CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 20th October, 1966, at 10 a.m.

Present:

The Right Hon. Harold Wilson, M.P., Prime Minister
The Right Hon. George Brown, M.P., Secretary of State for Foreign Affairs
The Right Hon. James Callaghan, M.P., Chancellor of the Exchequer
The Right Hon. Herbert Bowden, M.P., Secretary of State for Commonwealth Affairs
The Right Hon. Denis Healey, M.P., Secretary of State for Defence
The Right Hon. William Ross, M.P., Secretary of State for Scotland
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. The Earl of Longford, Lord Privy Seal (Items 1–5)
The Right Hon. Fred Peart, M.P., Minister of Agriculture, Fisheries and Food (Items 1–5)
The Right Hon. Frederick Lee, M.P., Secretary of State for the Colonies
The Right Hon. Anthony Wedgwood Benn, M.P., Minister of Technology

The following were also present:
The Right Hon. Frederick Mulley, M.P., Minister of Aviation (Item 7)
The Right Hon. Sir Elwyn Jones, Q.C., M.P., Attorney-General (Items 1–4)
The Right Hon. Edward Short, M.P., Postmaster-General (Item 5)
The Right Hon. John Silk, M.P., Parliamentary Secretary, Treasury

Secretary:
Sir Burke Trend
Mr. P. Rogers
Mr. L. Errington
Mr. R. T. Armstrong
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1. The Prime Minister informed the Cabinet that he had received from the management of the Grand Hotel, Brighton, a suggestion that the hotel should place on permanent display a plaque commemorating the meeting of the Cabinet which had been held there on 4th October. It was suggested that the plaque should incorporate facsimile signatures of the members of the Cabinet and should indicate the business which the Cabinet had transacted.

In discussion it was suggested that there were no grounds for objecting in principle to the display of a plaque recording the Cabinet's meeting in the hotel, particularly in the light of the precedent provided by the plaque in the Inverness Town Hall commemorating the Cabinet meeting which had been held there in 1921. But there could be no question of its containing any statement purporting to describe the business which had been before Ministers or the decisions which they had reached.

The Cabinet—

Took note that the Prime Minister would convey to the management of the Grand Hotel, Brighton, their decisions on the suggestion that the hotel should place on permanent display a plaque commemorating the Cabinet's meeting there on 4th October.

2. The Prime Minister said that it had recently come to his attention that the Royal Commission on English Local Government had invited a number of Ministers and representatives of the Opposition to discuss informally with them some of the issues arising from their terms of reference. There were occasions on which it might be proper for a Minister to give formal evidence to a Royal Commission, e.g., the Lord Chancellor, as head of the Judiciary, in relation to a Royal Commission which was concerned with some issue of judicial practice or organisation. But the question whether Ministers should give evidence, even informally, to Royal Commissions concerned with more political matters was more arguable; and the Cabinet should consider the questions of principle involved.

In discussion it was suggested that in certain circumstances it could be helpful, both to the Royal Commission concerned and to the Government, that Ministers should have an opportunity to express their views to the Commission, provided that the proceedings were on an informal basis and that no record of the evidence was taken or published. Some Ministers had already accepted on this basis the invitation from the Royal Commission on English Local Government. On the other hand any arrangement whereby
Ministers were regarded as free to express individual views to a Royal Commission, even informally, could be held to be open to serious objection, partly on the ground that it might engender suspicion that the Government were seeking privately to influence the findings of a body which they had established in order to give them impartial advice on some politically contentious issue and partly on the ground that it would create a potential risk of subsequent embarrassment to the Government if some of its members were known to have expressed views which, whether or not they were endorsed by the Royal Commission, were not necessarily in complete harmony with the policy of the Government as a whole. This inhibition need not prevent the Chairman of a Royal Commission from seeking a private discussion with a Minister on occasion, in order to ascertain his views on some specific issue within the Commission's terms of reference which affected him personally in his capacity as the responsible Minister. But on the more general question of the relations between Ministers and Royal Commissions it would be wiser to adhere to the principle that all the factual advice and information which a Commission required should be provided by officials and that Ministers should not be involved in the Commission's deliberations on the issues of policy in question.

The Prime Minister, summing up the discussion, suggested that the Chairman of the Royal Commission on English Local Government should be approached in this sense and that arrangements should be made to put the procedure in this respect on a more regular basis for the future.

