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Printed for the Cabinet. October 1973

CM (71)
49th Conclusions

Copy No. 09

CABINET

*CONCLUSIONS of a Meeting of the Cabinet held at
10 Downing Street on Tuesday, 12 October, 1971,
at 11 a.m.*

Present:

The Right Hon. EDWARD HEATH, M P, Prime Minister

The Right Hon. REGINALD MAUDLING,
M P, Secretary of State for the Home
Department

The Right Hon. ANTHONY BARBER,
M P, Chancellor of the Exchequer

The Right Hon. LORD CARRINGTON,
Secretary of State for Defence

The Right Hon. GEOFFREY RIPPON,
Q C, M P, Chancellor of the Duchy of
Lancaster

The Right Hon. MARGARET THATCHER,
M P, Secretary of State for Education
and Science

The Right Hon. THE EARL JELlicoe,
Lord Privy Seal

The Right Hon. PETER THOMAS, Q C,
M P, Secretary of State for Wales

The Right Hon. SIR ALEC DOUGLAS-
HOME, M P, Secretary of State for
Foreign and Commonwealth Affairs

The Right Hon. WILLIAM WHITELAW,
M P, Lord President of the Council

The Right Hon. SIR KEITH JOSEPH,
M P, Secretary of State for Social
Services

The Right Hon. ROBERT CARR, M P,
Secretary of State for Employment

The Right Hon. GORDON CAMPBELL,
M P, Secretary of State for Scotland

The Right Hon. PETER WALKER, M P,
Secretary of State for the Environ-
ment

The Right Hon. JAMES PRIOR, M P,
Minister of Agriculture, Fisheries and
Food

The Right Hon. JOHN DAVIES, M P,
Secretary of State for Trade and
Industry and President of the Board
of Trade

The following were also present:

The Right Hon. CHRISTOPHER CHATA-
WAY, M P, Minister of Posts and
Telecommunications (*Item 7*)

Mr. MAURICE MACMILLAN, M P, Chief
Secretary, Treasury (*Items 5-7*)

The Right Hon. THE VISCOUNT ECCLES,
Paymaster General (*Item 7*)

The Right Hon. FRANCIS PYM, M P,
Parliamentary Secretary, Treasury

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Secretariat :

SIR BURKE TREND
Mr. N. F. CAIRNCROSS
SIR PHILIP ADAMS
Mr. P. J. HUDSON
Mr. B. G. TUCKER
Mr. J. ANSON
Mr. I. T. LAWMAN

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Parliamentary
Affairs

1. The Cabinet discussed the arrangements for the forthcoming debate in the House of Commons on entry into the European Economic Communities.

The Lord Privy Seal informed the Cabinet that in the House of Lords it was expected that the debate would last only two days and that the division would take place on Wednesday, 27 October.

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Oversea
Affairs

Japan

2. *The Foreign and Commonwealth Secretary* said that the results of the State Visit of the Emperor and Empress of Japan had been satisfactory. The public attitude towards the visitors had been marked by a certain coolness. But this had not marred its success and had possibly been useful in impressing on the Japanese authorities that further efforts would be needed to persuade European opinion that they were acceptable members of the comity of nations.

Soviet Union
Previous
Reference :
CM (71) 48th
Conclusions,
Minute 1

The Foreign and Commonwealth Secretary said that the reaction of the Soviet Government to the recent eviction of Soviet spies from the United Kingdom had been as moderate as we could expect. They had apparently not sought to impose a ceiling on the number of members of the British Embassy in Moscow; and we could therefore hope to replace, gradually and discreetly, those officials whose removal had been requested. Certain cases now before the courts confirmed our judgment that Soviet espionage had had some success in penetrating our national security.

The Cabinet—

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

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Rhodesia
Previous
Reference :
CM (71) 43rd
Conclusions,
Minute 3

*3. *The Foreign and Commonwealth Secretary* said that considerable progress had been made by the British emissaries during their most recent visit to Salisbury in pursuit of an acceptable basis for a settlement with the Rhodesian régime. But there was still no agreement on the sensitive issue of the Rhodesian determination to retain the right to exercise discrimination in the areas of education and land use; and the Rhodesian leader, Mr. Smith, had just agreed to receive officials for further discussion of this and related aspects of the problem. If the outcome of these discussions was satisfactory, he proposed to visit Rhodesia himself, possibly during the first week of November; but it was important for the successful outcome of the negotiations that his intention should not be made known at this stage.

* Previously circulated as a Confidential Annex

In the course of a brief discussion it was agreed that the discussions with the Rhodesian régime appeared to be developing not unsatisfactorily. But the Cabinet would need to have a full discussion of the proposed terms of a settlement before the Foreign and Commonwealth Secretary left for Rhodesia.

