CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on

THURSDAY 22 NOVEMBER 1973

at 11.00 am

PRESENT

The Rt Hon Edward Heath MP
Prime Minister

The Rt Hon Sir Alec Douglas-Home MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Anthony Barber MP
Chancellor of the Exchequer

The Rt Hon Lord Carrington
Secretary of State for Defence

The Rt Hon James Prior MP
Lord President of the Council

The Rt Hon Geoffrey Rippon QC MP
Secretary of State for the Environment

The Rt Hon Gordon Campbell MP
Secretary of State for Scotland

The Rt Hon John Davies MP
Chancellor of the Duchy of Lancaster

The Rt Hon Maurice Macmillan MP
Secretary of State for Employment

The Rt Hon Sir Geoffrey Howe QC MP
Minister for Trade and Consumer Affairs

The Rt Hon Lord Hailsham of St Marylebone
Lord Chancellor

The Rt Hon William Whitelaw MP
Secretary of State for Northern Ireland

The Rt Hon Robert Carr MP
Secretary of State for the Home Department

The Rt Hon Sir Keith Joseph MP
Secretary of State for Social Services

The Rt Hon Margaret Thatcher MP
Secretary of State for Education and Science

The Rt Hon Peter Walker MP
Secretary of State for Trade and Industry

The Rt Hon Peter Thomas QC MP
Secretary of State for Wales

The Rt Hon Joseph Godber MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Windlesham
Lord Privy Seal
THE FOLLOWING WERE ALSO PRESENT

Mr Tom Boardman MP
Minister for Industry (Items 5 and 6)

The Rt Hon Patrick Jenkin MP
Chief Secretary, Treasury (Item 7)

The Rt Hon Francis Pym MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 3)
Mr H F T Smith (Items 1-4)
Mr P Benner (Items 1 and 7)
Mr J A Hamilton (Items 5 and 6)
Mr I T Lawman (Item 6)
Mr H F Ellis-Rees (Item 2)
Mr R B S Johnston (Item 5)

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PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

It was noted that further impetus was urgently needed for the public presentation of the Government's European policies and that it was intended that material for this purpose should emerge from the speeches to be made by the Government spokesmen during the debate on European Community affairs which would be taking place on 27 November.

The Cabinet were informed that there was considerable concern, which was shared by many Government supporters, on the question of teachers' pensions, which was the subject of an Opposition Motion due to be discussed on 28 November. The Secretary of State for Education and Science was considering what steps could be taken and announced in the debate to allay this concern; and it would be helpful if in advance of the debate she could have informal discussions with Government supporters in the House of Commons.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent disturbances in Greece, in which the Army had been used and there had been a number of deaths, represented a serious setback to the attempts that were being made to restore a greater measure of democracy. There would no doubt be renewed criticism of the Greek regime on the part of some members of the Alliance.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Foreign Ministers of the Nine had held useful discussions in Copenhagen on 20 November in preparation for the meeting of the Heads of State and Government which was to be held there on 14 and 15 December. It had been agreed that in the main the meetings would not be attended by the Foreign Ministers who would, however, be present in Copenhagen and would take part as necessary. A provisional agenda had been agreed.

The Cabinet -

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

THE PRIME MINISTER said that he had held eight hours of useful discussion with the President of France when M Pompidou visited him at Chequers on 16 and 17 November. The discussions had ranged over a wide field and the President had made a more interesting contribution than at their last meeting in Paris in May. They agreed about the way in which the forthcoming Summit of the Nine should be held. As regards Community affairs the President wished to make progress towards the second stage of the Economic and Monetary Union and did not make this conditional upon a return to the snake; he had undertaken to do his utmost to be helpful over the Regional Development Fund, although he was not at this stage prepared to commit himself to a figure; as regards Protocol 22 he did not insist that acceptance of reverse preferences should be a condition of association, and would be satisfied if individual countries were allowed freedom to choose whether to accept reverse preferences. President Pompidou agreed that improvements were necessary in the financial control of Community expenditure. He agreed that there should be a Community Audit Board but he did not agree that responsibility for financial control should be placed in the hands of a single Commissioner. The Prime Minister had explained the difficulties we were encountering in our relations with Spain as a result of our differences over Gibraltar and, in particular,
the indications that the Spanish Government intended to discriminate against British trade and investment. We had asked for assurances that there would be no such discrimination and this question had a bearing on the negotiations which were taking place between Spain and the Community. He had expressed the hope that French influence would be used to persuade the Spaniards to undertake not to discriminate against us. He had also told President Pompidou that our sole desire within the framework of the Common Agricultural Policy was to ensure that as much as possible was done to help Governments attack inflation; this meant action on the prices front and the refusal to allow the accumulation of unnecessary surpluses.