The Cabinet—

(1) Invited the Minister of Housing and Local Government to ask the Chairman of the Royal Commission on English Local Government to reconsider, in the light of the issues raised in their discussion, the invitation which the Commission had issued to certain members of the Government to give informal evidence to them; and to report to the Prime Minister the Chairman's reaction.

(2) Agreed that in future Secretaries of Royal Commissions should be instructed to consult the Cabinet Office before issuing invitations to Ministers to give evidence and that any Minister receiving such an invitation should similarly consult the Cabinet Office before accepting it.

(3) Took note that the Prime Minister would make the necessary arrangements to give effect to Conclusion (2) above.
4. The Foreign Secretary said that on his recent visit to New York and Washington he had had a series of discussions, which on the whole were encouraging, with Mr. Gromyko, the Soviet Foreign Minister. There were indications of a distinct movement in the Soviet attitude towards agreement with the West on a number of issues, though not as yet on Vietnam. Mr. Gromyko had made it clear that the first essential in the Soviet view was for the United States bombing of North Vietnam to stop, but though he had given no indication of what, if any, action they might then be able to take, it was clear that they were anxious to see a solution and to continue discussions. It was no doubt partly with this in view that he had been invited to make an early visit to Moscow. Mr. Gromyko had, however, shown great interest in the early conclusion of a treaty on the non-proliferation of nuclear weapons and there was some reason to hope that an acceptable formula might be found on the main points of difficulty, relating to the possible transfer of nuclear weapons to an alliance. The Soviet Union did not appear to be as interested as had been expected in the extension of the Test Ban Treaty, but agreement had nearly been reached on a treaty on the use of outer space. If, therefore, some move forward could be made on Vietnam it was possible that this might result in a number of helpful international agreements in other spheres, though it would be imprudent to be unduly optimistic at this stage. In particular, it was important that we should not express such optimism in public statements.

In discussions with the President and with members of the United States Administration it had been made clear that they were ready to end the bombing of North Vietnam if there were any reasonable chance whatsoever that this might elicit a significant response by the Government of North Vietnam, leading to consultations about ways in which the conflict could be brought to an end. The United States Administration had also shown themselves understanding of our own difficulties in bearing the foreign exchange costs of our forces in Germany at their present level, but were naturally concerned that we should not take unilateral action to reduce or weaken our forces which might further imperil the Alliance.

As regards the admission of the People’s Republic of China to the United Nations, it appeared that opinion, both in the Administration and publicly in the United States, was now less firmly resistant to admission than had hitherto been the case, particularly if such admission were accepted in a form which did not appear too dramatic a diplomatic defeat for the United States Government.

He had subsequently visited Ottawa, partly because it was important to avoid any impression that United Kingdom Ministers visiting North America were solely concerned with the United States, and partly for discussions about the need to move the Council of
the North Atlantic Treaty Organisation from Paris, in view of the French withdrawal from the Organisation. Until recently both Denmark and Canada had been opposed to the move, but both had now accepted its desirability and it appeared likely that the move would be agreed at the next meeting of the Council in December.

It had been necessary to react promptly to the action of the Spanish Government in closing the customs post at La Linea on the Gibraltar frontier immediately before the resumption of talks between officials on the dispute about Gibraltar. He had in consequence announced publicly the proposal, which we had hitherto intended to put to the Spanish Government at a later stage in the course of the talks, that the dispute over the sovereignty of Gibraltar should be referred to the International Court of Justice. The Spanish Government had not as yet rejected this proposal and they had asked that the next round of talks should be in Madrid. It would be difficult to refuse this invitation since the previous four rounds had all been in London, but it was necessary to bear in mind that the Governor of Gibraltar had expressed some concern at the effect there if we accepted the invitation.

The Commonwealth Secretary said that Sir Morrice James, a Deputy Under-Secretary of State in the Commonwealth Office, who had taken the statement of the Government’s terms on Rhodesia to Salisbury, had had a further meeting with Mr. Smith, the leader of the illegal régime, the preceding day. Mr. Smith had said that he would send a letter, probably later the following week, giving the detailed comments of the illegal régime on our proposals. It was almost certain that these would amount to a rejection.

In Nigeria there was still an uneasy calm, and some public services had been resumed in the Northern Region. There had been anxiety that the Yorubas in the West might attack Ibos, but so far there had been no further outbreak of violence there.

The Cabinet—

Took note of the statements by the Foreign Secretary and the Commonwealth Secretary.

