the national archives
151 - War Crimes: Case of German Generals in British Custody: Memorandum by the Secretary of State for War.

152 - Grain Supplies for the United Kingdom, 1948-49: Memorandum by the Minister of Food.

153 - Grain Supplies for the United Kingdom, 1948-49: Memorandum by the Minister of Agriculture and Fisheries.

154 - Arrival in the United Kingdom of Jamaican Unemployed: Memorandum by the Secretary of State for the Colonies.

155 - Nutrition Enquiry in the Anglo-United States Zone of Germany: Memorandum by the Secretary of State for Foreign Affairs.

156 - Supplementary Injuries Benefits for Miners: Memorandum by the Minister of Fuel and Power.

157 - Iron and Steel Bill: Memorandum by the Minister of Supply.

158 - The Antarctic: Memorandum by the Secretary of State for Foreign Affairs.

159 - War Crimes: Case of German Generals in British Custody: Memorandum by the Attorney-General.

160 - Scrap Investigation Committee: Final Report: Memorandum by the Minister of Supply.

161 - Economic Consequences of Receiving no European Recovery Programme Aid: Memorandum by the Chancellor of the Exchequer.

162 - Western Union: Note by the Secretary of the Cabinet.

163 - Comparison of War Pensions with the Compensation to be Paid to Miners under Proposed Scheme of Supplementary Injuries Benefits: Memorandum by the Minister of Pensions.

164 - Exports of Commercial Scrap from Germany: Memorandum by the Minister of Supply.

165 - War Crimes: Case of German Generals in British Custody: Memorandum by the Secretary of State for War.

166 - Dock Strike: Note by the Secretary of the Cabinet.

167 - Economic Co-operation Agreement between His Majesty's Government and the United States Government: Note by the Secretary of the Cabinet.

168 - London Dockworkers' Strike: Memorandum by the Parliamentary Secretary to the Ministry of Labour.

169 - Despatch of Cabinet and Cabinet Committee Business during the Summer Holiday: Note by the Prime Minister.

170 - Pensions for the Widows and Orphans of Civil Servants: Memorandum by the Chancellor of the Exchequer.
171 - The Situation in Malaya: Memorandum by the Secretary of State for the Colonies.

172 - International Wheat Agreement: Memorandum by the Minister of Food.

173 - Economic Report... Note by the Chancellor of the Exchequer.

174 - Criminal Justice Bill; Capital Punishment: Memorandum by the Home Secretary.

175 - East African Groundnuts Scheme: Memorandum by the Ministry of Food.

176 - Visit of Lord Henderson to Germany: Memorandum by the Secretary of State for Foreign Affairs.

177 - Import Programmes - July, 1948-June, 1949: Memorandum by the Chancellor of the Exchequer.

178 - Summary of Material to be submitted to O.E.E.C.: Memorandum by the Chancellor of the Exchequer.

179 - The Civil Aircraft Programme: Memorandum by the Lord Privy Seal.

180 - Final Report of Committee of Enquiry into the Tudor Aircraft: Memorandum by the Minister of Supply and Minister of Civil Aviation.

181 - Iron and Steel Bill: Note by the Lord President of the Council.

182 - Future of the Tudor Aircraft and of the "Fly British" Policy: Memorandum by the Minister of Supply.

183 - The Electricity Peak Load Problem: Memorandum by the Minister of Fuel and Power.

184 - Intergovernmental Maritime Consultative Organisation: Memorandum by the Minister of Transport.

185 - The Antarctic: Memorandum by the Secretary of State for Foreign Affairs.

186 - Economic Report: Note by the Chancellor of the Exchequer.

187 - Newfoundland; Constitutional Position: Memorandum by the Secretary of State for Commonwealth Relations.

188 - Anti-Inflationary Measures in the Colonies: Memorandum by the Secretary of State for the Colonies.


190 - The Situation in Malaya: Memorandum by the Secretary of State for the Colonies.
CABINET

WAR CRIMES: CASE OF GERMAN GENERALS IN BRITISH CUSTODY

MEMORANDUM BY THE SECRETARY OF STATE FOR WAR

1. At a recent meeting of the Overseas Reconstruction Committee I was asked to submit, for decision of the Cabinet, the question whether certain senior German generals, at present detained under British control in this country, should be brought to trial. They are Field Marshals von Brauchitsch, von Rundstedt and von Manstein, and Colonel General Strauss. Strauss has been in our custody since May, 1945, and others since July and August, 1945.

2. The question was first raised by the United States authorities in September, 1947. After the trial of the major war criminals at Nuremberg the United States authorities set up an Executive for the purpose of bringing to trial certain groups of war criminals (doctors, industrialists, etc.) and during the screening activities of this Executive a great many captured documents were considered. Among these was a large body of documents indicating responsibility of these generals for war crimes, crimes against humanity and crimes against peace. The Chief of the Executive, in forwarding a memorandum with photostat copies of many of these documents to the Attorney-General, drew attention to the passage in the Nuremberg Judgment relating to the German General Staff which ends:—

"Where the facts warrant it, these men should be brought to trial so that those among them who are guilty of these crimes should not escape punishment."

3. The memorandum which is voluminous, discloses a prima facie case for various crimes, in particular the following:

(a) Against all four generals, in connection with the "Commissar" Order, under which political commissars of the Russian Army were not to be recognized as prisoners of war and were to be liquidated.

(b) Against Rundstedt, in connection with the "Commando" Order, under which parachutists who were taken prisoner not in connection with battle actions were to be transferred to the Gestapo by whom they were, in fact, killed.

(c) Against all four generals, for responsibility for murder and ill-treatment of allied prisoners of war, chiefly Russians.

(d) Against Brauchitsch, Rundstedt and Manstein, for certain breaches of the Geneva Convention arising out of the use of prisoners of war, chiefly Russians, on prohibited and dangerous work.

(e) Against all four generals, for responsibility for many crimes against civilians, including the illegal execution of hostages, excessive reprisals, extermination of Slavs, Jews and Communists and deportation into slave labour of civilians from all the occupied territories.

4. The vast majority of the victims were Russians. In point of numbers the Poles, doubtless, come second and Belgian, French, British and American victims were also involved, but in much smaller numbers. Our own direct interest is limited to the responsibility of Rundstedt for the passing on of the "Commando" Order in so far as our own Special Air Service troops were killed, pursuant to it. Many of the actual perpetrators of these killings have already been tried before British Military Courts. The memorandum indicated evidence that Rundstedt published a "Commando" Order dated 21st July, 1942 which, therefore, preceded Hitler's "Commando" Order of 13th October, 1942, but evidence is not included of what killings actually took place under the first Order.

5. Cases had been registered with the United Nations War Crimes Commission by Poland and by the U.S.A. against Brauchitsch, Rundstedt, and Manstein, and by Belgium against Brauchitsch. In addition Poland had specifically asked for the
handed over of MANSTEIN and BRAUCHITSCH, and the U.S.S.R. have asked for RUNDSTEDT and MANSTEIN. The trial of war criminals before British Military Courts is of course my responsibility, but the question of handing them over to other Powers is one in which the Secretary of State for Foreign Affairs is very much interested.

6. Examination of the memorandum made it clear that a vast amount of detailed preparation and investigation of documents would be necessary before any of the generals could be brought to trial. British translations of the documents summarised in the memorandum have not been provided: the originals are in American custody, many in U.S.A. Evidence will be required not only to bring home to the generals responsibility for the issue of the orders referred to in the memorandum, but to establish the actual results of the issue of these orders. It should also be noted that the jurisdiction of a British Military Court is limited to war crimes; it is not competent to try crimes against humanity or crimes against peace.

7. Since October, 1947, this question has been the subject of correspondence and discussions between myself, the Foreign Secretary, the Lord Chancellor and the Law Officers. Trial by a four-power court or an Anglo-American court was considered impracticable, and an approach was therefore made to the Americans to see if they would be prepared to include these generals along with von LEEB and other military leaders whose trials they then had in hand, but their cases were too far advanced and they were unable to comply.

8. There can be no doubt, I think, that if we are to undertake these trials it will be necessary to set up a special executive of picked people with specialist knowledge of the work of collecting evidence. There may be difficulty in obtaining the right people, and the further investigations necessary will take at least four months. It is very doubtful whether we shall get much help from Poland and Russia, who are chiefly affected, in providing essential evidence. For the actual trials we shall have to engage first-class Counsel. Separate trials may be necessary. It will obviously be quite impossible to complete by the target date (1st September next) which the Overseas Reconstruction Committee have set for completion of outstanding war crimes trials of people in our hands awaiting trial.

9. Before embarking on these further investigations, in view of the ages (RUNDSTEDT, 73, STRAUSS 69, BRAUCHITSCH, 67, MANSTEIN 61), and recent history of some of these generals, I thought it wise to have them medically examined, particularly as to their fitness to stand trial. They have been examined by an Army Medical Board and subsequently by a Home Office Board of two experienced prison medical officers. Both Boards agree that in the case of BRAUCHITSCH, who has had acute attacks of coronary thrombosis, the stress and strain of a prolonged trial would be likely to precipitate a further attack, which might well prove fatal. They agree that the other three are fit to stand trial, but think that if the trials appear likely to be prolonged beyond (say) a six months period of preparation followed by two month's trial, a further examination would be advisable in the cases of RUNDSTEDT and STRAUSS. RUNDSTEDT has arterio-sclerosis and other signs of senility, and suffers from mild depression and is potentially suicidal. STRAUSS has angina pectoris and high blood pressure and there is a risk, likely to be increased by prolonged stress and strain, of apoplexy or coronary thrombosis.

MANSTEIN'S sight is affected through cataract, but otherwise he appears healthy.

10. In view of the medical report on BRAUCHITSCH, who is obviously a very sick man, I do not think we should attempt to bring him to trial. In the case of the other three, there are arguments of force on both sides. On the one hand it may be felt that we have a duty to try the officers, in accordance with the principles enunciated at Nuremberg, if the evidence warrants it, that we ought not to let senior officers who incited the commission of war crimes go unscathed when many subordinates who actually carried out such crimes have been tried and sentenced, and that public opinion at home and abroad may be critical of our letting them go free. On the other hand there is the time, expense and man-power involved in staging these further trials of senior officers who have already been in our hands nearly three years, at a time when many people hoped that such trials were finished, our own relatively small direct interest, the difficulties involved in preparation of the cases and uncertainty whether essential evidence will be forthcoming, particularly from our eastern wartime Allies, the possibility that RUNSTEDT or STRAUSS may collapse or commit suicide before or during their trials, the ages of the three generals and unlikelihood that the death sentence will be inflicted if passed and the fact that they can still be detained in custody or kept under control if a danger to security. It may be mentioned that we have already tried eleven German generals before British Military Courts. Four were sentenced to death, but none, in fact, executed.

On balance, my own view is that it is not worth while, at this date, undertaking the heavy task of attempting to bring these three generals to trial.
In the meantime, we have had a request from the United States Executive in Nuremberg for medical certificates indicating the state of health of RUNDSTEDT, MANSTEIN and BRAUCHITSCH who have been asked for as defence witnesses in the High Command case now pending there. It is anticipated that Defence Counsel will produce affidavits from them and represent that they are too sick to travel, but the U.S. authorities think it most desirable that they should be available for cross-examination in open court if possible. It is believed that their presence would be required in the very near future. In view of our medical reports and the recent visit of RUNDSTEDT to Germany, I think it can be assumed that RUNDSTEDT and MANSTEIN would be fit, but not BRAUCHITSCH.

If it should be decided that the four generals are not to be tried by a British Court and are not to be handed over to any other power for trial, their ultimate disposal must be considered. The Foreign Office think that after their return to the British Zone of Germany, it is likely that renewed applications will be made for their extradition either to Poland or to the Union of Soviet Socialist Republics. The Military Governor of the British Zone of Germany, in accordance with the second conclusion of the meeting of the Overseas Reconstruction Committee of 12th April, has recently decided and announced in Berlin that all applications from foreign powers for the extradition of persons alleged to have committed crimes against peace, war crimes or crimes against humanity, should be presented on or before 1st September, 1948; any application for extradition made or presented after that date will be sanctioned only in the case of a person against whom a clear prima facie case of murder, as defined in the German Penal Code, is made out and not otherwise. The Foreign Office therefore suggest that if the four generals are not to be handed over, they should not be returned to the British Zone of Germany until after 1st September, and that as they are at present in hospital it would not be unreasonable to retain them there until after that date although their normal date for return would be not later than 12th July. On their return to the British Zone of Germany, BRAUCHITSCH, MANSTEIN and STRAUSS would technically face denazification process but would in fact probably only be so examined if they applied for employment. If RUNDSTEDT chose to return to his home in the United States Zone he would face denazification process, whether or not he applied for employment.

It is true that the four generals are at present in hospital, but while BRAUCHITSCH and MANSTEIN are genuine hospital patients (MANSTEIN with his eye trouble), RUNDSTEDT and STRAUSS, though needing regular medical attention, are held in a hospital only because there is no convenient camp in which to hold them. The hospital in which they are held will not close on 12th July because the disposal of Ukrainian hospital cases held there has not yet been decided. When the Ukrainians cease to be held, some special arrangements would have to be made according to the conditions then prevailing.

I would also point out that Poland applied to the War Office for the hand over of BRAUCHITSCH and MANSTEIN on 1st December, 1947, while they were in custody in this country, and the Union of Soviet Socialist Republics applied to the Military Governor for the hand over of RUNDSTEDT and MANSTEIN on 21st March, 1948, when they were in this country and not in the British Zone of Germany. The decision on the Russian request was therefore not one for the Military Governor to make, and I understand that he replied accordingly. It seems to me a little difficult in these circumstances to make a refusal to hand over hinge on the Military Governor's decision that applications for extradition must be made before 1st September, if we hold the generals in this country until after 1st September and then send them to the British Zone of Germany. I suggest that a refusal to hand them over, if decided upon, should be taken and maintained on the merits.

I invite my colleagues to decide:
(a) whether we should bring all or any of the four generals to trial;
(b) if not, whether we should hand over to other Powers those who have been asked for by them;
(c) how we should dispose of the generals if it is decided not to bring them to trial or to hand them over to any power;
(d) whether we should agree that the generals asked for by the Americans as witnesses in the pending trials at Nuremberg should be made available, if certified fit to travel.

THE WAR OFFICE,

17th June, 1948.

E.S.
CABINET

GRAIN SUPPLIES FOR THE UNITED KINGDOM, 1948–49

MEMORANDUM BY THE MINISTER OF FOOD

The memorandum annexed to this paper reviews our overall cereals position, and draws particular attention to those features which are important and to the major issues on which decisions will require to be taken at an early date. Against that background I have given careful thought to the question how we can use the substantial supplies of grain in prospect to the best advantage.

2. In the first place the urgency of de-rationing bread has now become, from an administrative point of view, very great indeed. The blunt truth is that unless we soon de-ration bread it will de-ration itself. It would mean a major administrative effort, quite unjustifiable in the present supply position, to reinforce bread rationing. Short of such an effort, however, the scheme becomes week by week more and more lax, and it is having a gravely demoralising reaction upon all other rationing schemes. My Parliamentary Secretary reports to me that during my recent absence in East Africa it has become more and more difficult to defend the continuation of the scheme in the House, since Labour Members of Parliament know that their own wives are not surrendering BUs. I have myself found the same difficulty since my return. Moreover, if we remove bread rationing after it has become a complete dead letter, we shall lose all the advantage of being able to show that we remove restrictions the moment they become unnecessary.

3. But the desirability of de-rationing bread and flour as early as possible is only one factor in the overall cereals position; it must be clearly considered, in my view, in conjunction with the following further factors in the situation:
   (a) Our present and prospective stocks of wheat and flour from now until the end of the next crop year (end June, 1949). (This raises the question whether our own farmers should be required to deliver all their millable wheat, or whether they should be allowed to retain 20 per cent.);
   (b) The flour extraction rate;
   (c) The present restrictions on human consumption of oatmeal and other cereal products; and
   (d) Our prospective supplies of coarse grains up to the end of the coming crop year.

These factors are considered in the following paragraphs.

Wheat and Flour Supplies

4. The basis on which wheat and flour import requirements for 1948–49 have been stated for European Recovery Programme and International Emergency Food Council purposes has been—
   (a) a weekly flour offtake of 103,000 tons (the average in the six months before rationing was introduced);
   (b) the maintenance of the present extraction rate (85 per cent.) up to the end of 1948 and a reduction of the rate to 80 per cent. from 1st January, 1949;
   (c) that our farmers would be allowed to retain 20 per cent. of their millable wheat from the 1948 crop.
On this basis supplies of wheat and flour which we are reasonably certain to obtain from Canada and Australia, together with the home crop, should be sufficient to give us a carry-over bulk stock of 5-1 weeks' cover at the end of June, 1949. This, however, is 3-9 weeks (502,000 tons) less than the minimum convenient carry-over of 9 weeks' supply, on which our plans should be based. Of this deficit of 502,000 tons about 226,000 tons could be covered by continuing the extraction rate at its present level, leaving a deficit of 276,000 tons to be covered in order to secure our supply position. The additional supplies will have to be obtained either by additional purchases from Russia or the Argentine or by requiring our own farmers to deliver all their millable wheat as in previous years. The Minister of Agriculture would prefer that the additional wheat should be purchased overseas and farmers allowed to retain 20 per cent. of their crop. While I appreciate his reasons, I regard the prospect of our being able to obtain what we need from either Russia or the Argentine as being too uncertain, and I feel that the only assured means of bridging the gap is by requiring farmers to deliver all their millable wheat. The Chancellor of the Exchequer will not, I presume, be anxious to attempt to resume purchases of wheat in the Argentine owing to the financial difficulties, and the exorbitant prices which the Argentines have been asking; we may be able to obtain Russian wheat on better terms, and should, in my view, attempt to do so in the forthcoming negotiations. But the possibility is too uncertain at the present stage to be made the basis of important decisions. Furthermore, we shall put ourselves in an indefensible position if we allow the feeding of hundreds of thousands of tons of millable wheat to animals while we have no complete assurance of being able to buy abroad sufficient wheat to maintain the bread supplies of our people at a sufficient level until the next harvest. The forward supply position for coarse grains, which is dealt with more fully in paragraph 5 below, is, however, such that we can well afford to replace the 20 per cent. of millable wheat which farmers have been promised from the 1948 crop by the release of an equivalent quantity of imported coarse grains. The Minister of Agriculture has always been most careful in his pledges to farmers to reserve this option. A decision as to whether we shall do this must be taken at once, and should be announced simultaneously with the de-rationing of bread.

Coarse Grains

5. On the assumption that the full 750,000 tons of coarse grains provided for in our current agreement with Russia are shipped by the end of September (which now seems probable) and if the present rate of utilisation is maintained, we should accumulate a stock of about 1 million tons of coarse grains at the end of April 1949, which is about 600,000 tons above the normal carry-over stock. The prospect of having to carry so large a stock, which largely results from the suspension of the livestock expansion programme, raises very serious problems. Suitable storage accommodation is limited and, while it may be possible to improve storage space, large quantities of maize would have to be bagged and moved into store away from the ports to airfields and the like. This would be expensive. Moreover, some of the imported maize is of poor keeping quality and will not store well. There would, therefore, be substantial loss by deterioration of quality and weight, though the extent cannot be estimated. In these circumstances, we might very well be compelled to accelerate the release of imported grain so that if farmers were allowed to retain 20 per cent. of their millable wheat, we should also have to issue as much additional coarse grain for animal feed as we should be committed to release in substitution for wheat if we required all home-grown wheat to be delivered. The possibility that we might be under pressure to divert some of our increasing stocks to other countries should also be borne in mind, especially if we make a contract with Russia for further substantial supplies. If these additional supplies should be forthcoming the present rate of shipment of coarse grains of about 100,000 tons a month would possibly continue from October onwards and our stocks of coarse grain at the end of April would be increased from the 1 million tons referred to above to some 1-6 million tons. In these circumstances, it seems to me that we must take steps to increase the rate of offtake of coarse grains at an early date by some arrangements which will not involve any continuing commitment to an increase in the level of animal feeding which it might be impossible to maintain. (The only supplies of coarse grains due to arrive in the United Kingdom after the end of April, 1949 from purchases already made are 200,000 tons from the Argentine, which should arrive before the end of June, 1949. Until we know the result of the forthcoming Russian negotiations we cannot estimate what supplies we are
likely to obtain from Russia to meet our animal feeding-stuffs' requirements in the second half of 1949 and thereafter.) Farmers have already been given permission to retain 20 per cent. of their barley and 20 per cent. of their millable wheat (or to receive coarse grains in substitution) from the 1948 crop; these concessions, together with the increase in the acreage of dredge corn in recent years, represent a considerable increase in supplies of feeding-stuffs. Therefore, suggest that the increased rate of offtake from Ministry of Food stocks which the prospective supply position necessitates, should be achieved by the proposals in the following paragraph.

6. Taking all the above factors into consideration, I propose that the following steps should be taken as soon as is administratively practicable (the figures in brackets show the estimated cost to Ministry of Food stocks of coarse grains in the period up to the end of April 1949):—

(i) the de-rationing of bread, with the consequential removal of the restriction on the service of bread in restaurants (nil);
(ii) the removal of oatmeal from points rationing (60,000 tons);
(iii) continuation of the recent freeing of barley products from points rationing (nil);
(iv) a small increase in the usage of maize and a corresponding reduction in the use of wheat for breakfast cereals (20,000 tons);
(v) farmers should be required to deliver all their millable wheat from the coming crop and should receive coarse grains in lieu of the 20 per cent. which they were promised they could retain (353,000 tons, against which we should collect 285,000 tons of wheat); and
(vi) the maintenance of the present extraction rate till the end of June 1949, unless we obtain additional supplies from Russia or elsewhere.

7. The proposals under (i) to (iii) are all desirable in themselves, but, in my view, should be considered together because the de-rationing of bread might be held to hold the element of risk that some bread or flour may be used for animal feeding unless the two succeeding proposals are put into effect at the same time. As an additional safeguard, however, and also in order to meet any objection from abroad to our de-rationing of bread, I would recommend the introduction of a scheme by which weekly offtake of flour is restricted to 100,000 tons (about the present figure) using the balance of 3,000 tons a week as a cushion to meet hardship cases and such local or seasonal difficulties as may arise. This scheme would, in addition, be so devised as to prevent altogether the purchase of flour in bulk for animal feed by farmers or the general public. Our present estimates of flour consumption are all based on an offtake of 108,000 tons a week. Under this arrangement, therefore, we should be able to de-ration bread without having to allow for any increased consumption in this country. This point would be of considerable importance in relation to international opinion both in America and elsewhere. In any case the harvest prospect in both Western Europe and the United States is now so assured and so favourable that I doubt whether we shall receive any criticism for de-rationing. The European countries will probably be de-rationing themselves in the near future. We should, I suggest, inform the United States Government of what we are going to do.

8. I ask for the agreement of my colleagues to the proposals contained in paragraph 6 above. I suggest 1st July as the appropriate date for the announcement of the de-rationing of bread and of the other measures proposed in paragraph 6 and for the adoption of a scheme to control the offtake of flour from the mills as recommended in paragraph 7.

J. S.

Ministry of Food, S.W. 1,
17th June, 1948.
ANNEX

BREAD GRAINS AND COARSE GRAINS

UNITED KINGDOM POSITION, 1948–49

During recent months a number of factors have combined to complicate our various assessments of the forward supply position as related to bread grains and coarse grains and to prevent the adoption of a firm utilisation programme for a substantial period ahead. As, however, "Marshall Aid" is now assured and some of the doubtful supply factors seem less uncertain, it is thought desirable to review the position afresh and to resolve, as far as may be practicable, the problems which still remain.

2. Wheat and Flour.—It now seems clear that "off-shore" assistance under the European Recovery Programme will be available to finance our purchases of wheat and flour from Canada during the cereal year 1948–49. This assures the bulk of our import requirements for that year, and, when allowance has been made for the arrivals which may be reasonably expected from Australia, it is now possible to estimate the balance required to meet consumption requirements and to provide a satisfactory stock level throughout the year. (A statistical table, with explanatory notes, is given in Appendix I.) For the purpose of the "M" programme of wheat/flour requirements (rationed basis), which was prepared on the assumption that assistance under the European Recovery Programme would be available, the flour offtake was estimated at 103,000 tons a week with flour extraction rate of 85 per cent. up to the end of December 1948, and 80 per cent. thereafter. On this basis and assuming imports of wheat and flour only from already assured sources and receipts of wheat from the home crop equalling about 61 per cent. or 1,347,000 tons (after 20 per cent. retention has been allowed for) during the next crop year, we should have a combined stock of wheat and flour at end June 1949 of about 5·1 weeks' supply. This is well below a workable level even under controlled offtake and well short of the prudent level if offtake were unrestricted. A much more satisfactory supply position could be assured, however, if the following measures were adopted:

(a) the substitution of coarse grains in lieu of the proposed 20 per cent. retention of millable wheat by home farmers. This would provide an additional 265,000 tons of wheat (see paragraphs 5 and 6 below);
(b) the continuation of the extraction rate at 85 per cent. after 31st December, 1948, which would save 177,000 tons of wheat in the first six months of 1949.

On this basis the combined bulk stocks of wheat and flour at end June 1949 would equal 8·9 weeks' supply, i.e., only slightly below the desired nine weeks' working stock.

The foregoing appraisement does not provide for the unrestricted use of bread and flour, and if rationing were abolished at the end of June 1948 and no steps were taken to restrict the offtake of flour it is prudent to assume that deliveries from mills might reach 106,000 tons of flour a week, which would increase wheat import requirements by about 200,000 tons during 1948–49. Provision would also be necessary for correspondingly larger stocks. A restriction on deliveries of flour by millers, however, could be introduced in place of the present bread rationing scheme, and offtake could be limited thereby to a maximum of 103,000 tons a week. Supplies to bakers would be fixed by reference to a predetermined datum usage, but to meet seasonal fluctuations in trade they would be permitted to draw supplies up to any amount during quarterly or other periods, provided always that the total taken during the period did not exceed datum usage. The adoption of this scheme and the de-rationing of bread should be preceded by the removal of oatmeal from the points rationing scheme and by some increase in the supply of cereal breakfast foods.
3. Coarse Grains.—The forward supply position for coarse grains (estimated as at 24th May) is set out in Appendix II. This shows that, on the assumption—

(i) that the home crop will be harvested under normal conditions;
(ii) that United Kingdom farmers will be permitted to retain 20 per cent. of their wheat crop and there is no substitution of coarse grains;
(iii) that the whole of the 750,000 tons of grain covered by the Anglo-Russian Agreement of December, 1947 is received by October, 1948;
(iv) that 1 million tons of the 1·2 million due under the Andes Agreement will arrive by the end of April, 1949; and
(v) that offtake for all purposes remains at present levels;

stocks of coarse grains in the United Kingdom will increase to about 1 million tons at the end of October, and will remain at about that level until April, 1949. This would be about 600,000 tons above the prudent stock level. Such a large stock arises from the postponement of the programme of increased ration issues for animal feeding, which it was hoped would become effective from 1st May, 1948, and the delay in restoring the cuts in human and industrial usage. It was, however, a condition precedent to the introduction of the expansion programme that stocks in the United Kingdom and supplies in sight should be adequate to meet the estimated increase in offtake over a reasonably long period—a condition which could not be fulfilled in face of the uncertainties referred to below. It should also be noted that, apart from the 200,000 tons of Argentine maize expected to arrive in May/June, 1949 (see 3 (iv) above), no arrangements have been made for the supply of the further quantities of coarse grains which will be required during the latter part of 1949 and the following years to meet requirements for human, industrial and animal feeding purposes. Moreover, in view of the statement by the Minister of Agriculture in the House of Commons on 25th March, any increase in the issue of feeding-stuffs implies a commitment on the Government to continue to make supplies available at the increased rate of offtake for several years.

4.—(a) Russia.—Of the 750,000 metric tons of grain included in the Anglo-Russian Agreement of December, 1947, the Russians may withhold 200,000 tons. For the purpose of this memorandum, however, it has been assumed that the whole of the 750,000 tons will be received. The Protocol provides that not later than May 1948 the parties shall meet to discuss the implementation of the agreement and draw up a balanced programme of shipments of coarse grains and wheat between the two countries. In this connection a further 1·5 million tons of all grains has been mentioned. If a new agreement is concluded we may well continue to receive heavy arrivals—perhaps at the present rate of about 100,000 tons a month—from Russia and the Argentine simultaneously until the last of the Argentine shipments under the Andes Agreement have been completed. Stocks would then increase above the figures shown in Appendix II and storage problems would be aggravated.

(b) Argentina.—Previous estimates of the quantity of coarse grain likely to become available for consumption in the United Kingdom under the Andes Agreement allow for 240,000 metric tons for Eire and 107,000 metric tons for British Services Overseas and for British interests in the Middle East. Eire has not accepted the 240,000 metric tons and about 55,000 metric tons of the quantity previously earmarked for the Services and the Middle East is now surplus to their requirements. On this basis a total of 1·2 million tons of Argentine grain should be received in the United Kingdom by June, 1949.

5. Farmers’ Retention.—It was decided by the Economic Policy Committee on 5th January, 1948 (E.P.C. (48) 1st Meeting, Minute 1) that:—

(a) Farmers would be free to retain for stock feeding 20 per cent. of their barley from the 1948 harvest.

(b) It was hoped that farmers might be similarly free to retain 20 per cent. of their 1948 wheat crop but they should understand that, if there should be an acute shortage of wheat for human consumption in 1948-49, the Government might find it necessary to require them to accept an equivalent ration of coarse grains in substitution for that 20 per cent. of wheat.

An early decision on the question whether growers are to be allowed to retain wheat from the 1948 crop or to receive coarse grains (or other feeding-stuffs) in
substitution is necessary in order to make an appreciation of the forward position. Growers also are anxious to know definitely what their position will be. It should be emphasised, therefore, that, if the substitution scheme is adopted, it will take some time to have forms printed and to make the necessary arrangements for putting the scheme into effect. For administrative reasons it would be impossible to introduce it after the new cereal year has begun on 1st August.

6. The effect of the alternatives referred to in 5 (b) above may be stated as follows:

(a) Since some farmers are already illegally retaining part of their millable wheat, it is probable that permission to retain 20 per cent. will not result in a reduction of millers' receipts by the full amount. It has been assumed in paragraph 2 above and in the statistical table in Appendix 1 that millers' receipts would be reduced from 73 per cent. (the average of the last six years) of the crop to 61 per cent. or 1,347,000 tons).

(b) On the other hand, if growers are required to sell all their millable wheat in return for an equivalent quantity of coarse grains (or other feeding-stuffs), it is reasonable to assume that millers' receipts in 1948-49 will not differ materially from the average of the past six years, i.e., 73 per cent. of the crop or 1,512,000 tons. This figure is 265,000 tons higher than the quantity of home grown wheat used for the statistical forecast in paragraph 2, and its effect would be to raise stocks at the end of June, 1949 by 2 weeks' supply.

(c) The quantity of coarse grains (or other feeding-stuffs) required to compensate growers if they are required to sell all their millable wheat will depend on the actual quantity of millable wheat sold off farms. Total sales of wheat (including seed) to approved buyers during the past six years have averaged 81 per cent. of the crop and, after making allowance for non-millable wheat, about 80 per cent. of the wheat crop must be taken into account in estimating the cost of replacement. The quantity of coarse grains required for this purpose would be 353,000 tons.

(d) Although it must be assumed that growers will sell 81 per cent. of their wheat crop as they have done on average in the past six years this may not be the case. Some growers may endeavour to retain 20 per cent. of their millable wheat and at the same time claim replacements in respect of the quantity sold off the farms; in this connection it may be pointed out that when growers are allowed to retain any millable wheat it will be very difficult to ensure that the retention of millable wheat is in fact restricted to 20 per cent. in individual cases. Moreover, it is thought that many farmers would take up their entitlement to coarse grains in substitution even if they had sufficient feeding-stuffs otherwise whereas these farmers who grow wheat as a sale crop would not necessarily retain the full 20 per cent. allowed under a retention scheme.

(e) Although, therefore, we may reasonably expect that the substitution of coarse grains would raise millers' receipts to 1,612,000 tons there can be no absolute guarantee that this will be so. To the extent that this estimate is not realised, the replacement scheme will not entirely achieve its object. Moreover, since the Ministry of Food would be issuing 350,000 tons of coarse grains against the expectation of an increase of 265,000 tons in millers' receipts of wheat, the substitution would cost 88,000 tons more of all grains unless there is an unexpectedly large increase in total sales by growers as compared with previous years.

(f) The financial cost of the substitution scheme would be more than that of the retention scheme but the amount would depend on the extent to which special storage arrangements are minimised by the substitution scheme. Under the latter, however, a subsidy would have to be paid both on the 265,000 tons extra home grown wheat to be received by millers and on the 350,000 tons of coarse grains issued to farmers whereas, if growers retain 20 per cent. of their millable wheat, while there is still a subsidy to be paid on the necessary additional imports of wheat or flour, no subsidy will be payable on the wheat which the farmers will retain for feed.
The following is a tabular statement of the effect of the alternatives on wheat and coarse grain supplies:

1. Estimate of millers’ receipts if substitution scheme is operated:

<table>
<thead>
<tr>
<th>Thousand Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of Crop (a)</td>
</tr>
<tr>
<td>Total sales of wheat to approved buyers and seed merchants (assuming average of past six years)</td>
</tr>
<tr>
<td>(b) Of which millable wheat</td>
</tr>
<tr>
<td>(c) Millers’ receipts</td>
</tr>
</tbody>
</table>

2. Estimate of millers’ receipts if 20 per cent retention allowed:

<table>
<thead>
<tr>
<th>Thousand Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of Crop</td>
</tr>
<tr>
<td>1,347 61</td>
</tr>
</tbody>
</table>

3. Estimate of extra quantities of wheat likely to be obtained if substitution scheme is operated:

<table>
<thead>
<tr>
<th>Thousand Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of Crop</td>
</tr>
<tr>
<td>265 13</td>
</tr>
</tbody>
</table>

4. Quantity of coarse grains required for replacement purposes if substitution scheme is operated:

<table>
<thead>
<tr>
<th>Thousand Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of Crop</td>
</tr>
<tr>
<td>353</td>
</tr>
</tbody>
</table>

5. Net saving in cereals if 20 per cent. wheat retention is allowed:

<table>
<thead>
<tr>
<th>Thousand Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons of Crop</td>
</tr>
<tr>
<td>88</td>
</tr>
</tbody>
</table>

(g) Subject to the considerations mentioned in paragraph 7, therefore, it would be preferable, both from the point of view of the most economical use of our total cereals supplies and also from the financial point of view, to allow farmers to retain 20 per cent. of their millable wheat; but our over-riding need is to maintain our bread and flour supplies through the cereals year 1948-49. To do this we require the whole of the home wheat crop unless we can make purchases of wheat overseas additional to those presently contemplated from Russia and which will be delivered with certainty by the end of 1948 or the beginning of 1949.

7. Even with the increased utilisation of coarse grains which would result from issuing coarse grains to farmers in lieu of wheat, the heavy accumulation of stocks which will take place during the coming months may prove to be very difficult indeed to carry, and it is not improbable that we may be under pressure to make some part of them available to other countries. Suitable storage accommodation in the United Kingdom is limited and special arrangements may have to be made to cope with the grain from the home crop in addition to the large volume of imported grain. While it may be possible to improvise storage space, large quantities of maize will have to be bagged and moved into store away from the ports. This will be expensive. Moreover, some of the imported maize is of poor keeping quality and will not store well. There will, therefore, be some loss by deterioration of quality and weight, but the extent cannot be estimated. In these circumstances pressure to release additional supplies to farmers for animal feeding may be considerable.

8. From what has been said above it will be seen that it is impossible at this date to make a comprehensive and dependable review of the United Kingdom’s cereal supply position for 1948-49. The two major factors which are still uncertain are:

(a) the outturn of the 1948 harvest; and
(b) the extent of which we are able to arrange for continuing supplies of grain from Russia when shipments under the current agreement come to an end.

In these circumstances it would be imprudent to put forward now a comprehensive set of recommendations for the utilisation of all our prospective supplies in the coming crop year. Two matters, however, call for policy decisions which cannot be postponed. The first is the de-rationing of bread and flour on which there has already been a good deal of speculation in the press and on which questions have been asked in Parliament. Second, the rapid accumulation of coarse grain stocks which will take place in the next few months will necessitate some increase in the rate of consumption, even though the longer term supply prospects are still too obscure to enable us to say that a substantial increase in the existing level of animal feeding can be maintained. It is suggested that the most practical way to deal with this situation would be:

(i) to de-ration bread and flour, while pegging flour offtake from mills at not more than 108,000 tons a week;
(ii) to remove the present restrictions on the consumption of oatmeal and oat products, continue this relaxation in the case of barley products and increase the supply of other cereal breakfast foods.

(iii) to require farmers to deliver all their millable wheat from the 1948 harvest and to issue coarse grains on the basis set out in paragraph 6.

Of the above measures (i) would get rid of the tiresome and now largely ineffective bread and flour rationing scheme without increasing flour consumption. As regards the proposal at (ii), oatmeal and barley products were brought within the scope of the points rationing scheme at the same time as bread rationing was introduced, and it is a natural and logical step to de-ration them at the same time. Moreover, the proposals at (ii) may help to counteract a tendency to feed de-rationed wheat products to domestic animals which might otherwise imperil the success of the scheme for restricting flour offtake. Finally, the proposal at (iii) would secure about 265,000 tons of wheat which we need to maintain our flour supplies through the coming crop year, and which would otherwise have to be purchased from overseas, while it would also result in a release of about 350,000 tons of coarse grains in a way which would relieve our storage difficulties and would involve no continuing commitment to an increase in the level of animal feeding which our future supplies might make it impossible to maintain.

Ministry of Food, June, 1948.
## APPENDIX 1

### WHEAT AND FLOUR—UNITED KINGDOM

As at 7th June, 1948.

<table>
<thead>
<tr>
<th>Month</th>
<th>Bulk stock at beginning of month</th>
<th>Arrivals from—</th>
<th>Receipts of Home Grown Wheat (assuming 20% retention)</th>
<th>Estimated bulk stock at end of month (assuming 20% retention)</th>
<th>Estimated bulk stock at end of month (assuming substitution)</th>
<th>Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>806 (5 wks)</td>
<td>221</td>
<td>97</td>
<td>700 (53 wks)</td>
<td>700 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>700 (4 wks)</td>
<td>254</td>
<td>84</td>
<td>681 (53 wks)</td>
<td>681 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>681 (4 wks)</td>
<td>339</td>
<td>68</td>
<td>770 (53 wks)</td>
<td>770 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>596 (4 wks)</td>
<td>217</td>
<td>35</td>
<td>539 (53 wks)</td>
<td>539 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>511 (5 wks)</td>
<td>227</td>
<td>18</td>
<td>488 (53 wks)</td>
<td>488 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>539 (4 wks)</td>
<td>368</td>
<td>25</td>
<td>873 (53 wks)</td>
<td>873 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>488 (5 wks)</td>
<td>306</td>
<td>18</td>
<td>712 (53 wks)</td>
<td>712 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>439 (4 wks)</td>
<td>315</td>
<td>170</td>
<td>709 (53 wks)</td>
<td>709 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>439 (5 wks)</td>
<td>210</td>
<td>170</td>
<td>720 (53 wks)</td>
<td>720 (53 wks)</td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>380 (5 wks)</td>
<td>242</td>
<td>180</td>
<td>3,231 (26 weeks)</td>
<td>3,231 (26 weeks)</td>
<td></td>
</tr>
<tr>
<td>November</td>
<td>340 (5 wks)</td>
<td>220</td>
<td>120</td>
<td>1,810 (85% ext.)</td>
<td>1,810 (85% ext.)</td>
<td></td>
</tr>
<tr>
<td>December</td>
<td>364 (5 wks)</td>
<td>210</td>
<td>991</td>
<td>806 (85% ext.)</td>
<td>806 (85% ext.)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>85% ext. 4,362 (58 weeks)</td>
<td></td>
<td></td>
<td>2,107 (427)</td>
<td>2,107 (427)</td>
<td></td>
</tr>
</tbody>
</table>

**Other purposes**

<table>
<thead>
<tr>
<th>Month</th>
<th>Bulk stock at beginning of month</th>
<th>Arrivals from—</th>
<th>Receipts of Home Grown Wheat (assuming 20% retention)</th>
<th>Estimated bulk stock at end of month (assuming 20% retention)</th>
<th>Estimated bulk stock at end of month (assuming substitution)</th>
<th>Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>539 (4 wks)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>488 (5 wks)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August</td>
<td>439 (4 wks)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>439 (5 wks)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>October</td>
<td>380 (5 wks)</td>
<td></td>
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<td></td>
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<tr>
<td>November</td>
<td>340 (5 wks)</td>
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</tr>
<tr>
<td>December</td>
<td>364 (5 wks)</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Total</td>
<td>85% ext. 4,362 (58 weeks)</td>
<td></td>
<td></td>
<td>2,107 (427)</td>
<td>2,107 (427)</td>
<td></td>
</tr>
</tbody>
</table>

**No. of weeks supply**

<table>
<thead>
<tr>
<th>Month</th>
<th>Wheat</th>
<th>Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>February</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>March</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>April</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>May</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>June</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>July</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>August</td>
<td>6</td>
<td>5</td>
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<tr>
<td>September</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>October</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>November</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>December</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

**Utilisation Milled**

<table>
<thead>
<tr>
<th>Month</th>
<th>Wheat</th>
<th>Flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>583</td>
<td>583</td>
</tr>
<tr>
<td>February</td>
<td>544</td>
<td>544</td>
</tr>
<tr>
<td>March</td>
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</tr>
<tr>
<td>April</td>
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</tr>
<tr>
<td>May</td>
<td>544</td>
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<tr>
<td>June</td>
<td>544</td>
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<tr>
<td>July</td>
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<td>August</td>
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<td>September</td>
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<td>October</td>
<td>544</td>
<td>544</td>
</tr>
<tr>
<td>November</td>
<td>544</td>
<td>544</td>
</tr>
<tr>
<td>December</td>
<td>544</td>
<td>544</td>
</tr>
<tr>
<td>Total</td>
<td>544</td>
<td>544</td>
</tr>
</tbody>
</table>
NOTES ON WHEAT AND FLOUR STATISTICS—APPENDIX I

1. Home-Grown Supplies
   (a) The latest estimates made by the Agricultural Departments indicate that the target of 2.5 million acres for 1948 will not be achieved and the 1948 acreage will not exceed 2,350,000 acres. On the basis of the ten-year average yield and assuming that growers will be permitted to retain 20 per cent. of their millable wheat for animal feed, it is estimated that millers will receive 61 per cent of the crop, i.e., 1,347,000 tons during the crop year August, 1948, to July, 1949.
   (b) If coarse grains are substituted for the proposed 20 per cent. wheat retention, millers’ receipts may be increased to 73 per cent of the crop, i.e., 265,000 tons more than the quantity included above.

2. Flour Extraction Rate
   (a) 85 per cent until end-December, 1948.
   (b) For the period January–June, 1949, alternative calculations based on 85 per cent. and 80 per cent. extraction respectively are shown in the last two columns. If the extraction rate be maintained at 85 per cent. throughout the period, the saving in wheat in the first half of 1949 would be 177,000 tons.

3. Distribution
   It has been assumed that flour deliveries will average 103,000 tons per week.

4. Assumed Assured Imports
   Canada.—Delivery of full contract quantity for 1947–48 crop year by August, 1948; and reasonable rate of delivery of full contract quantity for 1948–49.
   Australia.—Completion of wheat shipments against 1947 crop contract by December, 1948; and negotiation of wheat shipments at reduced rate from 1948 crop of which it has been assumed provisionally that 100,000 tons will arrive in the United Kingdom by June, 1949. It has also been assumed that 140,000 tons of Australian flour will become available for shipment to the United Kingdom up to October, 1949.
   Argentina.—Balance of purchase from 1947 crop.
   France.—Replacement not later than December, 1948, of 34,000 tons wheat flour recently diverted to France.

5. Possible Additional Imports
   Russia.—The Ministry’s provisional import programme for 1948–49 included 300,000 tons of wheat from this source in January–June, 1949, and a substantial quantity has been proposed in connection with the forthcoming trade talks, but the uncertainties regarding this source of supply do not justify its inclusion in forecasts of the United Kingdom stock position.
   Argentina.—No provision has been made for further purchases from this source although substantial supplies are believed to be available for export on Argentina’s terms.

6. Combined Wheat–Flour Stocks at end-June, 1949
   The statement shows—
   (c) that if growers are permitted to retain 20 per cent. of their millable wheat from the 1948 harvest and the flour extraction rate is reduced to 80 per cent. in January, 1949, combined stocks at end-June, 1949, will equal only 5.1 weeks’ supply. To secure the desired 9 weeks’ working stocks an additional 562,000 tons of imported wheat would be required;
   (d) that if growers are not permitted to retain 20 per cent. of their millable wheat from the 1948 harvest and the flour extraction rate is maintained at 85 per cent., combined stocks at end-June, 1949, should equal 8.9 weeks’ supply (i.e., only slightly below the desired 9 weeks’ working stocks) without any additional imported supplies.
### APPENDIX II

#### COARSE GRAINS

*Estimated Arrivals, Home Grown Receipts, Requirements at Current Levels, and Resulting Stocks*

<table>
<thead>
<tr>
<th>Month</th>
<th>Arrivals</th>
<th>Ministry Receipts</th>
<th>Requirements for all purposes at current levels</th>
<th>Estimated end Stock including last 200 from Russia</th>
<th>Total excluding last 200 from Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Home Grown Barley</td>
<td>Barley</td>
<td>Barley</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 1948</td>
<td>194</td>
<td>138</td>
<td>257</td>
<td>64</td>
<td>544</td>
</tr>
<tr>
<td>June 1948</td>
<td>161</td>
<td>111</td>
<td>220</td>
<td>70</td>
<td>394</td>
</tr>
<tr>
<td>July 1948</td>
<td>226</td>
<td>120</td>
<td>274</td>
<td>78</td>
<td>719</td>
</tr>
<tr>
<td>August</td>
<td>193</td>
<td>23</td>
<td>267</td>
<td>105</td>
<td>792</td>
</tr>
<tr>
<td>September</td>
<td>260</td>
<td>26</td>
<td>263</td>
<td>115</td>
<td>884</td>
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<tr>
<td>October</td>
<td>238</td>
<td>20</td>
<td>285</td>
<td>136</td>
<td>991</td>
</tr>
<tr>
<td>November</td>
<td>136</td>
<td>10</td>
<td>311</td>
<td>149</td>
<td>1,028</td>
</tr>
<tr>
<td>December</td>
<td>128</td>
<td>5</td>
<td>337</td>
<td>162</td>
<td>1,052</td>
</tr>
</tbody>
</table>

**1949**

<table>
<thead>
<tr>
<th>Month</th>
<th>Arrivals</th>
<th>Ministry Receipts</th>
<th>Requirements for all purposes at current levels</th>
<th>Estimated end Stock including last 200 from Russia</th>
<th>Total excluding last 200 from Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>November</td>
<td>136</td>
<td>10</td>
<td>311</td>
<td>149</td>
<td>1,028</td>
</tr>
<tr>
<td>December</td>
<td>128</td>
<td>5</td>
<td>337</td>
<td>162</td>
<td>1,052</td>
</tr>
</tbody>
</table>

**Total** 1,972 120 1,610

**NOTES**

(a) The above figures assume Argentine new contract maize will be shipped at the average rate of 120,000 tons a month from July and that the 925,000 metric tons bought for United Kingdom together with 55,000 metric tons out of the quantity bought for Services Overseas but now surplus to their estimated requirements will arrive in United Kingdom by April 1949. If the 240,000 metric tons bought for Eire are eventually shipped to United Kingdom, it is estimated at present that this quantity would not arrive until May-June 1949.

(b) Columns 1 to 8 assume that 750,000 metric tons grain bought from Russia will be shipped in full; column 9 shows total stocks excluding the last 200,000 metric tons.

(c) Requirements as current levels. No provision has been made for possible substitution of coarse grains in lieu of 20 per cent. wheat retention.

(d) Estimated stocks of maize, barley and oats in columns 5 to 7 are based on usage of oats with oatmeal on points and upon 10 per cent. of feeding-stuffs issued against cereal feed coupons being barley/meal.

### APPENDIX III

#### AVERAGE WEEKLY DELIVERIES OF FLOUR ON UNITED KINGDOM ACCOUNT

**January 1945-May 1948**

<table>
<thead>
<tr>
<th>Month</th>
<th>1945 (000 tons)</th>
<th>1946 (000 tons)</th>
<th>1947 (000 tons)</th>
<th>1948 (000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>98-5</td>
<td>98-2</td>
<td>96-4</td>
<td>96-7</td>
</tr>
<tr>
<td>February</td>
<td>100-5</td>
<td>103-5</td>
<td>104-8</td>
<td>101-1</td>
</tr>
<tr>
<td>March</td>
<td>98-1</td>
<td>103-5</td>
<td>104-8</td>
<td>101-1</td>
</tr>
<tr>
<td>April</td>
<td>101-4</td>
<td>100-7</td>
<td>100-7</td>
<td>101-2</td>
</tr>
<tr>
<td>May</td>
<td>96-6</td>
<td>98-2</td>
<td>96-7</td>
<td>100-3</td>
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<tr>
<td>June</td>
<td>103-7</td>
<td>97-0</td>
<td>99-3</td>
<td>...</td>
</tr>
</tbody>
</table>

**Average January–June** 99-8 103-2 99-3 100-5

| July      | 98-0            | 95-7 (a)        | 96-4            | ...             |
| August    | 95-1            | 78-0            | 97-4            | ...             |
| September | 102-0           | 78-9            | 100-7           | ...             |
| October   | 165-9           | 94-3            | 101-4           | ...             |
| November  | 104-7           | 95-4            | 102-1           | ...             |
| December  | 97-2            | 97-1            | 98-4            | ...             |

**Average July–December** 100-6 90-6 99-4

**Average for year** 100-2 96-6 99-3

(a) Bread rationing introduced with effect from 21st July, 1946.

(b) Flour deliveries from mills were restricted during the period of six weeks ended 7th June, 1947.

(c) Average January–May only.
CABINET

GRAIN SUPPLIES FOR THE UNITED KINGDOM, 1946-48

Memorandum by the Minister of Agriculture and Fisheries

In his memorandum (C.P. (48) 152) the Minister of Food recommends the early derationing of flour and bread together with the removal from points of oatmeal and barley products and an increase in the use of maize for breakfast foods.

I fully support the proposal to deration flour and bread and in view of the reasons advanced by the Minister of Food, I do not object to his proposals concerning oat and barley products. There are, however, strong reasons against his recommendation that farmers should be required to surrender all (instead of 80 per cent.) of their millable wheat and receive coarse grains in substitution.

2. On 17th February, 1947, on 26th April, 1947, and again in August, 1947, I announced, with the agreement of my colleagues, that growers would be allowed to retain a proportion of millable wheat of the 1948 harvest to feed to their livestock. Those announcements were not qualified in any way, and farmers sowed their crops and embarked on their livestock expansion programme in the expectation that they would be able, if they wished, to retain 20 per cent. of their millable wheat. Many of them would greatly prefer wheat to other coarse grains, especially where the feeding of poultry is in question. It was not until the meeting of the Economic Policy Committee on 5th January, 1948 (E.P.C. (48) 1st Meeting, Minute 1) that it was decided to warn farmers that if there should be an acute shortage of wheat for human consumption, it might be necessary for the Government to ask them to retain an equivalent quantity of coarse grains in substitution. This warning I conveyed to farmers in a broadcast talk on 8th January, 1948. I should find it difficult to explain to farmers that there is an acute shortage of wheat for human consumption at the same time that flour and bread are being derationed.

3. In the Annex to the Minister of Food's memorandum it is recognised (paragraph 6 (g)) that both from the financial point of view and from that of economical use of cereal supplies, the retention by farmers of their 20 per cent. of millable wheat is to be preferred to the surrender of that wheat and the substitution of coarse grains. The Minister of Food recommends substitution solely to ensure that stocks of wheat and flour at the end of June, 1949 shall be not appreciably below 6 weeks' supply.

The Minister of Food estimates that if farmers are
allowed to retain 20 per cent. of their millable wheat, but the milling ratio is maintained at 85 per cent. up to the end of June, 1949, wheat stocks at that date will fall short by 276,000 tons of the desirable level of 9 weeks' supply. The Agriculture Departments' estimate of wheat deliveries on the basis of recent crop conditions is, however, 100,000 tons in excess of that assumed by the Ministry of Food. This would reduce the deficit to 176,000 tons.

5. The Minister of Food proposes to introduce a scheme to limit the offtake of flour after rationing ends to 100,000 tons per week, but he is allowing 3,000 tons as a cushion to meet special cases of hardship or local scarcity. With a large potato crop in prospect and with oat and barley products freed from points, there would appear to be a good chance that releases can be limited to the 100,000 tons per week, which represents both the 1945 and the 1947/48 average. The cumulative effect of a weekly saving of 3,000 tons would reduce the deficit to about 20,000 tons.

6. Negotiations with Russia are due to be resumed shortly and it is proposed to seek an annual supply of at least 1,500,000 tons of grain of which a proportion will be wheat. There are also possibilities of securing additional supplies of wheat from other sources, e.g. Canada, Argentine. Should it not be possible to effect the savings described in paragraph 5, the deficit might still be covered by purchases of Russian or other grain to arrive before 30th June, 1949.

7. In the unlikely event of all these further supplies failing (including a home crop falling short of present expectations) the stock of wheat and flour at the end of June would be 6.7 weeks' supply. Although I recognise that this might involve some risk, it is a risk which, I suggest, might well be accepted over the short period until new crop English wheat becomes available.

8. I would urge my colleagues, therefore, to agree that farmers should be allowed to retain 20 per cent. of their millable wheat instead of having to sell that wheat and receive coarse grains in substitution. Substitution would involve a larger outlay, both in cash and corn, since many farmers who would in any circumstances have sold all their wheat would naturally not hesitate to take subsidised coarse grains if they were on offer. It would also mean that a substantial part of the grain would go to fatten cattle. Our rationing system provides no rations for this purpose. It is very desirable to give additional rations for pigs and poultry, especially to broaden the basis of rationing.

9. Coarse Grains

The Minister of Food points out that stocks of coarse grains will amount to a million tons at the end of April, 1949 or about 600,000 tons more than the normal carry over. If proposals for the removal of oatmeal from points and for increasing the supply of maize for breakfast foods will absorb 100,000 tons, there will still be a surplus of about 500,000 tons in excess of the normal carry over stock. He advises that there should be no additional issues for feedingstuffs purposes owing to the obscurity of supplies in 1949/50 and as the accumulated stocks might prove embarrassing he regards this as an additional reason for substituting coarse grains for wheat.

10. The dissipation of some 350,000 tons of coarse
grains in this manner would do nothing to assure future supplies. Indeed it would make it more difficult to maintain rations during 1949/50. With a surplus in 1948/9 of some 500,000 tons, I would urge that up to 150,000 tons should be released so that I may widen the conditions of eligibility for rations for pigs and poultry—a step which in itself is as desirable as the removal of oatmeal and barley products from points and one which I am under constant pressure in the House of Commons to take. This would still leave a balance more than sufficient to provide for the continuance of this wider basis for at least another year. It should be possible to find from our own supplies and imports sufficient coarse grains through 1949/50 to enable the existing ration scales (apart from those to newcomers to which I have referred) to be maintained.

The Agriculture Ministers were agreeable in January last to comply with an understanding that pending a review of the grain position, no additional use of coarse grains should be undertaken for either human, or industrial purposes, or livestock feeding. Since that time additional quantities have been allocated for distilling and for brewing and the points required for oatmeal and barley products have been reduced. The Minister of Food's memorandum now proposes that oatmeal and barley products should be taken off points and more maize should be used for breakfast cereals. He suggests that no decision should be made as to further increases in the rate of utilisation of coarse grains for livestock or for human or industrial purposes. In view of the quantities of coarse grains that have in fact gone, or are likely to go, for human and industrial purposes since the last standstill agreement was made, I feel strongly that before a new standstill is agreed upon some additional supplies of coarse grains could legitimately be earmarked for livestock.

T.W.

Ministry of Agriculture and Fisheries, S.W. I.,
16th June, 1948.
ARRIVAL IN THE UNITED KINGDOM OF JAMAICAN UNEMPLOYED

Memorandum by the Secretary of State for the Colonies

In view of the interest which is being shown in Parliament and in the press in the matter of the 417 Jamaicans who are due to arrive at Tilbury on 21st June on the S.S. EMPIRE WINDRUSH, I think it is desirable that the Cabinet should be aware of the arrangements which the various Departments concerned are making to deal with the situation. I should, however, first like to explain the circumstances in which these men decided to come to Great Britain.

2. Circumstances of Arrival. It will be appreciated that the men concerned are all British subjects. The Government of Jamaica has no legal power to prevent their departure from Jamaica and the Government of the United Kingdom has no legal power to prevent their landing. This is a spontaneous movement by Jamaicans who have saved up enough money to pay for their own passages to England, on the chance of finding employment, as they are free to do now that Government allocation of berths has been discontinued. We do not know who were the ringleaders in the enterprise, but I have asked the Governor of Jamaica for a report on this point. It was certainly not organized or encouraged by the Colonial Office or the Jamaica Government. On the contrary, every possible step has been taken by the Colonial Office and by the Jamaica Government to discourage these influxes. Not only has the position about employment and accommodation in the United Kingdom been explained by me to the Governors in correspondence but a senior officer of my Department visited Jamaica and certain of the other West Indian Islands last year and made great efforts to explain the difficulties at this end and to discourage people from coming over to this country on the chance of finding work. There was ample publicity in the Jamaican press of the difficulties which men might meet if they came to England. Before this party of 417 left Jamaica they were warned by the Jamaican Government about the difficulties which would beset them on their arrival in this country, but they decided, as they are free to decide, to take the risk. As I say, the Jamaican Government has no legal power to prevent them leaving the Island, and I doubt the wisdom of authorising a British Colonial Government to take such power in peace-time. In any case, Jamaica has reached such an advanced stage on the road to self-government that it would be impossible to compel them to legislate in this sense by directions from London. I do not think that a similar mass movement will take place again because the transport is unlikely to be available, though we shall be faced with a steady trickle, which, however, can be dealt with without undue difficulty. The immediate point however is that these 417 men are due to
arrive on 21st June, and unless there is to be a public scandal and the possibilities of disorder, some arrangements must be made to deal with the situation.

3. Underlying Causes. Until the economic situation in Jamaica improves there is bound to be a desire among many persons there to seek work elsewhere. The Jamaica Government is doing everything it can to deal with unemployment in a situation of over-population and high birth rate. There are at present some 50,000 unemployed or underemployed in the Island. Some limited relief is given by the recruitment of West Indians for work in the United States of America but most external fields of employment no longer exist. The problem is a long-term one and, for the constitutional reason given above, the internal economy of Jamaica cannot be planned from London. The economic developments now going forward in Jamaica are mainly agricultural and most of the unemployed are men who are unfitted or unwilling to enter agricultural employment. Work of the kind they want might be afforded by extensive industrial development but, even apart from the limitations placed on such development by the extent of the local market, we have hitherto found it impossible to get the machinery, structural steel and other equipment necessary for such development on any large scale. For example, various proposals for cement production have all so far foundered on that difficulty. We have now the Report of the Commission to British Guiana and projects are being examined in the hope that some relief may be given by settlement both in British Guiana and British Honduras.

A. Size of Immediate Problem in United Kingdom. The Colonial Office itself has no executive powers in the United Kingdom and must of course rely on the services of other Departments. The Colonial Office administers a number of hostels, primarily but not exclusively, for colonial students, and can accommodate approximately 70 of these arrivals in their hostel in Wimpole Street for a few days. This hostel is, strictly speaking, for colonial Servicemen only, and if the vacancies are filled up by non-Servicemen there are likely to be protests from Servicemen who will have to use other Service hostels for the time being. But in view of the emergency this risk must be taken. It may allay criticism to some extent if, as I intend, ex-Servicemen are selected to go to this hostel. It is probable that about 350 out of the 437 will be without accommodation on arrival, so that some arrangements will have to be made for the balance of about 280, for whom Colonial Office hostel accommodation is not available.

5. Measures Proposed. The matter has been discussed between the various Departments concerned, and I think it is clear that the problem has got to be tackled, as one outside ordinary provision such as the Poor Law and as a combined operation without too much insistence on normal departmental responsibilities. I need not recount all the possibilities which have been considered and rejected as impracticable on one ground or another. The most hopeful solution is that the men should be provided with transport from Tilbury to some central point which can be used as a "clearing house" or "transit camp"; and the War Office have agreed to make available for this purpose the Deep Shelter at South Cleeve. The immediate problem of accommodation is therefore met and arrangements to cover transport and food are in hand. This is not ideal, but ordinary surface accommodation for so large a number is apparently unsatisfactory; and there is considerable convenience in having the men (other than the odd 70 at the Colonial Office hostel) all together.
6. Arrangements are being made for the boat to be met by representatives of the Colonial Office and the Ministry of Labour, and the Ministry of Labour have undertaken to do everything in their power to help the men to find employment in England as quickly as possible. It is understood that some at any rate of the arrivals are anxious to join the Armed Forces. About two-thirds of the total are in fact ex-Servicemen. Many of the men will arrive with only a limited amount of funds, having spent most of their savings on buying their passages to England. It may therefore be necessary to grant them public assistance until they find employment, but there is machinery for dealing with this particular problem through the Assistance Board. They may also need assistance towards railway fares to their ultimate destinations. The whole matter is being vigorously dealt with by the Departments concerned under the chairmanship of the Ministry of Health.

7. Possibility of Employment Overseas. The doors of Cuba and Panama are now closed and employment in the United States of America is very restricted. These men want work in England. We shall try to open up possibilities in British Guiana and British Honduras. There have been psychological difficulties about employment in Africa and I am informed that it is doubtful if these men have the skills that are wanted there from time to time. But that problem will be explored further though my present enquiries are not encouraging.

A.C.J.

Colonial Office, S.W. 1.,

18th June, 1948.
CABINET

NUTRITION ENQUIRY IN THE ANGLO-UNITED STATES ZONE OF GERMANY

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I attach for the information of my colleagues a report by Sir Jack Drummond and Professor Cowell on the nutritional position in Germany.

2. The circumstances of this report are as follows:—

Some weeks ago the United States Secretary of the Army appointed a Commission to undertake a nutrition enquiry in the Bizonal area and invited a British nutritional expert to be associated with the work of the Commission. Sir Jack Drummond and Professor Cowell were selected for this task. The official report of the Commission is at present under consideration by the United States Government, but at my suggestion the United Kingdom representatives prepared an independent confidential report which is, I am told, in some respects rather fuller than the official report but follows its general lines. It is this independent confidential report which I now circulate.

3. The nutritional state of the people in the Bizonal area is well summarised in the fourth part of the report. This says that it has now become stabilised at a level which permits the maintenance of a fair state of health, but in the case of the industrial workers, particularly in the big cities, is not always capable of supporting full working capacity. The general conclusion to be drawn from the report therefore is that from a health point of view the Bizonal area has turned the corner of its food problem, but that the level of feeding must be raised further if German production is to be maximised and the Bizonal area play its part in the European Recovery Programme.

4. The report gives an interesting indication of the additional number of calories which will be required in order to meet these needs. It recognises firstly that the current practice by which the calorie level is estimated in terms of the basic normal consumer ration is no longer realistic owing to supplements and the obtaining of supplies off the ration. On the other hand inevitable wastage must be held to account for a loss of at least 10 per cent, between the calorie level at the retail stage of distribution (on which the basic normal consumer ration is calculated) and the amount actually eaten by the normal consumer. The result of these calculations is this. Taking into account supplementary rations and off-the-ration foods, the present basic normal consumer ration of about 1,500 calories daily probably implies an average per capita ration of 2,220 calories daily at the retail distribution stage. Making allowance for wastage, this would give an actual consumption of about 2,000 calories. The corresponding figures relating to a 1,800 calorie level which it is hoped to provide within two months are 2,500 and 2,220 calories respectively.

5. This last figure cannot, however, be regarded as satisfactory from the point of view of maximising production. The report estimates that it is only when a figure of 2,540 calories (corresponding to the present 2,000 and the expected 2,250 quoted above) is reached that provision will have been made for rehabilitation, restitution of weight and full working capacity.
6. The report also contains some interesting comments which are summarised below:

(i) The rationing system should be simplified and the wide variety of special categories entitled to exceptional rations gradually abolished. This policy is one which I myself have been advocating for some little time.

(ii) A greater variety of food is required and in particular more meat and fat is essential if the best results are to be obtained.

(iii) One staple and cheap commodity such as bread or potatoes should be derationed as soon as possible.

(iv) The Black Market necessitates additional supplies from overseas to bolster up the official ration, which has in turn been sapped by the drainage of the Black Market. Nothing can be done to eradicate a firmly established Black Market except the supply of more food through legal channels.

(v) Some 16 per cent. of industrial production, not returned in official records, is diverted through various channels to secure increased food for the workers.

(vi) German doctors and scientists tend to be out-of-date in their knowledge and lacking in objectivity. Many of their statements about German feeding are strongly influenced by political considerations and must not be taken at their face value.

7. We hope that the report of the Commission will influence the United States Congress to vote sufficient funds to render possible the introduction of a normal consumer ration of 2,000 calories per day in the near future. In the meantime, I am in touch with British officials in Germany on the subject of this report and the measures which can be taken to give effect to such of its recommendations as are practicable under existing conditions. Official action by the Bizonal authorities can, however, only be taken on the basis of the official report prepared under the auspices of the United States Secretary of the Army; and the appearance of this report is now awaited.

E. B.

Foreign Office, S.W. 1,
21st June, 1948.

ANNEX

REPORT OF THE BRITISH PARTICIPANTS IN THE NUTRITION ENQUIRY IN THE ANGLO-UNITED STATES ZONE OF GERMANY UNDERTAKEN BY A COMMISSION APPOINTED BY THE UNITED STATES SECRETARY OF THE ARMY IN MAY 1948

The terms of reference were to survey the state of nutrition of the German people and to determine the amount of food which would have to be made available to them in order that they might play their full part in the task of achieving European recovery.

The visit to Germany was between 12th and 28th May, during which time members of the Commission visited a number of towns in the American and British Zones. Many samples of the German population in factories, schools and universities were examined, and many British, American and German Public Health Officers, nutrition experts, scientists and physicians were interviewed.

We found ourselves in close agreement with our American colleagues, and the findings which we are about to report are substantially the same as those embodied in the Official American Report in the drafting of which we participated.

1. Nutrition and Health

From our own previous experience in Germany, our personal observations during this present enquiry and the mass of data placed at our disposal in both Zones, we conclude that the nutritional state of the Germans improved during the past year, after a period during which their physical condition had deteriorated. Their nutritional shape has, in fact, now become stabilised at a level which
permits the maintenance of a fair state of health, but in the case of the industrial worker, particularly in the big cities, is not always capable of supporting full working capacity.

The farmers and rural dwellers are, for the most part, as well nourished as before the war.

The present level of nutrition among the industrial workers in the cities represents a state of chronic depletion, with subsistence on an amount of food which does not permit full output of work. This state of depletion is characterised primarily by a loss of weight, which affects many adult town dwellers and among whom it is commonly of the order of fourteen to twenty pounds below acceptable "normal" standards.

Many of the German figures quoted to us for the incidence of various degrees of underweight were clearly unreliable, since they were based on the Broca scale which is notoriously untrustworthy. The Broca standard is used to decide whether or not a German is entitled to receive supplementary rations for underweight. Actual measurements of British army personnel have shown that a large proportion of men would qualify for the underweight supplement according to the Broca scale.

Such losses of weight are not uncommonly accompanied by loss of strength and vigour and by the following additional effects, all of which become more marked as more weight is lost:

(a) Muscular wasting, accounting in part for loss of strength;
(b) Lowered rate of body metabolism;
(c) Mild anaemia;
(d) Lowered basal pulse rate, blood pressure and body temperature;
(e) Variable degrees of inattention, irritability or apathy.

On the other hand, there were many features in the situation which were reassuring from the health point of view:

(a) There was an absence of any significant amount of specific vitamin or mineral deficiency disease apart from rickets, the rather high incidence of which is attributable to the very imperfect distribution by the Germans of available supplies of vitamin D.
(b) The average body weights of children of pre-school and school ages are not appreciably below the pre-war levels and are almost the same as those of American children of the same age and height. These averages include the weights of many children from rural areas. In urban areas the children show a variable amount of underweight which is most marked in those between the ages of nine and fourteen. The impression we gained from the clinical examination of urban children supports the truth of these body weight observations.
(c) The General Mortality Rate in Bizonal Germany still compares favourable (except in Berlin) with that obtaining in England and Wales. Even in Berlin, where it has been exceptionally high, it is now falling.
(d) The Infant Mortality Rate, though higher than it was in the pre-war years, was considerably lower in 1947 than in 1946. In Berlin it has been exceptionally high since the war, but has fallen a great deal since 1945.
(e) The Birth Rate compares satisfactorily with that in other European countries, though it is not as high as it was in the pre-war years when it was being boosted up by unorthodox methods.
(f) There have been no serious epidemics nor any significant increase in infectious diseases, except tuberculosis.
(g) Much has been said and written about the increase in tuberculosis in Germany since the war. We felt that it would be presumptuous of us to attempt any personal investigation of the true position, since we were familiar with the two official reports on Tuberculosis in Germany recently published respectively by the Foreign Office (1948) and the Office of Military Government for Germany (United States) (1948).* Both of these reports state that this disease is declining after a rise during the war and in most parts of Bizonal Germany is approaching the pre-war level, though it is still excessive in Berlin.

The Tuberculosis Mortality Rate is about the same in Germany as it is at present in Great Britain, and is lower than the pre-war rates in France and other parts of Europe.

It is pointed out that the "alarming increase" in new cases of pulmonary tuberculosis which has been so much publicised is largely due to the inclusion since September 1946 of a special category of "Tuberculous" patient, which the British observers state should not be taken into account when assessing the trend of the incidence of pulmonary tuberculosis. Although there is no cause whatsoever for alarm in the present state of health of the German people, we must emphasise that the existing subnormal state of nutrition of a large section of the German adult population has been reached and is maintained only at the expense of—

(a) Loss of weight;
(b) Diminished capacity for sustained muscular effort;
(c) Lowered body metabolism;
(d) Decreased work output.

It is axiomatic that work can be done only by the expenditure of energy. Energy must be derived from food or body tissue. If weight is to be maintained with inadequate food, work output must be decreased. If work output is maintained with inadequate food, weight will be lost until finally weakness prevents further muscular effort. Among many Germans at present a compromise has been reached in which a loss of weight and lowered body metabolism have made it possible to maintain some degree of muscular activity on a reduced food intake, the work output being, however, considerably below full capacity or the pre-war level.

The combination of loss of weight and decreased work permits the outward appearance of a fairly satisfactory nutritional state. However, any attempt to increase work output without a corresponding increase in food must result in further loss of weight, decreased ability to work and poorer health. A large amount of data indicating the correspondence between work output and food intake was examined by us and we are satisfied with the validity of the conclusions.

Among factors other than inadequate food intake which contribute to the decrease in work output among Germans to-day are the following:

(a) Time and energy spent in searching for food;
(b) Shortage of housing, footwear and clothing;
(c) Shortage of raw materials;
(d) Lack of things to buy in the shops;
(e) Unsatisfactory state of the currency;
(f) Lowered morale.

Some indication of the importance of such factors is given by an estimate given to us that some 16 per cent. of industrial production, not returned in official records, is diverted through various channels to secure increased food for the workers.

2. Food Supply

From theoretical consideration of the full energy needs of the German population of "non-self-suppliers" in the two zones, there is derived the estimate of 2,540 calories per head per day. This is a weighted *per capita* figure, covering all classes of the population from infants to the heaviest workers.

It is important to appreciate that it refers to the calorie equivalence of the food actually eaten and not to that of food at the retail stage of distribution. Estimates of the latter can be made after making a reasonable, if arbitrary, allowance for inevitable wastage in shops and homes. A measure of the magnitude of this allowance is indicated by the data for the United Kingdom. The theoretical *per capita* need of the civilian population for energy is 2,550 calories daily—slightly more than the German figure of 2,540. From 1941 to 1947 the food available at the retail stage of distribution provided about 2,890 calories daily. The difference of 340 calories represents a wastage of somewhat less than 12 per cent. This is low compared with pre-war conditions.

If an even greater economy is assumed to obtain in Germany, as is probable, an arbitrary allowance of 10 per cent. for wastage can be added to the basic

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theoretical requirement, giving the figure of 2,790 calories per day per head for the energy value of the total food supply assessed at the retail stage of distribution.

With a reservation about the need for greater variety of food, to which reference is made later on in this report, it is considered that supplies at this level should provide what is needed for rehabilitation, restoration of weight and full working capacity.

It is also our considered opinion that at any level lower than that represented by 2,790 calories at the retail stage (2,540 as food actually eaten) this objective will not be reached.

It is relevant to point out that the situation in the United Kingdom during the first half of 1948 has not been as satisfactory as it was during the years 1941-47. Restriction of food supplies reduced the per capita calorie equivalence of the food supply to 2,670.* The margin for wastage allowance between this figure and the requirement of 2,550 calories is narrower than could be achieved by the strictest economy. One is obliged, therefore, to accept the view that food representing 2,670 calories per head per day would not provide the full energy needs of the United Kingdom civilians.

There are two disturbing features of the food supply problem as seen in urban areas of Germany to-day. In the first place, the multiplication of categories of those entitled to supplementary rations, without there being adequate means of checking certification, has inevitably led to widespread abuse. The “normal consumer,” whose slender ration has been the subject of so many misguided and misleading comments in published statements, is likely before long to become an extinct species. He already represents less than a quarter of the population, and his numbers are steadily declining.

The wide variety of special categories represents an administrative improvisation that was necessitated by the difficult supply condition of the past two years, but having regard on the one hand to widespread abuse and, on the other, to the forecast of an improved supply of food, it is opportune, in our opinion, to plan towards abolishing a number of these special classes and re-establishing a stable and properly constituted “normal consumer” category.

An important objective should be a drastic simplification of the rationing system based on one basic category, together with appropriate provision for the special needs of mothers, children, and the sick, and with no more than two categories of “workers.” If it were practicable, after establishing a reasonable ration for the normal consumer, to provide extra food for workers exclusively through industrial canteens, as is done in the United Kingdom with great success, so much the better.

The second matter that is very disturbing concerns the food that Germans acquire “off the ration” by fair means or foul. The magnitude of these supplies is assessed in terms of calories as of the order of 300 per day per head for the urban population. This figure covers a very wide range. We were shown data collected by Dr. Lehmann at Dortmund indicating that individual families may get as much as 2,000 calories above the ration per day per head, whereas others get virtually nothing.

The Germans readily admit that the illegal measures which they are obliged to adopt to obtain more food are profoundly demoralising the people, even the children. This is as serious a matter as is the diversion of food from normal distributing channels that occurs.

Experience after the liberation of France, Belgium and Holland proved conclusively that nothing can be done to check a firmly established “black market” including a barter system, except the supply of more food through legal channels. To dispel the evil influence of the widespread illicit trading in food prevailing in Germany to-day is a part of the process of rehabilitation to which the greatest importance must be attached.

The food situation in the two zones to-day is represented by a basic normal consumer ration equivalent to about 1,500 calories daily. The many supplements, taken together, account for an additional “spread” of about 420 calories. Supplies obtained off the ration by one means or another are estimated as providing another 300 calories, making a per capita total of 2,220 per day.

We were informed that a proposal to raise the basic ration to 1,800 calories is under consideration and that, if this were done, the corresponding figures for the “spread” and for “off the ration” food would be 400 and 300 calories respectively, giving a total of about 2,500 calories a day.

