CABINET

CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street, S.W.1, on Tuesday, 11th July, 1967,
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. PATRICK GORDON WALKER, M P, Minister without Portfolio
The Right Hon. ANTHONY CROSLAND, M P, Secretary of State for Education and Science
The Right Hon. THE EARL OF LONGFORD, Lord Privy Seal
The Right Hon. FRED PEART, M P, Minister of Agriculture, Fisheries and Food
The Right Hon. CLEDWYN HUGHES, M P, Secretary of State for Wales
The Right Hon. ANTHONY WEDGWOOD BENN, M P, Minister of Technology

The following were also present:
Dr. J. DICKSON MABON, M P, Minister of State, Scottish Office (Items 2-4)
The Right Hon. JOHN SILKIN, M P, Parliamentary Secretary, Treasury

SECRETariat:
Sir BURKE TREND
Mr. P. ROGERS
Mr. H. L. LAWRENCE-WILSON
Mr. K. BARNES
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Oversea Affairs

1. The Foreign Secretary said that after considerable dissension in the Security Council it had been unanimously agreed that observers from the United Nations Truce Supervision Organisation should be sent to the Suez Canal and the Gaza Strip. The observers would not constitute a military force, but there would be a substantial number of them and it was hoped that their presence would prevent further outbreaks of fighting and help to produce a more favourable climate for the re-opening of the Canal. Attempts were being made to organise a meeting of Heads of Arab States in Cairo and much would turn on the outcome. Meanwhile, Saudi Arabia was seeking to resume oil supplies to the United States and ourselves and in a number of respects the atmosphere in the Middle East showed some improvement. In these circumstances, we should refrain from taking any major initiative for the time being.

The British charter aircraft carrying Mr. Tshombe, the exiled Congolese leader, on a private journey had been taken over by force and brought down in Algeria, where all the crew as well as Mr. Tshombe himself had been imprisoned. We had sought to make contact with the British pilots through the Swiss Embassy, which represented our interests while we were not in diplomatic relations with Algeria and we had also sought the good offices of France. It appeared that the French approach might be successful and there was reason to hope that we should be able to make contact with the pilots during the course of the week.

The course of events in the Congo was still highly uncertain though it now seemed clear that the outbreak of violence resulted from a mutiny by some of the mercenaries and was not instigated by any foreign Power or organisation. We were seeking to bring together for evacuation all British subjects in the Eastern province of the Congo, but they were widely scattered and it was difficult to do so. Meanwhile we had no information that any British subjects had suffered harm.

The French Foreign Minister, M. Couve de Murville, had taken an uncompromising position in discussions in the European Economic Community about our application to join the European Communities. The Five had, however, been robust in supporting the opening of negotiations on our application. The meeting had adjourned and it had been agreed that the Commission itself should produce a report for the consideration of the Ministerial Council in early September. We had arranged with M. Rey, the President of the Commission, to keep in contact at official level in order to seek to influence the Commission's report on lines favourable to our application. There would be no formal meetings, but our Ambassador to the EEC would hold a series of lunches at which there could be informal discussions between one or two members of the Official Committee on the Approach to Europe and representatives of the Commission. It would of course be clear that there was no question of negotiations at this stage.
The Chancellor of the Exchequer said that the following week he would be meeting the Finance Ministers of the Six. In discussions with them he would take the view, with particular reference to criticisms by the French Government of the impediment posed by the position of sterling to our joining the Communities, that we saw no ideological difficulty in discussing the future of the sterling area and the sterling reserves. We recognised that there would be considerable advantage in securing a different relationship between our assets and our liabilities, whether by some long-term funding of the sterling balances or in other ways. Although it must be borne in mind that some countries at least had stated specifically that they did not wish their sterling balances to be repaid in current circumstances, he would make it clear in the discussions that we had no intention of adopting a rigid position on these issues.