The Cabinet—

Took note of the statement by the Foreign and Commonwealth Secretary and the points made in discussion.

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Northern
Ireland
Previous
Reference :
CM (71) 48th
Conclusions,
Minute 2

4. *The Prime Minister* informed the Cabinet of the outcome of his meeting with the Prime Minister of Northern Ireland, Mr. Faulkner, on 7 October. The Cabinet's discussion and the conclusions reached were separately recorded and circulated only to The Queen, the Prime Minister and those Ministers who had to take action.

The conclusions are recorded separately in the standard file held by the Secretary of the Cabinet.

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Upper
Clyde
Shipbuilders
Previous
Reference :
CM (71) 47th
Conclusions,
Minute 6

5. The Cabinet had before them a memorandum (CP (71) 109) by the Secretary of State for Trade and Industry, discussing further action in relation to Upper Clyde Shipbuilders (UCS).

The Secretary of State for Trade and Industry said that in his statement in Parliament on 29 July he had indicated that, if the Government were to support the new shipbuilding enterprise on the Upper Clyde, there must be satisfactory undertakings by the unions on working practices and wage rates. No negotiations on this subject had yet started, however, because the shop stewards were demanding assurances that all four UCS yards would be kept in operation and Mr. McGarvey of the Confederation of Shipbuilding and Engineering Unions had so far been unable to persuade the workers to abandon this demand. The more hopeful statement issued following his meetings with Mr. Stenhouse, the Chairman of Govan Shipbuilders Limited, on 10 October had, indeed, been challenged by the shop stewards' declaration on the following day that they would not co-operate with the company unless the future of all four yards was assured. Mr. Stenhouse had already undertaken to study the feasibility of retaining the Scotstoun yard as well as the Govan and Linthouse yards; and, if this study showed a three-yard solution to be economic, it would hardly be practicable to defend a refusal to allow the company to include Scotstoun, despite the probable increase in capital requirements. Mr. Stenhouse saw no feasible future for the fourth yard at Clydebank. There was therefore no question of its being taken over by the company; and, since there were no proposals from private interests for Clydebank, it was impossible to give the unions any assurance about the maintenance

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of employment there. It was now clear that, if the yards in question were to be kept at work while the search for a solution continued, the Government would be obliged to accept further and onerous new financial commitments. The future even of the Govan and Linthouse yards would be at risk within a fortnight unless there was an early assurance that new keels would be laid. But the Brazilian Government and Irish Shipping Limited would not confirm their orders without the promise of cost subsidies of the order of £2½-£4½ million in total, together with refund guarantees under which, if their ships were not completed, progress payments made during construction would be refunded by the Government. These guarantees would involve a contingent liability of the order of £15-£20 million. Neither the subsidies nor the refund guarantees were covered by existing statutory powers; and, if the Government undertook to provide them, a full Parliamentary statement would have to be made. Moreover, they would open the door to other similar demands, with the result that it might become difficult to limit the Government's commitments. If, on the other hand, the shipowners could not be induced to confirm their orders, the Liquidator would probably feel obliged to declare over 800 more redundancies within two to three weeks; and the industrial action which could well follow might make it impossible to keep any of the yards in operation. The Liquidator would also need further working capital in order to continue paying wages beyond a further fortnight or three weeks; and, in order to avoid prejudicing UCS's secured creditors, the Government might have to provide this as a grant or a subordinated loan. Agreement by the Government to extend their commitments in these ways should assure the retention of almost all the present 7,500 jobs in the yards until about the end of the year; but in present circumstances there could be no assurance that Govan Shipbuilders could be established as a continuing entity or that, if so established, the company would be commercially viable. Virtually all the orders which it would inherit were likely to involve it in loss. On normal criteria, therefore, it would not be justifiable for the Government to undertake an open-ended commitment of the kind now contemplated; and the Law Officers had advised that the Department's Accounting Officer would be acting at the limit of financial propriety in authorising the expenditure. On the other hand, the consequence of not doing so might be to precipitate an early crisis on the Upper Clyde, which could be fatal to the prospects of maintaining a shipbuilding capacity there. Against that background, the Ministerial Committee on Economic Policy had accepted his recommendations in the note attached to CP (71) 109 that, provided that Mr. McGarvey was able to give him undertakings which satisfied him both that there was a real and positive prospect that the unions would start meaningful negotiations with Govan Shipbuilders Limited and that there was a reasonable chance of the undertakings being honoured and not being subsequently denounced by the shop stewards, he should enter into negotiations with the Brazilian Government and Irish Shipping Limited for the confirmation of their orders. In those negotiations he would seek to persuade them to modify their demands for cost subsidies and refund guarantees; but, if those demands were maintained and he

and his Accounting Officer were satisfied, after further consultation with the Law Officers, that they could properly undertake the further commitments sought by the shipowners, he should be prepared to do so. He invited the Cabinet to endorse these conclusions.

