CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1, on Thursday, 25th May, 1967, at 11 a.m.

Present:
The Right Hon. HAROLD WILSON, MP, Prime Minister
The Right Hon. MICHAEL STEWART, MP, First Secretary of State and Secretary of State for Economic Affairs
The Right Hon. LORD GARDINER, Lord Chancellor
The Right Hon. DENIS HEALY, MP, Secretary of State for Defence
The Right Hon. WILLIAM ROSS, MP, Secretary of State for Scotland
The Right Hon. DOUGLAS JAY, MP, President of the Board of Trade
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. BARBARA CASTLE, MP, Minister of Transport
The Right Hon. RICHARD MARSH, MP, Minister of Power
The Right Hon. JAMES CALLAGHAN, MP, Chancellor of the Exchequer
The Right Hon. HERBERT BOWDEN, MP, Secretary of State for Commonwealth Affairs
The Right Hon. ROY JENKINS, MP, Secretary of State for the Home Department
The Right Hon. PATRICK GORDON WALKER, MP, Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, MP, Secretary of State for Education and Science
The Right Hon. R. J. GUNTER, MP, Minister of Labour
The Right Hon. CLEDWYN HUGHES, MP, Secretary of State for Wales

The following were also present:
The Right Hon. FREDERICK MULLEY, MP, Minister of State for Foreign Affairs (Item 1)
The Right Hon. Sir ELWYN JONES, Q.C, MP, Attorney-General (Item 1)

Secretariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES
### CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MIDDLE EAST</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>REGIONAL EMPLOYMENT PREMIUM</td>
<td>5</td>
</tr>
</tbody>
</table>
1. The Minister of State for Foreign Affairs said that the main developments since the Cabinet had last discussed the situation in the Middle East had been the report that the Straits of Tiran had been mined by the Egyptians, the adjournment without a decision of the debate in the United Nations Security Council, the visit of the United Nations Secretary-General, U Thant, to Cairo and a proposal by President de Gaulle for a four-Power initiative to reduce tension in the Middle East. The approaches which we had made so far to other maritime nations regarding a declaration on the freedom of navigation in the Gulf of Aqaba did not suggest that there would be widespread support for robust action. The Foreign Secretary's discussions in Moscow suggested that the Soviet Union wished to avoid war in the Middle East, but nevertheless she was giving uncompromising support to the United Arab Republic (UAR). The aim of the United States was to dissuade Israel from opening hostilities by providing her with assurances that the right of innocent passage by sea through the Gulf of Aqaba would be secured. They wished to be able to do this when Mr. Eban, the Israeli Foreign Minister, visited Washington on 26th May following his visits to Paris and London. Unless Israel could be brought to believe that the right of innocent passage would be assured by diplomatic action, she was likely to take early military action to secure it, since if she had to fight delay would be to her military disadvantage. Very early assurances were therefore essential. The Minister of State for Foreign Affairs (Mr. Thomson) was discussing in Washington a programme of diplomatic and possibly military action with the United States Government designed to safeguard this right of innocent passage. Any proposals that might emerge would be ad referendum to both Governments.

