CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 21st December, 1965,
at 10 a.m.

Present:
The Right Hon. Harold Wilson, M.P., Prime Minister (Items 1-3)
The Right Hon. George Brown, M.P., First Secretary of State and Secretary of State for Economic Affairs (in the Chair for Item 4)
The Right Hon. Lord Gardiner, Lord Chancellor
The Right Hon. Denys Healey, M.P., Secretary of State for Defence
The Right Hon. Anthony Bottomley, M.P., Secretary of State for Commonwealth Relations (Items 1-3)
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 Crosland, 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. Frank Cousins, M.P., Minister of Technology
The Right Hon. Frederickee 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. 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. R. J. Gunther, M.P., Minister of Labour
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food (Items 1 and 2)
The Right Hon. Tom Fraser, M.P., Minister of Transport

The following were also present:
Mr. George Thomson, M.P., Minister of State for Foreign Affairs (Items 1-3)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Items 1-3)
The Right Hon. Edward Short, M.P., Parliamentary Secretary, Treasury

Secretariat:
Sir Burke Trend
Mr. P. Rogers
Mr. D. S. Laskey
Mr. J. H. Locke
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1. The Cabinet were informed of the business to be taken in the House of Commons before the Recess.

2. The Prime Minister said that, as the Cabinet would be aware, a number of the African delegations had boycotted his address to the United Nations. We knew that in so doing some of the delegates had acted contrary to the views of their Heads of State.

In his discussions in Washington he had found that the position of the United States Government over Rhodesia had changed and the President had assured him of full United States support. It had therefore been possible to reach agreement quickly on the imposition of the oil embargo against Rhodesia.

He had also discussed the question of nuclear sharing by Germany and had expressed the view that the right machinery had now been established in the North Atlantic Treaty Organisation (NATO) and that the first step would be for the Federal German Government to explain what they wanted. It was clear that the project for a Multilateral Force was now dead and that if any allied nuclear force were required this should be based on our proposal for an Atlantic Nuclear Force. It might not now be necessary for any such force to be constituted and the Federal German Government might be satisfied with the consultative arrangements which were being developed in NATO. The President had made it clear that it would be for the European countries to consider what they required and the United States Government would not seek to impose a solution on them.

He had given a full account of our thinking on the Defence Review and had made it clear that we wished to take account of United States views and had reached no decisions in advance of receiving them. The United States reaction had been encouraging and Mr. McNamara, the United States Secretary of Defense, had been sympathetic to the idea that the United Kingdom should play a larger role in relation to Africa, where we had a position and responsibilities which the United States did not possess, than in Asia and the Far East. Mr. McNamara had expressed the view that some reduction in United Kingdom forces in Germany might be possible and had indicated that he had certain ideas about reducing the foreign exchange burden of the Allied forces stationed in Germany. It would now be for the Defence and Oversea Policy Committee to consider the next stage in the Defence Review in preparation for the more detailed discussions which the Foreign Secretary and the Secretary of State for Defence would have with the United States and other Allied Governments towards the end of January. The Cabinet would of course be kept informed.

For the United States Government, Vietnam was of overriding importance and the President had made it clear that he was most concerned to secure a peaceful settlement. The United States Government had the full support of their public opinion for a
vigorously prosecution of the war and they could not themselves take repeated initiatives to secure negotiations since to do so would weaken their position. They would, however, welcome any initiative which the United Kingdom, as providing the Co-Chairman of the Geneva Conference, could take to promote negotiations. The President had given him this assurance both in private and at a full meeting with advisers present.

In discussion of the Asian Development Bank he had explained that we could not increase our contribution within our total aid ceiling unless the United States Government were prepared to help us elsewhere. Mr. George Ball, of the United States State Department, had agreed to consider whether an arrangement on these lines could be devised whereby the United States Government might, for instance, take over some of our aid responsibilities in Africa. Mr. McGeorge Bundy had also indicated that the Ford Foundation, of which he was about to become President might be able to help. This matter might best be pursued by the Treasury Representative in Washington.

After his visit to Washington he had had friendly discussions in Ottawa with the Canadian Government. It was most satisfactory that the Canadian Government had since offered four C-130 planes for the air lift to Zambia.

In discussion reference was made to the peace overture which Signor La Pira, the former Mayor of Florence, had claimed to have received in Hanoi. It was pointed out that this had been made public by the Italian Government and not by the United States Government. Little reliance could be placed on Signor La Pira's report and his claim had been repudiated by the North Vietnamese authorities.

The Cabinet—

1. Took note, with approval, of the Prime Minister's statement.

2. Invited the Chancellor of the Exchequer, in consultation with the Minister of Overseas Development, to arrange for further discussions with the United States Government on United States help over the aid programme in order to enable the United Kingdom to increase its contribution to the Asian Development Bank.

