

Conclusions of a meeting of the Cabinet at 10 Downing Street: oil prices and the Suez Canal (London, 1 December 1956)

Caption: On 1 December 1956, the British Cabinet holds a meeting at 10 Downing Street. Two subjects on the agenda are oil prices and the aftermath of the Suez Crisis. Following the interruption of oil supplies through the Suez Canal and the Syrian pipeline, the cost of bringing oil to the United Kingdom has risen because of the higher freight charges involved in bringing supplies around the Cape, the rise in tanker rates and the higher prices which have to be paid for abnormal purchases of oil in the Western Hemisphere. The Cabinet agrees on the request made by the oil companies to raise the price of oil products. The Cabinet also discusses the final version of the draft prepared by the French Foreign Minister of an Anglo-French declaration of policy regarding the Suez Canal.

Source: The National Archives of the UK (TNA). Cabinet: Minutes (CM and CC Series). CM Series. Cabinet conclusions: 1-104 (1956 Jan 3 - Dec 20); 1-4 (1957 Jan 3.). Record Type: Conclusion. Former Reference: CM (56) 95. Attendees: R Butler; Salisbury; Kilmuir; G Lloyd-George; Home; W Monckton; D Sandys; D Heathcoat Amory; I Macleod; H Macmillan; S Lloyd; J Stuart; A Lennox-Boyd; A Head; P Thorneycroft; D Eccles; Selkirk; P Buchan-Hepburn; H Watkinson; C Hill; A Jones; E Heath; H Beeley. Agenda: 1. Economic Situation; 2. Oil Prices; 3. Suez Canal, CAB 128/30/319.

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C.M. (56)

95th Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W. 1, on Saturday, 1st December, 1956, at 10.30 a.m.

Present:

The Right Hon. R. A. BUTLER, M.P., Lord Privy Seal (*in the Chair*)

The Most Hon. The MARQUESS OF SALISBURY, Lord President of the Council.

The Right Hon. VISCOUNT KILMUIR, Lord Chancellor.

The Right Hon. GWILYM LLOYD-GEORGE, M.P., Secretary of State for the Home Department and Minister for Welsh Affairs.

The Right Hon. The EARL OF HOME, Secretary of State for Commonwealth Relations.

The Right Hon. Sir WALTER MONCKTON, Q.C., M.P., Paymaster-General.

The Right Hon. DUNCAN SANDYS, M.P., Minister of Housing and Local Government.

The Right Hon. D. HEATHCOAT AMORY, M.P., Minister of Agriculture, Fisheries and Food.

The Right Hon. IAIN MACLEOD, M.P., Minister of Labour and National Service.

The Right Hon. HAROLD MACMILLAN, M.P., Chancellor of the Exchequer.

The Right Hon. SELWYN LLOYD, Q.C., M.P., Secretary of State for Foreign Affairs.

The Right Hon. JAMES STUART, M.P., Secretary of State for Scotland.

The Right Hon. ALAN LENNOX-BOYD, M.P., Secretary of State for the Colonies.

The Right Hon. ANTONY HEAD, M.P., Minister of Defence.

The Right Hon. PETER THORNEYCROFT, M.P., President of the Board of Trade.

The Right Hon. Sir DAVID ECCLES, M.P., Minister of Education.

The Right Hon. The EARL OF SELKIRK, Chancellor of the Duchy of Lancaster.

The Right Hon. PATRICK BUCHAN-HEPBURN, M.P., Minister of Works.

The following were also present:

The Right Hon. HAROLD WATKINSON, M.P., Minister of Transport and Civil Aviation.

Dr. The Right Hon. CHARLES HILL, M.P., Postmaster-General.

The Right Hon. AUBREY JONES, M.P., Minister of Fuel and Power.

The Right Hon. EDWARD HEATH, M.P., Parliamentary Secretary, Treasury.

Mr. H. BEELEY, Foreign Office.

Secretariat:

The Right Hon. Sir NORMAN BROOK.

Mr. B. ST. J. TREND.

Mr. H. O. HOOPER.

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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street, S.W.1,
on Saturday, 16 December, 1956, at 10.30 am.

Present:

The Right Hon. Sir Winston Churchill, M.P., Lord Privy Seal and the Chief
The Most Hon. The Marquess of Lincolnsheugh, the Right Hon. Harold Macmillan,
Secretary for the Colonies and the Right Hon. C. A. R. Cross, M.P., Secretary for the
Home Office

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Economic Situation.

(Previous Reference: C.M. (56) 91st Conclusions, Minute 1.)