In discussion differing views were expressed on the extent to which the situation in the Middle East had become more dangerous since the Cabinet's previous discussion. The involvement of the French Government through their recent proposal was a favourable factor, whereas the Soviet Union and the United States were now more clearly and publicly in confrontation in the area. Having regard particularly to the Suez operation of 1956, it was in our interest not to be seen to be taking the lead in international action in the present situation and it was for this reason that Canada and Denmark rather than ourselves had at our request called for the recent meeting of the Security Council. So far as diplomatic action was concerned, there was general agreement that, before any further step was taken to canvass support for a declaration by the principal maritime Powers in favour of the right of innocent passage through the Straits of Tiran, we should first follow up the French initiative for a quadripartite meeting of Permanent Representatives to the United Nations of the four Powers to discuss the situation. If the Soviet Union refused to take part in this or any action in the Security Council, our aim should be to secure French participation in further action with the principal maritime Powers.
As regards military action (should this become necessary) to enforce the freedom of passage for ships to the Gulf of Aqaba, the initial proposals of the United States, which rested heavily on the use of British Naval forces in the Red Sea, including the aircraft carrier HMS Hermes, were unacceptable to us politically and were militarily misconceived. The Ministers primarily concerned were to discuss the military assessment of the situation with the Chiefs of Staff under the Prime Minister's chairmanship later that day and we hoped to persuade the United States that the right course militarily would be to use, if necessary, a small force of minesweepers and frigates in the Gulf of Aqaba for escort and minesweeping duties, backed by powerful deterrent forces in the Eastern Mediterranean. If force had to be used we must not be, nor be thought to be, in the lead and it was essential also that countries other than the United States and the United Kingdom should contribute to any force used, though their forces might not be able to arrive on the scene at the outset. In the meantime, action was being taken to ensure that appropriate Naval ships would be available for use if necessary, but neither this nor any agreement that might be reached with the United States on the best military solution to the problems would commit us to action without further consideration by the Cabinet.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Minister of State for Foreign Affairs (Mr. Mulley) should leave for Paris immediately, provided this was acceptable to the French Government, to follow up the French initiative. The Minister should warmly welcome this initiative and seek agreement that the meeting which they had proposed of the Permanent Representatives of the four Powers in New York should take place that evening if the Soviet Government would agree or, if not, at the earliest possible moment. Further instructions should be sent to the Minister of State for Foreign Affairs (Mr. Thomson) in Washington. He should be authorised to complete the military discussions with the United States on the clear understanding that their conclusions and any action flowing from them were ad referendum to both Governments concerned. His instructions should endorse the first paragraph of the agreed summary (in telegram No. 1753 from Washington) of the discussions so far with the State Department, to the effect that the United Kingdom and the United States would press for effective action through the United Nations, in particular at the current meeting of the Security Council, to guarantee the freedom of passage through the Straits of Tiran and the Gulf of Aqaba. They would seek to ensure that any resolution included an endorsement of the principle of freedom of passage. If the Soviet Government abstained, the principle would have received United Nations approval. In the event of a Soviet veto, action by the maritime Powers would nevertheless be seen to have received wide international support. Mr. Thomson should be further informed that we welcomed the initiative of the French Government and were seeking an urgent meeting in Paris to pursue it with a view, if possible, to a quadripartite meeting in New York later that day of the Permanent Representatives to the United Nations of the four
Powers. This should precede any further canvassing of our proposal for an international declaration by the principal maritime Powers on the lines proposed in the second paragraph of the agreed summary in Washington telegram No. 1753. We should seek to associate the French Government as closely as possible from the outset with both the United Kingdom and the United States Governments in the proposal for such an international declaration when the time came to pursue it further. It should be made clear in the discussions in Washington that the United Kingdom did not wish to appear to be taking the lead in a declaration on the freedom of navigation in the Gulf of Aqaba and any international force which might be established for the purpose of maintaining that freedom should not be solely Anglo-American. Any naval force for minesweeping or escort duties in the Gulf of Aqaba should therefore include ships from other countries than the United States and the United Kingdom. It might be some time before these could reach the scene, but this could be accepted provided that the countries concerned associated themselves with the declaration and committed themselves to provide such ships.

Meanwhile, the Commonwealth Secretary should arrange for the Canadian Prime Minister to be informed of the way in which we were seeking a solution of the problem so that he might be fully aware of the Government's views before any discussions which he might be having later that day with the President of the United States.

The Cabinet—

(1) Took note, with approval, of the Prime Minister’s summing up of their discussion.

(2) Invited the Minister of State for Foreign Affairs (Mr. Mulley)—

(a) to pursue discussions with the French Government on the lines indicated by the Prime Minister; and

(b) to send instructions to the Minister of State for Foreign Affairs (Mr. Thomson) in Washington on the lines indicated by the Prime Minister.

(3) Invited the Commonwealth Secretary to arrange for a telegram to be sent to the Canadian Prime Minister on the lines indicated by the Prime Minister.

2. The Cabinet considered a memorandum by the First Secretary of State and Secretary of State for Economic Affairs and the Chancellor of the Exchequer (C (67) 83) on the Regional Employment Premium (REP).

The First Secretary of State said that it was now possible to assess the public reactions to the proposal to introduce REP which had been put forward by the Government in the recently published Green Paper. There had on the whole been a favourable reaction...
by the responsible Press and opinion among economists had been decidedly in favour of the proposal. The reactions of Regional Economic Planning Councils had been mixed, those covering regions with heavy unemployment welcoming the proposal, while others in regions outside the development areas which nevertheless had considerable employment problems tending to emphasise the harmful effects on their regions of a further measure of preference for the development areas. The Confederation of British Industry (CBI) and much, though not all, opinion in industry had been hostile to the proposal. The Trades Union Congress (TUC) on the other hand supported it. The Ministerial Steering Committee on Economic Policy had considered what course the Government should take in the light of these reactions and had agreed that they should go ahead with the introduction of REP by means of a new clause to be introduced at the Committee stage of the Finance Bill. The Committee had been conscious that REP was by no means the final solution to the problems of the development areas, but it offered the best prospect of reducing unemployment in these areas without giving rise to inflationary pressures or endangering the balance of payments.

One of the main criticisms made by the CBI had been that the shortage of skilled labour in the development areas would be likely to frustrate the intended effects of REP in reducing unemployment. The CBI had informed him that they had proposals to make for increasing the supply of skilled labour in the development areas and he proposed to discuss the matter with them. It would be desirable for the Government to be able to announce further measures to expand training facilities at the same time as they announced their decision on REP.

The Ministerial Steering Committee had considered the case for adjusting the existing boundaries of the development areas if REP were introduced and for providing some form of special assistance to those regions outside the development areas with particular employment problems—the so-called "grey areas". On balance, the Committee did not favour either of these courses. If special assistance were given to selected areas outside the development areas, there would inevitably be pressure from still further areas for similar help and the eventual result would be seriously to weaken the present preference given to the development areas. The Committee had agreed, however, that the Government, at the same time as they announced their decision on REP, should also announce the commissioning of a study in depth of regional economic policies with a view to publishing a further Green Paper on this subject in, say, 18 months' time. This study would examine the problems of the "grey areas" and possible action that could be taken to help them, including such matters as improvement of communications.

