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C.C. (62)
39th Conclusions

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CABINET

CONCLUSIONS of a Meeting of the Cabinet held in the Prime Minister's Room, House of Commons, S.W. 1, on Thursday, 31st May, 1962, at 11 a.m.

Present:

The Right Hon. R. A. BUTLER, M.P., Secretary of State for the Home Department
(*in the Chair*)

The Right Hon. VISCOUNT KILMUIR,
Lord Chancellor

The Right Hon. SELWYN LLOYD, Q.C.,
M.P., Chancellor of the Exchequer

The Right Hon. THE EARL OF HOME,
Secretary of State for Foreign Affairs

The Right Hon. VISCOUNT HAILSHAM,
Q.C., Lord President of the Council
and Minister for Science

The Right Hon. HENRY BROOKE, M.P.,
Chief Secretary to the Treasury and
Paymaster General

The Right Hon. JOHN MACLAY, M.P.,
Secretary of State for Scotland

The Right Hon. DUNCAN SANDYS,
M.P., Secretary of State for Common-
wealth Relations

The Right Hon. IAIN MACLEOD, M.P.,
Chancellor of the Duchy of Lancaster

The Right Hon. Sir DAVID ECCLES,
M.P., Minister of Education

The Right Hon. PETER THORNEYCROFT,
M.P., Minister of Aviation

The Right Hon. LORD MILLS, Minister
without Portfolio

The Right Hon. REGINALD MAUDLING,
M.P., Secretary of State for the
Colonies

The Right Hon. JOHN HARE, M.P.,
Minister of Labour

The Right Hon. EDWARD HEATH,
M.P., Lord Privy Seal

Dr. The Right Hon. CHARLES HILL,
M.P., Minister of Housing and Local
Government and Minister for Welsh
Affairs

The Right Hon. ERNEST MARPLES,
M.P., Minister of Transport

The Right Hon. FREDERICK ERROLL,
M.P., President of the Board of
Trade

The following were also present:

The Right Hon. LORD JOHN HOPE,
M.P., Minister of Works (*Item 3*)

The Right Hon. Sir REGINALD
MANNINGHAM-BULLER, Q.C., M.P.,
Attorney-General (*Items 3 and 4*)

The Right Hon. WILLIAM GRANT, Q.C.,
M.P., Lord Advocate (*Item 4*)

The Right Hon. MARTIN REDMAYNE,
M.P., Parliamentary Secretary,
Treasury

Secretariat:

The Right Hon. Sir NORMAN BROOK
Mr. A. L. M. CARY
Mr. J. H. WADDELL

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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.

Economic Situation

(Previous Reference: C.C. (62) 30th Conclusions, Minute 2) Special Deposits

*2. *The Chancellor of the Exchequer* said that the economic situation was now such as to justify some relaxation of credit restrictions. He had decided to reduce the amount of the special deposits which the Clearing Banks were required to place with the Bank of England. This had been raised to 3 per cent. in July 1961: he had decided that it should now be reduced to 2 per cent. An announcement to this effect would be made that day. The Banks would be advised that, in advancing money, they should continue to give priority to exports; that advances for speculative purposes should continue to be subject to restraint; and that special care should be taken over loans for building and property development in areas where there was heavy pressure on labour and other resources.

Hire Purchase

The Chancellor of the Exchequer said that he was also satisfied, after consultation with the President of the Board of Trade, that some easement could now be made in the restrictions on hire purchase. He proposed that, for a range of durable consumer goods (excluding motor cars) the minimum deposit on a hire-purchase contract should be reduced from 20 per cent. to 10 per cent. The maximum period for completing payment would continue to be three years.

In discussion the point was made that frequent changes in the hire-purchase regulations were a serious inconvenience to traders, and it would be important to avoid giving the impression that this change was designed to meet a temporary situation. The Chancellor of the Exchequer said that he regarded this as a permanent adjustment, which would stand unless conditions deteriorated to an extent requiring a number of restrictive measures.

In further discussion it was agreed that this change in the hire-purchase regulations should be announced on 4th June.

The Cabinet—

- (1) Took note of the 1 per cent. release of special deposits which was to be made that day.
- (2) Agreed that the restrictions on hire-purchase contracts should be adjusted, on the lines indicated by the Chancellor of the Exchequer, with effect from 4th June.