At neither level (2,220 and 2,500 calories as food at the retail stage of distribution) can rehabilitation and full industrial production be attained. Allowing

an arbitrary 10 per cent. for inevitable waste, the figures representing actual consumption are respectively about 2,000 and 2,250 calories daily, compared with the theoretical need for 2,540 calories.

It is impossible to evade the fact that weight, physical activity and industrial production will be proportionately less at any lower level than that represented by this figure for the theoretical need.

Earlier in this report reference was made to a reservation concerning the need for greater variety of food.

If rehabilitation of the German population is to be an accepted policy, more meat (or other animal foods) and fat than they are now getting must be provided. Hardy and virile peasant populations the world over prove that simple diets based on cereals, potatoes and vegetables are compatible with good health and great physical endurance. Nevertheless, food habits are deeply rooted and influence our lives more profoundly than is often recognised. The morale of the Germans and their ability to work hard will not necessarily be brought back to the desired levels by merely providing more calories. These people are already deriving about 50 per cent. of their energy from bread and potatoes. This is a higher proportion than is found among primitive peasant communities in South-East Europe. To give the Germans more of these foods without at the same time alleviating the meat and fat situation would be an unfortunate measure.

Finally, the importance of having as a clear objective the derationing of one staple and cheap commodity, preferably either bread or potatoes, cannot be over-estimated. The provision of a plentiful source of energy (calories), from which all can fill their bellies, is a cardinal principle of a sound rationing and distribution system. It provides the only satisfactory means of covering the wide range of energy expenditure of individuals within each of the specified ration categories. Of the food concerned, bread is preferable to potatoes because it is a better, indeed a good, source of protein. But, the important thing is to have one of them in unrestricted supply. When that is attained calorie problems disappear.

We feel it necessary to record our impression that only a small proportion of the German doctors and scientists we met showed an approach to nutritional questions that indicated objectivity and intellectual honesty. Moreover we found them to be, as a group, very much out-of-date in their knowledge in the field of nutrition and quite unaware of the fact.

In view of the publicity that is sometimes given to statements by these men it is important to recognise that their opinions are rarely based on up-to-date knowledge and all too frequently are strongly influenced by political considerations.

(Signed) J. C. DRUMMOND.

STUART J. COWELL.

1st June, 1948.
CABINET
SUPPLEMENTARY INJURIES BENEFITS FOR MINERS

Memorandum by the Minister of Fuel and Power

At their meeting on 6th May the Cabinet were informed (C.F. (48) 117) that counter-proposals put forward by the National Coal Board for a supplementary injuries benefit scheme financed by roughly equal contributions from the Board and the miners had been emphatically rejected by the National Union of Mineworkers, and that the Board were proposing to negotiate further on the basis of revised proposals involving a contribution of only 2d. a week from the miners.

2. The Cabinet agreed (C.M. (48) 31st Conclusions, Minute 7) that the Board should be invited to explore the possibility of reaching a settlement on the basis of a contribution from the Board of not more than 4d. a ton, subject to a substantial contribution from the miners.

3. The views of the Government were communicated to the Board in a letter of 7th May (Annex I). This was followed by renewed negotiations between the National Coal Board and the National Union of Mineworkers, the course and results of which are recorded in Lord Hynckley's letter to me of 19th June (Annex II). These two letters set out clearly what has transpired since the Cabinet last considered this matter and indicate the stage which has been reached in the negotiations. It is now necessary to decide whether the scheme described in Lord Hynckley's letter should or should not be approved by the Government under the relevant Statutes.

4. The major issue which arises is in regard to the adequacy of the workmen's contribution. The Union would have been content with somewhat smaller benefits under a non-contributory scheme and it was only with the utmost difficulty that the Board were able to maintain the position that their offer of 4d. per ton of output was absolutely dependent on a substantial contribution from the workmen. The Board consider that the Union's offer of a contribution of 4d. per man per week, which was ultimately accepted, represents the limit to which they were prepared to go. While it will account for only about 12½ per cent of the total contribution income under the Supplementary Scheme, it is equal to the full amount contributed by the workmen under the General Industrial Injuries Scheme which, of course, provides much more valuable benefits. In other words the high accident rate in the mines means that any scheme in this industry is bound to be much more expensive than in other industries,
5. A subsidiary issue is the fact that the scheme does not limit the benefits to underground workers. The reason for this is explained in paragraph 7 of Lord Hyndley's letter.

6. I am satisfied that the National Union of Mineworkers have been pressed by the National Coal Board as far as they are prepared to go and I do not feel we could possibly justify a refusal to endorse the provisional agreement reached between the Board and the Union. As indicated in the second paragraph of Lord Hyndley's letter, the scheme requires the approval of the Minister of National Insurance and of the Minister of Fuel and Power. It will be necessary to examine the scheme in detail before formal approval can be given, but subject to that, I recommend that it should be approved in principle now.

H.G.

Ministry of Fuel and Power, S.W. 1.,

22nd June, 1948.
ANNEX I.

Copy of letter of 7th May, 1943, from the Permanent Secretary, Ministry of Fuel and Power, to the Chairman of the National Coal Board.

The Board wished to know whether there was any element in the further proposals which they contemplate putting to the N.U.M. which the Government would reject on presentation to them.

The Minister has considered the proposals as set out in Hutchinson’s letter of 22nd April in consultation with his colleagues. You will appreciate that it is not always possible to say that a particular element would necessarily be rejected irrespective of the content and form of the scheme as a whole, and any scheme as agreed in detail between you and the Union would need to be considered before the Government could reach firm decisions on all points. Nevertheless I am able to give you the following indications of the Government’s views.

The Minister was invited to ask you to explore the possibility of devising a scheme under which the Board would contribute up to 4s. per ton, with possibly a higher rate of contribution for any tonnage over the existing level of output, making it clear that the Government would not regard any scheme as acceptable unless it provided for a substantial contribution from the workers. This contribution need not be by way of a flat rate but might vary according to the worker’s wages, e.g. 1d. per pound of wages.

The Minister hopes that you will find it possible to negotiate further with the Union and to agree on the outline of a scheme which will conform with the Government’s views.

At the stage when the details of the scheme have to be filled in — more particularly as regards the amount of supplementation for various degrees of incapacity — the Minister would be glad if the N.C.B. would bear in mind the wide experience of the Ministry of National Insurance in this field and would ensure that close and informal liaison is maintained between your officials and theirs so that the practical details and administrative questions can, as far as possible, be disposed of before formal submission of the scheme under Section 83 of the Industrial Injuries Act.

(Signed) DONALD FARGUSSON
I promised to write to you about the state of our negotiations with the National Union of Mineworkers on the proposed Supplementary Injuries Scheme.

2. We have now been able to reach agreement on the main principles of the Scheme which will, we hope, be approved under Section 13 of the National Insurance (Industrial Injuries) Act, 1946 and under Section 37 of the Coal Industry Nationalisation Act, 1946.

3. Briefly the Scheme is designed to be contributory and compulsory for all persons below the rank of under-manager employed in or about a colliery by the Board or by a licensee under Section 36 of the Coal Industry Nationalisation Act. The Board have agreed to contribute to the funds of the Scheme at the rate of 4d. a ton of saleable production of deep-mined coal, less the amount required for old cases (see paragraph 10 below) and they have asked the licensees, through their Federation, to agree to do the same. All employees eligible for benefits would contribute 1d. a week if 18 or over and 2¼d. a week if under 18 (Women 3d. and 2½d.).

4. The following supplements would be paid out of the funds of the Scheme so long as the corresponding benefit is payable under the Industrial Injuries Act:

   (a) injury benefit - 20/- a week, or, in the case of persons under 18, four-ninths of the State benefit;

   (b) disablement pension - an addition of 33⅓ per cent;

   (c) death benefit paid to a widow or a woman having the care of a deceased workman’s child - 20/- a week.

5. You will see that we have adopted your suggestion that the Board should contribute on a tonnage basis up to a maximum of 4½d. a ton. We tried to secure a higher rate of contribution than 4d. a week from the men and we also said that, if a flat rate would operate unfairly, we would not object to the worker’s contribution varying according to his wages.

6. The Union at first flatly refused to consider any contributory scheme. They pointed out that under the Industrial Injuries Act, miners would for the first time be expected to contribute towards payments for industrial injury. They said that the scheme they had put forward had been prepared on the assumption that the men would not be called upon to contribute; the benefits for which they had asked were very moderate and, if they had expected to contribute, they would have asked for higher benefits. If the benefits for which they had asked could not be provided, the men could
not be expected to contribute as well as to accept lower benefits. We maintained, however, that the scheme must be a joint one and that as a matter of principle we expected the men to contribute. We finally agreed that their contributions should be the same as under the Industrial Injuries Act, which was the utmost they would consent to pay.

7. The Union objected just as strongly to our proposal to limit the scheme to underground workers. They said that many surface workers had formerly worked underground, were no longer fit to do so and were more prone to accident in consequence. We finally compromised by including surface workers in or about a colliery but not those employed at ancillary activities.

8. The Scheme cannot now be given statutory effect so as to come into force before the 2nd August, but we have agreed to arrange payment of the supplements from 5th July, the "appointed day" under the Industrial Injuries Act.

9. For the purposes of administering the Scheme and determining disputed cases we propose to set up joint national and local committees. So long as a man is not working, the supplement will be paid by the local National Insurance officer, but when he returns to work the Board will take over payment direct.

10. As regards old cases now receiving workmen's compensation, we have agreed to pay totally incapacitated persons £1 per week in addition to their compensation. We have also agreed, subject to certain overriding income limits, similarly to supplement the compensation of partially incapacitated persons not in employment by 10/- a week and those who are working by 5/- a week. These payments are, of course, ex gratia and there is no question of contributions from the workmen. As I have said, the cost will be deducted from the Board's contribution of 4d. per ton of saleable output.

11. We have kept in close touch throughout with the Ministry of National Insurance who raise no objection to these proposals, and our legal staff are collaborating with the legal advisers of that Ministry in drafting the Scheme. Finally, the Government Actuary is prepared to certify it as actuarially sound.

(Signed) HYNDLEY.
CABINET

IRON AND STEEL BILL

MEMORANDUM BY MINISTER OF SUPPLY

At their meeting on 14th June (C.M. (48) 38th Conclusions—Minute 5 (4)) the Cabinet asked me to submit a paper dealing with the powers of the Corporation and, in particular, with the suggestion that, with a view to avoiding the difficulties of defining in the Bill the powers it should possess, the Corporation should be constituted as a holding company. That is to say, the whole of the executive activities of the State-owned industry would be carried out by subsidiary companies in which the Corporation would be the sole shareholder, and, as such, would exercise general financial and policy control.

2. Such a proposal is attractive, but after consideration my conclusion is that its advantages are outweighed by the disadvantages, and that it would therefore be undesirable to adopt it.

3. The advantages are:—

(a) It would not be necessary to provide specifically in the Bill for the extensive manufacturing and operating powers of the Corporation as proposed in either of the alternatives of Clause 2 of the Draft Bill attached to C.P. (48) 129. Consequently, there will be less scope for the Opposition to seek amendment of Clause 2, which in its present form will undoubtedly give rise to much controversy.

(b) It would be organisationally simpler and better if the Corporation's activities were confined to that of a holding company and in no circumstances entered, itself, into the field of industry and commerce.

4. The disadvantages of the suggestion, as I see them, are:—

(a) The manufacturing and operating powers of the new State industry would, in effect, be just the same as proposed in the Bill. It is true that the powers would always have to be carried out by the constituent companies, but the Corporation, as sole shareholder, would be perfectly free to rearrange the company structures and activities by way of transfer of plants, winding-up of companies, and amalgamations. It would also be able to establish new companies, and could, in fact, bring sections of the industry under its direct executive control either by making members and officers of the Corporation the directors and executives of transferred companies or of newly established companies.

(b) The prospect of diminishing the opposition to Clause 2 is illusory. The Opposition would quickly appreciate that the State-owned industry would still have extremely wide manufacturing powers, even though they were at one remove from the Corporation, and their efforts to restrict the powers would not be abated.
(c) My present idea is that the Corporation may, if it so chooses, be free to undertake certain executive functions, such as the centralised purchase of materials (e.g., imported iron-ore and semi-finished steel), the distribution of any subsidies which may be involved, the supervision of central research and, possibly, some degree of centralised selling. With a holding company arrangement the Corporation would have to get one or more subsidiary companies to carry out these executive activities, and it might well be unsatisfactory if these responsibilities, which would have considerable influence on the general control of the industry, had to be discharged on a second-hand basis. The directors of the subsidiary company concerned would naturally feel that they had some weight, and would tend to make it felt; so that any influence the Government wished to bring to bear on the industry would not necessarily be effective as a result of discussions with the Corporation. They, in turn, would have to influence the subsidiary company. Admittedly, this position would normally apply, under the arrangement proposed in the Bill, to manufacturing activities, but under Clause 2 the Corporation could take direct control if circumstances should ever warrant this course.

(d) A holding company arrangement might appear to many of our supporters to smack too much of City financial methods and the continuance, in effect, of the old regime.

(e) In any event, we should have to write certain powers for the Corporation into the Bill. I am assuming that the proposal envisages the statutory creation of the Corporation as a holding company, and not the formation of a company by the normal methods with the drawing up of a memorandum of association defining its objects and powers. We should, therefore, have anyhow to write into the Bill certain powers to enable the Corporation to carry on such routine activities as running an office organisation, and acquiring accommodation, cars, equipment, stationery, &c.

5. I hold strongly that it would be wrong to restrict the Corporation by any unnecessary statutory limitations. It may be that it will not desire to undertake any direct operations itself, but that is no reason for barring it from doing so. The structure which the Bill establishes should be as flexible as possible. It would, therefore, I suggest be a mistake to modify the Bill by limiting the Corporation to holding company activities in order to minimise possible parliamentary difficulties in securing the statutory definition of the wide powers proposed in Clause 2 of the Bill. It is in fact doubtful, as I suggest in paragraph 4(b) above, whether opposition to the powers involved would be sensibly abated by this means. I accordingly recommend that the Bill should be introduced with Clause 2 in the form of the first alternative which gives the Corporation the sum of the existing powers in the memoranda of companies and allows each company to rest on its own memorandum, and that I should be authorised to make a concession in Committee, if necessary, by substituting the second alternative which restricts the Corporation to the sum of the activities actually performed at the date of transfer by the companies and limits each company to activities which it can undertake under its memorandum and which it or some other company was actually performing.

G. R. S.

Ministry of Supply, W.C. 2,
22nd June, 1948.
THE ANTARCTIC

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I circulate to my colleagues herewith a memorandum on our dispute with the Argentine and Chilean Governments in regard to the Antarctic.

This paper has been seen by the Ministers primarily concerned and takes account of their views. The Minister of Defence has suggested that we might be able to take a stronger line if we could obtain some additional naval backing in the Falkland Islands Dependencies from the Australian and New Zealand Governments, and the Secretary of State for Commonwealth Relations would be willing to approach these two Commonwealth Governments as soon as we can give them a clear picture of our future Antarctic policy.

But before deciding to send a naval force to the Antarctic, we must clear our own minds as to whether we really want to take a stronger line and go through with it. It would in practice mean that we should remove all foreign parties from what we consider to be British territory and defend our rights by force if necessary.

This of course would be an entirely different course from that which I am recommending in the present paper and which represents a policy of compromise and negotiation. If, however, this policy fails, we may eventually be faced with the alternative suggested by the Minister of Defence.

E. B.

Foreign Office, S.W. 1,
21st June, 1948.
MEMORANDUM

I.—RECENT BRITISH POLICY

The past history of British and foreign acts of administration in the Antarctic continent and of our local dispute with Argentina and Chile was covered in two papers recently prepared for the Cabinet (C.P. (47) 263 of 17th September, 1947, and C.P. (48) 12 of 5th January, 1948). The general line of policy laid down by the Cabinet in recent years has been to maintain and where possible strengthen British legal title to sovereignty in Antarctica, but to avoid the use of physical force to reassert our authority in disputed areas. Publicly, His Majesty's Government are committed to the view that any dispute as to sovereignty in the area should be submitted in the first instance to the Court of International Justice at The Hague,* but we are unable to take either Argentina or Chile before the Court without their consent because neither of them has signed the Optional Clause. Both Governments refused our suggestion that the dispute should be submitted by agreement to the Court, taking the view that there should be direct negotiations first.

II.—CONTEMPORARY POLITICAL DEVELOPMENTS

2. In recent weeks the immediate object of our policy has been to prevent our dispute with Argentina and Chile over the Falkland Islands Dependencies from becoming the subject of intervention by the Bogotá Conference of the Pan-American Union. The United States Government and certain other Latin American Governments supported us in this and the Conference passed by without prejudicing our position.

3. We did, however, feel obliged in deference to the views of the Australian Government to oppose the State Department's plan (which they hoped might serve as an effective method of preventing discussion at Bogotá) for an 8-Power Conference on the whole Antarctic question, to be attended by the United States and the seven Powers with formal territorial claims in the Antarctic, viz.: United Kingdom, Australia, New Zealand, France, Norway, Argentina and Chile.

4. We also resisted successfully a further suggestion by the State Department that we should declare our willingness before or during the Bogotá Conference to go into tripartite discussions with Argentina and Chile over the local dispute in the Falkland Islands Dependencies.

5. This policy of inaction was valid so long as the Bogotá Conference lasted. But it provides no advance towards a settlement, and the time has now come when His Majesty's Government must consider urgently what steps they can take to prevent a repetition, next season, of the unpleasant incidents which occurred this season in the Falkland Islands Dependencies. These incidents are likely to become more numerous and assume greater importance as the practical experience of the Argentine and Chileans in Antarctic waters increases, and as they come to realise more clearly that British policy stops short of the use of force.

III.—RECOMMENDATIONS

6. It is accordingly recommended in paragraphs 14, 15, 17 and 22 below that:

(i) An early approach should be made through the diplomatic channel to the Argentine and Chilean Governments with a view to reaching an agreed settlement of the territorial dispute in the Falkland Islands Dependencies before the opening of the next Antarctic season in October;

(ii) The prior approval in principle, and if possible the active support, of the United States Government should be obtained for the proposed course of action;

* Extract from a reply to a supplementary question in the House of Commons on 25th February: "I have offered, in this case and others, on behalf of His Majesty's Government, to have the legal title settled in the International Court of Justice and, until that title is settled I am not prepared to take any other steps." (Hansard, Col. 1982.)
(iii) The Governments of Canada, Australia, New Zealand and South Africa should be informed in detail of our proposals and given a few days in which to comment should they so wish.

IV.—THE IMMEDIATE PROBLEM

7. The American plan for an 8-Power Conference, though its scope and purpose is still not very clear, appears to be designed primarily for securing an agreed régime or régimes for the Antarctic Continent as a whole. The islands and the peninsula of Graham Land which constitute the most important area in dispute with Argentina and Chile are, however, to some extent distinct from the main part of the continent in that they do not lie within the Antarctic circle.* They should, therefore, or at any rate could be treated separately, and the United States Government have made it clear that they would like His Majesty’s Government to reach a direct settlement with Argentina and Chile over this immediate issue.

8. The next few months will probably provide the last opportunity for reaching such a settlement. If the dispute is allowed to drag on until next season opens, two things are likely to worsen the British position, namely:

(a) The fact that Argentine and Chilean activities are almost certain next season to be even more ostentatious and extensive compared with ours than they were last, and
(b) The fact that opinion in both North and South America is likely to harden against us in such a dispute.

The general conclusion of the studies made by the Chiefs of Staff and the Departments concerned is to the effect that the Falkland Islands Dependencies are not of such value to His Majesty’s Government that large sums of money should be forthcoming for developing or defending them; whereas the Argentines are both closer to the scene and, at present, more willing to spend money and effort in these areas.

V.—MINIMUM REQUIREMENTS OF HIS MAJESTY’S GOVERNMENT

9. Without concessions on both sides there would of course be no possible basis for a direct settlement with Argentina or Chile; and once it is admitted that His Majesty’s Government are not going to fight for the whole of their claim, the questions to be faced are:

(a) what minimum rights we must hold on to, and
(b) how we can forgo the remainder with the least loss of prestige and the least prejudice to other British territories at the periphery of the Empire.

10. The first question has been discussed by the Foreign Office with the Colonial Office and the Ministry of Defence, with whom it has been agreed that His Majesty’s Government must at all costs retain South Georgia (where there is a permanent population and a lucrative whaling industry at present contributing some £40,000 per annum to the revenue of the administration), Deception Island (with its important harbour) and King George Island in the South Shetlands. The Law Officers of the Crown, who were consulted last year, entertained no doubt that South Georgia belongs to the United Kingdom, and very little doubt that the United Kingdom has a valid title to sovereignty over Deception Island, and a strong, but not incontrovertible, claim to the remaining South Shetland Islands, of which King George Island is one.

11. The retention of the three islands named above is regarded as essential on strategic grounds, since their possession is required to ensure command of Drake Passage. But surrender of the whole of the remainder of the Dependencies, even if acceptable from the strategic point of view (the Chiefs of Staff would prefer to retain as many islands as possible in the South Shetland and South Orkney groups and Signy Island in particular), would represent a retreat before pressure which would be most damaging to British prestige, and would mean

* The Graham Land Peninsula, properly speaking, extends from a point on the Antarctic continent considerably to the South of the Antarctic circle, but it would be convenient in any negotiations regarding Graham Land to confine discussions to that part of the peninsula and adjacent islands lying North of the narrow isthmus between Marguerite Bay and the Weddell Sea.
abandoning the prospects of economic development under British control to which our pioneering work in this region has fully entitled us. We should, therefore, endeavour in the proposed negotiations to retain some parts at any rate of (1) the remaining islands in the South Shetlands group, and (2) the Graham Land peninsula and the islands adjacent to its West Coast. An acceptable compromise would be to agree to relinquish claims to (a) that part of Graham Land and the adjacent islands west of 65°, and (b) territories within the area east of 53° and south of 56° (involving surrender of the whole of the South Sandwich Islands and the South Orkney Islands). We might also be prepared, if necessary, to relinquish Elephant Island, Clarence Islands, and Gibbs Island (the three principal island groups at the north-eastern end of the South Shetlands).

12. In exchange, we should require, apart from Argentine and Chilean recognition of our sovereignty (or at least withdrawal of their own claims) in certain islands, mutual guarantees of freedom of navigation and freedom to undertake whaling, sealing and other commercial and scientific operations anywhere in the Dependencies under appropriate licences to be issued by the Government exercising local sovereignty and subject to the international agreements in force. Recognition of any existing licences should be part of the understanding.

13. The answer to the second question referred to in paragraph 9 (which has also been discussed with the Colonial Office) is in my opinion that British prestige will suffer less from giving up the remainder of the territorial claims in free discussion with the two parties during the next few months than it would if His Majesty's Government were driven out under pressure of some new Pan-American initiative or of renewed Argentine-Chilean naval action which we cannot effectively match.

VI.—APPROACH TO ARGENTINA AND CHILE

14. It is accordingly recommended that His Majesty's Government should now make a serious effort to come to a settlement bilaterally with the Argentines and Chileans. In the event of the Argentines and Chileans refusing to negotiate with us except at a tripartite conference, it is recommended that we should agree to such a conference rather than break off discussions.

15. The lines on which His Majesty's Ambassadors at Buenos Aires and Santiago might approach the two Governments are as follows:

(a) We share their desire to avoid a continuation of the disputes which have taken place this year in the Falkland Islands Dependencies, and are ready to examine with them, on a friendly and confidential basis, the means of reaching a settlement.

(b) We maintain our view that the proper procedure for reaching such a settlement is to secure a reference to the International Court on the question of legal title to all the areas under dispute.

(c) However, in order to make it easier for the Argentine and Chilean Governments to agree to such a course we wish to inform them confidentially that, while there are certain territories over which we consider our title particularly strong and which we would not be prepared to relinquish except on the decision of the International Court, we should be willing to consider the possibility of not pressing our claims to the whole of the area if a general (and financial) settlement, satisfactory to all three parties, could be reached by negotiation.

(d) If the two Governments cannot settle on the basis of (c) they should at least accept a reference of the whole matter to the Court, bearing in mind that, as stated in (b), we should probably prefer our claims to certain areas mainly as a matter of form.

(e) So far as continental territory within the Antarctic circle was concerned any settlement reached would be without prejudice to the claims of other Powers or to any international arrangement which might at any future time be reached in regard to the Antarctic proper.

(f) Both parties would agree in advance that any proposals that might be made or any concessions that might be offered by either side in the course of the discussions would be without prejudice to the legal position as between the two parties or to any action which that party might take in the future to establish their title.
In the event of a territorial settlement being agreed, the three parties should proceed forthwith to set up joint machinery for the administration of whaling, sealing and other commercial activity in the territories covered by the agreement and for the co-ordination of scientific activity.

Pending the outcome of the discussions both sides should bind themselves—

(i) not to establish any further occupied posts in the disputed territory or to despatch any expeditions to the area other than those required for the relief and maintenance of existing posts, and

(ii) to refrain from political propaganda in support of their claims.

16. It is hard to say what would be the reaction of the Argentine and Chilean Governments to an approach of this kind. We must, however, be prepared for the possibility that they will regard it as a sign of weakness and will either refuse to negotiate or so protract the discussions that they run on into the next Antarctic season when, as they will no doubt realise, circumstances will strengthen their physical and perhaps also their legal position yet more. It is, therefore, essential that we should have some spare strings to our bow.

VII.—APPROACH TO UNITED STATES OF AMERICA

17. The first obvious need is that we should have United States approval of our proposed course of action, and that they should indicate to the other parties their wish to see a settlement satisfactory to both sides. We should point out to the United States Government that our scheme (especially point (e) above) would safeguard their own position in regard to the arctic areas of the mainland (where they are contemplating making claims themselves) and would leave the door open to any wider arrangement which they might wish to sponsor for the Antarctic continent.

18. The above recommendations are made, however, in the full knowledge that American support of the general kind described in the preceding paragraph may not suffice to prevail on the Argentine and Chilean Governments to accept our proposals. So long as the discussions lasted the Argentines and Chileans might be willing to abate their propaganda, but they could not be expected to interrupt their preparations for the next season's Antarctic campaign. As soon as the talks were broken off the situation envisaged in paragraphs 5 and 8 would automatically arise, and we should be faced with the danger of last season's difficulties being reproduced on a much larger scale in October or early November. For political reasons we could not run this risk. If, therefore, we failed to reach an early agreement with the Argentines and Chileans it would be essential for His Majesty's Government to find other means to obtain a settlement.

19. The only solution in such circumstances would be to obtain more active support from the United States than is envisaged under the present proposals. In order to obtain this support it might be necessary to abandon our opposition to the United States idea of an 8-Power Conference. It is hard in any case to see how we can maintain for long our opposition to such a Conference if the Americans want it badly enough; nor would we appear to have anything to lose from it although the Australians are at present opposed, as explained in paragraph 3 above, apparently largely for reasons of national prestige.

20. An important incidental advantage of abandoning our opposition to the United States 8-Power proposals would be that the mere threat of an international régime in Antarctica might itself directly help our negotiations with the Argentine and Chilean Governments. The main Argentine and Chilean motive in all this is prestige and the desire to paint their national colours on these areas. It might be an inducement to them to reach agreement with us if we were able to hint that, failing a settlement by which the islands were divided amicably between the three claimants, we might declare for their inclusion in the area to be covered by the 8-Power Conference and for an international régime over all the islands as well as the continent, a proposal which we know would meet with the fullest United States support.
VIII.—IMPORTANCE OF THE TIME FACTOR

21. Time would be an all-important factor in our calculations. The pack ice in the Northern areas of the Dependencies melts as early as October and an Antarctic expedition takes several months to organise and equip. Unless, therefore, we are able to persuade the Argentines and Chileans by early September that their interests lie in reaching an agreement with us, their preparations may have reached so advanced a stage and their national pride have once more become so deeply involved as to make a retreat extremely difficult. It will, therefore, be essential to take the action proposed in the two preceding paragraphs in August at the latest—that is to say we could not afford to postpone our approach to the United States Government much beyond 15th August. Our bilateral discussion with the Argentine and Chilean Governments (or alternatively our tripartite conference) should, therefore, be timed to produce results before this date.

IX.—DOMINION GOVERNMENTS INFORMED

22. It is not part of the present proposals that we should at this stage tell the United States Government that we might be prepared to reconsider our attitude over the 8-Power Conference. The United States Government will no doubt pursue this idea if they wish to do so. On the other hand it is essential that the four Dominions concerned, and especially the Australians, should be made fully aware of the difficulties which lie ahead of us in reaching a direct settlement with Argentina and Chile over the Falkland Islands Dependencies and of the possibility that circumstances may force us to fall back on the American proposals should a direct settlement not have been reached by 15th August.
CABINET

WAR CRIMES: CASE OF GERMAN GENERALS IN BRITISH CUSTODY

MEMORANDUM BY THE ATTORNEY-GENERAL

I have seen the Secretary of State’s Memorandum (C.P. (48) 151). I feel bound to express my concern at it and to bring the history of the matter to the notice of my colleagues. On the general position, I fully concur in the view expressed by the Foreign Secretary as set out in paragraph 13 hereunder. The trial of these Generals has been, as I think, inexcusably delayed for two years. In the course of that period one reason after another for abandoning the proposed trial has been put forward, only to be rejected by higher authority. I am not altogether surprised that the difficulties which have been caused by all this procrastination should now themselves be put forward as a ground for not proceeding with the matter. If, however, these difficulties are allowed to prevail there is no doubt that it will be said both by the Americans and at the Assembly of the United Nations that the Generals have escaped, while their underlings have been hanged, owing to the reluctance of British officers to allow highly placed members of the profession of arms to be submitted to such indignities, and owing to the fact that, for the most part, the victims were, after all, only Russians or Poles. Criticisms of this kind have already been made.

1. The Nuremberg Judgment delivered by Lord Justice Lawrence (as he then was) in October 1946 stated that there was "clear and convincing evidence" that many of the leading German Generals were not only guilty of planning and waging aggressive war, but also "of committing war crimes and crimes against humanity," and said that these men should be brought to trial so that they should not escape punishment.

2. The four high-ranking officers named, who were certainly amongst the leading and worst offenders in this field, were at that time in our custody. They ought to have been tried and could have been, promptly brought to trial.

3. In August 1947 the United States Chief of Counsel wrote calling attention to the decision of the Nuremberg Tribunal, stating that they had unearthed a good deal of information further implicating the four officers, and expressing the opinion that action should be taken against them under Control Council Law No. 10 and the Judgment of the Nuremberg Tribunal. He enclosed a detailed memorandum setting out the case against the prisoners.

4. On 9th September, I wrote to the Foreign Secretary and the Secretary of State for War, informing them of the United States view.

5. On 3rd October, the Secretary of State for War wrote to the Foreign Secretary that a strong prima facie case was disclosed but suggesting that the trials should be conducted by the Americans or the Poles.

6. On 9th October (in my absence in New York), my Parliamentary Private Secretary, Major Elwyn Jones, who was one of the Nuremberg Counsel, represented my views to the Foreign Office. Apparently General Clay had at that
time indicated that he did not think the British were doing enough in regard to War Crimes, and the Americans were not likely to be prepared to take over the trials.

7. On 23rd October, General Telford Taylor again wrote to me, stating that his investigations had disclosed an ample and convincing case against certain officers in United States custody and asking what decision we had taken with regard to the four Generals. He added:—

"Certain of the Defendants in the case we are preparing served under Brauchitsch, Manstein or Rundstedt, and in some cases orders which appear to have been the basis for some of the crimes committed by our Defendants were transmitted through Brauchitsch, Manstein and Rundstedt."

8. On 23rd October, the Commander-in-Chief, Germany, who had been instructed by the Foreign Secretary to approach the United States authorities with a view to their taking over the trial, telegraphed (to the surprise of the Foreign Office) that he "did not like" the idea of these men being tried, and had not approached General Clay.

9. On 29th October, General Taylor telegraphed:—

"Ohlendorf in his testimony in his own defence here has heavily implicated Manstein in responsibility for mass slaughter of Jews by Einsatz Gruppen attached to Manstein's Army."

10. On 29th October, the Foreign Office were pressed for a decision which I might communicate to General Taylor.


12. On 12th November, General Taylor telephoned for information and could not be given any.

13. On 3rd December the Foreign Secretary stated that his Department agreed that the United States Memorandum proved the responsibility of the Generals for War Crimes and said that they should be tried by a British Military Court. He added:—

"Whatever the difficulties of bringing these Generals to trial, it would clearly be wrong to let men who were responsible for issuing orders which led to the most atrocious crimes to go unpunished, while their subordinates . . . . pay the penalty, as many have already done."

14. On 19th December, a conference took place at the Foreign Office, at which the Secretary of State for War said:—

"He was satisfied that the case was strong enough to merit trial. In spite of the fact that there was some pressure to cease trying any more war criminals so long after the end of hostilities he considered that the trials ought to take place."

The Lord Chancellor was invited to consider the case.

15. The Lord Chancellor immediately did so. He reported that there was a prima facie case and that prompt action was required to prepare the case. This the Foreign Secretary invited the Secretary of State for War to take.

16. On 23rd December, at the suggestion of the Foreign Office, I informed General Taylor that "it was likely" that we should decide to try the Generals.

17. On 26th January, 1948, the Judge Advocate-General's Department informed the Foreign Office that "the whole question was rather in the melting-pot" because of a medical report that the Generals were not fit to be tried.Apparently Army Medical Boards had been called in to examine them and had reported that none of them was fit to stand trial! I suggested that there should be an independent medical enquiry directed to the kind of consideration which would weigh with an English Court.

18. After some delay, a Board of Home Office doctors examined the Generals and reported on 25th March that three out of the four were fit to stand their trial.

19. The War Office then suggested that it would not be right to try only three out of the four. All should be tried or none. This argument had not previously been raised, as it might have been, to protect the underlings.
20. I have not myself been brought into, nor have I any knowledge of, what may have transpired since the Secretary of State for War, on 2nd April, suggested that all the men should be released. I should, however, not myself care to acquiesce in the suggestion that their release should be delayed and that they should be kept (in two cases quite unnecessarily) in hospital here until the last date on which we have undertaken to surrender war criminals to other Powers had passed, so as to protect them against the risk of extradition to those States in which their abominable crimes were committed. Nor, on the other hand, do I think it would be wise to state publicly that our decision not to prosecute was due to reasons of express and administrative difficulty, or, save in the case of Brauchitsch, honest to say it was owing to the ill-health of the prisoners. I have no desire to be vindictive: I am myself thoroughly sick of these war crime trials. But both nationally and internationally our good faith is very much involved. I suggest that (a) we ought to try the three men whom the Home Office doctors think fit for trial; (b) that we should also agree to those men being sent to Nuremberg if required by the Americans.

H. W. S.

Law Officers' Department,
22nd June, 1948.
CABINET

SECRET
C.P. (48) 160
23rd June, 1948

SCRAP INVESTIGATION COMMITTEE: FINAL REPORT

MEMORANDUM BY THE MINISTER OF SUPPLY

ON 6th April I submitted to the Cabinet a memorandum (C.P. (48) 99) covering the First Interim Report of the Scrap Investigation Committee which was appointed on 8th March last under the Chairmanship of Sir Graham Cunningham. The report dealt with the German scrap situation and recommended measures to accelerate the recovery of booty scrap from Germany. In my memorandum of 26th May (C.P. (48) 130) I reported to the Cabinet on the progress which had been achieved in giving effect to these measures. I also referred to the difficulties which had been encountered in our endeavours to place additional contracts for commercial scrap.

2. On 1st May, 1948, the Committee submitted to me a Second Interim Report dealing with supplies of scrap from home sources. They have now submitted their Final Report, which covers the whole field of imported and home sources of scrap and incorporates the recommendations contained in their Second Interim Report. A copy of the Committee's Final Report is attached as an Annex to this memorandum.

3. In approaching the general problem of scrap supplies the Committee took as their starting-point the estimates prepared in 1947 by the Iron and Steel Board, in consultation with the British Iron and Steel Federation, of the quantities of scrap required against certain assumed steel production targets, rising by 500,000 tons each year from 14 million tons in 1948 to 16 million tons in 1952.

4. The Committee reach the general conclusion that the scrap requirements for a steel production of 14 million tons in 1948 will be met. This conclusion is now, however, out of date, as a few days before the Committee submitted their report the target for 1948 was officially raised to 14½ million tons. I think, however, that the total quantity of scrap coming forward will be just about sufficient to enable this increased target to be reached during 1948, though the position is by no means free from anxiety. I propose dealing with this wider problem in a separate paper on the subject of scrap from Germany.

5. In the following paragraphs I deal with the recommendations of the Committee as summarised in paragraphs 73 to 77 of the Report.

Imports

6. Recommendations (A), (E) and (F).—These are dealt with in my paper on scrap from Germany. I need only say here in reference to Recommendation (A) that in my view there can be no question of limiting current steel production because of the fear that the imports of scrap in future years may not be sufficient to enable the prospective increased levels of steel production to be attained.

7. Recommendation (D).—I have already reported to the Cabinet in C.P. (48) 130 on the measures taken to accelerate the deliveries of booty scrap and the setback on deliveries which has resulted from the Soviet embargo on freight traffic from Berlin. It is to be hoped that it may be possible to find a way to overcome this difficulty. Apart from the hold-up of the Berlin deliveries, the returns for June should show a substantial increase in the quantity of scrap delivered to shipping depots in Germany.
8. **Recommendations (C), (D) and (E).** —As the Cabinet are aware, action has been taken in anticipation of the Committee’s Recommendation (D) that a co-ordinating officer be appointed in Germany. General Loch, who was a member of the Committee, has been appointed and he has already paid a preliminary visit to Germany. It will be part of his duty to ensure that action is taken on the lines of the Committee’s Recommendations (C) and (E).

9. **Recommendation (F).** —Currency reform is the kernel of the problem of getting commercial scrap out of Germany. My officers in Germany are now renewing their contacts with the German scrap merchants and I hope that it will be possible for some progress to be made in placing further contracts.

**Home Sources**

10. **Recommendations (A) and (B).** —These are being acted upon. I have asked the Iron and Steel Board to look into the question of scrap prices as laid down in the Control of Iron and Steel (No. 30) (Scrap) Order, 1943, and subsequent orders to see if certain adjustments can be made to enable the less attractive and at present uneconomic sources of supply of scrap to be tapped. I fully agree with the Committee’s view that no general increase in scrap prices is necessary.

11. **Recommendation (B).** —Arrangements have been made with the Ministry of Fuel and Power and the Ministry of Transport to ensure that sympathetic consideration is given to scrap merchants’ applications for petrol for business purposes.

12. **Recommendation (C).** —I agree with the Committee that no advantage would be gained at present from a house-to-house scrap drive. Experience during the war years showed that the results obtained did not warrant the expense, labour and transport involved. The policy of the Iron and Steel Federation and of the National Federation of Scrap Iron, Steel and Metal Merchants has been to conduct a controlled scrap drive in stages, directing its efforts in the first place through those channels considered best able to provide the type of scrap required in appreciable quantities. I agree with the Committee that this policy is sound.

**Defence Services**

13. **Recommendations (A)—(F).** —Recommendations under this heading are largely matters which can be, and are being, dealt with either by internal action in my own Department or in consultation with the Service Departments.

14. **Recommendation (A).** —I have invited the Service Ministers to consider how far it would be possible to expedite the declaration of surplus war stocks. My officers will give all the assistance they can to arrange for the provision of man-power and equipment to accelerate the segregation and clearance of surplus stores.

15. **Recommendation (B).** —My officers are in touch with the War Office on this matter and measures are being taken which will result in an increased monthly breakdown rate of Bren carriers. The number of armoured fighting vehicles so far declared surplus is not sufficient to justify action being taken at this stage to increase the present monthly breakdown rate for these vehicles.

16. **Recommendation (C).** —My officers are considering what additional man-power and equipment will be necessary to deal with the accelerated rate of breakdown operations.

17. **Recommendation (D).** —Representatives of leading firms in the scrap trade are being invited to advise on breakdown methods and on equipment at the depots where this work is being carried out.

18. **Recommendation (E).** —The Air Ministry have been asked to agree to the postponement of the programme for the emptying of the bombs which they propose to retain as a reserve.

19. **Recommendation (F).** —This matter is receiving consideration.

**Use of Royal Dockyards for Shipbreaking**

20. In view of certain developments which have resulted in additional yards (notably Cairn Ryan Port, near Stranraer) being brought into use for shipbreaking, there is a reasonable prospect that the yield of scrap from this source will attain the rate of 350,000 tons a year during 1948.
21. In accordance with the second part of their terms of reference the Committee considered to what extent the Royal Dockyards should be used for shipbreaking, and I feel I cannot do better than quote in full the paragraphs in their report dealing with this matter.

"It is appropriate to refer here to the second part of the Committee's terms of reference, viz., to consider the possibility of use being made of the Royal Dockyards for shipbreaking. They have discussed this question with the First Lord of the Admiralty and Admiral Sir Charles Daniel, Third Sea Lord and Controller of the Navy. The view was expressed that such a proposal was quite impracticable at the present time; owing to the rapid reduction in naval personnel since the war, a large number of ships were temporarily immobilised and all berths at Naval dockyards were full. Even if berths could be made available for shipbreaking, the dockyards would have to call upon outside sources for technical experts and for a certain amount of equipment. The primary purpose of Naval dockyards was the repair and maintenance of warships; after these requirements had been met, they might be able to do a small amount of shipbuilding. Shipbreaking, however, required a completely different layout, equipment and personnel, and facilities for shipbreaking did not exist in Naval dockyards. Any attempt to use Naval dockyards for shipbreaking would result in considerable disorganisation which would interfere with the rehabilitation of the Navy and the normal maintenance of the ships in commission. Further, one of the reasons why civil work was being undertaken in Naval dockyards was to enable a balanced labour force to be maintained. The introduction of shipbreaking work would completely upset the balance, since there was no scope for the employment of finishing trades in shipbreaking operations. Skilled men would therefore have to be discharged and it would be very difficult to build up a balanced labour force at a subsequent date, when the Naval dockyards resumed their proper functions.

The Committee feel that there is a great deal of force in these arguments. Apart, however, from the objections from the Naval standpoint, the Committee are advised that there are equally strong objections from that of the shipbreaking firms. The level of wages paid to labour in shipbreaking yards is definitely lower than the pay of the workmen employed in the dockyards, who are of an entirely different grade, and it has been suggested to the Committee that if the Naval dockyards were turned over to shipbreaking the immediate result would be a demand from labour employed by shipbreakers for an increase in wages to bring the rates up to Naval standards. It is the view of the technical advisers to the Iron and Steel Board that the shipbreaking industry is in a position to cope unaided with the programme of ships coming forward for breaking up, so far as this can be foreseen; indeed, when the present Naval scrapping programme has been completed, in a matter of two years or so, it is by no means certain that enough ships will be available to provide the shipbreaking yards with full employment. The Committee therefore do not recommend the employment of Naval dockyards for the breaking up of ships."

I agree with the Committee's conclusion and recommend that it should be accepted.

Conclusion

22. The Graham Cunningham Report has admirably focused the issues involved. I am satisfied that, with the assistance of my colleagues, action is being taken to obtain the maximum possible yield of scrap from home sources. The problem of obtaining scrap from Germany presents, however, serious difficulties on which I am in close touch with the Foreign Secretary.

23. Having regard to the recommendations in the Report—particularly on such matters as currency reform in Germany—I do not propose to publish it, but we shall, no doubt, have to make copies available to the Americans as negotiations with them proceed. I am considering whether, at a convenient date, to make a general statement in the House of Commons summarising those portions of the Report which are not controversial and which would not raise international complications.

G. R. S.

Ministry of Supply, W.C. 2,
23rd June, 1948.
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**APPENDIX A.—Steps taken to increase Deliveries of Booty Scrap from Germany.**

**APPENDIX B.—List of Interviews, Visits, &c.**
PART I—INTRODUCTION

Composition and Terms of Reference

1. The Scrap Investigation Committee, which was set up by the Minister of Supply on 8th March, 1948, on the instructions of the Cabinet, was composed of the following:—

Sir Graham Cunningham, K.B.E., LL.B., Chairman.
Dr. R. E. Slade, M.C., D.Sc., F.R.I.C.
Mr. A. F. Barnes, Principal Assistant Secretary, Iron and Steel Board (Ministry of Supply). Secretary.

2. Their terms of reference were:—

"(1) To prepare a report on the problem of securing adequate supplies of scrap for the United Kingdom iron and steel industry, both in 1948 and in subsequent years.

"(2) To consider to what extent the Royal Dockyards should be used for shipbreaking."

The Quantitative Aspect of the Problem

3. The problem of steel scrap is essentially a quantitative one. For a clearer appreciation of the subsequent argument and of the measures proposed by the Committee, it will thus be desirable to set out at some length certain figures bearing on the problem and their implications.

4. The quantities of scrap required against certain targets for steel production (assuming that there is no building up of stocks), and the estimated yield from various sources, have been calculated by the Iron and Steel Board, after consultation with the industry, as follows:—

<table>
<thead>
<tr>
<th>Year</th>
<th>Assumed Production of ingots and castings (000 tons)</th>
<th>Scrap Requirements</th>
<th>Scrap available from Home Sources</th>
<th>Balance to be met by Import</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>1948</td>
<td>14,000</td>
<td>8,290</td>
<td>3,780</td>
<td>1,880</td>
</tr>
<tr>
<td>1949</td>
<td>14,500</td>
<td>8,880</td>
<td>3,840</td>
<td>1,940</td>
</tr>
<tr>
<td>1950</td>
<td>15,000</td>
<td>9,480</td>
<td>3,900</td>
<td>2,000</td>
</tr>
<tr>
<td>1951</td>
<td>15,500</td>
<td>9,980</td>
<td>3,950</td>
<td>2,050</td>
</tr>
<tr>
<td>1952</td>
<td>16,000</td>
<td>8,480</td>
<td>4,000</td>
<td>2,100</td>
</tr>
</tbody>
</table>

5. Circulating and process scrap (Table I, columns (3) and (4)) derive directly from output in the steel-making and steel-using industries respectively. The Committee have, therefore, contented themselves merely by confirming with the appropriate authorities that the assumptions on which the figures are based are sound, and that an increase in steel output will be reflected in a corresponding increase of scrap arising under these two headings. They are satisfied on both points.

Consideration of these figures raises the question of the availability of pig-iron supplies, which is outside the Committee's terms of reference; they have assumed that the Iron and Steel Board's assessment of scrap requirements makes appropriate allowance for pig-iron production being continuously at its maximum.

6. The Committee's main pre-occupation has been capital scrap from home sources and imported scrap. These two sources must clearly be considered in conjunction, and where a shortfall appears possible in one direction, or indeed any uncertainty exists in the matter, it must be offset by increases in the other.

7. The figures in Table I (paragraph 4) are minimum requirements. During this year the industry hopes to exceed the official target of 14 million tons of steel ingot production and similarly to exceed the targets for future years. While a rapidly-expanding steel production is clearly desirable in the interests of the national economy, the effect is to increase the demand for scrap beyond the
figures stated in Table I (paragraph 4), and to make it even more necessary to build up stocks, both as a reserve against temporary stoppages and to meet unexpected demands from breakdowns in distribution. So long as the steel industry continues to increase steel output to the limit of deliveries of scrap, stocks will always be low. It is for those responsible to assess the correct balance between these two conflicting requirements.

8. A point arises on the question of increased targets, which will be dealt with in more detail later on. The Committee have been asked to recommend measures to ensure adequate supplies of scrap. This implies making the maximum quantities available in 1948 and in practice involves accelerating the flow from sources such as Government surpluses, which are essentially non-recurrent. With such an acceleration the immediate requirements of the industry will be met, but it may well react unfavourably on the future. Unless, in these future years, increases from recurrent sources of supply can be assured, there is clearly the danger that even the limited targets set out in Table I (paragraph 4) will not be achieved.

It is thus for consideration first whether an immediate increase of output can be achieved only at the expense of future production and, secondly, if so, whether a more balanced consumption of scrap over a longer period is not a sounder policy.

The arguments bearing on this will now be developed.

9. The following rough estimate of the yield of capital scrap from home sources based on an ingot steel production of 14 million tons in 1948 and 14½ million tons in 1949 respectively was given to the committee by the Iron and Steel Board:

<table>
<thead>
<tr>
<th>TABLE I</th>
<th>(000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1948</strong></td>
<td><strong>1949</strong></td>
</tr>
<tr>
<td>(1) Normal</td>
<td>...</td>
</tr>
<tr>
<td>(2) From Scrap Drive</td>
<td>...</td>
</tr>
<tr>
<td>Shipbreaking</td>
<td>300</td>
</tr>
<tr>
<td>Government surplus stores</td>
<td>500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,850</strong></td>
</tr>
</tbody>
</table>

10. A general analysis of the above figures related to arguments developed later in the report suggests as follows:

(a) Scrap drive—the figure of 150 thousand tons for 1948 can be accepted, but thereafter this source will in time dry up.

(b) Shipbreaking.—Certain measures have been undertaken to increase the shipbreaking potential. The Committee are advised that these should result in an output of about 350 thousand tons both in 1948 and 1949. Thereafter it seems likely that the supply of ships for this purpose will diminish. For purposes of argument, a figure of 200 thousand tons has been taken for years subsequent to 1949.

(c) Government surplus stores.—For reasons developed later, it will be reasonable to assume a figure of 500 thousand tons for 1948, i.e., an increase of 200 thousand tons over the original estimate. Similarly a figure of 150 thousand tons for 1949 is likely, derived in particular from the residue of the ammunition breakdown programme. Thereafter there will be supplies from these sources, but so small that they need not be taken into account in our general survey.

11. In the light of the previous paragraph, a revised assessment of capital scrap yields against the production targets shown in Table I (paragraph 4) is as follows:

<table>
<thead>
<tr>
<th>TABLE III</th>
<th>(000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1948</strong></td>
<td><strong>1949</strong></td>
</tr>
<tr>
<td>(1) Normal</td>
<td>...</td>
</tr>
<tr>
<td>(2) From Scrap Drive</td>
<td>...</td>
</tr>
<tr>
<td>Shipbreaking</td>
<td>...</td>
</tr>
<tr>
<td>Government surplus stores</td>
<td>...</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,100</strong></td>
</tr>
<tr>
<td>Forecast (paragraph 4, column (5))</td>
<td><strong>1,850</strong></td>
</tr>
<tr>
<td>Excess over forecast</td>
<td>...</td>
</tr>
</tbody>
</table>
12. It will be noted that the realisation of the above forecasts depends increasingly year by year on the validity of the estimate of the yield from normal sources. It will be remembered that the steel production targets to which the above figures are related, are minima. Any increase in these targets will depend after 1949, in so far as scrap is a limiting factor in steel production, on appropriate increases in the yield of scrap either from normal sources or from imports.

13. The increases in successive years in yield from normal sources are, we understand, mainly dependent on the hypothesis of increased capital investment. This hypothesis may well be a reasonable one, but the element of uncertainty throws emphasis on the importance of imports, at least until 1952, by which time, we are informed, the industry will require less scrap from all sources, and hence should be practically independent of supplies of imported scrap.

14. The following table shows in column 1 the total estimated requirements—for the attainment of the present production targets (Table I, paragraph 4)—in the years 1948–52 of scrap other than process and circulating; columns 2 and 3 show the division of this between home capital and imported scrap, as forecast by the Iron and Steel Board (compare Table I, paragraph 4):—

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (000 tons)</th>
<th>Capital (000 tons)</th>
<th>Imported (000 tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>2,630</td>
<td>1,950</td>
<td>780</td>
</tr>
<tr>
<td>1949</td>
<td>2,600</td>
<td>1,550</td>
<td>1,050</td>
</tr>
<tr>
<td>1950</td>
<td>2,510</td>
<td>1,550</td>
<td>960</td>
</tr>
<tr>
<td>1951</td>
<td>2,490</td>
<td>1,700</td>
<td>790</td>
</tr>
<tr>
<td>1952</td>
<td>2,030</td>
<td>2,060</td>
<td>30</td>
</tr>
</tbody>
</table>

From this it will be seen that the total from these sources for 1952 shows a decrease of some 500 thousand tons on the figures of previous years. This indicates a trend in the right direction, due in the main to increased pig iron production.

15. The Committee feel that, in view of the considerable tonnages involved, it would be unwise to place too much reliance on the hypothesis of increased capital investment (see paragraph 13). The more they have examined the problem the more they are convinced of the paramount importance of imported scrap as an insurance against uncertainties in the estimates of arisings from other sources. The main source of imports is Germany. The problem of scrap from Germany is discussed in detail later on, but in view of possible competition from other countries, they feel that a bold policy must be adopted forthwith to obtain all we can and hence that the figures given in Table I (paragraph 4) for imported scrap are not a sufficient guarantee even for the limited production targets to which they are related.

16. Practical considerations make it improbable that we can exceed substantially the import figure for 1948 shown in Table I (paragraph 4) (780 thousand tons) but thereafter our targets for imports should be higher.

17. In an attempt to evaluate what these increases might be, the Committee have considered the problem on the assumptions that—

(a) the steel production targets exceed those given in Table I (paragraph 4) by 500,000 tons each year until 1951, and

(b) the annual increases in yield from normal capital sources through capital investment are two-thirds of those forecast in Table III (paragraph 11).

On this basis the Committee, after consultation with the Iron and Steel Board, assess the total requirements of capital and imported scrap in the years 1948–52 at some 13,800,000 tons; they do not consider that more than 8,600,000 tons can be relied upon from home capital sources. This leaves a minimum requirement of imported scrap of some 5,000,000 tons as compared with a total of 3,600,000 tons on the basis of the levels of production in Table I (paragraph 4). In relation to known availabilities this is a formidable figure, the attainment of which would call for energetic measures in this field of procurement.
18. The Committee therefore consider that the aim should be to procure imports totalling some 5,000,000 tons over the next 4 years, at an average rate of 100,000 tons per month; indeed in the near future a higher monthly average might be aimed at, in view of the importance of obtaining the maximum quantity of booty scrap from Germany at once. (See paragraph 21 below.)

Conclusions—Part I

19. In paragraph 7 the point was raised whether it was desirable to increase immediate production, if thereby there would inevitably be a decrease thereafter owing to sources of scrap drying up.

The above survey of requirements indicates as follows:

(a) The present targets can be achieved (and indeed exceeded) both in 1948 and 1949 by utilising non-recurrent sources to their full, whilst retaining imports at the figures in Table I (paragraph 4).

(b) Thereafter achievement of these targets must depend on an increase of normal scrap from home sources, or of imports or both; this of course applies to an even greater degree if targets are raised.

The Committee consider that the present estimates of the yield from home capital scrap are optimistic, and hence if this view is correct an increase in imports is necessary as an insurance.

(c) If imports amounting to a total of 5,000,000 tons in 1948–52 at an average or, say, 100,000 tons a month, can be guaranteed, then there is every justification for the immediate consumption of the maximum quantity of scrap from all sources.

If, however, imports cannot be assured at this level, then the situation should be reviewed; the question will be whether, as a matter of national policy, non-recurrent sources should be eked out over a longer period at the expense of immediate increases in steel production, in order to avoid a critical situation at a later date.

The Committee have in the remainder of this report worked on the assumption

(a) that imports can in fact be procured at the level of 5,000,000 tons over the period 1948–52, and

(b) that pig iron production will not be increased above the planned levels at present assumed

and hence have proceeded on the principle that so far as is possible non-recurrent sources of scrap should be consumed in 1948.

**PART II—IMPORTS**

Forecast yield (Table I, paragraph 4):

<table>
<thead>
<tr>
<th>Year</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>780,000 tons</td>
</tr>
<tr>
<td>1949</td>
<td>1,050,000 tons</td>
</tr>
</tbody>
</table>

**Germany**

**General**

20. Scrap from Germany is of two kinds—booty and commercial. Booty scrap consists of scrap from enemy military stores, plant from war factories, and other warlike material. Commercial scrap comprises the normal arisings from German industry, and the iron and steel scrap to be recovered in vast quantities from bomb-damaged plant and buildings in Germany. It has to be purchased either through German scrap merchants, or direct from the actual owners.

21. Commercial scrap is not flowing from Germany in any large quantities for the reasons outlined below, and political objections may be raised at any time to the removal of booty scrap; for both these reasons it is essential to concentrate all efforts on shipping as much booty scrap as quickly as possible.

**Organisation for collection of scrap**

22. The Disposals Group of the Control Commission for Germany includes among its functions the task of removing booty scrap, and delivering it to the loading port. The Scrap Export Agency (S.E.A.) of Iron and Steel Disposals Ltd. (an agency company of the Iron and Steel Board) is responsible for shipping all scrap from Germany to the United Kingdom. In practice since the Disposals
Group have not the necessary personnel for supervising the cutting, removal, &c. of booty scrap from the original site, as well as loading and shipping it at the ports. S.E.A. have largely assumed responsibility for this task.

23. Although such a division of responsibility is not an ideal arrangement, nevertheless the two organisations co-operate very closely and, within the limitations imposed on them by difficulties in the supply of labour, transport and equipment, are doing good work. The Committee consider that at present the arrangements are generally satisfactory, but they are informed that it has been proposed that a single co-ordinating officer, together with an appropriate staff, should be appointed to supervise and expedite all operations for procuring scrap from Germany and exporting it to the United Kingdom. His functions would thus be far wider than those of the officer already appointed (see Appendix A) to co-ordinate the provision of equipment. The Committee support this proposal and recommend that the officer appointed should be a man of proved ability and drive.

Booty Scrap

24. The present tonnage of booty scrap being shipped from Germany averages some 40,000 tons per month; certain measures have been taken (see Appendix A)—notably the provision of extra equipment—as a result of the recommendations in the Committee's First Interim Report. These are expected to have the effect of raising the monthly output eventually to some 50–60,000 tons, but this is on the assumption that the shipment of scrap from Berlin, normally of the order of 7,000 tons per month, does not continue to be held up by the U.S.S.R. authorities, as it has been for the last few weeks.

A marked sense of urgency has been instilled into all those in Germany concerned with booty scrap recovery and the Committee hope that substantially increased tonnages will be shipped during the rest of 1948 and the early part of 1949.

Commercial Scrap

25. A contract for 100,000 tons placed with the German Scrap Merchants' Association last year has now been accepted by a German scrap merchant and deliveries have begun. Two other contracts totalling 35,000 tons have been approved by the Joint Export-Import Agency. Judging, however, by the slow rate of deliveries under earlier contracts, no great reliance can be placed on promised delivery dates, nor indeed is there any certainty that these contracts will be completed in 1948.

26. The issue is further complicated by the fact that American scrap merchants are now in the market on a large scale. The Committee understand that negotiations are in progress with the American authorities on joint measures for getting commercial scrap out of Germany; the details of these negotiations are not their concern, but they wish to emphasise the importance, in the interests of United Kingdom steel production, of early decisions on procedure followed by energetic executive action.

27. The difficulties of the present situation emphasise the importance of concentrating now on booty scrap, since there is little prospect of considerable deliveries from Germany under commercial contracts, until both negotiations with the American authorities for a central purchasing and allocation procedure for scrap have been satisfactorily concluded, and the German currency is reformed. Apart from a foreign currency bonus, there is at present virtually no inducement to the German merchant to accept new contracts for scrap; he prefers to keep his assets in the form of capital goods until such time as there is a stable currency, with an exchange value, and controlled prices are related to the real value of the mark.

28. When, however, supplies of commercial scrap begin to flow more freely, a considerable extra strain will fall on handling and transport facilities. The Committee have enquired of various authorities, and are informed that transport and shipping will not be limiting factors. They nevertheless recommend that steps should be taken, in anticipation of a flow of at least 100,000 tons per month to improve as much as possible all facilities for handling and transport in Germany and the United Kingdom.

It is not possible to say whether these supplies of scrap will be properly segregated, and in suitable furnace sizes on arrival in this country; this should
be looked into, in order to ensure that should segregation and cutting be required, adequate facilities are made available for this work to be done, whether in Germany or this country.

Further, they point out that the equipment provided for the recovery of booty scrap could, as this source dries up, be made available to German scrap merchants to assist the fulfilment of our commercial scrap contracts.

29. The Committee consider that the Scrap Export Agency or Iron and Steel Disposals Ltd. will be able to handle both the contractual and shipping sides of the commercial scrap problem.

Other Countries

30. The main source of imported scrap from countries other than Germany is war material of various kinds; the bulk of this is in the Middle East. Small quantities of scrap have been located in various colonial territories and action is in hand to recover this. The total of scrap arising from these overseas sources in 1948 is expected to reach a total of at least 100,000 tons. A similar quantity may be expected to be forthcoming in 1949.

31. Large quantities of abandoned mining and other equipment have been reported to be available for scrap in certain African colonies; the Committee consider that little reliance should be placed on this source of scrap in planning the future of the steel industry.

Conclusions—Part II

32. On the basis of a production in 1948 of 14 million ingot tons and in 1949 of 14½ million tons, the requirements of imported scrap have been assessed at 780,000 tons and 1,050,000 tons respectively; towards these totals 100,000 tons may be expected from sources other than Germany, leaving 680,000 tons in 1948, and 950,000 tons in 1949 to be found from Germany. As already pointed out in paragraph 17, if the target rates of production are to be exceeded, further increased imports of scrap are essential. All consequential action to procure and deal with these must be taken in a timely manner.

33. There seems a reasonable prospect of achieving the target for 1948 from Germany, if the current sense of urgency for the recovery of booty scrap continues to be displayed by all concerned. Attainment of that for 1949 is, in the opinion of the Committee, dependent on currency reform, and the setting of an adequate procurement organisation in collaboration with the American authorities, accompanied by the most vigorous action in placing and progressing contracts.

34. The Committee are satisfied that all possible sources of scrap overseas are being investigated by the Iron and Steel Board.

PART III—HOME SOURCES

Forecast yield (Table I, paragraph 4):—

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>1,550,000 tons</td>
</tr>
<tr>
<td>1949</td>
<td>1,550,000 tons</td>
</tr>
</tbody>
</table>

Sources of Home Capital Scrap

35. The sources of capital scrap in this country are obsolete plant and equipment, ships and steel structures of all kinds. It will be convenient to examine the problems under two headings:

(a) surpluses derived from Civil sources, some of which are of a recurrent nature;

(b) those, such as Defence Services surpluses, which arise in the main from war stocks and hence are largely of a non-recurrent nature.

Civil Sources

Non-Governmental

36. Scrap Collection.—Scrap merchants are the main suppliers of capital scrap, although scrap from Government sources does not normally pass through their hands. To the scrap merchant ferrous scrap is not a main source of revenue.
he makes his profits chiefly from the sale of non-ferrous scrap and re-usable components. This is one reason why certain unattractive types of scrap (especially light scrap), which are uneconomic to handle, are not coming forward in quantities commensurate with their availability. The Committee drew attention to this matter in their Second Interim Report, and recommended that an investigation be made into the present differential scrap prices, to see whether they could be evened out so as to enable these less attractive and at present uneconomic sources of supply to be utilised.

The National Federation of Scrap Iron, Steel and Metal Merchants have advised the Committee that in their opinion an appropriate increase in the price of certain lighter grades of scrap would yield an additional 100,000 tons of scrap, which otherwise would probably never be brought in.

37. Normal Sources.—The yield of capital scrap from industrial sources in 1948 has been estimated (Table II, paragraph 9) at 1,100,000 tons; this is based on past experience in relation to steel output, but allowance is made for the current restriction of Capital Investment. The forecast for 1949 of 1,250,000 tons assumes a certain increase in Capital Investment after 1948, but see in this connection paragraph 13.

38. Scrap Drive.—The Scrap Drive of the British Iron and Steel Federation is now producing tangible results, and it is estimated that some 150,000 tons extra should be forthcoming this year. In the course of the scrap drive the Iron and Steel Federation, in agreement with the National Federation of Scrap Iron, Steel and Metal Merchants, have set up joint committees on an area basis throughout Great Britain with the object of utilising known sources of scrap which for one reason or another is not reaching the steel furnaces. This organisation appears to the Committee to be doing good work.

39. It has been suggested that an appeal for household scrap would produce substantial results. Past experience indicates that this would not be so, either in quantity or in quality. Such action is accordingly not recommended at this juncture.

40. In general, the Committee consider that further efforts will not produce substantial results unless they are associated with some scheme of price adjustment (see paragraph 39).

Before discussing this aspect of the problem they here draw attention to the fact that the exhaustive drive for scrap involves considerable road travel by scrap merchants and their representatives; they recommend that applications for business petrol for the proper purposes of scrap merchants be sympathetically dealt with.

41. Scrap Prices.—The Committee have considered whether a general rise in the level of scrap prices is likely to lead to any appreciable increase in the yield of scrap. It has repeatedly been represented that scrap is one of the very few commodities the price of which, under control order, is compulsorily retained at the pre-war level, notwithstanding the general rise in the operational costs incurred by scrap merchants in connection, preparation and delivery. But the advice which the Committee have received from the Iron and Steel Board, the British Iron and Steel Federation, and representatives of the Scrap Merchants is that no substantial increase in scrap supplies is likely to result from a general rise in scrap prices. On the contrary, any suggestion that such a move was in prospect would have the inevitable effect of holding up deliveries. Further, any increased scrap yield, resulting from an increase of this kind, would be at the expense of steel prices. Apart, therefore, from the question of differential prices, the Committee do not recommend that any action should be taken to increase scrap prices.

42. Scrap from Shipbreaking.—The breaking up of ships provides a valuable source of scrap. The work is undertaken by firms who specialise in this trade and who sell the resultant scrap direct to steel works and foundries. Ships for breaking up are acquired by the British Iron and Steel Corporation (Salvage), Ltd., an agency company of the Iron and Steel Board—who allocate them under the supervision of the Board to the various firms according to the size of the ships and the berths available.

43. The Committee understand that whereas, until recently, the capacity of the industry was in the region of 180,000 tons of scrap per annum, the additional
facilities being provided will enable the industry, subject to the availability of an adequate supply of ships of varied types and of a properly trained labour force, to increase its capacity to a rate of about 350,000 tons of scrap per annum. The difficulties in the way of increasing capacity which had been envisaged earlier in the year—viz., insufficient cranes, burners and transport facilities—seem on investigation to be of a limiting factor than was at first supposed.

44. The problem of providing additional shipbreaking capacity will, it is thought, be largely solved by bringing additional yards into use for shipbreaking. Arrangements have been made by the Ministry of Supply for taking over the Cairnryan port, near Stranraer from the War Office, by whom it was requisitioned for war purposes, and leasing it for a period of years to a leading firm of shipbreakers. The Committee are informed that the use of this port will provide capacity for an additional 50,000 tons of scrap per annum from shipbreaking. They also understand that the use of an additional berth at Barrow-in-Furness and the release by the Admiralty of a berth at Greenock will together provide further shipbreaking capacity at an annual rate of 7,000 tons.

45. As the result of these developments it is anticipated that the yield of scrap from shipbreaking will attain the rate of 350,000 tons per year during 1948 (thus exceeding by 50,000 tons the estimated rate of 300,000 tons quoted in Table II, paragraph 9). Due in large measure to the size of the recently-announced naval scrapping programme which is estimated to yield about 220,000 tons of scrap in 1948, the supply of ships coming forward for breaking up seems to be sufficient to keep the shipbreaking yards fully employed in 1945 and 1949. It is not possible to forecast with any accuracy the position after 1949. There appears a strong probability of a decrease in the shipping available for breaking up. For purposes of argument the Committee have assessed the yearly figure from shipbreaking after 1949 at 200,000 tons.

46. **Use of Royal Dockyards for Shipbreaking.** It is appropriate to refer here to the second part of the Committee's terms of reference, viz., to consider the possibility of use being made of the Royal Dockyards for shipbreaking. They have discussed this question with the First Lord of the Admiralty and Admiral Sir Charles Daniel, Third Sea Lord and Controller of the Navy. The view was expressed that such a proposal was quite impracticable at the present time; owing to the rapid reduction in Naval personnel since the war, a large number of ships were temporarily immobilised and all berths at Naval Dockyards were full. Even if berths could be made available for shipbreaking the dockyards would have to call upon outside sources for technical experts and for a certain amount of equipment. The primary purpose of Naval dockyards was the repair and maintenance of warships; after these requirements had been met, they might be able to do a small amount of shipbuilding. Shipbreaking, however, required a completely different layout, equipment and personnel, and facilities for shipbreaking did not exist in Naval dockyards. Any attempt to use Naval dockyards for shipbreaking would result in considerable disorganisation which would interfere with the rehabilitation of the Navy and the normal maintenance of the ships in commission. Further, one of the reasons why civil work was being undertaken in Naval dockyards was to enable a balanced labour force to be maintained. If the introduction of shipbreaking work would completely upset the balance since there was no scope for the employment of finishing trades in shipbreaking operations. Skilled men would therefore have to be discharged and it would be very difficult to build up a balanced labour force at a subsequent date, when the Naval Dockyards resumed their proper functions.

47. The Committee feel that there is a great deal of force in these arguments. Apart however from the objections from the Naval standpoint, the Committee are advised that there are equally strong objections from that of the shipbreaking firms. The level of wages paid to labour in shipbreaking yards is definitely lower than the pay of the workmen employed in the dockyards who are of an entirely different grade, and it has been suggested to the Committee that if the Naval dockyards were turned over to shipbreaking the immediate result would be a demand from labour employed by shipbreakers for an increase in wages to bring the rates up to Naval standards. It is the view of the technical advisers to the Iron and Steel Board that the shipbreaking industry is in a position to cope unaided with the programme of ships coming forward for breaking up, so far as this can be foreseen; indeed, when the present Naval scrapping programme has been completed, in a matter of two years or so, it is by no means certain that enough ships will be available to provide the shipbreaking yards with full
employment. The Committee therefore do not recommend the employment of Naval dockyards for the breaking up of ships.

Government Sources

48. Another field for investigation is Government surpluses other than those which are generally the concern of the Defence Services.

At the time that the appeal was made to industry (see paragraph 38 above) a corresponding appeal was made by the Iron and Steel Board to Government Departments and Organisations controlling steel-using establishments or undertakings, to take special measures to ensure that all iron and steel material not immediately required should be released as scrap. Assurances have been received from most of the Government Departments or organisations to whom the appeal was addressed that measures would be taken as requested. Scrap arisings would in many instances—in particular, scrap from colliery undertakings or from the railways—be sold to scrap merchants or possibly direct to steel works and furnaces. Hence no statistics will be readily available as to the result of the appeal, but the Committee feel that appropriate action has been initiated to obtain results from these sources.

Other Sources in Public Ownership

49. There are certain other forms of property owned by the Government and Local Authorities, from which useful quantities of scrap might be forthcoming. In this category are such things as derelict installations erected for defence purposes, material used in the construction of works services and such surpluses as may be derived from public works, damaged buildings, &c.

The practical difficulty in dealing with these sources of scrap lies in the fact that the cost of labour, transport and cutting operations involved may in some cases be out of proportion to the value of the scrap recovered.

The Committee realise this, but would nevertheless urge that these sources continue to be explored energetically and utilised where it is in the interests of the national economy to do so.

Defence Services Surpluses

Forecast yield (Table I, paragraph 9):—

<table>
<thead>
<tr>
<th>Year</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>300,000 tons</td>
</tr>
<tr>
<td>1949</td>
<td>Nil</td>
</tr>
</tbody>
</table>

General

50. Under this heading are included surpluses (other than warships) from the Defence Services, Ministry of Supply Establishments and Civil Defence (A.R.P.). These sources of scrap will be largely non-recurrent once war stocks are exhausted. Before the urgent need of scrap became so apparent, the authorities concerned with the declaration and disposal of Governmental surpluses were working on a programme which, over a wide field of stores, envisaged clearance of all surplus stocks by approximately the end of 1949. They were enabled thereby to meet the insistent demands for release of man-power, but only at the expense of dealing expeditiously with their store holdings. Since it is now clear that in 1948 the maintenance of steel production at the desired level must depend largely on increased supplies of scrap from home sources, the Committee have examined the problem of Defence Services surpluses with the particular object of getting a maximum yield that year. The problem is common to all the Defence Services; since the Army is by far the largest source of scrap-yielding surpluses, it is convenient to examine the situation primarily by reference to the Army.

Estimate of Yield

51. The original estimate of yield of scrap from the above sources was 300,000 tons in 1948, thereafter dropping to zero (see Table II, paragraph 9). It now appears that these figures will be exceeded substantially—in fact, during the first four months of the year, a yield of 250,000 tons has been achieved. A yield on such a scale is unlikely to continue, but for the rest of the year there should be an increase in the normal flow of surpluses, provided certain recommendations of the Committee are implemented without delay. With this proviso, the Committee consider that a figure of 500,000 tons for the full year should be achieved, i.e., a further 250,000 tons. Before indicating what measures should be taken to this end, it will be convenient briefly to set out the processes whereby Defence Service surpluses become available and are dealt with.
The Problem of Surpluses

52. Military surpluses comprise those stocks held by the Services which are in excess of the authorised scales for maintenance and reserves. To ascertain what those should be, calculations have to be applied to a vast number of items, the bulk of which, however, will not produce much scrap. Considerable quantities of the major scrap-yielding surpluses have already been declared and the process is proceeding apace. The Committee are convinced that the problem is less one of declaration than of—

(a) segregation and clearance of surpluses from depots; and
(b) where breakdown is necessary, an adequately equipped organisation of sufficient size to deal expeditiously with the surpluses.

Shortage of man-power has been a major cause of delay at all stages in obtaining the full flow of scrap from defence services surpluses. This will be discussed in more detail later on.

The Handling of Surpluses after Declaration

53. Stores declared surplus by the Defence Services are handed over to the Disposals Directorate of the Ministry of Supply, who normally sell re-usable items and arrange breakdown of stores which it is decided cannot or should not be disposed of commercially. Ferrous scrap arising from Government surpluses is handed over to Iron and Steel Disposals, Ltd., who sell it to the consumer, or, if it requires further sorting or treatment before use in the furnaces, to scrap merchants.

Sales of Surpluses

54. In the past, where stores were to be re-sold, a certain time has sometimes elapsed while the market was being tested. This has to a certain extent militated against timely scrap availability. While the Committee do not criticise the holding of sales, nor suggest that the process has been unduly slow, they have suggested in their Second Interim Report that an examination should be made to determine whether in the new circumstances of the enhanced need for scrap a correct balance is being struck between the advantage of sales, with attendant delays, and the scrap requirements of the steel industry.

Types of Stores

55. The Committee have concentrated their attention on the categories of Defence Services stores likely to yield substantial quantities of scrap. These are:

- Ammunition.
- Armoured Fighting Vehicles and Bren Gun Carriers, plus derivatives in the form of spare parts.
- Machine Tools.
- Artillery Equipments.
- Certain categories of Engineer and other Stores.

Ammunition

56. The quantity of surplus ammunition still to be broken down is about 500,000 tons, with an estimated scrap yield of 200,000 tons. The limiting factor in obtaining scrap from this source is the process of emptying, the capacity for which cannot readily be expanded. The completion of the programme will take about two years. After reviewing all the circumstances, the Committee regard this as a situation which must be accepted.

Included in the present emptying programme are considerable quantities of R.A.F. bombs, which will subsequently be re-filled and put back into reserve. Should this part of the programme be deferred until the scrap-yielding surplus ammunition has been dealt with, the effect would be to raise the total scrap from this source in 1948 from 80-90,000 tons to about 100,000. The Committee feel that this would be a worthwhile contribution and suggest that the Air Ministry be invited to consider the matter. There should thus be a yield of 100,000 tons of scrap from this source in 1948 and a further 100,000 in the following year.

Armoured Fighting Vehicles and Bren Carriers

57. Although a considerable percentage of Armoured Fighting Vehicles and Bren Carriers declared surplus by the War Office is situated abroad, there
remain at home quantities which justify special measures for disposal. Thus the War Office have declared 14,000 Bren Carriers surplus, of which about 9,000 are in home depots.