5. The Cabinet considered a Memorandum by the Postmaster-General (C(66) 141) to which was attached a draft White Paper on Broadcasting Policy.

The Postmaster-General recalled that, following their previous discussion of the draft White Paper, the Cabinet had asked him to consider the possibility of establishing a new service, financed from advertising, to broadcast programmes which would meet the demand for continuous “pop” music when the legislation to suppress the “pirate” radio stations took effect; it was also in mind that a network of local sound stations should also be established and financed on the same basis. His examination of this possibility had shown that the establishment of a new corporation to run such a
service would require legislation; that it would not be possible for any new service to broadcast continuous “pop” music because of the attitude of the Musicians’ Union; that the establishment of a new service would take up to two years, because of the need to legislate and the time needed to acquire sites and to build and equip new transmitting stations; and that additional capital and operating expenditure together would reach a peak of some £6½ million in three years’ time. The new corporation would need an initial capital loan from the Exchequer of some £5 million. Though the prospects for repayment would be uncertain, it was possible that by the fourth year advertising income might meet the operational costs of the new service. These conclusions had been considered by a meeting of the Ministers primarily concerned under the Prime Minister’s chairmanship. This meeting had concluded that a popular music programme ought to be introduced to coincide with the disappearance of the “pirate” radio stations, even though it could not satisfy the demand for continuous “pop” music, and it was agreed that such a programme could only be introduced in time if it were provided by the British Broadcasting Corporation (BBC). The meeting had, however, not been able to reach agreement on a further proposal that a new corporation to be financed from advertising should be set up as soon as possible to take over from the BBC the broadcasting of the new programme and to establish also a network of local radio stations. While there might be objection in present economic circumstances to the additional demand on resources that would be created by the establishment of a new broadcasting service, and while the introduction of a new outlet for advertising might similarly be open to objection, the meeting had, on balance, favoured this proposal, and it had been embodied in the draft White Paper now before the Cabinet.

He had ascertained informally from the Chairman of the Governors of the BBC that they would, with reluctance, be prepared to broadcast a music programme in the interim period while a new corporation was being established. They might, however, feel it necessary subsequently to continue broadcasting such a programme in competition with the new corporation, and in that event might want to use the wavelength at present allotted to the Home Service in the North-East of England, which would then have to share a programme with Northern Ireland. He had also had discussions with the Musicians’ Union who had objections to the introduction of advertising on sound radio. If the Cabinet approved the draft of the White Paper at present before them, further consultation with the BBC and with the Musicians’ Union would be required.

In discussion it was suggested that if, as proposed, the new corporation were allotted the present medium wavelength (247 metres) with which the BBC supplemented their long wave transmission of the Light programme, there would be substantial areas in Wales and Scotland where this service, which included popular non-musical programmes, could not be received. It was pointed out, however, that reception on very high frequencies

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(VHF) would be available and that manufacturers were planning to make transistor sets with a capacity to receive on VHF, if there were a demand for it.

In further discussion it was suggested that the advantage to be gained by establishing a new corporation on the lines proposed would be small in relation to the disadvantages. Whereas the programmes which it could broadcast would not meet the demand for continuous "pop" music and would only duplicate a service that could be provided much more cheaply by the BBC, the proposed new service would disrupt the BBC's existing services, would create an extra demand on resources, and in particular an increase in consumer demand, that was unacceptable in present economic circumstances. The view was also expressed that the acceptance of advertising on sound broadcasting was objectionable in principle. Furthermore by depriving the Press, particularly the local Press, of advertising revenue, the financial difficulties of the newspaper industry would be increased and a tendency to mergers and monopoly increased. Moreover, the solvency of the new service would be uncertain and further subsidy from the Government might be required. It was pointed out that light music was already available from one or other of the BBC's existing services for by far the greater part of the day, and it was suggested that it would be preferable to defer a decision on the establishment of a new service until it was clear how far the BBC could, in fact, meet the demand for a more popular type of music programme than was at present provided. That demand might in any event have been over-estimated. It was further suggested that before resources were committed to the establishment of a network of local sound stations, it would be preferable to conduct an experiment through the BBC to ascertain the demand for such a local service and the availability of local programme material.

