association of the Company with the Aluminium Company of America and the Board's objections to the proposal of Tube Investments (T.I.) to buy a majority of B.A.C. shares. Meanwhile T.I. had made an offer to the B.A.C. shareholders equivalent to about 78s. for each share; and B.A.C. had now made a counter-offer of a dividend increase which would provide shareholders with approximately the same benefit.

In discussion it was suggested that, if the Government continued to refrain from expressing any view until the attitude of the shareholders was known and thereafter decided, on grounds of the national interest, to exercise their statutory right of sanction in a manner which would frustrate the shareholders' own preference, they might invite criticism for not having announced their decision at an earlier stage. On the other hand they had made no statement which could justify the assumption that their decision would necessarily coincide with the preference of the shareholders, and any public announcement before the views of the shareholders were known might be regarded as a prejudicial intervention in the affairs of the Company. Meanwhile, the Government would remain free to attach to their final sanction such conditions as they might see fit to impose, e.g., for the protection of British shipping interests.

The Cabinet—

Took note of C. (58) 253.