The problem is thus threefold:—

(a) The selection of surplus vehicles from those which are to be retained. This is an inspection problem and it is evident that inspection resources could be expanded to advantage, but the Army may need some assistance in this respect.

(b) Movement of the surplus vehicles from the Army to the Ministry of Supply depots. The delaying factors are shortage of drivers and, in the case of the heavier vehicles, of railway flats.

(c) Breakdown at the Ministry of Supply depots.

The present facilities for tank breakdown suffice for about 320 per month. In keeping with the principle of obtaining maximum results in 1948, the Committee asked the Ministry of Supply what would be involved in increasing the breakdown capacity to 500 tanks and 1,000 Bren carriers per month. The answer is that this rate could be achieved in a few months, subject to building up a pool at the Ministry of Supply depots of some 1,500 tanks and 3,000 Bren Carriers, so that a line of operations can be established, as opposed to a process involving individual vehicles. In addition, certain increases in man-power would be necessary. These will be discussed later, since such increases will produce maximum results only when applied to an acceleration of yield over the whole field of breakdown. Unfortunately, shortage of transport facilities make it by no means an easy matter to create a large pool of vehicles at the Ministry of Supply depots. It is for consideration whether, whilst utilising transport facilities to the full, part of the breakdown might be carried out to advantage at the Army Depots.

The Committee are aware that the Departments concerned are already in consultation over the matter. So important do they regard the expeditious handling of this type of surpluses, which is so lucrative in scrap yield, that they suggest the War Office and the Ministry of Supply be invited to take concerted measures to increase the present monthly breakdown rate to 500 tanks and 1,000 Bren Carriers and that any demand for increased facilities required in furtherance of this object should be afforded sympathetic support by those concerned.

Machine Tools and Artillery Equipments

58. It is estimated that about 20-25,000 machine tools remain surplus and that these can be broken down in about two years, with a corresponding monthly yield of scrap of about 2,400 tons. Similarly, there are considerable quantities of artillery equipments yet to be broken down. In conjunction with certain miscellaneous stores, they may be expected to produce a monthly yield of about 1,000 tons of scrap for the next twelve months or so. It will be desirable to accelerate the flow of scrap from the above sources and in general this means increased breakdown facilities.

Breakdown Depots

59.—(a) Ammunition, guns and armoured fighting vehicles represent the main categories of specialised military stores, for which breakdown is necessary, and for which responsibility for breakdown lies with the Ministry of Supply organisations, as opposed to scrap merchants. At the present rates of disposal the anticipated yield from the sources thus dealt with by the Ministry of Supply is about 200,000 tons for the year.

As previously indicated, this figure could be appreciably increased by the adoption of certain measures, in particular by increases in man-power both in the Services Depots for purposes of segregation of surpluses and in the breakdown organisation.

(b) In respect of the latter the Committee were informed that at the Ruddington Breakdown Depot near Nottingham, an increase of 100 operative personnel to the present establishment of about 350 would result within six months in doubling the output, i.e., the present 1,450 tons per month would rise to the order of 3,000 tons. This would be highly desirable, not only from the scrap-producing point of view, but also from that of economy. Elsewhere it is possible that increases in establishments might be justified, but the Committee have not had the opportunity of going into this in detail.
A further point is the technical resources at the disposal of the Ministry of Supply Breakdown Depots. The Committee feel that these could be reviewed to advantage, since even if they are generally adequate for the present rate of flow, they could hardly be so if the rate of flow were increased considerably. Further, during their visits to certain civilian scrap yards, the Committee were impressed by the use made of mechanical cutters and similar devices for dealing expeditiously with certain types of scrap.

In view of the need for maximum output, the Committee recommend that not only should the man-power situation at the Ministry of Supply depots be reviewed, but also the possibilities of employing to advantage further mechanical resources. In this respect they suggest that it would be profitable for expert advice to be sought from a leading scrap merchant.

Engineer Stores, &c.

60. There are certain categories of Royal Engineer and other stores, which are dealt with directly by Iron and Steel Disposals, Ltd., or in some cases by scrap merchants. Here the problem is mainly one of segregation, the difficulty being the shortage of man-power in the Service Depots.

A particular item in this field is Dannert wire, of which it is estimated there is still about 34,000 tons in the country. This is being pressed by suitable machines into a form in which it can be used in the furnaces.

A.R.P. Material

61. In the case of A.R.P. material, it is not possible to forecast accurately what proportion of this material will be turned over as scrap, since much of it is suitable for re-use in its existing or modified form, but as a rough estimate it may be said that the proportion of scrap is likely to be between one-third and two-thirds of the total tonnage arising. It is estimated that there are still about 90,000 tons of shelter material remaining to be recovered, but the collection of this material is becoming increasingly difficult.

Conclusions—Part III

Civil Sources

62. The uncertainty which prevails as to the quantities to be expected from Industrial Capital scrap and its implications have been discussed in Part I of the Report.

As regards other civil sources, such as arisings from Government Departments and Local Authorities, the Committee are satisfied that appropriate action is being taken. In certain fields it will be necessary to balance the effort in labour, transportation, &c., against the value of the scrap which may accrue. Nevertheless, the present energetic exploratory action which is being taken in all directions must be continued.

Defence Services Surpluses

63. The yield from Defence Services sources is likely to exceed previous anticipations, but this depends on energetic action by all concerned, particularly if full advantage is to be derived therefrom during this year.

The Committee are satisfied that the Defence Services are conscious of the need for declaring and clearing surpluses as expeditiously as possible. Their efforts must not be relaxed.

In order to avoid repetition the Committee feel it will be more convenient to develop their conclusions and consequential recommendations as to Defence Services Surpluses in Part IV, which now follows.

PART IV—GENERAL CONCLUSIONS AND RECOMMENDATIONS

64. The field which the Committee have endeavoured to survey in the time allotted to them is a vast one. Any more detailed examination than has been undertaken would have involved an excessive delay in producing their report and recommendations. Generally the Committee feel satisfied that the immediate problem is capable of solution in that the industry can reasonably hope that its scrap requirements for the official production target of 14 M. tons for 1948 will be met and indeed exceeded. For future years the achievement of the official production targets as defined in Table I (paragraph 4), and any increases thereto
will depend in a very large measure on the home capital scrap drive, the progress of pig-iron production, and above all on the requisite imports being assured.

65. In paragraphs 73-77 below the Committee have summarised their recommendations as to what should be done both for the immediate future and as a longer term policy. They consider these measures essential to the attainment of the object and are glad to note that some of them have already been adopted and appropriate action taken.

Results confirming the success or otherwise of any measures taken will not emerge for some time; experience may then prove that these measures require expansion beyond the scope suggested, or that further measures are necessary. The Committee feel that the Iron and Steel Board and the British Iron and Steel Federation should keep these points under constant review if the Steel Industry is to be enabled to guarantee in full measure its vital contribution to the National Economy.

Imports

66. In Part I of this Report the Committee have emphasised the paramount importance of imports, the bulk of which must come from Germany. On the hypothesis of an expanding steel production, and in view of some uncertainties in the yield of scrap from home sources, they have recommended an import target of 5,000,000 tons over the period 1949-1952 inclusive. This is an increase of some 1,500,000 tons over requirements hitherto suggested. (Paragraph 18).

67. There are two sources of scrap from Germany:

(a) Booty scrap, i.e., scrap from war material, &c, the total quantities of which are estimated at 1,000,000 tons, and deliveries of which will, it is expected, be completed by mid-1949.

(b) Commercial scrap handled by scrap merchants. Estimates as to quantities of scrap from this source vary between 5 and 10 million.

To obtain 5,000,000 tons from these two sources is a formidable task both in quantitative terms and due to the fact that there are likely to be other claimants.

Booty Scrap

68. For reasons explained below no substantial yield from commercial scrap can be expected for the present. The immediate problem is thus to obtain the maximum quantities of booty scrap and to tap this source until it is exhausted. Generally speaking adequate measures have already been undertaken (see Appendix A) to expand the facilities for dealing with this type of scrap. It must, however, be noted that since the Committee's First Interim Report, the interdiction by the U.S.S.R. of freight exports from Berlin has held up the movement of some 7,000 tons of scrap per month from that centre.

Commercial Scrap

69. Under present conditions, delivery dates are quite unreliable, because of the reluctance of German merchants to part with their scrap. Furthermore, American competition for commercial scrap is likely to add new difficulties. It is the view of the Committee that substantial quantities of commercial scrap will not be forthcoming unless and until agreement is reached with the American authorities on joint purchase and allocation, and the German currency is reformed.

Home Sources

General

70. Broadly speaking home sources of scrap are of two kinds:

(a) Industrial capital scrap of a recurrent nature, the yield from which will partly depend on certain hypothetical considerations such as the effect of increased Capital Investment.

(b) Other sources of a generally non-recurrent nature, such as Defence Services surpluses, the yield from which can, however, be assessed with more accuracy.

35508
Industrial Capital Scrap

71. The main uncertainty here is the validity of the hypothesis that there will be a considerable increase in Capital Investment from 1950 onwards with a consequential increase in normal capital scrap. By this time the bulk of the non-recurrent sources will have been consumed. Hence much depends on whether Capital Investment will in fact produce the considerable tonnages of scrap which will be required from home sources after 1949 unless imports be increased. It is largely owing to uncertainty in this important matter that the Committee have recommended a considerable increase in the imports programme (see paragraph 66 above).

Other Sources

72. As already explained the yield from these sources in most cases can be assessed with more accuracy. The position as regards anticipated yield may be summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1949</th>
<th>Subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Defensive Services Surpluses, including A.B.P.</td>
<td></td>
<td></td>
<td>500,000</td>
</tr>
<tr>
<td>(b) Shipbreaking</td>
<td>850,000</td>
<td>850,000</td>
<td>500,000</td>
</tr>
<tr>
<td>(c) Scrap Drive</td>
<td>150,000</td>
<td></td>
<td>?</td>
</tr>
</tbody>
</table>

The above yields are dependent on certain measures being taken, which are outlined by the Committee in their recommendations (see paragraph 75 below).

There are other sources of scrap such as those which it is hoped to tap by the appeal to local authorities (see paragraph 49) but it is not possible to assess what yield may be expected therefrom. In addition the adjustments of price levels in order to tap certain sources of scrap now considered uneconomic by the scrap merchants (see paragraph 36) would, it is thought, produce a further 100,000 tons. It is, however, abundantly clear that a maximum yield in all these directions is essential in 1948 in order to give time for imports to be developed to the full.

Summary of Recommendations

General

73. The Committee are conscious of a sense of urgency on the part of all concerned in obtaining scrap. The matter is being energetically pursued in many directions and the results so far are encouraging.

They would emphasise that these efforts must not be relaxed until adequate supplies of scrap are assured.

Imports

74.—(A) The target for imports from Germany during the five years 1948–52 should be 5,000,000 tons (paragraph 18).

If imports cannot be assured at this level, the situation should be reviewed to see whether, as a matter of national policy, non-recurrent sources should be eked out over a longer period, at the expense of immediate increases in steel production, in order to avoid a critical shortage at a later date (paragraph 19).

(B) All possible steps should continue to be taken to accelerate immediately deliveries of booty scrap (paragraph 21) and particularly to obtain the release of booty scrap from the United Kingdom sector of Berlin (paragraph 24).

(C) Preparations for improved handling, cutting, segregation, loading and transport of scrap should be made in anticipation of an increased flow of commercial scrap from Germany (paragraph 28).

(D) A co-ordinating officer with appropriate staff should be appointed in Germany forthwith, to supervise and expedite all arrangements in that country for scrap procurement on behalf of the United Kingdom (paragraph 23).

(E) Negotiations with the American authorities and joint measures for getting commercial scrap out of Germany should be pressed forward. Decisions on procedure should be followed by energetic executive action (paragraph 26).

(F) The Committee emphasise the importance of currency reform in Bizonal Germany in its bearings on negotiations with German scrap merchants (paragraph 27).
An investigation should be made into present differential scrap prices to see whether they could be evened out so as to enable less attractive and uneconomic sources of supply to be tapped (paragraph 36), but no general increase in scrap prices is necessary (paragraph 41).

(B) Applications by scrap merchants for business petrol should be sympathetically dealt with (paragraph 40).

(C) A house-to-house scrap drive would not at present be advantageous (paragraph 39).

Defence Services

76. Ministries should be invited to take action as follows:

(A) Whilst making every endeavour to expedite the declaration of further surpluses, the Defence Services to indicate their needs in man-power and equipment in order to hasten the segregation and clearance of surpluses already declared (paragraph 52).

(B) The War Office and Ministry of Supply to take concerted action to increase the monthly breakdown rate of Armoured Fighting Vehicles and Bren Carriers (paragraph 57).

(C) The Ministry of Supply to indicate the increases in resources of man-power and equipment necessary to enable their breakdown organisations to cope with the increased flow arising out of (A) and (B) above (paragraphs 57 and 59).

(D) The Ministry of Supply to consult with the scrapy trade as to possible improvements in breakdown methods and equipment at the Ministry's Depots (paragraph 59).

(E) The Air Ministry to consider whether they can defer the bomb-emptying programme now being undertaken for reserve purposes, thus releasing Ministry of Supply emptying capacity for dealing with scrap-yielding surplus ammunition (paragraph 56).

(F) The Ministry of Supply to examine whether in present circumstances a correct balance is being struck between the advantages of the sale of surplus stores and the urgency of the need for scrap (paragraph 54).

Royal Dockyards

77. With regard to the second part of their terms of reference, the Committee do not recommend the use of Naval Dockyards for shipbreaking (paragraphs 46-47).

PART V.—ACKNOWLEDGMENTS

78. The Committee wish to record their appreciation of the co-operation shown by the many individuals and organisations they have consulted or who have submitted papers or evidence. They are also indebted to all those, both in the Government service and in industry, who have assisted the Committee in their visits. Throughout their investigations the Committee have encountered an extremely helpful and forthcoming attitude on the part of all concerned. In this they wish to include their Secretary. The Committee would also like to give special mention to the untiring assistance given by Mr. R. H. W. Bullock, whose services were loaned by the Ministry of Supply. He has been of immense help.

79. A list of individuals consulted and visits made is given in Appendix B.

G. CUNNINGHAM, Chairman.
K. M. LOCH Members.
R. E. SLADE

A. F. BARNES, Secretary.

20th May, 1948
Appendix A

Steps Taken to Increase Deliveries of Booty Scrap from Germany

1. Mr. L. E. Hulford (D. of D. (R.E.) M.O.S.) has been appointed as the co-ordinating officer in United Kingdom for the supply of all necessary equipment and stores.

2. Brigadier H. A. Blandford-Newson, C.B.E., has been appointed by the Control Commission, Germany, to perform the corresponding function in Germany.

3. A comprehensive statement has been submitted by the C.C.G. of the equipment requirements of the Booty Scrap Programme (superseding that given in Appendix IV to the Committee’s First Interim Report); this reads as follows:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Quantity</th>
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<tbody>
<tr>
<td>Crawler cranes</td>
<td>175</td>
</tr>
<tr>
<td>Tractors</td>
<td>81</td>
</tr>
<tr>
<td>Mobile cranes</td>
<td>40</td>
</tr>
<tr>
<td>Vehicles</td>
<td></td>
</tr>
<tr>
<td>Heavy rooters</td>
<td>25</td>
</tr>
<tr>
<td>Compressors</td>
<td>1</td>
</tr>
<tr>
<td>20-ton crawler crane</td>
<td>1</td>
</tr>
<tr>
<td>20-ton rail crane</td>
<td>1</td>
</tr>
</tbody>
</table>

Sources of supply for all these items have been located, thanks to the speedy co-operation of all Government Departments and in particular the War Office; movement of equipments out of depots within Germany, and from United Kingdom to Germany has already begun.

4. A technical expert from the British Oxygen Company took up duty with the Scrap Export Agency in Germany on 3rd May, to make all necessary arrangements, and give advice, &c., with a view to securing the best use of all oxy-acetylene cutting equipment, and procuring any additional equipment necessary. The supply of cutters is now adequate, and it is believed that sufficient oxygen bottles will shortly become available from Army and other sources.

5. A reconditioning and repair workshop for crawler cranes has been established at Kiel; experts from Messrs. Charles Jones (Engineers), Ltd., have inspected the site and facilities available, and two of them started duty at Kiel as supervisors of this workshop on 5th May. Work on overhaul of engines in these workshops has already begun.

6. A demand for large quantities of clothing for men working on scrap has just been received from the C.C.G.; action is in hand in conjunction with the Foreign Office to meet this demand as far as possible.

Appendix B

Interviews, Visits, &c.

1. In their survey of scrap from Germany, the Committee made a visit to Berlin and Bizonal Germany, where they had the advantage of discussions with the following:

- Sir Cecil Weir, K.B.E., President, Economic Sub-Commission C.C.G.
- Mr. P. D. MacFeat, M.C., Chief of Disposals Group, C.C.G.
- Mr. J. F. Cahan, Deputy Director-General (British Joint Export-Import Agency).
- Brigadier H. A. Blandford-Newson, O.B.E., Director, Disarmament Group, C.C.G.
- Brigadier C. H. C. Hatton, Deputy Head of Scrap Export Agency, Iron and Steel Disposals, Ltd.
- Mr. A. Vaughan Berry, Regional Commission, Hamburg Zone.
- Mr. Wilkinson, Director of Economics, O.M.G.U.S.
2. In their survey of home supplies of scrap, the Committee had the advantage of discussions with many persons including the following:

The First Lord of the Admiralty.
Admiral Sir Charles Daniel, Third Sea Lord and Controller of the Navy.
Lieut.-General Sir Sidney Kirkman, Quartermaster-General.
Major-General A. M. Cameron, Deputy Quartermaster General.
Sir Archibald Forbes, Chairman of the Iron and Steel Board.
Mr. R. M. Shone, Secretary to the British Iron and Steel Federation.
Captain A. H. Read, Managing Director of Iron and Steel Disposals, Ltd., and Chairman of the British Iron and Steel Corporation (Salvage), Ltd.
Major H. E. Crawford, Chairman of the National Federation of Scrap Iron, Steel and Metal Merchants.
Mr. H. W. Seeker, Assistant Managing Director of Thos. Ward, Ltd. (Scrap Merchants and Shipbreakers), and Technical Adviser on Scrap to the Iron and Steel Board.
Mr. W. F. Jenkins, Under-Secretary (Contracts), Ministry of Supply.
Mr. H. Lewis, Director of Disposals (Breakdown), Ministry of Supply.
Mr. W. R. Davis, Deputy Director, Disposals (Breakdown).

3. Visits have been made to the following:

Portsmouth Naval Dockyard.
Royal Ordnance Factory, Woolwich Arsenal.
Royal Ordnance Factory, Nottingham.
Experimental Establishment, Shoeburyness.
Stores and Breakdown Depot, Ruddington.
Messrs. Stewarts & Lloyds Steelworks, Corby.

4. The Committee have been furnished with numerous valuable memoranda and reports.
NOTE

The attached memorandum (C.P.(48) 161) is relevant to Item 2 of the Agenda for the meeting of the Cabinet arranged for tomorrow, THURSDAY, 24TH JUNE AT 10 A.M.

Cabinet Office, S.W.1.
23rd June, 1948.
CABINET

ECONOMIC CONSEQUENCES OF RECEIVING NO EUROPEAN
RECOVERY PROGRAMME AID

Memorandum by the Chancellor of the Exchequer

I think my colleagues should be aware of the attached study made in March about the economic consequences of receiving no European Recovery Programme Aid.

Introduction

2. Although three months have passed since the study was made the general conclusions are not thought to be affected. In particular the balance of payments statement in paragraph 4 is still broadly correct in its conclusion, namely that there would be a gap to be closed in 1948/49 of the order of £370 millions. The paper assumed that though the United Kingdom received no aid other European countries would receive a small amount of relief. The contingency to be considered now is that His Majesty's Government finds itself unable to conclude the Bilateral Agreement with the United States while some at least of the other participating countries are unlikely to take this line.

3. The salient points arising from this paper are as follows:

   (1) Gold Reserves

   In the interval since the paper was written we have been operating on the assumption that we would receive adequate European Recovery Programme aid. Our total reserves at end June will stand at about £450 millions. The drain during the first quarter was £147 millions and during the second quarter it is unlikely to be less than £100 millions, a total of about £250 millions for six months. We may expect that the drain in the latter half of the year will be at a reduced rate but it is unlikely to be less than £180 millions for the second six months of the year. Consequently at the end of the year in the absence of any drastic measures the reserves would be reduced to £270 millions. Naturally if no European Recovery Programme aid is received we should have to take drastic measures, but we cannot assume that the drain will be stopped immediately (see paragraph 5 of the report). As we regard £500 millions as the minimum safe reserve, and have in fact told the Americans so, the position would be one of the utmost gravity.
(ii) Consequences to the Home Economy

If all the methods of closing the gap dealt with in paragraphs 8 - 15 of the report were taken successfully (and there must be doubts about the Sterling Area on which we comment below), there would only remain something of the order of £215 millions available to finance dollar imports. This would mean cuts as follows:

(a) No further purchases of dollar tobacco. The effect of this would be very grave and we might not be able to apply so rigorous a policy. If we could not, additional cuts would have to be made elsewhere.

(b) Abolition of standard petrol, cut in supplementary ration, extensive reconversion to coal and economies in agriculture and civil aviation.

(c) Reduction of the dollar food import programme to Canadian wheat only. (In the last negotiations Canada said that all the food contracts stood or fell together and we have no means of being certain that she would change her attitude now.)

(d) A cut of about 12% in the total raw material import programme, but not spread at all evenly since, e.g., wool, come wholly or in large part from non-dollar sources. The maximum cuts in raw materials would be between 15 to 20 per cent of the home industry as compared with last half of 1947.

(iii) The application of these cuts is dealt with in detail in paragraphs 24-33 and may be summarised as follows:

(a) There would have to be reductions in the rations of tea, sugar (8 to 5 ozs.), butter (3 to a little under 2), bacon (to 1 oz.), cheese (to 1 oz. and even less) and cuts in eggs, meat and coffee supplies. The resulting calorie level would be in the region of 2670 per day, i.e., a little below the level during the spring potato shortage and over 10% below the pre-war average (paragraph 26).

(b) No prospect of implementing the agricultural expansion programme insofar as it depends on imported feeding-stuffs (paragraph 27).

(c) General restriction of consumer goods, particularly cotton, less paper for newspapers and books, less goods made of non-ferrous metals (paragraph 28).

(d) There would be extreme industrial dislocation, involving unemployment of perhaps as much as 1½ million, possibly more at first. Furthermore, it would not be possible to forecast in detail which sections of industry would be affected and therefore it is not possible to make plans against such dislocation. It may take a considerable time before revised machinery to distribute reduced quantities of raw materials could be got into proper working order.

(e) Clearly some of the measures proposed could only be really effective by having much tighter controls than those at present exercised. Qualified staff to undertake these tasks could not be collected and organised for many months.
(iv) **Sterling Area Deficit**

This is dealt with in paragraphs 10 and 11 of the report. The attitude of the Sterling Area would obviously be influenced by the circumstances in which the negotiations on the Bilateral Agreement with America broke down. There is no assurance that many of the assumptions there made would be realised. In fact negotiations, e.g. with India and Pakistan support the view that they would not be realised.

I have no doubt that if we receive no European Recovery Programme aid some of the consequences would not be precisely those set out in this paper but we shall then be in the position that any alleviations made under one heading have to be met under equivalent cuts under others. There is no doubt that the broad picture of the gap to be filled and the methods to be taken to do it are as stated.

R.S.C.

Treasury Chambers, S.W.1.
23rd June, 1946.
ECONOMIC CONSEQUENCES OF RECEIVING NO E.R.F. AID

A. INTRODUCTORY

1. The object of this section is to attempt to trace out the main consequences to the United Kingdom's economy if we should receive no United States aid in 1948/9 or in subsequent years.

This contingency is now remote. It is, however, impossible fully to appraise the economic consequences of American Aid, outlined in the preceding sections of this report, without a statement of the alternative. Moreover aid is not likely to be adequate to our needs - our reserves will continue to fall - nor is its continuance beyond the first year certain. The tendencies described in the following paragraphs are, therefore, of continued relevance to our fundamental economic problem of the short-term future.

2. What follows is not a plan, or a set of proposals. The changes that would take place would be so complex and interdependent, there would be so many uncertain factors, that precise forecasts are out of the question. Moreover, much would depend on choices between alternative policies. These, we cannot anticipate: we can only suppose that particular decisions are taken. But we have attempted to make our assumptions clear.

3. Assumptions. To define the problem we start by assuming:

(a) that, though the United Kingdom receives no direct aid, the United States give Europe relief sufficient to prevent famine and unrest, but insufficient in itself to allow any further recovery of output, and any added competition with us for imports or in export markets.

(b) that it is outside our province to discuss economic decisions with strategic implications which might well be necessary. But we have assumed that we shall be anxious to avoid any steps that would grossly affect the economic life of Europe.

(c) that the countries of the Empire reduce their calls on dollars and maximise their earnings of them by generous efforts of economy and production.

4. Method of Argument. As soon as it became clear that we were to receive no aid, we should have to make a set of drastic decisions which would produce rapid and largely unpredictable changes. For example, we would try to break dollar contracts but it is impossible to say how fast or in what way we could do so; we would have to re-negotiate many bi-lateral trade agreements, but we cannot say precisely what our bargaining position would be; there might be large and sudden changes in world trade and prices, but their direction is not easy to forecast. We therefore, do not attempt to forecast the precise chain of events after the first series of decisions. Instead, we have attempted to define a single position through which the economy would probably move fairly soon and to describe what would be happening at that date.
5. We start with the present plans for the year 1948/9. (Those are in effect based on a tacit assumption of fairly ample E.R.P. assistance). We have then supposed that we have in a few months entirely to stop any further drain on our gold and dollar reserves.

This approach disregards three factors that would in fact delay the decline of the economy: (a) clearly we could not in fact stop the drain on reserves overnight, and we would probably have a few reserves still to lose. But the drain could not last long for the simple reason that the reserves are small. (b) Stocks of food and materials could be run down: but not for long. (c) We might find, if really pushed to it, that we could sell a few more foreign assets for gold or dollars. (This is a highly technical subject and it is certainly not clear that even short-period advantage could be gained, but certainly in precise plans for a "non-Marshall world" it would need study.)

There are many imponderables, the short term effects of which we have also had to ignore: industrial unrest, malnutrition, greater labour mobility, more realism and, therefore, more effort among managers and workers, and at a further remove changes in the terms of trade and the volume of world trade.

Prima facie therefore the broad assumptions made may fairly describe a state of affairs which without E.R.P. aid we should reach in a few months, say at some date in 1949. The quantities given may therefore be thought of as rates at that time.

6. Section B shows the gap to be closed. In Section C we describe the big adjustments we have assumed to close the gap. In Section D we describe the consequences to the main sectors of the home economy, and in Section E we briefly examine some of the longer term or more indirect effects of the initial and more deliberate adjustments previously defined.

B. THE GAP TO BE CLOSED

7. The following table gives an extremely rough estimate of the balance of payments with the dollar area (United States of America, Canada and American account countries) in 1948/9. It uses the import programmes recently prepared (the "X" programmes) to illustrate desirable imports on a continued basis of austerity. The last two columns state the adjustments that we assume would be made, and the resulting rates of expenditure and earnings on their completion (and before all the secondary or long term consequences of these changes worked out).
### Balance of Payments with Dollar Area

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<tr>
<td></td>
<td>Food &amp; Agriculture</td>
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<td>75</td>
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<td>Raw Materials</td>
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<td>Oil (Civil Imports)</td>
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<td>Other Net Gold and Dollar Payments</td>
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<td>Rest of Sterling Area Deficit with Dollar Area</td>
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<td>155</td>
<td>-150</td>
<td>5</td>
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</table>

**Receipts from Exports and Re-exports**

| | 115 | 160 | 440 | 220 |

**Total drain**

| 1025 | 370 |

### C. Methods of Closing the Gap

8. A dollar gap of £370m. would have to be closed. The problem would be to cut the various expenditures or increase the various earnings in ways which made the total readjustment to the economy with the minimum dislocation. To do this even roughly requires that we take a view on such questions as whether adequate food is more important than full employment; the set of adjustment assumed is therefore arbitrary.

9. **Exports.** The most strenuous effort would have to be made to expand exports to the dollar area. As a financial total, the gap is less than a quarter of the total exports to all destinations planned for 1948. It might, therefore, be supposed that we could so far to close it by the “diversion” of export goods. Presumably we should be prepared to adopt the most drastic measures. But on practical grounds we have been forced to conclude that an annual rate of additional dollar export earnings of £40m. is as much as could be expected within a year. Most of this would have to consist of cotton textiles, woollen goods and coal being the other main items. While metal goods of all kinds could certainly be increased they are at present so small an item in our exports to the dollar area (£20m. in 1947), that in the short term no large allowance for their expansion is reasonable.
10. Sterling Area deficit. The sterling area deficit of £60m. is made up of a Colonial surplus of £40m., and a deficit on account of the rest of the sterling area of £20m. The Colonial surplus might be improved to £50 as a result of the diversions from United Kingdom and other soft currency consumption: coffee, rubber, tin and hardwood (£5m. or £5m.) hides, sisal, asbestos and non-ferrous metals (another £1m. or £2m.). Diversions from the rest of the sterling area would also be needed. Ten from India should yield an additional £5m., although there are complications about the relationship between Calcutta and London); fruit (mainly apples) from Australia and New Zealand could yield another £5m. On the assumption that the political difficulties were overcome, butter from Australia and New Zealand could yield nearly £20m., which is one half the present rate of import from these two countries, and which would involve us in a loss of two fifths of our present supplies.

11. To stop this drain altogether another £50m. would have to be saved from dollar imports into the rest of the sterling area. To achieve this India and Pakistan in particular would have to be kept firmly down. A plentiful supply of textiles would be necessary: the Sterling Area has recently been taking United States textiles at the rate of about £20m. a year. Other exports from the United Kingdom would also have to be stimulated. It should be remembered that the attempt to impose excessive economy upon some Dominions might set up strong pressures towards their leaving the sterling area, or diverting supplies which we would wish to retain or dollar invoicing for their exports to us.

12. Gold and Dollar Payments to other Non-dollar countries.

The aggregate figure for 1948/9 has of necessity been somewhat arbitrarily estimated. It contains an allowance of £50m. for the Argentine - this being the approximate current deficit on the half year following the end of our current agreement, - £10m. for Germany and a variety of smaller payments for Egypt, Persia, Finland, Belgium and so on.

We shall have some dollar earnings, from interest, shipping, etc., that we could use without difficulty to continue payments of this kind, but we should probably not be allowed, in bilateral agreements, to convert a net surplus with, say, Canada (which itself has a dollar deficit with the U.S.A.) into gold or U.S. dollars for other non-dollar countries. We assume therefore that these payments have to be reduced to a trickle, by cutting imports and expanding exports.

As an annual rate in 1949 our Argentine deficit may be estimated at about £50m. We might conceivably increase exports by £10m., though this implies a 25% increase in a very short period. Thus the remainder of the gap has to be closed by a cut of £50m. in imports.
The stopping of the other drains would raise difficult policy decisions on Germany and on military expenditure in Egypt; it would certainly require the most strenuous efforts to expand exports to Belgium, Finland and Egypt, among which oil and capital goods would have to be provided. Equally we might have to forego imports of the most essential kind—among them, timber, cotton and steel.

13. Oil Transactions. The £55m. here shown represents the net dollar cost of oil now sold to non-dollar countries, the dollar cost of the overseas oil expansion programme, and it includes also some £3m. for all United Kingdom military requirements. We assume that no large reduction in the latter is possible. The oil expansion programme is likely to yield a very high return in hard currency or hard currency saving. The major burden of reduction must therefore fall on the soft currency purchasers of oil from United Kingdom sources. By and large this must imply reductions in European and sterling area purchases of oil (or the provision of dollars at the expense of other dollar purchases). We have taken a figure of £20m. as the saving to be achieved. The measures entailed would hamper European recovery and would therefore be only reluctantly taken; but the cuts in their consumption would not proportionately be very different from those we are assuming for ourselves (see paragraph 17 below); and we may assume that we should be able to increase coal exports as some measure of compensation. But we might have to face indirect effects on our imports as a result especially of Colonial and Dominion economies.

14. The items of gold purchases and other items cover a wide miscellany of transactions. We have assumed that by attempting strict control of remittances (including profits of subsidiaries, entertainment earnings, royalties etc.) restriction of selling expenses, etc., our earnings might be increased by a small amount.

15. These adjustments imply that, after allowing for invisible earnings, all but £5m. of our dollar area export earnings of £220m. would be available to finance the import programme. The currently planned rate of imports of about £395m. would have accordingly to be reduced by nearly half to £215m.

16. The allocation of these £215m. between alternative uses would be extraordinarily difficult. The small total of £5m. for film remittances would have to go, at a cost, which could be variously assessed, to the amenities of life in this country. No expenditure is shown for 1948/9 in Table I on tobacco, since there is a current decision to make no further purchases. To maintain present consumption levels when stocks are exhausted would in fact cost about £20m. in United States and Canadian dollars, and this would provide about three-quarters of total supply. We assume that despite the grave fiscal and other implications of allowing consumption to fall to a quarter, this would be faced. (See paragraphs 24 and 28 below).

* The financial statistics of the oil industry are now being re-examined and it is likely to emerge that the dollar drains used in the paper are rather too high.
17. The 1948/9 dollar-expenditure on United Kingdom civil imports of oil of $50m. represents about half of total planned expenditure on oil. At 15.9m. tons, these imports are substantially above 1947 figures, (when stocks fell fast) even though they assume no basic petrol ration, and no further fuel oil conversions beyond those at present in progress. But they also assume that industrial output would continue to rise, that the motor transport industry would continue to expand, that we should provide oil for the new oil using plants now being installed (partly as a result of Government encouragement), and that the mechanisation of agriculture would be continued.

We have assumed that we could reasonably attempt a saving of £20m. in the 1948 programme or say 3-4 million tons of planned consumption. This would involve (a) a heavy cut back below 1947 levels of motor spirit consumption, including not only the abolition of supplementary petrol to private motorists, but a sharp reduction in commercial and transport usage; (b) extensive reconversion to coal usage in industry; (c) a very tight control over agricultural usage, and (d) proportionate economies in minor usages such as civil aviation. Such a sharp reversal of current trends would involve temporary dislocation in important fields of industry, and a continuing restraint on industrial productivity. It would also increase pressure on coal supplies and rail transport; but this might be borne.

18. On present intentions we shall spend some £45m. on manufactures in the dollar area in 1948/9. By far the greater part of this is machinery ($32m.), and most of the remainder are "goods for industry" ($9m.) — specialised manufactures, spares, components and the like. Both categories are extremely diverse — plant for open cast coal and agriculture are the largest single programmes, and the rest is specialised plant for a wide range of industry. As without E.R.P. aid we might for some years be unable so much as to maintain output on existing equipment with the imports of materials we could afford, it would be bad policy to use our resources to add to our total equipment. We have, therefore, assumed that this expenditure might be reduced to £20m.

19. These cuts leave £165m. available for dollar area food and raw materials. The division of this reduced sum would present the worst of all the planning dilemmas. Among the possible alternatives, we have chosen a raw material programme of $90m. and a food programme of $75m. The latter happens to be about the minimum level that would leave our bread supplies unaffected: the former allows industrial output to continue at perhaps 10% below the rate in the last half of 1947 but has drastic effects upon building. But other patterns are possible. For example, we could maintain building or maintain industrial output by cutting bread; or we could restore bacon and sugar, (which take the worst cuts), by further reductions in industrial output.

20. The $90m. dollar area raw material programme implies cuts of $75m. We may also suppose that of the $20m. cut on Argentine programmes, $5m. is taken on the small raw material component, almost all hides. Excluding the cuts from other countries that have already been mentioned in paragraphs 11 and 12 above, the aggregate reduction amounts only to some 12% of the total raw material programme. But this is a misleading proportion. The programme we have considered allows generally for rising consumption, and increased stocks. Some cut can therefore be taken without reduction of output below recent levels. On the
other hand, the cuts cannot be evenly spread, since some commodities - of which wool is the most important example - come wholly from areas where no cut would be required, while others only come to a very small extent from the Western Hemisphere. In yet other cases without the dollar supplies non-dollar imports cannot be efficiently used - carbon black required for motor tyre production is a case in point.

21. The maximum cuts would amount to some 15-20% on supplies to home industry by comparison with consumption during the latter half of 1947. This would apply to non-ferrous and light metals, softwood, paper and pulp and to a large range of miscellaneous materials. At the other extreme with some materials, such as steel and hardwoods, the complete excision of the dollar supplies would still leave sufficient to allow United Kingdom consumption to be at or above present levels. The effects of the cuts would therefore be widespread, but they would not be universal. They would cause an acute distortion, as well as a general contraction.

22. The cuts in food and feedingstuffs programmes, must reach £55m. from dollar sources and rather over £45m. from the Argentine, with further cuts on sterling area programmes which, as has been suggested in paragraphs 10-11 might be of the order of £30m. The programmes on which these cuts fall stand at £790m. for food and £110m. for feedingstuffs for 1946/7 from the world as a whole, but in these totals the £225m. allowed from the Western Hemisphere includes three quarters of the wheat, two-fifths of the carcase meat and the sugar, and over half the feedingstuffs.

23. We should not have a free choice between the alternative ways of making these cuts and we would be faced with extremely difficult bilateral negotiations. We cannot guess what agreements could be made, but we suppose that we keep the Canadian wheat, and flour but abandon all other dollar food supplies, of which the Canadian bacon, the Caribbean sugar and Canadian eggs and cheese are the greater part. (This is almost certainly too optimistic). The Argentine cuts we concentrate partly on linseed oil (which might gradually be made up from home agriculture) on some animal fats we are now taking unwillingly, but most of all on coarse grains of which 1.5m. tons costing over £40m. are in the programme. If we could dispense with three-quarters of these (as an immediate measure), carcase-meat and oilcake could be left unaffected.

D. CONSEQUENCES TO THE HOME ECONOMY

24. These readjustments to the balance of payments would administer a number of violent shocks to the home economy at a number of separate points. The results to the structure of output, exports, investment, consumption and employment are extremely difficult to assess. We should be faced with an abrupt transition from a partially suppressed inflation to something not unlike a slump. It is conceivable that after the initial period of dislocation we would in fact move into a depression of the classical kind, with heavy reductions in investment due to general pessimism and uncertainty in the business world leading on to a spiral of declining income and demand. But we have assumed that this is avoided, if only because some types of investment could be expanded in nationalised industry and other public sectors, and because taxation could if necessary be relaxed promptly.
25. Administrative Problems

The rapidity of adjustment that would be required would be much greater than anything achieved in the past, and would almost certainly be beyond the administrative means available. No controls similar to those we have today could ensure the expansion of hard currency exports supposed; nor distribute in an ideal and fair way the reduced supplies of e.g. non-ferrous metals, the end-uses of which we do not now attempt to control. It is virtually certain that we should have to adopt rough and ready methods. We would have to loosen many price controls which could scarcely work with raw material supplies reduced and widespread substitution being called for. We might have to consider devaluation in an attempt to aid exports to dollar markets; and to discourage the demand for dollar materials. We should have to prohibit rather than restrain the use of e.g. non-ferrous metals in inessential uses if we were to protect export output. We should have to be prepared for obvious maldistributions of resources, critical bottlenecks, and paradoxical surpluses to a much greater extent than today. This applies especially to manufactures, but there would of course also be serious strain on agricultural policy and consumer rationing and an expansion of all kinds of black market.

The fiscal problems would be most difficult. Some expenditures would rise (e.g. unemployment benefit by £150-200m.); some revenues would fall (e.g. tobacco duties by something like £200m.). In the early stages the spending of accumulated savings might offset the fall in income due to unemployment. The cuts in building would reduce the call for savings. If there were a period of dislocation during which output was low but expenditure remained high, it might even be that acutely inflationary conditions developed, despite rising unemployment.

26. Implications to the level of food consumption

The cuts assumed in Canadian and other dollar imports, and in Empire butter, tea, and coffee imply heavy reductions in rations: sugar, ½ to 5 ounces; butter, 3 to 1½; bacon, to 1 ounce the year through; cheese to even less; with other cuts in eggs and meat. Miscellaneous non-dollar imports would also probably come down. The reduction in calorie intake below the programmed level of 2,890 would probably be about 20%; i.e., the level would probably be a little below the level during the present period of potato shortage, and over 10% below the pre-war average. But even if in the long run agricultural adjustments restored total calories, the diet would be even more distorted from the traditional pattern than the present.

27. Implications to Agricultural Policy

In paragraph 22 we supposed that as an immediate measure Argentine meat imports were not reduced, and that the whole reduction fell on coarse grains. This implied a reduction in the latter that might (if certain compensating supplies could be obtained elsewhere) permit feedingstuff rations to continue as at present, but which would wholly wipe out any development of the livestock expansion programme. Whether it would in fact be better to reduce overseas meat supplies and take more coarse grains, or lower the extraction rate and provide feedingstuffs at the expense of direct bread supplies and a further cut in calorie intake would of course be important issues of policy. It is at least clear that the agricultural policy as a whole would need re-examination. Much would depend upon estimates of longer term changes in, e.g., the terms of trade and relative prices of cereals and livestock.
28. Implications to other Consumption

The main directly adverse effects upon the level of consumption of items other than food have mostly already been mentioned. Pressure on cotton supplies and the need to export a major dollar saver and dollar earner would virtually remove consumer cotton goods from the home market. The reduction in leather imports would have a large effect upon the supplies or the quality of footwear, far less motor traffic than is now permitted would be possible. Newspapers and books would be reduced. The whole range of consumer using non-ferrous metals from trivialities to electrical gear of all kinds would be curtailed. The cinema industry would be worse disorganised than it has been recently. A reduction of three-quarters in tobacco consumption would greatly affect morale, and, having regard also to the fiscal effects, it may be thought that we have been unrealistic in not assuming that we would in the event prefer to cut food or raw materials rather than cigarettes. On the other hand service industries would be free to expand, and the shortage of domestic workers both in institutions and private homes might be relieved. (Indeed such work might even be a fit object for encouragement as providing work requiring little material). These changes would between them amount to a very sharp change in the standard of living. It should not be unbearable but it would certainly call for much patience and a willingness to change old established habits.

29. General Implications to Industrial Output

The effects of some of the cuts in imports, such as those in timber and hides would or could be confined to particular industries. Other cuts, such as those in oil, non-ferrous metals, and in the whole range of chemicals and miscellaneous materials would directly or at few removes, affect all manufactures and would tend, where they did not reduce output outright, at least to raise costs and lower productivity. There would need to be, if output were to be maintained, an early adoption of substitutes, and there would be little time for their discovery. But given a strong enough money motive a good deal might be done (no doubt at the cost of lowering standards) by for example, using steel, which would be relatively plentiful, in place of aluminium or timber, concrete in place of timber, alternative materials for paper making, rubber in place of leather, wool in place of cotton and so on.

30. Consequences to Investment

The most obvious effects would flow from the reduction of softwood imports. Given other requirements this might mean a cut of some 250,000 standards in the building industry, and though not all this need fall on new housing a reduction of new house building to something of the order of 50,000 might be inevitable, unless the use of substitutes. The electricity generating programme would almost certainly have to be curtailed, mainly because of the reduction in non-ferrous metals. Further direct effects would be the reduction in capital goods imports and the widespread consequences to output of the dislocations already discussed.

These are effects on supply, but as has been said, demand, now stimulated by labour shortage, would also change. Shipbuilding, and mechanical engineering are sectors in which
slump conditions might easily occur. But some of the
adjustments, in particular, reconversion to coal usage,
would entail fresh expense; public investment, road,
transport, reclamation and some parts of iron and steel could
be expanded and there would be a very strong case for
a prompt expansion of dollar saving investment, if necessary
by Government action, especially in the chemical and oil
refinery fields. A wholesale collapse of investment could
be avoided. Moreover export demand might continue at
a generally high level: we have already presupposed special
efforts to supply capital goods to some countries in place
of gold or dollars.

32. Consequences to Exports

We have already assumed that exports to hard currency
areas, and dollar saving exports to the sterling area have to
be pushed extremely hard, at a time when costs generally
would probably be rising. But the material
cuts could not be confined to home market production and we
should almost certainly find it impossible to maintain total
exports for production reasons; ever, as mentioned below,
exports demand also might contract. We have taken no
account of these possibilities in the review of the short term
crisis, however, because it might be possible for a time to
concentrate the reduction of exports on the less essential
exports to areas with which we should otherwise be currently
in surplus, i.e., on "unrequited" exports.

33. Consequences to Employment

There would be large primary effects on employment
in metal using industries, building, clothing, road transport,
and paper consuming trades. Some of these might be offset
by reduction in specifications, the use of substitutes, and so
on. There might also be a secondary reduction in the
distributive trades. On the other hand the service trades,
and domestic service could increase, and mining, farming, and
wool textiles could expand. Women might leave industry in
large numbers, and the present pressure for the industry to
stay would be reversed. On balance we estimate that employment
might, apart from the workspreading effects of short-time and
reduced hours, rise to something like 1,500,000.

E. LONGER TERM PROSPECTS

34. The broad sketch given in the preceding sections tries
to depict the most favourable state of the economy that we
might manage to reach in, say, a year after it had become
certain that we would get no E.R.P. Aid. Things might well
be worse if the downward readjustment could not be achieved
in an orderly manner. They could probably not be much better.
But this sketch presents only one phase. Four major longer-
term factors should be mentioned.

35. First, the dreariness of the consumption standards to
which we should fall, the inadequacy of the national diet and
the increase in unemployment might give rise to unrest and
inefficiency. These would probably lower output and exports,
and further and might start a 'downward spiral' to which
there would be no obvious end.
36. Secondly, there might be a change in the terms of trade in our favour. This might come about in two separate ways.

(a) Since the United Kingdom is by far the largest importer from Canada and the Argentine the reductions in our purchases might start movements in the prices of their products. In itself, a fall in import prices would be beneficial since it would reduce the quantitative cuts in imports and raise the real value of our remaining reserves. But the same fall in primary product prices would, if due to this cause, very probably reduce the demand for our manufactures. On balance, we might gain somewhat if these effects were confined to these countries, but if there were a general reduction of world trade the gain would be much more problematical.

(b) There might, independently of anything our crisis compels us to do, be a lowering of import prices as a result of increased efficiency and output among primary producers following upon the high prices they now enjoy and the fading of the effects of war. This would not affect the demand for our exports, and would therefore be wholly favourable. But changes of this kind could only be gradual: they could not be relied upon to extricate us quickly.

37. Thirdly, we might in two or three years expand our exports, especially of capital goods. Little allowance for this had been made in the account given of short period adjustments, since the time lags are very substantial. But there are physical limits to these additional exports (which in any case are very vulnerable in a world slump situation) and they would be alternative to home investment, and this might not be much above the maintenance level. But we could try to plan more deliberately than we do today that we sell capital goods that would directly or indirectly increase the output of goods we would wish to import. If we secured the close co-operation of Europe and the Empire in a joint effort of this kind we might gradually end the worst of the limitations on output.

38. Lastly, we might hope for a rise in the level of the United States imports and of American foreign investment. Either of these developments might replenish the supply of dollars to the rest of the world and permit a resumption of multilateral trade. This would relieve us by removing the prime cause of the whole crisis. Developments of this kind although perfectly possible are not in any way certain, and they are wholly outside our control.

39. We give this brief review of the longer-term prospect to show that there is no reason to suppose that the short-term crisis we have described would necessarily be transient. All the longer-term developments are extremely uncertain but it seems on the whole likely that the economy, having moved to a generally lower level, would tend to stay there for a considerable time.

March, 1946.
NOTE BY THE SECRETARY OF THE CABINET

BY direction of the Prime Minister I circulate herewith a note of the Deputation from the British Section of the International Committee of the Movements for European Unity received by him and the Foreign Secretary on 17th June.

(Signed) NORMAN BROOK.

Cabinet Office, S.W. 1,
24th June, 1948.

WESTERN UNION

Note of Deputation from the British Section of the International Committee of the Movements for European Unity, received by the Prime Minister and the Foreign Secretary at 10, Downing Street, S.W. 1, at 5 p.m. on Thursday, 17th June, 1948.

PRESENT
The Right Hon. C. R. ATTLEE, M.P., Prime Minister.
The Right Hon. ERNEST BEVIN, M.P., Secretary of State for Foreign Affairs.

Deputation
The Right Hon. WINSTON CHURCHILL, M.P.
Mr. R. W. G. MACKAY, M.P.
Major BEDDINGTON BERENS.
Mr. ROBERT BOOTHBY, M.P.
Sir HAROLD BUTLER.
Lt. VIOLET BONHAMP CARTE.
The Right Hon. CLEMENT DAVIES, M.P.
Captain HUGH DELARGY, M.P.
Mr. HENRY HOPKINSON.
Mr. HARRY HYND, M.P.

Miss F. L. JOSEPHY
Commander KING-HALL.
LORD LAYTON.
Mr. KENNETH LINDSAY, M.P.
Sir PETER MACDONALD.
The Right Hon. HAROLD MACMILLAN, M.P.
LADY RHYS WILLIAMS.
The Right Hon. SIR ARTHUR SALTER.
Mr. DUNCAN SANDYS.
Mr. CHRISTOPHER SHAWCROSS.

Sir NORMAN BROOK: Secretary.
Mr. CHURCHILL, introducing the Deputation, said that their purpose was to present for the favourable consideration of His Majesty’s Government the Resolutions passed at the Congress of Europe held at The Hague in May 1948. This Congress had been attended by people of standing from all the democratic countries of Europe. Although those present attended as individuals, and not in any representative capacity, the meeting could claim to speak on behalf of all the free peoples of Europe.

The British Delegation to the Congress had from the outset endeavoured to maintain the non-Party character of the movement. They did not wish it to intervene in Party politics in any country. It was their object to foster the feeling of unity in western Europe and to bring its inhabitants to regard themselves as good Europeans. They had no desire to trespass on the functions of executive Governments. They recognised that they, as private persons, had no share in the responsibilities of Governments. They believed, however, that by developing the cultural, moral and intellectual ties between the various countries of western Europe they could substantially aid the work of Governments and could, in particular, assist His Majesty’s Government to achieve the objectives of their European policy. The victory gained by the British Commonwealth and her Allies in the late war would be a mockery unless, through it, the countries of Europe could be carried forward to unity and lasting peace. This was the foremost object of European union. It was fully consistent with the objectives of the United Nations: for any European Union would be a subordinate and regional element in the United Nations organisation.

The Deputation wished, in particular, to commend to the favourable consideration of His Majesty’s Government the proposal for the constitution of a European Assembly, chosen by the Parliaments of the participating nations, which would serve as a forum for the expression of ideas and aspirations making towards the political and economic union of western Europe. They did not wish to dogmatise about the constitution of this Assembly. They did no more than commend the idea of such an Assembly to the favourable consideration of His Majesty’s Government. Other national delegations to The Hague Congress were submitting the idea to their Governments. They asked that British Ministers should consider sympathetically the possibility of giving encouragement and support to the establishment of some form of European Assembly which would serve to mobilise the forces of public opinion in all countries of Europe in support of the conception of European Union.

Mr. MACKAY spoke in support of the Political Resolution passed by the Congress at The Hague. He said that the Congress had been attended by 285 Members of Parliament drawn from the sixteen participating countries and from western Germany. These represented all shades of political opinion save Communism. The Political Resolution was, therefore, one which carried with it the support of a representative collection of men and women with practical experience of political life. It did not conflict in any way with the views expressed by the Prime Minister in his speech in the debate in the House of Commons on 5th May. The Union which it recommended would be free from all outside control and would not be directed against any particular country. He stressed, in particular, the paragraph proposing the early establishment of a European Assembly. For some time past there had been a wide measure of agreement on the principle of European Union: the practical questions now were of timing and method. He believed that the next step should be to arrange for the establishment of a European Assembly which could advise on the practical measures required to bring about the economic and political union of Europe and to work out plans for that purpose. He envisaged an Assembly of four or five hundred people nominated by the Parliaments of the participating nations. He believed that this would be the most practical method of mobilising public opinion throughout Europe in support of the conception of European Union. He therefore asked that His Majesty’s Government should give sympathetic consideration to this part of the Political Resolution and to take steps to ascertain the views of other European Governments.

LORD LAYTON spoke in support of the Economic Resolution. This had been the most difficult Resolution to frame, since it covered a wide range of difficult problems on which there was a substantial divergence of view. It was, therefore, remarkable that so large a common measure of agreement had been found. It was clear that the world’s economic difficulties called for a revolutionary change in economic policy, and that it was now essential that the industrial and financial resources of Europe should be developed on a Continental basis. It was not yet clear how far this could be achieved by the Organisation
Mr. KENNETH LINDSAY spoke in support of the Cultural Resolution. The British Delegation to the Congress at The Hague had based themselves on Article III of the Treaty of Brussels. They had stressed the diversity of European culture, which was not the prerogative of any single nation, race or creed. They looked forward to the establishment of a European Cultural Centre which would promote an awareness of European unity through all the media of information. This would undertake for Europe the functions discharged by the British Council for the British way of life and by U.N.E.S.C.O. for the world at large. A cultural movement of this kind would be of great value in creating a climate of public opinion without which the objectives of British foreign policy could not be achieved. It would provide special opportunities for rallying to the ideals of western civilisation the youth of Europe which was now wavering between the extremes of political Right and Left. Finally, it would be of importance in keeping the flame of political freedom alive in eastern Europe, with which our only remaining links were now commercial and cultural relations.

THE PRIME MINISTER thanked the Deputation for bringing forward the Resolutions of the Congress at The Hague. He was fully in sympathy with the objectives which the Deputation had in view. He endorsed the importance of promoting a sense of European unity. His Majesty's Government were already working along these lines; but he recognised that there was scope for assistance by unofficial agencies in mobilising public opinion in support of the conception of Western Union. He agreed that western Europe could not be economically viable without the overseas territories of the participating countries; and His Majesty's Government must take special care to ensure that, in growing towards western Europe, the United Kingdom did not move away from the self-governing countries of the Commonwealth. They must, therefore, consider how far they could properly go without full discussion with other Commonwealth Governments. They would deplore the creation of unnecessarily elaborate machinery, or new machinery which would tend to duplicate the work of existing organisations. Thus, he thought that the International Labour Organisation was already competent to pursue some of the aims of the Economic Resolution. The wise course would be to identify the gaps in existing machinery and consider how best these might be filled. He was not sure that would be the constitution and functions of the proposed European Assembly. Would its members represent the national Parliaments? And was it contemplated that its resolutions would be binding on the Governments of the participating countries? In reply, Mr. MACKAY said that it was contemplated that the European Assembly would be sponsored by the national Governments and that its members would be nominated by the national Parliaments. The Assembly would, however, have no powers and no executive functions. Its recommendations would merely be submitted for consideration by the national Governments. THE PRIME MINISTER said that he would like them to consider this proposal. He was not sure that this more spectacular method was likely to achieve such practical results as the method of working on specific projects through organisations like the Organisation for European Economic Co-operation. He would, however, be glad to arrange for detailed consideration to be given to this particular recommendation.

THE FOREIGN SECRETARY said that for a long time past he had hoped to see the creation of a European Union. After the end of the war, however, the United Kingdom had no power to support the European economy, until the offer of Marshall Aid gave us the opportunity to take the lead in promoting a Union of western Europe. Even then, fears for their future security had
prevented some European countries from giving full support to this conception until recently, when the United States Government had given their assurance that they intended to retain Armed Forces in Europe until peace was assured. The speeches by M. Bidault and M. Reynaud in the previous day's debates in the French National Assembly were encouraging evidence that France was now determined to give full support to the conception of Western Union. Western Europe could not alone achieve her position in the world; but, with the prospective development of Africa, South-East Asia and India and with our affiliations with Middle-Eastern countries, we now had an opportunity to consolidate a strong position in the middle of the world.

In advocating a European Union, he would himself be disposed to avoid any reference to the surrender of sovereign rights. He would prefer to proceed by creating conditions in which claims of national sovereignty would not be asserted. Governments could be persuaded to accept commitments which in fact involved some encroachment on sovereign rights, so long as explicit mention of sovereignty was avoided.

He doubted whether the establishment of a European Assembly would help to achieve the objectives which the Deputation had in view. He wondered whether such an Assembly would be helpful until the national Governments had made further progress towards the solution of some of the practical problems involved. Thus, such an Assembly would doubtless advocate free movement between the countries of western Europe; but the difficulties in the way of this could be unravelled only by the Finance Ministers of the national Governments concerned. Again, defence questions were fundamental to the success of Western Union. Would it be possible to create a single Budget for Western Union defence, each country contributing a proportion of its national income? How could these questions be profitably discussed in a European Assembly consisting of private individuals with no public responsibilities? The Resolutions passed at The Hague Congress were helpful in creating a favourable climate of public opinion. But he believed that the common objectives of the Government and the Deputation were more likely to be achieved by the method of practical collaboration between representatives of the Governments of the countries of western Europe.

Mr. CHURCHILL thanked the Prime Minister and the Foreign Secretary for receiving the Deputation. He drew a sharp distinction between the role of the unofficial and voluntary organisation which he represented and the functions of executive Governments; and he stressed the fact that those whom the Deputation represented had no desire to usurp the functions of His Majesty's Government. They did, however, favour the establishment of a European Assembly as a forum for the ventilation of ideas and a means of mobilising public opinion throughout Europe in support of the conception of European Union. He did not contemplate any elaborate machinery: he envisaged an Assembly which would meet once or twice a year to review the progress made and to enlist public support for the policy of the national Governments. He did not suggest that resolutions passed at this Assembly should in any way be binding upon national Governments. The Assembly could not encroach on the executive responsibility of Governments. The creation of such an Assembly would also provide a convenient means of bringing western Germany back into the family of European nations. All that he asked was that His Majesty's Government should give their support and assistance in getting such an Assembly established. He hoped that Ministers would consider in detail what they could do to this end.

As regards sovereignty, he agreed that it was undesirable to ask for the surrender of sovereign rights. He would prefer to speak in terms of countries acquiring an enlarged or enriched sovereignty through membership of a European Union.

Ms. MACKAY suggested that the Deputation should submit a written memorandum dealing with the possible methods of constituting a European Assembly. Mr. CHURCHILL suggested that the Prime Minister might then delegate to others the duty of discussing this memorandum with selected members of the Deputation.

THE PRIME MINISTER said that, if such a memorandum were submitted, he would gladly arrange for it to be examined.

The Prime Minister and Mr. Churchill then settled the terms of a Press communiqué briefly reporting the proceedings at the Deputation.

The Deputation withdrew.

17th June, 1948.
CABINET

COMPARISON OF WAR PENSIONS WITH THE COMPENSATION TO BE PAID TO MINERS UNDER PROPOSED SCHEME OF SUPPLEMENTARY INJURIES BENEFITS

Memorandum by the Minister of Pensions

In view of the discussion at the meeting of the Cabinet on 24th June (C.W. (H) 42nd Conclusions, Minute 6) I have thought it desirable to submit a paper showing the difference between War pensions and the compensation to be paid to miners and their dependants if approval is given to the Miners' Scheme to be made under Section 83 of the National Insurance (Industrial Injuries) Act.

2. Disabled Men. At Appendix I are tables showing the compensation payable in 100 per cent. disablement cases to miners, other industrial injury pensioners, and war pensioners where the men are working (Table A), and where they are unemployable and in receipt of Unemployability Supplement (Table B).

3. Table A shows that the unmarried miner will receive 15/- a week more than the unmarried war pensioner, 5/- a week more than the married war pensioner and only 2/6d. a week less than the war pensioner with a wife and child.

4. Such a position is in my opinion indefensible. The miners' supplementation is a form of danger money, but the risks of mining are no greater than those of fighting. Moreover in effect both are nationalised industries.

5. It would be an intolerable situation if in a mining village there were two men pensioned at the 70 per cent. rate for the loss of a leg - the one an unmarried miner who lost his leg while following his regular occupation receiving 42/- a week - the other a married war pensioner who lost his leg on the battlefield receiving 38/6d. a week for himself and his wife.

6. I am being pressed by members of all parties to increase war pension rates and I am under particularly strong pressure from the British Legion and the British Limbless Ex-Servicemen's Association who are asking for a 100 per cent. disablement rate of 90/- and 61/6d. a week respectively.

7. When I took office I had an informal talk with the British Legion and I told them quite frankly that I did not intend to recommend an increase in the standard rate of pension, but that I felt that something should be done for the man who has to give up work temporarily because he requires treatment or has been forced by his disablement to give up work permanently. In other
words I indicated that I would give nothing more to the war pensioner who is working but would improve his treatment allowances and his pension when he is unemployable.

8. The claims of the ex-Servicemen's Associations were made long before the Miners' Scheme was contemplated and were based solely on the increased cost of living. It was argued that the pension of the 100 per cent. 1914 war pensioner had only been increased by 12 per cent. since 1939, whereas the cost of living had gone up by over 30 per cent. and wages by over 70 per cent. Their claims will clearly be pressed with added vigour when the Miners' Scheme becomes known. It will be difficult enough to resist an increase in the standard rate in view of what the miner is to get, and it will in my opinion be quite impossible to refuse the war pensioner undergoing treatment or unemployable parity with the miner. I do not believe that the House, the ex-Service community or indeed the general community will tolerate a situation in which the invalid war pensioner is treated less favourably than the invalid miner.

9. One has heard the argument that the Miners' Scheme is a contributory scheme and that the war pensioner, the whole of whose pension comes from the Exchequer, cannot expect equal compensation with the miner. With respect I would say that the Miners' Scheme is not a seriously contributory one. The miner is only contributing 4d the remaining 1d being contributed by the Coal Board, which means by the consumers of coal, viz. everybody in the community, including the war pensioner who is confined for life to his house, perhaps to his bed, and who will get a much lower pension than the miner.

10. Widows. At Appendix II is a table showing the conditions and rates of pensions payable to widows of miners, industrial injury widows and war widows eligible for pension at the higher rates. For purposes of comparison is added the provision for widows under the National Insurance Act. At Appendix III is a similar table regarding widows pensioned at the lower rate.

11. Appendix II (Widows eligible for the higher rates). Many comparisons can be made but the following stand out:

(I) The miners' widow over 50 at her husband's death will get 20/- a week more than the similar industrial injury widow and 15/- a week more than the war widow. The similar widow whose husband died a natural death will get no pension unless she had been married for 10 years.

(2) The miner's widow with a child will get 11/6d. a week more than a similar war widow whose rent is not more than 8/- a week, and at least 2/- a week more than the similar widow whose husband died a natural death.

12. For reasons which I need not reiterate I do not think this wide differentiation between the treatment of the miner's widow and the war widow can be defended.

13. Appendix III (Widows eligible for the lower rates). The proposal to give a 40/- pension to the young fit childless miner's widow is in my opinion monstrous and let me say at once that I do not intend to recommend any increase in the existing pension of 20/- a week for the similar war widow. The proposal is contrary to Labour principles, removes the incentive to full work, and merely creates a privileged class.

14. The under 50 fit, childless miner's widow will get -
twice as much as the similar industrial injury widow and twice as much as the similar war widow who is under 40;

5s. a week more than the 40 year old childless war widow, who may even be an invalid;

a pension of 40s. a week for life as compared with an allowance of 36s. a week for 13 weeks for the childless widow of a man who dies a natural death. (The latter widow will have to wait until 60 before she gets a pension and then it will be only 26s. a week);

6s. 6d. a week more than the 'civilian' widow with one child. Moreover, if the women each earn 40s. a week the miner's widow will have her pension intact whereas the 'civilian' widow will have her widowed mother's allowance of 33s. 6d. reduced to 23s. 6d. The miner's widow will then have an income of 80s. a week for herself, and the 'civilian' widow an income of 63s. 6d. a week for herself and her child.

I take again the mining village where there might be four childless fit widows in say the early thirties. Their compensation will vary as follows, according to whether the husband was

(1) Killed in the pits - 40s. a week for life.
(2) Killed in industry other than mining - 20s. a week until 60, then 26s.
(3) Killed in action - 20s. a week until 40, then 35s.
(4) Died a natural death - 36s. for 13 weeks. Pension of 26s. at 60.

The proposal to supplement by 20s. the 20s. payable under the Act would give such a woman 47s. 6d. a week for herself and the child. There is no provision in the War Pensions Instruments for the woman who has the care of a war orphan except where she had lived with the child's father as his wife. The unmarried dependant who has lived as the wife of a Service man receives a pension of 27s. 6d. a week and an allowance of 11s. for the child (38s. 6d. in all) together with a rent allowance if her rent exceeds 8s. a week.

The 'unmarried dependant' of a miner with one child will therefore get:

(1) 9s. 6d. a week more than the similar 'unmarried dependant' of a Service man whose rent is not more than 8s. a week, and
(2) 1s. 6d. a week more than the war widow with one child whose rent is not more than 8s. a week.

With respect I cannot see how a Labour Government whose policy is to equalise compensation for disablement and death rather than to create bigger differences can possibly defend the inequalities to which I have drawn attention.
19. I should be failing in my duty to the Government and to the ex-Service community if I did not draw my colleagues’ attention to the serious anomalies which will be created if the Miners’ Scheme is accepted and nothing is done for the war pensioner. If this Scheme is approved by the Government I shall feel bound to suggest improvements in war pensions not only for the men on treatment or unemployed but also for the working war pensioner, for the widow who has children or is over 60 or is an invalid and for the unmarried dependant. The plan I had in mind for the first two distressing classes would have involved expenditure of something under £3 million a year. If the latter classes are included by making a moderate increase of 5s. a week in the standard disablement rate the widow’s higher rate and of 2s.6d. a week in the pension of the unmarried dependant, an additional expenditure of something over £5 million a year would be involved.

G.R.

Ministry of Pensions, S.W.1.

25th June, 1918.
### APPENDIX I

#### TABLE A

<table>
<thead>
<tr>
<th></th>
<th>Miner</th>
<th>Industrial Pensioner</th>
<th>War Pensioner (Private)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried</td>
<td>60/-</td>
<td>45/-</td>
<td>45/-</td>
</tr>
<tr>
<td>With wife</td>
<td>60/-</td>
<td>45/-</td>
<td>55/-</td>
</tr>
<tr>
<td>With wife and 1 child</td>
<td>60/-</td>
<td>45/-</td>
<td>62/6</td>
</tr>
<tr>
<td>With wife and 2 children</td>
<td>60/-</td>
<td>45/-</td>
<td>70/-</td>
</tr>
<tr>
<td>With wife and 3 children</td>
<td>60/-</td>
<td>45/-</td>
<td>77/6</td>
</tr>
</tbody>
</table>

**Note:** The miner and industrial pensioner do not get allowances for a wife and child when working but the working war pensioner on the 100% rate gets an allowance of 10/- for his wife and 7/6 for each child.

#### TABLE B

<table>
<thead>
<tr>
<th></th>
<th>Miner</th>
<th>Industrial Pensioner</th>
<th>War Pensioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried</td>
<td>80/-</td>
<td>65/-</td>
<td>65/-</td>
</tr>
<tr>
<td>With wife</td>
<td>96/-</td>
<td>81/-</td>
<td>81/-</td>
</tr>
<tr>
<td>With wife and 1 child</td>
<td>103/6</td>
<td>88/6</td>
<td>88/6</td>
</tr>
<tr>
<td>With wife and 2 children</td>
<td>103/6</td>
<td>88/6</td>
<td>96/-</td>
</tr>
<tr>
<td>With wife and 3 children</td>
<td>103/6</td>
<td>88/6</td>
<td>103/6</td>
</tr>
</tbody>
</table>

**Note:** Allowances under the Family Allowances Act are payable to all three classes whether working or unemployable.
<table>
<thead>
<tr>
<th>Conditions</th>
<th>Miner's widow</th>
<th>Industrial widow</th>
<th>Private's war widow</th>
<th>Widow under National Insurance Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Over 50 at husband's death or (b) Permanently incapable of self-support at husband's death or (c) Having the care of a child</td>
<td>Same as (1)</td>
<td>(a) Over 40 (at any time) or (b) Permanently incapable of self-support at any time or (c) Having a child in receipt of an allowance</td>
<td>(a) Widow's allowance (36/- for 13 weeks) or (b) If over 50 when husband died and has been married 10 years - widow's pension (26/-) or (c) If she has a child - widowed mother's allowance (33/6) or (d) If, when widow's allowance or widowed mother's allowance ends, she is incapable of self-support - widow's pension (26/-) or (e) If over 40 when ceasing to be eligible for widowed mother's allowance and has been married 10 years - widow's pension (26/-)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rates</th>
<th>Widow only</th>
<th>Widow and 1 child</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widow only</td>
<td>50/-</td>
<td>57/6</td>
</tr>
<tr>
<td>Widow and 1 child</td>
<td>30/-</td>
<td>37/6</td>
</tr>
<tr>
<td></td>
<td>35/-</td>
<td>46/- (plus rent allowance where rent exceeds 8/- a week. Maximum allowance 12/-)</td>
</tr>
<tr>
<td></td>
<td>(1) Miner's widow</td>
<td>(2) Industrial widow</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Rates (contd.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Widow and 2 children</td>
<td>57/6</td>
<td>37/6</td>
</tr>
<tr>
<td>Widow and 3 children</td>
<td>57/6</td>
<td>37/6</td>
</tr>
<tr>
<td>Note: An allowance (7/6)</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Note: Allowances under the Family Allowances Act are payable to all four classes.
<table>
<thead>
<tr>
<th>Conditions</th>
<th>(1) Miners' widow</th>
<th>(2) Industrial widow</th>
<th>(3) Private's war widow</th>
<th>(4) Widow under National Insurance Act</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Under 50 at husband's death or (b) Under 50 when ceasing to be eligible for an allowance for a child</td>
<td>Same as (1)</td>
<td>Under 40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td>40/- (No increase on attaining 50)</td>
<td>20/- (No increase on attaining 50)</td>
<td>20/- (rising to 35/- at 40)</td>
<td>Widow's allowance of 36/ - a week for 13 weeks. (Pension 26/-) is payable only to the widow who is 60 (retirement pension) or an invalid, or over 40 when ceasing to be eligible for widowed mother's allowance and ten years have passed since date of marriage</td>
</tr>
</tbody>
</table>
CABINET

EXPORTS OF COMMERCIAL SCRAP FROM GERMANY

MEMORANDUM BY THE MINISTER OF SUPPLY

At the meeting of the Cabinet on 3rd June (C.M. (48) 35th Conclusions, Minute 8), I was invited, in conjunction with the Chancellor of the Exchequer, to prepare for the Foreign Secretary a note showing what quantities of commercial scrap were required from Germany in the year 1st July, 1948, to 30th June, 1949, what difficulties stood in the way of obtaining this scrap, and what suggestions might be made to the United States Government for overcoming these difficulties. The Cabinet took note that the Foreign Secretary would then consider how the United States Government might best be approached.

2. The Foreign Secretary has, I understand, already had some talks with the American Ambassador as a result of information given to the Foreign Office at the official level. In addition, cables have been sent to Washington by the Foreign Office on matters arising out of the export of German scrap.

3. I have submitted to the Cabinet a paper (C.P. (48) 160) covering the final report of the Scrap Investigation Committee in which I mentioned that I was preparing a separate paper dealing particularly with scrap from Germany.

The Cabinet asked me to include in the paper covering the Committee's report my comments on scrap imports other than from Germany and on home arisings. I think, however, this point can be dealt with more appropriately in the present paper.

Summary and General Conclusions

4. The main points in this paper are:—

(a) The scrap requirement for a steel ingot production in the United Kingdom of 14.75 million tons in the year 1st July, 1948, to 30th June, 1949, is 8.26 million tons, of which the minimum need from Germany is 1.07 million tons and the real need 1.44 million tons.

(b) Of the total of 1,200,000 tons of scrap to be exported from Germany during the year 1948-49, the present American proposals allocate 540,000 tons to the United Kingdom which, with an estimated yield of 460,000 tons of booty scrap, would give a total tonnage for the United Kingdom of 1 million tons. In practice, however, exports to the United Kingdom of commercial scrap are unlikely to reach the allocated quantity.

(c) The limitation of the total quantity of scrap to be exported from Germany to 1,200,000 tons and the American proposals for allocation are unsatisfactory as—

(i) the United Kingdom share would not be sufficient to enable maximum steel production to be attained;

(ii) the scrap requirements of the German steel industry have been exaggerated; and

(iii) America's claim to scrap from Germany cannot be justified on economic grounds.

(d) A central purchasing organisation should be set up in Germany to supervise the export of commercial scrap.
5. I propose to keep in close touch with the Foreign Secretary on all these points. It is clear that every effort must be made to get the maximum quantity of scrap from Germany as any failure to obtain at least our essential requirements must inevitably have serious effects on our industrial recovery.

General Considerations

6. Any consideration of scrap requirements must, in the first instance, be based upon assumed levels of steel production within the capacity of steel-making equipment likely to be available. Thereafter, the scrap requirement is assessed by deducting from the total of the raw materials needed the maximum quantity of pig iron likely to be produced with the available and planned blast furnace capacity. Other factors, such as the supply of coal, coke, iron ore and limestone have, of course, important influences but for this purpose these are assumed to be adequate for the levels of steel production adopted.

Scrap Requirements

7. In the first European Recovery Programme year, i.e., 1st July, 1948, to 30th June, 1949, it would be reasonable to put the steel output at 14·75 million ingot tons. This means a total requirement of pig iron and scrap of 16 million ingot tons. The maximum quantity of pig iron for steel-making that can be counted upon is 7·38 million tons; the scrap requirement therefore is 8·62 million tons.

To meet this, circulating scrap is estimated to yield 3·76 million tons, process scrap 1·84 million tons and capital scrap 1·8 million tons, i.e., a total home arising of 7·4 million tons. Although the present yield from home sources exceeds this yearly rate it would be unsafe to assume a higher figure for the purpose of these calculations. We have, therefore, to import 1·22 million tons. Of this, it is expected that 150,000 tons will be available from sources other than Germany; this leaves 1·07 million tons to come from Germany.

8. It is appropriate to add here that the analysis in paragraph 7 makes no allowance at all for stock-piling or for the expanding demand for scrap for the foundry industry. On the other hand we hope to be able to increase the efficiency of steel-making which would reduce the scrap requirement by 75,000 tons. Nevertheless, I am convinced that 1·07 million tons is the minimum that we need from Germany for an output of 14·75 million ingot tons in the year in question, and, if we are to build up stocks and make allowance for the expanding demands of the foundry industry, we should require 1·44 million tons.

Present German Position

9. In the German Reconstruction Plan, prepared for the European Recovery Programme, the German Economic Council in the Bi-zonal area undertook to export 1,200,000 tons of scrap during the first European Recovery Programme year beginning 1st July, 1948. Export deliveries are intended to start in July 1948.

10. (a) Without prejudice to the total allocation for the whole year, we have agreed with General Clay, the United States Military Governor, the following basis for the allocation of the first 600,000 tons:—

300,000 tons to the United Kingdom.
200,000 tons to the United States.
100,000 tons to the highest bidders.

(b) General Clay has proposed, apparently on instructions from Washington, that the second 600,000 tons be allocated:—

240,000 tons to the United Kingdom;
240,000 tons to the United States;
and the remaining 120,000 tons as may be decided by the Organisation for European Economic Co-operation.

The Foreign Office is, I understand, discussing this proposal with the American authorities.