In discussion, it was suggested that an undertaking by Mr. McGarvey that the unions would be willing to enter into meaningful negotiations with Govan Shipbuilders would provide no assurance that the new and extensive commitments which the Government were now asked to accept would secure a viable future for shipbuilding on the Upper Clyde. Mr. McGarvey himself appeared to accept that this objective required the concentration of work in two or three yards; and he might readily give the required undertaking. But there was no certainty that he could obtain the support of his members, who were still dominated by shop stewards, whose purpose was less to assure the future employment of their members than to create industrial anarchy. But an apparent victory for the shop stewards would encourage the spread of industrial unrest in similar forms to other parts of the country; and there were already some signs of this. It would therefore be desirable to bring matters to a head, and the real issues into the open, as soon as possible. It needed to be shown that it was not the Government but the shop stewards who, by their obstruction of the plans of Govan Shipbuilders, were now jeopardising the future of shipbuilding on the Upper Clyde. It might help to isolate them and to establish the true measure of the support which they enjoyed from the men at the yards if the company could arrange with the unions for a written statement of the proposals to be given individually to each worker as the basis for a secret ballot. This, however, might be impracticable.

It was questionable if it would advance the Government's aims if the Secretary of State conceded at this juncture that the Government were prepared to contemplate new financial commitments, which might amount to £20 million in addition to the already large capital sums which Govan Shipbuilders would need from the Exchequer on taking over the Govan and Linthouse yards and, perhaps, the Scotstoun yard. Such commitments, once given, could not be withdrawn; and, in the present uncertain outlook, it would be difficult to defend acceptance of the contingent liability to public funds, more especially since Govan Shipbuilders might now have little hope of ultimate viability. Moreover, to make such a concession, except in return for a clear withdrawal by the shop stewards of their previous demands and their endorsement of the union's agreement to negotiate meaningfully, would appear to be capitulating to them; and it would also further weaken the Government's negotiating position with the shipowners. Since a spokesman for Irish Shipping Limited had publicly declared that his company were not threatening early withdrawal of their orders, it was in any event not clear why confirmation of these orders was considered so urgent. If early confirmation were not secured, a consequential decision by the Liquidator to issue further redundancy notices (which would not take effect immediately and could perhaps be provisional) might be a salutary warning to the work force and induce them to cease withholding their co-operation.

On the other hand it was for the benefit of Govan Shipbuilders and the yards that early confirmation of these orders was desirable: Irish Shipping Limited themselves were in no hurry to see their ships started. If, therefore, the Government wished to insist on clear undertakings being given on behalf of the labour force before contemplating the further commitments which might be necessary to secure the orders and to place the onus for any failure on the shop stewards, it was to the unions that they must look to secure the shop stewards' compliance. They should not treat with the shop stewards directly. The Government would also need to be ready to contemplate the possibility of a complete collapse of shipbuilding on the Upper Clyde, entailing perhaps some 15,000 redundancies at the yards and at the firms which supplied them. It might be necessary to deal with this situation if the shop stewards disowned any undertakings which were given officially by their unions; and in that case it would be essential that it should be publicly clear that the blame for the collapse rested on the shop stewards. It might be desirable to prepare the ground for such an eventuality by means of a Ministerial speech in the next few days, setting out the facts of the situation dispassionately.

The Prime Minister, summing up the discussion, said that in the present confused and uncertain situation the Cabinet were not prepared to authorise the acceptance of extensive additional commitments, of a potentially open-ended nature, which would be difficult to defend as a proper use of public funds. The Secretary of State for Trade and Industry should therefore inform Mr. McGarvey at his meeting with him later that day that the Government could not contemplate entering into negotiations with the shipowners about the conditions on which they would be prepared to confirm their orders except on the basis of acceptable and public assurances by the unions of co-operation with Govan Shipbuilders and meaningful negotiations on working practices and wage rates. He should give Mr. McGarvey to understand that if, after the unions had given such assurances, they were then repudiated by the shop stewards, the Government would not be prepared to proceed. Meanwhile, however, he should put further pressure on Irish Shipping Limited and the Brazilian Government to modify their demands. The Cabinet would then consider the position again in the light of the response by Mr. McGarvey and the shop stewards. The Lord President of the Council, in consultation with the Secretary of State for Trade and Industry, should give urgent consideration to the way in which the Government's case could be presented to the best advantage. The Ministerial Sub-Committee on Shipbuilding should complete their review of the shipbuilding industry as quickly as possible and should make early recommendations for the industry's rationalisation and the manner in which this could best be planned and phased.