The Prime Minister said that he and President Pompidou had discussed defence questions at some length. The French were evidently engaged in reviewing their policy; but they had not reached any firm conclusions about the extent to which it might be necessary to change it. There had been a useful discussion on the situation in the Middle East and the problem of oil supplies, in which they found themselves very largely in agreement. He had referred to the differences which existed between us and the French on the division of the Continental Shelf in the Western Approaches and the Channel. President Pompidou had said that he was not familiar with the details of the official discussion but would inform himself on his return to Paris.

The Cabinet -

2. Took note of the statement by the Prime Minister.

3. THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the decisions on the support of hill farming taken at the meeting of the Agricultural Ministers on 20 November were on balance favourable to us.

The Cabinet -

Took note of the statement by the Chancellor of the Duchy of Lancaster.

EUROPEAN COMMUNITY AFFAIRS

Previous Reference: CM(73) 56th
Conclusions, Minute 4
4. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he had reached agreement the previous day with the Unionist Party, the Social Democratic and Labour Party (SDLP), and the Alliance Party on the basis for the formation of an Executive. He would be making a report to Parliament in the course of the debate later that day. The central problem had proved to be the composition of the Executive. It was essential that Mr Faulkner and his supporters should have an absolute majority on the Executive itself, for without this they would not have participated and the Executive could not have been formed. But Mr Faulkner's strength in the Assembly was scarcely greater than that of the SDLP and in order to meet the claims of the SDLP and the Alliance Party it had been necessary to provide additional posts within an Administration which included the Executive members and some others. On the Executive itself the Unionists would have six places, the SDLP four, and the Alliance Party one place. Mr Faulkner would be the Chief Executive; Mr Fitt the SDLP leader, would be the Deputy Chief Executive; and Mr Napier, leader of the Alliance Party, would be the Legal Member and in charge of an Office for Law Reform. The additional appointment of one Unionist, two SDLP members and one Alliance Party member to non-Executive posts resulted in an Administration consisting of seven Unionists, six SDLP and two Alliance members. In addition a member of the Alliance Party was to be appointed Deputy Chief Whip, outside the Administration. Under the Constitution Act provision was made for 12 posts. It would therefore be necessary to make an amendment to the Act and he would propose that this should provide for 11 posts on the Executive and up to four posts outside the Executive, but carrying membership of the Administration. The agreement on the composition of the Executive was subject to the outcome of a meeting, to be held early in December, between those who would be members of the Executive, representatives of the Irish Government and representatives of Her Majesty's Government. This conference would discuss the proposal for a Council of Ireland. The Parties in the Northern Ireland Assembly who had refused to participate in the Executive would not be represented at the conference, but their leaders would be invited to discuss their views with him so that these would be known at the time of the conference. If the conference came to a satisfactory conclusion Parliament would be asked to approve the Order for the devolution of powers to the Northern Ireland Executive and Assembly. In the meantime the group who would then become the Executive would be known as the Executive Designate. Once powers had been devolved arrangements would be made to hold a formal conference between Her Majesty's Government, the Government of the Republic and the Northern Ireland Executive on the formation of a Council of Ireland. His discussions with the three Parties had produced a firm understanding that the Royal Ulster Constabulary would continue to provide the police service for Northern Ireland. In order to reach
agreement he had found it necessary to make some limited concessions in the matter of detention. He had stated his intention, if the security situation permitted, to bring into use his statutory powers of selective release and to release a number of detainees before Christmas. It would be important to do something in this direction, but it would be unwise to assume that the agreements he had now reached would lead to an early reduction of violence. The immediate result might be that extremists on both sides would seek to increase violence, and there might also be industrial action by some sections of extreme Protestant opinion. He would in particular be concerned to protect those who would be members of the new Northern Ireland Administration, a number of whom had already been subjected to threats.

