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C.M. (45) 50TH CONCLUSIONS

Confidential Annex

(6th November, 1945 - 4.30 p.m.)

At the Cabinet's meeting earlier in the day the Chancellor of the Exchequer and the President of the Board of Trade had made oral statements regarding the position reached in the financial negotiations at Washington and in the parallel discussions on commercial policy, in amplification of the information given in their memoranda C.P. (45) 269 and 270.

The Chancellor of the Exchequer recalled that in paragraph 7 of his memorandum it was proposed that, if we secured American agreement to a loan on the terms outlined in the memorandum, we should indicate our willingness to support the American proposals for an International Conference in preparation for the establishment of an International Trade Organisation and should also propose to Parliament the acceptance of the Bretton Woods Agreement. The arguments in favour of supporting the American proposals for a Conference on commercial policy were set out in C.P. (45) 269 and had been elaborated in the statement made by the President of the Board of Trade. The Chancellor said that he now wished to add some explanation of the proposal for acceptance of the Bretton Woods Agreement. The ratification of these Agreements would impose upon us three major obligations - to co-operate in securing (i) stability of exchange rates; (ii) relaxation of exchange restrictions so far as concerned current payments; and (iii) convertibility of currency. Of these, the first was clearly to our advantage; competitive devaluation of foreign currencies had been one of the greatest handicaps to our export trade in the years between the wars. The acceptance of this obligation would leave us free to vary our rate of exchange up to 10 per cent. either way, by unilateral action, and the Governing Body of the Fund would be empowered to authorise variation beyond this limit if they were satisfied that it was necessary in order to correct a fundamental disequilibrium. The Agreements contained provisions which allowed us to escape deflationary pressure from other currencies; and finally it would be open to us, in the last resort, to withdraw from the Agreement without leave or notice.

The second and third obligations would not begin
to operate until after a transition period, which must be of several years' duration.

Many safeguards were therefore available. But, to make assurance doubly sure, the Chancellor proposed that our acceptance of the Agreements should be accompanied by an interpretive declaration making it clear that nothing in the Final Act would require us to adopt an internal deflationary policy at a time of unemployment, and that it would be for us to determine the duration of the transition period, which must elapse before we assumed the obligations at (ii) and (iii) above. A draft of this interpretive declaration had been prepared in the Treasury in the following terms:

"The Governor and Executive Director of the Fund who are appointed by the United Kingdom shall at the earliest opportunity request, under Article XVIII, interpretation of the Articles of Agreement as follows:

(a) That having regard to the intention of the Government of the United Kingdom to maintain Full Employment and to the terms of Article 1 (2) of the Articles of Agreement, the Fund shall agree, under Article IV, Section 5 (d), to any change proposed in the par value of a member's currency which is necessary to protect that member from unemployment of a chronic or persistent character.

(b) That under Article XIV, Section 2, a member is free to use his own judgment, subject to the provisions of that Article, in setting a limit to the duration of its own transitional period, provided only that it may be subject in certain circumstances to the provisions of Article XV, Section 2 (a)"

The Minister of Fuel and Power said that it would be a mistake for the Cabinet to consider the Bretton Woods proposals apart from the proposals on commercial policy. At an earlier stage Lord Keynes had admitted that it would be preferable to secure a trade agreement before ratifying the Bretton Woods Agreements; and indeed it was obvious that the two were closely inter-related. Those matters were all essentially parts of a single settlement, which should be considered as a whole.

In his view, the objective which the United States Government had in mind in the course of these negotiations was to break up the Sterling Group. If we allowed them to succeed in this aim, we should be entirely at their mercy in matters of world trade. Why therefore should we play into their hands by allowing them to make it, in effect, a condition of their loan to us that we should ratify the Bretton Woods Agreements and thus destroy the coherence of the Sterling Group? Were we not accepting too readily their vague promises of co-operation in a multilateral
system of world trade? Was it likely that the United States Government would, in practice, throw open their markets to us? Yet in return for these nebulous schemes, we were being asked to break up the Sterling Group and to discard our power to enforce a discriminatory commercial policy.

Our whole approach seemed to have been based on the assumption that we were suppliants for financial assistance. But, while it was true that the borrower was always in difficulties, so often was the lender; and it should not be forgotten that the United States producers would be in a difficult position if it were made impossible for us to take their produce. In fact, the custom of the debtor countries was essential to American prosperity. If this point had been sufficiently stressed, we should have found ourselves in a position to drive a hard bargain.

THE MINISTER OF HEALTH said that, by ratifying the Bretton Woods agreements, we should be abandoning the Sterling Area system. And, as the safeguards to which the Chancellor had referred were likely to nullify the advantages of the Bretton Woods agreements, we were likely to find ourselves in the position of having the protection of neither. It was clearly the purpose of the United States Government to destroy the Sterling Group, but it was to our advantage to maintain that system; for our creditors in the Sterling Group were anxious to trade with us in order to get our goods.

As regards commercial policy, he was apprehensive about the extent to which we should be committed to the proposals set out in Annex C to C.P. (45) 269. In paragraph 7 of C.P. (45) 270 it was proposed that we should not only support the American plan for a Conference with a view to the establishment of an International Trade Organisation, but should also proclaim our general acceptance of the principles set out in the document which the Americans were to issue. Some of those principles appeared to him to be based on a 19th century attitude towards international trade, which was unlikely to find acceptance by States like the Soviet Union. If we were to support this proposal for an International Conference, he would have preferred that we should go to it with our hands free. The proposed terms for the loan were not so attractive as to warrant the high price which we were being asked to pay for it in the form of adherence to these other proposals.

THE FIRST LORD OF THE ADMIRALTY said that our earlier acceptance of a multilateral as opposed to a bilateral basis for international trade had been given at a time when it was supposed that the United States Government would approach these matters in a truly cooperative spirit. Now, however, there was a growing body of informed opinion that the United States Government were using their position of financial ascendancy in order to break down our system of Empire trade, and perhaps to threaten the cohesion of the Commonwealth. We were not, however, without power to resist such pressure. After the financial crisis of 1931 we had refused to accept American dictation and had largely restored our position by our own efforts, within two years, in developing our
Empire trade. If we could not get better terms from the Americans than those indicated in the memoranda now before the Cabinet, was it not worth considering whether we could not do the same again?

The Cabinet were not yet fully informed of the full implications of these terms. Thus, what would become of our pre-war debt to the United States? And what would be the cost of liquidating Lend-Lease? Would the proposed commitments, in sinking fund and interest, tie a millstone round our necks for a generation?

The Chancellor of the Exchequer said that no question had been raised in the negotiations about the revival of the pre-war American debt; and there was no reason to believe that the Americans had any intention of bringing this matter up again. As regards the liquidation of Lend-Lease, a final evaluation was now being made in Washington, and the best estimate which could be given was that for $2½ billion we could secure all the stores which were in the pipeline when Lend-Lease was terminated and all those in our possession which we were proposing to divert to civil uses. This $2½ billion was included in the loan of $2½ billions now under negotiations.