On the other hand, it was pointed out that the use of the BBC to broadcast the continuous music programme, otherwise than as an interim arrangement, and to conduct an experiment in broadcasting, could only increase the pressure on the licence fee. It was suggested that unless a means could be found of supplementing the licence fee as a means of financing public service broadcasting, desirable development of the latter, and even the maintenance of present standards, would inevitably be threatened by the difficulty of increasing the licence fee. It was also suggested that in particular local sound broadcasting ought to be developed as a means of assisting the Open University and to provide an outlet for local initiative and talent which the BBC were unlikely to be able to furnish. The establishment of a new corporation financed from advertising would enable the new music programme and local sound broadcasting to be introduced on a self-financing basis, and would open the way for the subsequent establishment on the same basis of the fourth television network. Since the new corporation, unlike the Independent Television Authority, would be responsible itself for providing programmes, on the lines recommended by the Pilkington Committee for Independent Television, there would be less risk of
a lowering of the standard of programmes. It was also suggested that, if the new corporation achieved a surplus, it might be possible to apply this indirectly to supplementing the revenue of the BBC, who would in practice be unlikely to reject it. It was further suggested that, because of pressure on the programme, legislation would not be possible in the current session, and that therefore the new corporation could not begin to operate before 1970 at earliest; in consequence the extra capital and other expenditure and any consequent additional consumer demand would not be incurred during the present period of economic difficulty.

The Prime Minister, summing up this part of the discussion, said that the Cabinet were agreed that the BBC should be asked to provide a popular music programme as soon as the legislation to suppress the “pirate” radio stations took effect. On the balance of considerations the Cabinet favoured, in the longer term, the subsequent establishment of a new corporation, financed from advertising, to take over the running of the new programme from the BBC and to set up a network of local sound stations. The timetable for its establishment should, however, be left open and legislation would not in any event be possible in the current session.

The Cabinet—

(1) Invited the Postmaster-General to discuss with the Chairman of the BBC the provision of a music programme on 247 metres as an interim arrangement.

(2) Approved in principle the proposal to establish a new broadcasting corporation, financed by advertising, to provide a national popular music programme and a service of local sound broadcasting, subject to consideration in due course of the timetable for its introduction.

The draft White Paper

In discussion of the draft White Paper on Broadcasting it was suggested that the supplementary licence fee of £5 proposed for colour television sets would, when taken together with the high initial cost or rental of the sets, unduly discourage demand and hence hinder the development of manufacturing and export potential. On the other hand, it was pointed out that the proposed licence fee would be relatively insignificant for those who could afford the high cost of sets. In view of the difficulty of making any subsequent increases in the licence fee, it was important to fix the initial fee at a level which would not need to be increased for a number of years and would, as the ownership of colour television sets spread, provide a new element of buoyancy in the BBC’s licence revenue.

In further discussion the following main points were made:

(a) While the experiment in pay television would have to be allowed to go forward, it was important to prevent a situation developing in which the licensee might be able to deny the vast majority of television viewers the opportunity of viewing major sporting events.
(b) If the BBC were to contain their costs it was important that there should be no general increase in broadcasting hours, but it was in mind that an increase of an hour a day might be given to independent television.

Summing up this part of the discussion the Prime Minister said that the Cabinet approved the draft White Paper on Broadcasting subject to the amendments agreed at their previous discussion. Subject to his further consultations with the BBC and the Musicians’ Union, the Postmaster-General should arrange for its publication as soon as possible.

The Cabinet—

(3) Approved the draft White Paper annexed to C (66) 141 subject to the amendments agreed at their previous discussion.

(4) Invited the Postmaster-General, in consultation with the Lord President of the Council, to arrange for its early publication.

CONFIDENTIAL

6. The Cabinet considered a memorandum by the President of the Board of Trade (C (66) 143) about the import arrangements for apples and pears.

The President of the Board of Trade said that it was necessary for the Cabinet to resolve a difference of view which had arisen in the Sub-Committee on External Economic Policy of the Ministerial Committee on Economic Development, relating to proposals for liberalising the quota arrangements for imports of apples and pears. The real protection to our industry was by quota from all sources, except the sterling area. The quota level for apples was at present 15,200 tons for the period July to December and 68,750 tons for the period January to June. There was an annual quota for pears of 28,000 tons. These restrictions, in common with similar restrictions imposed by continental countries, were contrary to our obligations under the General Agreement on Tariffs and Trade (GATT). The Sub-Committee had in the preceding July agreed on balance that the following revised quota arrangements should be introduced as from 1st January, 1967:

(a) An apple quota of 37,000 tons for the months of January and February.