*1. *The Chancellor of the Exchequer* said that the drain on the reserves of gold and dollars was now seen to be even more serious than when the Cabinet had discussed the matter on 29th November. At the end of November the reserves had fallen to a figure just below \$2,000 millions; and the payment during December of \$180 millions on account of the American loan and \$70 millions in respect of our debt to the European Payments Union implied that a net loss of at least \$300 millions for that month could already be foreseen. No fundamental improvement in the situation could be expected unless we succeeded in re-establishing normal political relations with the United States, in mobilising our dollar resources by exercising our drawing rights in the International Monetary Fund and invoking the waiver clause in the American Loan Agreement, and also in adopting appropriate internal policies. He had now received a message from the Secretary to the United States Treasury which gave grounds for more optimism about our ability to invoke the waiver clause than we had felt hitherto, and he proposed to refer to this possibility in his statement on 4th December.

External borrowing must be reinforced by internal restraint. Although the cut in oil supplies would lead to some unemployment and short-time working, with a corresponding loss of earnings, production would rise less rapidly than incomes and consumer demand, with the risk of a renewal of inflationary pressure. He therefore proposed to announce in his statement on 4th December an increase of 1s. a gallon in the duty on petrol and oil, together with some further restriction of credit and hire-purchase facilities, which he would discuss with the President of the Board of Trade. It would not be sufficient, in his opinion, to relate these deflationary measures directly to the oil shortage, and to confine action to an increase in the petrol tax.

The Cabinet agreed that the duty on petrol and oil should be raised by 1s. a gallon. Some disquiet was expressed, however, at the prospect that this would lead to an early and substantial rise in passenger fares, which would provoke fresh wage claims and further weaken the disinflationary policy. Nevertheless, it was felt that it would not be practicable to differentiate between passenger and other road transport. The shortage was most acute in the type of fuel used by road passenger transport. Moreover, a differential rate of duty, once introduced, would not be easily withdrawn and, if it continued, the structure of the duty as a whole might be jeopardised.

The motoring and road transport communities would, however, consider that they had been singled out to carry an undue proportion of the burden. The increase in the duty would be seen as an attempt to divert traffic to the railways, with consequent loss to the road interests. For these reasons it was desirable that, in presenting the increase in this duty, emphasis should be laid less on the financial situation than on the need to conserve oil supplies. For the same reason it should be made clear that the increase in the duty was a temporary measure for the period of the emergency.

The President of the Board of Trade said that, while he was not averse in principle from further curtailment of credit trading, he felt that restrictions had already been carried as far as was realistic. They could not be intensified in relation to the motor-car, motor-cycle and cycle industries without creating serious unemployment, and it would be undesirable to impose more severe terms on the hire-purchase of furniture. Thus, consumer durable goods was the only field in which further restrictions could be applied. If control over credit was to be tightened, a more radical and comprehensive approach should, in his view, be adopted.

In further discussion it was suggested that it might be unwise to indicate too precisely at this stage the nature of any further measures which the Government might have in mind in order to reduce

* Previously recorded in a Confidential Annex.

purchasing power. It was not yet certain that the consequences of the Suez crisis and the interruption in the flow of oil supplies would prove inflationary rather than deflationary in effect. It might, therefore, be preferable to phrase any statement on this subject in more general terms to the effect that the Government would not hesitate to introduce further fiscal measures should circumstances demand them.

Further consideration should also be given to the possibility of assisting industry in maintaining exports by mobilising shipping resources. Naval vessels might even be made available for this task. This would depend, in the first instance, on the speed with which ships requisitioned for the recent military operations could be released. A number of tank-landing craft had been brought into service for these operations, and these might be made available, together with other suitable naval vessels, to supplement commercial shipping as soon as they could be released.

The Lord Privy Seal said that it was essential that the steps taken should be adequate to meet the situation. In the light of the best estimate of the balance of payments which could be made at the present time, it would be necessary to curtail internal demand to the extent of some £200 millions. Although the increase in the petrol duty would yield an additional £100 millions in a full year, a further substantial reduction of demand would probably be needed. The Cabinet should give further consideration, at their next meeting, to the question whether, at this stage, the Government should indicate in specific terms their plans for securing this further reduction.

The Cabinet—

- (1) Agreed that the revenue duty on oil should be increased during the period of the present emergency by 1s. a gallon from 4th December.
- (2) Agreed to give further consideration to the desirability of intensifying the restrictions on hire-purchase transactions, and of making a specific announcement at this stage of the Government's proposals for securing a further curtailment of purchasing power.
- (3) Invited the Chancellor of the Exchequer to prepare a draft of the statement on economic measures which he proposed to make in the House of Commons on 4th December, taking into account the points made in their discussion.
- (4) Invited the Minister of Transport to consider, in consultation with the Minister of Defence and the First Lord of the Admiralty, what steps might be taken to afford special assistance to the export trade by expediting the release of requisitioned ships, and by making available suitable naval vessels for commercial service.