In reply to the other points noted above, the following considerations were put forward by the Chancellor of the Exchequer and the President of the Board of Trade:—

In estimating the effect on the Sterling Group of any settlement on the lines now suggested, it must not be assumed that there would be no difficulty in maintaining the existing coherence of the Group if we now abandoned our attempts to secure accommodation from the United States. On the contrary the Sterling countries were already showing signs of anxiety to discontinue these special war-time arrangements, which involved them in very great difficulties; and it was likely that, whatever happened about the American settlement, some countries would wish to break away very soon from the Sterling Group.

This Government would be taking a very grave responsibility if it declined to co-operate even in these first tentative moves towards an International Trade Agreement. The suggestion that we should aim instead at consolidating the Sterling Group and retaining our power to apply discriminatory policies in our foreign trading was inconsistent with the declared policy of the Labour Party, which was committed to making a sincere attempt at securing, in co-operation with other countries, a multilateral basis for world trade. This did not mean that we should omit to safeguard ourselves against the failure of those attempts. Adequate safeguards were, however, provided in the proposals now before the Cabinet. It was true that all these proposals were related parts of a single scheme; but we had clearly reserved
the right, if one part of the scheme broke down to an extent which would imperil the remainder, to withdraw our co-operation from the other parts of the scheme.

It had been suggested that the United States Government would not in the event make any substantial concessions by way of reduction of their tariffs. But our support for these proposals was based on the assumption that tariff reductions would be made; and we were in no way committed to abandoning Imperial Preference except in return for tariff reductions. The object of the nuclear conference in March, 1946, was to see whether there was a sufficient prospect of tariff reductions to warrant proceeding to the wider international conference in June, which would seek to secure a general Trade Agreement.

Some Ministers had doubted the wisdom of declaring our acceptance of the general principles set out in the document (reproduced in Annex C to C.P. (45) 269) which the Americans were proposing to issue in preparation for these conferences. In fact, however, that document now contained only those principles which we had ourselves put forward for acceptance in the course of the negotiations. All the American proposals to which we had expressed objection had in the event been withdrawn. The general principles set out in this document reflected the primary objectives of policy which we would wish to follow as an exporting nation. Finally, our acceptance of these general principles would not preclude us from suggesting modifications or improvements when we came to discuss this document in detail at the proposed conference.

THE FOREIGN SECRETARY said that he thought it understandable that some Ministers should feel reluctant to accept the terms proposed for the loan from the United States. Throughout these negotiations he had himself felt the most profound reluctance to agree to any settlement which would leave us subject to economic direction from the United States; and he had subjected all the proposals made to a very close scrutiny from this point of view. He would have much preferred a straightforward loan without conditions. In the end,
however, he had been forced to the conclusion that we were faced with the hard choice between accepting these terms, as the best we could get, or struggling on without American assistance. That second alternative involved asking the British people to endure, for perhaps another three years, standards of living even lower than those to which we had been reduced at the end of six years of war. When he considered the period of industrial difficulty with which we were in any event confronted, he could not persuade himself that it was right to ask the British people to go through that period on living standards lower than those to which they had already been reduced. That in his view was the real issue. Our negotiators at Washington had satisfied themselves that these were the best terms we were likely to get. Were we to reject these terms and demand these further sacrifices from the British people?

THE LORD PRIVY SEAL endorsed the views expressed by the Foreign Secretary. We were in no position to dictate to the United States Government. Although in the long run their economic difficulties might prove to be even greater than ours, they were at present in a commanding position. Unless we were ready to accept accommodation from them, on their terms, we must ask our people to face conditions of living even worse than those which they had endured during the war.

THE MINISTER OF AGRICULTURE AND FISHERIES said that in his view our negotiators had been extremely successful. He did not see how any better terms for the loan could have been obtained; and, as regards commercial policy, he was gratified at the extent to which the Americans had been brought round to our views.

THE SECRETARY OF STATE FOR WAR agreed with the Foreign Secretary's view about the difficulty of asking the British people to endure further privations. He considered, however, that if we now turned away from Anglo-American co-operation, the moral shock to the people of this country would be even greater than the material loss. Such a decision would confound all the hopes which the people of this country - and indeed the peoples of the whole world - had built on the prospect of continuing international co-operation. For, if we took the lead in disrupting Anglo-American economic co-operation, we could not expect the United States to continue for long to shoulder their international responsibilities in political affairs.
THE SECRETARY OF STATE FOR INDIA supported this view. He could not regard the suggested terms for the loan as satisfactory, but he could not believe that any other solution so far suggested would be preferable — indeed, the alternatives suggested in discussion would be infinitely worse. It was inconceivable that we should proclaim to the world that we had rejected the only scheme which had so far been devised for international co-operation in financial and commercial matters. These were the only international agreements which were in sight; this Government would indeed be assuming a heavy responsibility if it rejected these terms because they were not as good as we might wish.

THE SECRETARY OF STATE FOR DOMINION AFFAIRS said that he supported the proposals put to the Cabinet by the Chancellor of the Exchequer and the President of the Board of Trade. The Dominion Governments had been kept in close touch with the progress of these negotiations. They were quite ready to consider abating Imperial Preferences in return for tariff concessions; and were prepared to take part in the proposed conferences on that basis. We should not be involved in any difficulties with Dominion Governments as a result of going forward with the proposals now before the Cabinet.

THE MINISTER OF FUEL AND POWER said that it seemed to be the general view of the Cabinet that these proposals must as a whole be accepted. But, even so, would it be possible to enter some reservations on the proposals with regard to commercial policy set out in C.P. (45) 269? These proposals seemed to him to be unsatisfactory in certain respects. For example, the provision in paragraph 2.1 of Chapter 3 in Annex C to C.P. (45) 269, which required State trading enterprises in making purchases and sales to be guided solely by commercial considerations, might be interpreted in such a way as to make it impossible for a Government to be guided in its use of State trading by considerations such as the desirability of an improved nutritional policy. Again, in paragraph D of Chapter 3 of Annex C, which dealt with subsidies, there was nothing to prevent the United States Government from giving concealed subsidies in the form of lower shipping rates. He would prefer that at the present stage we should neither accept the Bretton Woods Agreements nor commit ourselves to supporting the United States proposals for the establishment of an international trade organisation, but should merely offer to take part in the conference which was to be held in March, leaving our future course of action to be decided according to the results of that conference. He was convinced that if we adopted a firm attitude the United States would be compelled to make further concessions, in view of their dependence on our markets to absorb their exports. In any event, rather than become involved in the long-term disadvantages entailed in acceptance of these proposals, he was inclined to think that we should appeal to the people of this country to risk the continuance of conditions of austerity.
THE FIRST LORD OF THE ADMIRALTY drew attention to the statement by Lord Keynes in paragraph 25(i) of the Annex to C.P.(45) 112 that we should not accept assistance from the United States in the form of a credit if this meant payment of interest and stipulated terms of repayment, since we could not undertake such an addition to our existing obligations with any confidence that we could fulfil these obligations. He asked whether it would not be possible to make an interim arrangement under which we should be entitled to temporary accommodation from the United States in the form of a monthly overdraft on which we would pay interest at the appropriate rate. Such assistance might tide us over the immediate period of difficulty without compelling us to assume long-term obligations which we were unlikely to be able to meet or to enter into trade agreements which would injure the system of Imperial Preference.