National Socialist Movement

Rally in Trafalgar Square (Previous Reference: C.C. (62) 35th Conclusions, Minute 7)

3. *The Lord Chancellor* said that in pursuance of the Cabinet's decision of 24th May he had considered, in consultation with the Home Secretary and the Minister of Works, whether the meeting which the National Socialist Movement were proposing to hold in Trafalgar Square on 1st July was likely to lead to a breach of the peace. He had concluded that, while some scuffles might be expected, it was unlikely that there would be a breach of the peace on such a scale as to constitute a threat to public order. It would not therefore be justifiable to withdraw the permission already given to hold the meeting unless it were decided as a matter of policy to suppress the public expression of anti-Semitism. Such a policy, if adopted, would have to be applied on a national basis and might be thought to require legislative authority. But Parliament had

* Previously recorded in a Confidential Annex.

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expressly rejected a clause proposed for inclusion in the Public Order Act, 1936, which would have prohibited "the making of speeches calculated to excite racial or religious prejudice". The Attorney-General had also advised that there was insufficient evidence to justify an application to the courts for an order binding over the sponsors of the meeting to keep the peace.

In discussion it was noted that, in 1956 and again in 1961, the leader of this Movement had been convicted of using insulting words and behaviour. On the other hand, on four earlier occasions when the Movement had held meetings in Trafalgar Square no violence had resulted.

There was general agreement in the Cabinet that the best course would be to allow this meeting to take place and to encourage those who had made representations for the withdrawal of permission to treat the Movement with contempt and refrain from organising any counter-demonstrations.

The Cabinet—

- (1) Agreed that the permission given for the meeting of the National Socialist Movement in Trafalgar Square on 1st July should not be withdrawn.
- (2) Invited the Minister of Works, in consultation with the Attorney-General, to suggest to those who had sought or might seek withdrawal of the permission that the appropriate course would be to take no notice of this meeting and to refrain from organising any counter-demonstrations.

Burma
(Previous
Reference:
C.C. (53) 51st
Conclusions,
Minute 3)
War Damage
Claims

4. The Cabinet had before them a memorandum by the Lord Chancellor (C. (62) 91) on certain legal proceedings which were being brought against the Crown for compensation for war damage in Burma.

The Lord Chancellor said that he had been asked by the Prime Minister to bring to the notice of the Cabinet claims against the Crown which were being pursued in the Scottish courts by the Burmah Oil Company and other firms. These claims were for compensation for war damage done to the companies' property under the scorched earth policy pursued in Burma in 1942. A total of nearly £40 million plus interest was involved and, if other companies took similar proceedings and were successful, the cost to the Exchequer could exceed £100 million. The claims, which would be heard by the Court of Session about mid-July, were being resisted on legal grounds which were believed to be sound, but it could not be certainly assumed that judgment would be given for the Crown. The Home Affairs Committee had taken the view that the claims were without merit; that it would be intolerable if the Exchequer had to meet them; and that, if the courts were to decide against the Crown, it would be right to introduce legislation to set aside the decision. The Committee had therefore concluded that there would be advantage in warning the companies of the Government's intentions before they incurred further heavy expenditure on litigation. This course might expose the Government to criticism unnecessarily (since the courts might reject the claims) and it would involve interference with a case actually pending before the courts, but if the companies proceeded with their claims despite a warning the Government would be in a stronger position to introduce legislation. If, as a result of the warning, the claims were abandoned, no legislation would be required. A draft letter which had been prepared for the purpose of warning the claimants would leave the companies in no doubt that the Government were confident that the claims would be rejected by the courts.

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In discussion there was general agreement with the conclusions reached by the Home Affairs Committee. It was true that issue of a warning of this kind could be criticised as an intimation that the Government would alter the law in defiance of a decision of the courts; and, as the claims appeared to have so little merit, there was something to be said for leaving the proceedings to take their course. On the other hand, if judgment went against the Crown it would be difficult to defend payment to a few firms of the large sums which would be involved. As a judgment by the Court of Session against the Crown might, whatever the outcome on appeal, create a vested right to damages, it would be desirable that warning should be given as soon as possible.

In further discussion the following points were raised:

(a) In 1948 the Treasury had distributed *ex gratia* £10 million among British-Burma companies, but this payment had been made not by way of compensation but in the interests of the national economy as a means of enabling British concerns to rehabilitate their pre-war businesses.

(b) If, as a result of the warning, the claims were withdrawn, there could be a case for making an *ex gratia* payment towards the legal costs already incurred by the companies.