11. We have stipulated that the quantity allocated to the United Kingdom under paragraph 10 (a) is to be additional to deliveries from existing contracts of which the balance undelivered at 31st May, 1948, was about 150,000 tons.
12. Excluding outstanding deliveries from existing contracts, the maximum quantity of scrap which the United Kingdom can get from Germany on the basis of the allocation stated above for the European Recovery Programme year 1948-49 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Commercial Scrap</strong></td>
<td></td>
</tr>
<tr>
<td>First six months</td>
<td>300,000</td>
</tr>
<tr>
<td>Second six months</td>
<td>240,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>540,000</td>
</tr>
<tr>
<td><strong>Booty Scrap</strong></td>
<td></td>
</tr>
<tr>
<td>First six months</td>
<td>250,000</td>
</tr>
<tr>
<td>Second six months</td>
<td>210,000</td>
</tr>
<tr>
<td><strong>Total during the year 1st July, 1948 to 30th June, 1949</strong></td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

13. *Prima facie,* these figures suggest that our scrap requirements will be largely met in the year 1948-49, but, in considering them, the following points need to be borne in mind:

(a) No contract has yet been placed to cover the first allocation for 300,000 tons and all our efforts to that end have so far proved abortive. Now that the German currency is in process of being reformed the prospects are more hopeful.

(b) The German scrap industry is not in a condition at the present time to handle anything like as much as 200,000 tons a month, i.e., 100,000 tons for export and 100,000 tons for the German steel industry. Even if arrangements can be made for the supply of cutting and moving equipment and of additional labour, some months must elapse before the impact of these additional resources will be reflected in the output of prepared scrap.

(c) There will therefore inevitably be a considerable lag in the conversion of the allocations stated above into actual deliveries. On the basis of past experience, it is quite possible that deliveries for export will not exceed 50 per cent. of the total allocations for the year ending 30th June, 1949.

14. The agreement reached with the German Economic Council that the total quantity of scrap to be exported from Germany in the European Recovery Programme year 1948-49 should be limited to 1,200,000 tons, and General Clay’s proposals for the allocation of this quantity between the United States, the United Kingdom and other countries are wholly unsatisfactory for the following reasons:

(a) they disregard this country’s overriding need for German scrap, which is estimated by the Scrap Investigation Committee at 5 million tons during the next five years, if the maximum level of steel production is to be attained;

(b) the commitment entered into by the Germans to export 1,200,000 tons of scrap during the first European Recovery Programme Year is inadequate because:

(i) excessive provision is made for scrap to meet the needs of the German steel industry, and

(ii) there is no indication that any attempt will be made to expand the capacity of the German scrap industry to increase the yield of scrap commensurate with the demand;

(c) the claim made by the United States for 440,000 tons of scrap in the first European Recovery Programme year will endanger the prospects of the United Kingdom and other European Recovery Programme countries fulfilling their steel programme as submitted to the Organisation for European Economic Co-operation.

**Future Scrap Requirements of the United Kingdom**

15. An allocation of 340,000 tons of commercial scrap, even if actually delivered during 1948-49 (which, as pointed out in paragraph 13, is at least doubtful) together with a possible 400,000 tons of booty scrap, would fail to meet our minimum requirements in that year by about 70,000 tons and our real needs by about 440,000 tons.
If, however, we take the calendar year 1949 the position is still less satisfactory. It is certain that we shall not be able to build up stocks in 1948, so that we shall have no cushion on which to start the year 1949. If we assume a steel target for 1949 of 15 million ingot tons, the requirements are as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Pig Iron</td>
<td>7.4</td>
</tr>
<tr>
<td>(b) Scrap</td>
<td>8.88</td>
</tr>
<tr>
<td>(c) Home arisings</td>
<td>7.26</td>
</tr>
<tr>
<td>(d) Imports needed</td>
<td>1.62</td>
</tr>
<tr>
<td>(e) Imports other than from Germany</td>
<td>-1.5</td>
</tr>
<tr>
<td>(f) Total required from Germany</td>
<td>-1.47</td>
</tr>
<tr>
<td>(g) German Booty Scrap</td>
<td>-1.26</td>
</tr>
<tr>
<td>(h) German Commercial Scrap</td>
<td>-2.1</td>
</tr>
</tbody>
</table>

If, instead of 1,470,000 tons from Germany, our receipts in that year are to be limited to 690,000 tons (480,000 tons commercial scrap and 210,000 tons booty scrap), we cannot expect steel output to exceed 14.25 m. ingot tons.

17. In subsequent years when no further delivery of booty scrap can be expected, the allocation of 480,000 tons commercial scrap would be quite inadequate to enable the present level of steel production to be maintained and would completely rule out any possibility of increased production.

German Steel Industry

18. It is freely admitted that sufficient segregated and prepared scrap must be retained in Germany to keep German steel production in line with the European Recovery Programme plan, but the estimate of the quantity required, namely, 100,000 tons a month, based on a steel production of 6 m. tons a year seems to be in excess of actual needs.

19. According to the report submitted by Sir John Duncanson to the Estimates Committee of the House of Commons in December 1947, the programme of iron and steel manufacture in Germany should make no serious demand on the large quantities of scrap lying about in Germany and not yet collected by the scrap merchants. Sir John Duncanson based his calculations on the levels of production envisaged by the Marshall Plan. Details of these calculations are shown in the Appendix to this paper.

20. It is true that the conclusions reached by Sir John Duncanson were based on a level of steel ingot production in Germany of 4.075 m. tons in 1948, and 5.5 m. tons in 1949, but even if the output of steel in Germany during the 12 months beginning 1st July, 1948, can in fact be stepped up to the 6 m. ingot ton level, which seems very doubtful, the scrap requirements for that year from sources outside the steel works and the engineering and fabricating industries should still not be greatly in excess of the large stocks already at the steel works and scrap merchants’ yards, and should not, therefore, make considerable demands on the new stocks coming forward from current collections.

German Scrap Industry

21. The assumed limits in relation to Germany’s capacity to provide scrap for export are based on the view that 100,000 tons of scrap a month must be processed for the German steel industry and that it is unrealistic to expect the German scrap industry to process more than 200,000 tons a month, which is equal to its pre-war output. This is not a view which, in my judgment, should be accepted without further investigation, and one of the first tasks to be undertaken by General Loch when he takes up his duties as United Kingdom scrap co-ordinator in Germany should be to ascertain whether, if handling plant and cutting equipment, &c., are provided, a greatly increased quantity of scrap could be handled by the German scrap firms, or otherwise, than is at present contemplated. Further, the amount of processing of scrap for export might be reduced to the minimum necessary to enable it to be shipped which should enable the German scrap merchants to handle larger quantities. Such scrap would then have to be cut to furnace sizes in this country.

United States Position

22. I now come to point (c) in paragraph 14, namely, that there is no justification for an allocation of German commercial scrap being made to the United States during the first European Recovery Programme year of 440,000 tons—only 100,000 tons less than the quantity allocated to the United Kingdom.
23. If the United Kingdom and the European Recovery Programme countries are to derive any real benefit from the Programme, it is essential that their steel production should be developed to the maximum level of the resources available and their demands for scrap given priority over those of the United States. It is clearly uneconomic for America to take scrap from Germany to an extent which would prevent the United Kingdom and other European steel-producing countries from fulfilling their steel programme under the European Recovery Programme.

In any case, there are other sources of scrap of which America is much better able to take advantage than the Western European countries. It is believed that there are substantial tonnages (estimated as high as 7 million tons) still untouched in Japan and that as much as 1 million tons of scrap is reported in the Philippine Islands. It has also been stated that there are very considerable accumulations of battle-scrap in some of the Pacific Islands within the theatre of warlike operations. However that may be, there can, on general economic grounds, be no justification for America entering into competition for German scrap which can be used to better advantage for steel production in Europe instead of in America.

Difficulties of Procurement of German Commercial Scrap

24. Hitherto the main difficulties in the way of obtaining commercial scrap from Germany have been:

(a) the absence of any inducement (apart from the foreign currency bonus) to the German scrap merchant to sell his scrap for export, pending the introduction of currency reform;

(b) the inadequacy both in actual numbers and in efficiency of the labour available to the scrap industry in Germany;

(c) the lack of suitable transport and equipment for collecting and transporting scrap;

(d) difficulties with the Joint Export-Import Agency on the subject of the export price; and

(e) difficulty with the American authorities over

(i) the procedure for allocating available supplies between competing countries, and

(ii) the setting up of central machinery to supervise the placing of contracts and to ensure that deliveries of scrap are made in accordance with the terms of the contracts.

25. Some of these difficulties have already been, or are in process of being, remedied. The foreign exchange bonus has now been increased from 10 per cent. to 15 per cent. of the export price, the merchant’s share being 10 per cent. Currency reform has already been introduced. The Joint Export-Import Agency’s present arrangements for fixing the export price are satisfactory to us. The Agency have agreed to proposals of certain American firms, wishing to export scrap from Germany, for the expenditure of 500,000 dollars on the purchase of plant and equipment without any restrictions on the use to which it will be put. My Department are examining the possibility of making equipment available to German scrap merchants and in addition are in consultation with the Board of Trade and the Ministry of Food about the commodities which the German exporters may be able to purchase in the United Kingdom with their foreign exchange bonus. The procedure for allocating exports of German scrap is under discussion between the Foreign Office and the American authorities.

26. A difficulty that still remains unsolved is the setting up of some central machinery to supervise the placing of contracts and to bring effective pressure to bear on the Germans to ensure that deliveries are maintained at the stipulated rates and that no discrimination is exercised between the countries placing the contracts. The recommendation made by the United States Scrap Mission, that an Anglo-American Corporation (or an American Corporation co-operating with its British counterpart) be designated to operate as a central scrap purchasing organisation in Bi-zonal Germany, would in my view be an effective method for attaining this object and even if the Americans agree to withdraw or reduce their claim to scrap from Germany, I still consider that some central body should be set up with American support to supervise scrap deliveries from Bi-zonal Germany. The Foreign Office have already been given my Department’s proposals for joint purchasing arrangements.

Ministry of Supply, W.C. 2
25th June, 1948.

G. R. S.
APPENDIX
STEEL PRODUCTION IN GERMANY
LEVEL OF INDUSTRY AND SCRAP SUPPLIES
(Note based on memorandum submitted to the Select Committee on Estimates (Session 1947-48) by Sir John Duncanson, Commercial and Technical Director of the British Iron and Steel Federation)

Table I.—Steel Production and Scrap Requirement

<table>
<thead>
<tr>
<th>Ingot Production</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scrap Requirement</td>
<td>4,075</td>
<td>5,500</td>
<td>7,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Scrap arising from steel works and engineering and fabricating industries</td>
<td>1,620</td>
<td>2,185</td>
<td>2,990</td>
<td>3,975</td>
</tr>
<tr>
<td>Surplus or Deficit</td>
<td>1,263</td>
<td>2,200</td>
<td>3,000</td>
<td>4,000</td>
</tr>
</tbody>
</table>

Table II.—Scrap Requirements for Blast Furnaces

<table>
<thead>
<tr>
<th>Total pig-iron</th>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scrap Requirement</td>
<td>3,590</td>
<td>4,760</td>
<td>6,525</td>
<td>8,700</td>
</tr>
</tbody>
</table>

On the basis of the above estimates the total requirements of scrap for iron and steel-making in Germany from sources external to the steel-making and engineering and fabricating industries are:

<table>
<thead>
<tr>
<th>1948</th>
<th>1949</th>
<th>1950</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>773,000</td>
<td>525,000</td>
<td>666,000</td>
<td>826,000</td>
</tr>
</tbody>
</table>

In 1948 the additional scrap requirement can be readily met by the use of the large quantities of accumulated stocks of scrap which at 1st December, 1947, were estimated to be about 850,000 tons in the steel works and scrap merchants' yards. The quantities of scrap required by the German iron and steel industry from 1949 onwards are well below the amount of scrap which should be available through the scrap merchants from normal obsolescence and wear and tear. The amount of scrap so available should be of the order of 550,000 tons in 1949, rising to 1 million tons in 1951 and thereafter.
CABINET

WAR CRIMES: CASE OF GERMAN GENERALS IN BRITISH CUSTODY

Memorandum by the Secretary of State for War

I cannot agree that the Attorney-General's memorandum (C.P. (48) 159) of 22nd June on this subject commenting on mine of 17th June is a fair statement.

In particular the suggestion that there has been inexcusable delay of two years in bringing these Generals to trial, and that this has been due to reluctance on the part of British officers to see them tried, is quite unjustified.

So far as the War Office is concerned the question did not become a practical one until September last when the Attorney-General sent my predecessor the letter he had received from General Telford Taylor.

My predecessor, in writing to the Foreign Secretary on 3rd October pointed out the difficulties of staging a satisfactory trial of this kind without a great deal of research, examination of documents and interrogations, and suggested that it was more suitable for trial under United States procedure than by a military court.

I have no knowledge of the Commander-in-Chief, Germany, saying that he did not like the idea of these men being tried. The Foreign Secretary wrote to the Lord Chancellor on 2nd December saying that General Robertson in Berlin had been in touch with General Clay, but that the latter was most reluctant to accept any additional defendants.

The Lord Chancellor, in his opinion dated 22nd December, wrote that the documents afforded evidence of a prima facie case, but added

"The question of the prosecution of Strauss, even though there is such evidence against him, is different because he was in a comparatively subordinate position. Nor does it appear to me that the weight of evidence against Strauss is so strong as that against the others. We have only seen some of the documents and these are in German and have not been translated.
Secondly, it may not be easy to bring home offending documents to the accused, and by that I mean we may not be able to get actual signatures.

Thirdly, it may be difficult to prove that action was taken – i.e. that people were shot upon the strength of the offending orders."

The Foreign Secretary agreed that before any of the Generals could be brought to trial we must be sure that the actual evidence would bear out the summary.

I think the above sufficiently disposes of the suggestion that the Generals could and should have been brought to trial two years ago. The Nuremberg Judgement itself was not delivered until October, 1946.

The Foreign Secretary has recently pressed that all War trials should be brought to an end, and the past buried as far as possible, by 1st September next, even though this may mean leaving untried men guilty of atrocious crimes against our own people, such as the Stalag Luft III murders, who may come into our hands after that date. Is it quite consistent with this to embark now on the trials of these Generals on charges, in which our own direct interest is very small, when, with the best of efforts, these cannot be started, much less completed, for many months?

E.S.

The War Office.  
30 June, 1948.
CABINET

DOCK STRIKE

Note by the Secretary of the Cabinet

By direction of the Prime Minister I circulate for consideration by the Cabinet -

(a) a copy of a minute addressed to him by the Home Secretary; and

(b) the text of the draft Emergency Regulations mentioned therein.

(Signed) NORMAN BROOK.

Cabinet Office, S.W. 1.,
29th June, 1948.
The Emergencies Committee, of which I am Chairman, met last evening. We considered a report by the (Official) Co-ordinating Committee which had met earlier in the day. I informed my colleagues that I proposed to report our conclusions to you - I had purposely refrained from worrying you with details of our proceedings before your broadcast - and I understand a meeting of the Cabinet has been summoned this morning, for this purpose. Briefly they were as follows:-

**Draft Emergency Regulations** - To deal with the state of emergency recognised by the Proclamation which you have announced. Additional executive powers are required. A code of Regulations to this end was agreed by the Emergencies Committee. Its heads are -

- Prohibition of trespassing and loitering
- Prohibition of endangering or obstructing members of H.M. Forces, Police, etc.
- Prohibition of dissuading members of H.M. Forces, Police, etc., from duty
- Employment of police forces outside own area
- Billeting of H.M. Forces
- Control of traffic at ports
- Power to Postmaster-General to restrict postal and telegraphic services
- Power to stop and search vehicles
- Power to arrest without warrant
- Administrative provisions and definitions.

It is hoped to circulate for the Cabinet meeting a print prepared by Parliamentary Counsel.

On the understanding that a Privy Council will consider the Regulations at 6 p.m. to-day, we agreed that the Regulations should be published tomorrow and come into force on Thursday, 1st July.

**Exercise of requisitioning powers** - It will be politic if any requisitioning is done, not by the Service Departments direct, but by the Ministries of Works and Transport on their behalf.

**Ports other than London** - Troops will not be used to unload ships at ports other than London without reference to Ministers.

**Cargoes other than food** - Troops, where available, should be used for unloading cargoes other than food, provided their doing so will not cause any civilians still at work in the docks to strike.

**Use of ships' crews** - No objection is seen to ships' crews helping to unload their own ships if they are willing.

**Unskilled miscellaneous work** - Unskilled troops should be used for general work about the London docks.
Loading of ships - This is highly skilled work and probably more than troops can manage. The first thing, notwithstanding the needs of the export trade, is to unload incoming cargoes. The departments concerned will, however, prepare plans for loading export cargoes against the time when this can be tackled.

J.C.E.

29th June, 1948.
Whereas by the Emergency Powers Act, 1920, it is provided, amongst other things, as follows:—

1.—(1) If at any time it appears to His Majesty that any action has been taken or is immediately threatened by any persons or body of persons of such a nature and on so extensive a scale as to be calculated, by interfering with the supply and distribution of food, water, fuel, or light, or with the means of locomotion, to deprive the community, or any substantial portion of the community, of the essentials of life, His Majesty may, by proclamation (hereinafter referred to as a proclamation of emergency), declare that a state of emergency exists.

No such proclamation shall be in force for more than one month, without prejudice to the issue of another proclamation at or before the end of that period.

(2) Where a proclamation of emergency has been made, the occasion thereof shall forthwith be communicated to Parliament, and, if Parliament is then separated by such adjournment or prorogation as will not expire within five days, a proclamation shall be issued for the meeting of Parliament within five days, and Parliament shall accordingly meet and sit upon the day appointed by that proclamation, and shall continue to sit and act in like manner as if it had stood adjourned or prorogued to the same day.

2.—(1) Where a proclamation of emergency has been made, and so long as the proclamation is in force, it shall be lawful for His Majesty in Council, by Order, to make regulations for securing the essentials of life to the community, and those regulations may confer or impose on a Secretary of State or other Government department, or any other persons in His Majesty’s service or acting on His Majesty’s behalf, such powers and duties as His Majesty may deem necessary for the preservation of the peace, for securing and regulating the supply and distribution of food, water, fuel, light, and other necessities, for maintaining the means of transit or locomotion, and for any other purposes essential to the public safety and the life
of the community, and may make such provisions incidental to
the powers aforesaid as may appear to His Majesty to be required
for making the exercise of those powers effective:

Provided that nothing in this Act shall be construed to authorise
the making of any regulations imposing any form of compulsory
military service or industrial conscription:

Provided also that no such regulation shall make it an offence for
any person or persons to take part in a strike, or peacefully to
persuade any other person or persons to take part in a strike.

And Whereas a proclamation of emergency under the said Act has
been made by His Majesty, and is now in force:

And Whereas in pursuance of the powers above recited it is expedient
to make such provision as hereinafter appears:

Now, therefore, His Majesty is pleased by and with the advice of
His Privy Council to order, and it is hereby ordered, as follows:—

1.—(1) Where the Minister of Transport has appointed a body of
persons, hereinafter in this Regulation referred to as a "Port Emergency
Committee", to exercise functions under this Regulation, the following
provisions of this Regulation shall apply to that port.

(2) The Port Emergency Committee may, subject to such general
or special instructions as may be given by the Minister of Transport,
give such directions to the port authority or any other person as appear
to the Committee to be necessary or expedient for regulating, facilitating
and expediting the traffic at the port and such directions may in
particular make provision with respect to—

(a) the berthing and movement of ships,
(b) the use of tugs, lighters and barges,
(c) the loading and unloading of ships and the use of appliances
therefor,
(d) the movement of vehicles,
(e) the prevention of entry by unauthorised persons, and
(f) in connection with the loading and unloading of ships or the
storage and warehousing of goods, the priority that should be given
to particular cargoes or to particular operations,

and such directions shall have effect notwithstanding any lease or
appropriation of berths and storage or warehouse accommodation.

(3) The Port Emergency Committee may give directions under the
last foregoing paragraph requiring goods lying at the port to be removed
within such period as may be specified in the directions, and, in default
of compliance with those directions and without prejudice to the taking
of proceedings in respect of such default, the Committee may remove,
or authorise the removal of, the goods to such place, and by such means,
as they think fit, and the owner or consignee of the goods shall pay
to the Committee such reasonable charges in respect of the removal and
storage thereof by or on the authority of the Committee as, in default
of agreement, may be determined by arbitration.

(4) All occupiers of public warehouses at or in the neighbourhood of
the port shall, if so required by directions given by the Port Emer­
gency Committee, furnish to the Committee from time to time informa­
tion of vacant accommodation at their warehouses, and shall, to the
extent of the accommodation available, accept for storage any goods
removed by or on the authority of the Committee under the last
foregoing paragraph:

Provided that the Committee shall, in exercising their power to require
the storage of such goods as aforesaid, have regard to the suitability
of the accommodation for storing those goods.

2.—(1) No person shall do any act with intent to impair the efficiency
or impede the working or movement of any vessel, aircraft, vehicle,
machinery, apparatus or other thing used or intended to be used in the
performance of essential services, or to impair the usefulness of any
works, structure or premises used or intended to be used as aforesaid.

(2) The preceding provisions of this Regulation shall apply in relation
to any omission on the part of a person to do anything which he
is under a duty, either to the public or to any person, to do, as they
apply in relation to the doing of any act by a person.

3.—(1) No person shall trespass on, or on premises in the vicinity of,
any premises used or appropriated for the performance of essential
services; and if any person is found trespassing on any premises in con-
travention of this paragraph, then, without prejudice to any proceed-
ings which may be taken against him, he may be removed by the
appropriate person from the premises.

(2) No person shall, for any purpose prejudicial to the public safety,
be in, or in the vicinity of, any premises used or appropriated for the
performance of essential services; and where, in any proceedings taken
against a person by virtue of this paragraph, it is proved that at
the material time he was present in, or in the vicinity of, the premises
concerned, the prosecution may thereupon adduce such evidence of the
character of that person (including evidence of his having been pre-
viously convicted of any offence) as tends to show that he was so present
for a purpose prejudicial to the public safety.

(3) No person loitering in the vicinity of any premises used or appro-
priated for the purpose of essential services shall continue to loiter
in that vicinity after being requested by the appropriate person to
leave it.

(4) In this Regulation the expression " the appropriate person "
means—
(a) any person acting on behalf of His Majesty,
(b) any constable,
(c) the occupier of the premises or any person authorised by the
occupier.

4.—(1) No person shall do any act having reasonable cause to believe
that it would be likely to endanger the safety of any member of His
Majesty's forces or of any constable or of any person charged with the
exercise or performance of any power or duty under any of these
Regulations.

(2) No person shall—
(a) wilfully obstruct any person acting in the course of his duty as
a constable, or exercising or performing any power or duty under
any of these Regulations, or performing essential services; or

Acts endangering, ob-
structing or interfering
with H.M.'s forces, con-
stables, and other
persons performing
essential services.
Inducing persons to withhold services.

5. No person shall—
(a) attempt or do any act calculated to induce any servant of His Majesty or constable to withhold his services or commit breaches of discipline; or
(b) with intent to contravene, or to aid, abet, counsel or procure a contravention of sub-paragraph (a) of this paragraph, have in his possession or under his control any document of such a nature that the dissemination of copies thereof among any of the classes of persons referred to in those sub-paragraphs would constitute such a contravention.

Employment of police forces.

6.—(1) The Secretary of State may give, with respect to any police force, such general or special instructions providing for the employment of members of that police force outside their own police area as appear to him to be necessary or expedient in the interests of the public safety or for the maintenance of public order.

(2) Instructions given with respect to any police force under the last foregoing paragraph may be given either to the police authority by which the force is maintained or to the chief officer thereof and that authority or officer shall comply with the instructions.

(3) Where, in pursuance of instructions given under paragraph (1) of this Regulation, a member of the police force for any police area is employed in any other police area, he shall be deemed to have been duly appointed and attested as a constable for that other police area, and shall have powers, duties and privileges accordingly.

(4) Any expenditure incurred by or on behalf of a police force by reason of an instruction given under this Regulation shall, unless the Secretary of State otherwise directs, be defrayed in the first instance out of the police fund out of which the police expenses of that force are paid, but the Secretary of State may, in respect of any such expenditure, require such adjustments to be made between police funds as appear to him to be just having regard to the instruction.

(5) In this Regulation the expressions "police area", "police authority", "police force" and "police fund" have the same meaning respectively as in section thirty of the Police Pensions Act, 1927, as amended by any subsequent enactment, and for the purposes of this Regulation a special constable appointed under any enactment for any police area shall be treated as if he were a member of the police force for that area.

Billeting of His Majesty's forces.

7.—(1) During the continuance in force of this Regulation, the Naval Billeting &c. Act, 1914, shall have effect as if the proclamation of emergency under the Emergency Powers Act, 1920, were a proclamation calling out all or any of the men of the naval reserves in case of war or emergency.

(2) During the continuance in force of this Regulation, the powers conferred by section one hundred and eight A of the Army Act and section one hundred and eight A of the Air Force Act with respect
to billeting may be exercised as if the emergency proclaimed by the proclamation of emergency under the Emergency Powers Act, 1920, were a case of emergency within the meaning of the said sections, and the provisions of the Army Act and of the Air Force Act as to billeting shall apply in relation to officers and men of the Royal Navy and the Royal Marines acting with or attached to any body of His Majesty's military or air forces as if they were officers and soldiers or officers and airmen of such military or air forces, as the case may be.

8. (1) The Postmaster-General may—
(a) refuse to transmit by post postal packets of any such description as he may by order prescribe; or
(b) refuse to transmit by post postal packets of such description as he may by order prescribe which are addressed to a destination outside such area as he may by order prescribe, being an area within which the office of dispatch is situated;

and may detain any packet found in the post which he is entitled under this Regulation to refuse to transmit.

(2) Where any postal packet is detained under this Regulation, the Postmaster General shall send by post notice to the sender of the packet informing him at what post office the packet is detained, and that, in the case of a printed packet, it will be destroyed; unless it is removed by the sender within twenty-four hours of the service of the notice; and if any printed packet is not so removed, it may be destroyed.

It shall be sufficient for a notice served under this paragraph to state that a packet or packets of the sender have been detained at a specified post office, without giving any further particulars of the packet or packets.

(a) refuse to transmit telegraphic or telephonic messages of such description as he may by order prescribe; or
(b) refuse to transmit telegraphic or telephonic messages of such description as he may by order prescribe which are addressed to a destination beyond such area as he may by order prescribe, being an area in which the office of dispatch is situated.

In this Regulation the expression "postal packet" has the same meaning as in the Post Office Act, 1908, and the expression "printed packet" has the same meaning as in the regulations for the time being in force under the said Act.

9. (1) The person driving, or in control of, any road vehicle in motion shall stop the vehicle on being required so to do by any constable in uniform.

(2) If—
(a) as respects any road vehicle being on a public highway or in a place to which the public have access; or
(b) upon the overtaking of a road vehicle on any occasion on which the person driving, or in control of, the vehicle has been lawfully required to stop it, but has failed to do so,

any constable has reasonable ground for suspecting that there is to be found in the vehicle evidence of the commission of an offence against
Power to arrest without warrant.

Attempts to commit offences and assisting offenders.

Offences by corporations.

Penalties and place of trial.

any of these Regulations, he may search the vehicle and may seize any article found therein which he has reasonable ground for believing to be evidence of the commission of such an offence.

(3) In this Regulation the expression "road vehicle" means any vehicle designed or adapted for use on roads.

10. Any constable may arrest without warrant any person whom he has reasonable ground for suspecting to have committed an offence against any of these Regulations.

11.—(1) Without prejudice to the operation of section five of the Summary Jurisdiction Act, 1848, and section eight of the Accessories and Abettors Act, 1861, any person who attempts to commit, conspires with any other person to commit, or does any act preparatory to the commission of, an offence against any of these Regulations, shall be guilty of an offence against that Regulation punishable in like manner as the said offence.

(2) Any person who, knowing or having reasonable cause to believe that another person is guilty of an offence against any of the Regulations, gives that other person any assistance with intent thereby to prevent, hinder or interfere with the apprehension, trial or punishment of that person for the said offence, shall be guilty of an offence against that Regulation punishable in like manner as the said offence.

(3) This Regulation shall, in its application to Scotland, have effect as if for the references to section five of the Summary Jurisdiction Act, 1848, and section eight of the Accessories and Abettors Act, 1861, there were substituted respectively references to section sixty-one of the Criminal Procedure (Scotland) Act, 1887, and section five of the Summary Jurisdiction (Scotland) Act, 1908.

12.—(1) Where a person convicted of an offence against any of these Regulations is a body corporate, every person who, at the time of the commission of the offence, was a director, general manager, secretary or other similar officer of the body corporate, or was purporting to act in any such capacity, shall be deemed to be guilty of that offence unless he proves that the offence was committed without his consent or connivance and that he exercised all such diligence to prevent the commission of the offence as he ought to have exercised having regard to the nature of his functions in that capacity and to all the circumstances.

(2) In this Regulation, the expression "director" in relation to any body corporate established by or under any enactment for the purpose of carrying on under national ownership any industry or part of an industry, being a body corporate whose affairs are managed by the members thereof, means a member of that body.

13.—(1) If any person contravenes or fails to comply with any of these Regulations, or any order made under any of these Regulations, or any direction given or requirement imposed under any of these Regulations or under any order made under any of these Regulations, he shall be guilty of an offence against that Regulation; and a person guilty of an offence against any of these Regulations shall on summary conviction be liable to imprisonment for a term not exceeding three months or to a fine not exceeding one hundred pounds, or to both such imprisonment and such fine:
 Provided that a person shall not be guilty of an offence against any of these Regulations by reason only of his taking part in, or peace­fully persuading any other person to take part in, a strike.

(2) Proceedings in respect of an offence alleged to have been committed by a person against any of these Regulations may be taken before the appropriate court in the United Kingdom having jurisdiction in the place where that person is for the time being.

14.—(1) Any article coming into the possession of an executive Retention authority (whether in consequence of the seizure of the article under any of these Regulations or otherwise) which the authority has reasonable ground for believing to be evidence of the commission of an offence against any of these Regulations, may be retained for a period of one month or, if within that period there are commenced proceedings in respect of such an offence in which the article is, or can properly be, adduced in evidence, or proceedings under the following provisions of this Regulation in respect of the article, until the final determination of those proceedings; and any article retained by virtue of this Regulation is hereafter in this Regulation referred to as "a retained article".

(2) Subject to the preceding provisions of this Regulation, the Police (Property) Act, 1897, shall apply to any article coming into the possession of an executive authority which the authority has reasonable ground for believing to be evidence of the commission of an offence against any of these Regulations, as that Act applies to property coming into the possession of the police in the circumstances mentioned in section one of that Act, and, in relation to any such article, shall have effect as if the reference in subsection (1) of that section to an officer of police included a reference to an executive authority (whether a constable or not).

(3) For the purposes of this Regulation, any proceedings shall be deemed not to have been finally determined so long as there is pending any appeal in the matter of the proceedings, and an appeal in that matter shall be deemed to be pending during the ordinary time within which such an appeal may be lodged, and, if such an appeal is duly lodged, the appeal shall be deemed to be pending until it is decided or withdrawn.

(4) For the purposes of this Regulation, any authority, constable or other person whatsoever having functions in connection with the execution of these Regulations shall be deemed to be an executive authority.

(5) Nothing in this Regulation shall affect the operation of the enactments relating to customs, or be taken to prejudice any right to retain or dispose of property which may exist in law apart from the provisions of this Regulation.

(6) This Regulation shall, in its application to Scotland, have effect subject to the modification that for paragraph (2) there shall be substituted the following paragraph—

"(2) Subject to the preceding provisions of this Regulation and to the provisions of any enactment conferring powers dealing with offenders, any article which has come into the possession of an executive authority under this Regulation shall be returned to the owner, or, if the owner cannot be ascertained, shall be disposed of in such manner as the sheriff, on a summary application made to him, may direct."
Revocation and variation of orders.

15. Any power conferred by any of these Regulations to make an order shall be construed as including a power, exercisable in like manner and subject to the like conditions, if any, to vary or revoke the order.

Application of Interpretation Act, 1889, to Regulations.

16. The Interpretation Act, 1889, shall apply to the interpretation of these Regulations and of any orders made thereunder as it applies to the interpretation of an Act of Parliament, and for the purposes of section thirty-eight of the said Act, these Regulations and any such orders as aforesaid shall be deemed to be Acts of Parliament.

Interpretation.

17.—(1) In these Regulations the following expressions have the meanings hereby respectively assigned to them, that is to say:—

"essential services" means services essential to the life of the community;

"port" includes any dock, harbour, pier, quay, wharf, mooring, anchorage or other similar place;

"port authority" means the authority or person having the control or management of a port.

(2) Any reference in these Regulations to the doing of any act shall, unless the context otherwise requires, be construed as including a reference to the making of any statement.

(3) Any reference in any document to these Regulations or to any of them shall, unless the contrary intention appears, be construed as including a reference to these Regulations or to that Regulation, as amended by any subsequent Regulations made under the Emergency Powers Act, 1920.

Short title.

18. These Regulations may be cited as the Emergency Regulations, 1947.
SECRET
C.F. (48) 267
27TH JUNE, 1948

CABINET

ECONOMIC CO-OPERATION AGREEMENT BETWEEN HIS MAJESTY'S GOVERNMENT AND THE UNITED STATES GOVERNMENT

Note by the Secretary of the Cabinet

At the request of the Secretary of State for Foreign Affairs and the Chancellor of the Exchequer I circulate herewith the latest draft of the Economic Co-operation Agreement between His Majesty's Government and the United States Government and of the proposed exchange of notes to take place when the Agreement is signed. The transmission from Washington of the revised text of these documents has not yet been completed and the present drafts are, therefore, subject to correction.

(Signed) NORMAN BROOK.

Cabinet Office, S.W. 1.,
27th June, 1948.
United States No. 1 (1948)

Economic Co-operation Agreement
between the Governments of the United Kingdom
and the United States of America

Initialled *ad referendum* at Washington, 26th June, 1948

Together with the Text of a Note to be sent by the Secretary of State for Foreign Affairs
to the United States Ambassador in London at the time of signature of the Agreement

[with a Foreword by the Foreign Office]

*Presented by the Secretary of State for Foreign Affairs
to Parliament by Command of His Majesty*

LONDON
HIS MAJESTY'S STATIONERY OFFICE

Cmd.
FOREWORD

According to the provisions of the Act of Congress of the United States of America entitled the Economic Co-operation Act of 1948, it is necessary for His Majesty's Government to conclude an agreement with the Government of the United States in order to be eligible to receive assistance under the Act.

His Majesty's Government has therefore negotiated an agreement with the Government of the United States, of which the text is attached. This agreement has been initialled *ad referendum* by His Majesty's Ambassador in Washington. It will not enter into force until it has been signed.
ECONOMIC CO-OPERATION AGREEMENT BETWEEN THE
GOVERNMENTS OF THE UNITED KINGDOM AND THE UNITED
STATES OF AMERICA INITALLED "AD REFERENDUM" AT
WASHINGTON, 26th JUNE, 1948, TOGETHER WITH THE TEXT
OF A NOTE TO BE SENT BY THE SECRETARY OF STATE FOR
FOREIGN AFFAIRS TO THE UNITED STATES AMBASSADOR IN
LONDON AT THE TIME OF SIGNATURE OF THE AGREEMENT

[With a Foreword by the Foreign Office]

Washington, 26th June, 1948

Preamble

The Governments of the United Kingdom and the United States:

Recognising that the restoration or maintenance in European countries
of the principle of individual liberty, free institutions, and genuine inde­
dependence rests largely upon the establishment of sound economic conditions,
stable international economic relationships and the achievement by the
countries of Europe of a healthy economy independent of extraordinary
outside assistance;

Recognising that a strong and prosperous European economy is essential
for the attainment of the purposes of the United Nations;

Considering that the achievement of such conditions calls for a European
recovery plan of self-help and mutual co-operation, open to all nations
which co-operate in such a plan, based upon a strong production effort, the
expansion of foreign trade, the creation or maintenance of internal financial
stability and the development of economic co-operation, including all possible
steps to establish and maintain valid rates of exchange and to reduce trade
barriers;

Considering that in furtherance of these principles the Government of
the United Kingdom has joined with other like-minded nations in a
Convention for European Economic Co-operation signed at Paris on
16th April, 1948,(1) under which the signatories of that Convention agreed
to undertake as their immediate task the elaboration and execution of a
joint recovery programme, and that the Government of the United Kingdom
is a member of the Organisation for European Economic Co-operation created
pursuant to the provisions of that Convention;

Considering also that, in furtherance of these principles, the Government
of the United States has enacted the Economic Co-operation Act of 1948,
providing for the furnishing of assistance by the United States to nations
participating in a joint programme for European recovery, in order to enable
such nations through their own individual and concerted efforts to become
independent of extraordinary outside economic assistance;

Taking note that the Government of the United Kingdom has already
expressed its adherence to the purposes and policies of the Economic
Co-operation Act of 1948;

Desiring to set forth the understandings which govern the furnishing of
assistance by the Government of the United States under the Economic

(1) "Miscellaneous No. 4 (1948)," Cmd. 7388.
Co-operation Act of 1948, the receipt of such assistance by the United Kingdom and the measures which the two Governments will take individually and together in furthering the recovery of the United Kingdom as an integral part of the joint programme for European recovery;

Have agreed as follows:

ARTICLE I

Assistance and Co-operation

1. The Government of the United States of America undertakes to assist the United Kingdom by making available to the Government of the United Kingdom or to any person, agency or organisation designated by the latter Government such assistance as may be requested by it and approved by the Government of the United States. The Government of the United States will furnish this assistance under the provisions and subject to all of the terms, conditions and termination provisions, of the Economic Co-operation Act of 1948, acts amendatory and supplementary thereto and appropriation acts thereunder, and will make available to the Government of the United Kingdom only such commodities, services and other assistance as are authorised to be made available by such acts.

2. The Government of the United Kingdom, acting individually and through the Organisation for European Economic Co-operation, consistently with the Convention for European Economic Co-operation signed at Paris on 16th April, 1948, will exert sustained efforts in common with other participating countries speedily to achieve through a joint recovery programme economic conditions in Europe essential to lasting peace and prosperity and to enable the countries of Europe participating in such a joint recovery programme to become independent of extraordinary outside economic assistance within the period of this agreement. The Government of the United Kingdom reaffirms its intention to take action to carry out the provisions of the general obligations of the Convention for European Economic Co-operation, to continue to participate actively in the work of the Organisation for European Economic Co-operation and to continue to adhere to the purposes and policies of the Economic Co-operation Act of 1948.

3. With respect to assistance furnished by the Government of the United States to the United Kingdom and procured from areas outside the United States, its territories and possessions, the Government of the United Kingdom will co-operate with the Government of the United States in ensuring that procurement will be affected at reasonable prices and on reasonable terms and so as to arrange that the dollars thereby made available to the country from which the assistance is procured are used in a manner consistent with any arrangement made by the Government of the United States with such country.

ARTICLE II

General Policy

1. In order to achieve the maximum recovery through the employment of assistance received from the Government of the United States, the Government of the United Kingdom will use its best endeavours—

(a) To adopt or maintain the measures necessary to ensure efficient and practical use of all the resources available to it, including—

(i) such measures as may be necessary to ensure that the commodities and services obtained with assistance furnished under this Agreement are used for purposes consistent with this Agreement and, as far as practicable, with the general purposes outlined in the
schedules furnished by the Government of the United Kingdom in support of the requirements of assistance to be furnished by the Government of the United States;

(ii) The observation and review of the use of such resources through an effective follow-up system approved by the Organisation for European Economic Co-operation; and

(iii) To the extent practicable, measures to locate, identify and put into appropriate use in furtherance of the joint programme for European recovery, assets, and earnings therefrom, which belong to nationals of the United Kingdom and which are situated within the United States, its territories or possessions. Nothing in this clause imposes any obligation on the Government of the United States to assist in carrying out such measures or on the Government of the United Kingdom to dispose of such assets;

(b) To promote the development of industrial and agricultural production on a sound economic basis; to achieve such production targets as may be established through the Organisation for European Economic Co-operation; and when desired by the Government of the United States to communicate to that Government detailed proposals for specific projects contemplated by the Government of the United Kingdom to be undertaken in substantial part with assistance made available pursuant to this Agreement, including whenever practicable projects for increased production of coal, steel, transportation facilities and food;

(c) To stabilise its currency, establish or maintain a valid rate of exchange, balance its Governmental budget, create or maintain internal financial stability, and generally restore or maintain confidence in its monetary system; and

(d) To co-operate with other participating countries in facilitating and stimulating an increasing interchange of goods and services among the participating countries and with other countries and in reducing public and private barriers to trade among themselves and with other countries.

2. Taking into account Article 8 of the Convention for European Economic Co-operation looking toward the full and effective use of manpower available in the participating countries, the Government of the United Kingdom will accord sympathetic consideration to proposals made in conjunction with the International Refugee Organisation directed to the largest practicable utilisation of manpower available in any of the participating countries in furtherance of the accomplishment of the purposes of this Agreement.

3. The Government of the United Kingdom will take the measures which it deems appropriate, and will co-operate with other participating countries, to prevent, on the part of private or public commercial enterprises, business practices or business arrangements affecting international trade which restrain competition, limit access to markets or foster monopolistic control whenever such practices or arrangements have the effect of interfering with the achievement of the joint programme of European recovery.

ARTICLE III

Guarantees

1. The Governments of the United States and the United Kingdom will, upon the request of either Government, consult respecting projects in the United Kingdom proposed by nationals of the United States and with regard to which the Government of the United States may appropriately make guarantees of currency transfer under Section III (B) (3) of the Economic Co-operation Act of 1948.
2. The Government of the United Kingdom agrees that if the Government of the United States makes payments in United States dollars to any person under such a guaranty, any pound sterling or credits in pounds sterling assigned or transferred to the Government of the United States pursuant to that Section shall be recognised as property of the Government of the United States.

**ARTICLE IV**

**Local Currency**

1. The provisions of this Article shall apply only with respect to assistance which may be furnished by the Government of the United States on a grant basis.

2. The Government of the United Kingdom will establish a special account in the Bank of England in the name of the Government of the United Kingdom (hereinafter called the special account) and will make deposits in pounds sterling to this account as follows:

   (a) The unencumbered balances of the deposits made by the Government of the United Kingdom pursuant to the Exchange of Notes between the two Governments dated 30th April, 1948.

   (b) Amounts commensurate with the indicated dollar cost to the Government of the United States of commodities, services and technical information (including any costs of processing, storing, transporting, repairing or other services incident thereto) made available to the United Kingdom on a grant basis by any means authorised under the Economic Co-operation Act of 1949, less, however, the amount of the deposits made pursuant to the Exchange of Notes referred to in sub-paragraph (a). The Government of the United States shall from time to time notify the Government of the United Kingdom of the indicated dollar cost of any such commodities, services and technical information, and the Government of the United Kingdom will thereupon deposit in the special account a commensurate amount of pounds sterling computed at a rate of exchange which shall be the par value agreed at such time with the International Monetary Fund. The Government of the United Kingdom may at any time make advance deposits in the special account which shall be credited against subsequent notifications pursuant to this paragraph.

3. The Government of the United States will from time to time notify the Government of the United Kingdom of its requirements for administrative expenditures in pounds sterling within the United Kingdom incident to operations under the Economic Co-operation Act of 1948, and the Government of the United Kingdom will thereupon make such sums available out of any balances in the special account in the manner requested by the Government of the United States in the notification.

4. Five per cent. of each deposit made pursuant to this Article in respect of assistance furnished under authority of the Foreign Aid Appropriation Act, 1949, shall be allocated to the use of the Government of the United States for its expenditures in the United Kingdom, and sums made available pursuant to paragraph 3 of this Article shall first be charged to the amounts allocated under this paragraph.

5. The Government of the United Kingdom will further make such sums of the United Kingdom available out of any balances in the special account as may be required to cover costs (including port, storage, handling and similar charges) of transportation from any point of entry in the United Kingdom to the consignees' designated point of delivery in the United Kingdom of such relief supplies and packages as are referred to in Article VI.
6. The Government of the United Kingdom may draw upon any remaining balance in the special account for such purposes as may be agreed from time to time with the Government of the United States. In considering proposals put forward by the Government of the United Kingdom for drawings from the special account, the Government of the United States will take into account the need for promoting or maintaining internal monetary and financial stabilisation in the United Kingdom and for stimulating productive activity and international trade and the exploration for the development of new sources of wealth within the United Kingdom, including in particular:

(a) Expenditures upon projects or programmes, including those which are part of a comprehensive programme for the development of the productive capacity of the United Kingdom and the other participating countries, and projects or programmes the external costs of which are being covered by assistance rendered by the Government of the United States under the Economic Co-operation Act of 1948 or otherwise, or by loans from the International Bank for Reconstruction and Development;

(b) Expenditures upon the exploration for and development of additional production of materials which may be required in the United States because of deficiencies or potential deficiencies in the resources of the United States; and

(c) Effective retirement of the national debt, especially debt held by the Central Bank or other banking institutions.

7. Any unencumbered balance, other than unexpected amounts allocated under paragraph 4 of this Article, remaining in the special account on 30th June, 1952, shall be disposed of within the United Kingdom for such purposes as may hereafter be agreed between the Governments of the United States and the United Kingdom, it being understood that the agreement of the United States shall be subject to approval by act or joint resolution of the Congress of the United States.

ARTICLE V

Access to Materials

1. The Government of the United Kingdom will facilitate the transfer to the United States, for stockpiling or other purposes, of materials originating in the United Kingdom which are required by the United States as a result of deficiencies or potential deficiencies in its own resources, upon such reasonable terms of sale, exchange, barter or otherwise, and in such quantities, and for such period of time, as may be agreed to between the Governments of the United States and the United Kingdom after due regard for the reasonable requirements of the United Kingdom for domestic use and commercial export of such materials. The Government of the United Kingdom will take such specific measures as may be necessary to carry out the provisions of this paragraph, including the promotion of the increased production of such materials within the United Kingdom and the removal of any hindrances to the transfer of such materials to the United States. The Government of the United Kingdom will, when so requested by the Government of the United States, enter into negotiations for detailed arrangements necessary to carry out the provisions of this paragraph.

2. Recognising the principle of equity in respect to the drain upon the natural resources of the United States and of the participating countries, the Government of the United Kingdom will, when so requested by the Government of the United States, negotiate where applicable (a) a future schedule of minimum availabilities to the United States for future purchase and delivery of a fair share of materials originating in the United Kingdom which
are required by the United States as a result of deficiencies or potential deficiencies in its own resources at world market prices so as to protect the access of United States industry to an equitable share of such materials either in percentages of production or in absolute quantities from the United Kingdom, (b) arrangements providing suitable protection for the right of access for any citizen of the United States or any corporation, partnership, or other association created under the laws of the United States, or of any State or territory thereof and substantially beneficially owned by citizens of the United States, in the development of such materials on terms of treatment equivalent to those afforded to the nationals of the United Kingdom, and, (c) an agreed schedule of increased production of such materials where practicable in the United Kingdom and for delivery of an agreed percentage of such increased production to be transferred to the United States on a long-term basis in consideration of assistance furnished by the United States under this agreement.

3. The Government of the United Kingdom, when so requested by the Government of the United States, will co-operate wherever appropriate, to further the objectives of paragraphs 1 and 2 of this Article in respect of materials originating outside the United Kingdom.

ARTICLE VI

Travel Arrangements and Relief Supplies

1. The Government of the United Kingdom will co-operate with the Government of the United States in facilitating and encouraging the promotion and development of travel by citizens of the United States to and within participating countries.

2. The Government of the United Kingdom will, when so desired by the Government of the United States, enter into negotiations for agreements (including the provision of duty-free treatment under appropriate safeguards) to facilitate the entry into the United Kingdom of supplies of relief goods donated to or purchased by United States voluntary non-profit relief agencies and of relief packages originating in the United States and consigned to individuals residing in the United Kingdom.

ARTICLE VII

Consultation and Transmission of Information

1. The two Governments will, upon the request of either of them, consult regarding any matter relating to the application of this Agreement or to operations or arrangements carried out pursuant to this Agreement.

2. The Government of the United Kingdom will communicate to the Government of the United States in a form and at intervals to be indicated by the latter after consultation with the Government of the United Kingdom—

(a) Detailed information of projects, programmes and measures proposed or adopted by the Government of the United Kingdom to carry out the provisions of this Agreement and the general obligations of the Convention for European Economic Co-operation;

(b) Full statements of operations under this Agreement, including a statement of the use of funds, commodities and services received thereunder, such statements to be made in each calendar quarter;

(c) Information regarding its economy and any other relevant information, necessary to supplement that obtained by the Government of the United States from the Organisation for European Economic
Co-operation, which the Government of the United States may need to determine the nature and scope of operations under the Economic Co-operation Act of 1948, and to evaluate the effectiveness of assistance furnished or contemplated under this Agreement and generally the progress of the joint recovery programme.

3. The Government of the United Kingdom will assist the Government of the United States to obtain information relating to the materials originating in the United Kingdom referred to in Article V which is necessary to the formulation and execution of the arrangements provided for in that Article.

**ARTICLE VIII**

**Publicity**

1. The Governments of the United States and the United Kingdom recognise that it is in their mutual interest that full publicity be given to the objectives and progress of the joint programme for European recovery and of the actions taken in furtherance of that programme. It is recognised that wide dissemination of information on the progress of the programme is desirable in order to develop the sense of common effort and mutual aid which are essential to the accomplishment of the objectives of the programme.

2. The Government of the United States will encourage the dissemination of such information and will make it available to the media of public information.

3. The Government of the United Kingdom will encourage the dissemination of such information both directly and in co-operation with the Organisation for European Economic Co-operation. It will make such information available to the media of public information and take all practicable steps to ensure that appropriate facilities are provided for such dissemination. It will further provide other participating countries and the Organisation for European Economic Co-operation with full information on the progress of the programme for economic recovery.

4. The Government of the United Kingdom will make public in the United Kingdom in each calendar quarter, full statements of operations under this Agreement, including information as to the use of funds, commodities and services received.

**ARTICLE IX**

**Missions**

1. The Government of the United Kingdom agrees to receive a special mission for economic co-operation which will discharge the responsibilities of the Government of the United States in the United Kingdom under this Agreement.

2. The Government of the United Kingdom will, upon appropriate notification from the Ambassador of the United States in the United Kingdom consider the special mission and its personnel, and the United States Special Representative in Europe, as part of the Embassy of the United States in the United Kingdom for the purpose of enjoying the privileges and immunities accorded to that Embassy and its personnel of comparable rank. The Government of the United Kingdom will further accord appropriate courtesies to the members and staff of the Joint Committee on Foreign Economic Co-operation of the Congress of the United States, and grant them the facilities and assistance necessary to the effective performance of their responsibilities.

3. The Government of the United Kingdom directly and through its representatives on the Organisation for European Economic Co-operation,
will extend full co-operation to the special mission, to the United States special representative in Europe and his staff, and to the members and staff of the joint committee. Such co-operation shall include the provision of all information and facilities necessary to the observation and review of the carrying out of this Agreement, including the use of assistance furnished under it.

ARTICLE X

Settlement of Claims of Nationals

1. The Governments of the United States and the United Kingdom agree to submit to the decision of the International Court of Justice any claim espoused by either Government on behalf of one of its nationals against the other Government for compensation for damage arising as a consequence of governmental measures (other than measures concerning enemy property or interests) taken after 3rd April, 1948, by the other Government and affecting property or interest of such national, including contracts with or concessions granted by duly authorised authorities of such other Government. It is understood that the undertaking of each Government in respect of claims espoused by the other Government pursuant to this paragraph is made in the case of each Government under the authority of, and is limited by, the terms and conditions of its declaration accepting the compulsory jurisdiction of the International Court of Justice under Article 36 of the Statute of the Court, and shall remain in force as to each Government on a basis of reciprocity until 14th August, 1951, and thereafter for such period as the declarations of such acceptance by both Governments are in effect, but not later than the date of termination of this Agreement. The provisions of this paragraph shall be in all respects without prejudice to other rights of access, if any, of either Government to the International Court of Justice or to the espousal and presentation of claims based upon alleged violations by either Government of rights and duties arising under treaties, agreements or principles of international law.

2. The Governments of the United States and the United Kingdom further agree that such claims may be referred, in lieu of the Court, to any arbitral tribunal mutually agreed upon.

3. It is further understood that neither Government will espouse a claim pursuant to this Article until its national has exhausted the remedies available to him in the administrative and judicial tribunals of the country in which the claim arose.

ARTICLE XI

Definitions

As used in this agreement:—

(a) "The United Kingdom" means the United Kingdom of Great Britain and Northern Ireland and any territory to which this Agreement shall have been extended under the provisions of Article XII.

(b) The term "participating country" means (i) any country which signed the report of the Committee of European Co-operation at Paris on 22nd September, 1947, and territories for which it has international responsibility and to which the Economic Co-operation Agreement concluded between that country and the Government of the United States has been applied, and (ii) any other country (including any of the zones of occupation of Germany, and areas under international administration or control, and the Free territory of Trieste or either of its zones) wholly or partly in Europe, together with dependent areas under its administration; for so long as such country is a party
to the Convention for European Economic Co-operation and adheres
to a joint programme for European recovery designed to accomplish
the purposes of this Agreement.

(c) The expression “nationals of the United Kingdom” means British
subjects belonging to, and companies or associations incorporated
under the laws of, the United Kingdom or any territory to which
this Agreement shall have been extended under Article XII.

**ARTICLE XII**

**Territorial Application**

This Agreement shall, on the part of the Government of the United
Kingdom, extend to the United Kingdom of Great Britain and Northern
Ireland, to the territories specified in the schedule attached hereto,(2) and to
any other territories (being territories for whose international relations the
Government of the United Kingdom is responsible) from the date on which
the Government of the United Kingdom notifies the Government of the
United States of the extension of the Agreement to them. Nothing in this
Agreement shall be construed as imposing any obligation contrary to the
terms of a Trusteeship Agreement in force in relation to any territory.

**ARTICLE XIII**

**Entry into Force: Amendment and Duration**

1. This Agreement shall become effective on this day’s date. Subject to
the provisions of paragraphs 2 and 3 of this Article, it shall remain in force
until 30th June, 1953, and, unless at least six months before 30th June, 1953,
either Government shall have given notice in writing to the other of intention
to terminate the Agreement on that date, it shall remain in force thereafter
until the expiration of six months from the date on which such notice shall
have been given.

2. If, during the life of this Agreement, either Government should consider
there has been a fundamental change in the basic assumptions underlying
this Agreement, it shall so notify the other Government in writing and the
two Governments will thereupon consult with a view to agreeing upon the
amendment, modification or termination of this Agreement. If, after three
months from such modification, the two Governments have not agreed upon
the action to be taken in the circumstances, either Government may give
notice in writing to the other of intention to terminate this Agreement. Then,
subject to the provisions of paragraph 3 of this Article, this Agreement shall
terminate either—

(a) Six months after the date of such notice of intention to terminate, or
(b) After such shorter period as may be agreed to be sufficient to ensure
that the obligations of the Government of the United Kingdom are
performed in respect of any assistance which may continue to be
furnished by the Government of the United States after the date of
such notice; provided, however, that Article V and paragraph 3
of Article VII shall remain in effect until two years after the date of
such notice of intention to terminate, but not later than 30th June, 1953.

3. Subsidiary agreements and arrangements negotiated pursuant to this
Agreement may remain in force beyond the date of termination of this Agree­
ment and the period of effectiveness of such subsidiary agreements and

(2) This Schedule is not printed. It will give a list of the Colonies which are prepared
to accede at the time of signature of the Agreement.
arrangements shall be governed by their own terms. Article IV shall remain in effect until all the sums in pounds sterling required to be deposited in accordance with its own terms have been disposed of as provided in that Article. Paragraph 2 of Article III shall remain in effect for so long as the guarantee payments referred to in that Article may be made by the Government of the United States.

4. This Agreement may be amended at any time by agreement between the two Governments.

5. The annex to this Agreement forms an integral part thereof.

6. This Agreement shall be registered with the Secretary-General of the United Nations.

IN WITNESS whereof the respective representatives duly authorised for the purpose have signed the present Agreement.

Done at London, in duplicate, this day of July, 1948.

Annex

It is understood that the requirements of paragraph 1 (a) of Article II relating to the adoption of measures for the efficient use of resources, would include, with respect to commodities furnished under the Agreement, effective measures for safeguarding such commodities and for preventing their diversion to illegal or irregular markets or channels of trade.

2. It is understood that the obligation under paragraph 1 (c) of Article II to balance the budget as soon as practicable would not preclude deficits over a short period but would mean a budgetary policy involving the balancing of the budget in the long run.

3. It is understood that the business practices and business arrangements referred to in paragraph 3 of Article II mean—

(a) Fixing prices, terms or conditions to be observed in dealing with others in the purchase, sale or lease of any product;

(b) Excluding enterprises from, or allocating or dividing, any territorial market or field of business activity, or allocating customers, or fixing sales quotas or purchase quotas;

(c) Discriminating against particular enterprises;

(d) Limiting production or fixing production quotas;

(e) Preventing by agreement the development or application of technology or invention whether patented or unpatented;

(f) Extending the use of rights under patents, trade marks or copyrights granted by either country to matters which, according to its laws and regulations, are not within the scope of such grants, or to products or conditions of production, use or sale which are likewise not the subjects of such grants; and

(g) Such other practices as the two Governments may agree to include.

4. It is understood that the Government of the United Kingdom is obligated to take action in particular instances in accordance with paragraph 3 of Article II only after appropriate investigation or examination.

5. It is understood that the phrase in Article V "after due regard for the reasonable requirements of the United Kingdom for domestic use" would include the maintenance of reasonable stocks of the materials concerned and that the phrase "commercial export" might include barter transactions.
Text of Note to be sent by the Secretary of State for Foreign Affairs to the United States Ambassador in London at the time of Signature of the Agreement.

The first two sentences should read as follows -

"I have the honour to draw your attention to the fact that it is impossible for the United Kingdom Government on signing the Economic Co-operation Agreement with the Government of the United States, to give a complete list of those Colonial territories which will participate in the Agreement. The reason is that in several cases it is necessary for Colonial Governments to be given a reasonable opportunity to consider the implications of the Agreement for them".
It is also understood that arrangements negotiated under Article V might appropriately include provision for consultation, in accordance with the principles of Article 32 of the Havana Charter(1) for an international trade organisation, in the event that stockpiles are liquidated.

6. It is understood that it should not be assumed from paragraph 2 of Article VI that the existing facilities entitled by the United Kingdom to relief goods and packages are inadequate.

7. It is understood that the Government of the United Kingdom will not be requested, under paragraph 2 (a) of Article VII, to furnish detailed information about minor projects or confidential commercial or technical information the disclosure of which would injure legitimate commercial interests.

8. It is understood that the Government of the United States in making the notifications referred to in paragraph 2 of Article IX would bear in mind the desirability of restricting, so far as practicable, the number of officials for whom full diplomatic privileges would be requested. It is also understood that the detailed application of Article IX would, when necessary, be the subject of inter-Governmental discussion.

9. It is understood that any agreements which might be arrived at pursuant to paragraph 2 of Article X would be subject to ratification by the Senate of the United States.

Text of Note to be sent by the Secretary of State for Foreign Affairs to the United States Ambassador in London at the time of Signature of the Agreement.

Following is text of proposed note.


Your Excellency,

I have the honour to draw your attention to the fact that, as I have explained the reasons why it is impossible for the United Kingdom Government, on signing the Economic Co-operation Agreement with the Government of the United States, to give a complete list of those Colonial territories which will participate in the Agreement; namely, that in several cases it is necessary for Colonial Governments to be given a reasonable opportunity of considering the implications of the agreement for them.

I have also explained to your Excellency that a decision in the case of Southern Rhodesia will rest entirely with the Government of that country, and that the Government of the United Kingdom is unable at this time to say what the decision will be.

It is my understanding that most Colonial Governments may be expected to participate in the Agreement within a very short time. But the Government of the United Kingdom recognises that if within a reasonable period after the signature of the Agreement some of the more important territories concerned (other than Southern Rhodesia) are not participating in it the Government of the United States would be entitled to regard this as a change in the relationship of the parties under the Agreement, affecting the form or continuance of assistance to the United Kingdom. It is my understanding that before any action were to be taken by the Government of the United States there would be consultation between the two Governments.

I have, &c.

(1) Cmd. 7375.
Exchange of Notes
between the Governments of the United Kingdom
and the United States of America
on Most-Favoured-Nation Treatment
for Western Germany

Washington, June, 1948

Presented by the Secretary of State for Foreign Affairs
to Parliament by Command of His Majesty
EXCHANGE OF NOTES BETWEEN THE GOVERNMENTS OF THE UNITED KINGDOM AND THE UNITED STATES OF AMERICA ON MOST-FAVOURED-NATION TREATMENT FOR WESTERN GERMANY

Washington, June, 1948

Exchange of Notes on Most-Favoured-Nation Treatment for Occupied Areas of Western Germany

Mr. G. C. Marshall to Sir O. Franks.

Washington, June, 1948.

Sir,

I have the honour to refer to the conversations which have recently taken place between representatives of our two Governments relating to the territorial application of commercial arrangements between the United States and the United Kingdom and to confirm the understanding reached as a result of these conversations as follows:—

1. For such time as either the Government of the United States of America or the Government of the United Kingdom of Great Britain and Northern Ireland participates in the occupation or control of any areas in Western Germany, the other Government will apply to the merchandise trade of such area the provisions of the General Agreement on Tariffs and Trade, dated 30th October, 1947, as now or hereafter amended, relating to most-favoured-nation treatment.

2. The undertaking in paragraph 1 above, will apply on the part of the Government of the United States of America or the Government of the United Kingdom of Great Britain and Northern Ireland to the merchandise trade of any area referred to therein only for such time and to such extent as such area accords reciprocal most-favoured-nation treatment to the merchandise trade of the United States of America or the United Kingdom of Great Britain and Northern Ireland, respectively.

3. The undertakings in paragraphs 1 and 2 above, are entered into in the light of the absence at the present time of effective or significant tariff barriers to imports into the areas herein concerned. In the event that such tariff barriers are imposed, it is understood that such undertakings shall be without prejudice to the application of the principles set forth in the Havana Charter for an International Trade Organisation relating to the reduction of tariffs on a mutually advantageous basis.

4. It is recognised that the absence of a uniform rate of exchange for the currency of the areas in Western Germany referred to in paragraph 1 above may have the effect of indirectly subsidising the exports of such areas to an extent which it would be difficult to calculate exactly. So long as such a condition exists, and if consultation with the Government of the United States fails to reach an agreed solution to the problem, it is understood that it would not be inconsistent with the undertaking in paragraph 1 for the Government of the United Kingdom to levy a countervailing duty on imports of such goods equivalent to the estimated amount of such subsidisation, where the

(1) Cmd. 7258.  
(2) Cmd. 7375.
Government of the United Kingdom determines that the subsidisation is such as to cause or threaten material injury to an established domestic industry or is such as to prevent or materially retard the establishment of a domestic industry.

5. The undertakings in this note shall remain in force until 1st January, 1951, and unless at least six months before 1st January, 1951, either Government shall have given notice in writing to the other of intention to terminate these undertakings on that date, they shall remain in force thereafter until the expiration of six months from the date on which such notice shall have been given.

Please accept, &c.,

(Sgd.) G. C. MARSHALL.

A Note in identical terms will be addressed by Sir O. Franks to Mr. Marshall.
CABINET

LONDON DOCKWORKERS' STRIKE

Memorandum by the Parliamentary Secretary to the Ministry of Labour

This memorandum has been prepared to deal with the situation which will arise if there is no general resumption of work on Monday, 28th June.

2. The general build up of the Service personnel at the Docks is proceeding as planned to the maximum extent. It is, however, impossible to expect that sufficient troops can be found to enable all the work that needs to be done to proceed. We must therefore consider the question of finding additional volunteer labour. It must be clear, however, that for the Government itself to undertake the recruitment of volunteer labour would create a situation of great delicacy. I have, therefore, considered whether there is some alternative method by which available volunteer labour could be utilised.

3. Technically, under the Dock Labour Scheme, the National Dock Labour Board has power to recruit unregistered dock workers where the Local Board is satisfied that dock work is urgently required to be done and it is not reasonably practicable to obtain a registered dock worker for that work. In discussion with Lord Ammon, however, I have ascertained that the National Dock Labour Board would take the strongest exception to any suggestion that it should adopt this course. The Board consists of equal numbers of representatives of the Unions and the employers and obviously could not agree to recruit for this purpose. The argument that would be used by the strikers that the Union representatives on the Board were party to the recruitment of blackleg labour would only serve to embitter the situation.

4. Another alternative, whilst still working within the framework of the Scheme and avoiding for the moment the difficult decision that the Government should itself undertake recruitment of volunteers, would be to amend that part of the Scheme which prohibits a registered employer from employing a daily worker other than a worker who has been allocated by the Local Board in accordance with the provisions of the Scheme. I should mention that the employers have made representations to my Department to the effect that they feel this prohibition unfairly handicaps
them in meeting the situation caused by the strike and that the existence of this prohibition places on the Government the responsibility for finding any alternative labour necessary to facilitate the turnaround of the ships.

5. The objection to this second alternative in my view is that it requires the suspension of one particular clause of the Scheme, whilst the strikers are being refused the suspension of another particular clause, namely, that relating to the power to impose a disentitlement to attendance money. Moreover, this course would focus attention on the question of recruitment of volunteer labour.

6. A third alternative, however, which I commend for the consideration of my colleagues is as follows:

   The strike is now, in effect, a strike against certain provisions of the Scheme and can only be regarded as a refusal to operate the Scheme as a whole. Accepting this interpretation, the logical course is to suspend the Scheme in its entirety so far as the Port of London is concerned.

7. This step has one disadvantage to which I should refer at the outset. It is that the dockers throughout the country may feel that to suspend the Scheme as a result of a strike demonstrates that the assurances of permanency are illusory and given sufficient excuse, everything they have won by the Scheme can be taken away. Obviously capital could easily be made by the strike leaders out of arguments of this kind. For my part, however, I think that the advantages of adopting this alternative outweigh this disadvantage. The arguments in favour of adopting this alternative are, in my view, as follows:

   (1) By this act of suspension the fundamental issue at stake can be brought home to the dockers in the barest terms;

   (2) This threat of suspension of the Scheme and loss of all the benefit under it may well have a dramatic effect. This move should bring home to the men forcibly that if they will not submit to the obligations of the Scheme they must resign themselves to losing its advantages;

   (3) This proposal would have the advantage of putting the Government on the offensive against the unofficial strikers, changing the nature of the strike to the disadvantage of the Unofficial Strike Committee, and giving extra authority to the plea of the Unions to get back to work;

   (4) The question of recruitment of volunteer labour by the Government can be postponed for a later decision. In the meantime the employers will automatically be free to take any steps they like to engage such volunteer labour as they are able to obtain. The Government would be free from the criticism that they are preventing the employers from engaging labour and thereby holding up the turnaround of shipping;

   (5) The temporary suspension of the Scheme in London would mean that it would automatically revive on the termination of the emergency and any negotiations following a resumption of work would be on the basis of the status quo.

8. It is not possible to suspend the Scheme in London under ordinary powers as any variation of the Scheme has to be published in draft form, 40 days for the lodging of objections have to be
allowed, and a statutory enquiry has to be held into any objections lodged. One method of suspending it would be for an emergency to be proclaimed under the Emergency Powers Act, 1920, and for an Order-in-Council then to be made giving the Minister of Labour the necessary powers. The Minister would then make an Order temporarily removing the Port of London from the Dock Labour Scheme. The only other method would be to pass a one-clause Bill rapidly through Parliament.

9. The manner in which this step was taken and put into operation would, of course, require the most careful consideration. In my view the first step would be to make it plain, in the course of a Government statement, that as the strike was now clearly directed against a provision of the Scheme and was making the Scheme as a whole unworkable, the men must face the fact that they were thereby placing in jeopardy the continued existence of the Scheme as a whole so far as London is concerned. The announcement should make it quite clear that within a very few days, if there is no general resumption, the Government will be compelled to take steps to suspend the Scheme in London. Subject to the situation remaining substantially the same, it would be essential to put the proposal into action at some very short interval, say, two days, otherwise the effect of the statement might be lost and the impression might grow that the Government were hesitating. This means that if the statement were made on Monday, for example, the emergency proclamation would need to be made or the Bill to be introduced on Wednesday.

10. It may be an objection to using the Emergency Act that the trouble is at present confined to one port only, and that the action contemplated under it is merely the suspension of the Scheme in London. To declare an emergency for this local and limited objective might appear to be disproportionate, and unnecessarily to involve other parts of the country. A Bill would be a more direct method and would more clearly demonstrate that the steps taken were under close Parliamentary control.

N.E.

Ministry of Labour and National Service, S.W. 1.,

27th June, 1948.
CABINET

DESPATCH OF CABINET AND CABINET COMMITTEE BUSINESS DURING THE SUMMER HOLIDAY

NOTE BY THE PRIME MINISTER

I propose that during the six weeks from 1st August to 11th September there should be no meetings of the Standing Ministerial Committees of the Cabinet, and that the Cabinet itself should meet as rarely as possible.

2. I therefore ask all Ministers to consider forthwith whether there are any matters on which they will have to obtain decisions from the Cabinet or from a Cabinet Committee before the middle of September, and to make every effort to bring these matters forward for consideration by the middle of July.

3. I recognise that certain questions may arise during this period, particularly in the field of economic and foreign affairs, which will have to be submitted for the collective decision of Ministers. I hope, however, that the occasions when Ministers will have to be called together may be few, and I propose that urgent business which would ordinarily have been handled by a Cabinet Committee should be dealt with in this period by the Cabinet itself if it should be meeting for other purposes. If any such business should arise during the period 1st August to 11th September, the Minister concerned should communicate with the Cabinet Secretariat, who will advise how it can best be handled.

4. The Cabinet Secretariat will make the usual arrangements to ensure that a nucleus of Ministers will be available for any meetings of the Cabinet which may have to be held.

C. R. A.

10 Downing Street, S.W. 1,
1st July, 1948
CABINET

PENSIONS FOR THE WIDOWS AND ORPHANS OF CIVIL SERVANTS

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

AFTER considering my proposals for providing pensions for the widows and orphans of civil servants (C.P. (48) 148), the Cabinet (C.M. (48) 40th Conclusions, Minute 4) instructed the Treasury to consider, in consultation with the other Departments concerned—

(i) what claims from other classes for comparable treatment would have to be met if benefits on the scale proposed were provided for widows, orphans and dependants of civil servants, and for civil servants retired through ill-health after short service, and what additional burden would thereby be thrown on the Exchequer and the rates;

(ii) what modifications in the proposed scheme could be made in order to maintain the principle that insurance benefits, additional to those provided under the National Insurance Scheme, should be made available only as part of supplementary schemes involving substantial contributions from the workers concerned.

The Contributory Principle

2. What my colleagues mainly had in mind was that, to the uninformed critic in other occupations, the fact that the civil servant was making so substantial a contribution might not have been sufficiently apparent. I had proposed that the civil servant’s contribution should be made by abatement from his gratuity on retirement. In other occupations where these gratuities are not paid (the pensions being as a rule correspondingly greater) the fact that this abatement was equivalent to a substantial weekly deduction might not have been understood.

3. Under my original scheme the Exchequer would have met half the cost, the other half being paid for by the Civil Service itself through the reduction of its gratuities. I understand that the actuarial equivalent of the proposed reduction in gratuity would be a deduction of 1½ per cent. of pay levied on all male civil servants throughout their career. If a compulsory deduction of 1½ per cent. were introduced, the contributory nature of the scheme would be quite obvious.

4. I doubt whether it is necessary to go as far as this, and I should be reluctant to do so. It would mean pressing the National Staff Side to accept a system to which they are opposed, without putting the Exchequer in any better position than under the original scheme. Furthermore, I believe that the whole of the point of substance which my colleagues had in mind would be achieved by a less drastic approach.

5. I would propose that the scheme which I previously put to my colleagues should be modified by providing that future male entrants should continue to be brought within the scheme compulsorily on marriage but that their contribution of an amount equal to 1½ per cent. of their pay should be payable in one of three alternative ways:—

(a) By a deduction of 1½ per cent. from their pay from their entry to the Service.
(b) By a deduction of 1½ per cent. from their pay from their marriage and by a reduction in their gratuity of an amount equivalent to the deductions which they would have paid from the time of entering the Service up to marriage.

(c) By a reduction in their gratuity.

6. For a variety of reasons I think that the reduction in gratuity is likely to prove the more favoured alternative; but I think the fact that the reduction in gratuity was equated with a deduction from salary would make abundantly clear the contributory principle on which the scheme rests.

7. Since a woman on entering the Civil Service could not be expected to know whether she is likely to have a dependent relative later in life, the first of the options proposed for men in the preceding paragraphs would not be appropriate for women. I suggest that the scheme should provide that a woman at any time during her service up to retirement could nominate a dependant, her contribution to the scheme taking the form of alternatives (b) or (c) in paragraph 5. A bachelor would be allowed to make similar arrangements for a dependant.

Repercussions of this Scheme in other Public Services

8. I attach a note (Appendix I) which gives the results of the enquiries made by Officials of the Treasury and of the other Departments concerned. According to these calculations, the maximum charge to public funds if comparable benefits are provided for widows and orphans in the local government service, including the police, in the teaching profession and in the National Health Service, would be £1,655,000 on the Exchequer and £965,000 on rates. In fact, it may well be that staff interests in some of these Services may not wish to make similar contributions so as to come completely in line with the Civil Service, in which case the charge would be proportionately smaller.

In view of the difference in conditions of service in the Armed Forces, it is unlikely that any similar scheme could be required in those Services. If the introduction of the Civil Service scheme leads to a demand for an improvement in the existing provision for widows in the Forces, the cost of such improvements should be considerably less than £1·5 millions.

9. During the Cabinet discussion, my colleagues asked for more information about the extent to which benefits similar to those proposed for civil servants were provided for corresponding workers in private employment. I attach a note (Appendix II) which sets out certain information on this point and suggests that what is now proposed for the Civil Service is by no means over-generous by reference to what is done in these occupations. Indeed in many cases the terms of private employment are distinctly better. Nevertheless, I consider that my Civil Service scheme is a reasonable one which will be welcomed as removing a long-standing reproach on the Government as employers. And I think it is as generous as it can well be made if the Civil Service are to be expected to pay half the cost of it.

10. I hope that, with the modifications which I have proposed to meet their point of view, my colleagues will now be willing to approve my scheme.

R. S. C.

Treasury Chambers, S.W. 1
30th June, 1941.

APPENDIX I

Repercussions of the Proposed Civil Service Scheme on other Services

1. It is likely that requests for a comparable widows' pension scheme will come from the local government service and from the teaching service which, like the Civil Service, have, up to now, had no such scheme. But such a demand would be likely whether or not the proposed Civil Service scheme is adopted. The inclusion of the widows' scheme in the superannuation arrangements for the staff
of the National Health Service would, in any case, have led to requests for similar
provision in the local government and teaching services just as it has contributed
to the demand from the Civil Service.

2. If a similar scheme were provided for the local government and teaching
services, the staff could not reasonably claim that the cost should be divided between
employee and employer in a more favourable ratio than that adopted for the Civil
Service. We have, therefore, assumed that the cost would be divided equally, as
proposed for the Civil Service.

