CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 1st April, 1965, at 10 a.m.

Present:
The Right Hon. HAROLD WILSON, M.P., Prime Minister
The Right Hon. GEORGE BROWN, M.P., First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDNER, Lord Chancellor
The Right Hon. MICHAEL STEWART, M.P., Secretary of State for Foreign Affairs
The Right Hon. SIR FRANK SOSKICE, Q.C., M.P., Secretary of State for the Home Department
The Right Hon. WILLIAM ROSS, M.P., Secretary of State for Scotland
The Right Hon. ANTHONY GREENWOOD, M.P., Secretary of State for the Colonies
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. RICHARD CROSSMAN, M.P., Minister of Housing and Local Government
The Right Hon. FRANK COUSINS, M.P., Minister of Technology
The Right Hon. FREDERICK LEE, M.P., Minister of Power
The Right Hon. HERBERT BOWDEN, M.P., Lord President of the Council
The Right Hon. JAMES CALLAGHAN, M.P., Chancellor of the Exchequer
The Right Hon. DENIS HEALEY, M.P., Secretary of State for Defence
The Right Hon. ARTHUR BOTTOMLEY, M.P., Secretary of State for Commonwealth Relations
The Right Hon. JAMES GRIFFITHS, M.P., Secretary of State for Wales
The Right Hon. DOUGLAS JAY, M.P., President of the Board of Trade
The Right Hon. ANTHONY CR OSLAND, M.P., Secretary of State for Education and Science
The Right Hon. DOUGLAS HOUGHTON, M.P., Chancellor of the Duchy of Lancaster
The Right Hon. FRED PEAK, M.P., Minister of Agriculture, Fisheries and Food
The Right Hon. TOM FRASER, M.P., Minister of Transport
The Right Hon. BARBARA CASTLE, M.P., Minister of Overseas Development

The following were also present:
The Right Hon. ROY JENKINS, M.P., Minister of Aviation (Item 4)
Mr. RICHARD MARSH, M.P., Joint Parliamentary Secretary, Ministry of Labour (Items 3 and 4)

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

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. D. S. LASKEY
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1. The Cabinet were informed of the business to be taken in the House of Commons in the following week.

2. The Foreign Secretary said that he had conveyed to the Ambassadors of the United States and Vietnam the sympathy of Her Majesty's Government for the injuries suffered by their nationals as the result of the recent bomb outrage in Saigon. He had also expressed to the United States Ambassador the hope that the United States Government would not feel obliged to take retaliatory action; and it was satisfactory that the subsequent public statement by President Johnson had been restrained in tone. The United States Government had also taken this opportunity to confirm their undertaking to give us advance warning of any intensification of the present scale of their air attacks on North Vietnam.

There were some slight indications that the Government of North Vietnam might be less unwilling than hitherto to attend a conference to discuss possible means of ending the conflict in Vietnam; but these indications were too uncertain to be of any value.

The Prime Minister said that these developments might make it desirable that Mr. Patrick Gordon Walker, in the course of his mission to South-East Asia, should visit Hanoi at a rather earlier stage than was at present contemplated.

The Cabinet—

(1) Took note of the Foreign Secretary's statement.

(2) Invited the Foreign Secretary to consider whether arrange­ments should be made for Mr. Patrick Gordon Walker to visit Hanoi at a rather earlier stage in his mission to South-East Asia than was at present contemplated.

3. The Cabinet considered a memorandum by the First Secretary of State (C(65)53) on the Outline Plan, to which was attached the draft of a White Paper on the Plan.