(b) Thereafter a quota-free period for both apples and pears covering the months from March to July inclusive.

(c) The present six-monthly apple quota of 15,200 tons to apply to the five months from August to December inclusive.

(d) The present annual pear quota of 28,000 tons to apply to the seven months from August to February inclusive.
These arrangements were, however, subject to consultations with the Australian and New Zealand Governments. In addition the Canadian Government and the National Farmers' Union (NFU) had also been consulted. The overseas Governments were strongly critical of the proposals, while the NFU challenged them as contrary to the import saving role allotted to the home industry under the National Economic Plan and argued that the new proposals would lead to heavy imports from Europe and low prices for the home producer at the beginning and end of the home marketing season.

In further discussion in the Sub-Committee, the Minister of Agriculture, with the support of the Parliamentary Under-Secretary of State, Commonwealth Office, had argued that the proposals should not be pursued at the present time, that the action was untimely and that we should instead concentrate on seeking an agreement on liberalisation in the negotiations in the Kennedy Round. Other Ministers, however, favoured maintaining the view previously taken by the Committee. The reactions of those consulted were in their view on the lines that had been expected and no new factors had emerged. We must have regard primarily to the effect of the measures on our balance of payments and while these could not be precisely quantified it was thought possible that the introduction of the revised arrangements might produce import savings of from £200,000 to £500,000, since it was expected that the increase in imports would be more than offset by the fall in price. The effect of the existing quotas was to maintain prices of apples and pears and hence of other fruit at artificially high levels and the change would therefore be advantageous to the home consumer, while the interests of home growers would not be significantly prejudiced because quotas would remain for the period of the home marketing season. Nor were apples and pears likely to figure appreciably in the Kennedy Round negotiations and we could not, in any event, expect to obtain substantial concessions in return for liberalising restrictions which were contrary to our obligations under the GATT. We should therefore announce in the course of the next week or so that revised quotas would be introduced from 1st January on the lines originally proposed.

The Minister of Agriculture said that he was not opposed to the liberalisation of the quotas at a later stage, but we should first ascertain whether we could obtain concessions in the Kennedy Round for doing so. Moreover, the revised quotas would seriously damage the interests of home growers and would adversely affect our suppliers in Australia and New Zealand. It was doubtful if they would result in any substantial benefit to the balance of payments and would hence be contrary to our need to reduce imports, while they would expose us to dumping from France and Italy, where surpluses had been built up in the past few years as a result of new plantings encouraged for political reasons. Exploratory discussions on the United Kingdom proposals had already begun in Geneva and we should not jeopardise the prospect of a settlement on such a basis by taking unilateral action now.
In discussion doubt was expressed on the likelihood that the proposed liberalisation of quotas would result in such a reduction in price as to offset the increase in imports and hence whether there would be any benefit to our balance of payments. It was also the general view that it would be preferable first to ascertain whether any concessions could be obtained in the course of the negotiations on the Kennedy Round in return for the liberalisation of quotas which was contemplated.

The Cabinet—

(1) Agreed that no change should be made in the existing arrangements for quotas for apples and pears for the coming year.

(2) Agreed to consider the matter further at a later date in the light of progress in negotiations in Geneva on the Kennedy Round.

7. The Cabinet considered a memorandum by the Secretary of State for Education and Science (C (66) 142) on the future of the airframe industry.

The Secretary of State for Education and Science recalled that at their meeting on 2nd August the Cabinet had approved the appointment of a Sub-Committee to consider and make recommendations on the future of the airframe industry, and specifically of the British Aircraft Corporation (BAC) and Hawker Siddeley Aviation Limited (HSA), the two main companies in the industry. The Sub-Committee had now considered this matter. Most members considered that nothing was likely to be gained by postponing a decision on the future of the airframe industry and that, in view of the delay since the publication of the Plowden Report on the Aircraft Industry (Cmnd. 2853), it was desirable to reach a decision as soon as possible in order to end uncertainty in the industry. There was general agreement that the Government could not leave the present position unchanged. The suggestion in the Plowden Report that the Government should take a majority holding in the two companies was impracticable, because it would not be accepted by the companies. There was thus a clear choice between two courses of action:

1. To take over the whole of the equity of BAC, and then merge BAC and HSA in a new company in which the former BAC equity would represent a substantial minority shareholding for the Government, or

2. To take both companies into 100 per cent public ownership, bringing them as separate companies under a new public corporation, which would also take over responsibility for other airframe interests in public ownership and would be charged with the duty of rationalising the industry.