THE LORD CHANCELLOR said that he would much prefer to make acceptance of the Bretton Woods Agreements condition on the conclusion of a Trade Agreement. If, however, the Agreements had to be accepted by 31st December, 1945, the question arose whether the interpretative declaration which had been drawn up by the Chancellor of the Exchequer in order to safeguard our position gave us the necessary protection. He had not had time to consider the wording of the declaration fully, but it might well be argued that it would be for the Governing Body of the Fund, and not for His Majesty's Government, to determine when it was necessary to make a change in the par value of sterling in order to avoid unemployment of a chronic or persistent character in the U.K. He also doubted whether the words in paragraph (b) of the declaration designed to enable His Majesty's Government to determine the length of the transition period before the provisions of the Agreements came fully into effect would, in fact, give us a completely free hand, since they were expressly stated to be subject to Article XIV, Section 4 and Article XV, Section 2(a) of the Monetary Fund Agreement.

In reply to these points THE PRESIDENT OF THE BOARD OF TRADE said that, if we wished to secure American agreement to the proposed terms of the loan, it was essential that we should indicate our support of the proposals in Annex C to C.P.(45) 269 as a basis for discussion at the proposed Conference in March and it would not be enough for us merely to offer to take part in the Conference without any prior commitment.

It was true that the proposals in Annex C did not deal with shipping, but it seemed clearly to our interest that questions of shipping and of civil aviation should be dealt with separately from questions of commercial policy.

The statement in paragraph E.1 of chapter III of Annex C that State trading enterprises should be guided solely by commercial considerations was intended merely to prevent State trading enterprises from being used for political objectives in the international field and would not affect the Government's internal policy. Moreover, the British negotiators had received a clear assurance that the
paragraph would not be inconsistent with long-term contracts with regular suppliers. Thus, any arrangements with New Zealand for the supply of meat over a long period of years would not be affected by the fact that in any particular season another exporting country was able to offer supplies at a lower price. The Foreign Secretary said that this part of the document would be less open to misunderstanding if the order of the words were transposed so as to read "... their State trading enterprises, in making purchases and sales, should be guided solely by such commercial considerations as price, quality, terms of sale, etc." Our negotiators in Washington might seek to get this change made before the document was published. If, however, the Americans were reluctant to make the change at this late stage, it would be open to us to propose at the Conference in March an amendment designed to clarify the meaning of this paragraph.

The Chancellor of the Exchequer said that the Cabinet should know what the consequences would be if we decided not to seek accommodation from the United States on the terms suggested. To do no more than secure the necessary imports of food and raw materials to maintain our existing programme of production and consumption we should have to borrow £1,000 million from the United States in 1946. The alternative course of trying to rely on our own resources would have the following effects on our standards of living. We should have to reduce the present rate of consumption of practically all foods except bread and potatoes. During 1946 there would be some fall in the fat ration, the cheese ration would not be increased during the winter, there would be no tinned milk or dried eggs, imported meat would be reduced by 15, sugar by 50, and tobacco by 30. Imports of timber would be cut by 15 and plywood by 40. The drive to restore our export trade would be crippled, since we should be without adequate supplies of such raw materials as cotton and should not be able to afford to export steel products.

The objections which had been made by Lord Keynes in August to the acceptance of a loan on which we should be liable for interest and repayment had, in effect, been met by the waivers described in paragraph 4 of C.P. (45) 270. The suggestion of a monthly overdraft to tide us over the immediate future had been fully investigated, but would not be acceptable to the United States Government.

As regards Bretton Woods the objects of the interpretative declaration were those which he had stated at the outset of the meeting. If the draft which had been prepared in the Treasury did not in fact secure these objects, he would be very glad to consider suggestions for improving the wording. It would not, however, be possible to add to the interpretative declaration a provision making our acceptance of the Agreements dependent on the conclusion of a Trade Agreement.
THE LORD PRESIDENT OF THE COUNCIL (summing up the discussion on behalf of the Prime Minister, who had been obliged to leave shortly before the end of the meeting) said that the points raised in the Cabinet’s discussion had been very fully considered during the earlier stages of the negotiations. Admittedly we were not being treated as generously as we might have expected, but it had to be realised that it would be fruitless for the United States negotiators to offer us terms which had no hope of securing the approval of Congress. It was essential that we should obtain the necessary dollars to pay for the Lend-Lease supplies in the pipeline at the end of the war with Japan and to enable us to ease the position in the Sterling Group, which was in real danger of breaking up unless we were prepared to relax the present stringent control of dollar expenditure by members of the Group. It was also clear that, unless we accepted accommodation from the United States, we had little prospect of being able to make good the damage which our industry and trade had sustained during the war.

He felt that the general sense of the Cabinet was in favour of proceeding with the proposals made by the Chancellor of the Exchequer and the President of the Board of Trade. The misgivings which had been expressed by some Ministers would be recorded.

The Cabinet —

(1) Agreed that the United Kingdom representatives in Washington should be authorised to put forward the proposals for financial assistance to the United Kingdom set out in paragraph 2 of C.P. (45) 270, on the understanding that if these proposals were not accepted they should be free to put forward alternative proposals up to the limit stated in paragraph 3 of C.P. (45) 270.

(2) Agreed that any obligations entered into under (1) above should be subject to the waivers set out in paragraph 4 of C.P. (45) 270.

(3) Agreed that if the United States administration accepted and put to Congress the proposals for financial assistance to the United Kingdom referred to in (1) above, His Majesty’s Government should indicate their support of the proposals for the establishment of an International Trade Organisation set out in Annex C of C.P. (45) 269 as a basis for discussion at the Conference which it was proposed that the United States Government should summon in March; and should recommend to Parliament acceptance of the Bretton Woods Agreements.
(4) Took note that the United States Government would publish their proposals for an International Trade Organisation on 11th November, and agreed to consider at a later meeting what arrangements should be made for Government statements on this matter in this country, both in Parliament and elsewhere.

(5) Took note that the Chancellor of the Exchequer would consult the Lord Chancellor with regard to the wording of the interpretative declaration which would be a condition of the acceptance by His Majesty's Government of the Bretton Woods Agreements.

Cabinet Office, S.W.1.
The Cabinet had before them a memorandum by the Prime Minister (C.P. (45) 272) indicating the line which he proposed to take in his forthcoming discussions with President Truman and Mr. Mackenzie King about international control of atomic energy.

THE PRIME MINISTER said that his general thesis, which was outlined in paragraph 2 of his memorandum, was that power politics, though they might for a time produce an uneasy equilibrium, were bound to lead in the end to a violent clash of interests and to war; and that the only hope for world peace was that all should lay aside nationalistic ideas and strive without reservation to bring about an international relationship in which war was entirely ruled out. The realisation of the destructive power of the atomic bomb might, he hoped, have brought the peoples of the world into a condition of mind in which they were more ready than ever before to recognise the validity of this general thesis. We ought therefore to grasp this opportunity of establishing on a firm foundation an effective world organisation with both the will and the power to preserve peace.