In discussion it was argued that it would be preferable not to have contacts with the Commission at official level at the present stage and until United Kingdom Ministers had completed their discussions and taken decisions on the outstanding points relating to the aims we should seek to achieve in negotiation. It was also suggested that the Government's interest as a whole would not be adequately represented unless officials of the main Departments concerned were to take part in the informal talks in Brussels. It was, however, the general view that it would be contrary to our interests for discussions to be known to be taking place in Brussels between a British official delegation of some size on the one hand and the Commission on the other. This might indeed produce the impression that negotiations had been started. On the other hand, it was also the general view that it was greatly to our interest to maintain informal contacts with the Commission in an effort to influence their report on the lines proposed by the Foreign Secretary.

The Prime Minister, summing up this part of the discussion, said that the Cabinet on balance agreed that arrangements should be made for one or two members of the Official Committee on the Approach to Europe to visit Brussels during the summer from time to time for informal talks with members of the European Economic Commission, in order to explain and answer questions on the Government's application to join the European Communities. Those officials would of course not be free to go beyond the White Paper approved by the Cabinet (Cmd. 3345), containing the text of the Foreign Secretary's speech at the meeting of the Western European Union the previous week. Notes would be taken of all discussions of this kind with the Commission and it would be open to Departments and to Ministers to seek further discussion of any items of difficulty arising from the notes of discussions or in the light of the periodical reports of the officials concerned.

The Cabinet—

(1) Agreed that there should be informal discussions between United Kingdom officials and members of the European Economic Commission in respect of our application to join the European Communities on the lines indicated by the Prime Minister in his summing up of the discussion.
The Foreign Secretary said that the Federal Council of the Government of South Arabia had agreed that one of their members, Mr. Bajumiri, should be nominated as Prime Minister designate under the new Constitution. Mr. Bajumiri was now seeking to form a government in which the three main nationalist parties in South Arabia might take part as well as representatives of the Federal Rulers. Discussions were also taking place elsewhere with one or two leading representatives of some of these parties in an endeavour to persuade them to participate.

The Commonwealth Secretary said that our further discussions with the Nigerians about the export of oil had failed to achieve agreement that the blockade imposed by the naval forces of the Federal Military Government should be lifted. Hostilities had now broken out between the Federal Forces and the forces of the Eastern Region, which had declared its independence as the Republic of Biafra. Both sides claimed initial success but no reliable information on the course of the fighting was available; and heavy rains had begun, so inhibiting further military movements. The evacuation of British women and children from the Eastern Region had been completed, but there were still some 2,000 British subjects in this region who had elected to stay. We were seeking to avoid a commitment to either side in the hostilities and, though we had supplied arms to the Federal Military Government in respect of orders which had been accepted before recent events, we had not agreed to meet a further request from them for further substantial supplies of arms. Our current assessment was that if hostilities continued the Federal Military Forces might eventually be victorious, but only after a considerable time. Meanwhile, the so-called Republic of Biafra had received no support or recognition by any other country in Africa and it might well suffer from serious internal dissension if the Federal Military Forces achieved any initial success. In these circumstances, our best interests lay in seeking to maintain neutrality between the conflicting claims of the Federal Military Government and the Government of the Eastern Region.

The Cabinet—
(2) Took note of the statements by the Foreign and Commonwealth Secretaries.

The Commonwealth Secretary reported on the position in Hong Kong. His statement and the Cabinet's discussion and conclusions reached were recorded separately.*

The Prime Minister, summing up this part of the discussion, said that the report by officials should be circulated to Ministers as quickly as possible. He would consider what arrangements should be made to enable the Ministers primarily concerned to keep the situation under constant review and to take immediate decisions as events might require.

* The record was only distributed to The Queen, the Prime Minister and those Ministers who had to take action on the conclusions. The record is kept in the Secretary's Standard File.
The Cabinet—

Took note that the Prime Minister would consider what action should be taken to facilitate collective Ministerial consideration of the situation in Hong Kong and in particular to consider urgently the report now being prepared by officials on the action which should be taken if our position in Hong Kong became untenable.