3. On this basis the expenditure involved and its apportionment between
the staff, the rates and the Exchequer would be as follows:—

<table>
<thead>
<tr>
<th>Cost</th>
<th>To be paid by staff</th>
<th>To be paid by rates</th>
<th>To be paid by Exchequer</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Local government ... 2,800,000</td>
<td>1,400,000</td>
<td>700,000</td>
<td>700,000</td>
</tr>
<tr>
<td>Teachers ... ... 800,000</td>
<td>400,000</td>
<td>190,000</td>
<td>210,000</td>
</tr>
</tbody>
</table>

4. There might also be repercussions in the National Health Service and in
the Police. These services already have widows' schemes but the benefits provided
are inferior to those in the proposed Civil Service scheme. If the benefits for
these services were equated with those proposed for the Civil Service and the
additional cost were divided equally between employers and employees the position
would be as follows:—

<table>
<thead>
<tr>
<th>Cost</th>
<th>To be paid by staff</th>
<th>To be paid by rates</th>
<th>To be paid by Exchequer</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>National Health Service 1,400,000</td>
<td>700,000</td>
<td>Nil</td>
<td>700,000</td>
</tr>
<tr>
<td>Police ... ... 300,000</td>
<td>150,000</td>
<td>75,000</td>
<td>75,000</td>
</tr>
</tbody>
</table>

5. Armed Forces.—The Forces already have a widows' scheme for officers
and warrant officers but no provision is made for other ranks. The provision for
officers' widows can only be regarded as less favourable than that proposed for
the Civil Service if no account is taken of the fact that the period of service in
the Armed Forces is far shorter than that in the Civil Service. In view of this and
other differences in conditions of service, it would be unreasonable if either officers
or other ranks demanded that similar benefits should be provided in the Forces as
in the Civil Service. Another reason why it is unlikely that the Forces would
wish an exactly similar scheme is that it would be difficult in the Forces to arrange
for the Services to bear half the cost except by a current deduction from pay.
On the whole it seems safe to conclude that any demand for an improved widows'
scheme for officers and the introduction of a scheme for other ranks would be for
a different kind of scheme from that envisaged for the Civil Service. It is clearly
difficult to estimate the cost of such a hypothetical scheme. It is estimated that if
comparable benefits to those proposed for the Civil Service were provided for all
ranks in the Forces, the cost might be some £2½ millions to £3 millions, of which,
if the Civil Service precedent were followed, half would have to be paid by
members of the Services themselves. As stated above, however, it would be
manifestly unreasonable for the Services to claim exactly comparable benefits.
The cost of any measure introduced for the Forces should therefore be well within
a figure of £1½ million.

APPENDIX II

A COMPARISON WITH THE BENEFITS PROVIDED UNDER THE PROPOSED CIVIL SERVICE
WIDOWS' AND ORPHERNS' SCHEME WITH THOSE PROVIDED FOR CORRESPONDING
WORKERS IN PRIVATE EMPLOYMENT

Comparison is difficult since superannuation schemes should be looked at as
a whole. Very often superior benefits provided under one part of a scheme are
counter-balanced by inferior benefits under another part. Another difficulty is
that in many private schemes the benefits provided are not based on a given
proportion of salary, but take the form of a Life Insurance policy for a capital
sum purchased by contributions made by employer and employee during the
employee's period of service. These schemes cannot readily be brought into the
The following examples, which are typical of many schemes of which particulars have been collected, illustrate how the benefits provided in certain private schemes compare with the proposed Civil Service scheme:

### The proposed Civil Service scheme

It is proposed that the widow of a civil servant shall receive a pension ranging from one-twelfth of her husband's pay to a maximum of one-sixth of his pay, with a minimum pension of £26 a year. A widow with children will have this pension increased by 25 per cent. for each child up to a maximum of four.

### Industrial comparisons

(a) The Federation of British Industries and the Association of British Chambers of Commerce recently produced a report on retirement benefits, in the course of which they pointed out that business schemes are more generous than the statutory superannuation schemes. They suggested that the ceiling for business schemes should not be set below the standard of benefits which would provide, amongst other benefits, a widow's pension of one-third of the husband's salary. Such a pension would be exactly double the maximum pension under the proposed Civil Service scheme, though the business scheme makes no additional provision for children. Moreover, it is an ideal and a ceiling.

(b) A group of five industrial firms which combine to run one superannuation scheme in fact provides a widow's pension of one-third of the husband's salary (with a minimum pension of £52, which compares with the minimum of £26 under the Civil Service scheme). This is increased by 25 per cent. so long as one child is under 16.

(c) A Friendly Society's employees' scheme provides a widow's pension of one-sixth of the husband's salary with a minimum of £26 a year. £13 a year additional is paid for each child.

(d) A Provident Society's superannuation scheme provides a widow's pension of up to four-ninths of the husband's salary.

(e) A leading Trade Union officials' scheme provides a widow's pension ranging from one-fifth of the husband's salary if he dies with less than 20 years' service (compared with the Civil Service rate of one-twelfth) to one-third of salary after 35 years' service.

(f) A large bank gives a widow's pension of up to four-fifteenths of salary with a maximum pension of £200 and a minimum of £60. £15 additional is paid for each child.

(g) A group of smaller banks pays a standard widow's pension ranging from £100 to £150.

(h) A large industrial concern pays up to a quarter of the husband's salary rising to a third if the widow has young children.
CABINET

THE SITUATION IN MALAYA

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

MY colleagues will wish to have a summary of the present situation in Malaya and of the measures which are being taken to meet it.

Background to Recent Events

2. Malaya is about the size of England without Wales, it has a population (including Singapore) of approximately 5,800,000 people, of whom 2,200,000 are Malays, 2,600,000 Chinese, and 600,000 Indians. It is at present divided into two administrations, namely the Federation of Malaya comprising the whole peninsula with the exception of Singapore Island, and the Colony of Singapore. The Federation of Malaya (apart from two small areas, Penang and Malacca, which were formerly part of the old Colony of the Straits Settlements) is a Federation of nine States, each under a Malay ruler. Executive authority is, however, exercised in most matters not by the State Governments but by the Federation Government under the High Commissioner. Executive authority in Singapore is exercised by the Governor.

3. The Commissioner-General for the United Kingdom in South-East Asia, Mr. Malcolm MacDonald, has his headquarters in Singapore. He has taken over the functions of the former office of Governor-General, Malaya, but has no direct executive authority. In regard to the British territories within his jurisdiction he has a general responsibility for co-ordinating policy and administration.

4. Since the war the whole of South-East Asia has been a disturbed area. The Japanese occupation which overthrew European and Colonial Governments and deeply upset the whole social structure of the occupied countries released a surge of nationalist movements whose force is by no means spent to-day. Furthermore, during the time of occupation it was, of course, greatly to our own interests that subversive movements against the Japanese occupation should be encouraged and supplied with arms. It is no wonder that some of the resistance groups which sprang up at that time should—as happened also in Europe—prove after liberation an embarrassment to their own Governments.

5. Until the outbreak of the present wave of crime Malaya was, in fact, the most peaceful country in South-East Asia and had taken long strides towards the re-establishment of stable, prosperous conditions. During 1947 the total value of the exports of Singapore and the Federation together was £151 million, of which dollar exports accounted for £56 million. It is by far the most important source of dollars in the Colonial Empire and it would gravely worsen the whole dollar balance of the sterling area if there were serious interference with Malayan exports.

6. Most of the present trouble in Malaya is due to Chinese groups opposed to the régime of the Chinese National Government. The trouble is almost certainly Communist-instigated, though direct connection between the gangsters and the
Communist Party cannot always be traced. Secret Societies have always been a prominent feature of Chinese life and were a thorn in the flesh of Government in Malaya right through the 19th century. At various times during that century they led to outbreaks of armed violence, principally between opposing factions of Chinese.

7. On the reoccupation after the recent war, the Chinese Communist guerrillas (the Malayan Peoples’ Anti-Japanese Army) were in control of large areas, particularly in Johore and Perak. Their excesses were the cause of bloody Sino-Malay clashes in the month following the reoccupation.

8. Although the present trouble is largely instigated by the Chinese, a word must be said about the other two main communities in Malaya, the Malays and the Indians. The Malays have been largely preoccupied with the constitutional negotiations which led to the modification of the Malayan Union proposals and the shaping of the present constitution. The Malays are satisfied with this and have so far been very little concerned in the present disturbances. There are nevertheless a number of Malays in the Malayan Communist Party and there are Malay organisations thoroughly permeated with Communist influences. The Indians now provide many of the overt leaders of the Communist Party and its satellite organisations, because, being British subjects, they have not been treated since the reoccupation as liable to deportation under the law in force in the Malay States. The Indian leaders are, however, suspected to be mainly men of straw, and the real organisers are Chinese who have gone underground. Indian community is largely employed as estate labour, and is traditionally passive and unaggressive, but easy prey for agitators.

9. It is also necessary to mention the position of the trade unions in Malaya. The trade unions are still young and poorly organised owing to the fact that the majority of workers are unsophisticated and illiterate. Encouragement has been given to the growth of trade unions but unfortunately a large number of the existing unions have been infiltrated by what may be called professional “organisers,” whose main object is to turn the trade unions into a profitable source of income and political advantage for themselves. As in some other countries, these “organisers” are influenced and often controlled by the Communist Party. The evils have not stopped short at mere unscrupulous use of union organisation for ends other than the workers’ advantage. There has been physical intimidation of workers on a large scale. Indian estate labour in some areas has been organised into disciplined bands, sometimes uniformed, armed with lathis and knives. In Singapore an illegal strong arm force (the “Workers’ Protection Corps”) has been organised by the Singapore Federation of Trade Unions (a Communist-dominated body) for purposes of intimidation and extortion.

10. We have had several experienced British trade union officials working to guide and help the trade unions and my Labour Adviser has also examined and discussed problems on the spot and suitable action taken. In addition, early this year at the request of the local authorities in Malaya I arranged for Mr. S. Awbery, M.P., of the Transport and General Workers’ Union, and Mr. F. W. Dalley, of the Railway Clerks’ Union, to visit Singapore and Malaya to report on the state of trade unionism. I have just received their report (which has not yet been published). It draws attention to the difficulties of developing healthy trade unionism where the workers have still a low standard of education and have been exploited by unscrupulous so-called organisers; and makes recommendations which I shall follow up.

Present Situation

11. In the last few weeks violent crimes have again broken out in the Federation, and labour unrest has become more marked. On 1st June a strong force of police had to be used to clear 200 Chinese labourers from an estate in Johore where they had taken control. After a police charge seven Chinese were found dead. On 4th June the High Commissioner reported that in recent weeks there had been twelve serious attacks, all save one attributable to organised politically-inspired violence. In the week ending 15th June there were five murders and two attempted murders, all save one attempted murder, political in origin. On 16th June three European planters in Perak were attacked and murdered in their bungalows by a gang of Chinese armed with Sten guns, while elsewhere in Perak and on an estate in Johore, where strikes had just ended, a Chinese foreman and a Chinese labour contractor were killed. On 17th June
twelve armed Chinese raided the police station at a small village twelve miles from Johore Bahru, and made off with a police rifle, after wounding a passer-by. From the 18th to 29th June inclusive, fifteen murders and fifteen attempted murders have been reported to me. It is noteworthy that a number of these attacks conform to a pattern. They are directed against:—

(a) The managerial staff, European and Asian, of outlying estates.
(b) Leaders of local Kuo Min Tang parties.
(c) Persons who have given evidence in intimidation cases.

The attacks are carried out by bands of well-armed Chinese, either as ambushes or by sudden descents (sometimes by bicycle) on isolated buildings. There have been no large-scale disturbances by labour, and the strike situation which was at no time really serious is now very good: there are now only eight small strikes in progress involving less than 900 workers in all.

12. In Singapore there was a wave of unrest among waterfront labour and among workers in rubber milling factories during April. There were a few incidents, but Government remained in control of the situation, and attempts at one-day general strikes were failures. Since 6th June no cases of violence or intimidation of a political nature have been reported from Singapore. Agitators have continued to make inflammatory speeches, and it is reported that in spite of arrests of ringleaders the "Workers' Protection Corps" is being expanded.

13. Although there is less violence in Singapore, the basic situation in both the Federation and the Colony is the same. There is no concrete evidence that the Malayan Communist Party is directly responsible for the present lawlessness but extreme political factions and certain trade unions have been infiltrated by communism. The same methods of attack are used—intimidation and the wrecking of normal industrial conciliation machinery. Asian born Chinese, who until recently were active in organisations associated with lawlessness, now seem to use Indian or British nationality for their purpose.

14. The Commissioner-General has represented that the first objective of the Communist gangs has been and is still by terrorist campaign to produce the maximum industrial unrest and disruption of economic life of the country, with a view amongst other things to destroying the Government's authority. Evidence is that the tactics of the Communist gangs are changing from fomenting labour disputes to a policy of picking off the managerial staff of installations and mines. Cash is also being obtained by hold-ups on pay day, particularly in isolated areas. It may be reasonably expected that attempts will be made to sabotage communications, industrial plants and factories, power stations and other vital points. In addition to terrorist acts by individuals or small gangs there are many persons who do not engage in violence themselves but who foster and direct these activities by various methods. Such persons are distributed throughout the Federation and Singapore, and most are overt or covert members of the Malayan Communist Party and kindred organisations. Further, there is information that mobilisation and training of bands of guerillas in jungle hide-outs is now coming into force and they will be well organised and armed and their activities will include attacks on villages and small towns to commit murders and robberies and to dislocate transport systems with ultimate objective of controlling certain areas. As police and military operations succeed in restoring law and order in the more settled areas, such malefactors who escape will tend to join the guerilla bands in the jungle. Guerilla bands may attack Malay kempongs (or homesteads of scattered buildings) in particular, partly in order to obtain food, &c, for their maintenance, but also as part of a preconceived plan to stir up gradual Malay enmity such as occurred during the Japanese occupation and immediately after. This may result in outbursts of violence by Malays against innocent Chinese and adds to the general state of unrest.

Measures to Meet the Situation

15. In this situation of violence and murderous outrages in various States, with labour troubles and lawlessness, the following steps have become necessary:—

(i) Temporary amendment of trade union legislation to limit trade union officers to persons associated with the trade or industry concerned and to confine federations of trade unions to bona fide industrial organisations in the particular trades or callings.
(ii) A state of emergency was proclaimed on 16th June in certain areas of Perak and Johore, and extended on 17th June to the whole of the State of Perak and on 18th June to the remainder of the Federation. Emergency Regulations have been made which include the reimposition of the death penalty for the offence of carrying arms, and the authorities have been empowered to detain any person without trial, to search persons and buildings without warrant and to occupy properties. Where local conditions require, the authorities have power to impose a curfew and to control the movement of persons and vehicles.

(iii) The use of the powers of deportation conferred by existing legislation in Malaya was, prior to the present disturbances, confined by my direction to aliens. In response to strong representations from the authorities in Malaya that British subjects (mainly Indians) were in consequence being used as stooges by organisers of seditious movements I have agreed to deportation powers being exercised throughout the Federation against any person who is not identified with the country as a Federal citizen.

(iv) The emergency legislation referred to at (ii) above will, upon the declaration of a stage of emergency, enable the High Commissioner to make regulations providing inter alia for the detention of any person for a period not in excess of two years. I have given directions that these powers of detention are only to be exercised against persons who are implicated in acts of violence or in organising or inciting persons to take part in strikes, disturbances or demonstrations in which violence or threat of violence is used. I have also given directions that papers relating to each case in which detention is recommended must be reviewed by a Supreme Court Judge. The above powers of detention will enable action to be taken against Federal citizens who will, as indicated in (iii) above, not be regarded as liable to deportation.

(v) Very active measures are being taken to strengthen the police in both the Federation and Singapore. These measures include the organisation of a force of special constabulary; the increase of the regular police force by further recruitment and training of local personnel; the formation of a frontier force or gendarmerie to patrol the northern frontier where undesirable persons and arms can enter Malaya; the diversion of civil officers from ordinary duties to assist in the administrative work of the police, and in organising and directing the special constabulary; special measures to expedite the supply of equipment on existing orders, and to obtain new equipment, such as scout cars, armoured cars, mobile wireless sets, and additional supplies of arms and ammunition.

(vi) In addition to the other measures for strengthening the police force, I have sent out to Malaya Mr. W. N. Gray, late Inspector-General of the Palestine Police, who has special experience in combating terrorism. His mission will be to discuss all measures likely to increase the efficiency of existing police action against terrorism, including the possibility of strengthening the police with recruits from the Palestine Police. I am expecting to get, within the next few days, estimates from Malaya of the number of men from the Palestine Police who could usefully be employed. In any case I have been asked to recruit 60 additional assistant superintendents of police.

(vii) The Army and R.A.F. are giving the fullest support to the Police and close cooperation between the military and the civil authorities is provided by the British Defence Co-ordination Committee, Far East, over which the Commissioner-General presides, and the local Defence Committees in Singapore and the Federation of Malaya.

(viii) In the last few days the Commissioner-General, Mr. Malcolm MacDonald, has represented to me that the High Commissioner for the Federation of Malaya, Sir Edward Gent, has lost the confidence of the public in the Federation and the heads of other Services. He reported that in consequence it was essential, in his view, to recall Sir Edward Gent to England at once, and that he should not return to Malaya. His recommendation was made in such terms that I had no alternative but to agree to it at once, and Sir Edward Gent is now flying home. He is due in England on 3rd July. The Chief Secretary of the Federation of Malaya, Sir Alexander Newboult, is now acting as High Commissioner pending another appointment.
Plan of Future Operations

16. The Commissioner-General has sent me the following summary of the operations proposed as a result of inter-Service discussions in Malaya. Operations are planned in two phases:—

17. In phase 1 the objective is to restore law and order in settled areas of the territory and to maintain the economic life of the country and restore morale. This will be carried out through two distinct types of operations: (a) by offensive operations to round up gangsters, including the establishment of road blocks and traffic control, periodical sweeps where murders or robberies have been committed, and widespread searches for arms and other incriminating evidence; (b) protective measures, through provision of armed guards for police stations, power stations, prisons, warehouses, factories, docks and other vital points. In order to maintain the economic life of the country and restore confidence in outlying districts it is also necessary to provide static guards for the larger rubber estates, mines, transport system and Malay villages.

18. Phase 2 will comprise the operations necessary to liquidate the guerilla bands whose headquarters are in the jungle. This will involve the destruction of their camps, cutting off of food supplies, and uncovering dumps of arms and equipment. These operations will be primarily of a military nature in which, however, the police will participate. The operations may take a considerable time owing to the nature of the country involved. Phase 2 cannot be extensively undertaken until sufficient success has been achieved in phase 1.

19. The Civil and Service authorities in Malaya are, of course, in consultation as to whether the existing military forces in Malaya are adequate to meet all foreseeable calls upon them arising from the present disturbances.

A. C. J.

Colonial Office,
1st July, 1948.
INTERNATIONAL WHEAT AGREEMENT

Memorandum by the Minister of Food

At their meeting on 17th June (C.M. (48) 40th Conclusions, Minute 3) the Cabinet considered my memorandum (C.P. (48) 150) on the International Wheat Agreement and decided that the Agreement should be ratified. The United Kingdom instrument of acceptance has now been prepared and despatched to Washington for depositing with the United States State Department forthwith. The United Kingdom High Commissioners in Ottawa, Canberra, Wellington, Pretoria and Delhi and the United Kingdom Representative in Dublin have been requested to inform the respect Governments that this action has been taken.

2. Since the Cabinet's previous decision the United States Congress has gone into recess and is not expected to re-assemble until after the November elections - i.e. probably not before January. The Senate has not ratified the International Wheat Agreement, and the United States Government cannot implement the Agreement without the Senate's ratification.

3. Article XX of the Agreement provides that the new International Wheat Council - consisting of those countries which have ratified the Agreement by 1st July - shall hold its first Meeting in Washington "early in July". It was agreed by the representatives of the nine signatory countries who are Members of the Preparatory Committee that the first Meeting of the Council shall be held on 6th July, and that the Preparatory Committee itself should meet to prepare the agenda and make other necessary preparations on 29th June. The United Kingdom delegation sailed for Washington on 21st June.

4. The failure of the United States Government to secure the ratification of the Agreement by Congress by 1st July creates a new situation, which was not envisaged in C.P. (48) 150. As far as is known in London all the signatory countries, except the United States, will either have ratified the Agreement by 1st July or intend to apply for an extension of the period allowed for ratification in accordance with the provisions of Article XX. This Article, however, makes no provision for extending the period allowed to an exporting country for ratification: the concession applies only to importing countries. Canada and Australia - the only two exporting countries, apart from the United States - have already decided to deposit their instruments of acceptance by 1st July.
5. It is generally accepted that the operational part of the Agreement cannot be brought into effect unless the United States is a party to it, since the guaranteed exports of the United States under the Agreement amount to 37% of the total guaranteed exports. Article XX, however, provides that any signatory country may withdraw from the Agreement at the first Meeting of the Council if it considers that the guaranteed sales or purchases of the countries which have formally accepted the Agreement are insufficient to ensure its successful operation.

6. It is not known (though we have asked for information from Washington) what line the United States Government intends to take in the new situation. If they were to devise some means, e.g. by a special Session of Congress, of ratifying the Agreement within say the next two months they might be able to participate effectively in the working of the Agreement at an early enough date to enable it to be brought into operation successfully for the crop year 1948/49. The Canadian Minister of Trade and Commerce, speaking in the House of Commons in Ottawa, stated recently that there were "fair indications" that the United States would ratify the Agreement later this year. On the other hand, it seems more likely that the United States now cannot ratify in time to participate effectively in 1948/49, and the Australian Minister for Commerce and Agriculture is reported to have announced that in this event Australia will at the opening Meeting of the Council withdraw from the Agreement under the provisions of Article XX.

7. Soon after they arrive in Washington the United Kingdom delegation will probably be able to clarify the present situation and report further on (a) the intentions of the United States Government and (b) the views of the other signatory Governments as to the best course to be taken. Subject to any reports received from them, I suggest that the instructions of the United Kingdom delegation for the first Meeting of the Council on 6th July should be:-

(a) If they are satisfied that the United States Government intends to, and will, in fact, be able to, ratify the Agreement in time for it to be put into effective operation for the crop year 1948/49 they should announce that the United Kingdom ratification stands, and should endeavour to persuade other delegations to do the same, so that the operational part of the Agreement may, as provided in Article XX, come into effect as from 1st August between those countries which have ratified it, and so that the door may be left open for the United States to come in as soon as she has ratified.

(b) This course should, however, only be adopted provided that it is agreed by all the signatories to extend the period allowed for Governments to withdraw from the Agreement. At present no Government can withdraw after the opening Meeting of the Council unless it considers that its national security is endangered by the outbreak of hostilities. Should an extension of the time for ratification be granted to enable the United States to participate in the Agreement in the crop year 1948/49 it would be essential that signatory Governments should retain the option to withdraw if the United States has not ratified by the later date allowed by this extension.
(c) If, on the other hand, it appears to our delegation that there is no prospect of the United States Government ratifying in time to participate effectively in the operation of the Agreement for 1948/49, and if this view is shared by the other delegations at the first Council Meeting, the United Kingdom delegation should announce its withdrawal. In this event they should, at the same time, state that the United Kingdom Government would be willing to consider any proposals that may be made for entering into a new Agreement for a later period, but they should make it clear that there could be no question of the present Agreement, with the existing price ranges, being adopted as it stands for 1949/50 and the subsequent crop years.

J.S.

Ministry of Food, S.W.1.

1st July, 1948.
SECRET

A ONE TIME CYpher SYSTEM MUST BE USED FOR ANY RE-ENCypherMENT OF THIS MESSAGE

COPY OF CABLE FROM BRITISH SUPPLY OFFICE (FOOD)
WASHINGTON DATED 1.7.48.

IMMEDIATE
AMAZE 9235

From Anderson,

1. Having considered again all factors in situation here, I am satisfied that ratification by USA before end of February at earliest is most improbable. This view is almost unanimously held. Even if however the new House of Representatives favours ratification and acts accordingly the complications constitutional and operational arising from upwards of 6 months delay would be such that Canada and Australia, particularly latter, would find it impossible adhere to agreement for crop year 1948/49. We ourselves would be in same position and I have informally indicated that little more than 6 weeks delay is about limit for us if agreement is to operate over 1948/49 crop year. It was agreed at our informal meeting that postponement of operative date by only a few weeks is all that is practical.

2. At meeting of Preparatory Committee and of the Council on July 6 the USA representative will be given opportunity to state positively whether there is any reasonable likelihood of his Government ratifying agreement by end August 1948. It seems certain there is not, but administration will no doubt be anxious avoid making any categorical statement to that effect.

1

3
3. There are therefore two contingencies for which we have to provide.

(A) A plain statement that ratification by USA by 31 August is not a possibility.

(B) Qualified statement to effect that administration cannot anticipate what action may be taken by President as to recall of Congress but that possibility of ratification by 31 August cannot be ruled out.

4. In event of (A) I would suggest that UK Delegation should give formal notice of withdrawal in terms somewhat as follows "being of the opinion that the guaranteed sales of the exporting countries whose Governments have ratified the agreement are insufficient ensured its successful operation, the UK give notice to the Government of the United States of America in accordance with the provisions of Article XX para 3 of the International Wheat Agreement of 6 March, 1948 of its withdrawal from the International Wheat Agreement. This notice of withdrawal shall be fully effective in respect of all right and obligations of the United Kingdom as from 1 August, 1948".

5. If at the meeting of the Council the position is as (B) above it seems desirable that we should indicate our willingness to do everything possible to facilitate the belated accession of the USA and to make the agreement operate this crop year provided the operative date is postponed for only a limited period. In doing this however it should be possible to pin the responsibility for the failure of the agreement on the USA fairly effectively, notwithstanding failure of France and a
Subject therefore to your views I would suggest that the UK delegation be authorised make a statement at appropriate time in following terms "being of the opinion that the guaranteed sales of the exporting countries whose Governments have formally ratified the International Wheat Agreement are insufficient to ensure its successful operation the United Kingdom in accordance with Article XX para 3 of the International Wheat Agreement of March 6, 1948 gives notice to the Government of the United States of America of its withdrawal from the International Wheat Agreement, such withdrawal to become finally effective on 31st August, 1948 if the International Wheat Agreement, has not been ratified by the Government of the United States before that date and if the International Wheat Council has not brought the Agreement into full operation by that date the United Kingdom also gives notice that during the period up to 31 August before this notice of withdrawal becomes finally effective it does not regard itself as being bound by any of the obligations of the International Wheat Agreement".

It looks as if about a dozen countries will have ratified by today and I think all of them will agree to follow the line I suggest and shall give similar notice of withdrawal according to circumstances.

It may be necessary also for the ratifying countries to pass a resolution pledging themselves to take whatever action is necessary to enable the USA to accede to the agreement if she should ratify before August 31. On this, /as. ....
as on suggested notices of withdrawal, I shall seek Fawcett's advice.

9. Fawcett is in New York but is travelling here tomorrow Friday and I have arranged a meeting with him prior to the afternoon meeting of Preparatory Committee. Subject therefore to any legal advice he may give I shall be grateful for authority to act as I propose. I have discussed with Hoyer Millar and am meeting Dominion representatives later today.

Sent to:- Mr. A.E. Fearcear (Action Copy)

The Minister Sir Ralph Enfield (MAF)
The Secretary Mr. O.C. Morland (Econ,Rel.Dept.FO.)
The Parl. Secretary Mr. J.E. Barnes (Econ,Rel.Dept.FO.)
Mr. Sheed Anderson Sir Donald Vandepeer (MAF)
Mr. E.M.H. Lloyd Mr. A.C. Sparks (MAF)
Mr. J.E. Wall Mr. G.H. Locke (MAF)
Mr. Blagburn Mr. Hensley (MAF)
Mr. Skilton Mr. Franklin (MAF)
Mr. R.H. Smyth Mr. P.N.R. Butcher (Health)
Mr. McNaughton Mr. Heaning (CAB,Off.)
Mr. Bott Mr. Jenkyns (Treas.)
Mr. Propper Mr. H. Crowe (Scottish Office)
Mr. M.R. Mestcalf Mr. Nicholas Young (C.O.)
Dr. K.G. Fanelon Sir Gerard Clauson (CO)
Mr. D.C.V. Perrott President of Board of Trade
Mr. E.G. Harwood Mr. M. Fleming (CAB,Off.)
Dr. E. Bailey Mr. J. Gordon (CRO)
Mr. P.G. White Mr. W.J. Smith (CRO)
Mr. G.D. Wilson Mr. H.B. Shepherd (Econ,Rel.Dept.FO.)
Mr. J.D. Webber Mr. H.S. Barnes (MAF)
Mr. J. Carnochan Mr. E.Rooll (Econ,Rel.Dept.FO.)
Mr. C.F. Huntley Mr. W.H. Fisher (Treas.)
Mr. J.V. Rank Mr. Thompson McCausland (Bank of England)
Mr. H. Fitzgerald Mr. Robert Hall (Economic Section
Mr. S.W. Woods Mr. W.G. Head, OBE (CRO)
I.C.D. Mr. O.L. Williams (Treas.)
Mr. Hooker (ICD) Mr. G.J.T. Barton (CO)
Mr. Thomas (ICD) Mr. R.L. Bicknall (MAF)
Mr. Hardman Miss N. Fisher (CRT Board of Trade)
Mr. Farquharson 2.7.48  15.05. EJW/DP
Mr. B.I. Felton
Mr. F. Hollings
International Wheat Agreement.

From Anderson

Formal meeting of Preparatory Committee was held this afternoon when it was intimated that at the meeting of the Council a statement will be made by the USA Representative who will be Brennan the new Secretary of Agriculture. This statement will be on the lines of Amaze 9235 para 3(B).

2. Committee generally agreed that all countries which have ratified should make a statement intimating intention to withdraw on 31 August on the lines of and qualified as in, the draft statement in para 6 of Amaze 9235 with the deletion of the last sentence. The ratifying countries would then pass unanimously a resolution suspending the operation of Articles I to IX until 1st Sept. 1948 and a further resolution under Article XXI to the effect that any Govt. not yet having ratified may accede to the Agreement provided instruments of ratification are deposited by 31st August.

3. Prior to the meeting I discussed the proposals made in Amaze 9235 with Fawcett who suggested the procedure outlined in para 2 above. He is to prepare an amended draft statement and drafts of the two resolutions to be passed by the Council.

4. Thanks for your XII316. I now await your final instructions.
AMAZE 9236 CONT'D.

Sent to:-

Mr. A.E. Fearceyear (Action Copy)

The Minister
The Earl. Secretary
The Secretary
Mr. F. Sheed Anderson
Mr. E.M.H. Lloyd
Mr. J.W. Wall
Mr. C.H. Blagburn
Mr. Skilton
Mr. R.H. Smyth
Mrs. McNaughton
Mr. Bott
Mr. Propper
Mr. Metcalf
Dr. K.K. Feniemon
Mr. D.C.V. Ferratt
Mr. E.G. Harwood
Dr. E. Dalley
Mr. F.C. White
Mr. G.D. Wilson
Mr. J.D. Webster
Mr. J. Carmichael
Mr. G.T. Hartley
Mr. J.V. Rank
Mr. H. Fitzgerald
Mr. S.W. Woods
I.C.D.
Mr. Hoeker (ICD)
Mr. Thom (ICD)
Mr. Hardman
Mr. Farquharson
Mr. B.I. Bolton
Mr. F. Hollins
Sir Ralph Enfield (HMF)
Mr. O.C. Morland (Econ. Relations Dept. FO)
Mr. J.E. Barnes (Econ Relations Dept. FO)
Sir Donald Vandepeer (HMF)
Mr. A.C. Sparks (HMF)
Mr. G.R. Locke (HMF)
Mr. Hensley (HMF)
Mr. Franklin (HMF)
Mr. P.M.R. Butcher (M of Health)
Mrs. Henning (Cab. Offices)
Mr. Jenkyns (Treas.)
Mr. H. Grove (Scottish Office)
Sir Gerard Clason (GO)
Mr. Nicholas Young (GO)
President of Board of Trade
Mr. M. Fleming (Cab. Offices)

11:30. 3.7.48. HA/CDH.
NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I circulate a note on the more important statistics relating to the economic situation which have become available since my last Economic Report (C.P. (48) 148).

R. S. C.

Treasury Chambers,

ECONOMIC REPORT

I.—Production

The index of industrial production (1946 = 100) for April was 124. It was 119 in March 1948 and 105 in April 1947 (Table 1). These index numbers allow for differences in the number of days, excluding Sundays, in each month but not for holidays or seasonal factors.

Enough returns have not yet been received to estimate whether total industrial production increased further in May. Output in many industries was affected by the Whitsun holidays. Production of iron and steel, motor cars, commercial vehicles and some engineering products was higher than in April but there was a drop in output of coal, textiles, bricks, cement, and seasonally in gas and electricity.

Coal

Although production is higher than last year, the rate of output was disappointing in May and June (Table 2). In each of the last thirteen weeks it has been below the "target" set for the industry. Up to Easter output was higher than the rate needed to fulfil the programme of 211 million tons for 1948, but since Easter it has been lower. For the whole period of the first 25 weeks of the year output was 101·9 million tons—just over the "target" of 101·7 million tons for those weeks. The outlook for the winter months now depends on how far production can be kept up during the summer and what seasonal increase will be realised this year in October and November.

4. The total of 101·9 million tons so far this year includes production both of deep-mined and of opencast coal. 6·0 million tons of opencast coal were produced against a target of 4·9 million, but output of deep-mined coal was only 95·9 million compared with a target of 96·8 million tons for the first 25 weeks of the year. It is this failure to keep up output of deep-mined coal, particularly in recent weeks, which has led to our inability to supply enough large coal to satisfy
export markets, and especially countries covered by the Marshall Plan, as well as domestic consumers. The Production Committee has therefore had to decide to what extent exports of large coal should be curtailed and whether supplies to the railways, gas works, industrial consumers and shipping could be reduced. At the same time the success of opencast mining has led to ample supplies of small coal which at present cannot be disposed of easily.

5. In the first three weeks of June deliveries of coal for export and bunkers were 1·08 million tons making a total of 6·24 million tons for the first 24 weeks of 1948. If the production programme for the year is achieved, it is hoped to have delivered 16 million tons for export and bunkers by the end of December.

6. The weekly figures of Ministry of Fuel and Power will be watched during the coming weeks not only to see how exports do increase but also how far stocks can be built up to meet the demand this winter. It is hoped to start November with 16·8 million tons in stock. Stocks have already been increased from 13·1 million tons at 1st May to 14·0 million tons on 19th June. Stocks are higher than they were this time last year but consumption by gas and electricity undertakings in recent weeks has been relatively high because of the cool weather and the higher rate of industrial activity this year means that industrial consumers are using more.

Iron and Steel

7. Output of steel ingots and castings started off the month of June with a rate of just over 300,000 tons a week in the first three weeks (Table 3) but some falling away from this high rate was expected by the end of the month mainly due to holidays. Output in July in the last two years has been less than in June.

8. Pig iron production during the first three weeks of June was 180,000 tons a week—slightly less than in May but sufficient to keep stocks at the same level as the last few months. At the end of May stocks of pig iron were 379,000 tons and on 19th June 376,000 tons compared with 658,000 tons in May 1947. It is hoped to raise stocks during the holiday months to 594,000 tons by the end of August but that total will represent less than 4 weeks' consumption at the present rates.

9. The rate of 180,000 tons a week for pig-iron production is 37,000 tons a week or 26 per cent. higher than a year ago. It has been made possible by a sharp increase in the use of imported iron ore, which has a higher metal content than home iron ore. Stocks of imported iron ore were built up during the third quarter of 1947 but because of a higher rate of consumption they have been falling since then. At the end of May they were down to less than a year ago and were equal to 5 weeks' consumption at present rates of use. Some of our imports of iron ore come from Norway and Sweden and the United States has begun to take supplies from those countries.

10. Stocks of scrap remain unchanged at 340,000 tons and no further increase is expected during the next two months.

Textiles

11. Production in the cotton spinning industry fell in May because of the holidays at Whitsuntide but the first returns for June show that output has recovered and now exceeds what it was before the holidays (Table 4). At the end of May the number of spindles running was 25·6 million (counting ring spindles as one and a half mule spindles) compared with 23·8 million at the end of December. Output on the first week of June was 18·14 million lb. and 18·44 million lb. in the second week, compared with 16·52 million lb. a week in May and 17·25 million lb. in April. Measurement by lbs. weight understates the increase in yarn production during the last twelve months because output of fine counts has risen more than coarse counts of yarn.

12. Output of rayon also fell in May because of holidays. It was 18·3 million lb. compared with 19·6 million lb. in April and 16·6 million lb. in May 1947. The output of staple fibre, which is included in these figures, was the lowest since August last year because of the reconstruction work being done in the industry to carry out the programme for expanding production.

13. At the end of May 278,000 looms were running on weaving on cotton and rayon fabrics—the highest total since the war. Output in this branch of the
industry was less affected by holidays in May than in cotton spinning and was 45·9 million yards in May—the same as in April.

14. Output of woven wool fabrics fell to 19·1 million yards in May compared with 22·9 million yards in April and 19·7 million yards in May 1947. Of the 22·9 million yards produced in April, 8·1 million yards were for export.

II.—Man-Power

15. The Ministry of Labour figures for May are not yet available but fuller details have now been published for April. The number in civil employment has now risen to 19 million—its highest since the war and 1 million more than in 1939.

<table>
<thead>
<tr>
<th>Distribution of Man-Power in Great Britain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thousands</td>
</tr>
<tr>
<td>1939</td>
</tr>
<tr>
<td>June</td>
</tr>
<tr>
<td>Armed Forces and Auxiliary Services ...</td>
</tr>
<tr>
<td>Demobilised, not yet taken up employment —</td>
</tr>
<tr>
<td>Insured unemployed ...</td>
</tr>
<tr>
<td>Total in civil employment ...</td>
</tr>
</tbody>
</table>

16. A further expansion of the civilian labour force may take place by the end of the year when the size of the Armed Forces and auxiliary services should be reduced from 896,000 to 750,000. The total of 896,000 includes 357,000 men who are regulars or short service volunteers.

17. The number of men on colliery books rose from 723,800 on 29th May to 725,000 on 19th June—an increase of 1,200 in the three weeks. The target for the coal industry set in the Economic Survey was 750,000 for the end of December.

18. Preliminary figures for May and June show that there was a further increase in numbers employed in the cotton and woolen industries. Discussions are still going on about increasing the employment of European volunteer workers. The numbers placed in employment up to the end of May 1948 were:

<table>
<thead>
<tr>
<th>European Volunteer Workers</th>
<th>Polish Resettlement Corps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton ...</td>
<td>5,227</td>
</tr>
<tr>
<td>Wool ...</td>
<td>3,415</td>
</tr>
<tr>
<td>Other textiles ...</td>
<td>1,557</td>
</tr>
</tbody>
</table>

III.—Building

19. The temporary houses programme is now almost completed. 150,335 had been erected and completed in Great Britain by the end of May. Considerable progress has also been made in rebuilding war-destroyed houses and in repairing war-damaged houses.

20. The number of permanent houses being completed is now about 20,000 a month in Great Britain, and more houses are being finished than started each month (Table 5).

<table>
<thead>
<tr>
<th>All Permanent Houses in Great Britain(*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position at end of May 1948</td>
</tr>
<tr>
<td>England and Wales</td>
</tr>
<tr>
<td>On contract but construction not begun ...</td>
</tr>
<tr>
<td>Under construction ... ... ...</td>
</tr>
<tr>
<td>Completed in May ... ... ...</td>
</tr>
</tbody>
</table>

(*) New and war-destroyed houses built by local authorities, by private builders, by housing associations and by Government Departments. Aluminium houses are excluded.

21. Between December 1944 and the end of April 1948 3,427 schemes for new factory buildings in Great Britain were approved. Their estimated cost was 35518
£172 million. Licences to start building have been given for 2,733 schemes costing £118 million. Of this total of 2,733, however, work on 793 schemes costing £57 million has been temporarily deferred.

IV.—Petroleum Products

22. By the end of March stocks of petroleum products had fallen to their lowest level since the end of the war. Steps have since been taken to raise stocks especially of gas and fuel oils, and some improvement is now expected by the middle of August (Table 6).

23. At the end of May stocks of motor spirit were equal to only 4 weeks’ consumption at present rates of use and there were only 9 weeks’ stocks of gas and fuel oil. The latest estimates of stocks are given below.

Stocks of Petroleum Products

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Motor spirit</th>
<th>Gas, diesel and fuel oil</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939 August</td>
<td>6,726</td>
<td>1,171</td>
<td>997</td>
</tr>
<tr>
<td>1946 December</td>
<td>5,700</td>
<td>742</td>
<td>2,483</td>
</tr>
<tr>
<td>1947 December</td>
<td>3,248</td>
<td>373</td>
<td>896</td>
</tr>
<tr>
<td>1948 March</td>
<td>2,948</td>
<td>375</td>
<td>800</td>
</tr>
<tr>
<td>May</td>
<td>3,779</td>
<td>359</td>
<td>1,449</td>
</tr>
</tbody>
</table>

Forecasts—

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>4,123</td>
<td>380</td>
<td>1,722</td>
</tr>
<tr>
<td>July</td>
<td>4,375</td>
<td>449</td>
<td>1,791</td>
</tr>
</tbody>
</table>

V.—External Trade

24. Exports rose further in May mainly because of larger shipments of coal, textiles and metal manufactures. By volume they were 34 per cent. higher in May than in 1938. Imports were reduced still further in May (Table 7).

Index Numbers of Volume of Imports and Exports(*)

<table>
<thead>
<tr>
<th></th>
<th>Retained Imports</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 average</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1948 January</td>
<td>81</td>
<td>128</td>
</tr>
<tr>
<td>February</td>
<td>73</td>
<td>121</td>
</tr>
<tr>
<td>March</td>
<td>87</td>
<td>129</td>
</tr>
<tr>
<td>April</td>
<td>86</td>
<td>132</td>
</tr>
<tr>
<td>May</td>
<td>82</td>
<td>134</td>
</tr>
</tbody>
</table>

(*) Quantities revalued at 1938 prices and expressed as a percentage of the monthly average in 1938.

VI.—Bilateral Negotiations

25. Since my last report, the Payments Agreement with Chile has been successfully concluded. This agreement secures Chile’s transfer from the American Account Area to the Transferable Account Area, thereby placing trade with Chile on a sterling instead of a dollar basis.

26. A trade agreement with Eire has also been signed, the main feature of which is the provision of agricultural produce from Eire over a period of four years, including 90 per cent. of her total cattle exports.

27. Discussions with Iraq on her hard currency ration for the coming twelve months have now been successfully concluded.

28. Financial negotiations with Peru have now begun, with the main object of securing transferable account arrangements.

29. A delegation from Sweden has now arrived to resume the trade discussions which were suspended last May. Negotiations for a Japanese trade agreement will begin in Tokyo on 6th July. The Anglo-Belgian Economic Committee will meet in Brussels on 12th July.
30. The Russian Ambassador suggested that trade talks should be resumed in Moscow. We made a counter proposal that talks should commence in London, although it might be necessary to adjourn to Moscow at a later stage. Agreement to this proposal has now been received from the Russians.

31. Discussions have been in progress since the end of May with delegations from India and Pakistan on the sterling balances to be divided between the two Dominions. Agreement has been reached on the amounts to be deducted in respect of military stores and fixed assets taken over by the two Dominions and the capital sum payable to the United Kingdom for the purchase of an annuity out of which the sterling pensions are to be paid. Our proposals as to releases from the balances and the limitations to be accepted by both Dominions on their hard currency expenditure have been submitted to their Cabinets. We hope to reach agreement, at least with India, this week.

VII.—Balance of Payments

32. The net drain on reserves was £66 million in June—the largest figure for any month since last October. It included the abnormal tobacco payments and a heavy drain to India.

<table>
<thead>
<tr>
<th>Total net drain on reserves(*)</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947 First half</td>
<td>457</td>
</tr>
<tr>
<td>July</td>
<td>133</td>
</tr>
<tr>
<td>August</td>
<td>156</td>
</tr>
<tr>
<td>September</td>
<td>93</td>
</tr>
<tr>
<td>October</td>
<td>67</td>
</tr>
<tr>
<td>November</td>
<td>59</td>
</tr>
<tr>
<td>December</td>
<td>48</td>
</tr>
<tr>
<td>1948 January</td>
<td>57½</td>
</tr>
<tr>
<td>February</td>
<td>43</td>
</tr>
<tr>
<td>March</td>
<td>47</td>
</tr>
<tr>
<td>April</td>
<td>20</td>
</tr>
<tr>
<td>May</td>
<td>21</td>
</tr>
<tr>
<td>June</td>
<td>66</td>
</tr>
</tbody>
</table>

(*) Includes drawings of United States and Canadian credits and the International Monetary Fund.

33. The net drain for the second quarter of 1948 was therefore £107 million. No credit has however been taken in this total of £107 million or in the £66 million for the month of June for £22 million which arrived just before the end of June as partial E.R.P. reimbursement (as a grant, not loan) for second quarter operations. The total reimbursement expected for the second quarter should amount to £75 million of grant and a maximum of £25 million of loan; the remainder of this will arrive later, presumably in the third quarter.

34. During the second quarter there were drawings of £2 million on the Canadian credit and £4 million by India on the International Monetary Fund.

Net drain on Reserves, January—June 1948

<table>
<thead>
<tr>
<th>Forecast in Economic Survey 1948</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net drain excluding E.R.P. reimbursement already received</td>
<td>222</td>
</tr>
<tr>
<td>Net drain including E.R.P. reimbursement already received</td>
<td>254</td>
</tr>
</tbody>
</table>

VIII.—Retail Trade

35. There is little evidence so far of any general deflationary effect on retail trade nor was this to be expected in view of rise in employment and production in April and the low level of unemployment. The index number of the value of total retail sales declined slightly in April although there was a considerable fall in sales of apparel and a sharp rise in sales of household goods.

36. A study of shopping trends in the last two or three months made by the Consumer Needs Branch of the Board of Trade does, however, reveal that consumers are becoming more careful and selective in their buying, and that signs of price competition are creeping back. Goods reported by retailers to be in oversupply include radios (not radiograms); women’s dresses, coats and suits (not
cotton frocks or top grade utility); cheap rayon seamless stockings and imported silk stockings; imported gloves; sheets (especially linen but not flannelette); men’s heavy underwear (largely seasonal); men’s pyjamas (not poplin); dressing gowns and housecoats; cheap knitwear; footwear (inferior brands); corsets (inferior brands); wool piece-goods (partly seasonal, not worsteds); non-utility furnishing fabrics (expensive lines); certain electrical goods (especially fires and irons but not best makes); toys (inferior quality); inferior pottery teapots, jugs and large meat dishes; non-utility mattresses, and kitchen cabinets. Other reports suggest that the more expensive tinned goods and wines and spirits are not moving easily.

37. Many of the reported shop surpluses may be attributed to changes in fashion and the season, mistakes in production or coupon shortages (now in part relieved) rather than to any slackening in consumers’ demand. In so far as there is a slackening of demand, it is concentrated upon a limited range of high-priced luxuries or inferior goods, the demand for which was not already restricted by controls or shortages. In many cases, over-supply will quickly be corrected by adjustments of production or prices, such as have already apparently occurred to reduce excessive stocks of certain goods (e.g., occasional and tubular furniture, plastic goods, cosmetics, low-grade aluminium ware, and expensive millinery and handbags) which were reported even in 1947. It should also be remembered that there are still many shortages even of unrationed goods.

38. The most that can be said from the evidence so far available is that over a very small area of consumption the inflationary sellers’ market may now have been ended. This area may grow in the coming months, but the process will have to go a long way before there is any appreciable easing of the general pressure on labour and materials.

IX.—Prices

Import and Export Prices

39. There was a further slight worsening of the terms of trade in May. The index of import prices rose by 1 per cent. from 283 in April to 286 in May (1938 = 100). Export prices were unchanged over the month.

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938 Average</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1947 April</td>
<td>223</td>
<td>239</td>
</tr>
<tr>
<td>May</td>
<td>227</td>
<td>245</td>
</tr>
<tr>
<td>1948 January</td>
<td>244</td>
<td>269</td>
</tr>
<tr>
<td>February</td>
<td>247</td>
<td>275</td>
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<tr>
<td>March</td>
<td>248</td>
<td>277</td>
</tr>
<tr>
<td>April</td>
<td>251</td>
<td>283</td>
</tr>
<tr>
<td>May</td>
<td>251</td>
<td>286</td>
</tr>
</tbody>
</table>

Retail Prices

40. There was no change in retail prices as measured by the Ministry of Labour index during May.

Prices in the United States

41. After the sharp setback in February commodity prices in the United States have been rising slowly although they have not regained the high level they reached at the beginning of the year. Moody’s index of staple commodity prices (31st December, 1931 = 100) rose from 414 on 3rd May to 426 on 2nd June and 435 on 2nd July.
Interim Index of Industrial Production

Average 1946=100

Table 1

<table>
<thead>
<tr>
<th>All industries</th>
<th>Mining and quarrying</th>
<th>Manufacturing industries</th>
<th>Building and contracting</th>
<th>Gas, electricity and water</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>Chemicals and allied trades</td>
<td>Metals, engineering and vehicles</td>
</tr>
<tr>
<td>1947 (monthly average)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January ...</td>
<td>106</td>
<td>102</td>
<td>105</td>
<td>105</td>
</tr>
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<td>February ...</td>
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<td>June ...</td>
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<td>July ...</td>
<td>108</td>
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<td>August ...</td>
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<td>September ...</td>
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<td>November ...</td>
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<td>January ...</td>
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<td>February ...</td>
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<td>123</td>
</tr>
<tr>
<td>March ...</td>
<td>119</td>
<td>105</td>
<td>121</td>
<td>116</td>
</tr>
<tr>
<td>April ... (provisional)</td>
<td>124</td>
<td>114</td>
<td>125</td>
<td></td>
</tr>
</tbody>
</table>

(*) Total industrial production including supplies and equipment for the Armed Forces.

(1) Adjusted for variations in the number of days (excluding Sundays) in each month. No adjustments have been made for public and other holidays or for seasonal factors.

(2) Open-cast coal production is included in building and contracting.

(*) Provisional figures for this group may be revised as more data become available. The figures for individual months of 1946 are less reliable than those for subsequent months since the data available for 1946 were less complete.

Table 2

<table>
<thead>
<tr>
<th>Production</th>
<th>Overseas shipments and bunkers</th>
<th>Stocks</th>
<th>Wage earners on colliery books</th>
<th>Output per minishift overall</th>
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<tbody>
<tr>
<td>Deep-mined</td>
<td>Open-cast</td>
<td></td>
<td>Total</td>
<td>At electricity undertakings</td>
</tr>
<tr>
<td></td>
<td>Thousand tons</td>
<td></td>
<td>Thousand tons</td>
<td></td>
</tr>
<tr>
<td>1938 ...</td>
<td>4,353</td>
<td></td>
<td>890</td>
<td>...</td>
</tr>
<tr>
<td>1937 ...</td>
<td>3,587</td>
<td>127</td>
<td>129</td>
<td>6,700</td>
</tr>
<tr>
<td></td>
<td>3,930</td>
<td>146</td>
<td>121</td>
<td>6,519</td>
</tr>
<tr>
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<td>3,717*</td>
<td>135*</td>
<td>80</td>
<td>5,847</td>
</tr>
<tr>
<td>April ...</td>
<td>3,494</td>
<td>183</td>
<td>91</td>
<td>6,053</td>
</tr>
<tr>
<td>May ...</td>
<td>3,847*</td>
<td>213*</td>
<td>192</td>
<td>8,007</td>
</tr>
<tr>
<td>June ...</td>
<td>3,828*</td>
<td>227*</td>
<td>98</td>
<td>10,938</td>
</tr>
<tr>
<td>July ...</td>
<td>3,828*</td>
<td>227*</td>
<td>98</td>
<td>10,938</td>
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<td>291</td>
<td>94</td>
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<td>3,533*</td>
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<td>116</td>
<td>14,905</td>
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<td>247</td>
<td>97</td>
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<td>98</td>
<td>16,991</td>
</tr>
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<td>3,609*</td>
<td>194*</td>
<td>123</td>
<td>16,149</td>
</tr>
<tr>
<td>1946 January ...</td>
<td>3,563</td>
<td>148</td>
<td>156</td>
<td>15,179</td>
</tr>
<tr>
<td>February ...</td>
<td>3,915</td>
<td>188</td>
<td>175</td>
<td>14,083</td>
</tr>
<tr>
<td>March ...</td>
<td>3,562*</td>
<td>246*</td>
<td>192</td>
<td>13,059</td>
</tr>
<tr>
<td>April ...</td>
<td>3,816</td>
<td>231</td>
<td>284</td>
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<td>3,668</td>
<td>289</td>
<td>324</td>
<td>13,277</td>
</tr>
<tr>
<td>Week ended—</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>June 5</td>
<td>4,012</td>
<td>236</td>
<td>338</td>
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<tr>
<td>12</td>
<td>3,966</td>
<td>240</td>
<td>355</td>
<td>13,766</td>
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<td>19</td>
<td>3,915</td>
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<td>26</td>
<td>3,917</td>
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<td></td>
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</tbody>
</table>

(f) Computed from figures for calendar months.

* Average of five weeks.
### Table 3

<table>
<thead>
<tr>
<th>Steel ingots and castings</th>
<th>Steel sheets</th>
<th>Pig iron</th>
<th>Hard coke</th>
<th>Despatches to blast furnaces</th>
<th>Stocks</th>
</tr>
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<tr>
<td></td>
<td></td>
<td></td>
<td>End of period</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Weekly averages</td>
<td>Thousand tons</td>
<td></td>
<td>Thousand tons</td>
<td></td>
</tr>
<tr>
<td>1947 January ...</td>
<td>240*</td>
<td>26-3*</td>
<td>150*</td>
<td>158*</td>
<td>544</td>
</tr>
<tr>
<td>February ...</td>
<td>206</td>
<td>21-4</td>
<td>128</td>
<td>150</td>
<td>614</td>
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<tr>
<td>March ...</td>
<td>186</td>
<td>22-7</td>
<td>128</td>
<td>149</td>
<td>765</td>
</tr>
<tr>
<td>April ...</td>
<td>220*</td>
<td>20-3*</td>
<td>120*</td>
<td>157*</td>
<td>697</td>
</tr>
<tr>
<td>May ...</td>
<td>244</td>
<td>25-9</td>
<td>142</td>
<td>156</td>
<td>658</td>
</tr>
<tr>
<td>June ...</td>
<td>253</td>
<td>27-3</td>
<td>144</td>
<td>161</td>
<td>594</td>
</tr>
<tr>
<td>July ...</td>
<td>215*</td>
<td>23-2*</td>
<td>143*</td>
<td>134*</td>
<td>604</td>
</tr>
<tr>
<td>August ...</td>
<td>234</td>
<td>19-9</td>
<td>147</td>
<td>163</td>
<td>579</td>
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<td>September ...</td>
<td>228</td>
<td>24-6</td>
<td>150</td>
<td>185</td>
<td>542</td>
</tr>
<tr>
<td>October ...</td>
<td>273*</td>
<td>26-0*</td>
<td>161*</td>
<td>179*</td>
<td>474</td>
</tr>
<tr>
<td>November ...</td>
<td>277</td>
<td>27-6</td>
<td>168</td>
<td>189</td>
<td>451</td>
</tr>
<tr>
<td>December ...</td>
<td>245*</td>
<td>25-5*</td>
<td>165*</td>
<td>187*</td>
<td>452</td>
</tr>
<tr>
<td>1948 January ...</td>
<td>281</td>
<td>27-7</td>
<td>168</td>
<td>196</td>
<td>416</td>
</tr>
<tr>
<td>February ...</td>
<td>289</td>
<td>27-7</td>
<td>176</td>
<td>197</td>
<td>399</td>
</tr>
<tr>
<td>March ...</td>
<td>291*</td>
<td>25-1*</td>
<td>179*</td>
<td>192*</td>
<td>370</td>
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<td>April ...</td>
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<td>28-7</td>
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<td>197</td>
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<td>184</td>
<td>200</td>
<td>379</td>
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<tr>
<td>Week ended—</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 5</td>
<td>301</td>
<td></td>
<td>177</td>
<td>200</td>
<td>378</td>
</tr>
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<td>12</td>
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<tr>
<td>19</td>
<td>303</td>
<td></td>
<td>182</td>
<td>203</td>
<td>376</td>
</tr>
</tbody>
</table>

* Average of five weeks.

### Steel

### Textile production

<table>
<thead>
<tr>
<th>Cotton yarn (including cotton waste yarn)</th>
<th>Rayon yarn and staple fibre</th>
<th>Woven cotton and rayon fabrics</th>
<th>Worsted yarn</th>
<th>Woven wool fabrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mn. Rs. (¹)</td>
<td>Mn. lbs. (²)</td>
<td>Mn. linear yards (³)</td>
<td>Mn. lbs. (⁴)</td>
<td>Mn. linear yards (⁴)</td>
</tr>
<tr>
<td>1937</td>
<td>26-1</td>
<td>12-4</td>
<td>79-3</td>
<td>18-7</td>
</tr>
<tr>
<td>1936</td>
<td>14-25</td>
<td>14-9</td>
<td>38-0</td>
<td>12-1</td>
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<td>1937</td>
<td>14-24</td>
<td>16-9</td>
<td>38-2</td>
<td>12-0</td>
</tr>
<tr>
<td>1947 January</td>
<td>14-28*</td>
<td>17-6</td>
<td>36-4*</td>
<td>18-0</td>
</tr>
<tr>
<td>February</td>
<td>14-26*</td>
<td>17-6</td>
<td>36-4*</td>
<td>18-0</td>
</tr>
<tr>
<td>March</td>
<td>14-32</td>
<td>16-9</td>
<td>35-3</td>
<td>16-6</td>
</tr>
<tr>
<td>April</td>
<td>14-45*</td>
<td>15-2</td>
<td>37-6*</td>
<td>16-2</td>
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<td>41-4</td>
<td>13-0</td>
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<td>16-9</td>
<td>42-7</td>
<td>13-5</td>
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<tr>
<td>July</td>
<td>14-47*</td>
<td>18-2</td>
<td>34-4*</td>
<td>15-5</td>
</tr>
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<td>August</td>
<td>14-13</td>
<td>12-9</td>
<td>41-1</td>
<td>11-4</td>
</tr>
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<td>September</td>
<td>14-34</td>
<td>18-8</td>
<td>39-2</td>
<td>14-3</td>
</tr>
<tr>
<td>October</td>
<td>16-12*</td>
<td>19-1</td>
<td>40-7*</td>
<td>15-0</td>
</tr>
<tr>
<td>November</td>
<td>15-06</td>
<td>18-3</td>
<td>47-2</td>
<td>14-2</td>
</tr>
<tr>
<td>December</td>
<td>15-06</td>
<td>19-2</td>
<td>41-7</td>
<td>14-0</td>
</tr>
<tr>
<td>1948 January</td>
<td>16-34*</td>
<td>19-6</td>
<td>43-0*</td>
<td>15-6</td>
</tr>
<tr>
<td>February</td>
<td>17-35</td>
<td>18-8</td>
<td>46-8</td>
<td>14-2</td>
</tr>
<tr>
<td>March</td>
<td>16-39</td>
<td>18-7</td>
<td>46-3</td>
<td>15-0</td>
</tr>
<tr>
<td>April</td>
<td>17-25*</td>
<td>19-6</td>
<td>45-9*</td>
<td>16-4</td>
</tr>
<tr>
<td>May</td>
<td>16-39</td>
<td>18-3</td>
<td>45-9</td>
<td>13-8</td>
</tr>
<tr>
<td>Week ended—</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 5</td>
<td>18-14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>18-44</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Average of five weeks.

¹ Weekly average.

² Monthly average or calendar month.
### Building—all permanent houses in Great Britain

<table>
<thead>
<tr>
<th>New contracts</th>
<th>On contract but construction not begun</th>
<th>Construction begun</th>
<th>Under construction</th>
<th>Houses completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945 and 1946</td>
<td>283,329</td>
<td>115,108</td>
<td>261,081</td>
<td>203,705</td>
</tr>
<tr>
<td>July to September</td>
<td>93,169</td>
<td>59,078</td>
<td>54,401</td>
<td>250,045</td>
</tr>
<tr>
<td>October</td>
<td>8,889</td>
<td>79,633</td>
<td>14,043</td>
<td>261,161</td>
</tr>
<tr>
<td>November</td>
<td>8,511</td>
<td>69,460</td>
<td>10,703</td>
<td>259,988</td>
</tr>
<tr>
<td>December</td>
<td>7,106</td>
<td>67,289</td>
<td>8,925</td>
<td>246,875</td>
</tr>
<tr>
<td>January to June</td>
<td>91,102</td>
<td>64,057</td>
<td>9,966</td>
<td>240,146</td>
</tr>
<tr>
<td>July to September</td>
<td>8,489</td>
<td>58,741</td>
<td>11,449</td>
<td>231,386</td>
</tr>
<tr>
<td>April</td>
<td>10,668</td>
<td>54,596</td>
<td>12,444</td>
<td>225,408</td>
</tr>
<tr>
<td>May</td>
<td>9,106</td>
<td>51,626</td>
<td>11,840</td>
<td>218,944</td>
</tr>
<tr>
<td>Total to end of May</td>
<td>556,066(1)</td>
<td>51,828</td>
<td>504,440</td>
<td>218,044</td>
</tr>
</tbody>
</table>

(1) New and war-destroyed houses built by local authorities, by private builders, by housing associations, and by Government departments. Aluminium houses are excluded.

(2) Allowance has been made for tenders notified as withdrawn and for licences issued to private builders notified as having lapsed.

### Petroleum Products

<table>
<thead>
<tr>
<th>Total petroleum products</th>
<th>Motor spirit</th>
<th>Gas, diesel and fuel oil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrivals</td>
<td>Indigenous production</td>
<td>Deliveries into consumption in U.K.</td>
</tr>
<tr>
<td>Weekly averages</td>
<td>Weekly averages</td>
<td>Weekly averages</td>
</tr>
<tr>
<td>-----------------</td>
<td>-----------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>1946 March</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>April</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>May</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>June</td>
<td>237</td>
<td>8.9</td>
</tr>
<tr>
<td>July</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>August</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>September</td>
<td>308</td>
<td>7.5</td>
</tr>
<tr>
<td>October</td>
<td>282</td>
<td>7.8</td>
</tr>
<tr>
<td>November</td>
<td>282</td>
<td>7.8</td>
</tr>
<tr>
<td>December</td>
<td>278</td>
<td>9.9</td>
</tr>
<tr>
<td>1947 January</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>February</td>
<td>237</td>
<td>8.9</td>
</tr>
<tr>
<td>March</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>April</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>May</td>
<td>237</td>
<td>8.9</td>
</tr>
<tr>
<td>June</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>July</td>
<td>237</td>
<td>8.9</td>
</tr>
<tr>
<td>August</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>September</td>
<td>308</td>
<td>7.5</td>
</tr>
<tr>
<td>October</td>
<td>282</td>
<td>7.8</td>
</tr>
<tr>
<td>November</td>
<td>282</td>
<td>7.8</td>
</tr>
<tr>
<td>December</td>
<td>278</td>
<td>9.9</td>
</tr>
<tr>
<td>1948 January</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>February</td>
<td>237</td>
<td>8.9</td>
</tr>
<tr>
<td>March</td>
<td>217</td>
<td>9.9</td>
</tr>
<tr>
<td>April</td>
<td>253</td>
<td>9.3</td>
</tr>
<tr>
<td>May</td>
<td>237</td>
<td>8.9</td>
</tr>
</tbody>
</table>

(1) Excluding quantities held by garages, industrial and commercial consumers and by the Services at advance depots.

(2) Average of five weeks.
### Table 7: Exports and imports of the United Kingdom

<table>
<thead>
<tr>
<th></th>
<th>Exports of United Kingdom produce</th>
<th>Imports (c.i.f.)</th>
<th>Volume index(1) 1938—100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total exports</td>
<td>Metal goods</td>
<td>Textiles</td>
</tr>
<tr>
<td><strong>1947</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>91.2</td>
<td>42.1</td>
<td>19.2</td>
</tr>
<tr>
<td>February</td>
<td>76.0</td>
<td>35.7</td>
<td>16.1</td>
</tr>
<tr>
<td>March</td>
<td>82.6</td>
<td>37.2</td>
<td>17.4</td>
</tr>
<tr>
<td>April</td>
<td>82.4</td>
<td>40.0</td>
<td>15.5</td>
</tr>
<tr>
<td>May</td>
<td>89.7</td>
<td>42.6</td>
<td>18.9</td>
</tr>
<tr>
<td>June</td>
<td>90.1</td>
<td>44.8</td>
<td>18.3</td>
</tr>
<tr>
<td>July</td>
<td>110.3</td>
<td>54.5</td>
<td>19.2</td>
</tr>
<tr>
<td>August</td>
<td>103.0</td>
<td>45.4</td>
<td>18.4</td>
</tr>
<tr>
<td>September</td>
<td>90.0</td>
<td>49.9</td>
<td>19.8</td>
</tr>
<tr>
<td>October</td>
<td>139.2</td>
<td>55.5</td>
<td>20.7</td>
</tr>
<tr>
<td>November</td>
<td>102.3</td>
<td>50.0</td>
<td>20.2</td>
</tr>
<tr>
<td>December</td>
<td>110.2</td>
<td>53.7</td>
<td>21.4</td>
</tr>
<tr>
<td><strong>1948</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>119.5</td>
<td>58.1</td>
<td>23.4</td>
</tr>
<tr>
<td>February</td>
<td>112.9</td>
<td>55.1</td>
<td>23.0</td>
</tr>
<tr>
<td>March</td>
<td>121.0</td>
<td>60.2</td>
<td>22.3</td>
</tr>
<tr>
<td>April</td>
<td>126.4</td>
<td>61.5</td>
<td>24.9</td>
</tr>
<tr>
<td>May</td>
<td>129.9</td>
<td>61.5</td>
<td>20.9</td>
</tr>
</tbody>
</table>

(1) Quantities revalued at 1938 prices and expressed as a percentage of the monthly average in 1938.

(2) Of United Kingdom produce.

### Table 8: Reserves and liabilities

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total gold and dollar reserves</td>
</tr>
<tr>
<td><strong>1946</strong></td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>1,742.6</td>
</tr>
<tr>
<td>December</td>
<td>1,621.8</td>
</tr>
<tr>
<td><strong>1947</strong></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>1,394.6</td>
</tr>
<tr>
<td>June</td>
<td>1,153.0</td>
</tr>
<tr>
<td>September</td>
<td>788.8</td>
</tr>
<tr>
<td>December</td>
<td>657.2</td>
</tr>
<tr>
<td><strong>1948</strong></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>699.9</td>
</tr>
<tr>
<td>February</td>
<td>637.1</td>
</tr>
<tr>
<td>March</td>
<td>611.7</td>
</tr>
<tr>
<td>April</td>
<td>591.7</td>
</tr>
<tr>
<td>May</td>
<td>572.7</td>
</tr>
<tr>
<td>June</td>
<td>531.0</td>
</tr>
</tbody>
</table>

(1) Excluding loans to and by His Majesty's Government and holdings of the International Bank and Monetary Fund.

(2) Western Hemisphere, Sweden, Switzerland, Belgium and Portugal.

(3) Including Egypt and Palestine.
### Prices

**Table 9**

<table>
<thead>
<tr>
<th>Index of export prices</th>
<th>Index of import prices</th>
<th>Index of wholesale prices</th>
<th>Index of retail prices</th>
<th>United States prices</th>
<th>Index of wholesale prices of farm products</th>
<th>Total deposits of the London clearing banks</th>
<th>Currency circulation</th>
<th>Yield on 2½% Consols</th>
<th>Small savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td><strong>1938—100</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1936/38</strong></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>June 17, 1947—100</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

- Exports of United Kingdom produce.
- Average estimated circulation with the public.
- Average of five weeks.

**Index of weekly wage rates**

**June 1947 = 100**

<table>
<thead>
<tr>
<th>All industries</th>
<th>Agriculture</th>
<th>Mining and quarrying</th>
<th>Chemical, brick, pottery &amp;c.</th>
<th>Engineering, shipbuilding and other metal industries</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Other manufacturing industries</th>
<th>Building, civil engineering, and electrical installation</th>
<th>Transport</th>
<th>Public utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1939 September</strong></td>
<td>60</td>
<td>43</td>
<td>39</td>
<td>58</td>
<td>59</td>
<td>64</td>
<td>63</td>
<td>62</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td><strong>1940 March</strong></td>
<td>68</td>
<td>87</td>
<td>100</td>
<td>100</td>
<td>96</td>
<td>94</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td><strong>June</strong></td>
<td>97</td>
<td>97</td>
<td>100</td>
<td>100</td>
<td>96</td>
<td>96</td>
<td>98</td>
<td>96</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td><strong>September</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<td>100</td>
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<tr>
<td><strong>1941 March</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<td>100</td>
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<tr>
<td><strong>June</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
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<td>100</td>
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<td>100</td>
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<td>100</td>
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<tr>
<td><strong>July</strong></td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>August</strong></td>
<td>101</td>
<td>111</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td><strong>September</strong></td>
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<tr>
<td><strong>October</strong></td>
<td>102</td>
<td>113</td>
<td>100</td>
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<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>November</strong></td>
<td>103</td>
<td>113</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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</tr>
<tr>
<td><strong>December</strong></td>
<td>103</td>
<td>113</td>
<td>100</td>
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<td>100</td>
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<td><strong>January</strong></td>
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<td><strong>February</strong></td>
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<td>100</td>
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<td><strong>March</strong></td>
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<td>100</td>
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<td><strong>April</strong></td>
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</tr>
<tr>
<td><strong>May</strong></td>
<td>105</td>
<td>113</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

- Based on rates at the end of the month.
CABINET

CRIMINAL JUSTICE BILL: CAPITAL PUNISHMENT

Memorandum by the Home Secretary

The attached draft of a clause to be inserted in the Criminal Justice Bill on the subject of the death penalty has been discussed with members of the Labour Party who represent both sides of the controversy. It appeared from the discussion that the clause as now drafted would be likely to meet with general acceptance and would be regarded as giving effect in a satisfactory manner to the compromise to which agreement was given at the Party meeting.

2. The clause provides that the death penalty shall continue to apply to murders committed with "express malice" if such murders fall into any of the following categories:

(a) murders committed in connection with certain specified crimes (i.e. robbery with violence, burglary and house-breaking, violent affrays by gangs, unlawful use of explosives, rape, sodomy, and indecent assaults);

(b) murders of constables acting in the execution of their duty and of persons assisting them;

(c) murders committed by the systematic administration of poison (the word "systematic" has been inserted for the purpose of excluding "mercy" murders);

(d) murders of prison officers acting in the execution of their duty and of persons assisting them;

(e) murders committed by persons who have on a previous occasion committed murder.

3. The effect of the words in the first sentence of the clause "committed with express malice" and of the definition of "express malice" in sub-clause (3) is to exclude from the death penalty "constructive" murders where malice is implied from the fact that the killing occurred in the course of a felonious enterprise, including, for example, such a case as that of a burglar giving the night watchman a mere push with the result that he falls and breaks his skull.
If, however, a murder which falls within one of the specified categories is committed with "express malice", then all accomplices who are parties to that murder (including, for example, the accomplice who keeps watch outside the house) will be subjected to the death penalty by the words in sub-clause (3) "a murder shall be deemed in relation to every person guilty thereof to be committed with express malice etc."

4. The provision relating to a murderer who has committed murder on a previous occasion is open to the objection that if a person who has been convicted of murder is very shortly afterwards put on trial for another murder, the jury who will have read newspaper reports of his previous conviction may be prejudiced. There is, however, no way of avoiding this difficulty. If the provision were confined to cases where the second murder occurs after a conviction for murder, it would be of little value, and would exclude from the death penalty such murderers as Heath or Gordon Cummings, who in 1942 murdered four women within a week and attempted to murder two others.

5. The draft clause has been carefully considered by the four Law Officers for England and Wales and Scotland, and it has been agreed by them.

J.C.E.

Home Office, S.W.1.

2nd July, 1943.
1.-1) During the continuance in force of this section, no person shall be sentenced by a court to death for murder unless it is charged in the indictment or inquisition and found by the jury that the murder was committed with express malice as defined by this section, and either—

(a) that the murder was committed in the course of, or immediately before or after and in connection with, the commission of an offence described in the Schedule to this Act (Offences involving death penalty for murder), or an attempt to commit such an offence; or

(b) that the murder was committed in the course of or for the purpose of resisting or avoiding or preventing an arrest in course of law or of escaping or assisting an escape from legal custody or for the purpose of obstructing a constable acting in the execution of his duty or any person assisting him; or

(c) that the murder was committed by means of, and in the course of the systematic administration of, poison or any other similar destructive or noxious substance; or

(d) that the murder was committed by a person detained in a prison or other institution to which the Prison Acts, 1865 to 1898 apply, and the person murdered was an officer of any such institution acting in the execution of his duty; or a person assisting him; or

(e) that the accused has been convicted of murder committed on a previous occasion;
and where, by virtue of this subsection, a court is
precluded from passing sentence of death for murder, the
court shall sentence the offender to imprisonment for life.

(2) If in any indictment or inquisition for murder it
is charged that the accused has been convicted of murder,
committed on a previous occasion, the accused shall in the
first instance be arraigned on so much only of the
indictment or inquisition as charges the murder for which
he is to be tried; and if on arraignment he pleads guilty
or is found guilty by the jury, the jury shall, unless he
pleads guilty to having been previously convicted as aforesaid,
be charged to inquire whether he has been so convicted; and in
that case it shall not be necessary to swear the jury again.

(3) For the purposes of this section, a murder shall
be deemed, in relation to every person guilty thereof, to be
committed with express malice if the act causing the death
is done with intent to kill or with intent to maim and in
the latter case is an act which might reasonably be expected
to endanger life.

(4) For the avoidance of doubt it is hereby declared
that where a person is charged with murder on an indictment
or inquisition charging any of the matters specified in
subsection (1) of this section, and the jury are of opinion
that those matters are not established by the evidence but
that the accused is shown by the evidence to be guilty of
murder or any other offence of which a person charged with
murder may lawfully be convicted the jury may return a verdict
of guilty of murder or of any such other offence as aforesaid.

(5) Nothing in this section shall affect the provisions
of section fifty-three of the Children and Young Persons
Act, 1955 (which prohibits the passing of sentence of death
against a person under the age of eighteen years, and requires
the court, in lieu thereof, to sentence him to be detained
during His Majesty's Pleasure).
(6) This section shall continue in force for a period of five years beginning with the passing of this Act, and shall then expire, but without prejudice to the validity of anything previously done thereunder:

Provided that if at any time before the expiration of the period aforesaid an Address is presented to His Majesty by each House of Parliament praying that this section be continued in force without limitation of time or for any extended period specified in the Address, His Majesty may by Order in Council make provision for that purpose; and where any such Order in Council continues this section for any such extended period, the provisions of this subsection (including this proviso) shall have effect as if that extended period was substituted for the period of five years aforesaid.

(7) This section shall apply to Scotland, subject to the following modifications—

(a) for the reference in paragraph (a) of subsection (1) to Part I of the Schedule to this Act (offences involving death penalty for murder) there shall be substituted a reference to Part II of the said Schedule;

(b) for any reference to the Prison Acts, 1865 to 1898, there shall be substituted a reference to the Prison (Scotland) Acts, 1860 to 1904, and for any reference to section fifty-three of the Children and Young Persons Act, 1933, there shall be substituted a reference to section fifty-seven of the Children and Young Persons (Scotland) Act, 1937;

(c) any reference to imprisonment for life shall be construed as a reference to penal servitude for life.
(d) for the purpose of establishing that a person charged with murder has been convicted of murder committed on a previous occasion section sixty-six of the Criminal Procedure (Scotland) Act, 1887 shall apply and such conviction shall be deemed to have been found by the jury if it is admitted by the accused or is held to apply to him in pursuance of that section or is proved in accordance with the provisions thereof;

(e) subsections (2) and (4) shall be omitted and the following subsection shall be inserted after subsection (1) —

"(2) During the continuance in force of this section, sections two and three of the Criminal Law (Scotland) Act, 1829 (which make punishable by death certain crimes of violence against His Majesty's subjects) shall be construed as requiring the court to sentence any person convicted of any of the crimes therein set forth to penal servitude for life."
S C H E D U L E

Offences involving death penalty for murder

Part I

Offences under law of England

1. An offence under section twenty-three of the Larceny Act, 1916 (which relates to robbery).

2. An offence under section twenty-five, twenty-six or twenty-seven of the Larceny Act, 1916 (which relates to burglary and housebreaking).