The Prime Minister said that he was satisfied, for the reasons outlined in his memorandum, that it would not be enough to rely on an international convention regulating the use of the atomic bomb. Nor was there any hope that the secret of its manufacture could be confined to a few peace-loving nations. The scientific basis of the discovery was already a matter of general knowledge; and within a few years its manufacture would be within the reach of a number of countries. He therefore proposed that in the forthcoming discussions the issue should be squarely faced that there was no prospect of controlling the use of this new weapon unless we succeeded in establishing an effective world organisation with both the will and the power to preserve peace.

There was general agreement with the views expressed by the Prime Minister. Discussion turned mainly on the question of sharing with Russia, not only the fundamental scientific knowledge, but also the practical "know how" relating to the manufacture of the atomic bomb.

In paragraph 10 (f) of C.P. (45) 272 it was suggested that an immediate offer to share this information with the Soviet Government would not be likely to lead them to change their present attitude to world problems and might be regarded as a confession of weakness. It was therefore proposed that the establishment of better relations should precede the exchange of technical information. Russia would, in any event, be able to manufacture atomic bombs within a few years; and it was during those years that an attempt must be made to build a world organisation upon the abandonment of power politics.
Some Ministers thought it would be wiser to make an immediate offer to disclose this information to the Soviet Government. The true basis of lasting peace was mutual confidence between nations; and we should not only declare that as the objective of our policy, but be ready to take risks in creating that sense of confidence. If it was our policy to build world peace on a moral foundation, rather than on a balance of power, we should be prepared to apply that principle at once in relation to the atomic bomb. There was a real risk that the Soviet Government would be unwilling to co-operate whole-heartedly in the establishment of an effective world organisation so long as the British and United States Governments insisted on keeping to themselves the secrets of manufacture of the atomic bomb. It was true that the Soviet Government were not at present fully co-operative in world affairs; but that was due in large measure to their suspicion of the western democracies. This attitude was founded to some extent on their pre-war experiences: the urgent need now was to remove the causes for that attitude of suspicion. There was much to be said for offering full disclosure of this secret, but linking that offer with discussions of the means of co-operating in the establishment of an effective world organisation.

THE FOREIGN SECRETARY said that he thought it would be a mistake to attempt to deal with the atomic bomb in isolation from other weapons. Other countries might even now be following up scientific discoveries in other directions which might be turned to war-like uses. He suggested that, in the forthcoming discussions, the Prime Minister should explore the possibility of remitting to the United Nations Organisation, as soon as it was established, the task of devising suitable machinery for the full disclosure and exchange between all members of the Organisation of the results of all scientific research including that which had a bearing on the development of new weapons of war. International machinery for the exchange of such information might be developed by an extension of the war-time agreements between the principal Allied Powers. It would be necessary that a staff of highly qualified scientists should be attached to the Organisation for this purpose.

THE PRIME MINISTER welcomed the Foreign Secretary’s suggestion. He pointed out that, in considering disclosure of the secret of manufacture of the atomic bomb, it was necessary to have regard to other countries than Russia. A proposal on the lines indicated by the Foreign Secretary could, however, be brought forward to supplement the points made in paragraph 10 (f) of C.P.(H5) 272 which dealt, not with our ultimate objectives, but merely with the situation which we faced in the immediate future.
Other points raised in the discussion were:

(a) In planning the new World Organisation we should profit by experience of the League of Nations. While lasting peace must be built on international good-will and mutual confidence, there must be the power to deal promptly and effectively with any nation which threatened the peace of the world. Effective sanctions must be devised, and there must be the will to use them.

(b) The First Lord of the Admiralty suggested that the argument, outlined in paragraph 10 (d) of C.F. (45) 272, against the conclusion of a special convention regarding the atomic bomb was not fully consistent with some of the arguments used in paragraph 6 of the memorandum. He hoped that the Prime Minister would not altogether exclude the possibility of an international convention renouncing the use of the atomic bomb. Such conventions had some restraining influence, as was shown by the fact that poison gas had not been used in this war.

(c) The Prime Minister said that in his view it was not the international convention which had prevented the use of poison gas in this war. Nor did he believe that nations, once committed to war, would be deterred by reason only of an international convention from using any weapon which they thought to afford the only means by which they could gain their ends. He did not, however, exclude the possibility of a convention regarding the atomic bomb. The point which he was concerned to make in his memorandum was that it would not be enough to rely merely on the conclusion of an international convention. The real safeguard must be the creation of an effective world organisation for the preservation of peace.

(d) The First Lord of the Admiralty thought it would be inexpedient to stress the argument, used in paragraph 6 (c) of the memorandum, regarding Britain's peculiar vulnerability to attack by atomic bomb. It should not be forgotten that the failure to enforce sanctions against Italy under the League of Nations had been mainly due to the fact that France was specially sensitive to the vulnerability of her territory to counter-measures by Italy.

(d) The Secretary of State for India said that it seemed to him unlikely that future hostilities would open by the use of atomic bombs by an aggressor Power. A more likely situation was that a Power possessing atomic bombs would threaten to use them against a smaller Power unless its demands were met. In such a situation other Powers could do nothing to protect the threatened nation; and could only open hostilities against the threatening Power. We had been unable to do anything to protect Poland in 1939: we could only declare war on Germany.

The view was expressed that this difficulty could be met by a system of general exchange of information about the development of new weapons. Such a system should make it impossible for a nation to embark upon a course of aggression fortified by the knowledge that it possessed superior weapons which other countries had had no opportunity to develop.
(c) In this matter of the atomic bomb tension had arisen between the United States and Soviet Governments. We should seek to act as mediators and should let our views be known to the world. We might by this means rally around us the nations who feared the consequences of growing estrangement between the United States and the Soviet Union. There would be advantages if the Prime Minister could let it be known that it was he who had taken the initiative in bringing about the forthcoming discussions in Washington.

(f) The Cabinet endorsed the Prime Minister's view that it would be preferable not to put forward any specific agenda, or submit any document, for the forthcoming discussions in Washington.

The Cabinet:

Endorsed, subject to the points noted above, the general line taken in the aide memoire (C.P.(45) 272) which the Prime Minister had prepared for the purpose of his forthcoming discussions on the international control of atomic energy.

Cabinet Office, S.W.1.,
8th November, 1945.
The Cabinet had before them the following memoranda by the Secretary of State for India:

C.P. (45) 281: reporting on the present situation in India;

C.P. (45) 296: reporting the conclusions reached by the India and Burma Committee as a result of their examination of the situation described in C.P. (45) 281;

C.P. (45) 301: covering a draft of the statement to be made in Parliament restating the policy of His Majesty's Government towards India, and announcing the proposal that a Parliamentary Delegation should go to India under the auspices of the Empire Parliamentary Association;

C.P. (45) 303: embodying the Viceroy's comments on the draft statement appended to C.P. (45) 301.