2. The Cabinet considered a Memorandum by the Foreign Secretary on Arab Attitudes and British Economic Interests in the Middle East (C (67) 123).

The Foreign Secretary said that our large interests in the Arab States in the Middle East limited narrowly our freedom of action in the area generally; we were heavily dependent on Arab oil and on freedom of passage through the Suez Canal, we had large export markets in these countries; and they held large sterling balances. Despite the fact that we had not been involved in the recent conflict, we faced great difficulty in attempting to preserve these interests; if we were to do so, it was essential that we should re-establish good relations with the Arab States or at least that there should not be a common front against us on the part of both the moderate and the revolutionary governments in the Arab world. There was little that we ourselves could now do to influence the way in which events moved in the Middle East. Apart from the attitude of the Arab States themselves, and in particular the future of President Nasser of the United Arab Republic (UAR) which was difficult to predict, the main factor in the situation would be the extent to which the Soviet Union would be willing to look beyond her short-term tactical aim of re-establishing her credit with the Arabs and to recognise the need to agree with the United States on terms for a settlement which could be pressed on both Israel and the Arab States. Israel must be expected to pursue a firm policy and refuse to make, substantial concessions without peace negotiations or acceptance of her right to exist. Among the Arab States the hope lay in a willingness and ability on the part of the more moderate governments to take a greater account of their economic interests as time passed. A decline in the position of President Nasser would facilitate this and reduce the likelihood that the moderate governments would be prevented by popular pressure, stimulated by UAR propaganda, from adopting a more reasonable attitude.

Any settlement of the Middle East situation would necessarily be unpalatable in some respects to both the Arab countries and to Israel. Since we could not expect to have more than a marginal influence on its terms and since our position was highly vulnerable, we should seek to disengage ourselves so far as possible from it. But we must recognise that public feeling in this country on the merits of the Arab-Israeli dispute and the need to play our part in the United Nations limited our freedom of action. We had continued to supply arms and spare parts to Israel during the recent conflict to fulfil
The Oil Supply Situation and the United Kingdom

(Previous Reference: CC(67) 43rd
Conclusions, Minute 3, Confidence
Annex)

existing orders and were continuing to do so. Although no formal
approaches had yet been made, it was understood that Israel would
be seeking replacements for the tanks that she had lost during the
fighting and that, in view of the French attitude, she was
reconsidering her source of supply for military aircraft (which she
had previously obtained from France).

In discussion there was general agreement that, in view of our
dependence on oil supplies from the Arab States, there was no real
alternative for us to the policy proposed by the Foreign Secretary,
although we had to recognise that, however careful we might be in
maintaining a neutral attitude, we could not expect to receive credit
for it. It might be however that the meeting currently taking place
between Arab leaders in Cairo would lead to disillusion with the
extreme policies of President Nasser, which had led to the recent
defeat of the Arabs, and thus open the way to a reasonable settlement
in the Middle East. The view was expressed that recent events in the
Middle East had illustrated clearly that our military presence there
was of no value to our economic interests and that this presence
should be withdrawn as quickly as possible; and that these events
cast doubt also on the wisdom of allowing a decline in the output of
oil in Iran in order to permit a growth of output in Saudi Arabia.

As regards the longer term there was general agreement that
we should re-examine our dependence on Middle East oil, having
guard to the limitations which this dependence placed on our
oversea policy and to the fact that on three occasions in the last 10
years interference with supplies had put our industry at risk. In that
re-examination we must however also have in mind the great
advantage we obtained from the cheapness of Middle East oil and
that the large investments that we had in the area were of great
importance to industry and to our balance of payments.

The Cabinet—
(1) Took note of C(67) 123.