The Sub-Committee had been unable to agree upon a recommendation on the choice between these two courses.
The ease for a solution through a minority shareholding solution rested on the argument that the essential objectives could be more easily achieved by this course:

(i) It would give the best prospect of keeping in the industry a management which would effectively carry through the rationalisation and merger that were agreed to be desirable. It was difficult to see why design staff in BAC should object so strongly to such a solution as to prefer to leave the industry rather than to continue on this basis.

(ii) Combined with the Government’s position as a major purchaser and source of funds, it would give the Government a sufficient measure of influence in the affairs of the industry, while preserving an element of commercial discipline and expertise in the management.

(iii) It was likely to lead to rather less political difficulty than 100 per cent nationalisation.

(iv) It would be substantially cheaper for the Exchequer.

(v) It would avoid saddling the Government with entire responsibility for an industry that was about to enter into a phase of contraction.

(vi) To take a minority shareholding at this stage would not preclude taking the industry into full public ownership at a later stage, if it later proved necessary or desirable to do so.

(vii) Full nationalisation now could not however well be reversed later.

These arguments suggested that a minority shareholding would be the preferable solution.

The Minister of Aviation said that he saw the attraction in the proposal for a minority shareholding, which had indeed been the basis of a plan which he had earlier discussed with representatives of the industry. Either of the two solutions before the Cabinet could probably be negotiated with the industry, though it would become more difficult to reach an agreed conclusion if a number of projects for new aircraft were cancelled. While it could not be taken for granted that the present Hawker Siddeley management would be wholly unavailable to a public corporation, it was probable that they would not, and it might admittedly not be easy to find a sufficiently good management for the industry, if it were brought wholly under public ownership. The objections to taking over a contracting industry also had force. None the less the balance of advantage was in his view in favour of taking both companies wholly into public ownership:

(viii) There would be powerful objections to the deliberate creation of a monopoly under the predominant control of private enterprise in an industry so heavily dependent on Government money.
(ix) It would be difficult to justify taking BAC into public ownership and then merging it into a new private enterprise company, the majority shareholding in which would be privately held.

(x) Only 100 per cent nationalisation would make it possible to achieve the reduction of detailed financial and technical control of projects by the Government, which had been one of the main objectives of the Plowden Committee's recommendations and should make possible considerable reductions in the staff of his Department.

(xi) It would remove the risk of public concern at the possibility of private firms making excessive profits out of public money.

(xii) Because the Government were so deeply involved in the affairs of the industry as the major purchaser and source of funds, the Government would in any event be held responsible for the difficult decisions which rationalisation and contraction would entail.

In discussion it was suggested that there would be some advantage in deferring a decision on the following grounds:

(a) Uncertainties about a number of projects (for instance, the P-1127 and the Anglo-French Variable Geometry aircraft) meant that the outlook for the industry was at present uncertain. While a decision on the structure of the industry could not be deferred indefinitely, there might be advantage in awaiting the resolution of some of the existing uncertainties.

(b) Before a decision was taken, it might be desirable to consider further how best to ensure a maximum return on the money put into the industry by the Government. Further consideration might also need to be given to the position of Rolls-Royce Limited and the effect upon them of whatever was proposed for the future of the airframe industry, though it could be argued that Rolls-Royce would be more greatly affected by the programme of the industry than by the form of its ownership.

It proved, however, to be the general view that on balance, despite these difficulties, a decision could not be further delayed without damage to the future of the industry. In discussion of the form of the solution it was suggested that the industry were likely in future to look to the Government for the whole of the finance required for development not only of military projects but also of all major civil projects. The Government's stake in the industry was very large: Government expenditure in the industry every year amounted to more than three times the total value of the equity of the two companies. In these circumstances the retention of a majority shareholding by private enterprise was unlikely in practice to ensure effectively the retention of commercial disciplines. It was agreed that the Government would probably need to supplement a minority shareholding with reserve powers on certain matters, such as the appointment of the chairman, the disposal of major assets and proposals to increase the capital, and reserve powers of this kind might well be little less objectionable to the majority of the
shareholders than a majority Government shareholding. The best course might well, therefore, be to take both companies wholly into public ownership.