The Secretary of State for India (who handed round copies of a revised draft of the statement designed to meet, in part, the comments made by the Viceroy) said that a promise had been given in Parliament on 22nd November that a statement on the Indian situation would be made at an early date. The revised draft statement which had been handed round did not differ very materially from the original draft circulated under cover of C.P. (45) 301. He had, however, felt it essential to make it clear that His Majesty's Government could not overlook the disturbances which had taken place, although he had not gone as far as the Viceroy had suggested in placing the main emphasis on the need for maintaining law and order. As regards the proposed visit of a Parliamentary Delegation to India, it had originally been hoped to arrange an invitation from the Indian Branch of the Empire Parliamentary Association, in which event the Government of India would have met the expenses of the Delegation in India. Since, however, owing to the elections the Indian Branch of the Empire Parliamentary Association was in abeyance, the Chancellor of the Exchequer had undertaken to meet the expenses of the proposed Delegation, and it was hoped that the arrangements for the visit would now go forward. If the Cabinet approved the draft statement which had been handed round, he proposed that it should be made in both Houses of Parliament on 29th November.
The following general points were raised in discussion:

(a) While it was necessary to make it clear in the statement that the Government of India must preserve law and order, it was even more important to consider what steps could be taken to prevent a further deterioration of the situation in India. The recent disturbances, which were due partly to the feeling in India about the Indian National Army trials and events in Java, appeared to be regarded by the Indian nationalist leaders as premature. But there were various indications that Congress was aiming at the promotion of widespread disturbances in India by about March, 1946.

(b) The Government of India seemed to have no clear conception of their policy and consistently failed to obtain adequate publicity for their point of view. This was in part due to the nature of the Government, which did not contain the necessary political spokesmen who could put forward the Government's case. But there had also been very great reluctance to make use of such aids to publicity as radio and mobile cinemas, even though, in the case of radio, repeated offers of assistance had been made from this country.

(c) No steps seemed to have been taken by the Government of India to publicize the great achievements during the war of Indian troops. Thus, nothing in the way of a victory march of Indian troops had been organised in India.

(d) It was desirable that there should be a change of outlook on the part of the Government of India corresponding to the change of Government which had taken place in this country. In particular, more emphasis should be laid on the social and economic advancement of India, and the Government of India should put themselves forward as the champion of the poorer classes.

(e) THE SECRETARY OF STATE FOR FOREIGN AFFAIRS said that if the aim was to give India self-government within a measurable time, it was essential to give the Viceroy the help of new political advisers who could devote themselves wholly to the promotion of this policy, unhampered by the details of day-to-day administration. A proposal for the appointment of such political advisers might perhaps have a better reception if it were put forward by the proposed Parliamentary Delegation.

(f) THE MINISTER OF FUEL AND POWER said that, before making statements of policy foreshadowing social and economic developments in India, the Cabinet should be clear what such policies involved and whether they could be made effective. It was specially important that the Cabinet should satisfy themselves that such statements would not have the effect of weakening the authority of the Viceroy and the Government of India at a time when they had to face a very critical situation.

(g) THE MINISTER OF EDUCATION stressed the importance of ensuring that any Delegation from this country made contact with all classes and shades of opinion in India and was not confined to an officially conducted tour. Opportunities should be given for the members of the Delegation to visit the homes of Congress and Moslem League supporters and to address public meetings.
(h) THE MINISTER OF HEALTH suggested that, in addition to sending a Parliamentary Delegation, the Government should make arrangements for a Delegation of trade unionists to visit India and for a reciprocal visit from Indian trade unionists to this country.

The following points were made on the draft statement:

(i) The opening sentence of the statement should be recast so as to avoid the suggestion that the disturbances had been caused by the announcement that it was proposed to make a statement.

(j) THE SECRETARY OF STATE FOR FOREIGN AFFAIRS suggested that there should be added to the statement a paragraph stressing the intention of His Majesty's Government and the Government of India to press on with the economic and social development of India and promising a further announcement on this aspect of the Government's policy.

(k) THE MINISTER OF HEALTH urged that the statement should be recast in order to stress the different outlook of the present Government towards the Indian problem. For this purpose, less should be said about the restoration of law and order, and more prominence given to the positive steps which the Government proposed to take to improve conditions in India.

THE PRIME MINISTER said that it was clearly desirable that the points raised in discussion should be considered further by the India and Burma Committee before any statement was made. The Committee should prepare a revised draft and should also make recommendations on the wider suggestions of policy which had been put forward. The Foreign Secretary would no doubt furnish the Committee with a note on the proposal which he had made at (e) above and it would be helpful if he could also attend the meeting of the Committee.

The Cabinet -

Invited the India and Burma Committee to review the position, and to consider the draft of the statement to be made in Parliament, in the light of the various points raised in the course of the Cabinet's discussion.

Cabinet Office, S.W.1.,
WASHINGON
DISCUSSIONS ON
FINANCIAL
QUESTIONS OF
COMMERCIAL
POLICY

The Cabinet had before them the following
memoranda –

C.P. (45) 312: by the Chancellor of the Exchequer
covering the draft of a financial
agreement;

C.P. (45) 297: by the President of the Board of
Trade covering the text of the
United States proposals on commercial
policy and the draft of a statement
which the President proposed to make in
Parliament, subject to a satisfactory
conclusion of the financial side of
the negotiations;

C.P. (45) 295: by the Secretary of State for Dominion
Affairs, reporting the attitude of
Dominion Governments towards the
discussions on commercial policy.

THE CHANCELLOR OF THE EXCHEQUER said that the
draft annexed to C.P. (45) 312 had not been approved by
the United States Government, but represented the best
that our negotiators were likely to be able to secure.
It would, therefore, be essential to give them freedom
to make concessions on particular points, provided that
they did not depart substantially from the proposals
set out in the draft. He drew particular attention
to the following points:

(i) Amount of the credit.

It was not yet certain that the United States
Government would agree to extend to His Majesty's
Government a credit of as much as $4½ billions and,
although our negotiators would try to obtain the full
amount, we might have to be content with $4 billions.
It seemed likely that $750 millions of this amount,
and not $500 millions, as we had previously hoped, would
have to be set aside for the liquidation of Lend-Lease.
(ii) Purpose of the Credit.

Paragraph 2(II) of the draft agreement, which provided that drawings on the credit should not exceed the United Kingdom overall cumulative adverse balance of current payments, had been proposed by the United States negotiators because of their fear of criticisms in Congress that the sole object of the agreement was to get the sterling area out of its present difficulties. While he would prefer to omit this provision, it was not likely to cause any serious trouble.

(iii) Waiver and postponement of payment.

There was good reason to hope that the United States Government would agree to paragraph 4(I), which provided for waiving the interest and postponing the repayment of the amount of principal due in any year in which the income of the United Kingdom from home produced exports, together with its net income from invisible current transactions, was less than the amount of United Kingdom imports during 1936/38. Our negotiators had resisted a proposal which would have given the United States Government the right to audit our financial transactions, but had been compelled to agree to paragraph 4(II), which imposed on His Majesty's Government the obligation not to avail themselves of the provision for waiver and postponement except after taking due account of the prospective and actually prevailing conditions of international exchange and the adequacy of their available reserves, as well as of the rate at which obligations to other creditors were to be met. Although this last requirement might conceivably give the United States Government grounds for arguing that we were discharging our obligations to other creditors too quickly, it was much more likely to operate in our favour, since it would enable us to point to obligations already incurred to other creditors as a reason for postponing our payments to the United States.

(iv) Sterling area exchange arrangements.