3. An offence under section twenty of the Offences against the Person Act, 1861 (which relates to wounding or inflicting grievous bodily harm) committed by three or more persons acting in concert.

4. An offence under section twenty-eight, twenty-nine or thirty of the Offences against the Person Act, 1861, or section two of the Explosive Substances Act, 1883 (which relate to crimes committed by means of explosives and other destructive substances).

5. An offence under section forty-eight or fifty-two of the Offences against the Person Act, 1861 (which relate to rape and indecent assaults on females).

6. An offence under section sixty-one or sixty-two of the Offences against the Person Act, 1861 (which relate to sodomy and indecent assaults on males).

Part II

Offences under law of Scotland

1. Robbery.

2. Theft by housebreaking or housebreaking with intent to steal, or theft by opening lock-fast places or opening lock-fast places with intent to steal.
3. An assault with intent to do grievous bodily harm by three or more persons acting together, or an assault involving the throwing at or applying to another of a corrosive acid or other dangerous substance calculated to burn or injure him.

4. An offence under section two of the Explosive Substances Act, 1883 (which relates to crimes committed by means of explosives).

5. Rape, sodomy or indecent assault.
CABINET

EAST AFRICAN GROUNDNUTS SCHEME

MEMORANDUM BY THE MINISTER OF FOOD

I think my colleagues may like to have an account of the present position of the East African Groundnuts Scheme as I found it during my recent visit to the three scenes of operation in Tanganyika.

2. I left London on 22nd May, arriving at Nairobi on 23rd May. On 24th May I and Mr. Plummer, the Chairman of the Overseas Food Corporation, had consultations with Sir Philip Mitchell, Governor-General of Kenya, and officials of his Government. On 25th May I went to Dar-es-Salaam and met Sir William Battershill, Governor of Tanganyika, and officials of his Government. I inspected the port at Dar-es-Salaam and was informed of the transportation problems facing the port and central railway. These problems arise as a result of the general and rapid development of Tanganyika, of which the groundnuts scheme is only one part. But unless resolutely dealt with they may prove a limiting factor on both the scheme and on other valuable dollar earning and dollar saving developments on the territory. (See paragraph 13 below.) On 26th May I went to Kongwa, the first area on which clearance work was begun. After four days in this area I went to Urambo where clearance work has now just begun, and on 1st June I flew to the Southern Province where, according to present plans, nearly two-thirds of the groundnut area will eventually be situated. In this, the largest, most important and most promising area, clearance has not yet begun. It will be begun this year on the basis of improvised communications, but satisfactory development in this area cannot take place until a railway from a temporary port near Lindi, has been completed. This should be early next year. Full development in the Southern Province cannot take place until the permanent port at Mikindani, which I visited on 1st June, has been built. The port will not, I estimate, be completed until two years from now. On 4th June I returned to Kongwa where I spent three more days, and then proceeded to Dar-es-Salaam on 8th June, and had an important further conference with Sir William Battershill and his officials. I then returned via Nairobi, where I addressed the Rotary Club on the groundnuts scheme, and came home via Entebbe, the capital of Uganda, where I had the pleasure of meeting Sir John Hathorn Hall and his officials. I was accompanied throughout by Mr. L. A. Plummer, the Chairman of the Overseas Food Corporation, and Major-General Harrison, the resident member of the Board in Tanganyika.

Transfer of Responsibilities

3. It will be recalled that the scheme could only be started last year by means of employing an existing organisation, the United Africa Company, as managing agents while the necessary legislation setting up the Overseas Food Corporation was being passed through Parliament. The United Africa Company acted as managing agents from the arrival of the advance party in Africa in February, 1947, until 31st March, 1948. On 1st April, 1948, the newly-formed Overseas Food Corporation took over operational responsibility for the scheme. They had, therefore, been in charge of the scheme for only six weeks when I visited Kongwa.
Record of Managing Agency

4. I came to the conclusion that the United Africa Company had performed its functions as managing agency to the best of its ability. There is no doubt that the directors and officers of the United Africa Company threw themselves into the scheme with great enthusiasm. No-one who has seen what they did in their fourteen months of responsibility can fail to be struck with the amount which they accomplished in the face of very great difficulties. If, therefore, I point out the serious mistakes which they made it must be borne in mind that no-one undertaking a scheme of this nature and magnitude could possibly have avoided making some mistakes in the initial period. Nevertheless it is important that we should recognise two serious errors which the managing agency committed in their conduct of the scheme. Otherwise its present position and future prospects cannot be fully understood.

Maintenance of the Heavy Tractor Force

5. The first error committed by the managing agency was, in my view, a failure to appreciate correctly the magnitude of the maintenance problem which would inevitably be presented to them by the operation of several hundred heavy tractors in the African bush. This problem was greatly intensified by the fact that the available tractors had to be purchased (at, of course, a greatly reduced price) from war surplus stores, and by the fact that their condition turned out to be such that they almost all needed overhauling before they could be operated. This situation presented a problem of maintenance such as only the Army or the R.A.F. has ever tackled. No commercial organisation, except, perhaps, the London Passenger Transport Board, has faced anything of the kind. I found that even after the experience of last year, when maintenance had broken down badly, the officers of the United Africa Company were still reluctant to face the necessity of putting in heavy tractor repair shops on an adequate scale and staffing them with a sufficient number of fitters, or of imposing adequate maintenance schedules on the contractors engaged in clearing the bush.

6. This major error is the largest single factor in the delayed timetable of the scheme, by which 1947 perforce became a year of preparation and experimental clearing, and 1948 must be regarded as the first operational year. My own view is that the maintenance shops and establishment have only now reached the point which they ought to have reached almost a year ago. The Overseas Food Corporation is well aware of this situation, and Major-General Harrison, the resident member in charge of the scheme in Africa (who was Lord Mountbatten’s chief engineering officer during the Burma Campaign), is fully seized of the nature and magnitude of the maintenance problem. The highest priority is now being given to the establishment of really adequate maintenance facilities; but it will, in my opinion, take a full twelve months before this initial error has been fully overcome. This does not mean that the rate of repair and the standard of maintenance will not begin to rise at once. Indeed it is now rising.

Storekeeping and Accounts

7. The second mistake committed by the managing agency was a failure to envisage the magnitude of the storekeeping and accounting problem. There is no doubt that the managing agency, in its laudable enthusiasm to launch the scheme at the earliest possible date, did not fully face up to its responsibilities in providing adequate storekeeping and accounting personnel in Africa. The problem was undoubtedly a most difficult one. It must be remembered that not only in the case of the heavy tractors themselves, but to a considerable extent in the case of all other equipment, the scheme is being run on the basis of the use of war surplus stores and equipment. This, of course, is highly advantageous in that a part of the initial expenditure thus flows back into the hands of the British Treasury. But no-one has not witnessed it can fully imagine the chaotic state in which many of the cargoes of war surplus stores arrive at Dar-es-Salaam. I inspected the sorting of tons of war surplus equipment newly arrived from the Middle East, consisting of thousands of hammers, wrenches, spanners, files and other hand tools, inextricably mixed with motor tyres, benches, household goods and equipment of every kind. The greater part of these stores are in potentially good condition, but they arrive in the greatest confusion and it is a task of the utmost difficulty to trace them satisfactorily by means of invoices and other proper accounting procedure. On the other hand, if these goods had not been bought by the managing agency, literally by the ton, as they
were being disposed of in the Middle East, Egypt and elsewhere, the effective start of the scheme might have been delayed by many months and the opportunity for cheap purchases lost.

8. Nevertheless, the result has been that inadequate records of a great deal of this equipment in the early months of the scheme were kept by the managing agency. In this case also the Overseas Food Corporation is fully alive to the necessity of establishing accurate accounting methods at the earliest possible date. I have appointed Messrs. Cooper Bros., the well-known accountants, as the Overseas Food Corporation’s auditors and one of the partners of this firm, Mr. Perfect, is spending several months in East Africa engaged in instituting a really satisfactory system of accounting. I had long conversations with Mr. Perfect and I am satisfied that he is receiving the utmost co-operation from the officers of the Overseas Food Corporation. It should be possible to bring the accountability position under control within, say six months from now.

Necessity for the Transfer of Responsibility from the Managing Agency to the Overseas Food Corporation

9. It had become apparent early this year that the managing agency had made these two grave mistakes, and I took the view that there was little chance of them being able to remedy them in the few months which in any case remained to them of responsibility. In order that really energetic steps should be taken to put the position right at the earliest possible date, it seemed to me imperative that the Overseas Food Corporation should take control. I therefore agreed to the transfer of responsibility at the earliest possible date, that is, 31st March, 1948. This early transfer of responsibility made it impossible for the Overseas Food Corporation to receive from the managing agency a really satisfactory inventory, &c, but for the reasons given in paragraph 7 above, a delay even of several months, would not, in my opinion, ever have produced a satisfactory inventory and accounts. I feel convinced that the early transfer of responsibility provided by far the best method of correcting the position both in regard to tractor maintenance and accounts, and in the general conduct of the scheme. The real truth seems to be that the scheme has proved too large an undertaking for any private firm, even in the case of so considerable an organisation as the United Africa Company. It is probable that only a public corporation, backed by the resources of Government, can adequately undertake a task of this magnitude.

Prospects of the Scheme

10. My colleagues may have noted that both in my speech at Nairobi and on several occasions since my return, I have been at pains to warn the public that the scheme will certainly both take longer and cost more than was foreseen in the original White Paper (Cmd. 7030). This is not only because of the above-mentioned mistakes on the part of the managing agency. The technique of clearing the bush and of subsequent agricultural operations undertaken on this great scale can only be learnt by experience. Even taking 1948 instead of 1947 as the first year in which clearing really began, it may be asked whether the full development of the scheme will be realised in the 5-year period envisaged in the Wakefield—Martin—Rosa Report and the White Paper. It is quite possible that the period of development will last over 6 or even 8 years instead of the original estimate of 5 years. On the other hand, there may be a remarkable degree of acceleration once the initial capital equipment in the form of ports, railways, roads, buildings, heavy tractors in running order, &c, have all been established. However, the scheme is now under way and an appreciable acreage should be cleared by the end of this year. And so far as I could ascertain no insurmountable obstacle had arisen to the ultimate development of the scheme to its full proposed magnitude or even beyond it.

11. I have also taken care to make it clear that the initial capital cost of the scheme will be larger than estimated. This is for two reasons. First, the cost of almost everything which the Overseas Food Corporation has to buy for the purposes of the scheme has increased greatly since the original estimates were made. For example, the prices of petrol, diesel and lubricating oil have all increased by between 30 and 50 per cent. In a word, the scheme is not exempt from the effects of the world-wide inflationary process. Second, it is also clear that the initial capital or non-recurring costs of clearing the bush and establishing
all the plant and equipment necessary for cultivation were seriously under-
estimated by the Wakefield, Rosa, Martin Mission even apart from the rise in world prices. For example, as stated above, the amount of maintenance equipment and personnel necessary for the heavy tractor force was by no means adequately envisaged. Again, it seems clear that more tractor hours per acre than was originally estimated will be needed in clearing the bush. This is mainly because the initial processes of flattening the bush and pushing aside the scrub and trees into “windrows,” will have, it is now clear, to be followed by rooting operations by which the tangled mass of roots left below the surface are broken up and cleared. It is not possible, in my opinion, to give any estimate at this stage of the increase of capital costs which will be attributable to this factor. This is mainly because experience has so far been almost entirely confined to one area, i.e., Kongwa. The bush encountered in the other two areas is of a different character. This does not mean that there will be no rooting problem in these areas, but the problem will be a different one and may be in some of the areas a much smaller one. Again the rooting process may be facilitated by starting the rotation of crops in some areas with sunflowers rather than groundnuts. Or again it seems probable that the rooting problem is much more manageable if the initial clearing work is done in the wet rather than the dry season.

12. How all these (and many other) factors will interact on what turns out to be the final cost of clearance per acre, it is quite impossible to judge to-day.

Economic Justification of the Scheme

13. The fact that the scheme will take longer and cost more than was envisaged does not distinguish it from other major pioneering enterprises. Nevertheless, the extent to which the capital cost may be increased would be a matter of the gravest concern but for two important considerations:

(a) The initial non-recurrent cost of clearing the bush is not, of course, the major factor in determining the cost per ton at which groundnuts and other crops will be produced. Rough calculations which I have had made in my Department seem to show that a doubling of the estimated capital or non-recurrent costs would in itself only add between £1 and £2 to the cost of production per ton—according to whether the capital charge were amortised over 33 years, or over 99 years which is the full term over which the Overseas Food Corporation possesses an option on the land. The main factor in determining the cost of production per ton will, of course, be the costs of the agricultural operations, since they will be annual, recurrent costs. It is true that the rise in world prices, for example, the increase in the price of petrol, oil, &c., will inevitably increase these recurrent agricultural costs also. It is as yet too early to form an estimate of whether these agricultural and recurrent costs were under-estimated, apart from the rise in the prices of supplies, &c.

(b) There is, however, in my view another consideration of overriding importance, which justifies, and indeed necessitates, the prosecution of the scheme with the utmost vigour. And that is that the economic justification for investing a large amount of public money in the provision of a new source of oils and fats for this country in particular, and for the world in general, has greatly increased since we decided to launch the scheme. The original White Paper envisaged that the cost of production of groundnuts would be some £18 a ton and that they would be sold during the first three years at £30 a ton and after that at £20 a ton. If there was now any likelihood that world prices of oils and fats would fall to the lower of these levels, the economic soundness of the scheme might be in question. Fortunately for the scheme, though unfortunately for our balance of payments position as a whole, this is far from being the case. On the contrary the prices of oils and fats have risen continuously and steeply since the scheme was launched. We are at present paying India £68 a ton for groundnuts and we have recently paid similar prices to the Argentine for other equivalent oils and fats, and for the bulk of our groundnut supplies from West Africa we are paying £41 a ton. I sincerely trust that groundnuts, and oil seed prices in general, will not remain at these astronomical levels; and no doubt one of the most useful effects of production from the East African scheme will be to help to stop the precipitous rise in oils and fats prices which we are experiencing and to begin, if possible, to depress them. But it will be seen that an increase of even many pounds a ton in the estimated costs of production of the scheme and a considerable drop in oil seed prices will still leave a wide margin of profitability.
14. I attach in an Appendix the relevant passages from the speech which Mr. Faure, a Director of the United Africa Company, made on 31st March last on the occasion of the handing over of the scheme to the Overseas Food Corporation. It will be seen that Mr. Faure, who is a leading expert on the world supply position in oils and fats, regards our prospects in regard to oils and fats supplies with the utmost apprehension. I do not think his view is questioned by any expert opinion. Mr. Faure’s speech shows how Conservative Party and press opposition to the scheme is more and more irritating this large body of business opinion which knows the facts of the situation. Therefore, in spite of the difficulties and delays which the scheme is experiencing, we have every justification in saying that if we had not launched the groundnuts scheme 18 months ago it would be imperatively necessary for us to launch it now.

J. S.
Ministry of Food, S.W. 1,
6th July, 1948;

APPENDIX
EXTRACT FROM SPEECH BY MR. W. A. FAURE, ON THE OCCASION OF THE TRANSFER TO THE OVERSEAS FOOD CORPORATION

The East African Groundnuts Scheme is not just an enterprise to put one or two ounces of margarine on the home ration—neither is it just another development scheme for Tanganyika. Both these objects are very important, and by themselves possibly quite worthy of all the efforts we are making but the Scheme is aiming far beyond these two limited objectives.

When I read the recent Parliamentary Debates, I was astounded at the lack of understanding—the lack of knowledge—the blindness of our elected representatives in the House.

I am almost getting tired of having to say it over and over again, but the pure naked fact is that the world is heading for a famine in oils and fats—not only in the primitive tropical regions but also, and even more so, in Europe and the other importing countries.

Europe will, this year, be short of 2 to 2½ million tons of fats (that is the equivalent of 5 to 6 million tons of groundnuts). We can only overcome the shortage by increasing exportable surpluses in the tropical countries, but just now these surpluses are dwindling fast. We have only to look at India and Pakistan, which vast continent before the war used to put close on 1 million tons of oils and fats into the European larder. The increase in the India population and the very slight improvement in the per capita fat consumption there have almost completely wiped out this source of supply. We know that in all other Far Eastern countries a very similar situation is beginning to crystallise.

It is quite certain that native agriculture, with its wasteful practices—wasteful as it destroys fertility and wasteful in the use of man-power—cannot possibly cope with the demand, and it is equally certain that there is only one way in which the situation can eventually be retrieved. That, and nothing else, is the problem to which the East African Groundnuts Scheme is endeavouring to provide the solution, and whilst the production of some 600,000 or 800,000 tons of groundnuts will go far to alleviate the oil and fat hunger in our own country, the much deeper significance of the Scheme is the creation of a prototype, which must supply the data and the experience that, if applied in all tropical areas, will enable the world to supply its needs.

It is really appalling that there is still such a lack of realisation of the dangers of the situation, and it makes me boil with indignation when this great scheme, to which everyone at home and abroad should give his fullest support, is being made an object of political squabbles. Instead of congratulating Mr. Strachey on the energy he is devoting to the realisation of the project, certain M.P.s attack him on details in an endeavour to score politically. I hate people who try to incapacitate their opponent when the referee is not looking or when the referee, in this case the British people, does not know the rules and has not been properly told what the game is being played for.
NOTE BY THE PARLIAMENTARY UNDER-SECRETARY OF STATE FOR FOREIGN AFFAIRS (LORD HENDERSON) ON VISIT TO GERMANY, 2ND - 4TH JULY, 1948.

1. Berlin

There is complete unanimity of view in support of your declared policy not to leave Berlin. This view is held not only throughout all ranks of the Control Commission personnel whom I met, but also by the German representatives (S.D.P., C.D.U. and L.D.P.) with whom I talked. In both these quarters it is recognised that the exclusion of the Western Allies from Berlin would be the first step to their exclusion from Western Germany, and that Russian influence up to the Rhine would endanger both France and Italy. The moral resistance of the Germans is good. But there is no doubt that they are apprehensive lest we should for any reason allow Berlin to pass into exclusive Russian ambit. If this should happen, confidence in the Western Allies would completely disappear.

The next point which is exercising the minds of the Germans most at the present moment is currency reform in Berlin. They are disappointed that the Deutschmark has not been made the sole currency in the Western Zones of Berlin and they fear that the present arrangement will virtually ensure that the economic life of the Western Zones will inevitably become an integral part of the economic life of the Eastern Zone and the Russian Sector of Berlin.
The air lift in the British Zone is increasing daily. The total lift between Saturday midday and Sunday midday reached a substantial total (about 500 tons), and it is expected that during the present week the maximum will be achieved on the basis of the number of planes available. To the Dakotas and Yorks will be added as from (probably) Tuesday the air lift of 10 Sunderlands, which will account for something between 40 and 50 tons per day. Two suggestions have been made, and I believe are being considered, namely –

(a) use of gliders, and

(b) use of bombers

to assist not so much in food lift as industrial lift (coal). I gather that the saturation point of air lift will not be achieved with the number of planes already allocated for Berlin supplies, but that it might be possible, by using another despatch aerodrome, if additional planes were made available, to increase the present maximum target which, with the use of the Sunderlands, is expected to reach about 800 tons a day.

While Russian intentions may be unpredictable I found no one who believed that they were thinking in terms of war to achieve their objectives in Berlin. It is considered that a political and diplomatic policy of firmness without provocation, supported by sustained air lift of supplies to Berlin, is the one best calculated to bring about a resumption of our freedom of movement into and out of Berlin through the corridor.

2. Unemployment - Social Measures.

I had discussions on the problem of unemployment arising out of currency reform and the capital levy, the diversion of available suitable labour to essential industries, and the social measures that might be considered and adopted. These related problems have been foreseen and certain steps have already been taken, but there are some very obvious difficulties to be overcome. I was told, for example, that in large parts of the Ruhr housing accommodation is greatly overcrowded, 2.4 persons to a room. The question of increasing man-power for Ruhr industries is governed by the ability to increase the already very inadequate housing accommodation in that part of Germany, and concentration on the repair of existing houses is regarded as the first priority - not the building of new houses.

(Signed) HENDERSON

Foreign Office, S.W.1.
MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

1. This memorandum, and the accompanying documents, which have been prepared by a committee of officials, have two distinct but related purposes. The first is to seek authority from Ministers for the programmes and statistics to be submitted in the course of the next few days by this country to O.E.E.C., making our bids for E.R.P. aid for the ensuing twelve months. (The most important part of these programmes is, of course, the dollar balance of payments. My colleagues will recognise that figures submitted for individual scarce commodities will tend to become commitments which will bind our export, import and consumption policies). The second purpose is to invite Ministers to take certain decisions which will govern our purchases for the ensuing twelve months, whether in dollars or in other currencies.

Programmes to be submitted to O.E.E.C.

2. For convenience I am circulating as a separate memorandum (CP. (48) 178) summaries of the tables to be submitted to O.E.E.C. and the draft covering memorandum which will also be submitted to O.E.E.C. setting out the basis on which the tables have been prepared. I ask the authority of my colleagues for these documents to be submitted to O.E.E.C., subject to any modifications which may be necessary to give effect to decisions reached at our meeting on Monday.

3. Annexes A and B to the present paper explain the basis on which these tables have been prepared and summarise the points for decision by Ministers.

4. The programmes to be submitted to O.E.E.C. have been prepared on the basis already laid down by Ministers, namely—

(a) that we intend to maintain our reserves throughout the E.R.P. period at their level at the beginning of the period, i.e., limiting our dollar outgoings to our dollar income plus external aid;

(b) that our programme will concentrate on the achievement of viability.

5. The total of the E.R.P. aid to which we have to work in the programme submitted for the twelve months July 1948 to June 1949 is limited to £1,271 millions;* we are also limited in the preparation of our programmes of individual commodities by availability. In fact, therefore, there has not been very much scope for manoeuvre in preparing these programmes.

6. The particular points for decision on the programmes to be submitted to O.E.E.C. are:

(i) Wheat.—For the reasons in paragraphs 6 and 7 of Annex B, I think we should show consumption and imports on basis of 100,000 tons of flour consumption a week instead of the present estimate of 103,000 tons. This would imply action now to hold consumption at 100,000 tons—the same actual level of consumption as in 1947-48.

* This figure is derived from the "Brown Books" submitted by the United States Administration to Congress; it was agreed by O.E.E.C. that programmes should be prepared on this basis.
(ii) Coal.—Our coal exports to participating countries in 1948–49 will have to be stated, and will tend to become a commitment. This is being discussed at the Economic Policy Committee to-day, and my colleagues must make a final decision.

(iii) Oil.—As my colleagues are aware, oil is highly complex, and a number of papers are being prepared. The particular question here is the statement we make about the extent to which we shall sell oil to participating countries. The line proposed is that we continue to supply these countries if we get the aid of $1,271 millions, but that if we get less aid, we should seek to collect dollars or the equivalent for selling them oil which costs us dollars.

(iv) Newsprint.—It will be necessary to tell the trade that the decision cannot yet be taken to proceed to a 5-page newspaper in 1949.

Adjustment of the Dollar Import Programme

7. The programmes which we submit are in the nature of bids. We must face the fact that we may not get E.R.P. aid to the extent envisaged. It will be a very tough negotiation at Paris.

8. Paragraph 17 of Annex A lists some possible increases in our resources, over and above what is allowed for in the programmes submitted. In my view, the increases are so problematical that it would be most imprudent to reckon on any of them at the present time.

9. We may have to make reductions in our dollar import programme of anything from $50 millions to $100 millions. I ask my colleagues now to decide where those reductions should be made if we are forced to make them. This is necessary for two reasons. First, to give our negotiators some idea of what is in our minds, so that they will not have to report back for further instructions at short notice. Second, some purchasing decisions must be taken now, for seasonal and other reasons, and we must make them in a way which will prevent a drain on our reserves if E.R.P. gives us less aid than $1,270 millions.

10. Paragraph 21 of Annex A sets out various possibilities of making savings, totalling $100 millions:—

Wheat ($25 millions).—My colleagues should realise that the maintenance of human and animal consumption of wheat at the 1947–48 level would involve reversal of the decision to allow farmers to keep 20 per cent. of their crop for animal feeding, as well as the limitation of flour consumption to 100,000 tons a week. If we are to make this saving, we must make it now. Once a firm decision has been announced to allow the farmers to retain 20 per cent., it will be impossible to secure savings under this head, however much E.R.P. aid may be cut.

Sugar ($10 millions).—There is no procurement question here, for the sugar for the next few months’ supplies is already bought. The saving to be made is in consumption, for strengthening stocks and reducing the purchases we have to make later in the year. It would be possible to delay this decision for two months or so, at no more cost than the saving which would be achieved in these months’ consumption.

Tobacco ($15 millions).—An immediate decision must be taken as to how much we shall buy in the United States auctions which begin towards the end of this month. Limitation of the tobacco purchase as proposed would force stocks to a low level by September 1949, and the manufacturers would probably insist on a cut in consumption of the order of 10 per cent., unless we could undertake to provide for purchases up to their full requirements from the 1949 crop. I am strongly in favour of a cut of at least $15 millions.

Raw Materials ($30 millions).—Procurement of these supplies is a more or less continuous process, and it would be necessary to pare programmes at once. The effects of this cut are not altogether clear—it is very small in relation to the whole raw material intake—but I should hope it would be possible to achieve the cut without damaging effects upon industry and employment.

Machinery ($20 millions).—I do not think this should be cut. To cut machinery might have highly damaging effects, and also it would probably land us in serious difficulties with E.C.A.
Non-Dollar Import Programme

11. I now invite the attention of my colleagues to Annex C which contains a report on our non-dollar balance of payments, and particularly to the conclusions in paragraph 27. The statistics in this paper will have to be submitted to O.E.E.C., but they are not likely to be closely examined by that body, which will of course be mainly interested in transactions which involve dollar payments.

12. The situation revealed in Annex C is serious. When we suspended convertibility in August last we directed our attention, rightly and naturally, in the first instance to reducing the drain on our reserves of gold and dollars. Less attention was paid to imports from non-dollar sources, and indeed it was a part of our policy to develop imports (especially of food) from non-dollar sources to compensate for the loss of dollar food.

13. As Annex C shows, we are now planning to buy more than we can afford from many countries in the non-dollar world. I think it is now vital that we should bring our non-dollar balance of payments programme fully under control, and I recommend that the following steps be taken:

Rest of Sterling Area

(i) That the Programmes Committee submit an analysis in detail of 1948-49 imports from sterling area, distinguishing between basic supplies and less essentials.

(ii) That United Kingdom import/export policy be worked out towards each sterling area country (including Colonies), taking into account the long-term development of imports that we require from that country, and her needs from us; this would then be discussed with the countries concerned, e.g., in connection with the Prime Ministers’ Conference.

(iii) In the meantime, we must restore full Treasury control. The Programmes Committee should take steps to limit all commitments to purchase for delivery after the end of 1948 as narrowly as possible to those required to maintain the current level of basic food rations and of industrial production.

(iv) That, until it has been possible to take decisions on our future policy in regard to the sterling area, we should avoid prejudicing our freedom of action by the conclusion of long-term contracts even for essential supplies unless the case in favour of such contracts is overwhelming.

Certain non-participating countries

(i) that our position with each of the countries listed in paragraph 14 of Annex C should be re-examined in the light of the total position set out in this paper, and import/export policy be revised accordingly.

(ii) that in the meantime, no new contracts should be entered into with any of these countries, except those which are commitments under bilateral agreement, without renewed authority from the Treasury.

14. I do not think we can clarify our policy towards the other E.R.P. participating countries until the discussions of intra-European payments are nearer a conclusion.

15. If the recommendations in this memorandum are adopted, the broad result will be that we shall be holding back improvements in our standards of food consumption during the next twelve months rather than cutting back consumption from its present level. We should also have sufficient raw materials to maintain employment at the present level, but not enough to free materials from control and provide for the smooth and uninterrupted flow which permits industry to work in the best possible way.

9th July, 1948.

R. S. C.
ANNEX A

THE DOLLAR PROGRAMME—1ST JULY, 1948–30TH JUNE, 1949

1. This annex deals with the dollar balance of payments programme for the year July 1948 to June 1949. It and the following annexes set out the matters requiring policy decision on the programmes which we must submit to O.E.E.C. on 15th July.

2. The purpose of the O.E.E.C. discussions is to determine the amount of E.R.P. aid which each participating country will receive in the year July 1948 to June 1949. The O.E.E.C. countries have been told by E.C.A. to divide up the aid themselves. The programmes which are now submitted provide the factual basis upon which the negotiation will take place.

The Amount of Aid

3. Mr. Harriman has told O.E.E.C. that the aid available in this period will be $4,875 millions. He assumes in this that a further appropriation will be made when the present one expires on 31st March, 1949. The figure to which O.E.E.C. will now have to work is 10 per cent. below the original figure of $5.4 billions for the July–June period which was the basis of published calculations (Brown Books) of the United States Administration. The aid actually allotted in the April–June 1948 quarter was $1.3 billions; very little of this has yet been paid out, though funds have been earmarked accordingly, and reimbursement is in progress.

4. The effect of the Congressional deliberations has thus been to cut the aid by 10 per cent. assuming that a new appropriation is forthcoming before 31st March on the scale implied by Mr. Harriman.

Distribution of Aid

5. O.E.E.C. must make recommendations to E.C.A. on how the $4,875 millions of aid is to be divided, in total and by commodity. The method of doing this is being discussed by O.E.E.C. now. In our view, the most effective method—and the only one which can yield a reasonably quick answer—is a negotiation on the financial amount of aid. To provide a basis for this O.E.E.C. has asked for two sets of programmes for each country for the year July 1948 to June 1949; these will deal separately with about 100 commodities, and will embody full balance of payments forecasts, analysed in close detail. No distinction is made between loan and grant; probably 25 per cent. of our aid will be on a loan basis, but the position for different countries will vary. The two programmes will be:

(i) A "Budget" programme, in which each country would use the amount of aid allotted to it in the Brown Books (i.e., about 10 per cent. more than the aid available).

(ii) A "Requirements" programme, in which each country states what it would like, having regard to availability of commodities, and specifically directed to the country's ultimate recovery and independence of external aid.

6. The covering memorandum which we recommend should be submitted is in a separate paper to the Cabinet (C.P. (48) 178). The programmes which we recommend are summarised in Table I and Table II of that paper.

The Basis of Programmes

7. Both programmes are based upon the two principles endorsed by Ministers previously (E.P.C. (48) 11th Meeting)—i.e., that we must maintain our reserves at the level of the beginning of the E.R.P. period, and that our programmes must contribute the maximum possible to the rehabilitation of our economy.

8. We have had to make certain special assumptions of general importance:

(i) Canada.—The Canadian Government has told us that if Canada has a good harvest, we may be able to resume drawings on the Credit in
October. We have made an assumption that we shall be able to draw $60 millions. It is necessary to make some assumption, for it would be against our interests to make no allowance at all (for we should then probably lose E.R.P. aid correspondingly if the Canadians were able to let us draw later on). The matter has been discussed with the Canadian authorities and they would have preferred that no figure for the credit should be included. Our High Commissioner has pointed out to them however that the consequence of this would be a reduction in our dollar import programme and has recommended that we should, on our own responsibility, include a national figure for the Canadian credit, disguising it as best we can. The High Commissioner has made it clear that even this will be unpleasant to the Canadians, but it is the less of the two evils.

(ii) Argentina.—We have assumed that we pay no dollars at all to Argentina during this period (which goes beyond the end of the Andes Agreement). It would be most dangerous to base our import and consumption plans after the middle of 1949 on this assumption.

(iii) “Surplus” Commodities.—We have excluded all less-essential commodities of a kind which United States interests may wish to press upon us (e.g., dried fruit).

(iv) E.R.P. Financing.—We have included the most essential supplies for financing by E.R.P. funds; Canadian wheat, oil (United States companies trade in the United Kingdom), machinery, shipping, raw materials (where administratively possible); we recommend that half our requirement of United States tobacco be purchased from our own dollars, and not from E.R.P. The effect is that the list of goods and Services supplied on E.R.P. will look very businesslike.

(v) Strategic Materials.—In view of the provision in the Act that 5 per cent. of the local currency fund can be used for strategic materials (for which we should otherwise earn dollars), we have taken a conservative estimate of dollar receipts from sale of Colonial materials. But if all the 5 per cent. were used, it would cost us $50 millions.

The “Budget” Programme

9. In this, we are limited to E.R.P. aid of $1,271 millions. Within this limit (and given Canadian credit as in paragraph 8 (i)) it will be possible to continue existing import policy from the dollar area. The implications are described in detail in C.P. (48) 178; broadly speaking, this programme would maintain present consumption of rationed foods, maintain tobacco consumption, permit some development of the livestock programme, according to the coarse grain availability from non-dollar sources, supply industry with raw materials and machinery on the present restricted scale, and keep the present rate of consumption of petroleum products.

10. This does not provide much fillip to recovery. It does not free new resources to rehabilitate industry or to develop overseas production. It certainly does nothing spectacular. But, nevertheless, a programme of this scale would keep our economy going and thus would permit some further progress with the various constructive activities which are improving our basic position—the industrial investment programme, oil refining, agricultural rehabilitation, development of exports, &c.

The “Requirements” Programme

11. For the “Requirements” programme, we have added a number of items to a total of $400 millions, raising the total E.R.P. request to $1,670 millions:

<table>
<thead>
<tr>
<th>Item</th>
<th>$ millions</th>
</tr>
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<tbody>
<tr>
<td>Feeding-stuffs</td>
<td>70</td>
</tr>
<tr>
<td>Food</td>
<td>123</td>
</tr>
<tr>
<td>Tobacco</td>
<td>25</td>
</tr>
<tr>
<td>Raw materials</td>
<td>132</td>
</tr>
<tr>
<td>Machinery</td>
<td>10</td>
</tr>
<tr>
<td>Shipping (to carry these)</td>
<td>(40)</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
</tr>
</tbody>
</table>
12. We are seriously limited by availability. In particular, the amount of steel available, even though based on more generous estimates of availability than in the Budget programme, is far below a requirements programme that we could usefully submit. This programme would, however, be most useful if we could get the money to pay for it. It would satisfy the full needs of the livestock expansion; it would ease the supply of non-ferrous metals and timber; it would permit some materials and tobacco stocking; it would enable last year’s cuts in the sugar and cheese rations to be restored, and buy canned fish and milk products too; it would provide a six-page newspaper. We have not included additional petrol, for we could obtain this only at other countries’ expense.

13. In immediate practical terms, the requirements programme is academic, for there is not nearly enough aid even for the budget programme. But we regard it as important that O.E.E.C. should be in a position to submit a programme of realistic requirements to E.C.A. as well as the $4,875 millions programme.

The Possible Aid

14. The “Budget” and “Requirements” programme, and their supporting memoranda, are at this stage material for the aid-allocation negotiation and no more. It is likely that we shall have to accept some reduction below the $1,270 millions figure on which the “Budget” programme is based—for the total aid is 10 per cent. less. It must be remembered that many of the other participants are much worse off than ourselves, and, in particular, that many of them have relatively low financial reserves. We do not feel there is need for pessimism, but at the same time we clearly cannot rely upon achieving even the “Budget” figure.

15. On the whole we think there is a reasonable prospect of our securing 25 per cent. of the net aid allotted. Assuming that E.C.A. wishes to retain, say, 5 per cent. of the $4,875 millions as a reserve for meeting special situations, this would give us, say, $1,150 millions.

16. It will be necessary, at the end of the first stage of the O.E.E.C. negotiations for all countries to submit new programmes based upon a revised provisional distribution of aid. We think it would be prudent for Ministers to consider how, say, $120 millions would be saved from the “Budget” programme. Indeed, it is necessary to make a provisional import programme determination on a basis such as this, in order to guide present buying policy (and consumption policy) in the interval before the amount of aid is ultimately determined (which may be at least three months).

Possible Increases in Resources

17. The following possibilities can be considered:

(i) Canadian Credit.—We may get more than the $60 millions allowed for. The Canadian Government earlier hoped to let us draw $15 millions a month from October ($135 millions in the year). But this was dependent upon the harvest, prospects for which are entirely uncertain. A higher figure than $60 millions is possible. But we cannot rely upon getting any at all.

(ii) Rest of Sterling Area.—If Australia drew on I.M.F. and maintained her present stringent dollar economy, $50 millions would be “saved.” Mr. Chifley has stated that for entirely understandable reasons this is impossible at present. Apart from this, it is unlikely that even the strongest pressure would reduce the call on our reserves on account of the rest of sterling area below $60 millions which we are allowing; in the first half of this year the comparable call was at an annual rate of $110 millions. Estimates assume that Eire’s dollar needs are fully covered by E.R.P.

(iii) Oil.—By insisting on payment in dollars for oil supplied to participating countries (and marginally bought from dollar sources), we could on paper save at least $50 millions. We should certainly in the situation contemplated seek to stop this drain, and we should make it quite clear to the participating countries that if our aid falls below the “Budget” figure this is one of the first adjustments to be made. But it is most unlikely that we should save even nearly as much as the full $50 millions.

(iv) Increased Exports.—Our estimates already provide for an increase in exports to the dollar area of 55 per cent. over 1947. They are carried
forward into the first half of 1949 at the rate planned for the end of 1948, and some further increase may be possible. But this cannot be relied upon.

(v) Prices.—It is possible that world commodity prices will fall, though there is no sign of this at present. Only a very substantial reduction could significantly affect our situation in 1948–49, for important parts of our expenditure (e.g., Canadian wheat) have their prices already fixed, and most of our purchases up to the end of the calendar year are already made.

18. We cannot rely upon any of these possible improvements; they are all highly speculative, and none of them are wholly within our control. Moreover, there are adverse possibilities which are not included in the figures; we have not made nearly full allowance, for example, for full use by E.C.A. of local currency funds to buy strategic materials (see paragraph 8 (v) above).

Import Programme Adjustments

19. When the amount of aid is firmly known, it will be necessary to fix a new dollar import programme correspondingly. In the meantime, however, it is necessary to make a preliminary determination for two reasons:

(i) In a few week's time we shall have to submit a new programme to O.E.E.C., based upon a revised preliminary distribution of aid.

(ii) We have to make certain purchasing and other decisions now, which in fact commit us for a full year ahead.

20. It is therefore necessary for planning purposes to make adjustments now. Taking into account the possibilities under paragraph 17 above, and the uncertainties of aid, we consider that the dollar import programme should be reduced by $50–100 millions. Action should be taken on this where the need to take decisions enforces it; where no purchasing or other decisions are required, i.e., where supplies are already contracted for, to impose the adjustments on consumption now would permit the accumulation of stocks and enable purchases to be reduced later.

21. In selecting the cuts the real difficulty is that the least damaging cuts to make—stopping the Canadian bacon and egg contracts at the end of 1948, or continuing then at a reduced rate, thereby saving up to $60 millions in the first half of 1949—are incompatible with our assumption that we draw upon the Canadian credit (even by $60 millions). Moreover Canadian Ministers have in the past declared that the live-stock contracts and the wheat contract stand together (although there is no contractual commitment to this effect) and they might consequently denounce the wheat contract which, at any rate if present prices stand, would cost us nearly as much as we were saving. Such action would lead to a major impasse in our relations with Canada. Another cut which would do little damage to our economy would be a cancellation or re-negotiation of some of the Canadian timber contracts; this would save, say, $10 millions, but would really embitter commercial relations (for we have already re-negotiated these contracts once).

22. The following are some possibilities totalling $100 millions:

<table>
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<tr>
<th>$ millions</th>
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<tbody>
<tr>
<td>Wheat: maintenance of human and animal consumption at 1947–48 level (when it was increased by potato shortage) would save $25 millions on Canadian wheat even if no wheat at all were bought from Russia and Roumania. This would involve:</td>
</tr>
<tr>
<td>(i) Stocks at six weeks' consumption in mid-1949.</td>
</tr>
<tr>
<td>(ii) Keeping the 85 per cent. extraction rate.</td>
</tr>
<tr>
<td>(iii) Reversing Miniser's previous decision to let farmers keep 20 per cent. of their crop (265,000 tons).</td>
</tr>
<tr>
<td>(iv) Limiting flour consumption to 1947–48 average level of 100,000 tons a week; the Ministry of Food consider that consumption cannot be reduced below 103,000 tons a week without danger of bread queues (156,000 tons).</td>
</tr>
</tbody>
</table>

With no Russian and Roumanian wheat economies of 130,000 tons would in any case have to be saved under (iii)
and (iv). If they were saved on (iii) the further $25 millions savings on Canadian wheat would be divided equally between (iii) and (iv)...

Sugar: reduction in sugar for manufacture (i.e., 10 per cent. of present allocation). A cut of this nature would lead to a further reduction in the production of confectionery, beer, soft drinks, &c.

Tobacco: limitation of buying programme to minimum to hold 6½ months’ stock at September 1949 and maintain consumption; this would create difficulties for manufacturers, especially as it would involve substitution of Canadian tobacco for United States; if also there was doubt about purchases from 1949 crop, a sharp consumption cut would have to be imposed. The possibility of offsetting such a cut by the increased use of existing stocks of Balkan tobacco should be examined.

Raw Materials: reduction of 5 per cent. in programmed imports from dollar area—only 1 per cent. of imports from all sources. If this reduction were made the supply of raw materials available to industry would during the year be significantly above the 1947 figure.

Machinery: further restriction of import licensing, which would approach an absolute ban on imports of machinery for general purposes and would take a long time to mature. On the assumption that no reduction would be made on key types, e.g., steel plant and agricultural machinery, the effect would be to reduce by two-thirds the remaining machinery imports, thereby seriously retarding the economic recovery of the country. A cut of this nature on that portion of the programme which relates specifically to recovery would be regarded with disfavour by E.C.A. For these reasons the cut should only be imposed as a last resort.

23. The impact of these cuts on imports from the dollar area depends to some extent upon supplies from the non-dollar area, and is thus related to some extent to decisions taken in the light of Annex C. This applies particularly to raw materials; if it became necessary to cut Egyptian cotton, a cut in United States cotton would be the more difficult. It is relevant also to wheat.

Conclusions

24. The following are our recommendations:

(i) The dollar balance of payments programme, on the “budget” and “requirements” bases, should be submitted to O.E.E.C. on the lines indicated in this paper, and with covering memorandum as in C.P. (48) 178.

(ii) In the interim period before the amount of E.R.P. aid is known, and in view of the likelihood that we shall have to frame a new programme for O.E.E.C. based upon a lower allocation of E.R.P. aid than is allowed in the “budget” programme, consumption and import policy should be in accordance with a programme of $1,150 millions E.R.P. aid, and in particular a choice of adjustments should be made in the import programme accordingly.

ANNEX B

THE COMMODITY PROGRAMMES, 1st JULY 1948–30th JUNE, 1949

1. The programmes for 1948–49 which we submit to O.E.E.C. include for about 100 commodities full particulars of United Kingdom production, consumption, stock changes, imports by source and exports by destination. These commodities are the subject of detailed examination by O.E.E.C.
2. Summaries of the returns which we are submitting for some of the more important commodities are shown in Table III to C.P. (48) 178. The submission of these returns involves forecasts of United Kingdom production and export estimates going beyond the period covered by the 1948 targets.

3. We have accepted a proposal governing the levels of consumption of foodstuffs and consumer goods, which was submitted to O.E.E.C. in the following terms:—

"Levels of consumption of foodstuffs and other consumer goods should not be higher in any country than in 1947, except where a higher level can be justified on grounds of hardship or of increased productivity of labour. Levels should in no case be higher than pre-war."

4. The status of these production and export estimates is not yet clear. Our production exports to other participating countries of coal are regarded in United States as a yardstick of our recovery and of our willingness to assist Europe, and the figures which we now submit will certainly be regarded as commitments replacing the Paris commitments. But in other commodities, it is unlikely that the figures will become elevated to the status of commitments. However, we have to be prepared for them to become so.

5. The division of our own production between United Kingdom consumption and export, and between exports to other participating countries and exports to non-participating countries is in general in these figures projected into 1949 at the rate planned for the second half of 1948.

6. The following are points to which we particularly wish to draw Ministers’ attention, and ask for decision.

7. Wheat.—Our wheat programme shows 1948-49 consumption at 63 per cent. above 1947 and 44 per cent. above pre-war. This may be embarrassing in O.E.E.C. for two reasons. First, our consumption per head is anyway higher than other peoples’. Second, we could not show this budget without putting in a firm figure of purchases from Russia and Roumania; these would then be regarded as firm supplies available to us, and might even throw the Canadian wheat into jeopardy.

8. The figures in the table do not provide for lowering the extraction rate; nor do they provide for an increase in stocks above the present level. But they do show consumption of flour at 103,000 tons a week—the level of issue fixed by the Cabinet in C.M. (48) 41st Conclusion, Minute 2, in connection with de-rationing of bread. We invite Ministers to consider whether this should not be lowered to 100,000 tons a week—a figure in line with the actual issues in the year 1947-48. In the last few weeks, consumption has been running at about 2,500 tons a week above the year’s average owing to the potato shortage. The Ministry of Food state, however, that for administrative reasons a reduction in consumption to 100,000 tons a week would not permit the derationing of bread and would probably result in local shortages and bread queues.

9. Coarse Grains.—In our budget programme, the consumption of coarse grains is put at 8½ million tons, compared with 6 million tons in 1947-48. This implies that we get 1½ million tons from Russia and Eastern Europe—i.e. new purchases of 800,000 tons to continue deliveries under the present agreement.

10. Coal.—A separate submission has been made to Ministers.

11. Oil.—United Kingdom consumption of oil in 1948-49 is expected to be approximately 2 million tons greater than consumption in 1947, although not much in excess of the rate of consumption at the end of 1947. The increase is due almost entirely to industrial consumption of fuel oil and gas/diesel oil. Much of the increase is due to the coal/oil conversion scheme, which although now halted will require a great deal more oil than in 1947. Consumption of motor spirit is expected to be down by about 5 per cent.

12. The British oil companies’ programmes of supplies to participating countries show a slight reduction in respect of products, 6½ million tons 1946-49 compared with 7 million tons 1947 and a considerable increase in crude 7-0 million tons compared with 3-2 million tons. If the total amount of aid available to the United Kingdom is below the Budget Programme, it is suggested...
that we should seek to recover dollars or the equivalent for that part of the British companies' supplies to participating countries which would necessitate the purchase of dollar oil.

13. Newsprint.—Ministers agreed with the trade that we should fix the level of Canadian imports at whatever we could afford. Having so determined the imports from Canada, we should take account of the supplies available from United Kingdom production, Canada, Scandinavia and Finland and so determine the level of consumption in 1949. The effect of the present programme is to fix consumption definitely on a four-page basis until at least 1st July, 1949, and to reduce our imports from Canada pari passu with other increased purchases of more expensive newsprint from Scandinavia. This is contrary to what Ministers have undertaken to the trade. The introduction of a five-page newspaper on 1st January, 1949, would involve imports of a further 40,000 tons from Canada and Newfoundland at a cost of $4 millions not provided for in the Budget programme. If Ministers decide on the course envisaged in the programme it will be essential that they should put our position to the trade, and explain that in present circumstances (i.e., until the Canadian credit position is clearer) it is not possible to envisage a five-page newspaper on 1st January. We recommend that the situation should be explained to the trade accordingly.

Conclusions

14. The points on which decisions are required are:

(i) Whether flour consumption should be reduced to 100,000 tons a week instead of the 103,000 tons proposed by the Ministry of Food.
(ii) The problem of oil supplies to participating countries should be dealt with as in paras. 11 and 12 above.
(iii) Delay in the introduction of a five-page newspaper in the light of the Canadian credit position.
(iv) Authority be given for commodity programmes to be submitted on lines of Table III to C.P. (48) 178.

ANNEX C

THE NON-DOLLAR BALANCE OF PAYMENTS, 1st JULY, 1948–30th JUNE, 1949

REPORT BY THE PROGRAMMES COMMITTEE

1. This annex deals with our balance of payments policy towards the non-dollar world. On this, we are required to make a very full statistical submission to O.E.E.C. The technical problems of doing this are serious, and we have not yet established estimates which we can regard as firm for 1948-49 for the programmes have not been fully screened. A balance of payments table is attached to C.P. (48) 178 as Table IV. This will require amendment in the next few days before submission to O.E.E.C. The policy implications, however, are clear beyond reasonable doubt, and this paper deals with them.

2. After the suspension of convertibility last August, our external economic policy, previously directed towards multilateral finance and trade, was perforce reversed, and replaced by a system of bilateral agreements. These agreements were designed to avoid payment of gold or dollars, and to permit trade to proceed at the highest possible level. In particular, an attempt was made rapidly to develop imports (especially of food) from non-dollar sources, to compensate the loss of dollar food.

3. This policy has been successful. The drain of gold and dollars outside the dollar area has been reduced to very small dimensions; the dollar deficit has been progressively reduced with singularly little effect upon our food and raw material supply. Indeed, consumption has not fallen to anything like the same extent as had been expected.

4. But the recent trend of our import/export figures, and the forecasts for 1948-49, sound a warning. The freer import policy which we adopted towards non-dollar countries, coupled with all countries' desire to purchase outside the dollar area, is threatening to lead to a situation in which all currencies are
The export drive has progressed well. But the expansion of our imports is threatening to outrun it.

5. In Table IV to CP. (48) 178, the countries are classified in four groups:
   (i) Non-dollar Western Hemisphere (Argentina, Brazil, Uruguay, Chile).
   (ii) Rest of sterling area.
   (iii) Other non-participating countries.
   (iv) Other participating countries.

Even in these groups, we cannot generalise. But the following conclusions are apparent.

Non-dollar Western Hemisphere

6. Argentina is dealt with in Annex A; at present we are living on the proceeds of selling the railways, but this will not be possible in 1949-50. With the others, we are in reasonable balance under our bilateral agreements.

Rest of Sterling Area

7. During the last few months, the sterling area countries’ sterling balances have been increasing fast; from the end of December to the end of May, they rose by £135 millions. In effect, the Dominions and Colonies have been lending us even more money, which sooner or later will have to be repaid by exports. This in itself is not a healthy situation; the balance of payments figures show potentially dangerous trends:

<table>
<thead>
<tr>
<th></th>
<th>1948-49</th>
<th>1947</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£ millions</td>
<td>£ millions</td>
<td>per cent.</td>
</tr>
<tr>
<td>United Kingdom imports</td>
<td>-724</td>
<td>-474</td>
<td>56</td>
</tr>
<tr>
<td>United Kingdom exports</td>
<td>784</td>
<td>521</td>
<td>51</td>
</tr>
<tr>
<td>Net invisibles</td>
<td>57</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+117</strong></td>
<td><strong>+88</strong></td>
<td></td>
</tr>
</tbody>
</table>

These figures give too favourable an impression. We have a large surplus with South Africa (normally financed by gold, but now likely to be financed by reduction of sterling balances) and a surplus with Eire. The total conceals a deficit with the Colonies and a deficit with some other sterling Dominions. Moreover, we need a big current surplus in order to finance the flow of investment funds—the financial counterpart of the development of sterling sources of supply; we need a surplus, also, to finance the reductions of sterling balances to which we are committed.

8. The expansion of imports is largely in food—£415 millions in 1948-49, compared with £262 millions in 1947; the rise is both in quantity and in price. Raw material imports are up less markedly, from £191 millions to £250 millions.

9. The full effect of development of new supplies of essentials to replace imports from the dollar area will not be felt for some time. When these new supplies come forward, often at high prices, the cost of our import programme will rise substantially.

10. Our exports are growing. But the level to be reached in 1948-49 is nearing the peak of the sterling area’s absorptive capacity (unless we can change the make-up of our exports, supplying more capital goods—a process which would take a long time to put into effect). We are thus moving into a potentially dangerous position, in which unless action is taken we may be committing ourselves to heavy purchases without organising the means of paying for them.

11. The position varies from country to country, and we do not consider that it can be effectively handled by imposing a global limitation upon each Department’s imports from the sterling area. We recommend:—

(i) That the Programmes Committee submit an analysis in detail of 1948-49 imports from sterling area, distinguishing between basic supplies and less essentials.

(ii) That United Kingdom import/export policy be worked out towards each sterling area country (including Colonies), taking into account the long-term development of imports that we require from that country and her needs from us; this would then be discussed with the countries concerned, e.g., in connection with the Prime Ministers’ Conference.
(iii) In the meantime, we must restore full Treasury control. The Programmes Committee should take steps to limit all commitments to purchase for delivery after the end of 1948 as narrowly as possible to those required to maintain the current level of basic food rations and of industrial production.

(iv) That, until it has been possible to take decisions on our future policy in regard to the sterling area, we should avoid prejudicing our freedom of action by the conclusion of long-term contracts even for essential supplies unless the case in favour of such contracts is overwhelming.

Other Non-Participating Countries

12. The same problem is arising in much more urgent form as supplies are developed from other non-participating countries (Russia, Finland, Eastern Europe, Egypt, Palestine, Persia, Spain, China, Japan, Siam). The following are the figures:

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<tr>
<th></th>
<th>1948-49</th>
<th>1947</th>
<th>Increase per cent.</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom imports</td>
<td>304</td>
<td>111</td>
<td>174</td>
</tr>
<tr>
<td>United Kingdom exports</td>
<td>175</td>
<td>123</td>
<td>44</td>
</tr>
<tr>
<td>Net invisibles</td>
<td>46</td>
<td>46</td>
<td></td>
</tr>
</tbody>
</table>

-175  - 34

13. There is nothing in common between the countries in this list, but in every case we are tending to develop a large deficit, which can be financed only by dollar payments or by the diversion of exports of scarce commodities; our exports of the latter would be quite insufficient to finance these import programmes as well as those of other countries.

14. The particular countries which make this deficit are Egypt, Sudan, Palestine, Russia, Finland, Eastern Europe (i.e., Czechoslovakia, Roumania, Hungary, Yugoslavia, Poland), Spain, Persia.

15. The main features of the potential deficit are:

(i) Egypt and Sudan.—Deficit in 1948–49 possibly £70 millions, attributable very largely to the doubling of price of Egyptian types of cotton; but military expenditure is also an important factor—before the evacuation of Palestine, this was estimated at £12 millions in 1948–49.

(ii) Russia and Eastern Europe.—The supplies which we are hoping to acquire from Russia, Finland, Poland and other Eastern European countries are some £55 millions in excess of the exports which we are expecting to send to them. A temporary deficit with these countries arises naturally from the trade for we buy quick delivery goods and sell capital goods in return which will not be delivered for a long time ahead; the effect of this is, however, to mortgage future industrial effort in order to secure consumable supplies now. Even if we had more capital goods available, however, the extent to which we could supply them, having regard to Article 117 (d) of the Economic Cooperation Act, may be doubled.

(iii) We shall run deficits with others in this group, e.g., Spain and Palestine (oranges), these may be met by growth in these countries’ sterling balances, but such increases will have to be repaid sooner or later.

16. Our trade with most of these countries is governed by bilateral agreement, and the position in each case is of course kept under continuous review. We call attention here, not to things which have happened already, but to what is likely to happen if we try to carry out the import programmes which Departments are considering. Taking these countries together, the deficit is alarming.

17. To induce countries such as these, which have neither traditional ties with us nor an overriding interest in our recovery, to lend us money on the sort of scale which would be needed to balance the account is clearly out of the question. In any case, the position will be no easier in future years. It is clear that the situation must be tackled, country by country, by one or all of the following means:

(i) Make payment in gold or dollars. Our dollar balance-sheet (Table I to C.P. (48) 178) makes only very small allowance for such payments; it is doubtful, indeed, whether E.C.A. would permit us to make such dollar payments unless we were prepared to draw down our reserves accordingly.
(ii) Spare additional capital goods to these countries, at the expense of Argentina (where the situation is much the same), the Commonwealth (i.e., the development of sterling supplies) or our own investment programme. (Obviously the tighter our import control for machinery from the United States, the more difficult this is; in any case switching cannot be done rapidly).

(iii) Forgo all or part of the imports. For Egyptian cotton this is particularly difficult; this is the basis of our high quality cotton textile production and export trade; there is no alternative source of supply, except the United States (if the right staples are available); suspension of these purchases would be disastrous for Lancashire and for the export trade.

18. We recommend as follows:—

(i) Our position with each of the countries in paragraph 14 above should be re-examined in the light of the total position set out in this paper, and import/export policy be revised accordingly.

(ii) In the meantime, no new purchases to be made from any of these countries, except where minimum purchases are a commitment under bilateral agreements, without special authority from the Treasury.

Other Participating Countries

19. With the other participating countries, we are moving into a position of surplus, reinforced by the surplus of the rest of the sterling area, now becoming substantial:—

<table>
<thead>
<tr>
<th></th>
<th>1948-49</th>
<th>1947</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom imports</td>
<td>-379</td>
<td>-242</td>
<td>65</td>
</tr>
<tr>
<td>United Kingdom exports</td>
<td>375</td>
<td>273</td>
<td>39</td>
</tr>
<tr>
<td>Net invisibles</td>
<td>70</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td></td>
<td>+ 48</td>
<td>-18</td>
<td></td>
</tr>
</tbody>
</table>

The difficulty with this group is that the imports which we receive are not, in general, of high essentiality. It will take many years before we can build up supplies of food which will substitute for dollar food. Broadly speaking, we are getting into reasonably good balance with these countries; we are still losing gold to Belgium and our position with Portugal and Switzerland tends to become dangerous, but elsewhere our position is definitely easing and we have a large surplus with some of these countries, particularly France.

20. We recommend that our policy should continue towards these countries on the present lines, but should concentrate upon increasing the supply of essential imports. No change is proposed in this policy until a plan has been agreed for intra-European payments; when that has been agreed, it will be necessary to modify our policy with each of these countries accordingly.

The Whole Balance-Sheet

21. Taking the balance-sheet as a whole, including the dollar area, we arrive at the following position:—

<table>
<thead>
<tr>
<th></th>
<th>1948-49</th>
<th>1947</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom imports</td>
<td>-2,004</td>
<td>-1,536</td>
<td>30</td>
</tr>
<tr>
<td>United Kingdom exports</td>
<td>1,600</td>
<td>1,988</td>
<td>45</td>
</tr>
<tr>
<td>Net invisibles</td>
<td>69</td>
<td>175</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-335</td>
<td>613</td>
<td></td>
</tr>
</tbody>
</table>

22. The level of imports in 1948-49 is put at £2,000 millions, 30 per cent. above 1947. This expansion is partly accounted for by prices, and partly by greater quantities; the quantity may be put at 16 per cent. above 1947, whilst the price level is 18 per cent. above 1947; prices from non-dollar sources are now rising faster than prices from dollar sources. The switch from dollar sources has been remarkably successful; only 21 per cent. of this programme comes from there, compared with 37 per cent. in 1947.

23. The level of exports included in these estimates is 135 per cent. of 1938 volume; it is estimated, indeed, that over the year as a whole, exports will be little above the present level. The export targets provide for exports at the end
of this year at 145 per cent. of 1938, but current experience and latest indications suggest that it would be most imprudent for Ministers to base actual balance of payments plans on the assumption that the export targets will be achieved.

24. There are three main reasons for taking a cautious view on the prospects of further export expansion:

(i) in certain cases, production is not rising fast enough.
(ii) markets for a wide range of products are showing signs of saturation; the demand for our products, at present terms of sale, is falling off.
(iii) import restrictions in other countries, cutting out less essentials, are proving damaging to a large part of our export trades.

Some of our exports will, of course, continue to expand; in particular it is hoped on present plans that our sales of petroleum products will increase very substantially in the next few years, thus partially offsetting the loss of our pre-war coal exports. But we cannot rely upon the continued expansion over the whole front, which would enable the targets to be met.

25. The estimates of our invisible income are more promising, and show a considerable increase over 1947, attributable partly to the reduction in Government expenditure overseas, partly to increased earnings on oil, and partly to better prospects in shipping and reduced net expenditure on tourism. However, these estimates are always extremely uncertain, and there is inevitably a substantial margin of error.

26. The global deficit is put at £335 millions—about the same as the amount of United States and Canadian aid allowed for in the dollar programme. On these figures we shall not be borrowing more from countries other than United States and Canada than we are lending. But there is no net margin here for any investment in the non-dollar world to build up the supplies which we need. Our global deficit will be substantially less than it was in 1947, but we shall not be able to claim that our need for E.R.P. is related only to the world dollar shortage and not to our own inability to balance our accounts.

Conclusions

27. In this report, we have analysed the prospective situation by groups of countries. Our appreciation is as follows:

(i) An important stage has been reached in the development of our trade with the non-dollar world, in which it is necessary to take stock.
(ii) Since last autumn, we have been exerting strong efforts to increase our purchases from the non-dollar world. These efforts, together with heavy price increases, confront us with a huge import bill for 1948-49.
(iii) At the same time, our exports are meeting resistance, and may be approaching their peak level.
(iv) In many parts of the non-dollar world, spectacularly in the Middle East and behind the Iron Curtain, but also in certain parts of the sterling area, our desires to purchase far outrun our ability to provide the sorts of goods required in exchange.
(v) This situation will get worse, and may become critical, if steps are not taken to correct it. The non-dollar world can no longer be regarded as generally "soft"; at our planned rate of imports, some currencies will soon become critically "hard." This can happen over such a wide area that the acceptability of sterling is destroyed even in those parts of the world where sterling is still acceptable.
(vi) It is, therefore, necessary to re-establish full control over expenditure in the non-dollar world, and to ensure that side by side with the development of new sources of supply goes the development of markets accordingly, which will permit us to pay for the supplies as they come forward.
(vii) This implies review of the long-term export pattern required, in order that we shall be able to supply the goods these countries want—as a regular long-term process.
(viii) It also implies limitation of consumption in this country, both to avoid the need for imports and to release for export supplies which other countries want.

Our positive recommendations for dealing with the various groups of countries are contained in paragraphs 11, 18 and 20.
CABINET

SUMMARY OF MATERIAL TO BE SUBMITTED TO O.E.E.C.

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER

1. The attached memoranda and tables summarise material to be submitted to O.E.E.C. for consideration of the annual programme for the year July 1948 to June 1949.

2. Annex A is the covering memorandum which is to be submitted to O.E.E.C. with our tables; the statistical matter to be submitted is summarised in:

   Table I—United Kingdom and rest of sterling area balance of payments estimate in gold and dollars.

   Table II—Summary of United Kingdom E.R.P. programme for imports and shipping services from dollar sources, 1948-49.

   Table III—Summary of United Kingdom commodity programmes.

   Table IV—United Kingdom balance of payments with the rest of the world 1948-49.

R. S. C.

Treasury Chambers, S.W. 1,
9th July, 1948.
ANNEX A

MEMORANDUM TO O.E.E.C. COVERING UNITED KINGDOM PROGRAMME,  
1ST JULY, 1948, TO 30TH JUNE, 1949

1. This memorandum is an explanation of the Budget programme and the  
Requirements programme for the year 1948-49 submitted by the United Kingdom.  
(1 covers the points (i), (ii), (iii), (iv) and (vi) in paragraph 11 of C. (48) 46  
(Revised)).

2. The level of economic activity in the United Kingdom is now higher  
than ever before; both manufacturing and agricultural production are well above  
the best pre-war years; exports are running far above 1938 in volume; unemploy­  
ment is negligible.

3. The reasons for our balance of payments difficulties, which force us to  
ask for economic assistance, are well-known. The loss of foreign income from  
shipping and overseas investments, the steep rise in import prices, the failure  
of production to recover in Europe and Asia, the radical changes in the pattern  
of world trade resulting from the war, the inconvertibility of currencies; any  
one of these would have presented us with grave problems to solve, and the  
combination of them puts us in a most difficult position. The measure of these  
difficulties is the drain on our reserves of $4 billions in 1947, and at the rate of  
$2 billions a year in the first half of 1948.

Our Principles of Recovery

4. Recovery for us means the recovery of our balance of payments at a  
reasonable consumption level and the restoration of our external financial strength.  
This is the central objective of all our economic policies. We regard this as  
fundamental, not only for ourselves, but for our associates in the sterling area,  
for the other participating countries, and indeed for all countries which depend  
upon world trade and which conduct much of their business in sterling.

5. The Government has laid down two principles which govern our policy  
in the E.R.P. period, and which determine these and other programmes which  
we submit to O.E.E.C.:

(i) We intend to maintain our reserves throughout the period at their level  
at the beginning of the period, i.e., limiting our dollar outgoings to  
our dollar income plus external aid.

(ii) Our programmes will concentrate upon the achievement of viability.

6. If these principles cannot be carried out, E.R.P. cannot bring about our  
recovery.

Steps Towards Recovery in 1948-49

7. Our economic activity is directed as far as possible in accordance with  
these principles. There is no simple way for a country which depends heavily  
upon international trade to proceed towards viability, but there are three main  
lines along which we are moving:

(i) Expansion of exports, especially to the dollar area.

(ii) Development of overseas supplies of primary products, in countries  
readily accessible to British exports.

(iii) Growth of import-saving production, i.e., the full use of our own  
indigenous resources; re-equipment of industry and public utilities  
for increased efficiency.

The economic programme which we are now submitting for 1948-49 will show  
considerable progress in all these directions.

8. Exports.—The overall export level for 1948-49 is programmed at  
135 per cent. of 1938 volume, compared with 108 per cent. in 1947, involving an  
increased flow to all parts of the world. In particular, exports to the Western  
Hemisphere are estimated, by value, at 55 per cent. above 1938.

9. Overseas Development.—Work is proceeding on a number of specific  
projects in the overseas dependent territories (e.g., the East African ground-nuts  
scheme). These specific projects tend to attract more attention, but larger total  
results are of course secured by the normal process of development of facilities  
already in existence; the process of rehabilitation and re-equipment, halted for
six years by the war and delayed since for lack of supplies, will go a stage further in 1948-49.

10. Production of primary products in other parts of the Commonwealth is also expanding and should yield increased supplies for ourselves and the other participating countries. A substantial part of our exports to the sterling area in fact consists of equipment for the development of increased production.

11. We hope that the recovery of the other participating countries will yield larger supplies of primary products in 1948-49; we cannot hope for significant results in 1948-49 from new projects which may be developed as a result of O.E.E.C. co-operation, but we have already suggested lines along which the first steps might be taken.

12. Use of United Kingdom Resources.—The main lines along which we are working are:

(i) Agriculture.—The long-term development plan, designed to increase production by 1952 to 150 per cent. of pre-war, is now getting under way. The main element in it is the livestock programme, designed in the first instance to make good the losses sustained in the war. To provide the feeding-stuffs for this programme an intensive grassland improvement campaign is being pursued and other domestic resources are being developed but the rate of livestock recovery depends very largely upon the supply of imported feeding-stuffs. If these supplies come up to expectations it is hoped to make considerable progress with the whole development programme in 1948-49.

(ii) Coal.—About £25 millions will be invested in the modernisation of the coal industry in 1948-49. About one-fifth of this will be used to replace existing installations with completely up-to-date equipment; another fifth in coal preparation plant; a further fifth in large schemes for the redevelopment of existing pits and the sinking of new ones; another fifth in coal preparation plant; and the remainder on projects to get a rapid increase of output or reduction of costs by mechanisation underground, reorganisation of haulage and the development of drift mining. The programme is in fact a combination of short-term and long-term investments.

(iii) Electricity.—Some £150 millions will be invested in electricity supply; this is the 1948-49 work to be done on this development to make good the absence of development during the war, and to provide our economy with all the power facilities it needs.

(iv) Oil.—A substantial programme of refinery construction in United Kingdom, both by British-controlled and American-controlled companies, is under way; these new projects will not reach the production stage in 1948-49. A considerable expansion of crude oil production by British-controlled companies overseas is in progress.

(v) Steel.—1949 is the peak year in the steel industry's development programme and £40 millions of work will be done in the year 1948-49. The largest scheme is the South Wales plan for sheet and tinplate production, with integrated steelworks to supply hot strip; this was started in 1947 and will not be finished until 1952. There are other major modernisation projects, including increase of crude steel and tube production, most of which will not be finished for some years ahead, though some benefits will be received in the meantime; some of the smaller elements in the programme will be completed in the course of the year.

(vi) Chemicals.—Major expansion of facilities are taking place, including chemicals based upon oil cracking, dyestuffs, carbon black, synthetic fibres, plastic materials and fertilisers. In all these fields we are trying to meet not only our own essential requirements but also to provide for export. Many of these projects will not be completed for some years.

(vii) Light industry.—In the cotton, rayon, pottery and hosiery industries, a programme for modernisation of equipment and improvement of factory conditions is being pressed forward with the object of attracting more labour to these industries, raising the output per head and lowering costs. These industries are particularly important for the export trade.

(viii) Transport.—A large-scale programme of reconstruction of the inland transport system and rehabilitation of the merchant marine.
13. These are the lines along which we see the way out of our difficulties. Very little result will flow from this work in the year 1948–49, much of it will not bear fruit until 1952 or later.

14. This work of building up exports, developing overseas sources of supply, setting up new production to replace imports and modernising industry cannot go on unless we can get food and raw material imports. The main function of E.R.P., in the import programme which we submit, is to provide the food and raw materials for the general life of the country, and thus enable this work to be done.

15. It is impossible specifically to relate the imports of food, raw materials and petroleum to the particular plans which are aimed at securing our viability. Without these imports, none of these plans could be implemented. The role of E.R.P. is to provide a general support for our economy, the existence of which support permits us to carry out these development programmes. But there is no direct and tangible link between the specific E.R.P. supplies and the individual development programmes. Without E.R.P. aid, however, it would be necessary to export more capital goods in order to pay for the food and raw materials which we need instead of using them for our own re-equipment.

16. So far as it can, the United Kingdom is producing the equipment required for its development programmes; the payments for import of capital equipment in our E.R.P. programmes are for items that are essential and are not made in United Kingdom or available quickly enough in this country. They include spare parts to keep machinery already here in operation; replacements for worn out-machines; complete new plants and individual machines; common service items such as ball bearings, precision chain, electric motors, &c.; production parts for incorporation in machines made in this country for home and export, e.g., agricultural tractors, typewriters, &c. It is difficult to assess quantitatively the effect on our recovery programme of these imports which are mainly ordered by individual manufacturers; but the various programmes described in paragraphs 12 and 13 above would be seriously delayed if the machinery imports on which they depend were not forthcoming.

The "Budget" Programme

17. In the light of the economic policy outlined above, we have prepared the "Budget" programme. This is based upon the amount of E.R.P. aid shown in the Brown Book for the fifteen months 1st April, 1948, to 30th June, 1949 (i.e. $1,671 millions) minus the aid ($400 millions) allocated to us by E.C.A. for the period 1st April, 1948, to 30th June, 1948. We thus provide an E.R.P. programme of $1,271 millions. Of the aid allocated for the second calendar quarter, $300 millions was on grant and $100 millions on loan. For the purpose of setting up this programme, we have assumed that when the process of authorisation and reimbursement is complete, this $400 millions will all have been used to finance supplies bought in the second calendar quarter.

18. Following the principle in paragraph 5(i) above, we have limited our dollar import programme to the point at which it is covered by our dollar income plus the $1,271 millions E.R.P. aid. In doing this, we have made some allowance for possible drawing on our outstanding credit from Canada. At present, the Canadian Government is unable to allow us to draw upon the credit, but has expressed the hope that if the harvest is favourable, and according to the development of Canada's United States dollar position, we may be able to resume drawings later in the year.

19. The economic effect of this programme is to permit us, broadly speaking, to continue our existing consumption and production. It provides no margin to free resources for additional development work or to increase incentives for the working population; it enables us to remain where we are, continuing the development programmes outlined above, but at a much slower tempo than would be possible with more aid.

20. Food.—The programme provides broadly for continuation of present consumption levels:

   Flour: supplies at 103,000 tons a week, (i.e., 295 grams per head per day for the population as a whole).
   Meat: continuation of 1s. ration (equivalent to 454 grams).
Bacon: continuation of 2 oz. ration, but with possible increase to 3 oz. for a short period next spring.
Sugar: continuation of 8 oz. ration.
Fats: continuation of 8 oz. ration of margarine, butter and cooking fat.
Cheese: continuation of 1½ oz. ration.
Eggs: increase from 93 eggs per head in 1947–48 to an average of 97 eggs per head.

We are placing no demands for major foods in short supply on United States.

21. Feeding Stuffs.—We have not included any requirements of coarse grains from dollar sources because we hope to secure supplies from other sources which will increase consumption of coarse grains from 6 million tons in 1947–48 to 8½ million tons. If these efforts are successful we shall be able to broaden the present rationing scheme (which provides supplies for pigs and poultry only to producers established before the war) and to provide a bonus on performance and an increase in the basic rations (at present based on one-fifth of pre-war numbers of pigs and poultry). If these improvements can be made the expansion in livestock numbers which has taken place in the past year can be continued.

22. Raw Materials.—On this programme, supplies will be sufficient to maintain distribution to industry at about the present absorption rate, which is enough to keep industry going on an "austerity" basis for the home market and full supplies for exports. We have programmed steel supplies from the United States on the assumption that availability will not improve; if increased supplies of semis could be made available, we should take much more, with great positive benefit to our engineering industry, and particularly to the development programmes outlined above; we attach high priority to steel semis in laying out our dollar import programme. In other raw materials, we are prevented by the financial limit imposed by the Budget programme from buying all that we need, and in particular from buying enough to get a smooth industrial flow.

23. Machinery.—The programme is on the basis of present import licensing policy, by which purchase of an American machine is permitted if it is genuinely needed and a suitable British machine is not available quickly enough.

24. Other Manufacturers.—Mainly semi-manufactures for industrial use. Imports of manufactured consumer goods from dollar sources are negligible (e.g., books, newspapers, &c.) and include token imports, designed to maintain pre-war contacts between suppliers and markets.

25. Tobacco.—Minimum supplies of North American tobacco, enough to maintain consumption and leave a minimum stock at the end of the year.

26. Petroleum.—Enough supplies are provided to maintain industrial and transport use, with a continuation of the present standard ration to private motorists, sufficient for travelling ninety miles a month. Coal/oil conversion has been stopped and consumption of motor spirit will be about 3 per cent. below the 1947 level.

27. Petroleum Equipment.—Equipment is included for the refinery projects in the United Kingdom and Holland, and for the purchase of essential drilling and production equipment to increase crude oil availability in 1948–49. Material required for the rehabilitation and expansion of refineries in N.E.I., Middle East, Curacao and Venezuela has also been included. The programme makes provision for the needs of subsidiaries of United States companies in the United Kingdom and dependent overseas territories as well as for British companies.

28. The general effect of the Budget programme would therefore be as set out in paragraph 19 above—it would permit us, broadly speaking, to continue our existing consumption and production. If the amount of aid available were less than the Budget programme, we should be confronted with a very difficult dilemma. There would be three possibilities open to us, in order to save or earn more dollars:

(i) Further reduction in consumption of food, &c., in the United Kingdom
(ii) Reduction of raw material imports, and consequently either a fall in exports (which would necessitate further import cuts) or a further delay or postponement in completing the development programmes, or a reduction in the consumption of manufactured goods.
(iii) Action to reduce our dollar drain, some of which might have the effect of making more difficult the recovery of other countries (e.g., requiring dollars in payment for oil bought from dollar sources for delivery to other countries).

Adoption of these policies would clearly make more difficult our own recovery, and would be bound to have repercussions upon the other participating countries and, indeed, upon the world economy at large. But such action would be inevitable if we did not have at least as much aid as is provided in the Budget programme.