3. In relation to Rhodesia, the Cabinet first discussed the measures necessary to further the oil embargo. The following points were made:

(a) If a blockade of Beira to enforce the embargo proved necessary, this could not be carried out by United Kingdom naval forces alone. HMS Eagle had in fact been withdrawn, but it would not be advantageous to make this public in the course of the forthcoming debate in the House of Commons. An unqualified assurance could not be given that, whatever the circumstances, Parliament would be recalled if it became necessary to institute a blockade during the Recess.
(b) The response of Portuguese Government to the measures which had been taken to impose economic sanctions and an oil embargo on Rhodesia had been as forthcoming as could reasonably be expected and this attitude would no doubt be maintained as long as the Portuguese Government recognised that we were determined to bring about the downfall of the illegal régime. It would be necessary to make use of Beira airport if the airlift to Zambia were to be increased to the necessary level, owing to the limitations of the Dar-es-Salaam airport and of the route via the Congo.

(e) The necessary steps should be taken to ensure that supplies of oil from South Africa did not reach Rhodesia via the Bechuanaland railway.

The Cabinet—

(1) Invited the Minister of State for Foreign Affairs, in consultation with the First Secretary of State and the Commonwealth Secretary, to seek the agreement of the Portuguese Government to the use of Beira airport for the airlift to Zambia.

(2) Invited the Colonial Secretary, in consultation with the First Secretary of State and the Minister of State for Foreign Affairs, to consider what measures could be taken to prevent supplies of oil from South Africa reaching Rhodesia via the Bechuanaland railway.

The Cabinet then discussed the terms on which the rebellion might be brought to an end and the possible stages of constitutional advance thereafter.

There was general agreement that the Government could not negotiate directly with Mr. Smith and the illegal régime, nor could they accept the resumption of negotiations at the point which these had reached before the illegal declaration of independence. On the other hand, it would be undesirable to impose terms which could be represented as the equivalent of unconditional surrender. This would only harden the determination of the European population as a whole to resist to the end, would prolong the conflict and further and gravely exacerbate race relations throughout Africa. It might therefore be acceptable that the Governor of Rhodesia should be prepared to have discussions with any persons in Rhodesia who were concerned to see a restoration of constitutional government. A condition of agreement would be that control of the armed forces and the police in Rhodesia should be transferred to the Governor and it would probably be necessary to envisage a period of United Kingdom constitutional control for a number of years, during which time there might be an initial period of direct rule, and then a gradual transition to self-government with majority rule, before eventual independence. The terms which would be acceptable to the Government required further consideration, however, and it would be impolitic to make any detailed statement on this issue at the present time.
The Cabinet—

(3) Took note that the Prime Minister would have regard to the points raised in discussion in his statement that afternoon in the House of Commons.

4. The Cabinet considered a memorandum by the First Secretary of State (C (65) 183) about developments in the negotiations for the purchase of the assets of Fairfields shipyard.

The First Secretary of State said that, since the Cabinet's discussion on 16th December, further difficulties had arisen in the negotiations with private interests about the formation of a joint company for the purchase of the assets of Fairfields shipyard. On 16th December, immediately before he was about to make a statement in the House of Commons, he had learned that Lord Thomson was no longer able to proceed on the financial basis so far discussed. It was therefore no longer possible to proceed on the basis of a fifty-fifty partnership between the Government and any single private interest; and the best alternative was to promote a syndicate of private interests, each of which would put up a relatively modest stake. On this basis both Mr. Stewart and Lord Thomson were prepared to proceed and Sir Isaac Wolfson might also be prepared to subscribe a reasonable share of the equity capital. In addition one union had already agreed to subscribe £50,000 and another had agreed to take part, probably for the same amount. Discussions were continuing with other interests and there seemed a reasonable prospect that up to £2 million of private equity capital could be secured over the next two or three weeks. Immediately, however, it was not possible to rely on more than £1 million being available.

Expert advice was that Fairfields would make losses in the next two or three years because of the terms of the contracts which had been concluded for the ships to be completed in this period; but thereafter it should make a profit, provided that the shipbuilding industry generally continued to be prosperous. If, in practice, it proved possible altogether to abolish restrictive practices in the yard, a profit might be made at an earlier stage. The fact that the trade unions mainly concerned were prepared to invest in the new company was a dramatic indication of their readiness to support efforts to increase the efficiency of operation in the yard.