Paragraph 6 bound His Majesty's Government to proceed, not later than the end of 1946, to make arrangements under which sterling receipts from current transactions would be freely available in any currency area without discrimination, and at the same time to seek, by voluntary agreement with the countries of the sterling area, a settlement under which the accumulated balances would be disposed of in one or other of the three ways set out in paragraph 6(II). Thus, we were merely undertaking to carry out, without committing ourselves to an absolutely rigid time limit for completion, the negotiations which it had always been our intention to undertake with the sterling area countries.
(v) Exchange arrangements between the United States and the United Kingdom

The provisions of paragraph 7 had been carefully designed to enable His Majesty's Government to impose restrictions on the movement of capital and bound the Government only to refrain from imposing restrictions on current transactions.

THE PRESIDENT OF THE BOARD OF TRADE said that a difficult point arose on paragraph 7(II) of the draft agreement, which provided that, if either the United Kingdom or the United States imposed quantitative trade restrictions as an aid to the restoration of equilibrium in the balance of payments, such restrictions should be administered on a basis which did not discriminate against imports from the other country in respect of any product. If this provision were read alone, it might tie our hands too much, and it was, therefore, essential that our negotiators should obtain a written undertaking from the United States Government that paragraph 7(II) was to be interpreted in the light of the provisions with regard to quantitative trade restrictions and to State trading in Sections C and E of the American commercial policy. If we obtained an undertaking of this kind, we should not be precluded from continuing, for example, to purchase particular products from our Dominions or Colonies in accordance with long-standing trade arrangements, even though the United States Government were in a position to make us an occasional offer of supplies of the same products at a lower price.

The following points arose in discussion:

(a) Was there not a risk that the undertaking in paragraph 6 that current earnings would be made available in due course for current transactions would be detrimental to this country since it would throw open the United States market to sterling area countries?

THE CHANCELLOR OF THE EXCHEQUER pointed out that, unless we were able to make some relaxation of the restrictions on the use of sterling balances, there was little hope of our being able to maintain the coherence of the sterling group, some of the countries in which we were already showing signs of a desire to break away.

(b) THE SECRETARY OF STATE FOR INDIA pointed out that, whereas paragraph 6(I) merely bound His Majesty's Government to proceed to make arrangements for the release of sterling receipts from current transactions not later than the end of 1946, the United Kingdom negotiators were of opinion that we were pledged by earlier undertakings to complete the release of these receipts by the end of 1946. It would, in his view, be unfortunate if, through our insistence on the form of words given in the draft, the chance of reaching agreement at an early date were to be lost.

(c) THE SECRETARY OF STATE FOR THE COLONIES asked whether the proposals in paragraph 6(II)(c) for writing off sterling balances would apply to balances held by Colonies.

THE CHANCELLOR OF THE EXCHEQUER said that such balances would be covered and it would be necessary to enter into negotiations with representatives of the Colonies on this matter in due course.
THE CHANCELLOR OF THE EXCHEQUER undertook to consider whether paragraph 6(1)(C) should not rather refer to an "adjustment" of balances than to the "writing off" of balances.

THE MINISTER OF EDUCATION asked whether there was not a danger that the undertaking in paragraph 7 not to apply exchange restrictions to payments or transfers arising out of current transactions between the United Kingdom and the United States would enable capital sums to be sent from this country to the United States under the guise of revenue, e.g. through the payment of excessive salaries to United States residents in this country.

THE PRESIDENT OF THE BOARD OF TRADE said that the risk of any such evasion was negligible.

THE MINISTER OF HEALTH asked whether the provisions of Section E of the American commercial policy proposals would prevent His Majesty's Government from establishing new State monopolies of particular products. Under paragraph 2 of this Section a new State monopoly would be prohibited if it created a greater protective margin than the tariffs that might have been negotiated in relation to the product concerned.

THE PRESIDENT OF THE BOARD OF TRADE said that the proposals would not preclude the creation of new State monopolies but were merely designed to prevent Governments from nullifying through the creation of State monopolies reductions in tariffs to which they had agreed in negotiation.

The Cabinet then considered whether the proposals set out in C.P. (45) 312 should be generally approved.

THE MINISTER OF FUEL AND POWER said that he was still strongly of opinion that it would be a mistake to accept the proposals, which were, in his view, incompatible with the successful operation of a planned economy in this country and would ruin our export trade. It was wrong to assume that all the advantage lay with the United States Government, since their need to export would place them in an impossible position if we refused to come to an agreement with them on their terms. It would be better for His Majesty's Government to borrow from the United States at 3%, 4% or even 5% per cent than to accept the conditions attaching to the credit which had been offered, particularly since this involved His Majesty's Government in supporting commercial policy proposals which, in his view, objectionable. In any event, it was desirable that those members of the Cabinet who had not been constantly in touch with the progress of the negotiations should have more time in which to assess the effect of the proposed agreements on their Departmental plans. He therefore urged that no decision should be taken until these Ministers had had an opportunity for further consideration of the proposals.
THE MINISTER OF HEALTH supported the Minister of Fuel and Power. In his view, it was a mistake that we should approach the United States as suppliants, since their need to find markets for their exports was just as great as our need for assistance. He was convinced that a firm attitude on our part would produce a good effect on our general relations with the United States. He also urged that a decision on the proposals should be postponed in order to give all members of the Cabinet adequate time to consider them.

THE SECRETARY OF STATE FOR FOREIGN AFFAIRS said that it was essential that a decision should be taken without further delay. He had examined the proposals with great care in order to ensure that they did not constitute an impediment to the Government's internal policy, and he was satisfied that this point had been safeguarded. He had also considered the possibility of obtaining a loan at a higher rate of interest free from conditions, but even if this proved possible (and there was evidence that the United States would not be willing to make us a loan at a higher rate of interest free from conditions) the burden of such a loan would be beyond our capacity. Unless we obtained assistance from the United States, it would be impossible for us to make any progress with the essential task of reviving our trade with European countries. For these reasons he was in favour of giving authority to our negotiators to proceed on the basis of the documents before the Cabinet.

THE LORD PRESIDENT said that he thought it was a mistake to regard the proposals put forward by the United States Government as designed solely to further their interests. He believed that they were genuinely anxious to promote a freer and more ordered world trade, although they were undoubtedly influenced by the largely ill-informed criticisms which they had to meet in Congress. He did not believe that this country could face the privations which it would be necessary to undergo if we failed to obtain assistance from the United States, and he thought that any attempt to postpone the negotiations further would lead to a less satisfactory bargain.

THE CHANCELLOR OF THE EXCHEQUER said that he appreciated the points which had been made by the Minister of Fuel and Power and the Minister of Health, but he was satisfied that failure to reach an agreement with the United States, with the consequent shortages of food and luxuries, such as tobacco, would be disastrous for the Government. He therefore strongly urged the Cabinet, on economic, financial and political grounds, to accept the proposals.

THE PRESIDENT OF THE BOARD OF TRADE supported the Chancellor of the Exchequer. He pointed out that, so far as the commercial policy proposals were concerned, our negotiators had obtained satisfaction on all the points which they had raised.

THE PRIME MINISTER said that it was clear that the preponderant view in the Cabinet was in favour of authorising our negotiators to proceed on the basis of the proposals in the draft annexed to C.P. (U) 312 on the understanding that they were free to make concessions on points of detail (e.g. with regard to a time limit for the unfreezing of sterling receipts from current transactions) within the general framework of the draft.