Oil Prices.

*2. The Cabinet had before them a note by the Secretary of the Cabinet (C.P. (56) 270) covering a memorandum by officials on the effect on oil prices of the interruption of supplies through the Suez Canal and the Syrian pipeline.

The Minister of Fuel and Power said that the cost of bringing oil to the United Kingdom had risen significantly because of the higher freight charges involved in bringing oil round the Cape, a sharp rise in tanker rates, and the higher prices which had to be paid for abnormal purchases of oil in the Western Hemisphere. In addition, the cut which had had to be imposed in supplies would now result in a proportionate rise in the distributing costs of the oil companies and the overhead costs of the filling stations. It would therefore be

* Previously recorded in a Confidential Annex.

necessary for the oil companies to raise the prices of oil products by amounts varying from 3d. to 5d. a gallon. The companies were anxious to announce these increases on 3rd December, but they might wish, in the circumstances, to be able to say that they were taking this action with the concurrence of the Government. The Government clearly could not disclaim all responsibility, and it was therefore proposed that the oil companies should be authorised to make an announcement in such terms. The announcement would make it clear that the increased prices were directly related to the abnormal circumstances and were not expected to be permanent.

The Cabinet were in agreement that the commercial need for an immediate rise in the price of oil products must be accepted, and that the oil companies should be authorised to make their announcement in the terms proposed by the Minister of Fuel and Power. It was undesirable, however, that two important announcements affecting the price of oil should be made on successive days, and the oil companies should be asked to defer their announcement until 4th December when it would coincide with the Chancellor of the Exchequer's statement on the petrol tax.

The Cabinet—

- (1) Accepted the proposal of the oil companies that the commercial price of oil should be increased by the maximum amounts specified in C.P. (56) 270.
- (2) Agreed that the oil companies should be asked to defer their announcement of this increase until 4th December.

Suez Canal.

(Previous
Reference:
C.M. (56) 94th
Conclusions.)

3. The Cabinet resumed their consideration of the statement to the made by the Foreign Secretary in the House of Commons on 3rd December. They had before them an alternative draft of the opening paragraphs of this statement, prepared by the Minister of Education. They also had before them the final version of the draft, prepared by the French Foreign Minister, of an Anglo-French declaration of policy.

In discussion the following points were made:—

(a) It would be desirable that some reference should be made, either in the Foreign Secretary's statement or separately, to the arrangements for the reception in this country of British nationals evicted from Egypt.

(b) The statement should not over-emphasise our dependence on the supply of oil from the Middle East or the political support of the Arab States.

(c) On the other hand it should recognise, with appreciation, the declaration by the United States Government that they would support the United Nations in resisting any attempt to introduce external forces into the area of hostilities or to impede the United Nations force.

(d) The declaration of our intention to withdraw the Anglo-French force from Port Said should be made in the body of the statement, which should end on the positive note of successful achievement of our original objectives. These objectives should be clearly defined.

(e) It should be made clear that it was our understanding that the United Nations force would remain in Egypt until its functions were fulfilled, and that the duration of its stay would not be determined by the Egyptian Government.

The Foreign Secretary said that he would be glad to consider any further amendments to the text which members of the Cabinet might communicate to him. Thereafter, he proposed to send the draft to the Secretary-General of the United Nations, and to inform

him that a statement to this effect would be made in the House of Commons on 3rd December. It was particularly important that the Secretary-General should be aware of the wording of that passage in the statement which dealt with the clearance of the Suez Canal and of the proposal that, while the withdrawal of the Anglo-French force should proceed without delay, the precise timing of the operation should be decided by the Commander-in-Chief in consultation with the Commander of the United Nations force. If the Secretary-General was unable to accept our interpretation of the understandings which we regarded ourselves as having reached with him on these points, a new situation would arise which the Cabinet would have to consider.

The Cabinet—

- (1) Invited the Foreign Secretary to revise the draft statement in the light of their discussion and of any further amendments which might be suggested, and to circulate it for further consideration at a subsequent meeting.
- (2) Authorised the Foreign Secretary to communicate the draft text to the Secretary-General of the United Nations, and to inform him that a statement on those lines would be made in the House of Commons on 3rd December.
- (3) Invited the Minister of Defence, after consultation with the Foreign Secretary, to instruct the Commander-in-Chief of the Anglo-French force that, as soon as the statement had been made, he should seek to open discussions with the Commander of the United Nations force about the orderly withdrawal of our troops, on the basis that this operation should be completed as rapidly as possible but might need to be suspended at any point for political or other reasons.
- (4) Agreed to resume their discussion on 3rd December.

*Cabinet Office, S.W. 1,
1st December, 1956.*