The participation of Lord Thomson and probably of other private interests was dependent on Mr. Stewart becoming Chairman of the company and a suitable management being installed. Mr. Stewart himself was only prepared to come in on the basis of a fifty-fifty partnership between the Government and private capital. If sufficient private capital could not be obtained, the Government would be faced with the alternative of complete nationalisation or of allowing the shipyard to close. To nationalise this particular yard without getting the new and dynamic management which was required, and in the face of manifest opposition from the shipbuilding industry, would entail unacceptable risks but negotiations with private interests and the Trade Unions should be continued with the aim of
raising £\frac{2}{3} million of equity capital, which would be matched by a similar sum from the Government together with £1 million of loan capital from the Government. If necessary, however, the Government should be prepared to go ahead on the basis of a £\frac{4}{3} million of private equity capital matched by a similar sum from the Government together with £1 million of loan capital subscribed by the Government. It would be essential to reach agreement with private interests before Christmas, since Reardon Smith were not prepared to continue their contracts with the yard for more than a further week without firm assurances of completion; nor was the Receiver prepared to continue for more than a further week.

In view of the prolonged uncertainty there would be advantage in making a statement that the Government were assured of sufficient support from private interests and the trade unions to justify taking over the shipyard as soon as assurances had been obtained that £\frac{4}{3} million of private capital would be forthcoming.

The Chancellor of the Exchequer said that there would be serious disadvantage in the Government continuing with this venture. It was improbable that the new company would make a profit for a considerable time and perhaps it never would. The private interests which subscribed to the new company would at least have the advantage of a share of the tax losses of Fairfields, totalling nearly £2 million, which they could use to offset tax payable on profits at a later date, but there was no reasonable hope on a realistic assessment of obtaining a proper return on the public money which would be invested. In these circumstances the best course was to allow the yard to close and the labour to be absorbed by other firms in the area.

In discussion anxiety was expressed about the probable return on the capital invested by the Government in the yard and the risk that pressure would be brought to place Government contracts with the yard at prices higher than could be secured elsewhere in order to support a company in which the Government had a major financial stake, as had happened in respect of Short Brothers and Harland Limited. It might well be that the private interests concerned were prepared to place limited amounts of capital in the enterprise in the hope that the Government would be forced to protect their own investment in this way. There could be no certainty that restrictive practices would, in fact, be abolished in the yard at a reasonable cost in terms of wage rates; and investment by certain national trade unions in the enterprise gave no assurance of co-operation at the local level. There was, moreover, objection to encouraging trade unions to invest their funds in a project which was, by any judgment, extremely risky.

On the other hand, it was argued that it would be a mistake to abandon the efforts to form a joint company with private capital at the present stage. The discussions with the trade unions at both the regional and national level had shown that they were prepared to envisage the removal in the Fairfields yard of the restrictive practices which had gravely hampered United Kingdom shipbuilding and it
would be unfortunate to allow the shipyard to close at the very moment when the trade unions had indicated their own readiness to invest money in the enterprise. It would be a serious blow to the shipbuilding industry if the yard were to close and the Reardon Smith contracts were to be placed, as seemed likely, with Japanese shipbuilding yards.

It was suggested in consequence that even if £1 million of private capital could not be secured on satisfactory terms it would still be desirable for the Government to acquire the company, but the general view was that it would be undesirable for ownership of the company to be vested wholly in the Government. If, therefore, sufficient private capital could not be secured before Christmas, the Government should announce that all efforts to secure a joint enterprise with private capital had failed and that there was no alternative but to allow the yard to close.

The First Secretary of State, summing up the discussion, said that the general view of the Cabinet was that further efforts should be made to reach an agreement which would keep the yard going through a combination of Government and private capital. The proposal that £½ million of equity capital should be subscribed by the Government with a similar amount by private interests, including the trade unions, was much to be preferred to a scheme involving only £½ million each of private and Government equity capital with a corresponding increase in the provision of loan capital by the Government. On balance, however, the Cabinet considered that, if necessary, the Government should proceed with the acquisition of the assets of Fairfields provided they had secured the participation of £½ million of private equity capital. If this could not be secured before Christmas, the Cabinet were opposed to nationalisation even if this meant that the yard closed. As soon as assurances had been received about the subscription of £½ million of private equity capital, it would be desirable to remove uncertainty by an announcement that the Government had received sufficient assurances of support to enable the assets of Fairfields shipyard to be acquired but negotiations should be continued even after such an announcement with a view to increasing the participation of private capital in the venture up to ££ million.

The Cabinet—

(1) Invited the First Secretary of State, in consultation with the other Ministers concerned, to continue negotiations for the acquisition of the assets of Fairfields shipyard on the basis indicated in his summing up of their discussion.

(2) Invited the First Secretary of State to make an announcement about the acquisition of the yard as soon as there was assurance of the participation of £½ million of private equity capital in the new company.

Cabinet Office, S.W.1,

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