Cabinet Office, S.W.1.
The Cabinet discussed the latest developments in the Washington discussions on financial questions and commercial policy.

The Chancellor of the Exchequer said that, in view of the turn which these discussions had taken since the Cabinet last considered the matter on 29th November, it had been thought advisable that Sir Edward Bridges should go out to Washington to lead the United Kingdom Delegation during the remainder of the discussions. Sir Edward Bridges had arrived in Washington on 1st December. Telegrams were now being received reporting the results of the conversations which he had held since his arrival. The position was still fluid and it was not possible to put the outstanding issues to the Cabinet while the telegraphic accounts of the current conversations were incomplete. A further report could, if necessary, be made to the Cabinet later in the day.

In discussion it was pointed out that the Cabinet had already reached decisions on the general principles involved. Detailed modifications of the draft Financial Agreement, within the limits of the general principles already determined, might be made without reference to the Cabinet. It would be convenient, therefore, if such minor modifications could be settled by the Chancellor of the Exchequer and the President of the Board of Trade, in consultation with the Prime Minister.

The Cabinet authorised the Prime Minister, the Chancellor of the Exchequer and the President of the Board of Trade to settle, on their behalf, any necessary modifications of the draft Financial Agreement which could be made without encroaching upon the general principles determined by the Cabinet in their discussions on 6th and 29th November.

Publicity Arrangements

The Cabinet had before them a note by the Secretary Arrangements (C.P. (45) 322) covering a memorandum by the Treasury outlining a possible time-table for the public announcement which would be made in the event of a successful conclusion of the discussions.

The Chancellor of the Exchequer said that since this time-table had been drawn up, news had been received from Washington that the Americans now thought it necessary that the first announcement of the proposals on commercial...
policy should be made simultaneously with the joint
communique on the outcome of the discussions as a whole.
A further telegram was, however, expected from Washington
later that day reporting the results of further
discussions with the Americans on the publicity
arrangements. It seemed unprofitable therefore for the
Cabinet to discuss these matters until this further
information had been received from Washington.

THE PRESIDENT OF THE BOARD OF TRADE said that, if
it were decided that the proposals on commercial policy
should not be announced in advance of the joint communique
on the results of the discussions as a whole, it would not
be possible for him to make in the House of Commons the
long statement embodied in Annex A to C.P.(45) 297.
If the first stage in the public announcement was the
Prime Minister's reading of the joint communique to the
House of Commons, he could not follow this on the same day
with a statement of this length on commercial policy.
In these circumstances he would propose to reserve his
statement for use in the debate which would take place in
the House of Commons during the following week.

THE SECRETARY OF STATE FOR DOMINION AFFAIRS said that­
from the point of view of public opinion in Australia and
New Zealand, he was most anxious that the explanations
contained in the draft statement annexed to C.P.(45) 297
should be given immediately after the publication of the
American proposals for an International Trade Agreement.
If, therefore, it was decided that both the Financial
Agreement and the commercial policy proposals should be
announced on the same day, he hoped that some means would be
found of making public at the same time the explanations
given in this draft statement. THE PRIME MINISTER
suggested that in those circumstances he might add to the
joint communique a short statement containing the
substance of the explanations given in the draft annexed
to C.P.(45) 297.

This suggestion was approved by the Cabinet.

The Cabinet proceeded to consider the terms of the
draft statement reproduced in Annex A to C.P.(45) 297.
THE PRIME MINISTER raised the question whether this draft
went rather too far towards committing His Majesty's
Government to supporting the American proposals for an
International Trade Agreement. Would it not be preferable,
in view of the attitude of the Governments of Australia
and New Zealand, if we confined ourselves to saying that we
welcomed these proposals as a basis for discussion at the
proposed International Conference? THE SECRETARY OF STATE
FOR DOMINION AFFAIRS said that the Governments of Australia
and New Zealand would be content with a statement on the
lines of the draft annexed to C.P.(45) 297, provided that
it was made immediately after the announcement of the
American proposals.

The Cabinet approved the terms of the draft
statement on commercial policy annexed to
C.P.(45) 297.
THE CHANCELLOR OF THE EXCHEQUER drew attention to a news-agency report which had reached London from Washington early on the morning of 2nd December which referred to a difference of view on this matter between members of the Cabinet.

THE PRIME MINISTER said that he was seriously disturbed at this apparent leakage of information. He proposed to have a searching enquiry made in Washington. This incident illustrated the need for exceptional caution on occasions when differences of view were expressed in Cabinet.
TOP SECRET

C.M. (45) 59TH CONCLUSIONS

Confidential Annex

(5th December, 1945 - Noon)

The Chancellor of the Exchequer recalled that at their meeting on 3rd December the Cabinet had authorised the Prime Minister, in consultation with the President of the Board of Trade and himself, to settle on their behalf any necessary modifications of the draft Financial Agreement which could be made without encroaching on the general principles already determined by the Cabinet. Since then an alternative draft had been put forward by the representatives of the United States Government. This had been the subject of protracted discussions, as the result of which the outstanding difficulties had been reduced to three, viz:­

(i) The United States negotiators seemed to be seeking to deprive His Majesty's Government of the benefit of the scarce currency provisions of the International Monetary Fund Agreement.

(ii) It was not clear whether the draft Agreement would affect the right of His Majesty's Government to withdraw from the Fund.

(iii) It was proposed that at the end of fifteen months His Majesty's Government should not invoke their transitional rights under Article XIV of the International Monetary Fund, both in regard to any dollar transactions with the United States and also generally. The United Kingdom would then come under the full obligations of convertibility of the International Monetary Fund.

Our negotiators had successfully resisted the proposal to deprive us of the benefit of the scarce currency provisions, and it had been agreed that the United States Government would not challenge our right to withdraw from the Fund in order to regain liberty to devalue sterling, although, if the draft Agreement were concluded, resignation from the Fund would not give us the right to impose exchange control on current transactions between this country and the United States. It had not, however, been possible to move the United States Government from their view that the transitional period should be limited to fifteen months and a compromise suggestion that the transitional period might run until December 1948 had been rejected. Thus, the remaining question for the Cabinet was whether we should now acquiesce in a transitional period of fifteen months or should stand out for some longer period at the risk of a break-down in the negotiations.
The United States Government argued that the loan which they were offering did away with the need for a long transitional period, as far as dollars were concerned. And in practice this reduction of the transitional period might well turn out to do us little harm. We had already agreed that current dollar earnings of sterling area countries should be freed within fifteen months, and we were also committed to the relaxation within the same period of restrictions on current dollar earnings by other founder members of the Fund. The proposed reduction of the transitional period to fifteen months would, therefore, affect us in practice only in relation to current transactions with the Argentine, Sweden, Switzerland, Spain and Portugal.