The Cabinet—

Took note, with approval, of the Prime Minister's summing up of their discussion.

**Cammell
Laird
(Shipbuilding
and
Engineering)
Limited**

6. *The Secretary of State for Trade and Industry* said that it had been suspected for some time that Cammell Laird, 50 per cent of the shares in which were Government-owned, was operating on a financially unsound basis; and the new management appointed in the previous August had accordingly undertaken a thorough analysis of the company's finances. The provisional conclusion, which would be submitted to the Board on the following day, was that the company's losses were at least £15 million and that £14 million of new investment and working capital would be needed to enable the yards to operate efficiently. Without this assistance the company would very quickly become insolvent. Urgent steps were being taken to determine the situation in more detail in order that the various possible courses of action could be assessed with a view to an early decision whether, in the light of the social implications, the Government should endeavour to prevent the company from going into liquidation and, if not, what steps should be taken to alleviate the impact of liquidation in Birkenhead and the Merseyside Development Area.

The Cabinet—

Took note of the statement by the Secretary of State for Trade and Industry.

**Public
Expenditure**
Previous
Reference :
CM (71) 40th
Conclusions,
Minute 6

7. The Cabinet had before them memoranda by the Chief Secretary, Treasury (CP (71) 103) and by the Central Policy Review Staff (CP (71) 108) on the 1971 public expenditure review, together with a memorandum by the Secretary of State for Defence (CP (71) 107) on the annual public expenditure allocations for the defence budget.

Defence

The Secretary of State for Defence said that he was concerned about the shortage of troops to deal with the present and prospective position in Northern Ireland, where the Army, particularly the infantry, were subject to severe and increasing strain. The recent improvement in recruitment now made it possible to contemplate raising additional units; and on present forecasts it should be possible to sustain as many as four additional battalions. These could be based on four of the representative companies which had previously been reduced from battalions. The capital cost of the equipment involved would be about £5½ million; and there would be additional annual expenditure of £2-2½ million for maintenance and £7½ million for manpower costs. In the context of the public expenditure survey he had already pruned the long-term costings for the years 1972-73 to 1974-75 by some £300 million in order to reduce them to the targets prescribed in the Supplementary Statement on Defence Policy of October, 1970 (Cmnd. 4521); but he had sought an extra £25 million over the same three years in order to meet the cost of improved recruitment; together with an additional £105 million in 1975-76 in order to make good deficiencies in equipment programmes. Subsequently, however, it had been agreed that an

additional £70 million should be spent over the next three years on accelerated purchases of ships for the Royal Navy in order to contribute to a reduction in unemployment in the development areas. He would also shortly propose additional expenditure in order to maintain employment in certain defence-based industries. While he still wished to maintain his request for an increase in the defence budget ceiling for 1975-76, he was prepared to accept that his request for £25 million over the preceding three years for additional recruitment should be regarded as subsumed in the additional £70 million which had been allocated over the same period for the purchase of ships. He did not, however, regard it as possible, within the limits prescribed for those three years, to meet the cost of raising the proposed four additional infantry battalions. He was therefore seeking the agreement of the Cabinet for the defence budget ceilings for those years to be increased in order to accommodate this additional element of expenditure.

In discussion it was suggested that it would have been preferable to deal with a particular item of additional defence expenditure in the context of a more general discussion of the public expenditure survey. Against the background of the Cabinet's earlier decisions on public expenditure, the total additional outlay which had been proposed for defence, including the provision envisaged for 1975-76, was such that it could only be accepted by finding savings elsewhere. On the other hand, it would be unwise to refuse to accept recruits at a time when they were once again available. To the extent that some recruits would otherwise have been unemployed, there would be offsetting savings in social benefits. It would also be useful to consider whether there was any additional expenditure which might be authorised in order to promote employment in the immediate future; but this could be discussed separately.

The Prime Minister, summing up the discussion, said that the Cabinet agreed that four additional infantry battalions should be raised, based on the present representative companies, and that the defence budget totals for the years 1972-73 to 1974-75 should be augmented to accommodate the consequential costs as well as the additional expenditure on ships which had recently been authorised. The Cabinet noted, however, that the Secretary of State for Defence was no longer pressing for the additional expenditure of £25 million in those years, which he had originally proposed in the public expenditure review. They would wish to resume their discussion of public expenditure at a later meeting, when they would consider the proposal for a further £105 million for defence in 1975-76, together with the other outstanding proposals for additional public expenditure.

The Cabinet—

Took note, with approval, of the summing up of their discussion by the Prime Minister.

Cabinet Office,

12 October, 1971.