(c) Careful consideration should be given to the terms of the letter to be sent to the companies and to the arrangements for issuing it. It would be inappropriate that it should be sent by the Lord Advocate.

The Cabinet—

- (1) Agreed that the Burmah Oil Company and other companies should be informed that, if they proceeded with their war damage claims and were successful in the courts, legislation would be introduced to nullify the effect of the judgment.
- (2) Invited the Chief Secretary, Treasury, in consultation with the Attorney-General and the Lord Advocate, to give further consideration to the terms of the warning letter and to the arrangements for issuing it.

South-East
Asia Treaty
Organisation
Laos
(Previous
Reference:
C.C. (62) 35th
Conclusions,
Minute 5)

5. *The Foreign Secretary* said that Pathet Lao forces had now overrun a large area of northern Laos and at some points had reached positions near the Mekong River. This advance was a serious threat to the security of Thailand. It might also encourage General Phoumi to stand out against the pressures which were being applied to him to join in the formation of a national government. Little time was now left for the formation of such a government; for Prince Souvanna Phouma was returning to Paris on 14th June and, unless agreement on a national government had been reached by then, he might well be unwilling to return to Laos. The United States Government were therefore increasing their pressures on the Laotian Princes with a view to inducing them to reach agreement before Prince Souvanna Phouma left the country. If this last attempt to secure agreement was successful, there was a fair chance that the position in Laos might be stabilised for several years. If it failed, the Western Powers would face the alternatives of working for a partition of Laos or undertaking military operations across the Mekong River.

The Foreign Secretary said that some statement on Laos might have to be made in Parliament before the Whitsun recess. He would however refer the matter to the Cabinet again before any such statement was made.

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**Federation
of Rhodesia
and Nyasaland**

(Previous
Reference:
C.C. (62) 37th
Conclusions,
Minute 1)

6. *The Home Secretary* made a report to the Cabinet on his recent visit to the Federation of Rhodesia and Nyasaland. There were many difficulties ahead, and it would be a mistake to take an optimistic view at this early stage; but it was satisfactory that the Federal Government had now come to accept the need for change in the present organisation of the Federation.

Of the three territories he had formed the impression that the situation in Southern Rhodesia was the most critical. Their budget was in deficit, largely because of expenditure on African education. The leader of the main African opposition party was withholding co-operation because of his belief that the support which he had already received at the United Nations would in the end enable him to dictate his own terms. It was by no means certain that the present Government would be returned to power at the next election; and if they were defeated it was possible that Southern Rhodesia might seek secession from the Federation.

In Nyasaland the present Ministers were obsessed with questions of status and independence and had not yet grasped the realities of the economic situation. He had, however, been able to persuade the leader of the Malawi Congress Party, Dr. Banda, to agree that a decision on secession should be deferred until its economic effects had been examined by the special advisers who would start work in July and would also examine the possibility of continued co-operation between Nyasaland and the other territories of the Federation. Dr. Banda would undoubtedly press for a greater degree of self-government and this might not be unwelcome to the European settlers who felt that a self-governing Constitution, including a Bill of Rights and guarantees for the farming community, might give them greater security of tenure than they now had. The ultimate secession of Nyasaland seemed inevitable, and the Federal Government had accepted that Nyasaland presented special problems which demanded special solutions.

In Northern Rhodesia elections under the new Constitution were due to be held in October. The result might well be a stalemate between the main parties in which case the small Liberal Party under Sir John Moffatt might find itself holding the balance of power.

There would now be a period of a few months before final decisions about the future of the Federation had to be taken. During this period special advisers would examine and report on the implications of Nyasaland's secession, would consider future forms of association between Northern and Southern Rhodesia and would also consider the scope and nature of continued co-operation between Nyasaland and the other territories. The Federal Prime Minister had expressed the hope that any new form of association between the territories would not be wholly confined to economic questions; he was thinking in terms of a federal authority with some responsibility for political consultation and, if possible, reserved powers in respect of external relations and defence.

In discussion it was pointed out that, while there would be advantage in continuing co-operation between the territories on political matters, this might be difficult to achieve in practice. On many issues of foreign policy the African parties would be bound to hold extreme views. There was a real danger that Southern Rhodesia might find itself completely isolated.

The Cabinet—

- (1) Took note of this statement by the Home Secretary.
- (2) Took note that the Home Secretary would arrange for an examination of the economic consequences of Nyasaland's withdrawal from the Federation, of the

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future possible forms of association between Northern and Southern Rhodesia and of the possibility of co-operation both on economic and on other questions between the three territories.