If the proposed Agreement was looked at as a whole, the terms offered to us compared very favourably with those accorded to France, and, while we should still have to make strenuous efforts to restore our position, the assistance provided by the United States should tide us over the next few difficult years during which we should be able to rehabilitate our industry and trade and, at the same time, make some improvement in the standard of living of our people. On the other hand, a break with the United States would lead to very great immediate difficulties. It would necessitate heavy reductions in our imports of food, raw materials and tobacco, which would result in a sharp reduction in the standard of living, and would prejudice the revival of our export trade through the fierce competition which we should have to face from the United States. The Canadian Government would not regard us as justified in rejecting the draft Agreement on this one point: and we should have little hope of maintaining the solidarity of the sterling group. In the wider sphere of international affairs a break with the United States at this juncture might be disastrous. Taking all this into account, he had on balance and with some reluctance come to the conclusion that it would be wrong to press our view with regard to the length of the transitional period to the extent of breaking off the negotiations. He realised, however, that there would be considerable difficulty in justifying the reduction in the transitional period to Parliament and the Cabinet might consider it desirable to make a final attempt to get the period extended, say, until December 1947.

THE PRESIDENT OF THE BOARD OF TRADE said that, while he regretted the attitude of the United States Government, it was logically defensible and, in practice, the adverse effect on us of a shorter transitional period was likely to be small. There would no doubt be difficulty in justifying the change to Parliament, but the alternative of a break with the United States would be so disastrous that, in his view, this difficulty must be faced.

THE FOREIGN SECRETARY said that it was essential that we should obtain help from the United States if we were to rebuild our industry and restore our trade with Europe. He had hoped that the United States would have agreed to the extension of the transitional period to December 1948, and he thought it still worth
trying to obtain an extension until December 1947. In his view, however, there could be no question of breaking off the negotiations on the narrow issue of the length of the transitional period. In all the circumstances our negotiators had done extremely well in achieving as much as they had. It should be remembered that the proposed Agreement, particularly in so far as it related to commercial policy, arose out of Article VII of the Mutual Aid Agreement, which had been accepted by the Coalition Government and by Parliament.

A number of other Ministers supported the view that the Agreement should be accepted.

THE MINISTER OF FUEL AND POWER said that he did not regard the length of the transitional period as a matter of crucial importance. He remained of opinion, however, that the Agreement as a whole was unsatisfactory and would work to the detriment of this country. The Cabinet had been informed of the immediate hardships which would be involved if accommodation was not obtained from the United States. But the Cabinet had not fully explored what our position would be in the long run if this offer were rejected. He did not believe that our industrial recovery depended necessarily on continuing imports from the United States. He did believe, however, that industrial recovery in the United States depended on the grant of credits to enable us and other to buy United States exports. In these circumstances, the harsh conditions which they were seeking to impose could not be justified. He feared that relations with the United States would be much more liable to be embittered if, as was likely, we found in due course that we were unable to abide by the terms of repayment, than by any break at the present time. He recognised, however, that the Cabinet had decided to accept the Agreement and he would not press his objections further.

THE MINISTER OF HEALTH said that the object of the United States Government in proposing a reduction of the transitional period was clearly to counter the advantage which we had gained by the provision in the draft Agreement under which we were not required to take up more of the total loan offered than we might require at any time. This point would certainly be made when the proposals were submitted to Parliament. He also drew attention to the difficulties which were likely to arise through inconsistent interpretations being put on the Agreements in this country and in the United States. Nevertheless, it was impossible to break on the narrow issue now before the Cabinet and, while he felt that our original approach to the United States had been mistaken, he thought there was now no alternative but to accept the draft Agreement.

In further discussion, it was pointed out that the interpretation of the Agreements which we intended to put before Parliament had been agreed by the United States Government and that this interpretation would be published before any debate on the Agreement took place in Congress. There was no reason why, in commending the proposals to Parliament, His Majesty's Government should not indicate that they were not all that we might have expected.
THE PRIME MINISTER said that the general view of the Cabinet was clearly in favour of accepting the Agreement, even if the United States Government insisted on limiting the transitional period to fifteen months. With regard to the suggestion that a final attempt might be made to extend the period up to December 1947, it was clearly undesirable that any such attempt should lead to a further worsening of the conditions proposed by the United States Government and, in these circumstances, the best course might be to authorise our negotiators to inform the United States Government that we accepted their proposals in substance but that it would very considerably ease our difficulties in presenting the Agreements to Parliament if the transitional period could be extended until December 1947.

The Cabinet —

Invited the Prime Minister to inform the representatives of His Majesty's Government in Washington that it would substantially ease the difficulties of His Majesty's Government in presenting the Agreement to Parliament if the United States Government could be persuaded to extend the transitional period to December, 1947. If, however, this amendment could not be secured, His Majesty's Ambassador in Washington was authorised to accept the draft Financial Agreement as it now stood.

Cabinet Office, S.W.1.
FOREIGN AFFAIRS

Proposed Meeting of Foreign Ministers

The Foreign Secretary said that he had learned towards the end of November that the United States Secretary of State, Mr. Byrnes, had suggested to M. Molotov that there should be an early meeting in Moscow of the Foreign Ministers of the United States, the United Kingdom and the Soviet Union. The subjects for discussion at this meeting had not been stated; but upon enquiry he had ascertained that Mr. Byrnes had in mind an agenda including (i) procedure of the proposed Commission which was to submit to the United Nations recommendations for the international control of atomic energy; (ii) procedure for reconvening the Council of Foreign Ministers and for securing the prompt resumption of work by their Deputies on the preparation of Peace Treaties; (iii) terms of reference for the proposed Allied Military Committee in Tokyo; and (iv) establishment of an independent Government in Korea.

The Foreign Secretary said that he had doubted whether it would be expedient for the three Foreign Ministers to meet at this stage - having regard, in particular, to the difficulties which had arisen from the attempt to exclude France and China from the work of the Council of Foreign Ministers, and to the suspicions which might be aroused if the Foreign Ministers of the Three Powers appeared to be prejudging matters which were to be discussed at the General Assembly of the United Nations in January. We should certainly increase our difficulties with the French Government if matters of concern to them were discussed at a meeting of Foreign Ministers at which they were not represented.

He had put these considerations to Mr. Byrnes. He was, however, in some difficulty, for the suggestion of a meeting had already been made to M. Molotov, and it now seemed that Mr. Byrnes was determined to go to Moscow, if necessary alone. In all the circumstances the Foreign Secretary felt that he now had no alternative but to agree to attend the proposed meeting. He proposed, however,
to make it clear to Mr. Byrnes that his agreement was conditional upon the understanding that this would be an exploratory meeting, designed to enable the three Foreign Ministers to ascertain and examine the difficulties between their Governments before the General Assembly of the United Nations in January, and to exchange views on the international control of atomic energy. He would also make it clear that he was not prepared to discuss matters which concerned the French Government, at a meeting at which France was not represented, and that this would preclude any formal proposal at the outset to discuss the question of reconvening the Council of Foreign Ministers.

The Cabinet agreed that in the circumstances described the Foreign Secretary should indicate his willingness to attend the proposed meeting in Moscow on the understanding that the discussions would be limited in the manner which he had indicated.

THE FOREIGN SECRETARY said that, before any announcement was made about this meeting, he would wish to obtain Mr. Byrnes' agreement to the conditions which he had outlined, and he would also desire that both he and Mr. Byrnes should give an assurance to the French Government that matters directly concerning France would not be discussed at this meeting. When both these points had been cleared, an announcement could be made in Parliament, possibly in reply to a Private Notice Question by Mr. Eden.

Cabinet Office, S.W. 1.