The First Secretary of State said that it had originally been the Government's intention to publish in March an Outline Plan which would provide background to the Budget and would constitute an interim report on work on the main Plan, which would not be complete until the summer. He had come to the conclusion, however, that this would be inadvisable. Any White Paper published while the main Plan was still in preparation would inevitably consist of little more than a repetition of policy decisions already announced, together with an outline of problems not yet fully resolved. Moreover, the deficit on the balance of payments seemed likely to persist until further remedial measures had been
taken; and any figures published at this juncture might therefore have embarrassing repercussions on international confidence in sterling. Finally, the need to rectify the balance of payments and to intensify investment in order to achieve the necessary level of economic growth might require a degree of restraint on the expansion of personal consumption and the social services which, while most undesirable, would be unavoidable unless defence expenditure could be reduced, in real terms, to the level of the 1964-65 Estimates. But since this critical question could not be determined until the current review of our oversea commitments was completed, it would be desirable to explain publicly that it would be unsatisfactory to publish an Outline Plan while the most important economic decisions had still to be made; and this statement could be elaborated as appropriate, in a subsequent speech in the House of Commons, which might most conveniently be made during the debate on the forthcoming Budget.

Meanwhile, the initial stages of the work on the main Plan were nearly finished; and the further stages should be completed during the next four months. It should therefore be possible to publish the Plan at the end of the summer or in the early autumn, provided that decisions on the future level of defence expenditure were taken in good time.

In discussion it was suggested that, despite the difficulties indicated in C (65) 53, there would nevertheless be advantage in publishing an Outline Plan on the lines of the draft White Paper, both in order to explain to public opinion the Government's approach to the problem and to emphasise the need for the Government to adopt a positive role in the direction of the economy. On balance, however, it was agreed that these considerations could best be satisfied by an oral exposition of the Government's policies on some suitable Parliamentary occasion and that the proposed White Paper on the Plan should not be published until the Plan itself had been completed.

In further discussion the following main points were made:

(a) The statistical table indicating the broad dimensions of the Plan might be regarded as making insufficient allowance in its estimate of the growth of the Gross National Product (GNP) for the improvement in productivity which might reasonably be expected to result from the measures being taken by the Government to improve industrial efficiency. On the other hand the achievement of a rate of growth of 2½ per cent in the GNP between 1964 and 1970 would itself require a considerable increase in productivity in the later years of this period; and it would, therefore, be imprudent to base any published Plan on a rate of growth in excess of this figure.

(b) Paragraph 27 of the draft White Paper suggested that, provided that defence expenditure was restrained, it might be possible to allow expenditure on public services other than defence to rise by more than the assumed rates of 4½ per cent a year. But this should not be interpreted as implying that it would in fact be
feasible to contemplate more generous provision for these services than was indicated in the statistical table, which could be argued to be already more optimistic than was justified.

The Cabinet—
Approved C(65) 53.

4. The Cabinet considered a memorandum by the Secretary of State for Defence (C(65) 57) about the TSR-2 and the F-111A (TFX) aircraft.

The Prime Minister recalled that at their meeting on 1st February the Cabinet had decided to defer a decision on the TSR-2 pending the receipt of further information about the comparative cost and capability of this aircraft and of the TFX. There had been no significant development since then as regards the capability of either aircraft. As regards cost, however, it had not proved possible to agree a fixed price for the TSR-2. The manufacturers had offered, instead, a target price in the sense that, if the eventual cost were lower than a prescribed sum, the profit would accrue to them, while, if it were higher, they would accept the loss up to a limit of £9 million but any further loss would have to be borne by the Government. On this basis a purchase of 110 TFX would yield, by comparison with the purchase of a similar number of TSR-2, a Budgetary saving of about £280 million; but it would involve a dollar outlay equivalent to about £500 million (including interest charges of £70 million). It would be optimistic, however, to suppose that the resources released by cancellation of the TSR-2 would yield additional exports to the value of £500 million; and it could be argued that it would be a false economy to save some £280 million of sterling expenditure at the cost of incurring a heavy additional burden on the balance of payments. If, however, it were decided to cancel the TSR-2, there would be advantage in announcing this decision at the same time as the Budget, since it would demonstrate our determination to secure genuine economies in defence expenditure.