The Cabinet then considered a memorandum by the Minister of
Power on the Oil Supply Situation and the United Kingdom
(C(67) 126).

The Minister of Power said that the interruptions in oil supplies
as a result of the Middle East conflict had reduced supplies to Western
Europe by about 30 per cent in June; in July the shortfall would not
be far short of this but it should reduce to 10 to 15 per cent in August
and revert to about the normal level in September. This would
be achieved, despite the closing of the Suez Canal and the ban on
oil supplies to ourselves and the United States from the Arab
countries, by rerouting supplies from other sources to us and by
obtaining larger supplies from Venezuela and the United States. This
rerouting, together with the long haul round the Cape owing to the
closure of the Suez Canal, had led to a shortage of tankers and it was
this, not a shortage of supplies, that was the main problem. The
recent stoppage of supplies from Nigeria was now adding to the

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problem, but Iranian production had been increased by 20 per cent and a small, though useful, output from Oman should provide about 10 per cent of our supplies by the middle of September. A recent assessment by the Oil Industry Emergency Committee of the prospective stock situation over the next three months showed that by the end of September our stocks were likely to decline from 11-3 weeks to 7-2 weeks' supplies. When stocks dropped below 7 to 8 weeks, there were difficulties of local supply and with particular products; and the situation in September would become difficult as the total stock then would be 63 million tons below what was normal for that time of year. The supply of naphtha, which was a vital feedstock for the chemical and gas industries and which was in short supply world-wide even before the present crisis, was a particular difficulty. Nevertheless the prospective situation was not such as to call for petrol rationing on supply grounds though regard had also to be paid to the adverse effects of the situation on our balance of payments.

The possibility of obtaining supplies of oil or products from the Soviet Union and Rumania was being investigated and we might be able to purchase 40,000 tons of oil products, including 20,000 tons of naphtha, from the Soviet Union through a third party; but it was not as yet clear that either country in fact had substantial amounts of oil available for sale. Any arrangements that were made for supplies from Rumania would have to take account of the large compensation claims which were outstanding against the Government of that country in respect of the expropriation of foreign oil companies, including Shell. As regards supplies from other sources, despite the alleged surplus of oil in various countries and the fact that it was well-known that we were willing to purchase supplies, no offers had been made.

In discussion there was general agreement that we should seek to obtain oil and those oil products that we needed from the Soviet Union and Rumania. Such purchases would, for the present at any rate, have to be arranged without publicity and, as regards Rumania, the question of the compensation claims outstanding against her should be left aside in any arrangements made for supplies during the present crisis; and it would have to be made clear that in doing so, we did not thereby create a precedent or abandon our claims. It might be that, as a result of the meeting of the Heads of the Arab States currently taking place in Cairo, supplies to us from some of them would be resumed, though if this were attempted there might be sabotage of pipelines and installations. Officials were carrying out a fresh examination of the effect on the balance of payments of the interruption of our oil supplies and of its relevance to the stock situation and to the need for petrol rationing.

The Prime Minister, summing up the discussion, said that in present circumstances the Cabinet would find it helpful to have a weekly report by the Minister of Power on the oil supply situation. A full examination was needed, in the light of the current crisis, of the implications for the longer term both of our dependence on oil in general and of the extent to which we could avoid depending as
heavily as at present on particular areas for our oil supplies. As a first step the Minister of Power should discuss with the First Secretary of State how best to arrange for Ministerial consideration of the work that had already been done by officials on this problem.

The Cabinet—
(1) Took note of C (67) 126.
(2) Invited the Minister of Power to discuss with the First Secretary of State the arrangements for Ministerial consideration of the work which had been done by officials on the implications of our dependence on oil and on particular sources of oil supply.