The "Requirements" Programme

29. In framing our "requirements" programme, our main difficulty is lack of availability of the critical supplies, and particularly of steel and other materials needed for the engineering industry. Our requirements programme includes steel imports from United States only on the "Brown Book" basis; if more could be made available, we could press much faster ahead. Our own development programmes in the United Kingdom, the developments in the dependent territories, and the petroleum projects are all slowed down for lack of steel.

30. The general purpose of the "requirements" programme is to further the recovery process outlined above, by all possible means, consistent with the availability of supplies. We must emphasise the limitation placed upon us by the supply availability; the additional tranche, over and above the "Budget" programme consists of supplies which we believe to be available and not those which would help us most. The additions are:

<table>
<thead>
<tr>
<th>Item</th>
<th>$ millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>123</td>
</tr>
<tr>
<td>Feeding-stuffs</td>
<td>70</td>
</tr>
<tr>
<td>Raw materials</td>
<td>122</td>
</tr>
<tr>
<td>Machinery</td>
<td>10</td>
</tr>
<tr>
<td>Tobacco</td>
<td>25</td>
</tr>
<tr>
<td>Shipping</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
</tr>
</tbody>
</table>

This is, of course, all assumed to be financed by E.R.P., making a total E.R.P. programme of 1,670 millions.

31. Food.—The very modest additional programme has been designed with the need in mind for maximum stimulus to industrial production. Present food supplies are perhaps sufficient to make possible a diet that is technically adequate. But it is also dreary, and the dreariness reduces the effectiveness. More sugar is therefore included in the programme in order to improve the palatability of the diet and this ensures that full benefit is derived from it. The sugar ration is raised by 2 oz. to 10 oz. with a corresponding increase in the release for manufactures. The programme provides also for additional cheese supplies so as to safeguard the special ration allowance made to agricultural and other heavy workers. The other small increase in canned fish and dried and canned milk would go some way to restoring the levels of distribution which were ruling before the cuts were made in 1947.

32. Feeding-stuffs.—An additional 780,000 tons of coarse grains from United States and Canada. This, in addition to the supplies in the Budget programme which assumes substantial supplies from non-dollar sources would permit a wider range of improvements, and the rate of livestock expansion could be accelerated to the full extent necessary to achieve the target production of pig meat, eggs and milk under the long-term development plan.

33. Raw Materials.—Additional supplies of steel up to Brown Book. The supplies of non-ferrous metals would be increased to a point at which they could be issued without restriction; additional timber is provided to enable housing to proceed faster to help the manning of industries which it is required to expand (the lack of houses is the worst difficulty in recruiting miners and agricultural workers). Newsprint is provided for a 6-page newspaper, instead of the present 4-page paper. Some improvement in stocks of cotton would be possible.

34. Machinery.—The additional $10 million for machinery consists of essential items such as textile machinery, of which the United Kingdom urgently needs more if supplies can be made available.
35. **Tobacco.**—An increase in stocks is very necessary; the stock levels on the “Budget” programme are too low for efficient operation in this industry.

36. Taken as a whole the requirement programme would enable us to move faster on the critical agricultural and engineering fronts, and would have a stimulating effect upon activity all round.

**Intra-European Payments**

37. We are requested to furnish a memorandum on the changes which we should make in the programmes if the most serious intra-European payments difficulties were to disappear. In our dollar import “Budget” programme there are no items which could be reduced if supplies, known to be physically available in other participating countries, could be obtained without payment difficulty. If there were no gold payment difficulty, and if the terms of sale were acceptable and if we could get the steel in the form we want, we could take substantial additional quantities of Belgian steel. But we should still need as much as we could get from the United States. On the “Budget” programme, we should not reduce our copper imports from the dollar area if we got more from the Belgian Congo, for we are restricting consumption of copper and thus the activity of the engineering industry.

**Conclusion**

38. The programmes which we are submitting can be summed up in the following terms:

(i) The “Budget” programme is just enough to permit us to continue our existing production and consumption; it enables us to proceed with our development programmes, but at a much slower tempo than would be possible with more aid.

(ii) The “Requirements” programme is seriously limited by lack of availability, particularly of steel. The additional aid which it would provide would enable us to step up production, particularly in the fields of special importance for our long-term recovery.

(iii) If aid is less than the “Budget” programme, we have to choose between cutting our consumption (which would almost certainly damage production), cutting the raw material supply to industry (with highly damaging effects upon production), or action to reduce our own dollar drain which would make more difficult the recovery of other countries; the policy adopted would no doubt embrace all three of these lines of action.
<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Canada and Newfoundland</th>
<th>Other American Account Countries(a)</th>
<th>Non-Dollar Countries</th>
<th>Total</th>
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<td>211(c)</td>
<td>732(c)</td>
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(a) All Latin America, except Argentina, Brazil, Uruguay, Paraguay, Chile and European countries' dependencies.
(b) Includes $40 millions' worth of steel machinery arriving after 1948-49 period.
(c) Other transactions include oil, tobacco, and shipping on goods other than above.
(d) To non-participating countries.
(e) Includes $25 million payment for machinery arriving after 1948-49 period.
(f) Includes $4 million tobacco and $15 million cheese arriving in 1948-49 for which payment has been settled in the 2nd Quarter of 1949.
| Table II: Summary of United Kingdom E.R.P. Programme for Imports and Shipping Services from Dollar Sources, 1948-49 |

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<td>Cane and Sugar</td>
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(1) Including $828,600 nickel from Norway.
(2) Including $36 millions for steel equipment, of which $25 millions represent payments for delivery after 1948-49.


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<th>Product</th>
<th>Production</th>
<th>Imports</th>
<th>Exports</th>
<th>Consumption</th>
<th>Stock Change</th>
<th>Percentage increase in consumption 1947 to 1948 (%)</th>
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<td>Requirements</td>
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</table>

**Notes:**

(1) Ex-exports.
(2) Ex-exports of 398 tons.
(3) Imports, exports and consumption figures include not equivalent of semi-finished products.
(4) Including 85,000 tons second-hand surplus or stock.
(5) Including 7,000,000 tons second-hand surplus or stock.
(6) Including bankers.
(7) Excluding bankers.
(8) Awaiting Ministerial decision.
<table>
<thead>
<tr>
<th>Product</th>
<th>Production</th>
<th>Imports</th>
<th>Exports</th>
<th>Consumption</th>
<th>Stock Change</th>
<th>Percentage Increase in Consumption 1947 to 1948-49</th>
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<tbody>
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<td>16</td>
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<td>1948-49: Budget</td>
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<td>16</td>
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<tr>
<td>Requirements</td>
<td>445</td>
<td>33</td>
<td>16</td>
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<td>1935-38</td>
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<td>78,750</td>
<td>37,100</td>
<td>67,750</td>
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</table>

(*) All commercial vehicles.
(10) Excluding industrial trucks.
### Table IV

**United Kingdom Current Account with the Rest of the World**

**Period:** 1948-49 Budget Programme

<table>
<thead>
<tr>
<th></th>
<th>Dollar Area</th>
<th>Non-Dollar Area</th>
<th>Sterling Area</th>
<th>Total Non-Dollar Area</th>
<th>Grand Total</th>
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<td>United States</td>
<td>Canada and New-</td>
<td>Other American</td>
<td>Total Dollar Area</td>
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<td></td>
<td></td>
<td>Foundland</td>
<td>Other Account</td>
<td>Area</td>
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<td>I. - Expenditure</td>
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<td>Accounts</td>
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<tr>
<td>1. Imports F.o.B.</td>
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<tr>
<td>Food and Agriculture</td>
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<td>428</td>
<td>102</td>
<td>547</td>
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<td>Tobacco</td>
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<td>Machinery</td>
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<td></td>
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<tr>
<td>Oil</td>
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<tr>
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<td>781</td>
<td>228</td>
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<td>64</td>
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<td>2</td>
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<tr>
<td>Income from Capital</td>
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<td>16</td>
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<td>100</td>
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<td>25</td>
<td>289</td>
<td>182</td>
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<tr>
<td>Oil (other transactions)</td>
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<td>2</td>
<td>54</td>
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<tr>
<td>Freight and Tanker hire Equipment</td>
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<td>Other transactions (net)</td>
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<td>5</td>
<td>-12</td>
<td>-19</td>
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<td>530</td>
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<td></td>
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<td>1. Exports and Re-exports f.o.b.</td>
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<td>262</td>
<td>24</td>
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<tr>
<td>Freight</td>
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<td>52</td>
<td>14</td>
<td>189</td>
<td>24</td>
</tr>
<tr>
<td>Other receipts</td>
<td>11</td>
<td>5</td>
<td>13</td>
<td>19</td>
<td></td>
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<tr>
<td>Income from Capital</td>
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<td>22</td>
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<td>-426</td>
<td>-334</td>
<td>-1,159</td>
<td>-180</td>
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</table>

$ millions
CABINET

THE CIVIL AIRCRAFT PROGRAMME.

MEMORANDUM BY THE LORD PRIVY SEAL

The Civil Aviation Committee under my Chairmanship has, at three meetings, recently reviewed the civil aircraft programme against the background of the serious position in which British civil aviation finds itself. The determination of the programme of aircraft for the three Corporations over their various routes is a highly complicated and closely integrated business, each aspect of which is apt to react upon others. I do not propose to trouble my colleagues with all the detail which it has been necessary to consider before coming to the recommendations which I make below, but confine myself only to the salient features of the situation on which the approval of the Cabinet seems desirable.

General Background

2. The Cabinet will remember that the policy to “Fly British” was set out in the White Paper of December 1945 (Cmd. 6712) and formed the basis of decisions taken in 1946 (C.M. (46) 77th Conclusions, Minute 3) and in 1947 (C.M. (47) 35th Conclusions, Minute 7). The essential reason for this policy—to ensure the maintenance of the long-term position of the British aircraft industry—is still valid. In following this policy it was recognised that some years must pass before first-class new British aircraft could be brought into service. Meanwhile, the best possible interim types of British aircraft, developed from war-time British military aircraft, were to be used, even though this would mean some temporary financial loss. Departures from the policy have, however, been authorised in the ordering of six Constellations and six Boeing Stratocruisers for use by the B.O.A.C. on the North Atlantic, and, recently, in the purchase for sterling from Eire of five Constellations for use by them on the route to Australia (C.M. (48) 31th Conclusions, Minute 11).

3. The Corporations are losing money on an alarming scale. What is worse, they are losing traffic and goodwill and failing to hold their own against competitors using modern American aircraft. The rate of loss is bringing them into discredit. Their financial outlook for the next three or four years is bleak, while public criticism of the rate of loss incurred by this socialised industry is not only discouraging to them but hard for the Government to meet. There is also a real danger that British civil aviation might sink so low in the esteem of travellers as to be unable to recover even when the advanced new types of British aircraft, such as the Brabazon and the Comet which we may expect to be at least the equals of any aircraft in their generation, come into operation in 1953–54.

4. This is the background against which the specific questions affecting the programme of aircraft to be used by the B.O.A.C. and the B.S.A.A.C. must be considered. There are no problems affecting the B.E.A.C. with which I need trouble my colleagues.

The Long-Term Programme

5—(a) The Brabazon I. This is our principal, if not our only, hope for the North Atlantic route. Work on the two prototypes is progressing satisfactorily and, though it has still many specialised problems to be overcome, it gives promise
of being an aircraft of great value. Should all go well it is hoped that it will come into service in 1953 and that by 1958 it should be capable of showing a profit in operation.

(b) The D.H. Comet.—This will be jet-propelled and is intended to cruise at the very high speed of 500 m.p.h. It is expected to be in service on the Empire routes by 1953, but unfortunately it now appears that, initially at least, it is unlikely to have adequate range and reserves of fuel for regular service on the North Atlantic. Nevertheless, much of our hope of leadership in the field of civil aviation is centred on the Comet.

(c) The Bristol medium-range Empire aircraft.—This aircraft, for the prototypes of which orders have been placed, will to some extent be an insurance against a failure of the Comet. It will be a more conventional type of aircraft, in effect an improved British version of the Constellation.

(d) The medium flying-boats.—These flying-boats, of which the latest version, the Solent, is now coming into operation, are very comfortable and have been popular with the public on the Empire routes. They have, however, since the war, become uneconomic owing to the high cost of maintenance of marine airports. Under the Chicago Convention, every nation assumes an obligation to provide international airports for commercial aircraft. The landing fees charged for using them do not cover more than a fraction of the cost of their provision, so that in effect other countries bear a large proportion of the cost of landing-grounds in their territories. Other nations do not, however, operate flying-boats to any extent, so that the full cost of providing marine airports together with passenger accommodation at night-stops, falls upon the operators. B.O.A.C. calculate that the cost of this overhead expenditure during 1948–49 will be just under £2 millions. In these circumstances, the Committee recommend that the medium-sized flying-boats should not continue to be included in the operation plans of the Corporations after the withdrawal from service in the natural course of the existing types.

(e) The S.R.45.—This large flying-boat presents a problem of its own. There are three at present on order, but B.O.A.C. do not think that, as the project has developed, this aircraft will be suitable for the North Atlantic. The cost of maintaining the necessary marine airports on the Empire routes would make it uneconomic for employment on those routes. B.S.A.A.C. are, however, anxious to take the S.R.45 for their services to South America and the West Indies, and, when it is clear that the estimates of its performance are being maintained, propose to order an additional four boats. These routes admit of widely spaced natural marine bases of a relatively simple type, which can be maintained quite cheaply. The service would be based on Calshot, at the entrance to Southampton Water, subject to certain stipulations by the Admiralty and the Air Ministry to which the Minister of Civil Aviation is willing to agree. The cost of these aircraft, if seven are ordered, is estimated over £1 million each, but on certain admittedly rather optimistic assumptions about the traffic offering, B.S.A.A.C. consider that they have a reasonable chance of breaking even with them by 1956–58. The economic prospects are thus somewhat doubtful, but the only alternative is to abandon altogether this ambitious project, on which much work, research and money has already been spent. From the wider national point of view, there is everything to be said for maintaining this country’s interest in the flying-boat, and the Civil Aviation Committee therefore recommend that work on the S.R.45 should go forward with a view to its employment by B.S.A.A.C.

The Interim Programme

6. So far as the North Atlantic is concerned, we have necessarily to depend during the immediately coming years on non-British types, since, as my colleagues are aware, in the view of B.O.A.C., the Tudor I has not proved safe for operation on the North Atlantic and it has already been decided, notwithstanding the recommendations of the earlier Courtney Report (Cmd. 7307), not to press them on the Corporation for this service. The route to Australia is to be operated with the five Constellations recently bought from Eire. The routes to South Africa and to Hong Kong will continue to be operated with flying-boats.

7. There are serious difficulties, however, concerning the South American, Middle East and certain Empire routes. These services are at present operated with Yorks and (to the West Indies) with three Tudor IVs. (The Tudor IV is a variant of the Tudor I.) The Yorks are obsolete, and both B.O.A.C. and B.S.A.A.C. wish to be rid of them from their more important routes. There are 16 Tudor IVs on order for B.O.A.C. which will be delivered over the period
August, 1948, to February, 1949, and also 25 Handley Page Hermes, a promising but as yet not fully proved type which it is hoped will be ready for service during 1950. The Tudors could not in any case operate beyond Calcutta on the “Kangaroo” route or (until 1951) beyond Nairobi on the “Springbok” route, since certain airports beyond those points are unsuitable for their take-off and landing requirements.

8. Finally, there are on order for B.O.A.C. 26 Tudor IIs and for B.S.A.A.C. 6 Tudor Vs (a variation of the Tudor II). These machines, the Tudor II and V, which it had been hoped to bring into service in 1946, are already two years late and this delay, which would have brought their introduction relatively close to that of the Hermes, combined with their disappointing performance and economic prospects, was already making them a most unattractive proposition to the Corporations. The Courtney Report on the Tudor II, which is being circulated separately (C.P. (48) 180) brings this out. At trials held last month at Khartoum and Nairobi, subsequent to the completion of the Courtney Report, the aircraft turned out even worse than had been feared and the Civil Aviation Committee has now no alternative but unanimously to recommend that the Tudor II (and Tudor V) cannot be used on the Corporations’ scheduled services. The cost already incurred on these machines is of the order of £4 millions.

9. How then is the gap in the programmes of the two Corporations to be filled? The Corporations have already agreed among themselves that the 16 Tudor IIs on order for B.O.A.C. should be diverted to B.S.A.A.C., who would thus have a unified fleet of 19 Tudor IVs. The Civil Aviation Committee considered two alternative methods for filling the gap in B.O.A.C.’s fleet. The Minister of Supply pointed out that the Tudor IIs and Vs could be converted into Tudor IVs within a short period and at a cost of £60,000 per aircraft by building new fuselages and he is in favour of this course. The Committee, however, with the Minister of Supply dissenting, preferred, in view of the many uncertainties attaching to this proposal, to accept a proposal of B.O.A.C. for the purchase of 22 Canadairs, which is discussed in the following paragraph.

10. The Canadair, or DC4M, is an airframe manufactured under licence in Canada from American designs and powered with Rolls-Royce engines. It is already proved in performance and would be ready to come into service at least as quickly as the Tudor IVs converted from Tudor IIs. In attractiveness to passengers and payload (the Canadair carries 40 passengers against 32 in the Tudor IV), it is in almost all respects clearly superior to the Tudor IV. Though its cost would be £175,000 per aircraft, as against the estimated additional £60,000 per aircraft needed to convert the Tudor IIs in their present state to Tudor IVs, it is expected to prove much more economic in operation, and over a five-year period, even after allowing for the additional cost of purchase of the Canadairs, the Minister of Civil Aviation estimates that it will cost B.O.A.C. somewhere between £5.5 millions and £13.5 millions less than a corresponding number of Tudor IVs. It would be possible to use some of the Canadairs for additional services on the North Atlantic, where the demand in mainly dollar-earning or dollar-saving traffic already exists. The Treasury are satisfied that, in collaboration with the Canadian Government, means can be found of paying for the airframes, which will not involve any dollar outlay.

11. In all the circumstances, the Civil Aviation Committee have come to the conclusion that the right course is to purchase the 22 Canadair aircraft desired by the B.O.A.C. In addition to the considerations set out in the preceding paragraph, the Committee were impressed by the broad consideration that there is a limit to the losses which Parliament and the public will be prepared to see the Corporations incur during the immediately coming years before the new British types, of which we hope so much, come into operation. It is understood that even if the Canadairs are purchased we must expect losses of the order of £2.4 millions during the three years 1948-51 on the South American and Empire routes alone. If the Empire routes are operated with Tudor IVs, these losses will, as explained in the preceding paragraph, be very substantially increased.

12. In coming to their conclusion, the Civil Aviation Committee gave full consideration to the adverse effect which such a further departure from the “Fly British” policy might have on the prestige and experience of the aircraft industry. They considered, however, that this must be weighed against the loss in national prestige which would result from the continued operation of British Civil Aviation with machines falling short of the highest standard in operation
to-day. We are, in any case, faced with the regrettable disappointments with
the Tudor II, as the publication of the Courtney Report and also, I presume, of
the report of the trials will make plain to the world. The proposed further
modification of the "Fly British" policy arises solely from the abandonment
of the Tudor II and will involve only certain routes (viz., those to India, Ceylon
and the Middle East) while confidence in the Tudor IVs and their manufacturer
will be demonstrated by their exclusive employment by the B.S.A.A.C. Finally,
the employment of the Canadairs will not only further increase the prestige of
British aero-engines, but can be represented as a "Fly Commonwealth" policy.
In these circumstances, I do not think that it can justifiably be said that we are
attaching undue importance to minimising the losses incurred by the operators
at the taxpayer's expense and are thereby jeopardising the British aircraft
industry—a national asset which for both military and economic reasons we
naturally all wish to preserve at the highest level of prestige and efficiency.

13. We are hopeful that some alternative uses can be found for the
Tudor IIs, whether as such or converted into Tudor IVs. It may be possible to
indicate to the Cabinet, when this memorandum is discussed, the results of
preliminary enquiries.

14. There is, however, one consideration to which I would invite the special
attention of my colleagues. The switch to a non-British type of airframe involves
the operator in a considerable re-equipment of his depots and re-training of his
personnel. It would not be surprising if he were to show some reluctance to go
over the ground again in the opposite direction and return to British aircraft,
unless the British aircraft when they are forthcoming represented a very
considerable superiority over the non-British types then available. The B.O.A.C.
must be given clearly to understand that they are expected to "Fly British" as
soon as the new British types become available and that there must be no question
of the addition of the Canadair aircraft to their fleet being allowed in any way
to prejudice the introduction of the new types. There must be no thought of
future withdrawal from contracts which have already been placed with British
firms for these types. In fact, it is not contemplated that the Canadairs will be
used on the same routes as those for which the Hermes is destined, so that on
present plans this consideration will not arise until the Comet (or the M.R.E.)
is ready to come into operation.

Conclusions

15. I ask my colleagues, therefore, to approve the following recom-
endations:—

(1) That work on the Brabazon I, the Comet and the M.R.E. should
be pressed forward with all possible energy.

(2) That the existing types of smaller flying-boats, though remaining in
service for their normal life, should not be replaced when they are
withdrawn.

(3) That the construction of S.R.45 flying-boats should be pressed forward,
with a view to the employment of seven such boats by B.S.A.A.C.

(4) That the Tudor II (and its variant the Tudor V), in view of the disap-
pointing results of its trials, should not be used on schedule services,
but that every effort should be made by the Minister of Civil Aviation,
in consultation with the Minister of Supply, to seek alternative uses
for the Tudor II and V aircraft already ordered by B.O.A.C. and
B.S.A.A.C., either in their original form or converted into Tudor IVs.

(5) That, to fill the gap caused by the abandonment of the Tudor II and the
transfer to B.S.A.A.C. of the Tudor IVs on order for B.O.A.C.,
B.O.A.C. should be permitted to purchase twenty-two Canadairs,
provided that:—

(a) no dollar expenditure is involved; and
(b) the B.O.A.C. undertake that the introduction on their services of
new British types as they become available is not prejudiced.

(6) That the Minister of Civil Aviation be authorised to cover the above
conclusions in his statement in the course of the forthcoming debate
in the House of Lords on 21st July.

Office of the Lord Privy Seal, S.W. 1,
9th July, 1948.
SECRET

C.P.(48) 180

12th July, 1948.

CABINET

FINAL REPORT OF COMMITTEE OF ENQUIRY INTO THE TUDOR AIRCRAFT

Memorandum by the Minister of Supply and Minister of Civil Aviation

We circulate herewith as Appendix I the Final Report of the Courtney Committee on the Tudor II and suggest that it should be published as a White Paper the day before the Cabinet decision on the aircraft programme is announced.

2. It would be essential to publish at the same time the gist of the preliminary indications resulting from the recent trials of the Tudor II at Khartoum, which brings the story up to date. The final results of the trials are unlikely to be available for several weeks.

3. A summary of the results so far obtained, and of their implications, has, however, been prepared and agreed by the two Ministers and a copy is attached (Appendix II). This shows that considerable further delay would have to be faced before the aircraft could be brought to a satisfactory standard for operation on Empire routes. We suggest that the wording of the statement to be published with the Tudor Report should be agreed between us in the light of the Cabinet's decision on the general "fly British" policy.

G.R.S.

P.

12th July, 1948.
MEMBERS OF THE COMMITTEE

Air Chief Marshal Sir Christopher L. Courtney, G.B.E., K.C.B., D.S.O. (Chairman).
Mr. James Mould, K.C., Ph.D., B.Sc.
Mr. J. J. Taylor, O.B.E.
(Mr. G. Wansbrough, M.A., resigned from the Committee in February, 1948.)

Secretaries:
Mr. J. A. Drew.
Miss R. M. Brown.

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APPENDICES

A.—List of Witnesses.
B.—Table of Tudor marks mentioned in the Report.
The Right Hon. George Strauss, M.P.,
Minister of Supply.

Sir,

In our Interim Report dated 11th December, 1947, we dealt with the development and production of the Tudor I aircraft; and in submitting it we said that we hoped to submit a further report dealing with other marks of the Tudor.

The most important of these are the Tudor II, IV and V. We have concentrated our attention on the Tudor II type and this Report deals only with this aircraft. We are not aware of any matters affecting the other marks which require our examination and we propose to regard the submission of this Report as discharging our task. We understand that you concur in this view.

We should like to emphasise that in conducting our enquiry we have not had before us, as we had in the case of the Tudor I, the results of official trials of the aircraft. Our conclusions about the operational qualities of the aircraft, therefore, have necessarily been based on estimated performance figures. A Tudor II has now gone to Boscombe Down for official flight trials and actual figures should be available shortly. These might well modify our conclusions.

At Appendix A we set out the names of those who appeared before us. We also provide in Appendix B a description of the various marks of the Tudor type to which we have referred in this Report and in our Interim Report.

We are, Sir,
Your obedient Servants,

C. L. Courtney.
James Mould.
J. J. Taylor.

J. A. Drew (Secretary).
R. M. Brown (Assistant Secretary).

23rd June, 1948.
HISTORY OF THE TUDOR II AIRCRAFT

Technical History

1. The Tudor II, as its name implies, is a derivative of the Tudor I. While the latter was intended to be a long-range aircraft with a necessarily restricted payload, the former was to be suitable for medium ranges with a greater payload. These two marks of aircraft were designed to have identical wings, tail units, under-carriages and power plants; only the fuselage was to be different, the Tudor I being thin and short (10 ft. diameter and 80 ft. long) and the Tudor II a little fatter and much longer (11 ft. diameter and 105 ft. long). Thus, for operation over the Empire routes to Australia and South Africa, where airfields could be expected to be available for refuelling at reasonable stages, the Tudor II could, it was hoped, be used with a far more economic payload than the Tudor I.

2. Proposals for the construction of the Tudor II were originally put forward by A. V. Roe, Ltd., in the autumn of 1943. They were known to the second Brabazon Committee, which reported that while the tentative specification put forward by the firm approached the requirements of the Brabazon 3B(1), it could not be regarded as fulfilling the ultimate requirements of the type and at the most should be regarded only as an interim type 3B (Report dated 3rd July, 1944). In August they were informed that it was unlikely that capacity could be found to produce the Brabazon 3B, and that the Ministry of Supply(2) intended to place an order for two prototypes of the Tudor II.

3. B.O.A.C. and the Ministry of Civil Aviation were associated with these preliminary discussions. In September 1944 the Corporation recommended that the Tudor II and/or the D.C.4 with Merlin engines should be considered for services other than the North Atlantic and in the same month they discussed the outline of a specification with the Ministry of Supply.

4. In November 1944 a draft specification was drawn up which, after further discussion, was agreed with the Ministry of Civil Aviation, B.O.A.C. and A. V. Roe, Ltd., and was issued in December 1944. The specification laid down the following requirements:

<table>
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<tr>
<th>Requirement</th>
<th>Specification</th>
</tr>
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<tbody>
<tr>
<td>Range and payload</td>
<td>2,800 statute miles with a payload of 8,275 lb. or 2,600 statute miles with a payload of 9,675 lb.</td>
</tr>
<tr>
<td>Cruising speed</td>
<td>228 m.p.h. at 25,000 ft.</td>
</tr>
<tr>
<td>Height</td>
<td>Not more than 1,200 yards to 50 ft. in a standard atmosphere at sea level against a wind speed not exceeding 5 m.p.h.</td>
</tr>
</tbody>
</table>

Other requirements were that the fuselage should be pressurised; that the passenger space should be furnished for 41 day passengers; and that the design of the passenger cabin was to be such that it could be made suitable, if required, for the carriage of 22 sleeping passengers. No all-up weight was specified as it was in the case of the Tudor I. This allowed the designer freedom to determine the all-up weight at which the specification could be

(1) The type 3B was intended for the longer European services, for the United Kingdom-South Africa route and for medium stage services to New Zealand. The specification included a still air range of 2,250 statute miles at a cruising speed of 230 m.p.h. at 15,000 feet, with a payload of 8,500 lb. and a take-off distance of not more than 1,200 yards to 50 ft.

(2) As in our Interim Report we refer throughout to the Ministry of Supply, which has taken over the functions of the Ministry of Aircraft Production.
met. At the time the specification was issued the designer estimated that the requirements could be met at an all-up weight of 76,000 lb.

5. The first prototype of the Tudor II flew in March 1946. It was found to suffer from most of the aerodynamic troubles which had become apparent in the Tudor I, though to a somewhat lesser degree. In July 1946 (after four months' flight trials by the firm as compared with ten months in the case of the Tudor I) the prototype was taken to Boscombe Down for official flight trials. This aircraft was in much the same state of aerodynamic development as the Tudor I when it was first flight tested at Boscombe Down in April 1946. It was returned to the firm in September for further aerodynamic improvement and was again sent to Boscombe Down on 7th December, 1946, for trials for a Certificate of Airworthiness.

6. These tests were not completed by April 1947 when the aircraft was returned to the firm for incorporation of the improvements which it had been decided to make to the Tudor I as a result of the Nairobi trials of that aircraft (an account of which was given in our Interim Report).

7. The work of adapting these improvements to the Tudor II was well advanced when the aircraft crashed on a trial flight, killing the Technical Director and Chief Test Pilot. This unfortunate accident deprived the firm not only of the accumulated experience of the two men most closely concerned with the technical development of the Tudor II, but also of the only aircraft then available for test flights. The first production aircraft had to be brought to the point of development which had been reached by the prototype and consequently the aircraft could not be sent to Boscombe Down for its final tests for a Certificate of Airworthiness until May 1948.

Utilisation of the Aircraft

8. We have already noted that the Tudor II was intended for use on the routes between the United Kingdom and Australia, New Zealand and South Africa. The structure of the operating companies and the degree of co-operation with the Dominions were undetermined in 1944 and the first production order for 30 Tudor IIs placed in November of that year at the request of B.O.A.C. was no more than a first instalment.

9. In December 1944, however, an Imperial Air Conference accepted the principle of parallel operation on the trunk routes between the United Kingdom and Australia and between the United Kingdom and South Africa. Under this arrangement, each country would operate its own national line from terminal to terminal, would pool revenue and would use the same type of aircraft, thus effecting substantial economies in aircraft reserves, stocks of spares and technical maintenance organisation.

10. Following this decision, B.O.A.C. prepared detailed schedules of services to be operated by them and by the Commonwealth operators and calculated that approximately 85 aircraft would be required. At their request the Ministry of Supply in April 1945 increased the order for Tudor IIs from 30 to 79; it was intended that the remaining 6 should be produced in Australia, but this proposal was later dropped. The decision that the Tudor II would be used by United Kingdom, Australian and South African operators was confirmed by the Commonwealth Air Transport Operators Committee in July 1945.

11. Although there was some variation of requirements from time to time, the order for 79 aircraft remained in force until October 1946. But it was during this period that doubts arose as to whether the Tudor II was likely to prove suitable for use on all the Empire routes. The reasons for these doubts will be explained later in this report; it will suffice here
to say that estimates of the weight of the aircraft grew greater and that estimates of performance, in terms of range and payload and of take-off, began to decline.

12. At this time also, foreign competitors were beginning to equip themselves with proven American types and information of this kind coupled with discouraging reports of the Tudor, both in respect of performance and of deliveries, began to influence the Dominions. In July 1946, Qantas Empire Airways, the Australian Company, reached the conclusion that they must take an option on four Constellations and shortly afterwards South Africa Airways announced that they proposed to use Skymasters.

13. These decisions, which involved the loss of most of the advantages expected from parallel operation, were taken only after the fullest consultation between the companies and Governments concerned, both here and in the Dominions. Even had the aircraft been available, however, they would not have been used for through operation as had originally been contemplated, since by October 1946 B.O.A.C. had concluded that the Tudor II could not be operated east of Calcutta nor south of Nairobi due to the limitations of take-off from existing airfields. The Corporation therefore proposed to limit its use to routes west and north of these points respectively and to West Africa.

14. The consequence of these decisions by the Commonwealth operators and by B.O.A.C. led to a recommendation in October 1946 that the order for Tudor IIs should be reduced from 79 to 50; this was put into effect in January 1947. Of this latter figure 26 were calculated to be required for B.O.A.C. services, 6 (in the form of the Tudor V(3)) for B.S.A.A. services, while the remaining 18 were earmarked for fitting with Hercules engines if trials with this installation should show an improvement in performance.

15. Relatively little production work has been carried out on the Tudor II since February 1947, partly because it has been decided that the results of further development of the Tudor I since the Nairobi trials of that aircraft should be applied to the Tudor II, and partly because of uncertainty whether B.O.A.C. will ultimately accept the aircraft for operation.

THE COURSE OF THE ENQUIRY

16. Our examination of the course of development of the Tudor I necessarily involved some consideration of the delays which have occurred in the production of the aircraft and its introduction into service. There were also serious delays in the production of the Tudor II, but in our view these are less important than the question of the suitability of the aircraft for its intended purpose, both by reference to the specification and by comparison with the existing types of aircraft, notably the York, which it will replace if it is brought into service. Accordingly it is to this latter subject that we have felt it right to devote the major part of our enquiry.

17. In the course of development there has been a substantial increase in the size of the fuselage. This increase was partly occasioned by alterations made to internal layout and has contributed to the rise in weight of the aircraft. The increased weight in its turn has affected performance. It will be convenient, therefore, to deal with layout, size, weight and performance in that order.

INTERNAL LAYOUT

18. In our Interim Report we stated that the development of the Tudor I had been delayed by a number of aerodynamic defects. The same defects were

(3) See Appendix B.
present in the Tudor II, though to a lesser degree, and their solution has had to await the results of the extended investigations made into the troubles of the Tudor I. Thus, the delaying effect of the modifications required by B.O.A.C. is less than it would have been in other circumstances, since time was available, due to the slowness with which the aerodynamic development proceeded, to deal with these changes.

The Requirements of the Operators

19. Broadly the only major alterations special to the Tudor II are those concerning the internal layout and in this part of our report we propose to concentrate on the effect on the aircraft of these changes and the modifications resulting from them.

20. The story of these changes is a complicated one, because until the summer of 1946 it was necessary for B.O.A.C. to co-ordinate their own requirements with those of the Commonwealth operators, for whom they were acting; the changes were therefore partly the result of the varying opinions of these operators.

21. It was originally decided by B.O.A.C. in consultation with the Commonwealth operators (and included in the specification) that all the aircraft should be equipped with convertible day and night accommodation. This decision was based on the principle that journeys involving more than one night in the air would necessitate sleeping accommodation and that a surcharge would be attracted. Seats were therefore to be arranged in facing pairs which were easily convertible into half the number of bunks. This arrangement, convenient though it was, had two important results; it necessitated first an increase of 2 ft. in the length of the fuselage and secondly an increase in weight due to the convertible seat/bunk arrangement.

22. In May 1945, as a result of a further study, B.O.A.C. decided that on certain routes, because of limited time in the air, sleeper accommodation would not be justified, and that in consequence a day seater or “Pullman” version would also be necessary. They further decided that this Pullman version was now to have priority, since their studies had shown that “no mixture of sleeping and sitting passengers could absorb the payload which would be available on representative Empire route sectors”: the first 20 aircraft were to be produced in this version. These alternative layouts were partly responsible for a further increase in fuselage length.

23. In July 1945 there was yet another change in layout arrangements. In that month meetings were held by B.O.A.C. with the Commonwealth operators from Australia, New Zealand, South Africa and India and as a result it was agreed that priority should once more revert to the convertible day and night version.

24. In August and September 1945, a mock-up of the sleeper version was inspected and various alterations were called for by B.O.A.C. It was urged by the firm that these changes would seriously delay the production of the aircraft, but the Ministry of Civil Aviation stated that the delay was acceptable and that no further modifications would be put forward.

25. Unfortunately this latter undertaking was not carried into effect. For instance, in October 1945 a new colour scheme and a rearrangement of the layout of the dressing rooms were proposed by an industrial designer introduced by B.O.A.C. The former requirement entailed the purchase of new materials in the delivery of which there was a six months’ delay. Again, in December 1945, B.O.A.C. put forward a request for a new type of chair, convertible into a bunk, which had to be designed, developed and approved before production could be carried further. In the result it was not until
August 1945 that a completed rear half of a fuselage could be submitted for
the inspection of B.O.A.C.

26. This fuselage section was later incorporated in a complete aircraft
(the Tudor VII) and arrangements were made for an inspection to be held in
December 1946. B.O.A.C. examined the aircraft but did not attend the
conference, on the ground that the interior of the aircraft was not completely
furnished.

27. It will be seen that work had gone on throughout 1946 on the
requirements put forward by B.O.A.C. and the Commonwealth operator,
notwithstanding that in July Qantas Empire Airways ceased to be interested
in the Tudor and that in the autumn South African Airways also decided
not to operate it. It was not until February 1947 that B.O.A.C. indicated
that only six aircraft were required in the sleeper version; this involved the
scrapping of a considerable quantity of parts and materials peculiar to that
version. No decision was, however, given as to the detailed requirements
to which the remainder should be produced. The Corporation have stated
that rather than make yet another change in the layout of the aircraft by
reverting to the arrangements decided upon before the entry on the scene
of the Commonwealth operators, they decided to accept the aircraft with
the convertible accommodation. While we appreciate the Corporation's desire
not to impose further burdens on the constructor, we feel that they missed
the opportunity of making a substantial saving in the weight of the aircraft
by abandoning the heavy convertible arrangement and adopting a light weight
seat for day use.

Financial Responsibility for the Modifications

28. A further considerable delay arose from the failure adequately to
define financial responsibility for modifications and this came to a head in
July 1947 at a meeting of the Civil Aircraft Modifications Committee.

29. A. V. Roe, Ltd., had proceeded with the alterations to the sleeper
version requested by B.O.A.C. during their inspections of the mock-up, which
had resulted in some 340 requirements, but B.O.A.C. were not prepared to
commit themselves to paying for the redundant material arising from these
modifications because they had not formally accepted the Tudor II type.
The Ministry of Civil Aviation for their part did not feel able to authorise
expenditure on work peculiar to B.O.A.C.'s requirements without an assurance
that they would ultimately take over the aircraft and pay the full cost,
including all modifications. The Civil Aircraft Modifications Committee
therefore placed a number of modifications in abeyance pending agreement
about financial responsibility, and at subsequent meetings they restricted their
authorisation of modifications to those essential for airworthiness. This
decision prevented the completion of the interior accommodation in the first
six aircraft, while work on the seventh and subsequent aircraft was limited
by the lack of a decision as to whether they should be built in the new day
version which B.O.A.C. had asked the firm to investigate. Little progress
was made on the Tudor II during the remainder of 1947.

30. In October 1947 B.O.A.C. stated that before reaching a decision on
the Tudor II type they wished to inspect a complete aircraft in order to
examine the interior layout, the Merlin engine installation, the under-floor
cargo holds and other features all together. On the other hand they did not
commit themselves to operation of the aircraft even if the layout proved
acceptable, and the Ministry of Civil Aviation were not prepared to risk
expenditure which might prove to be nugatory. The deadlock was finally
broken in January 1948, when the Ministry of Supply assumed responsibility for
authorising the work necessary to bring the first production aircraft up to the full B.O.A.C. modification standard for examination by the Corporation. At the same time a trial installation of the new accommodation in another Tudor II was authorised by the Ministry of Supply.

31. The result of all this is that a considerable amount of work still remains to be done before the aircraft can be assembled, and this may result in delay additional to that caused by the incorporation of the aerodynamic modifications. This situation is, in our opinion, primarily due to a failure to determine in good time financial responsibility for the project as a whole and particularly for the alterations required by B.O.A.C. We do not infer that the solution of the difficulty would have been easy, but the situation we have described demonstrates the importance of it.

32. B.O.A.C. have sought to justify their action in making successive changes in layout on the ground that many of them were required by the Commonwealth operators. This is, of course, true but some of the changes asked for represented second thoughts by B.O.A.C. on their own requirements and we feel that we cannot accept them of vacillation which must have added materially to the load on the firm's design and development staffs, and no doubt contributed its quota to the strained relations between the parties to which we have referred in our Interim Report.

THE SIZE OF THE AIRCRAFT

33. As originally conceived in December 1943 the fuselage had an overall length of 95 ft. with a maximum diameter of 10\(\frac{1}{2}\) ft. In its final stage of development the fuselage is approximately 105\(\frac{1}{2}\) ft. long with a maximum diameter of 11 ft. The dimensions and surface area of the main planes have remained constant. Several witnesses have told us that the most striking feature of the Tudor II, in their view, is the very large size of the fuselage in relation to other dimensions. By comparison, the fuselage length of the Skymaster, which is being used by South African Airways on some of the routes which the Tudor II was intended to operate, is 10\(\frac{1}{2}\) ft. shorter than the Tudor II, while its fuselage diameter and wing area are almost identical with those of the Tudor II and the all-up weights of the two types are now the same.

34. Like the Tudor I, the Tudor II moved further and further away from the designer's original conception as successive changes were made. It is a commonly expressed view that, as the result of these changes, the Tudor II has developed into an aircraft having a volumetric capacity much greater than that required for the load it is able to carry on the Empire routes. Proposals have been made to increase the operational payload by fitting higher-powered engines or by using some other device but these are at best expedients which might have been unnecessary but for the departure of the design from the original conception.

35. In recording this view, we realise that the aircraft has not yet been subjected to full performance trials and that no final opinion can be expressed until these have been completed. Nevertheless, the increases in fuselage dimensions are sufficiently impressive to warrant an examination of the reasons for them.

36. In September 1944 the length was increased by 2\(\frac{1}{2}\) ft. and the diameter by 6 inches, following discussions with B.O.A.C. on passenger cabin dimensions; in November 1944 a further 2 ft. were added to the length to admit of

(*) The remarks in paragraph 90 of our Interim Report on the Tudor I may be taken as applying also to the Tudor II.
the convertible seat-bunk arrangement desired by the operators. Thus, by the
time the specification had been agreed in December 1944, the fuselage had
become 99$\frac{1}{2}$ ft. long and 11 ft. in diameter. A further increase of 3 ft. which
did not, however, affect cabin dimensions was made for aerodynamic reasons
early in 1945, and a final increase of yet another 3 ft. was made in May 1945,
partly in order to give flexibility in cabin lay-out and partly to provide an
adjustment in the position of the centre of gravity.

37. Whilst it might be contended that the requirements of the operators
were responsible for a substantial part of the increase in fuselage size, it
must be noted that there is no direct evidence that the designers, as might have
been expected, opposed the suggestions made by the Corporation.

THE WEIGHT OF THE AIRCRAFT

The Increases in Weight

38. All these increases in the size of the fuselage contributed to the
increase in the all-up weight of the Tudor II. Although this weight increase
is no greater than that of the Tudor I, its effect on performance, and par­
ticularly on take-off, is more critical in the case of the Tudor II because of
airfield limitations on the routes on which it was intended to operate. If it
should be found that the performance of the aircraft, in range, payload, or
take-off characteristics, does not come up to the expectations of those who
shared in its conception, the primary responsibility must be borne by this weight
increase. We have therefore been at some pains to enquire into the reasons
for the increases and into the efforts, or lack of them, made to restrict the
weight.

39. As originally conceived in December 1943 the Tudor II was to have
a tare(\textsuperscript{(*)}) weight of 44,810 lb. The latest estimate of its weight (February 1948)
is 55,417 lb., representing an increase of nearly 24 per cent. This comparison,
however, may not be entirely fair, since early discussions of requirements
between the interested parties led in December 1944 to the formulation of an
agreed specification which was related to a tare weight of 47,765 lb. If this be
compared with the tare weight to-day, the difference will be found to be
7,652 lb. or 16 per cent. This figure may be broken down as follows:

<table>
<thead>
<tr>
<th>Item</th>
<th>Increase</th>
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<tbody>
<tr>
<td>Structure</td>
<td>+3,298</td>
</tr>
<tr>
<td>Power plant and tanks</td>
<td>+1,322</td>
</tr>
<tr>
<td>Equipment</td>
<td>+1,680</td>
</tr>
<tr>
<td>Pressurisation</td>
<td>+ 58</td>
</tr>
<tr>
<td>Furnishings</td>
<td>+1,294</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+7,652</strong></td>
</tr>
</tbody>
</table>

40. The increase in structure weight, though partly attributable to altera­
tions derived from those made to improve the aerodynamic characteristics of
the Tudor I, is principally due to an increase in the weight of the fuselage
(2,258 lb.). We have already referred to the increases in the dimensions of
the fuselage; these were responsible for perhaps 340 lb. of the increase. We
are informed that a further 900 lb. were due to the particular requirements of
B.O.A.C. for an under-floor cargo hold, for associated changes in structure
in the vicinity of these holds and for a change from round to square windows.
It is also agreed by the constructors that there was a substantial degree of
under-estimation of the weight of the fuselage which may partly have been due

\textsuperscript{(*)} The tare weight may be defined as the gross weight less payload, fuel, oil and crew.
to lack of experience in the design of circular section structures, and partly to lack of appreciation of the weight of structure needed to meet the civil airworthiness requirements laid down by the Air Registration Board. We conclude that the remaining 1,020 lb. of increase in fuselage weight was due to these causes.

41. We have already dealt with the changes in interior layout and furnishings. Of the remaining two important sources of increase of weight listed above, namely, equipment and power plant and tanks, the first is due to a number of factors, e.g., changes in the operators' requirements for instruments, increases in the amount of de-icing fluid, electrical wiring, &c., required as the fuselage dimensions grew, and initial under-estimation of weight.

42. As regards the power plant and tanks, the firm's early weight estimates were based on the use of the Merlin Mark 100, a military type engine, but the power plant now fitted is the later and more reliable civil version known as the 621. A set of these is now estimated to be some 1,550 lb. heavier than a set of Merlin Mark 100 power plants. There has, however, been some compensatory saving in the weight of the fuel and oil tanks, owing mainly to an agreement in November 1945 to delete the centre section tank, retaining provision for its fitment if required.

Efforts to Save Weight

43. The increases in weight began to cause anxiety at an early stage in the aircraft's history. When the specification was drawn up in November 1944 it was expected that the gross weight would be 76,000 lb. In the autumn of 1945, some ten months later, it was reported that the gross weight was likely to exceed 80,000 lb., and a conference was held in November 1945 to consider a number of weight saving proposals. This conference had before it suggestions by the firm which, if accepted, would have saved some 4,000 lb., thus bringing the gross weight back to its original figure; in the outcome, however, the agreed saving was less than 2,000 lb.

44. The conference is of interest for another reason. Amongst the proposals considered were a number which affected passenger amenities and other commercial facilities. None of these was agreed to by the Corporation's representatives. Moreover, during the months which followed the gross weight again crept up to 80,000 lb. The Corporation, though professedly anxious about the possible effects of excessive weight, deprecated on a number of occasions any proposal to improve matters by economising in the standards of furnishing.

45. We have investigated in detail certain examples where it appeared that concessions might well have been made by the Corporation as a contribution to the saving in weight which all parties should have been desirous of effecting. One such example concerns the use of freight spaces under the floor of the cabin which necessitated hatches involving an additional weight of 350 lb. The design had allowed for 540 cubic feet of freight space above the floor, but the Corporation insisted on the provision of a further 250 cubic feet below the floor, and declined to forgo it in order to save weight.

46. We were told that this large total of cargo space, which, if used, would have contained between 8,000 and 8,500 lb. of cargo, was required on occasions when the passenger demand would fall off due to seasonal fluctuations. We cannot consider it reasonable to demand cargo space sufficient to absorb about 90 per cent. of the maximum specified pay load.

47. Another example is that of the windows in the passenger cabin. They were originally designed to be circular, but the Corporation insisted on an oblong shape so as to give a better view for passengers. Asked at the weight
saving conference in November 1945 to agree to a reversion to circular windows in order to save 146 lb., the Corporation declined. While it is doubtless indisputable that oblong windows are more attractive to passengers, there does not seem to have been a realisation of the urgent need for saving all possible weight in the interests of the performance of the aircraft.

48. Although B.O.A.C. declined to agree to weight savings at the expense of passenger amenities, &c., they did agree to a reduction in the range and payload requirements below those in the specification. At the weight saving conference they agreed to proposals which would have the effect of reducing the payload-range characteristics to 9,455 lb. of payload for a still air range of 2,130 miles as against the specification requirement of 8,275 lb. for 2,800 miles or 9,675 lb. for 2,600 miles.

49. In the spring of 1946, the Corporation were engaged in a review of the revised weight data, one of the objects of which was to see whether the previously stated range requirements could be reduced with a consequent saving in fuel load. This review was completed in June 1946 and showed that reduction was not feasible. Faced with this conclusion the Corporation might have been expected immediately to set about investigating the possibilities of saving weight in interior accommodation equipment which they had hitherto declined to consider. No such step was taken nor have we been given a satisfactory reason for this omission.

50. With these facts in mind, it is significant that a year later in July 1947 when a change of management took place, economies in furnishing amounting to over 2,000 lb. were agreed. No decision to alter the furnishing arrangements as a result of this agreement was, however, taken, and the estimate of tare weight made in February 1948 (see paragraph 39) makes no allowance for a reduction in furnishing weight. If the agreement reached in July 1947 were now to be put into effect, the all-up weight of the aircraft could be reduced to 78,000 lb., or alternatively 2,000 lb. more useful load could be carried with the all-up weight remaining at 80,000 lb.

THE PERFORMANCE OF THE AIRCRAFT

51. It now remains to examine the probable effect of the weight increase upon the performance of the aircraft. The earliest evidence of concern with the effect on performance is a statement prepared in the Ministry of Supply dated 22nd October, 1945, following the receipt from A. V. Roe, Ltd., of information that the tare weight would, in the absence of reductions, exceed the previous estimate by over 4,000 lb. Copies of this statement were sent to the Ministry of Civil Aviation, B.O.A.C. and A. V. Roe, Ltd. The conclusions were that even if the gross weight were to creep up to 82,000 lb. the Air Registration Board climb-away requirements would be satisfied, but the range-payload characteristics would deteriorate progressively so that at 80,235 lb. the payload carried over the specification still-air range of 2,600 miles would be 7,840 lb. instead of the required 9,675 lb. It is noteworthy that in these conclusions there was no reference to take-off distance although the estimate in the body of the report was that take-off to 50 ft. at a gross weight of 80,235 lb. would be 2,180 yards.

52. A number of Data Sheets was also issued by the Ministry of Supply. The first, dated 2nd August, 1945, assumes a gross weight of 76,000 lb. and is therefore not now of much value. The second, dated 26th February, 1946 assumes a gross weight of 77,000 lb. and it was not until 13th May, 1946, that a Data Sheet was issued showing a gross weight of 80,000 lb. This estimated a payload of 7,910 lb. (1,765 lb. less than specification) for a range of 2,600 miles and a take-off distance of 1,700 yards to 50 ft. using the civil
take-off technique (see paragraph 56). This distance would correspond to nearly 3,000 yards under conditions of height and temperature at Nairobi.

53. B.O.A.C. themselves did some calculations in May 1946 which concluded that in extreme conditions the maximum take-off run at Nairobi might be as much as 3,230 yards. The Corporation knew that the maximum runway length at Nairobi was 2,000 yards and we should therefore have expected to see great efforts to reduce weight so that the operation of the aircraft might not be unduly limited.

54. We have been informed by representatives of the Ministry of Supply that the performance set out in the specification was regarded as being in the nature of a target, and that the many subsequent instructions to the firm given or agreed to by the Ministry of Supply had the practical effect of altering the specification even though no formal amendments to it were issued. It is evident that as work progressed none of those concerned regarded the achievement of the specification as the *sine qua non* of acceptance, and in fact very little attention seems to have been paid to it. This is not surprising in view of the fact that when the specification was drawn up little was known about the design and construction of post-war civil aircraft, and even less about the actual conditions in which they would have to operate; consequently the specification was written in very broad terms.

55. This can be illustrated by reference to the specified take-off requirements of 1,200 yards to a 50 ft. screen. In December 1944 there was no agreed standard for civil take-off, and the specification defined the requirement in terms of the "classic" military technique, giving the shortest possible distance in which a height of 50 ft. could be attained from rest. Knowledge of conditions on the Empire routes was also incomplete (for example, some airfields in the Far East were in Japanese hands), but it was known that runways of 2,000 yards were in general use and it was thought that even where runways of this length did not exist the trend of post-war development would require them to be laid down.

56. As events have turned out, a new civil take-off technique has been established which is designed to ensure that, in the event of an engine failing at any moment during take-off, the aircraft can either climb away safely or be brought to rest within the runway length. This technique involves a substantially greater run than the "classic" military technique. Moreover, it was found when surveys of the Australian, Far Eastern and South African routes were undertaken by the Ministry of Civil Aviation survey teams that many airfields on the routes did not in fact meet the proposed I.C.A.O. standards for Class C aerodromes which had been accepted as suitable for the Tudor II.

57. In the following section we deal with the reviews made by the Inter-Departmental Civil Aircraft Requirements Committee of the performance of the Tudor II in relation to the particular routes on which it was intended to operate, and with the effects of these reviews on the proposed composition of B.O.A.C.'s fleet of aircraft for the Empire services. The Committee's discussions also provide a conspectus of the way in which opinions of the

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(*) It has been estimated by Boscombe Down that the Tudor II will require a run of about 1,850 yards to a 50 feet screen, using the civil technique, to which, of course, additions must be made for the temperatures and altitudes to be met with on the Empire routes. In assessing the value of these figures it must be borne in mind that so far no really accurate means of estimating the take-off of an aircraft has been devised and that take-off tests on a fully modified Tudor II have not yet been made.

(?) This I.C.A.O. standard provided for runways of 5,900 ft. under conditions of standard temperature and altitude.
Tudor II were developing throughout 1946—the critical year of its development.

THE INTER-DEPARTMENTAL CIVIL AIRCRAFT REQUIREMENTS COMMITTEE AND THE AIRCRAFT

58. The Inter-Departmental Civil Aircraft Requirements Committee was appointed by the Minister of Supply and the Minister of Civil Aviation in 1946 to review the civil aircraft position and to prepare recommendations for short-term and long-term programmes. Its membership originally included representatives of the two Departments and the Corporations under the Chairmanship of the Permanent Secretary of the Ministry of Civil Aviation. Treasury representation was added later. The aircraft constructors are not represented.

59. In the meetings leading up to the Committee's interim report of July 1946, no doubts were expressed about the qualities of the Tudor II, although at the first meeting B.O.A.C. had expressed some reservations about its suitability for the South African route. It was, however, recognised that unless the aircraft became available by 1947 the Corporation might find themselves in a difficult position on the Empire routes because of lack of aircraft which could hold their own until the Brabazon III or the Hermes came into service. Another important factor which weighed with the Committee was the preservation of the arrangements for parallel working with the Commonwealth operators, and this, as has been explained, depended on the success of the Tudor II.

60. Thus, in July 1946, when the Committee made their interim report, the general view was that there was, at the least, no reason to doubt the ultimate success of the aircraft, but that if it failed to come up to expectations as regards both performance and delivery date, the Commonwealth operators would probably purchase United States types and B.O.A.C.'s prospects on the Empire routes would be seriously affected, since the advantages of parallel operation using a common type aircraft would be lost and B.O.A.C. would have to operate interim British types in competition with the Commonwealth operators' more economic American types.

61. It was realised early in 1946 that the adequacy of the airfields available on the Empire routes would materially affect the effective operation of the Tudor II. Accordingly, survey parties were sent out by the Ministry of Civil Aviation and plans were drawn up in consultation with the Treasury for the extension of various airfields in territories under British control. It soon became clear, however, that there would be little or no advantage in operating the Tudor II on the further stages of the Empire routes, partly because other Governments were unwilling to undertake large extensions to runways at airfields under their sovereignty, and partly because the range of the aircraft was inadequate for the further stages; but at this date there was no suggestion that there would be any difficulty in providing adequate facilities on the nearer stages.

62. While these surveys were going on the I.C.A.R. Committee were considering what might be done to improve the performance and particularly the take-off characteristics of the Tudor II. These enquiries centred around alternative power plant installations, but the matter was complicated by the presence in the aircraft programme of the Hermes. By October 1946 the conclusion was reached that if the Tudor II were fitted with Hercules engines there would be little to choose between it and the Hermes IV (also fitted with Hercules engines), but as the Tudor II so fitted could come forward rather
earlier than the other (probably by October 1948) it would be better to place reliance on the Tudor II. By this time, however, the Australian and South African Governments had decided to abandon the Tudor II, and B.O.A.C. had stated that in their view the Tudor II would be satisfactory for services to India, Egypt and West Africa, but not for operating south of Nairobi and east of Calcutta. The Committee accordingly recommended (a) that the Tudor II with Hercules engines should be pressed forward, (b) that 26 Tudor II aircraft fitted with Merlin engines should be allocated to B.O.A.C. and 18 held in reserve for installation of Hercules engines if that proposition should prove to be worth while. The Ministry of Supply were to negotiate the reduction of the Tudor II order by 29 to a total of 50; it was hoped that A. V. Roe, Ltd., might take these aircraft over for commercial sale, but in the event they were cancelled.

63. There is no evidence that during this period any serious doubts were expressed as to the desirability of operating the Tudor II, although it was becoming clear that its economic qualities were not likely to be so good as had originally been hoped. Indeed, on the contrary, as late as November 1946 the priority for delivery of the first production aircraft as between B.O.A.C., B.S.A.A. and export requirements was being disputed.

64. It is difficult to form a true picture of the Committee's attitude to the Tudor II without considering the relationship of the aircraft to its probable successors. In the early discussions in 1946 it had been thought that the Tudor II would come into service early in 1947 and would suffice, with the Solent flying boats, to operate the Empire routes. After 1947 the position would be more critical and to meet B.O.A.C.'s desire to switch over, as convenient, from the Tudor II to the Hermes IV it was recommended in November 1946 that 25 Hermes IV aircraft should also be ordered.

65. In the following months it became increasingly clear that even on the shorter routes it would be difficult to ensure that the programme of airfield development would keep pace with the production programme for the aircraft. Not all the airfields at which improvements were required were in British territory and even in these cases difficulties were being experienced in pushing the work on with the requisite speed. Where the airfields were in foreign territory protracted negotiations were necessary and there could be no certainty that it would be possible to secure the necessary improvements, which in most cases were not required by other operators.

66. This situation tended to favour the Hermes. The use of both the Tudor and the Hermes depended on the programme of airfield development; but since the Hermes was the later type there was a distinct possibility that the timetable of airfield development would approximate more closely to the development of this aircraft than to that of the Tudor II.

67. By the spring of 1947, therefore, it was clear that the value of the Tudor was likely to be prejudiced by the lack of suitable airfields, even on the shorter routes to Calcutta, Nairobi, and possibly to West Africa. But the Hermes, although more favourably placed from this point of view, was not far advanced and its eventual success could not be foretold with certainty.

68. Despite increasing doubts about the prospects of the Tudor II the Committee as a whole had decided in March 1947 that the Tudor project must go on. The Chairman, however, felt that the situation was so serious that some alternative to the Tudor and the Hermes would have to be sought if B.O.A.C. were to be able to hold their position on the Empire routes until such types as the D.H. 106 came into service. He accordingly put forward

(*) A further 6 aircraft (Tudor Vs) were allocated to B.S.A.A.
a proposal under which United States Constellation aircraft would be purchased and re-engined with the Bristol Centaurus engine. The combination of United States airframe and British engines would, it was thought, show great advantage as against the same airframe when powered with United States Wright engines, and would provide B.O.A.C. with a corresponding advantage over their competitors. The proposal was, however, rejected by the Government. This decision in effect reaffirmed the “Fly British” principle and restored the Tudor and the Hermes to their original status as the interim types which would have to be used, whatever their drawbacks, until newer and more economic types became available.

THE OPERATIONAL EFFICIENCY OF THE AIRCRAFT

69. In attempting to assess the effects of weight increases and other factors on the performance of the Tudor II, we have been handicapped by several difficulties: the absence of any firm performance requirements to take the place of the specification requirements, which became out of date as knowledge of actual operating conditions on the Empire routes increased; the absence of performance data based on actual trials of the Tudor II in its present form; and the fact that we could not consult the designer of the Tudor II, Mr. Roy Chadwick, who was killed in August 1947, and who alone could have helped us on several important matters.

70. As we have seen, the specification was not related to the probable stages and airfield conditions on the routes over which the Tudor II was intended to operate. Little was known in 1944 on these subjects, but as more information became available the Tudor II began to be considered in relation to the actual route requirements rather than to the performance set down in the specification. In spite of the fact that throughout 1946 B.O.A.C. were making assessments of the performance of the aircraft on various routes, they did not at any time formulate a set of performance requirements to which the constructors and others concerned could work, and we thus have no yardstick by which to measure the estimated performance of the Tudor II to-day.

71. In the absence of such a yardstick the designers naturally assumed that they were doing all that was required of them by meeting B.O.A.C.'s requirements for internal layout, &c., and by notifying the Corporation and others concerned of any resulting effects on performance. It was primarily for B.O.A.C. to relate the firm’s performance data to the operating conditions on the routes, of which they alone had full knowledge, and to keep the primary objective of satisfactory performance in the forefront of everyone's mind. Since the Corporation did not do this on their own initiative, the Ministry of Civil Aviation, on whose behalf the aircraft were ordered by the Ministry of Supply, should have pressed them to do so, and the two Government Departments should have ensured that performance requirements related to the actual routes over which the Tudor II was to operate were transmitted to the firm.

72. The Tudor II prototype incorporating the improvements introduced as the result of the Nairobi trials of the Tudor I in the winter of 1946-47 has only recently been sent to Boscombe Down, and at the present time there are no measured figures from which to assess the performance of the Tudor II on the Empire routes. On the basis of the estimated figures at present available the aircraft cannot be operated with an economic payload on routes east of Calcutta and south of Nairobi under the operating conditions at present postulated by B.O.A.C.

73. We understand that the standard of operation upon which B.O.A.C. insist for the Tudor II is very much more stringent than that in force for the
York. The latter type has been operating right through to South Africa although its take-off performance is not as good as the Tudor's, and if B.O.A.C. were prepared to modify their requirements in respect of the Tudor to some extent, e.g., by arranging for it to take off in the cool of the day from high altitude airfields in hot climates, the Tudor II might well be capable of use on the Australian and South African routes and would in any case show an improvement over the York, to which, of course, it is superior in passenger-carrying capacity and comfort.

74. On the assumptions at present made as regards both operating conditions and estimated performance, however, it appears that the Tudor II offers far less improvement over the York in performance and hence in operational economics than was originally expected. It is thus difficult to justify the operation of the Tudor II east of Calcutta on the Australian route and south of Nairobi on the South African route; on the former because of lack of range to fly the critical stage between Singapore and Darwin and on the latter for lack of adequate airfields. The aircraft is, however, superior in performance to the York on routes west of Calcutta and north of Nairobi and to West Africa. The deterioration in the estimated performance of the Tudor II must be ascribed primarily to the considerable increase in the tare weight of the aircraft over that originally projected, while the fact that the airfield development which it was hoped to accomplish in time for Tudor II operations has so far failed to materialise has also played its part in restricting the field of usefulness of the aircraft.

75. We have seen that the increase in tare weight was due partly to under-estimation of structure weight on the part of the designers and partly to progressive increases in weight, some of which were the result of the operator’s insistence in certain standards of passenger and freight accommodation. A. V. Roe, Ltd., take some credit for doing their utmost to meet these requirements, but we cannot escape the conclusion that a more strenuous resistance to alterations which would have the effect of increasing weight and thus diminishing performance would have been in the ultimate interests of both parties. Had they taken greater precautions to see that all the parties concerned were aware of the performance penalties involved, A. V. Roe, Ltd., would have had greater justification for assuming that those penalties were acceptable. We should have liked to have had Mr. Chadwick’s evidence on this point and related matters, but since many of the discussions were conducted orally between Mr. Chadwick and the other parties, written records from which we might have been able to establish his opinions and actions are unfortunately lacking.

76. It is clear, however, that whatever may have been the attitude of the designers to those of the B.O.A.C. proposals which had the effect of increasing the size and weight of the fuselage, B.O.A.C., for their part, were unwilling to make concessions. They were repeatedly pressed to agree to weight saving on furnishings, &c., and frequently declared that they would tolerate no lowering of the standards of passenger accommodation. This attitude was inimical to the success of the project and indicated a lack of co-ordination between those in the Corporation concerned with the commercial aspects of the Tudor II, such as standards of passenger accommodation, and those responsible for assessing the operational performance of the aircraft and its method of operation.

THE FUTURE OF THE AIRCRAFT

77. Two views are current about the future of the Tudor II. On the one hand it is contended that, apart from any question of its operational
quality, the aircraft has fallen so far behind schedule that most of the advantages which would have resulted from its operation have now vanished. Thus, the Australian and South African operators have equipped themselves with United States aircraft and the original plan of parallel operation of the Empire routes with B.O.A.C. is no longer feasible. Moreover, it is possible that the period of service of the aircraft may extend for only some eighteen months before it is replaced by the Hermes.

78. It is also pointed out that to bring the aircraft into service will involve problems of training, supply of spares and technical maintenance, all of which will occasion expense in addition to the capital cost of yet another type in addition to the four to which B.O.A.C. are already committed, viz., the Solent, the Tudor IVB, the Hermes and a new medium-range Empire type. It is stated that all experience of airline operation shows the severe difficulties inherent in frequent changes of major equipment.

79. Apart from the difficulty and cost of introducing the Tudor II, it is urged that its operation would involve B.O.A.C. in a heavy deficit even if existing fares and rates remain at their present level and do not decline. It is accordingly suggested that by excluding the Tudor II from service and concentrating on as few types as possible, the Corporation would be in a better position to reduce their operational deficit on the Empire routes to a minimum.

80. The opposing point of view is based on the following considerations:

(a) It would be a deplorable waste of effort and material to cancel the Tudor II contract now that the first 26 aircraft allocated to B.O.A.C. have been manufactured and are ready for assembly.

(b) The effect of cancellation on the reputation of British civil aircraft cannot be lightly disregarded.

(c) The deficit on the Empire services over the next 5 years is likely to be the same whether the Tudor II order is cancelled or not, since the cost of operating the Tudor II is balanced by the cost of cancellation.

(d) Operation of the Tudor II type would provide some insurance against the possibility of the Hermes being delayed, in which case the Tudor IIs could be amortised over a correspondingly longer period.

(e) The Tudor II carries more payload than the York, which on present plans will be retained in service on the route to the Middle East until 1950, and has a better take-off performance.

(f) The Tudor II and the Tudor IVB ought not to be counted as entirely separate aircraft. The engines, propellers and a substantial proportion of the airframe and equipment spares are common to both types. Moreover, as B.O.A.C. indicated in their report for the year 1946/47, some of the work involved in introducing the Tudor II into service has already been done.

(g) If flight refuelling could be applied to the Tudor II (and there does not appear to be any insuperable technical difficulty about this) the aircraft should be able to carry an economic payload throughout the Empire routes either by taking off from critical airfields at reduced weight and refuelling after take-off, or else by overflying them according to operational needs and traffic.

81. We do not feel that we can attempt to resolve the questions raised in the preceding paragraphs. We were constituted as a Committee to examine the development and production of the Tudor aircraft and any conclusions

(*) See Appendix B.
about the future use of the aircraft would involve us in a consideration of the economic and technical problems of airline operation as well as the financial relations between B.O.A.C. and the Ministry of Civil Aviation. We feel, however, that it may be helpful if we discuss briefly some of the considerations which seem to us to be relevant.

82. It is clear that whether Tudor IIs are used for operation of the Empire routes or whether these routes continue to be operated by the present types of aircraft there will be a very substantial charge on public funds. It is possible, however, that a decision not to operate the aircraft might involve an increased charge if other types have to be ordered in its place.

83. Although the charge on public funds would not materially differ whether or not the Tudor II was operated, this does not mean that B.O.A.C.’s financial position would necessarily be unaffected. If the Tudor II is brought into service by B.O.A.C., the Corporation would presumably have to bear the operating loss, which would take account of the capital cost of the aircraft and the cost of training crews and providing spares and maintenance organisation. If, on the other hand, the contract were cancelled, it seems doubtful whether the Ministry of Civil Aviation, on whose behalf the aircraft were ordered, would pass on the costs of cancellation to the Corporation. Thus, although in both cases the losses would ultimately fall to be borne by public funds, in the latter case the Exchequer might meet them directly, while in the former case they would be met indirectly by way of the subsidy to B.O.A.C.

84. We feel that B.O.A.C. cannot reasonably be asked to accept a decision to operate the Tudor II unless they can be assured that this would not have the effect of worsening their financial position by transferring to them liabilities which otherwise would not fall on them.

85. In addition to these, mainly financial, considerations affecting the Corporation, there are others of a different kind. Thus, a decision to operate the aircraft would avoid a waste of effort, labour and materials which in our present stringency ought not to be contemplated if any other rational course is open. It would avoid any adverse effect on the reputation of British civil aircraft which might result from cancellation, and at the same time it would enable operational experience to be gained to the ultimate benefit of future British types. Further, it would provide an insurance against delay in the introduction of later types and afford an opportunity to explore the possibilities of flight refuelling. Finally, it seems reasonable to hope that as airfield development progresses the potential economic qualities of the aircraft would be more fully realised.

CONCLUSIONS

86. Following is a summary of our principal conclusions:

1. Delay in the production of the aircraft has arisen from three main causes:
   (a) The need to await the completion of the aerodynamic investigations of the Tudor I so that improvements decided on in that aircraft could be incorporated in the Tudor II. (Paragraph 18.)
   (b) Failure to determine in good time financial responsibility for the project as a whole and particularly for the alterations required by B.O.A.C., which, pending settlement of questions of financial liability, has held up completion of the first six aircraft. (Paragraphs 28–31.)
   (c) Changes in requirements imposed by B.O.A.C. both on their own account and on behalf of the Commonwealth operators. (Paragraphs 20–27 and 32.)
(2) The tare weight of the aircraft in comparison with that estimated in December 1944 has increased by some 7,650 lb. (paragraph 39) and this has led to a reduction in estimated performance. The main causes of this increase are:

(a) Under-estimation of structure weight on the part of the designer. (Paragraph 40.)

(b) Insistence by the operators on certain standards of passenger and freight accommodation which have necessitated increases in fuselage dimensions and in the weight of fuselage and fittings. (Paragraphs 21–27, 40 and 45–47.)

(c) Airworthiness requirements imposed by the Air Registration Board. (Paragraph 40.)

(3) On the assumptions now current regarding the estimated performance of the Tudor II and the conditions under which it would operate, its field of usefulness is restricted and it offers less advantage over current types at present in service, such as the York, than was originally expected. The main reasons are:

(a) None of the parties concerned accepted the responsibility progressively to relate the penalties in loss of performance to the actual requirements of the routes, and the design was allowed to drift away from the original conception. The operators put forward requirements for alterations and modifications without apparently paying much regard to their effect on the design of the aircraft and its performance, and the designers accepted these requirements too readily, without first insisting on agreement to the penalties involved. In the result the aircraft has not only suffered a serious increase in weight affecting range and take-off performance, but has acquired a volumetric capacity greater than that required for the load it is able to carry on the Empire routes for which it was originally intended. (Paragraph 34.) If minimum performance requirements related to actual operating conditions on the routes had been made available, all concerned would have been aware of the ultimate objective and the designer would have been in no doubt as to the limit of permissible design changes and weight increases. While the primary responsibility for failure to state requirements must rest on B.O.A.C., the ultimate responsibility rested on the Government Departments concerned to ensure that performance requirements were drawn up and transmitted to the constructors. There was a failure to discharge this responsibility. (Paragraphs 70 and 71.)

(b) The development of the airfields on the proposed routes, which it was hoped to accomplish in time for Tudor II operations, has so far failed to materialise and has prevented the potential economic advantages of the Tudor II from being realised on some stages. (Paragraphs 61, 65–66 and 74.)

(4) The result of these factors is that it has become difficult to justify the operation of the Tudor II on routes east of Calcutta and south of Nairobi. It does, however, offer quite substantial advantages in take-off performance, payload and passenger amenities over the York for services to India, Egypt and East and West Africa. (Paragraph 74.)

(5) Even now the operational and economic qualities of the Tudor II might be improved sufficiently to enable it to operate satisfactorily over all
the Empire routes, including those to Australia and South Africa, if some or all of the following methods should prove practicable:

(a) The tare weight of the aircraft might be reduced to allow a take-off at a lower all-up weight or alternatively to carry more useful load. (Paragraph 50.)

(b) Flight refuelling might be applied to enable the Tudor II to carry an economic payload throughout the Empire routes, or, where necessary, to take off at reduced weight. (Paragraph 80.)

(c) B.O.A.C. might relax the most stringent of their operating conditions so as to enable the Tudor II to operate on routes on which the York, with a similar range and lower take-off performance, has been in service. (Paragraph 73.)

(6) We suggest that the considerations mentioned in paragraph (5) above should be taken into account in arriving at a decision regarding the future of the Tudor II, as should also the following factors:

(a) At the present time there are no measured figures based on trials of the Tudor II in its present form, from which to assess the performance of the aircraft on the Empire routes. The prototype has, however, now been sent to Boscombe Down and performance data may be expected shortly. (Paragraph 72.)

(b) The charge on public funds will be approximately the same whether or not Tudor IIs are used for operation on the Empire routes. (Paragraph 82.)

(c) B.O.A.C.’s financial position is not, however, similarly unaffected, and we feel that they cannot reasonably be asked to accept a decision to operate the Tudor II unless they can be assured that their financial position will not thereby be worsened. (Paragraphs 83 and 84.)

(d) A decision to operate the Tudor II would avoid the waste of effort and materials and any adverse effect on the reputation of British civil aircraft which would result from the cancellation of the order, and would provide an insurance against delay in the introduction of later types. (Paragraph 85.)
APPENDIX A

LIST OF WITNESSES

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<th>Witness</th>
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<td>Mr. F. C. Musgrave, C.B.</td>
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<td>Mr. W. F. Jenkins, C.B.E.</td>
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<td>Mr. S. Scott-Hall, M.Sc., A.C.G.I., D.I.C., F.R.Ae.S.</td>
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<td>Mr. A. E. Woodward-Nutt, M.A., F.R.Ae.S.</td>
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<td>Mr. L. E. Caygill, B.Sc.</td>
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<td>Mr. J. C. L. Oldridge</td>
<td>Ministry of Civil Aviation</td>
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<td>Captain R. N. Liptrot, C.B.E., B.A.</td>
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<td>Mr. J. M. Gray, B.Sc., A.F.R.Ae.S.</td>
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<td>Sir George Cribbett, K.B.E., C.M.G.</td>
<td>British Overseas Airways Corporation</td>
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<td>Mr. L. J. Dunnett, C.M.G.</td>
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<td>Mr. R. H. Walmsley, B.Sc., F.R.Ae.S.</td>
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<td>Mr. H. T. Morrish</td>
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<td>Mr. A. C. Campbell-Orde, C.B.E., A.F.C.</td>
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<td>Mr. C. E. Fielding, O.B.E., A.F.R.Ae.S., M.I.P.E.</td>
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<td>Mr. S. D. Davies, B.Sc., F.R.Ae.S.</td>
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<td>Mr. R. Lonsdale Hands (Industrial designer).</td>
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<td>Mr. J. Tandy (Industrial designer).</td>
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APPENDIX B

TABLE OF TUDOR MARKS MENTIONED IN THE REPORT

(a) Tudor I and variants

**Tudor I.**—A long-range aircraft intended for use by B.O.A.C. on the North Atlantic route. Accommodation for 12 sleeping passengers. 16 were ordered and are now being converted to Tudor IVBs (see below).

**Tudor III.**—The same as the Tudor I except for a change in cabin layout. Two are being produced for use by Cabinet Ministers.

**Tudor IV.**—The B.S.A.A. version of the Tudor I, for services on the South Atlantic. The fuselage is lengthened by about 6 feet to provide accommodation for 32 day passengers. 4 aircraft are on order.

**Tudor IVB.**—The B.O.A.C. conversion of the 16 Tudor Is, intended for use on the Empire routes. It is the same as the Tudor IV except for a variation in crew accommodation.