If the TSR-2 could be considered in isolation, there would be a strong case for saying that it was too expensive and should be cancelled. Moreover, the industrial consequences of cancellation now appeared less formidable, since it had proved less difficult than had been expected to absorb the redundant labour in the aircraft industry which had resulted from the Government’s earlier decisions to cancel the P-1154 and the HS-681. The situation would be more serious, however, if we decided not only to cancel the TSR-2, but also to adopt the TFX in its place, since we should then have to meet, in addition to the industrial problem of redundancy on a substantial scale, the political charge that we were allowing ourselves to become unduly dependent on the United States. The methods employed by the United States aircraft industry to gain markets abroad and the
pressure which they were exerting in order to frustrate sales of United Kingdom aircraft to United States airlines lent additional force to this charge.

Until the current review of our oversea commitments was completed, we could not say with certainty whether there would be a future requirement for an aircraft of the TSR-2 or TFX type; and it would therefore be difficult to sustain a decision to cancel the TSR-2 unless we could maintain that an alternative aircraft would be available if it were needed. It had therefore been suggested that we should establish an option to buy the TFX, without commitment to purchase more than a very limited number. The Cabinet would need to consider whether this was a realistic assumption or whether the outcome of the review of oversea commitments was likely to make a substantial purchase of TFX aircraft inescapable. In the latter event it might be preferable to maintain the TSR-2 programme for a further two or three months in spite of the financial and other disadvantages which this would involve.

The Secretary of State for Defence said that he had carefully considered whether we should need an aircraft of the type in question or whether the requirement could be met in other ways, e.g., by carrier-based Buccaneers or by Phantoms. This question could not be finally answered until the completion of the review of our oversea commitments; but it seemed probable that we should need at least some aircraft of this type. Other aircraft lacked both the range and the payload to fulfil either the strike or the reconnaissance roles for which the TSR-2 and the TFX were designed. Moreover, the range of the TSR-2 or TFX provided increased flexibility and economy of deployment. If we dispensed with aircraft of this type, we should be unable to fight limited wars in the 1970s in the Middle East and the Far East, unless we accepted complete dependence on the United States; and a decision involving so major a change in our existing defence role could clearly not be taken in advance of the review of commitments.

As regards the operational capability of the two aircraft, the TFX Mark I would be markedly inferior to the TSR-2 as regards low level attack. The TFX Mark II, however, with the improved avionics which would distinguish it from the Mark I, would have a slight military advantage over the TSR-2.

The cost of the TSR-2 would be far greater than that of the TFX; and the difference would increase as the numbers required were reduced below 110. On the basis of 110 aircraft each TSR-2 would cost £4.8 million (or £5.8 million if money already spent was included): for an order of 50 aircraft these figures would rise to £7.3 million (or £9.5 million), since the full cost of research and development would have to be spread over a smaller number of aircraft. For the TFX Mark I the United States Government had offered a maximum price of £2.1 million. They estimated the cost of the avionics which would distinguish the Mark II from the Mark I at £200,000; and, even if we allowed a further £300,000 in case this estimate proved too low, the cost of the TFX Mark II would still be no more than £2.6 million. These figures related to a purchase
of 110 aircraft; but the latest information from the United States Government indicated that, if we eventually decided to buy a smaller number, the unit cost would rise by only a very small amount. Moreover, in addition to the lower initial cost, the TFX should prove more economic to operate. In short, it could be assumed that, on the basis of a purchase of 110 aircraft, there should be a saving to the Exchequer of about £280 million over the full period of 13 years; and in the first five years, which were in many respects of critical importance to us, the saving would be some £300 million, at a dollar cost equivalent to only £12 million.