Shipping
(Previous
Reference:
C.C. (62) 32nd
Conclusions,
Minute 7)

7. The Cabinet had before them memoranda by the Minister of Transport (C. (62) 87 and 88) on the future of the Cunard Company's passenger service and on the request by the Pacific Steam Navigation Company for an operating subsidy for the liner *Reina del Mar*; and a memorandum by the Minister of Aviation (C. (62) 86) on a proposal for a joint Cunard-B.O.A.C. company to operate air services across the Atlantic.

The Minister of Transport said that the Cunard Company had not asked for a Government subsidy: they had confined themselves to asking the Government to take note of their increasingly serious financial position. Their total losses for passenger services for 1962 were estimated to amount to £1½ million of which over £600,000 would be accounted for by the operation of the *Queen Elizabeth* and the *Queen Mary*. The company were still making a small profit on their cargo services. The main reasons for the losses on the passenger services were the steep increase in crew costs, the subsidised competition of French and American liners, and the increased competition from airlines since the introduction of the large jet aircraft on the Atlantic route. The Pacific Steam Navigation Company were similarly facing increased competition from jet aircraft, and from subsidised shipping.

The Minister of Transport said that he could not recommend the payment of a subsidy in either case. It could be argued that, if the "Queens" had to be withdrawn from the Atlantic service and the *Reina del Mar* from the South American routes, national prestige would suffer severely and there would be loss to the balance of payments. As against this a subsidy would involve continuing expenditure on services which were becoming increasingly out of date. It might be right that the Government should give some help to the shipping industry, but this should be done in a broader and more imaginative way than by the grant of subsidies to services which could never hope to pay their way. The purpose of Government help should be to enable the industry to modernise itself and become more competitive.

The Minister of Aviation said that the proposed formation of a joint company with B.O.A.C. would be unlikely to have any impact on Cunard's present position, although it might help presentationally to soften the blow to national prestige which would be involved by the withdrawal of the "Queens" from the Atlantic route. The present idea of the merger was that B.O.A.C. and Cunard should form a joint company to which Cunard would contribute about 25 per cent. of the total assets. The services operated by the joint company would be supported by the shore organisation and facilities of both the parent companies. Both parties would be likely to benefit and as neither was in a sound financial position it would be to their advantage to co-operate rather than to compete on the Atlantic route. Talks between the two parties were now in progress and, while it would be necessary for the Treasury and the Ministry of Aviation to consider carefully the details of any financial agreement, it was to be hoped that it might be possible to make an early announcement that a joint company was being planned. There was a serious danger of premature leakage if an announcement were long delayed.

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In discussion the following points were made:

(a) The arguments against a subsidy to the Cunard Company were strong. If the national economy was to enter a period of increased growth it would be essential that Government expenditure should be concentrated on industries with high productivity and good prospects. Dollar earnings were not enough to justify Government support for enterprises which were manifestly on the decline. It would be undesirable that the Government should encourage the Cunard Company even indirectly to maintain the "Queens" in service against their better judgment. At the same time, the progressive withdrawal of British passenger liner services would have a profound effect on public opinion. Apart from the breach with our long seafaring tradition, it would be argued that the Government had surrendered the country's interests to subsidised foreign liners which would absorb the traffic. The Government ought to frame as rapidly as possible a comprehensive plan for the future of British shipping as a whole; it was only against such a background that it would be possible to set the possible withdrawal of the "Queens" in a proper perspective. Any such general policy would have to include proposals for reorganisation of ports and docks and for the cargo services, including the construction of new and possibly standardised ships, on which the future of the industry would increasingly depend.

(b) No Government announcement need be made about the passenger services of the Cunard Company. The company had not asked for a Government subsidy. They would not themselves foreshadow the withdrawal of the "Queens" from the Atlantic service. Speculation would, however, be provoked by the disclosure of their trading losses; and questions would probably be asked about the Government's intentions. The Minister of Transport should therefore press forward with urgency the study of constructive proposals for the future of the shipping industry as a whole.

(c) The details of the proposed Cunard-B.O.A.C. merger would need careful study and it would not be possible to form a final view of this project until that study has been completed. In the meantime it would be important to avoid any public intimation that the proposed merger had the support of the Government.