THE PRIME MINISTER said that the agreement that had been reached was the outcome of a long period of difficult negotiation. The Cabinet would wish to congratulate the Secretary of State for Northern Ireland on a remarkable achievement. It was important that the extent of this achievement and its significance for Northern Ireland and the United Kingdom should be understood in Parliament and the country. We should not, however, give the impression that this was the end of the problem, and in particular, we should avoid any suggestion that violence was likely to come to a very early end. The agreement did not affect the assessment that the Provisional Wing of the Irish Republican Army might attempt further campaigns of violence in this country, and his colleagues should ensure that there was no relaxation of the precautions that were taken against this.

The Cabinet -

Took note, with approval, of the statements by the Prime Minister and the Secretary of State for Northern Ireland.
5. THE SECRETARY OF STATE FOR EMPLOYMENT said that he had circulated on the previous evening notes about the state of the industrial disputes in the coal and electricity supply industries. The Executive of the National Union of Mineworkers had met the previous day and had decided to reject the improved offer put to them by the National Coal Board. Although the moderate elements in the Executive had hoped for a decision in favour of a ballot they had been overridden. He considered that the only plausible course of action between now and the next meeting of the Executive on 13 December was to maintain efforts to influence opinion amongst the miners and the public in favour of the offer. One bright spot was the situation in Hull docks where the dockworkers had now accepted an offer of an 8 per cent increase compared with their original claim for 20 per cent; this was likely to be the first major pay award to be settled within the terms of Stage 3.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet would wish to discuss the matter again at their next meeting. In the meantime, the Secretary of State for Employment, in consultation with the Lord President, should arrange for the courses of action on the disputes in both the coal industry and electrical supply industry to be further examined, and for revised guidance on publicity to be circulated to Ministers.

The Cabinet -

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

2. Invited the Secretary of State for Employment, in consultation with the Lord President of the Council, to arrange for further examination of the courses of action as outlined in the summing up of their discussion by the Prime Minister, and to circulate a paper for the Cabinet to discuss at their next meeting.
6. The Cabinet considered a memorandum by the Secretary of State for Trade and Industry (CP(73) 128) about oil supplies.

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that total stocks of motor spirit at 18 November amounted to 65 days' supply, a drop of five days since the end of October. If this rate of fall continued, the 45-day stock level, when distribution difficulties would start to become acute, would be reached by the end of January. The oil companies estimated that motor spirit supplies would fall short of demand from now on by about 25 per cent, if not more. Although the oil companies had already been told to cut supplies to dealers by 10 per cent, the estimated reduction in the intake of oil into the country in December, coupled with the continuing uncertainty over future supplies of oil from the Middle East, indicated that it would not be possible to avoid the introduction of petrol rationing. If a situation arose in which rationing was necessary at short notice there would be valid criticism of the Government if it then emerged that it would take between three and five weeks to introduce rationing. He did not consider that the present cuts in deliveries could be sustained for more than three weeks without causing abuse of the arrangements and discontent amongst the public. It was important that the Government should be in a position to introduce rationing quickly, should this prove necessary, by starting the issue of ration books as soon as possible. He sought authority to announce, in the debate on the Second Reading of the Fuel and Electricity (Control) Bill on the following Monday, that the issue of ration books would now start, in order that the Government might have the ability to introduce rationing quickly, should it become necessary to do so.