These arguments justified the proposal that the TSR-2 should be cancelled and that we should negotiate an option to buy the TFX. This was essential because we could not be certain at this stage that we should have no requirement for an aircraft of this type and we must therefore be able to maintain, if the TSR-2 were cancelled, that an alternative aircraft would be available, if we needed it, at a price agreed with the United States Government. Moreover, the United States authorities would agree to waive the 50 per cent preference rule, which at present applied against any United Kingdom military equipment bought for the United States forces; and they would also undertake to use their best efforts to procure some defence equipment from this country, provided that it met United States requirements in relation to performance, time and cost. These concessions should provide at least a partial answer to any allegations that the option to purchase the TFX would make us unduly dependent on the United States. We should now proceed, therefore, to purchase 10 TFX Mark I, for which we should need to place a firm order by 1st January, 1966; and we should also take an option to purchase up to 100 TFX Mark II. But since firm orders in relation to this option would not need to be placed before April 1967 we should have time, before deciding on the total number of aircraft which we wished to purchase, to complete the review of our overseas commitments and to judge, in the light of its results, how far we could reduce the requirement. There would also be time to consider the possibility of incorporating the Rolls-Royce Spey engine and other United Kingdom components in the TFX and to pursue in greater detail with the United States authorities the extent to which they would purchase equipment of United Kingdom manufacture.

The Minister of Aviation agreed that the TSR-2 was too expensive and that there was a case, on these grounds, for cancelling it. But it would be a wholly different matter if we cancelled the TSR-2 and adopted the TFX instead. In the first place it seemed unlikely that the redeployment of the resources released by the cancellation would offset even half of the dollar cost, equivalent to £500 million, which we should have to meet if we purchased the TFX, especially since the calculation in question took no account of the loss of aircraft exports which might result from the disruptive effect on the British Aircraft Corporation of the cancellation of their most important aircraft. Moreover, although the Corporation had been unable to quote a fixed price for the TSR-2, we could only use
pressure which they were exerting in order to frustrate sales of United Kingdom aircraft to United States airlines lent additional force to this charge.

Until the current review of our oversea commitments was completed, we could not say with certainty whether there would be a future requirement for an aircraft of the TSR-2 or TFX type; and it would therefore be difficult to sustain a decision to cancel the TSR-2 unless we could maintain that an alternative aircraft would be available if it were needed. It had therefore been suggested that we should establish an option to buy the TFX, without commitment to purchase more than a very limited number. The Cabinet would need to consider whether this was a realistic assumption or whether the outcome of the review of oversea commitments was likely to make a substantial purchase of TFX aircraft inescapable. In the latter event it might be preferable to maintain the TSR-2 programme for a further two or three months in spite of the financial and other disadvantages which this would involve.

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this argument effectively if we could maintain that we could be
certain of acquiring the TFX at a fixed price which was not merely
dependent on United States estimates and expressions of good intent.
It was not clear whether this was in fact so. Finally, the proposal
that we should commit ourselves to buy 10 TFX Mark I could not
be defended since so small a number of aircraft would be useless
in themselves and would only be of any value or significance if they
were followed by a further substantial order. The question would
therefore no longer be one of cancelling the TSR-2 but of substituting
the TFX for it. But there seemed no reason to suppose that, if the
United States Government were anxious to sell us the TFX now,
they would be any less anxious to do so in some months time; and
the right course, therefore, would be to cancel the TSR-2, to enter
into no commitment as regards the TFX and to defend this course
on the grounds that, pending the conclusion of the defence review, it
was impossible to judge whether any aircraft of this type would be
required and, if there were such a requirement, whether it could be
met in other ways. Among the possibilities open to us would, of
course, be a purchase of TFX if this proved to be the best solution.

The Cabinet—

(1) Agreed to resume their discussion at a subsequent meeting.
(2) Invited the Secretary of State for Defence, in consultation
with the Chancellor of the Exchequer and the Minister
of Aviation, to circulate the latest information about the
terms of the agreement which might be concluded with
the United States Government for an option to acquire
the TFX aircraft.

Cabinet Office, S.W.1,
2nd April, 1965.