On the other hand it was argued that the considerations of management should be decisive. There was general agreement that it would be desirable to retain the Hawker Siddeley management in charge of the industry, but it seemed certain that there was no prospect of retaining that management for a publicly owned industry. It might well be that the Government would in any event carry a large measure of responsibility for the affairs of the industry, but 100 per cent nationalisation would not make it any easier for the Government to carry that responsibility; indeed it would add to the problems with which the Government would have to deal, and the prospect of taking over an industry which was bound to contract over the next few years was an unattractive one. On broader grounds it was the predominant view that the objections to 100 per cent nationalisation developed by the Secretary of State for Education and Science outweighed the advantages.

The following points were also made:

(c) If the industry were taken into public ownership, it might be preferable to set up a new authority on the lines of the United Kingdom Atomic Energy Authority, rather than to follow the pattern of the other nationalised industries.

(d) It was highly questionable whether 100 per cent nationalisation would make it possible to reduce substantially the requirements for detailed governmental financial and technical control of aircraft projects, in view of the inevitable differences of interest between a public corporation and the Government.

(e) It was possible that, if the Government decided in favour of the minority shareholding solution, Hawker Siddeley would be prepared themselves to make an offer to acquire BAC, on the basis of an understanding that the Government would later purchase a minority shareholding in the combined HSA-BAC. BAC might, however, be reluctant to negotiate with Hawker Siddeley on such a proposition.

(f) It was not clear whether it would be possible under existing statutory powers for the Government to acquire the equity of BAC or a share in the equity of a new company combining the assets of BAC and HSA. The Minister of Aviation was precluded by statute from holding shares in a company making aircraft. It was, however, possible that the President of the Board of Trade might have appropriate powers. 100 per cent nationalisation would in any case require new legislation; if it were decided to seek a solution through a minority shareholding, the Minister of Aviation should consider, in consultation with the President of the Board of Trade and the Law Officers, whether it was possible for the Government to acquire BAC, or a minority shareholding in a new company, within existing statutory powers, and, if not, what legislative provisions would be required to enable them to do so. A place had been reserved in the legislative programme for legislation on the aircraft industry, which would in any event be required for the acquisition of Beagle Aircraft Co. Ltd. It would be desirable, if possible, to avoid further
legislation for the acquisition of BAC, or of a minority shareholding in a new company; if such legislation proved inescapable, it would be desirable to make the provisions as brief as possible.

The Prime Minister, summing up the discussion, said that the balance of view in the Cabinet was in favour of reaching a decision on the future of the airframe industry without further delay, and of adopting a solution whereby the Government would hold a minority shareholding, in partnership with the Hawker Siddeley group, in a new company combining the assets of the existing HSA and BAC and under the direction of the existing Hawker Siddeley management. Further consideration should be given to whether this result could best be achieved by the Government taking over BAC and then merging their holding of BAC into a new company with HSA, or by allowing Hawker Siddeley to acquire BAC and then negotiating with Hawker Siddeley on the formation of a new merged company with a minority Government shareholding. The need for legislation and the form it should take called for further examination.

The Cabinet—

(1) Agreed that Government policy for the airframe industry should be to bring into being a new company, comprising the assets of the British Aircraft Corporation and Hawker Siddeley Aviation Limited, in which the Hawker Siddeley group would hold a majority and the Government a substantial minority of the equity.

(2) Invited the Minister of Aviation, in consultation with the President of the Board of Trade and the Law Officers, to consider, on the lines suggested in discussion, whether the Government could acquire the equity of the British Aircraft Corporation, or a minority shareholding in the proposed new company, within existing statutory powers; and, if not, what legislative provision would be required to enable them to do so.

(3) Invited the Minister of Aviation to consider, in the light of these consultations and after discussion with other Ministers concerned, whether the Government should seek to acquire the British Aircraft Corporation as a preliminary to the proposed merger with Hawker Siddeley Aviation Limited, or whether Hawker Siddeley should be encouraged themselves to acquire the British Aircraft Corporation, on the understanding that the Government would in due course take a substantial minority shareholding in a new company combining the British Aircraft Corporation and Hawker Siddeley Aviation Limited.

(4) Invited the Minister of Aviation to bring before the Ministerial Committee on Economic Development, any matters arising in the course of the consultations and considerations under Conclusions (2) and (3) above which required collective consideration by Ministers before he informed leading representatives of the industry in confidence of the Government's decision and embarked upon negotiations to put it into effect.

Cabinet Office, S.W.1,
20th October, 1966.

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