In discussion it was argued that it was difficult to reconcile the estimates of the shortfall in oil supplies with the assurances which had been given by the Arab oil producing countries - repeated again only the day before - that they were willing to meet our requirements in full. If the Government now announced the issue of ration books, public opinion at home and abroad would conclude that this was being done because we foresaw the necessity for rationing. No other country in Europe had taken such an extreme step; and the Arab oil producing countries would conclude that this was necessary only because we were re-exporting oil to other countries, and thus conspiring to frustrate their policies. With a Summit meeting of these countries due to be held at the weekend the impact of an announcement that day would be particularly adverse. Instead of being at the top of the list of countries regarded as friendly to the Arab States, we might find our supplies substantially reduced. More information on the oil supply situation should be made available before a decision of this magnitude was taken.
On the other hand, it was argued that although precise information about future oil supplies was difficult to obtain, there was likely to be a shortfall in deliveries of oil of 16 or 17 per cent in December, despite the assurances given by the Arab oil producing countries. Saudi Arabia was still basing deliveries on the average of the previous nine months, rather than the monthly amount required during the coming winter; and many of the smaller oil companies, especially those whose parent companies were in the United States, were supplying less than their share of our needs. These facts, combined with the known stock position, provided strong evidence that the Government must take early steps to conserve our stocks and such supplies as we received. We had already taken more ruthless steps than other countries to reduce our exports of oil, but our imports of motor spirit from refiners in Europe had been very severely cut. It had always been envisaged that it would not be possible to operate an allocation scheme based on a 10 per cent cut by the oil companies for more than two or three weeks before severe inequities rose and public criticism resulted. Account must also be taken of the effect on our coal, and so our total fuel, stocks of the miners' overtime ban.

The difficulty of explaining why there was a shortage of oil when we had secured promises of favourable treatment from the Arab countries arose because of the refusal by the oil companies to guarantee to deliver all the promised supplies to this country. It was essential, in the present state of our fuel supplies, that we should receive the full amounts which the Arab countries intended us to receive, and that we should bring pressure to bear on the oil companies accordingly, even if this upset other countries. There was no point in negotiating with the Arab countries to secure enough oil to meet our full requirements if it was then diverted elsewhere by the oil companies. On the other hand the problem of exercising control over the oil companies was considerable. Even though it might be possible for the Government to give directions to BP, this could not be done to companies owned in other countries. Strong representations had already been made. Further pressure might lead to retaliatory action by other countries and a price war, in which we should be the losers on the balance of payments. Already there were reports that Nigeria had been offered very inflated prices by the United States. No agreed action had proved possible within the European Economic Community or the Organisation for Economic Co-operation and Development. Consideration might, however, be given to asking the Arab oil producing countries to bring home to the oil companies that they must deliver Arab oil to the countries and in the quantities which the producers intended.
In further discussion it was emphasised that, irrespective of why our oil stocks were diminishing, it would be most unwise not to be ready to introduce rationing, if necessary, at short notice. Unless this were done, criticism of the Government was liable to be much more severe than the criticism of the decision to issue ration books. Indeed it was arguable that people would prefer rationing to the unfairness of distribution which would inevitably increase under the allocation scheme as time went on. The introduction of measures such as prohibiting driving on Sundays would save only a comparatively small amount of petrol and would be unlikely to be acceptable in this country on social grounds. The period required to issue the basic and business ration books had already been cut to three weeks, which was at least a week less than was desirable, and any delay would cause the issue to stretch into the Christmas period. There would then be delays at Post Office counters and in postal services which would, with the closure of Post Offices at Christmas, increase the time needed for issuing books to five weeks. Allowing time for advertising the start of the issue, it was desirable that an announcement should be made that day. It was also necessary to advertise for staff for the regional petroleum offices, so that they would be ready to issue supplementary rations if and when rationing started. On the other hand, it was argued that if it was essential to start issuing ration books it would be better to await the debate on the following Monday to announce this, so that the Arab Summit Conference would be over and the publicity for rationing would not detract from the announcement of the setting up of the Executive in Northern Ireland. This would also give time to consider how the matter should be presented to the Arab countries. Moreover, the publicity campaign for voluntary savings in fuel had not completed its first week and it would be undesirable to cause confusion and criticism of the Government by too early and too hurried an announcement of the issue of ration books. In this context it could be pointed out that an effective campaign for voluntary savings would decrease the risk of having to introduce rationing. Information would be needed on how effective the campaign had been so far.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it would now be prudent, in the light of the forecast deterioration in our oil stocks in the next few months, to take the steps necessary to enable petrol rationing to be introduced at short notice, if need be. The Secretary of State for Trade and Industry should announce in the debate on the Fuel and Electricity (Control) Bill on the following Monday that petrol and derv ration books would now be issued. The terms of the announcement, and all related publicity, should be carefully worded to avoid any impression that a decision had been taken to introduce rationing, or that it was inevitable. It would also be important to seek to avoid giving the Arab oil producing countries any cause for
believing that we were taking this action because we were re-exporting, or were proposing to re-export, the oil which they sent us as a favoured nation to other countries not so favoured. Nor should the need to issue the ration books be linked directly with the industrial action by the miners. The announcement should make it clear that the need for voluntary savings in fuel oil and petrol was not in any way lessened by the decision to issue the ration books, both measures arising from the essential requirement to conserve our energy supplies. The Secretary of State should consult the Foreign and Commonwealth Secretary, the Home Secretary, the Lord President, and the Secretary of State for Employment about the terms of his announcement and the associated publicity, as appropriate.