Space Policy

[Previous Reference: CC (66) 59th Conclusions, Minute 2)
European Conference on Satellite Communications]

CONFIDENTIAL

2. The Foreign Secretary recalled that in November 1966 the National Committee on Science and Technology had agreed that the Government should not participate in the proposed technological programme of the European Conference on Satellite Communications (CETS), but that in principle the United Kingdom national programme on space technology (involving the development of BLACK ARROW) should be approved. The Cabinet had subsequently agreed that the BLACK ARROW programme should continue through 1967–68, subject to an evaluation during the course of that year of its priority in relation to other research and development projects. Ministers had subsequently agreed that we should defer the public announcement of the Government’s decision not to participate in the CETS programme, in view of current political circumstances, and that we should accept the continuation of certain further technical studies. At their meeting the previous week to discuss the attitude which the Government should adopt at the forthcoming Conference in Rome on a European space policy, at which decisions would be sought on the future of the CETS programme, the Ministerial Committee had agreed on balance that we should then make it clear that we would not participate in that further programme, and that we should explain to our allies our doubts about the desirability of the project on economic and technological grounds and our difficulties about the question of our entry into the European Communities remained unsettled. On this basis, we would confine ourselves at the Rome meeting to proposing an objective study of the costs and benefits of potential European space programmes. Since the Committee had met, it had emerged that it was not essential to take a decision on the future CETS programme at the Rome meeting, but that we could keep the CETS design team for the project in being for a further period, up to the end of this year, in order to participate in a technical study, at a cost to the United Kingdom of only £17,500. Since an announcement at the Rome meeting of a decision not to participate further in the CETS programme would undoubtedly seriously damage our relations with
our closest supporters in the Six, it would be particularly inopportune in relation to our application to join the European Communities. In these circumstances, he had consulted the Chancellor of the Exchequer and they had agreed that, subject to the Cabinet's approval, the United Kingdom Delegation should agree at the Rome meeting to a technical study by the CETS design team on this basis, provided that it was made clear that no further commitment was involved.

In discussion it was suggested that the postponement of an announcement of a decision not to participate in the CETS programme for the development of communication satellites would not ease the political embarrassment which would inevitably arise in making such an announcement at a later date. At that stage it might reasonably be hoped that we would then be engaged in negotiations in respect of our entry into the Communities and it would no doubt be urged again on grounds of our foreign policy that we should not withdraw from participation in the programme. It was, however, the general view that at that stage the political difficulties of withdrawal would be substantially less than at the present time, when our application was still being considered by the Six and we had not yet entered into negotiations. In these circumstances there was general agreement with the course proposed by the Foreign Secretary.

The Cabinet—

Agreed that, while the Government's decision not to participate in a further CETS programme for the development of communications satellites should be maintained, on the lines previously agreed by the Ministerial Committee on Science and Technology, the announcement of such a decision should be postponed and that we should agree to participate, at a cost to the United Kingdom of £17,500, in a technical study by the design team for the CETS project which would last up to about the end of 1967.

CONFIDENTIAL

4. The Cabinet considered memoranda by the Minister of Transport (C (67) 122) and by the President of the Board of Trade (C (67) 127) on the revision of the present road haulage carriers' licensing system.

The Prime Minister said that it might not be possible to complete consideration of this item of their agenda since a number of members of the Cabinet would shortly have to leave to attend the memorial service for the former Secretary of the Cabinet, Lord Normanbrook. In that case the Cabinet would resume their discussion on Thursday, 13th July.

The Minister of Transport said that reform of the present carriers' licensing system was an essential part of the Government's transport policy. In the White Paper on Transport Policy (Cmnd. 3057), published in 1966, the Government had accepted the view that the present system of licensing for goods vehicles was
ineffective for purposes of improving road safety and co-ordinating transport resources and had stated that it was necessary to devise a licensing system which would be "an effective instrument of a modern, national freight policy". The proposals contained in her memorandum were designed to carry this into effect. She had received representations from the Trades Union Congress (TUC) for re-establishment of the British Transport Commission to operate public transport and also to exercise licensing functions in relation to privately-operated road transport. The TUC had emphasised that the present licensing system had led to a proliferation of road vehicle operators carrying their own goods in their own vehicles ("own-account" operators) and that there was no economic justification for this. It would, however, be unacceptable for a body such as the British Transport Commission to have the function of licensing its competitors. Instead she proposed to institute a licensing system which would represent a considerable degree of liberalisation as compared with the present system. Of the 1,500,000 vehicles subject to licensing under the present system, her proposals would completely exempt some 900,000.