The Green Paper had proposed that the Government should give an assurance that, if REP were introduced, it would continue to be paid for at least five years. The Ministerial Steering Committee agreed that, in order to ensure an adequate incentive to firms to move
to development areas, the assurance should cover seven years instead of five. It was intended that before the REP was eventually terminated the amount of the premium should be gradually tapered off over a period of years. The Committee had considered whether tapering should begin before the expiry of the seven-year period so as to phase out the premium completely by the end of that period. This, however, would run counter to the purpose of giving an assurance relating to a longer period than that proposed in the Green Paper and the right course would be to give an assurance that the premium would continue at the full rate for at least seven years.

It would be necessary to decide whether REP should be paid to the nationalised steel industry. Nationalised industries in general did not receive the existing premium under the Selective Employment Tax (SET) and would not receive REP. But the nationalised steel industry would present a different problem in that it was essentially a manufacturing industry.

In order to demonstrate that the Government had taken full account of the criticisms which had been made of the proposal for REP, it would be desirable to publish a White Paper setting out the main criticisms and the replies to them. It would also be highly desirable to arrange a debate in Parliament, since Parliament had not hitherto had an opportunity to express views on the issue. It was for consideration what attitude the Government should adopt in such a debate. Ideally, the Government should make clear that they would take account of views expressed in the debate before coming to a decision; but since only a few days would elapse between the debate and the putting down of the necessary new clause to the Finance Bill, such a posture might be regarded as unrealistic. The Government should therefore announce during the debate their decision to introduce REP, but should say that decisions on particular aspects, such as the coverage and duration of the scheme and the rate of premium, had not yet been made and account would be taken of the views of Parliament in determining these matters.

In discussion, there was general support for the proposals outlined by the First Secretary of State. Time should be found for a debate in Parliament, even if this meant using a day which had already been set aside for proceedings on the Finance Bill.

In further discussion it was argued that it would be necessary to consider carefully whether REP should be paid to the nationalised steel industry in view of the discrimination which this would involve between some important firms in the industry. For example, the plant of Richard, Thomas and Baldwin Limited at Newport, which was outside the development area, would not be eligible for REP. It was planned to extend this plant and it might well be more economic to site this additional capacity at Newport than elsewhere; but the fact that plant at Newport would not be eligible for REP might bring in question these plans for expansion. On the other hand, it was argued that there was an overwhelming case for payment of REP to the nationalised steel industry. The industry was at

SECRET

CC 32 (67)
present eligible for the national premium under SET since it was a manufacturing industry; the fact that the major part of it was about to be nationalised should not be allowed to affect the position. If the nationalised part of the industry were to be excluded from REP, this would put it at an unfair disadvantage as compared with that part of the industry which would remain in private hands. Payments of REP to the steel industry would not imply that it should also be paid to other nationalised industries, since they were properly regarded as service rather than manufacturing industries for purposes of SET. Discrimination between competing firms in the same industry was an inevitable feature of REP which would not be confined to steel.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that the Government should proceed with the introduction of REP on the lines proposed by the First Secretary of State. While the balance of view was in favour of payment of REP to the nationalised steel industry, this question should be further considered by the Ministerial Committee on Economic Policy with a view to reaching a decision before the debate in Parliament.

The Cabinet—

(1) Agreed that the Government should introduce the Regional Employment Premium.

(2) Invited the First Secretary of State, in consultation with the Lord President of the Council—

(i) to arrange for the publication of a White Paper setting out the main criticisms of the proposal for Regional Employment Premiums and giving answers to them;

(ii) to arrange for a debate in Parliament on the Regional Employment Premium.

(3) Agreed that the Government should announce their decision to introduce the Regional Employment Premium during the debate in Parliament, but should indicate that decisions on particular aspects (such as the coverage and duration of the scheme and the rate of premium) would be deferred in order to take account of views expressed in the debate.

(4) Agreed that, subject to consideration of views expressed in the debate in Parliament, the Regional Employment Premium should be paid to manufacturing industry in the development areas at the rates set out in paragraph 8 of the annex to C (67) 83; and that the Government should give an assurance that the premium would continue to be paid at the full rate for at least seven years.

(5) Invited the Chancellor of the Exchequer to arrange for a new clause to be moved at the Committee stage of the Finance Bill to provide for the introduction of the Regional Employment Premium.

SECRET
(6) Invited the First Secretary of State to commission a study of regional economic policies and to arrange for this to be announced concurrently with the Government’s decision on the Regional Employment Premium.

(7) Invited the First Secretary of State, in consultation with the Minister of Labour and in the light of further discussion with the Confederation of British Industry, to consider what measures to increase the supply of skilled labour in development areas might be announced concurrently with the decision on the Regional Employment Premium.

(8) Invited the Minister of Power to circulate a memorandum to the Ministerial Committee on Economic Policy on the payment of the Regional Employment Premium to the nationalised steel industry.

Cabinet Office, S.W.1,