The Cabinet-

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

2. Invited the Secretary of State for Trade and Industry, following consultation with the Foreign and Commonwealth Secretary, the Home Secretary, the Lord President of the Council, and the Secretary of State for Employment, to announce the decision to issue petrol and derv ration books to the public on the lines indicated in the Prime Minister's summing up.
The Cabinet resumed their consideration of rate support grant. They had before them a memorandum by the Secretary of State for the Environment (CP(73) 127).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that officials had just had a meeting with representatives of the local authorities and that he would have to negotiate the final statutory settlement with the authorities on 27 November. At the meeting with officials, the local authorities had pressed hard for some reduction in the proposed cut of £81 million in total relevant expenditure for 1974-75; but officials had stood firm. The basis of the West Midlands factor in the needs element had been questioned, but it had been argued that allowance should be made for the special problems of other areas, in particular Wales. There did indeed appear to be a case for introducing a sparsity factor into the calculation of the needs element. In relation to the total amount of grant, the local authorities had argued that the Government's proposals should allow for a 13 per cent inflation of local authority costs during the year - the original proposals had assumed 9 per cent - and had also been concerned about the cost of the likely pay settlement with their manual workers, which would probably result in additional expenditure during the year of some £30 million.

Taking account of these considerations and of the fact that it now seemed likely that the variable domestic element would cost some £30 million more than had been previously estimated, he considered that he would need to be allowed some latitude in conducting the negotiations, in relation both to the distribution and the amount of grant. On the latter, it would clearly be unreasonable to propose a rate exceeding 61 per cent which, assuming inflation at 13 per cent, would enable the increase in the domestic rate burden to be kept to 7 per cent and in the non-domestic rate burden to 20 per cent; but the precise proposal put to the local authorities, which he would keep as low as possible and would of course agree with the Chancellor of the Exchequer, could only be settled finally in the context of the actual negotiations.

In discussion it was argued that it would be right for the settlement to reflect the likely cost of any pay settlement with the manual workers. But it would be quite unacceptable to assume a rate of inflation in excess of the 9 per cent which the Cabinet had agreed earlier; and on that basis it would be possible to limit the increase in the domestic rate burden to 7 per cent if the non-domestic rate burden increased by 22 per cent rather than by 20.3 per cent as originally envisaged. If local authority expenditure increased more rapidly than this - and it must be borne in mind that even the cuts of £81 million did not fully restore total expenditure to the level originally agreed for 1974-75 - it might be necessary to impose absolute cash limits on their spending. To increase the rate of grant would increase the public borrowing requirement, and this must be avoided in present circumstances.
THE PRIME MINISTER, summing up the discussion, said that the
Cabinet agreed that the settlement must not assume a rate of inflation
of local authorities' costs of more than 9 per cent. It was right to
allow for additional costs imposed by the likely pay settlement with
the local authorities' manual workers; but total relevant expenditure
by local authorities must not be allowed to exceed the agreed level,
and it was equally important to restrain the public borrowing
requirement. As regards the distribution of grant, the Cabinet
agreed that some flexibility might be desirable and in particular
that there might be a case for introducing a sparsity factor into
the calculation of the needs element. The Secretary of State for
the Environment should conduct the statutory negotiations with the
local authorities on the basis of these general principles, but should
secure the agreement of the Chancellor of the Exchequer to the detail
of any departures which it was proposed to make from the
arrangements which the Cabinet had approved at their meeting
on 8 November.

The Cabinet -

Took note, with approval, of the Prime Minister's
summing up of their discussion and invited the
Secretary of State for the Environment, in
consultation with the Chancellor of the Exchequer,
to proceed accordingly.

Cabinet Office

22 November 1973