The Cabinet—

- (1) Agreed that the Minister of Transport should reject the application by the Pacific Steam Navigation Company for a subsidy for the operation of the passenger liner *Reina del Mar*.
- (2) Agreed that no subsidy should be granted to the Cunard Company in respect of their passenger services on the North Atlantic route.
- (3) Invited the Minister of Transport to bring before them as soon as possible comprehensive proposals for the future development of the British shipping industry as a whole.
- (4) Invited the Chief Secretary, Treasury, and the Minister of Aviation to examine the details of the proposed Cunard-B.O.A.C. merger and to ensure that until that examination had been completed no public statement should be made by the Companies which implied that their proposals had the support of the Government.

Cotton
(Previous
Reference:
C.C. (59) 50th
Conclusions,
Minute 5)

8. The Cabinet had before them a memorandum by the President of the Board of Trade (C. (62) 90) covering the draft of a statement on cotton textiles.

The President of the Board of Trade said that the cotton industry was suffering from a crisis of confidence and was not

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making satisfactory progress with re-equipment and modernisation schemes in pursuance of the Cotton Industry Act, 1959. It was desirable that an early announcement should be made on the import of cotton textiles from Hong Kong, India and Pakistan, since the industry would not feel able to proceed with applications under the Act of 1959 (which had to be submitted by 9th July) unless they knew that duty-free imports from these countries would continue to be kept in check. The industry had pressed for a renewal of the present arrangements, which would expire at the end of this year, but on the basis of a reduction in the ceilings permitted. No such reduction was practicable but it was likely, subject to certain outstanding difficulties with Pakistan over cotton yarn, that an extension on the present basis could be secured for a further three years. The industry had also expressed anxieties about imports from other parts of the world, including many countries which had not previously been regarded as textile exporters. The present depressed state of the industry was largely due to inflated demand 18 months ago and to the fact that both imports and home production had fallen sharply since then; but the industry feared that when demand revived the benefit would go to other countries unless special steps were taken to avoid this.

In the proposed statement it would be appropriate to announce, in addition to the continuance of the arrangements with Hong Kong, India and Pakistan, a change in the licensing system which would involve the withdrawal (from all sources except the three Commonwealth countries) of the Open General Licence under which cotton textiles and yarns could be imported freely. This would be replaced by a system of Open Individual Licences which would require importers to make monthly returns to the Board of Trade. This would make it possible for the Government to apply restrictions, if they should be required, more quickly and more selectively than they could at present. Such a system would not constitute a control on imports and could be defended so long as it did not involve discrimination. It was also proposed that certain exporting or potentially exporting countries should be approached with a view to enlisting their co-operation in avoiding the difficult situation which would arise if there were a marked rise in their exports to this country.

In discussion there was general agreement with the action proposed. The following points were raised:

(a) Although it would be desirable to emphasise in the proposed statement the need for action by the industry itself, it would be better to omit the last two sentences of the draft statement annexed to C. (62) 90.

(b) The proposed change in the licensing system might lead other countries to expect protective measures to be taken against their exports. It was not, however, necessary to say in the statement that new restrictions would not be imposed or that international obligations would be maintained. It was unlikely in practice that there would be any need to adopt a quota system, but the possibility had to be kept in mind.

(c) It seemed unlikely that the proposed statement would have any adverse effect on the negotiations in Brussels for entry to the European Common Market, but the Lord Privy Seal should have the opportunity of considering this point.

The Cabinet—

- (1) Subject to the deletion of the last two sentences, approved the draft statement on cotton textiles annexed to C. (62) 90.

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- (2) Invited the President of the Board of Trade to consult the Chancellor of the Duchy of Lancaster about the date on which this statement should be made in Parliament.
- (3) Invited the President of the Board of Trade to consult the Lord Privy Seal about the effect of the proposed statement on the current negotiations with the European Economic Community.

Tourism
 (Previous
 Reference:
 C.C. (61) 36th
 Conclusions,
 Minute 7)

9. The Cabinet had before them a memorandum by the Minister of Transport (C. (62) 72) on the facilities for passengers at the main passenger ports.

The Home Secretary said that a number of detailed points in this memorandum seemed to require further consideration and it would be convenient if the Minister of Transport could arrange for these to be examined by Junior Ministers from the Departments concerned.

The Cabinet—

Invited the Minister of Transport to arrange for Junior Ministers from the Home Office, Treasury, Scottish Office, Board of Trade, Ministry of Aviation and Ministry of Transport to give further detailed consideration to the report annexed to C. (62) 72.

*Cabinet Office, S.W.1,
 31st May, 1962.*