She proposed that there should be two types of licensing control. The first would be a quality control applying to all vehicles of unladen weight of 30 cwts. or over, of which there were 600,000. Operators of such vehicles would have to satisfy a number of stringent tests before they were granted a licence. The tests would relate to the applicant's ability to provide adequate maintenance facilities for his vehicles and to keep proper control over their loads and the hours worked by their drivers and to the financial resources of the applicant, which would have to be commensurate with his proposed scale of operation. The applicant would also have to hold a new type of personal licence (a "transport manager's" licence) entitling him to manage a transport undertaking; or would have to employ the holder of such a licence in a position of responsibility. When these proposals had been discussed by the Ministerial Committee on Economic Policy, some doubts had been expressed about the feasibility of assessing an applicant's financial resources and prospective business. It had been suggested that it might be preferable for quality licences to be granted automatically on application, but to be subject to revocation in case of subsequent offences against road safety provisions or other malpractices. It would, however, be contrary to the Government's general policy on road safety to allow on the roads vehicles which might well be dangerous, on the basis that licences could be revoked only after offences had been committed. She was satisfied that there would be no serious difficulty for the licensing authorities in making a proper assessment of an applicant's financial standing. The inquiries which would be necessary for this purpose were similar to inquiries about the reliability and efficiency of applicants for licences which were already made under the existing system. She proposed, however, that licensing authorities should not be obliged to make such inquiries in every case; in some cases there would be no need for inquiries and licensing authorities
would have discretion to omit them. A different approach to quality licensing had been suggested by the Transport and General Workers Union, who had proposed that no licence should be granted to an applicant who operated less than a specified number of vehicles. This, however, would be too arbitrary. Her proposals would be effective in upholding proper operating standards in the industry and in protecting public safety. They would be welcomed by the industry and were in line with present practice in a number of countries in the European Economic Community.

The second type of control could be described as quantity licensing. The object here would be to secure the diversion from road to rail, and in particular to the new freightliner services, of all traffic which could be more economically carried in this way. Quantity licensing would apply to vehicles of over 5 tons unladen weight which were engaged either on hauls of 100 miles or on shorter hauls of certain types of bulk cargo such as coal which were especially suitable for carriage by rail. A total of 70,000 vehicles would be affected, of which 30,000 were operated on own-account; this contrasted with a total of 180,000 vehicles subject to quantity licensing under the existing system. Where an operator of vehicles in these categories applied for a quantity licence, the application would be open to objection by railway operators on the ground that they could offer a service which was equally satisfactory in terms of speed, cost and reliability. A licence would only be granted if the applicant could satisfy the licensing authority that any such objection was invalid. The British Railways Board estimated that there were some 30 million tons of traffic carried annually on the roads which were suitable for diversion to freightliner services. If all this traffic could be diverted to rail, the railway deficit would be reduced by some £14 million. The Board estimated that they would be able to secure about half of this traffic by ordinary promotional methods, but because of the long-standing prejudice against the railways on the part of many firms, a licensing system would be necessary if they were to secure the remainder. The controversial feature of the proposals was their extension to own-account operators. These operators, however, were responsible for about one-third of the traffic suitable for diversion to rail. If they were excluded from the licensing provisions, this would lead to an uneconomic increase in the use of own-account vehicles and to under-use of rail capacity.

The Cabinet—
Agreed to resume their discussion on Thursday, 13th July.

Cabinet Office, S.W.1,