(b) Tudor II and variants

**Tudor II.**—Intended for use by B.O.A.C. on the Empire routes. It has a larger body than the Tudor I to accommodate more payload (36/40 day and 22 night passengers) for medium ranges. 26 are on order for B.O.A.C., and a further 17 are unallocated.

**Tudor V.**—The B.S.A.A. version of the Tudor II for services on the South Atlantic. It is the same externally as the Tudor II but accommodates 44 day passengers. 6 are on order.

**Tudor VII.**—The Tudor II fitted with Hercules engines. One prototype has been so fitted.

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APPENDIX II

PRELIMINARY INDICATIONS RESULTING FROM RECENT TRIALS OF TUDOR II

Since the completion of the investigation by the Committee of Enquiry into the Tudor aircraft, limited flight trials have been made with a prototype Tudor II aircraft by the AAEE, Boscombe Down. These included a flight to Khartoum and Nairobi during which observations under tropical conditions were made.

The results of a preliminary analysis of these trials are unexpected and disappointing. The distance required to take-off is greater than had been estimated, the rate of climb on three engines is less and the fuel consumption rather higher. In addition, there was in rough air an unpleasant lateral vibration of the fuselage and a periodic longitudinal buffeting which, while probably not affecting the air-worthiness of the aircraft, would undoubtedly be criticised severely by air line operators.

The testing of the aircraft is still uncompleted and the results of the tests made have not yet been fully analysed. The conclusions may, therefore, be modified in detail. Further, the tests have been confined to one prototype aircraft which may possibly be a rogue. Nevertheless, the above results show that further experimental work will be necessary to diagnose the present troubles and to ensure that they do not occur in production aircraft, and it is impossible at this stage to estimate how long such work would take.

12th July, 1948.
CABINET

IRON AND STEEL BILL

NOTE BY THE LORD PRESIDENT OF THE COUNCIL

IN accordance with the decision of the Cabinet on 14th June, 1948 (C.M. (48) 39th Conclusions, Minute 5) the Socialisation of Industries Committee have examined the arguments which should be used in support of the provisions of the Iron and Steel Bill; and the Minister of Supply and I are now in a position to report the Committee's conclusions.

The Committee suggest that, when the Bill is published, Ministers and other members of the Government should advocate the provisions of the Iron and Steel Bill on the lines outlined in the attached memorandum. It is undesirable that Ministers, before the Bill is introduced, should refer to these arguments in public speeches unless after consultation with the Minister of Supply or myself, since tactically it would be preferable to refrain from indulging in detailed political argument on the Bill until it has been published and the full case in its favour can be deployed.

The Committee desired me to draw the attention of the Cabinet to paragraph 7 of the attached memorandum which gives grounds for socialisation based on the needs of the European Recovery Programme. It may be desirable that something like this might be said, provided that it is not felt that we are thereby seeming to dictate to other European countries how they should control their iron and steel industries.

H. M.

Office of the Lord President of the Council, S.W. 1,
15th July, 1948.

IRON AND STEEL BILL

REVIEW OF ARGUMENTS

1. No one seriously suggests that the structure and methods used for operating the British iron and steel industry before the war would be satisfactory or defensible for the future. Before 1933 the industry was more or less free from Government control and after 1933 it was subject to a certain limited amount of supervision by the Import Duties Advisory Committee. The industry has moved a long way from the attitudes and policies prevalent as recently as in the 'thirties and its development plan, prepared in response to a Coalition Government's decision in 1945, represents what would before the war have been regarded as a radical and untried experiment. The past history of the pre-war steel industry with its misdeeds and failings as well as its successes is not, therefore, highly relevant to the Bill. But, for the same reasons, the industry is hardly entitled
to claim that a theoretical and arbitrary experiment is being substituted for a well-tried system which was working perfectly efficiently. It is tacitly agreed on all sides that the pre-war system must be radically changed. The problem the nation has to decide is whether the fairly radical change in effect proposed by the owners of the iron and steel industry is, or is not, preferable to the more drastic change proposed by the Government.

2. The arguments may conveniently be reviewed under the following heads:

- (a) What the nation requires from the iron and steel industry.
- (b) Development and finance.
- (c) Marketing and price policy.
- (d) Labour relations and conditions.
- (e) Organisation and administration.
- (f) Short-term considerations.

(A) What the nation requires of the iron and steel industry.

3. The future security and wealth of Great Britain and the part it can play in the world are more closely bound up with the possession of a modern, efficient, expansionist iron and steel industry than probably with any other single branch of manufacture. The dependence of economic progress on steel, which has long been marked, is becoming even greater. We are having to put a larger share of our national resources into metal-using and engineering industries and these industries can be and are at present seriously handicapped by inadequate steel supplies. In future they might be even more seriously crippled by being unable to get steel at world competitive prices—a frequent complaint by the British motorcar industry for years before the war. Failure by the steel industry to respond sufficiently quickly to technical and market changes affecting steel users might also be disastrous for our balance of payments. No responsible Government, therefore, could contemplate leaving to chance the question whether the managers of an industry, of such life and death importance to the national economy, would be able and willing to do the best possible job for the nation. The private enterprise basis in the accepted sense is not possible for iron and steel because there can be no guarantee that considerations of profitability for particular sets of shareholders, over the period for which their firms would choose to budget, would not lead to failure to develop or even maintain facilities and supplies which would be essential to the economic or military strength of the nation. Therefore, either the firms would have to be over-ruled or persuaded by tariffs or otherwise (as they often were before the war), or the nation would be economically or strategically weakened. An iron and steel industry without far-reaching public control may sound attractive in terms of classical economics, but it is not a practicable possibility for a responsible British Government of any political complexion. The area of argument, therefore, narrows itself to consideration whether a controlled, but privately owned, iron and steel industry could co-operate sufficiently closely to do all that the State would be bound to require of it without losing the advantages claimed for private enterprise. It is clear that such control would involve risks of conflict between the State and the private owners who must be concerned with their dividends and who, generally speaking, could not be forced, for instance, to spend money at rates or in directions contrary to their wishes. In these conditions directors and managements would be faced with frequent conflicts of loyalties, which in the strains and stresses which result, must be weakening to the State or to the industry or more probably to both. These conflicts would not arise under common ownership.

4. Moreover, there are divergencies of interest over the scale of expansion of the iron and steel industry. From a national standpoint, both economically and strategically, it is better to risk some over-development of iron and steel capacity in order to guard against a recurrence of the present position where the economy is being throttled down by steel shortage, or the war-time position where the war effort is cramped by lack of steel, even if the outcome is that at certain periods a part of the steel capacity does not need to be fully utilised. On the other hand it is in the interest of private owners of the steel industry to keep the industry well on the small side as measured against future national needs in order to transfer as far as possible to other industries at home and abroad the difficult problems of adjustment to peak demands. Even the United States steel industry, which has a far more expansionist tradition than ours, was most reluctant to increase its capacity early in the war to levels which are now generally
admitted to be by no means excessive for American peace-time needs. The United States steel industry's calculation of post-war demand is now seen to have been grossly under-stated owing largely to this inherent bias, and a similar tendency is visible in the British industry. If we were to use as much steel as America in proportion to population our steel capacity would need to be just twice what it is now and although this is obviously over-ambitious, private steel industry here and elsewhere has an inherent tendency to set its sights too low and to make its forecasts of demand come true only by exercising a restrictive influence on the rest of the economy.

Put quite briefly, the position is that in our present economic situation, the capacity of the iron and steel industry must be expanded beyond the conservative size which directors answerable to private shareholders would regard as prudent to achieve. Only the State can effect this expansion. Private enterprise follows demand; the State can anticipate it and prepare for it.

5. In terms of economic planning, steel is so vital and comes in at so early a stage that it is doubtful whether any economic planning worth the name can be realised on the basis of a privately owned steel industry. The private operators of the steel industry cannot be expected to operate with complete impartiality in the public interest. They must have regard to their commercial and other connections, and this gravely weakens the socially necessary priorities and allocation systems by the weight which they give to these commercial interests and by their day-to-day practice in delivering steel differentially to different consumers against forward orders. Unless a private industry is to be saddled with a bureaucracy which would hamstring its daily operations, these tendencies cannot be controlled and they are inherent in the private enterprise structure.

6. Strategically, as possible future warfare becomes more highly mechanised, iron and steel become relatively even more vital, and indeed iron and steel capacity is possibly the best single index of the war potential of a modern State. The factors which induced Tudor and Stuart monarchs to make arsenals and dockyards the first nationalised industries are pressing powerfully for similar treatment of iron and steel. The growing security problems affecting new weapons are a further consideration and it might become a source of grave embarrassment that plants vital to national security could be controlled by directors under contractual or unwritten obligations to pool technical information and developments with potential enemies.

7. The European reconstruction programme and Western Union are introducing a further factor likely to prove of growing importance. If closer economic integration of Western Europe is ever to mean anything the iron and steel industry must be at the heart of it. This means that, if the iron and steel industry of Western Europe is to be effectively integrated on economic and strategic grounds, the necessary regulation must be carried out under Government auspices rather than left to the free play of private enterprise. Questions such as the right location of new developments on economic and strategic grounds are already arising and are likely to become of growing importance. The sort of difficulties which arose over Ebbw Vale before the war, where social and strategic considerations conflict with the wishes of private managements, may be repeated on a European scale before long. The Government would not presume to say how these difficulties should be met by other European countries; but, in the circumstances of this country, the Government is satisfied that nothing short of public ownership will give the necessary degree of effective control.

(B) Development and Finance

8. There are many possible variants in the direction and pace of development of a modern iron and steel industry any one of which may be argued to be economic. There is not one “economic” line of development which is right and a whole number of alternatives which are uneconomic and therefore wrong. Everything depends on the pace of research and development work, the terms on which finance can be provided, the period over which the budget runs and plant is amortised, the possibilities of reciprocal arrangements with overseas producers (e.g., of semi-finished steel), and many other factors which are themselves shaped partly by conscious policy and partly by outside forces. Any group of managers for the steel industry will, therefore, be compelled to make a number of arbitrary forecasts and decisions within their own discretion. The degree to which these forecasts and decisions will be harmonised with national needs will depend largely
on whether managers feel themselves responsible to the nation and identify their interests with national needs, or whether they are responsible to some sectional body which will be constantly tempted to take a different view, particularly in cases where companies controlling steel works are themselves identified with particular users or suppliers.

9. The argument that the huge necessary developments in the steel industry can best be financed on Government terms has some force, since cheaper money means to that extent cheaper steel. It is true that at the present time the steel industry is in a position on its own credit to finance its immediate expansion programme, but there is no guarantee that it can do so for future schemes of development: and in any event the problem in terms of national economic policy is to provide the real resources of man-power and materials out of which new development on a large scale can be realised, rather than merely to find money. There is the further point that investment authorised in other fields for purposes of construction, export, &c, can be rendered abortive unless corresponding developments are set in hand by the steel industry in order to provide the right supplies at the right time. In fact, whoever controls the steel industry holds a right of veto over the development of the engineering industries.

(C) Marketing and Price Policy

10. The steel industry inevitably becomes closer and closer to a monopoly and a cartel and indeed pre-war Governments were compelled as a lesser evil to press cartel arrangements on those leaders of the industry who were most fervidly in favour of competition. With the best will in the world, the industry in private hands cannot help wielding dangerous monopoly powers. No doubt existing price levels may be sufficient to cover the costs of the higher cost producers and therefore may give an excessive profit margin to the more efficient. This may be inevitable on the argument that we need every ton of steel at present almost regardless of cost, but the steel shortage is likely to persist even after the sellers’ market ends and it may then become essential to find some method of keeping high cost units temporarily in production without inflating the price structure of the whole industry for that purpose. This could readily be done under socialisation, but it may lead to abuse under private enterprise.

(D) Labour Relations and Conditions

11. The steel industry has an excellent record of labour relations and is not, therefore, likely to suffer from the acute initial management difficulties apparent in an industry such as coalmining, where labour relations have been ineptly handled for many years. Thanks to this excellent tradition some of the advantages of socialisation in the labour relations field should be more readily reaped in steel than in industries such as coalmining, and while the owners are fully entitled to claim that this is evidence of their capacity to continue running the industry, it is from a practical standpoint an indication that recent achievements and records might be still further improved on under socialisation, which would not in this case have to deal with an unpleasant legacy from the past. At the same time conditions as regards canteens, welfare, &c, could be improved with advantage in the less progressive units which should be brought up to the level of the best.

(E) Organisation and Administration

12. One of the most important arguments for socialisation is that under single public ownership there will be infinitely better scope for effecting rationalisation, elimination of wasteful competition and proper physical industrial planning than under the present diversified private ownership. Efficiency in the industry depends more and more on effective team work between those responsible for different processes and complete integration of working between plants—many of which are at present in different hands and cannot readily, under private ownership, be led to co-operate with sufficient closeness or given a common financial interest. Even where such arrangements can be made under the present system they are a great tax on the time and energy of leaders of the industry who have to give much thought and patience to pacts and negotiations, the need for which would be largely removed by socialisation. Public ownership will give better results than close public control over private ownership. All experience goes to show that public control in certain spheres without public ownership can regulate and check development, but cannot secure positive action of a forward-looking, expansionist character.
(V) Short-term Considerations

13. One of the strongest arguments against socialisation at this stage is that it would upset and dislocate the industry at a time when every ton of steel is needed. Experience of other recent socialisation measures does not bear this out. The coal owners and the electricity supply corporations were opposed on principle to socialisation and certainly less used to subordinating company to industry interests than are the leaders of iron and steel, and in both cases there was an even more critical shortage of their output at the time of socialisation, yet there is no evidence that unsettlement over the process of transfer led to any significant slackening in output.

14. It may be argued that iron and steel is more intricate and technical and would, therefore, be more largely affected. This depends very much on the attitude of the managers and technicians. Certainly, if considerable elements among them made obstacles to co-operation like the doctors and dentists and were prepared to leave the industry, this argument would have a good deal of force. But this is unlikely to happen in an industry where the special skill and experience of the managers would be of little help to them in getting good jobs elsewhere.

15. The fact that it is proposed to socialise on a basis of existing companies and not by setting up new boards is an important safeguard against dislocation, which in most cases would approximate more closely to the very mild process of socialising the Bank of England or Cable and Wireless, rather than the more drastic process of superseding large numbers of colliery companies by the N.C.B. and its intricate and novel subordinate bodies.

16. A more serious difficulty is that on present form the fate of the industry seems likely to be a pivotal point of the next General Election. There is no saying what unsettlement might be introduced by political controversy at that time and it is certainly the responsibility of the Government on its side to see that everything possible is done to insulate the current operation of the industry from the controversy which will be going on over its head.

On the other side, it may fairly be argued that unsettlement and uncertainty about the future will be reduced rather than increased by the Bill which has been hanging over the industry so long that it has inevitably affected the atmosphere in which development and day-to-day operations have to be conducted.

17. Much will depend not only on the weight of the respective cases, but on the atmosphere which is created. It is most important, therefore, that the introduction of recriminations and emotionalism should be strictly avoided from the Government side. The Government being responsible for the national economy has an interest in ensuring that whatever decisions are reached about iron and steel are discussed and settled with the utmost calmness and goodwill, and that an atmosphere of crisis, partisanship and division is avoided.

Points to Avoid

18. We must seek to carry the technicians and the workers with us. Therefore it is suggested that Government spokesmen should take particular care to avoid getting involved in arguments such as the following:

(a) Misdeeds of the Industry before the War.—There are a number of tempting debating points, such as cartels, price policy, the Sir William Firth incident, &c. It must be recognised, however, that full information on matters of this character is available only to the Federation, and that in most if not all of the major issues the Federation had the tacit or open acquiescence of the Government of the day for what it did. While we may disagree with the Government policies of that time (and fundamentally those policies were restrictionist), we should be on dangerous ice in blackguarding an industry for having fallen in with current Government views. The right line is to emphasise the arguments on general grounds set out above in favour of public ownership rather than control, and to use the public suspicions and doubts in regard to the policy of the industry which developed during the pre-war period of I.D.A.C. control, as evidence of the inherent weaknesses of such a system of control, without explicitly endorsing those suspicions or accusing the leaders of the industry of discreditable behaviour.

(b) Financial Domination by "the City."—For each of the major public companies the voting rights are exercisable by several thousand share-
holders, and there is no factual evidence to support any allegation that there are at present organised groups in a position to exercise "control." The Prudential and other insurance companies and finance houses are trustees for the debenture holders in some cases, but they have no rights save in the event of default. Acquisition of debentures in industrial concerns is a normal means of investment for surplus funds of insurance companies.

(c) Subsidies.—Exchequer subsidies are now being paid in respect of iron and steel at a rate of about £22 million a year, but it should not be suggested that this money is being paid to bolster a bankrupt industry or that it is distributed among the shareholders. This subsidy, which is analogous to the food subsidies, has developed out of war circumstances, and is payable to keep down the costs of steel to the steel-consuming industries. Of the £22 million, £9 million represents the difference between the cost of imported iron and steel and the controlled selling price in Great Britain; £7 million is assistance towards the high cost of freight on imported ore (and this is kept high in the absence of outward coal cargoes); £5 million is towards the cost of imported scrap. After nationalisation it may well be found that it is in the public interest to maintain some of these subsidies in order to avoid a sharp rise in price consequent on paying world prices for imported materials.

(d) Suggestion of Inefficiency or Mismanagement.—There is no concrete evidence which can be adduced for inefficiency or mismanagement on the part of those now in control of the iron and steel industry, and the current output records justify this contention. It can no doubt be argued that certain plants are inefficient, out of date, and badly sited, but the responsibility for this legacy can hardly be placed on the present generation of those in control. As indicated in previous paragraphs, it is most important not to alienate directors, managements and technicians; accordingly sweeping generalisations about their incompetence should be eschewed, and credit given for their recent achievements.

Conclusion

19. The industry is now on its best behaviour and particularly anxious to give the Government no argument which it could use that "the steel barons" are acting contrary to the public interest. For this reason they are particularly amenable to Government policy on such matters as increased production, limitation of prices, restriction of dividends, location of industry, co-operation in the Distribution Scheme, &c. On these matters we have no serious ground for complaint. As indicated in paragraph 18 (a) above, we should be in difficulties about attacking in detail their pre-war record. Our case must rest on the part which this industry must play in the future economy of the country and our general propaganda should be on the lines indicated in paragraphs 3 to 12 above.
CABINET

FUTURE OF THE TUDOR AIRCRAFT AND OF THE 'FLY BRITISH' POLICY

MEMORANDUM BY THE MINISTER OF SUPPLY

I agree with all the conclusions in the Lord Privy Seal's paper (C.P. (48) 179) except the recommendation—from which I strongly dissent—that 22 D.C.4M-4's (Canadair 4's) should be purchased for operation by B.O.A.C. on the Empire routes and on the North Atlantic during the next few years instead of Avro Tudor IV's, which can be built from the uncompleted Tudor II's at an additional cost of £60,000 per aircraft. The D.C.4M-4 is an American aircraft, designed by the Douglas Aircraft Corporation, California, and manufactured under licence at Quebec by Canadair Ltd., a wholly-owned subsidiary of an American company. The engines are British Rolls Royce Merlins, as in the Tudors, but the airframe, propellers, instruments and equipment are American.

Summary of Objections to the Purchase of D.C.4M's

2. The purchase of these D.C.4M-4's would be a far greater departure from the 'fly British' policy than any hitherto agreed. There are also a number of special reasons which, in my view, make this proposal particularly objectionable. In summary they are:

(a) There is no question here of a superior foreign aircraft versus an inferior British one. The D.C.4M-4 and the Tudor IV are both excellent aeroplanes and, as is shown in a statement agreed by my Department, the Ministry of Civil Aviation and B.O.A.C. and reproduced as an Appendix to this paper, they are approximately equal in speed, range and passenger comfort.

(b) The abandonment by B.O.A.C. of the Tudor would mean the scrapping of all, or most of £4 millions worth of aeroplanes and aeroplane parts now lying at A. V. Roe's, and the dismissal and unemployment of nearly 1,700 aircraft workers and technicians in South Lancashire and Cheshire.

(c) The abandonment by B.O.A.C. of the Tudor and the decision to fly in its place an American aeroplane would have serious effects on:

(i) The technical advancement of British aviation.
(ii) The export prospects of British aircraft.
(iii) War potential.

(d) There would be strong political opposition from both sides of the House and from outside it, particularly from organised labour in the Manchester area, if foreign aircraft were purchased and the bulk of the Tudors scrapped.

(e) The financial advantages to be gained from the purchase of D.C.4M's (of the order of £1 million a year for 3–5 years) are relatively small compared with the total expenditure on civil aviation, and would be far outweighed by the damage inflicted on British aviation in the widest sense.

(f) On the assumption that the D.C.4M's would have to be paid for sooner or later in dollars, the net dollar earning capacity of the Tudor IV's would exceed that of the D.C.4M's by an amount which I estimate, from B.O.A.C.'s own figures, to be at least 10 million dollars over five years, and possibly much more.
Previous Plans for Operation of the Tudor IV by B.O.A.C.

3. The present opposition of B.O.A.C. to the use of the Tudor IV's is plainly based on the Corporation's natural desire to fly the most economic aeroplane obtainable, whatever its origin, so that their losses may be reduced as much as possible. There can be no radical objection by B.O.A.C. to the Tudor IV's on technical grounds, because only recently they were anxious to have them, and indeed resisted persistent applications for the release of some of these aircraft to B.S.A.A. After the publication of the Interim Report of the Courtney Committee on the Tudor I last January, B.O.A.C. and A.V. Roe issued a joint press statement which said "the Corporation and the Company will co-operate fully in order that the Tudor aircraft should be put into operation on the B.O.A.C. routes at the earliest possible moment." Moreover, as late as 8th April the then Minister of Civil Aviation, in a paper he submitted to the Civil Aviation Committee, recommended that the B.O.A.C. services to India, Ceylon and West Africa should be operated by 16 Tudor IV aircraft pending the introduction of the Hermes IV. The conversion of 16 Tudor I's for this purpose was put in hand by my Department in April at the request of the Ministry of Civil Aviation, and with the approval of the Treasury, at an estimated total cost of about £300,000. B.O.A.C. are now asking that these 16 Tudor IV's should be transferred to B.S.A.A. and the D.C.4M-4's purchased in their place at a capital cost of about £4 million.

Comparison of the D.C.4M-4 and the Tudor IV

4. There is little difference between the D.C.4M-4 and the Tudor IV in range, speed and passenger amenities. It should be borne in mind, in studying the comparison in the Appendix, that the assumed figures for the D.C.4M-4 represent the estimated effect of improvements which the manufacturers claim to be able to introduce in the D.C.4M-2 (which is the version now flying). Such expectations are frequently disappointed in practice. The Tudor IV figures, on the other hand, are those obtained from actual experience in operation, and make no allowance for improvements obtainable with further development. Refrigeration will be available in the D.C.4M-4 but not (for the present) in the Tudor IV, though there is a development programme to provide this, and other more substantial improvements, as soon as possible. The completion of the Tudor II's as Tudor IV's, which have the same wings, undercarriage, power plants and instruments but a different fuselage, involves no production difficulty. They would be of the same standard as the Tudor IV's now being regularly operated by B.S.A.A. on the North Atlantic with, of course, a full certificate of airworthiness. Delivery of sixteen of these aircraft in addition to the sixteen already being converted from Tudor I's, could be made within a year. I doubt whether an equal number of D.C.4M-4's (which have not yet obtained a certificate of airworthiness) could be obtained as soon.

Small Extent of the Financial Advantage from Purchase of D.C.4M-4's

5. The completion of Tudor II's as Tudor IV's could be carried out at an additional cost of about £60,000 each, over and above the commitments already incurred on the Tudor II contract, whereas I understand that the purchase price of D.C.4M-4's is approximately £175,000 each. Because of their larger seating capacity (they carry forty passengers as against the Tudor IV's thirty-two) it is estimated that additional revenue would be earned by the D.C.4M-4's, thus enabling B.O.A.C. to reduce their deficit. Leaving out of account the loss to the Exchequer of nearly £4 millions on the Tudor II contract, the Minister of Civil Aviation in Appendix A to C.A.C. (48) 15 estimated that the total losses likely to be incurred by B.O.A.C. on the Empire routes over the three years 1948-51 if Tudor IV's are operated would amount to £10-3 million. If D.C.4M-4's are operated instead he estimates that the losses will be reduced to £7-3 million. When the Atlantic route is brought into the calculation the financial difference is increased to about £2 million over five years, but, on the other hand, the net dollar earnings from Tudor IV's would be higher by an amount which I estimate, from B.O.A.C.'s own figures to be at least 10 million dollars, and possibly much more. The total expenditure on civil aviation at the present time is of the order of £40 million a year. While I fully appreciate the importance of reducing the heavy losses at present being incurred by the airline Corporations, I cannot believe that the advantages to be gained by a saving of about £1 million a year for the next three to five years can be sufficient to justify a major retreat from the "fly British" policy which the Government have so often proclaimed their intention of
maintaining, and which has the support of all political parties. It has been generally accepted as inevitable that, for at least five years after the end of the war, British landplanes in the larger classes are likely to be less economic than some American types. It has also been well known that substantial subsidies would be necessary, partly on account of this. Provision was in fact made in the Civil Aviation Act for subsidies until 1956. Nothing that has happened since the passing of that Act justifies an abandonment of the "fly British" policy, which is as necessary now as when it was first universally acclaimed in 1945.

Difficulty of re-establishing "fly British" once abandoned

6. The proposed purchase of 22 D.C. 4M's would bring the total value of American aircraft (including spares) in service with, or on order for, B.O.A.C. to over £10 million. American aircraft would overwhelmingly predominate in their main line fleets, and their engineering organisation on the landplane side would be so completely tied to American practices and standards that to change back to British would be a major operation which the Corporation would have every excuse for postponing again and again. Moreover, in order to obtain the best financial results, the heavy capital outlay on American aircraft, maintenance depots and spares would have to be amortised over as long a period as possible. Re-equipment might therefore be delayed until long after the time when demonstrably superior British types become available. There is, indeed, a grave risk that the "fly British" policy would thus be postponed sine die so far as B.O.A.C. are concerned, and no amount of protestation on their part should, in view of their record, delude us into thinking otherwise. Certainly the airline industry itself, including competitors of A. V. Roe & Co., Ltd., understand the gravity of the situation and do not take seriously the suggestion that the American purchases would be merely to tide us over an interim period.

Consequences for British Aviation

7. If B.O.A.C. were permitted to buy the D.C. 4M-4's in place of the Tudors wider national interests would suffer in the following ways:

(a) Denial of Operational Experience to British Designers. In the design of new types of aircraft operational experience with preceding types in regular service and under all conditions is of vital importance. This applies not only to the aircraft structure itself but to all associated equipment, instruments and accessories. Not merely A. V. Roe & Co., Ltd., but many other British firms at present striving to regain the ground lost during the war in the civil aircraft field, will suffer if the Tudor does not go into operation on B.O.A.C.'s as well as B.S.A.A.'s routes. Apart from a few Yorks and Solent flying boats, B.O.A.C. would have no British aircraft in service at all for the next two years or more. It is true that the Hermes IV is planned to come into service on the Empire routes in 1950, but this type would replace the Yorks and Solents, not the Constellations and D.C. 4M-4's. It would indeed be a travesty of nationalisation if the principal State airline should thus facilitate the work of the designers of American aircraft while depriving the British industry of that operational experience and close collaboration which is vital to the development of successful designs.

(b) Damage to Export Trade. The attitude of B.O.A.C. towards the Tudors, as reflected in the reports of the Courtney Committee, has already had a most discouraging effect on potential foreign customers, and an order from the Argentine worth over a million pounds has been cancelled. Any purchase of aircraft from dollar countries would, in our present economic difficulties, be interpreted by foreign buyers as showing complete lack of confidence, not merely in the particular British type which is rejected, but in all British types of comparable size. Purchase of D.C. 4M's will therefore seriously diminish the export prospects of the Hermes as well as the Tudor. Given de Havillands, who have hitherto been confidently planning for an output of two Comets a month, are now hesitating, for fear of the serious reactions on all British aircraft, including their own, of the rumoured abandonment of the "fly British" policy.

(c) Damage to British War Potential. After the first world war, K.I.M., the Dutch airline, were allowed to buy their aircraft where they liked;
the result was the establishment of a commercially successful airline but the extinction of a promising Dutch aircraft industry. The pursuit of a short-sighted financial policy in British civil aviation might well leave us with a second-rate aircraft industry, with all that this implies to our national security. The purchase of D.C.4M’s would result in a large number of Tudors having to be cancelled, since it is very unlikely that alternative uses could be found for more than a few, even if they were disposed of to privately-owned charter companies and others at a knock-down price. A. V. Roe & Co., Ltd., would be forced to dismiss from their Manchester factories up to 1,700 workpeople, many of them highly skilled aircraft workers, and it would be impossible to keep the capacity and skilled labour of the firm adequately employed until the new military designs on which they are engaged (including a project to which the Air Staff attach the highest importance) are ready for production. In fact serious damage to the war potential of A. V. Roe & Co., Ltd., and some of the suppliers of equipment could be avoided only if it were decided, at heavy cost to the taxpayer, to continue production in excess of requirements.

Political Considerations

8. B.O.A.C. have always resented the Government’s “fly British” policy as an intrusion on their right to purchase and fly whatever aeroplane they consider commercially the most attractive. Moreover, they have been sensitive to the recent criticism of the continued heavy subsidies which are being paid to them, which they regard as a slur on the efficiency of their administration. It is, I think, largely this criticism, considered by some of my colleagues as damaging to the Government’s nationalisation policy, which has led them to support the purchase of the commercially more attractive D.C. 4M-4.

9. I suggest, however, that nothing is to be gained by attempting to appease this criticism, which is partly politically inspired and partly based on a misconception, by modifying our “fly British” policy. No one will congratulate the Government for reducing the civil aviation subsidy from, say, £8 million to £7 million per annum. On the other hand, I am convinced there will be a vehement and much more dangerous attack on the Government and the Corporations if, after all the troubles which the Tudors have gone through, we abandon them for an American alternative, with all the serious consequences set out above, just at the time when they have been developed into an excellent aeroplane such as the Tudor IV.

10. I suggest, however, that steps can and should be taken at the earliest opportunity to stop our critics getting away with it. They can be effectively answered by an authoritative Government statement setting out the immense national advantages which accrue to our aviation industry, our exports, our full employment policy and national defence from the “fly British” policy and the subsidy it involves. There is no reason at all why we should be on the defensive in this matter and I am sure that a forthright statement of our case would hearten our supporters and confound our critics.

The Purpose of Nationalisation

11. Finally, in considering this problem we must keep in mind our purpose in nationalising this or any other industry. It is surely to fit the economics of that industry into the framework of our national planning. That is a conception which B.O.A.C. have always rejected. This basic issue is sharply defined in the present controversy. If the purpose of nationalisation is to provide, as far as possible, for the separate financial prosperity of each nationalised concern, then of course we must accept B.O.A.C.’s request to fly a more economic aeroplane rather than a British one. I assume, however, that it is our policy that the nationalised civil aviation industry should not stand by itself as a viable entity outside the ambit of overall national planning, but that it should be made to play its part in national reconstruction. If that is accepted, as surely it must be, there is an overwhelming case for insisting that B.O.A.C. fly Tudor IV’s and not D.C. 4M-4’s.

G. R. S.

Ministry of Supply, W.C. 2,
10th July, 1948.
APPENDIX

AGREED STATEMENT OF COMPARISON BETWEEN TUDOR IV AND D.C.4 M-4
(CANADAIR FOUR)

1. Payload

According to figures in the manufacturer’s brochure, the D.C.4 M-4 will carry approximately 1,500 lbs. more payload than the Tudor IV over average stages for the same all up weight of 80,000 lb.

The planned operating weight of the D.C.4 M-4 (which Canadair Ltd. are prepared to guarantee) is 82,000 lb. The payload will be correspondingly increased.

2. Cruising Speed and Range

The two aircraft have the same maximum effective fuel capacity. The Canadair is slightly faster than the Tudor IV cruising under the same conditions. For this reason the Canadair has a slightly longer range.

3. Strength

The Tudor IV has been designed to meet somewhat higher strength requirements than the D.C.4 M-4. The latter is already considerably developed, since the original weight was 63,000 lb., whereas the Tudor still has considerable room for development to take more powerful engines (e.g., Hercules 763 or Griffon). The maximum permissible landing weight for the Tudor IV is 74,000 lbs. compared with 68,000 lbs. for the D.C.4 M-4.

4. Passenger Amenities

The standard of comfort is approximately the same in both aircraft, the Tudor IV carrying 32 passengers, the Canadair Four 40 passengers.

The pressurisation system on the Tudor IV maintains the cabin altitude at 5,000 ft., while cruising at 20,000, as compared with 8,000 ft. in the D.C.4 M-4.

On the other hand, the D.C.4 M-4 is to be equipped with refrigeration, which has not so far been developed for the Tudor IV.

5. Undercarriage

The Tudor IV has a tail wheel undercarriage with one main wheel only on each side. The D.C.4 M-4 on the other hand has a nose wheel undercarriage with twin main wheels on each side. The Tudor IV, therefore, requires airfields with a slightly longer and rather stronger surface, when operating under comparable conditions.

In general, neither aircraft will be limited on length of runway on Empire routes.

The bearing strength at certain key aerodromes outside United Kingdom control on Empire routes (Cairo, Calcutta, Delhi, Karachi and Bahrain) is believed to be now only just adequate for the Tudor and to be deteriorating. The difference in the single wheel loading of the two aircraft is therefore likely to be an important factor.

6. Operational Experience

There is considerable experience on the D.C.4 M-1 and 2 with Trans-Canada Airlines, although none as yet on the D.C.4 M-4, which is not fundamentally different. There has been some limited operational experience with the Tudor IV in service with B.S.A.A.

The engines and power plants (Merlin) are similar in the two types of aircraft.
CABINET

THE ELECTRICITY PEAK LOAD PROBLEM

Memorandum by the Minister of Fuel and Power

1. In my Paper (P.C. (48) 32 of 10th March 1948) to the Production Committee I mentioned the serious results which were likely to arise from the fact that insufficient building steel had been allocated to the generating station programme. Since that date, as I told the Production Committee on 2nd July (P.C. (48) 13th Meeting) progress on this programme has been very disappointing. Work on sites has not proceeded as fast as was hoped and the effects of steel shortage in the first three periods of 1948 are now becoming only too clear. I should add that estimates of requirements of steel have been steadily rising and that although some increases have been given the gap between requirements and allocations is still large.

2. The consequence is that the figures for commissioning of new generating plant published in the White Paper last December (Cmd. 7268) cannot now be achieved. The following table shows the change in the prospect.

<table>
<thead>
<tr>
<th>Period</th>
<th>Under White Paper Programme</th>
<th>Present estimates (assuming increased steel supplies for installations in 1950 and later years)</th>
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<tr>
<td>1948/49</td>
<td>1283 megawatts</td>
<td>1580 megawatts</td>
</tr>
<tr>
<td>1949/50</td>
<td>794</td>
<td>2060</td>
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<tr>
<td>1950/51</td>
<td>537</td>
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<td>542</td>
<td>750</td>
</tr>
<tr>
<td>1953/54</td>
<td></td>
<td>70</td>
</tr>
<tr>
<td>1954/55</td>
<td></td>
<td>540</td>
</tr>
</tbody>
</table>

It was estimated last winter, making the same assumption about weather conditions and fuel supplies, that the size of the gap (before allowing for the effect of load spreading by industry) would be about 1,700 megawatts.

It will be seen therefore that for the next three winters there will be little if any improvement and that unless peak demand can be reduced, heavy load shedding will be almost certain. The situation was reported to the Production Committee at its last meeting and the Economic Secretary, Treasury was invited to review the progress made in the electricity power station programme and to circulate a report on the position (P.C. (48) 13th Meeting, Minute 3 (2)).

3. Meanwhile steps are already in hand to repeat the successful spreading of load by staggering working hours. But it has been made clear by employers and employees alike that they are not prepared to make the sacrifices imposed by these arrangements unless other sections of the community contribute their fair share. Plans are being worked out in the Regions for the spreading of load by commercial and office users. But the domestic user cannot be
covered in this way and it is the domestic load above all that is the most obdurate and has shown the greatest relative increase since the War.

4. Last February I appointed a Committee under the Chairmanship of Sir Andrew Clow to investigate the problem of transferring non-industrial demand from the peak periods. I attach as an Appendix a summary of the conclusions and recommendations of their report, which is now being printed.

The Committee make several recommendations concerning the installation of special equipment which might be useful for diverting consumption off the peak. I propose to ask the British Electricity Authority to study these recommendations and to give effect to them wherever possible. But we cannot look to remedies of this kind for any assistance during the coming winter, since it is out of the question in any case to install the necessary apparatus on a large enough scale in time.

5. There is only one recommendation in the Report that can have any appreciable effect next winter. This is a proposal that the running charges of two part domestic tariffs, and so far as practicable other similar rates to non-industrial consumers, should be increased during the three winter months, December, January and February, and reduced during the remaining nine months of the year, the changes being adjusted so that as nearly as possible the revenue of Area Boards remains unaltered.

6. As the Committee saw, if this proposal is to be effective in reducing peak demand, it must provide for a substantial difference between winter and summer rates. In view of the multiplicity of domestic tariffs, the Area Boards will have to work out the detailed changes appropriate to these tariffs. In the case of the ordinary domestic two part tariff, the average running charge for the country is 1½d a unit, and the largest change in this that appears to be practicable is an increase of 1½d a unit in the winter quarter and a decrease of 1½d a unit in the remaining three quarters. This would bring the average running charge to about 1¼d a unit during the winter and ½d a unit during the summer.

7. It is impossible to forecast precisely what effect on consumption a change of this kind would have. Where there are no alternative methods of heating, it is likely to be slight. But the object of the proposal is of course, to induce consumers who can to use solid fuel in place of electricity for heating during these winter months when the load on the power stations is heaviest. It aims, for example, at inducing people to confine the use of immersion heaters and electric fires to the other nine months, while using solid fuel for space and water heating from December to February. From the point of view of economic policy such an effect is certainly desirable.

8. The financial consequences of the proposal upon different consumers depends not only on how far they can reduce their consumption in the December-February period, but also on how large a proportion of their total consumption of electricity occurs during that period. This proportion for the country as a whole is one-third; an individual consumer who used one-third of his total consumption of electricity in the winter quarter would therefore not experience any change in his total bill for the year (from the alterations in tariff suggested in paragraph 6) if either there were no shift at all in consumption from winter to summer or the percentage reduction in the winter equaled the percentage increase in the summer. Consumers will benefit from the price alterations if they use less than one-third of their total electricity consumption in the three winter months or if they succeed in reducing their consumption in the winter by a greater percentage than they increase it in the rest of the year.
9. The broad effect is that consumers will tend to benefit if they use electricity evenly throughout the year, e.g. for cooking, water heating etc., while those who use relatively more electricity in the winter and therefore do not get so much benefit from price reductions in the summer – i.e. those who use electricity mainly for space heating – will be paying more. As however additional domestic space heating in the winter is the most important reason for the increase in peak demand it is precisely these consumers whose use of electricity we should try to discourage most.

10. Those who live in what are called "all-electric" houses, flats, and temporary prefabricated dwellings will probably gain rather than lose taking the year as a whole, because of their higher electricity consumption in summer. Moreover, most of these houses have at least one solid fuel burning appliance and the effect of the price changes will be to induce them to rely more on this for space heating during the three winter months.

In spite of this there may be some protests from these people owing to the fact that even if they reduce their consumption for space heating as much as possible they may, on account of their high consumption of electricity for other purposes, have to pay as much as 5/- a week more for electricity during the winter. And although this may be more than offset by savings over the rest of the year some households may find it difficult to afford the extra amounts in the winter. I do not personally regard this objection as serious, but if my colleagues feel that it is, it could be mitigated by making the fixed charge less in the winter and more in the summer. I hope it will be possible to avoid this however, because it is bound to decrease considerably the effectiveness of the proposals.

11. The Clow Committee Report will shortly be published and it is necessary to indicate the attitude of the Government to its recommendations. In view of the necessity of reducing domestic electricity consumption during the winter I suggest that we should accept the proposal of the Committee for differential summer and winter charges for electricity, which has already been approved by the Production Committee, (P.C. (48) 13th Meeting, Minute 3 (1)), and ask the British Electricity Authority and the Area Boards to put it into operation. I also propose that we should give general approval to the other more technical recommendations and invite the British Electricity Authority to carry them into effect wherever practicable.

H.G.

Ministry of Fuel and Power,
7 Millbank,
S.W.1.
APPENDIX

SUMMARY OF THE CLOV COMMITTEE REPORT

1. The Report starts with an account of the nature and extent of the peak load problem and then goes on to consider means by which the demand of the domestic and non-industrial consumer at time of the peak demand on the generating system might be reduced. Parts III and IV describe the types of apparatus by which this could be done and discuss the possibilities of using any of them. Parts V, VI and VII consider the possibility of reducing demand by tariff changes either alone or in conjunction with special devices. Finally, Part VIII of the Report contains the Committee's conclusions and recommendations.

2. The conclusions and recommendations of the Committee are reproduced below.

Conclusions

"We realise that, apart from the proposals regarding seasonal variations in unit charges for domestic two-part tariffs and the extension of maximum demand metering for commercial premises, our recommendations can do little to alleviate next winter's peak load difficulties.

There are no instruments for measuring or controlling domestic consumption of electricity at peak periods which could justify themselves merely as a short-term measure. Only if they contribute to the long-term economy of the industry can the various devices, with which we propose experiments, justify their extensive application. We believe that these experiments have considerable promise.

In the commercial sphere we would draw attention to the value of full consultation with standing bodies whereby those well acquainted with commerce could cooperate on measures of load spreading which would economise in electricity at peak hours. So far as industry is concerned this co-operation is secured through the Regional Boards for Industry and the numerous District Committees who work with them. We believe that an extension of these arrangements to commerce is desirable.

In the domestic field we attach great importance to a further spreading of information and advice. At present many do not seem to be fully aware of the difficulties which face those responsible for electricity supply, and of the fact that at least for the next two years it will not be possible to meet all demands. The utmost use should be made of the services of the Supply Authorities' Demonstrators, and organisations such as the British Electrical Development Association, the Electrical Association for Women and the Women's Voluntary Services to bring home to householders by all practical means the need for and the methods of reducing loads at the critical peak times. When load shedding is inevitable arrangements should be made as far as practicable to enable consumers to know in advance when cuts in the supply might be expected.

Since the fear of solid fuel shortage has been a potent factor in the peak load problem, an assurance to non-industrial consumers that future supplies of solid fuel will be maintained or improved would contribute materially to the alleviation of the difficulties next winter."

Recommendations

Quotations from the Report are given in inverted commas, and underlined. A short summary of the relevant parts of the Report is given after each Recommendation.
In the case of domestic two-part tariffs, instead of a uniform running charge throughout the year, the winter rate should be relatively higher and the summer rate relatively lower. Similar principles should apply to multiple and block tariffs.

The Committee reviewed various types of electricity tariffs at present in use for domestic and commercial consumers. They appreciated that although the low running charge of the two-part tariff gave consumers little encouragement to economise, it had been advantageous in promoting a wider and more varied use of electricity and represented a closer approximation to the cost structure of the industry than the Flat Rate tariff. They were not in favour of changes in the tariff structure. They recognised, however, the advantages of proposals not involving additional apparatus which can be put into operation at short notice and altered or withdrawn equally promptly, if found to be ineffective, without the necessity for scrapping any equipment. Moreover there is a large proportion of consumers whose consumption of electricity is so small that the fitting of any sort of device, however, inexpensive, would not be justified. The Committee felt it would be quite consistent with the cost structure of the industry if the running charge of the domestic two-part tariff was higher in the winter months than in the summer. Although little is known of the response of consumers' demand to changes in the price of electricity, it seemed likely that such a relative adjustment of unit rates would tend to check extravagant use and promote economy in winter, which is the time of greatest difficulty. The Committee recognised that a change of this kind would not be a complete answer to the present peak problem; but even if it affects demand less at the time of system peak load than at other times, it would tend to reduce the number of occasions upon which load shedding is necessary in conditions of plant shortage. The Committee emphasised that the chances of securing a reduction in winter consumption would be much greater if the higher rate were restricted to a 3 month period such as December, January, February, and not spread over the 5 months October to March.

The Committee considered that the commercial two-part tariff has an advantage over the normal domestic two-part tariff in that instead of the fixed charge being based on an arbitrary quantity such as the size or rateable value of the house, it is based either on the consumer's maximum demand, as measured on a special meter, or on the capacity of part or all of the electrical apparatus installed on the premises. Various types of instrument for recording the consumer's maximum demand are in existence but the more accurate varieties are expensive. The Committee recommended the extension of this type of tariff for commercial consumers, but they did not recommend its application to domestic consumers.

Trials should be carried out on the following methods, in districts where central control systems are already in existence:

(a) More extended use of central control of water-heaters.

There are already about 110 central control installations of various kinds in the country and the Committee felt that the application of this form of control was a most promising means of securing some reduction in the peak demand. A signal sent out over the distribution network operates a switch in the consumer's premises turning off or on the whole or part of the consumer's load. The most appropriate load for control in this way appeared to be the storage water heater since this can be switched off for short periods at times of system peak with little inconvenience to the consumer.

(b) The application of differential tariffs for "firm" and "non-firm" supplies, especially for space-heating purposes, where the consumer's wiring installation is, or easily can be, separated.

The Committee were interested in the possibility of offering a tariff inducement to consumers who were willing to accept, as an alternative to their normal electricity supply, a system whereby part of their supply (on a circuit to which the less essential appliances would be connected) was subject to control and liable to be cut off for short periods at times of system peak. The application of this system, however, limited to cases in which the consumer's circuit is, or easily can be, suitably divided.
"(c) The application of time-of-day tariffs to the larger domestic consumers".

Such tariffs, under which the consumer is charged a higher unit rate during peak hours than during off-peak hours, are already in use to some extent in France and Switzerland. The hours during which the higher tariff applies would be made known to the consumer in advance. The additional apparatus required is a second meter, a duplicate of the one already on the consumer's premises and a centrally controlled switch which enables the appropriate meter to be brought into action at the right time.

"(d) The application of load limiters at times of system peak on the lines of the Paris experiments".

A load limiter is a device which limits each consumer to a pre-determined current by automatically cutting off the load or intermittently interrupting the current when this limit is exceeded. The main objection to this system is the difficulty of finding an equitable basis on which to fix the limit for each consumer. In any case the individual consumer's demand may be more than twice as great at mid-day on a Sunday as at times of system peak, and any effective limitation at times of system peak would therefore impose an unnecessarily stringent limitation at other times of the day or week, when there is no need for restriction. This latter objection could be overcome by using a control switch in conjunction with the load limiter in order to make the device operative only when the actual need to reduce the system peak load arises.

A scheme is being tried in Paris in which consumers are offered supplies at a lower price than their normal tariff provided they accept an agreed limitation to their maximum demand during peak hours. This limitation is effected by means of control switches.

The Committee considered that in assessing the results of all these trials the cost of installation and administration of the necessary metering and control devices together with any inconvenience to the consumer must be compared with the alternative cost of providing generating plant to meet the peak demand. In this latter connection plant designed specifically for peak load operation, such as the gas turbine, appears to merit consideration.

"(4) Research on apparatus with thermal storage characteristics should be encouraged with a view to the transfer of some existing load to off-peak periods".

The Committee realised that the further development of forms of electrical apparatus with a capacity for storing heat would increase the proportion of load to which it is possible to interrupt the supply with little inconvenience to the consumer. If supply to such load could be confined to off-peak periods, this would not only spread the demand for electricity more evenly over the 24 hours but would produce a relative reduction of the system peak load. Such development would also facilitate the extension of the system of "non-firm" supplies referred to in 3 (b) above.
INTERGOVERNMENTAL MARITIME CONSULTATIVE ORGANISATION

Memorandum by the Minister of Transport

At their meetings on 28th November, 1946 (C.P. (46) 101st Conclusions, Minute 3) and 21st January, 1947 (C.P. (47) 10th Conclusions, Minute 3) the Cabinet approved in principle the proposals for an Intergovernmental Shipping Organisation, set out in my paper (C.P. (46) 435) and in the Minister of State's paper (C.P. (47) 14).

2. A delegation composed of representatives of the Ministry of Transport and the Foreign Office attended the United Nations Maritime Conference held at Geneva in February this year. After a remarkably harmonious conference lasting seventeen days, the attached Convention for setting up an Intergovernmental Maritime Consultative Organisation was signed on behalf of eighteen countries, including the United Kingdom, the United States and nearly all the other important maritime and trading nations; all signatures being subject to "acceptance". This Convention closely follows the lines proposed in the submissions approved by the Cabinet and satisfactorily meets the specific points raised in the Cabinet's discussion on 28th November, 1946, and reported on by the Steering Committee on International Organisations (C.P. (47) 14). Thus

(1) The new organisation is to be a Specialised Agency of the United Nations;

(2) It will have as one of its most important functions the discouragement of discriminatory practices by governments in shipping matters;

The Scandinavian countries did not sign the Convention at Geneva as they were doubtful about the desirability of having an organisation covering more than purely technical questions, but they are expected to accept it in due course. China was the one country to vote against the Convention because she was hurt at being excluded from the nucleus of the first Council. The U.S.S.R. were not represented at the Conference, having previously taken the line that no such organisation was necessary.
(3) Overlapping with bodies such as the International Labour Organisation will be prevented by Article 46 which provides that:

"The Organisation shall co-operate with any specialised agency of the United Nations in matters which may be the common concern of the Organisation and of such specialised agency, and shall consider such matters and act with respect to them in accord with such specialised agency."

(4) The headquarters of the new Organisation will be in London.

3. I would like to draw attention to a few other important points:

(a) Some concession in drafting was made to those nations without merchant shipping of their own who regard the absolute aim of removing all discriminatory and restrictive practices by Governments from shipping as designed to monopolise the world's shipping for certain countries. The Convention recognises that assistance and encouragement may be given to national shipping provided it is not based on measures "designed to restrict the freedom of shipping of all flags to take part in international trade." (Article 1(b)).

(b) For similar reasons provision is made for consideration by the Organisation of complaints of unfair restrictive practices by shipping concerns, but the procedure ensures that every effort has to be made to settle such matters through commercial channels. Article 4 of the Convention lays it down that "in those matters which appear to the Organisation capable of settlement through the normal processes of international shipping business the Organisation shall so recommend." An interpretative note has been added to Article 55 of the Havana Charter (dealing with restrictive business practices in the field of "services") so that if questions under this heading have to come before an international forum they will be handled by the Intergovernmental Maritime Consultative Organisation, as a body suitably composed and constituted to deal with maritime questions.

(c) The constitution of the new Organisation has been so framed as to secure that the Council shall have a key position in it. On this Council the United Kingdom can rely upon a majority of nations whose interests and outlook in maritime matters are generally similar to our own.

4. The Convention (Cmd. 7412) was laid before both Houses of Parliament on 20th May and has not been the subject of any question or motion. It has also been submitted to the Steering Committee on International Organisations and no objections to ratification have been received from other Departments. I accordingly request authority to ratify the Convention by arranging with the Secretary of State for Foreign Affairs for the deposit of a formal instrument of
"acceptance" with the Secretary-General of the United Nations. I would propose to time our ratification in consultation with the other important maritime countries who have supported our efforts to bring about this Convention. The Convention is to come into force when 21 countries, including seven having at least one million gross registered tons of shipping each, have ratified it. It is important that the Scandinavian countries should come in, as I hope they will decide to do.

A.B.

Ministry of Transport, W.I.,

14th July, 1948.
Miscellaneous No. 6 (1948)

United Nations
Maritime Consultative Organisation

Final Act of Conference
with Annexes and Convention establishing
the Organisation
[with Appendices]

Geneva, 6th March, 1948

Presented by the Secretary of State for Foreign Affairs
to Parliament by Command of His Majesty

LONDON
HIS MAJESTY'S STATIONERY OFFICE
SIXPENCE NET

Cmd. 7412
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<td>5. Annex &quot;D.&quot; Draft Agreement on the Relationship between the United</td>
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<td>7. Appendices to the Convention</td>
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UNITED NATIONS MARITIME CONFERENCE

Geneva, 6th March, 1948

Final Act

The United Nations Maritime Conference was convened by the Economic and Social Council of the United Nations by the following resolution adopted on 28th March, 1947:

"The Economic and Social Council requests the Secretary-General:

(a) to convene a conference of interested Governments to consider the establishment of an inter-governmental maritime organisation. The Draft Convention prepared by the United Maritime Consultative Council on this matter, concerning the scope and the purpose of the proposed organisation, will serve as a working paper forming the basis of discussion for the Conference. The Conference will also consider if the scope and purposes of the Organisation should include the removal or prevention of unfair restrictive practices by shipping concerns;

(b) to circulate the above-mentioned Draft Convention to all the Governments invited to the Conference;

(c) to inform the Governments which are invited to the Conference that any comments which they may wish to make on specific articles of the Draft Convention or amendments which they may wish to propose in advance of the Conference, should be submitted to the Secretary-General for circulation to all Governments participating in the Conference and for consideration by the Conference itself;

(d) to draw up a provisional agenda for the Conference, including the items mentioned above;

(e) to invite all the members of the United Nations and the following Governments to participate in the Conference:

Albania, Austria, Bulgaria, Eire, Finland, Hungary, Italy, Portugal, Roumania, Switzerland, Transjordania, Yemen.

The Economic and Social Council expresses the hope that the Governments invited to the Conference may give their respective delegations full powers enabling them to sign such Convention on the establishment of an inter-governmental maritime organisation as may be concluded at the Conference.

The Economic and Social Council requests the Secretary-General to invite the specialised agencies, inter-governmental organisations and international organisations in this field, as may be appropriate, to send observers to the Conference. The Conference shall meet, if practicable, in the autumn of 1947, at a place to be determined by the Secretary-General after consultation with the President of the Council."

The Governments of the following States were represented at the Conference by Delegations:—

Argentina.
Australia.
Belgium.
Brazil.
Canada.
Chile.
China.
Colombia.
Czechoslovakia.
Denmark.
Dominican Republic.
Egypt.
Eire.
Finland.
France.
Greece.
India.
Italy.
Lebanon.
Netherlands.
Norway.
New Zealand.
Pakistan.
Panamá.
Poland.
Peru.
Portugal.
Sweden.
Switzerland.
Turkey.
United Kingdom.
United States of America.

The Governments of the following States had observers at the conference:—

Cuba.
Ecuador.
Iran.
Union of South Africa.

The following organisations were represented by observers:—

A.—*Inter-Governmental Organisations*

International Labour Office.
World Health Organisation.
International Civil Aviation Organisation.
International Telecommunications Union.
International Meteorological Organisation.

B.—*Non-Governmental Organisations*

International Co-operative Alliance.
International Chamber of Commerce.
International Law Association.
International Transport Workers’ Federation.

The Conference had before it and used as a basis for discussion the draft agreement for an inter-governmental maritime organisation prepared by the United Maritime Consultative Council. This document was submitted as a working paper for the Conference in accordance with the resolution adopted by the Economic and Social Council on 28th March, 1947, at its 4th session, on the recommendation of its Transport and Communications Commission.

On the basis of its deliberations, as recorded in the records and reports of the respective committees, and of the plenary sessions, the Conference prepared and opened for signature and acceptance a Convention on the Inter-Governmental Maritime Consultative Organisation.

In addition, the Conference adopted the following resolutions:—

1. A Resolution for the Establishment of a Preparatory Committee of the Inter-governmental Maritime Consultative Organisation;
   (Appended hereto as Annex "A" to this Final Act).

2. A Resolution on the Safety of Life at Sea Conference;
   (Appended hereto as Annex "B" to this Final Act).
3. A Resolution relating to the Report of the Preparatory Committee of Experts on Co-ordination of Safety at Sea and in the Air;
(Appended hereto as Annex “C” to this Final Act).

The Conference also approved the substance of a Draft Agreement on Relationships between the new Organisation and the United Nations (appended hereto as Annex “D”) and decided that it be used as a basis for negotiations by the Preparatory Committee with the United Nations in conformity with section 2 of the resolution establishing the Committee.

IN WITNESS WHEREOF the respective representatives have signed this Final Act:

Done in the City of Geneva this 6th day of March, 1948, in a single copy in the English, French and Spanish languages, each text being equally authentic. The original texts will be deposited with the Secretary-General of the United Nations who will send certified copies to each of the Governments invited to send representatives to the Conference.

[Here follow the signatures]

ANNEX “A”

A Resolution on the Establishment of the Preparatory Committee of the Inter-governmental Maritime Consultative Organisation

The United Nations Maritime Conference convened on 19th February, 1948, in Geneva by the Economic and Social Council of the United Nations;
Having agreed that an international organisation to be known as the Inter-governmental Maritime Consultative Organisation shall be established, and
Having agreed upon a Convention for the Organisation,
Hereby resolves that a Preparatory Committee should be established, and resolves, further, that:—

1. The Preparatory Committee of the Inter-governmental Maritime Consultative Organisation shall consist of representatives of the following twelve States: Argentine, Australia, Belgium, Canada, France, Greece, India, Netherlands, Norway, Sweden, the United Kingdom, and the United States of America.

2. The functions of the Preparatory Committee shall be:—

(a) to convene the first session of the Assembly of the Inter-governmental Maritime Consultative Organisation within 3 months from the date on which the Convention of the Organisation comes into force;

(b) to prepare and submit to the Governments represented at the United Nations Maritime Conference, and to any other Governments which have signed or accepted the Convention, at least 6 weeks before the first session of the Assembly of the Organisation, the provisional agenda for that session and necessary documents and recommendations relating thereto, including:—

(i) proposals for the implementation of the functions of the Organisation and a budget for the first 2 years of the Organisation,

(ii) draft rules of procedure,

(iii) draft financial and staff regulations;
(c) to suggest a scale of contributions by members to the budget of the Organisation;

(d) to prepare a draft annex to the General Convention on the Privileges and Immunities of the Specialised Agencies(1) in accordance with Part B of the Resolution adopted by the General Assembly of the United Nations on 21st November, 1947, relating to this subject;

(e) to enter into negotiations with the United Nations with a view to the preparation of an agreement as contemplated in Article 57 of the Charter of the United Nations(2) and in Article 45 of the Convention, using as a basis the draft agreement approved by the United Nations Maritime Conference.

In carrying out the functions of this section due consideration shall be given to the deliberations and decisions of the United Nations Maritime Conference.

3. The first meeting of the Preparatory Committee shall be held in Geneva immediately after the conclusion of this Conference.

4. The Preparatory Committee shall elect a chairman and adopt its own rules of procedure.

5. The expenses of the Preparatory Committee other than those of the members of the committee shall be met from funds which Governments may advance to the committee or from funds which may be loaned by the United Nations. The Preparatory Committee shall explore the feasibility of obtaining a loan from the United Nations and, if mutually acceptable, may enter into a loan agreement. The obligation under any such loan would be considered by the Governments represented at the Conference as a first claim for repayment by the Inter-governmental Maritime Consultative Organisation within the first 2 years of its existence. In the event of advances of funds to the Preparatory Committee from Governments, such advances may be set off against the contributions of the Governments concerned to the Organisation.

6. The Preparatory Committee may enter into agreement with the Secretary-General of the United Nations concerning the possible provision of personnel and other secretarial services under mutually satisfactory arrangements.

7. The Preparatory Committee shall cease to exist upon resolution of the First Session of the Assembly of the Inter-governmental Maritime Consultative Organisation.

ANNEX "B"

A Draft Resolution on the Safety of Life at Sea Conference

WHEREAS

The United Nations Maritime Conference has approved a convention for the establishment of an inter-governmental maritime consultative organisation whose scope includes matters relating to maritime safety, and

WHEREAS

The conference for the purpose of revising the Convention on Safety of Life at Sea of 1929,(3) will be held in London in April 1948, and

(1) "Miscellaneous No. 6 (1946)," Cmd. 6753.
(2) "Treaty Series No. 67 (1946)," Cmd. 7015.
(3) "Treaty Series No. 34 (1932)," Cmd. 4198.
WHEREAS
The matters to be considered by the Safety of Life at Sea Conference fall within the field of responsibilities covered by the International Maritime Consultative Organisation Convention,

The United Nations Maritime Conference

RECOMMENDS
That the Safety of Life at Sea Conference examine the convention on the Inter-governmental Maritime Consultative Organisation with a view to drafting provisions in its final acts which will take into account the duties and functions relating to maritime safety which have been accorded to the Inter-governmental Maritime Consultative Organisation.

ANNEX "G"

A Resolution by the United States Delegation relating to the Report of the Preparatory Committee of Experts on Co-ordination of Safety at Sea and in the Air

WHEREAS
Part VII of the Convention of the Inter-governmental Maritime Consultative Organisation places upon the Maritime Safety Committee the duty of co-ordinating its activities with those of other inter-governmental bodies in the field of transport and communications having an interest in maritime safety, and

WHEREAS
A special Preparatory Committee of Experts, representing inter-governmental organisations in the fields of aviation, meteorology, shipping and telecommunications, has recently met in London to consider principles for the co-ordination of activities in those four fields,

WHEREAS
The report of the Preparatory Committee (circulated to the Conference as Document E/Conf.4/8) will be considered at the forthcoming conference to revise the Convention for the Safety of Life at Sea, to be held in London in April 1948.

RESOLVES
That this Conference direct its President to inform the Conference on Safety of Life at Sea that the conclusions contained in paragraph 21 of the Report of the Preparatory Committee of Experts were taken into consideration by this Conference when drafting Part VII of the Inter-governmental Maritime Consultative Organisation Convention which establishes the Maritime Safety Committee.

ANNEX "D"

Draft Agreement on Relationship between the United Nations and the Inter-Governmental Maritime Consultative Organisation

Article 57 of the Charter of the United Nations (hereinafter called "the Charter") provides that specialised agencies, established by inter-governmental agreement and having wide international responsibilities as defined
in their basic instruments in economic, social, cultural, educational, health and related fields, shall be brought into relationship with the United Nations.

Part XII of the Convention on the Inter-governmental Maritime Consultative Organisation provides that the Inter-governmental Maritime Consultative Organisation (hereinafter called "the Organisation") shall be brought into relationship with the United Nations as one of the specialised agencies referred to in Article 57 of the Charter of the United Nations.

Therefore the United Nations and the Organisation agree as follows:—

**ARTICLE I**

The United Nations recognises the Organisation as the specialised agency responsible for taking such action as may be appropriate under its basic instrument for the accomplishment of the purposes set forth therein.

**ARTICLE II**

*Reciprocal Representation*

1. The United Nations shall be invited to send representatives to attend the meetings of the Assembly of the Organisation, the Council, the Maritime Safety Committee, any subsidiary organs, and such conferences as the Organisation may convene, and to participate, without vote, in the deliberations of these bodies.

2. The Organisation shall be invited to send representatives to attend meetings of the Economic and Social Council of the United Nations and of its commissions and committees, and to participate, without vote, in the deliberations of these bodies, with respect to items on their agenda relating to matters within the scope of the activities of the Organisation.

3. The Organisation shall be invited to send representatives to attend meetings of the General Assembly of the United Nations for purposes of consultation on matters within the scope of the activities of the Organisation.

4. The Organisation shall be invited to send representatives to attend meetings of the main committees of the General Assembly when matters within the scope of its activities are under discussion and to participate, without vote, in such discussions.

5. The Organisation shall be invited to send representatives to attend the meetings of the Trusteeship Council and to participate, without vote, in the deliberations thereof with respect to items on the agenda relating to matters within the scope of its activities.

6. Written statements of the Organisation shall be distributed by the Secretariat of the United Nations to the members of the General Assembly, the Economic and Social Council and its commissions, and the Trusteeship Council as appropriate. Similarly, written statements presented by the United Nations shall be distributed as soon as possible by the Secretariat of the Organisation to all members of the Organisation.

**ARTICLE III**

*Proposal of Agenda Items*

Subject to such preliminary consultation as may be necessary, the Organisation shall include on the agenda of the Assembly, Council, and the Maritime Safety Committee, items proposed to it by the United Nations. Similarly, the Economic and Social Council and its commissions and the Trusteeship Council shall include on their provisional agenda items proposed by the Assembly or Council.
ARTICLE IV

Recommendations of the United Nations

1. The Organisation having regard to the obligation of the United Nations to promote the objectives set forth in Article 55 of the Charter and the functions and powers of the Economic and Social Council, under Article 62 of the Charter, to make or initiate studies and reports with respect to international economic, cultural, educational, health and related matters and to make recommendations concerning these matters to the specialised agencies concerned, and having regard also to the responsibility of the United Nations, under Articles 58 and 63 of the Charter, to make recommendations for the co-ordination of the policies and activities of such specialised agencies, agrees to arrange for the submission, as soon as possible to the Assembly or the Council, as appropriate, of all formal recommendations which the United Nations may make to it.

2. The Organisation agrees to enter into consultation with the United Nations upon request, with respect to such recommendations, and in due course to report to the United Nations on the action taken by the Organisation or by its members, to give effect to such recommendations, or on the other results of their consideration.

3. The Organisation affirms its intention of co-operating in whatever further measures may be necessary to make co-ordination of the policy and activities of specialised agencies and those of the United Nations fully effective. In particular, it agrees to participate in, and to co-operate with any bodies which the Economic and Social Council has established or may establish for the purpose of facilitating such co-ordination and to furnish such information as may be required for the carrying out of this purpose.

ARTICLE V

Exchange of Information and Documents

1. Subject to such arrangements as may be necessary for the safeguarding of confidential material, the fullest and promptest exchange of appropriate information and documents shall be made between the United Nations and the Organisation.

2. Without prejudice to the generality of the provisions of paragraph 1—

(a) the Organisation agrees to transmit to the United Nations regular reports on the activities of the Organisation and programmes of operation for each ensuing year;

(b) the Organisation agrees to comply to the fullest extent practicable with any request which the United Nations may make for the furnishing of special reports, studies or information, subject to the conditions set forth in Article XV; and

(c) the Secretary-General of the United Nations shall upon request, consult with the Secretary-General of the Organisation regarding the provision to the Organisation of such information as may be of special interest to the Organisation.

ARTICLE VI

Assistance to the Security Council

The Organisation agrees to co-operate with the Economic and Social Council in furnishing such information and rendering such assistance to the Security Council as that Council may request, including assistance in carrying out decisions of the Security Council for the maintenance or restoration of international peace and security.
ARTICLE VII

Assistance to the Trusteeship Council

The Organisation agrees to co-operate with the Trusteeship Council in the carrying out of its functions and in particular agrees that it will, to the greatest extent possible, render such assistance as the Trusteeship Council may request, in regard to matters with which the Organisation is concerned.

ARTICLE VIII

Non-Self-Governing Territories

The Organisation agrees to co-operate with the members of the United Nations concerned in giving effect to the principles and obligations set forth in Chapter XI of the Charter with regard to matters affecting the well-being and development of the peoples of non-self-governing territories.

ARTICLE IX

Relations with the International Court of Justice

1. The Organisation agrees to furnish any information which may be requested by the International Court of Justice in pursuance of Article 34 of the Statute of the Court. (*4)

2. The General Assembly authorises the Organisation to request advisory opinions of the International Court of Justice on legal questions arising within the scope of its activities other than questions concerning the mutual relationships of the Organisation and the United Nations or other specialised agencies.

3. Such request may be addressed to the Court by the Assembly, or by the Council acting in pursuance of an authorisation by the Assembly.

4. When requesting the International Court of Justice to give an advisory opinion, the Organisation shall inform the Economic and Social Council of the request.

ARTICLE X

Personnel Arrangements

1. The United Nations and the Organisation recognise that the eventual development of a single unified international civil service is desirable from the standpoint of effective administrative co-ordination, and, with this end in view, agree to develop common personnel standards, methods and arrangements designed to avoid serious discrepancies in terms and conditions of employment, to avoid competition in recruitment of personnel, and to facilitate interchange of personnel in order to obtain the maximum benefit from their services.

2. The United Nations and the Organisation agree to co-operate to the fullest extent possible in achieving these ends and in particular they agree to—

   (a) participate in the International Civil Service Advisory Board established for the purpose of contributing to the improvement of recruitment and related phases of personnel administration in all of the international organisations

   (b) consult together concerning other matters relating to the employment of their officers and staff, including conditions of service, duration of appointments, classification, salary scales and allowances, retirement and pension rights and staff regulations and rules with a view to securing as much uniformity in these matters as shall be found practicable;

(*) "Treaty Series No. 67 (1946)," Cmd. 7015
(c) co-operate in the interchange of personnel, when desirable, on a temporary or permanent basis, making due provision for the retention of seniority and pension rights;

(d) co-operate in the establishment and operation of suitable machinery for the settlement of disputes arising in connexion with the employment of personnel and related matters.

ARTICLE XI

Statistical Services

1. The United Nations and the Organisation agree to strive for maximum co-operation, the elimination of all undesirable duplication between them, and the most efficient use of their technical personnel in their respective collection, analysis, publication and dissemination of statistical information. They agree to combine their efforts to secure the greatest possible usefulness and utilisation of statistical information and to minimise the burdens placed upon national Governments and other organisations from which such information may be collected.

2. The Organisation recognises the United Nations as the central agency for the collection, analysis, publication, standardisation and improvement of statistics serving the general purposes of international organisations.

3. The United Nations recognises the Organisation as the appropriate agency for the collection, analysis, publication, standardisation and improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with such statistics so far as they may be essential for its own purposes or for the improvement of statistics throughout the world.

4. It is recognised as desirable that the collection of statistical information should not be duplicated by the United Nations or any of the specialised agencies whenever it is practicable for any of them to utilise information or materials which another may have available.

5. In order to build up a central collection of statistical information for general use, it is agreed that data supplied to the Organisation for incorporation in its basic statistical series or special reports should, so far as practicable, be made available to the United Nations on request.

ARTICLE XII

Administrative and Technical Services

1. The United Nations and the Organisation recognise the desirability, in the interest of administrative and technical uniformity and of the most efficient use of personnel and resources, of avoiding, whenever possible, the establishment and operation of competitive or overlapping facilities and services among the United Nations and the specialised agencies.

2. Accordingly, the United Nations and the Organisation agree to consult together concerning the establishment and use of common administrative and technical services and facilities in addition to those referred to in Articles X, XI and XIII, in so far as the establishment and use of such services may from time to time be found practicable and appropriate.

3. Arrangements shall be made between the United Nations and the Organisation in regard to the registration and deposit of official documents.

4. Officials of the Organisation shall have the right to use the laissez­passer of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Organisation.
Budgetary and Financial Arrangements

1. The Organisation recognises the desirability of establishing close budgetary and financial relationships with the United Nations in order that the administrative operations of the United Nations and of the specialised agencies shall be carried out in the most efficient and economical manner possible, and that the maximum measure of co-ordination and uniformity with respect to these operations shall be secured.

2. The following arrangements shall govern budgetary and financial relationships between the United Nations and the Organisation:

   (a) In the preparation of the budgetary estimates of the Organisation, the Secretariat of the Organisation shall consult with the Secretary-General of the United Nations with a view to achieving, in so far as practicable, uniformity in presentation of the budgets of the United Nations and of the specialised agencies for the purpose of providing a basis for comparison of the several budgets.

   (b) The Organisation agrees to transmit its budget or budgetary estimates to the United Nations by 1st July of the preceding year or such other date as may be agreed upon by the United Nations and the Organisation. The General Assembly shall examine the budget or budgetary estimates of the Organisation and may make recommendations to it concerning any item or items contained therein.

   (c) Representatives of the Organisation shall be entitled to participate, without vote, in the deliberations of the General Assembly or any committee thereof or established by it at all times when the budget of the Organisation or general administrative or financial questions affecting the Organisation are under consideration.

   (d) The United Nations may undertake the collection of contributions from those members of the Organisation which are also members of the United Nations in accordance with such arrangements as may be defined by a later agreement between the United Nations and the Organisation.

   (e) The United Nations shall, upon its own initiative, or upon the request of the Organisation, arrange for studies to be undertaken concerning other financial and fiscal questions of interest to the Organisation and to other specialised agencies with a view to the provision of common services and the securing of uniformity in such matters.

   (f) The Organisation agrees to conform, as far as may be practicable, to standard practices and forms recommended by the United Nations.

Article XIV

Financing of Special Services

1. In the event of the Organisation being faced with the necessity of incurring substantial extra expense as a result of any request which the United Nations may make for special reports, studies or assistance in accordance with Articles V, VI, or VII, or with other provisions of this Agreement, consultation shall take place with a view to determining the most equitable manner in which such expense shall be borne.

2. Consultation between the United Nations and the Organisation shall similarly take place with a view to making such arrangements as may be found equitable for covering the costs of central administrative, technical or fiscal services or facilities or other special assistance provided by the United Nations.
ARTICLE XV
Inter-Agency Agreements

The Organisation agrees to inform the Economic and Social Council of the nature and scope of any formal agreement contemplated and to notify the Council of the conclusion of any formal agreement between the Organisation and any other specialised agency, inter-governmental organisations, or non-governmental organisations.

ARTICLE XVI
Liaison

1. The United Nations and the Organisation agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective liaison between the two organisations. They affirm their intention of taking whatever further measures may be necessary to make this liaison fully effective.

2. The liaison arrangements provided for in the foregoing articles of this Agreement apply as far as appropriate to the relations between such branch or regional offices as may be established by the two organisations as well as between their central machinery.

ARTICLE XVII
Implementation of the Agreement

The Secretary-General of the United Nations and the appropriate authority of the Organisation may enter into such supplementary arrangements for the implementation of this Agreement as may be found desirable.

ARTICLE XVIII
Revision

This Agreement shall be subject to revision by agreement between the United Nations and the Organisation.

ARTICLE XIX
Entry into Force

This Agreement shall come into force on its approval by the General Assembly of the United Nations and the Assembly of the Organisation.

Convention for the Establishment of the Inter-governmental Maritime Consultative Organisation

The States parties to the present Convention hereby establish the Inter-governmental Maritime Consultative Organisation (hereinafter referred to as "the Organisation").

Part I.— Purposes of the Organisation

ARTICLE 1

The purposes of the Organisation are:—

(a) to provide machinery for co-operation among Governments in the field of governmental regulation and practices relating to technical matters of all kinds affecting shipping engaged in international trade, and to encourage the general adoption of the highest practicable standards in matters concerning maritime safety and efficiency of navigation;
(b) to encourage the removal of discriminatory action and unnecessary restrictions by Governments affecting shipping engaged in international trade so as to promote the availability of shipping services to the commerce of the world without discrimination; assistance and encouragement given by a Government for the development of its national shipping and for purposes of security does not in itself constitute discrimination, provided that such assistance and encouragement is not based on measures designed to restrict the freedom of shipping of all flags to take part in international trade;

(c) to provide for the consideration by the Organisation of matters concerning unfair restrictive practices by shipping concerns in accordance with Part II;

(d) to provide for the consideration by the Organisation of any matters concerning shipping that may be referred to it by any organ or specialised agency of the United Nations;

(e) to provide for the exchange of information among Governments on matters under consideration by the Organisation.

Part II.—Functions

ARTICLE 2

The functions of the Organisation shall be consultative and advisory.

ARTICLE 3

In order to achieve the purposes set out in Part I, the functions of the Organisation shall be:

(a) subject to the provisions of Article 4, to consider and make recommendations upon matters arising under Article 1 (a), (b) and (c) that may be remitted to it by members, by any organ or specialised agency of the United Nations or by any other inter-governmental organisation or upon matters referred to it under Article 1 (d);

(b) to provide for the drafting of conventions, agreements, or other suitable instruments, and to recommend these to Governments and to inter-governmental organisations, and to convene such conferences as may be necessary;

(c) to provide machinery for consultation among members and the exchange of information among Governments.

ARTICLE 4

In those matters which appear to the Organisation capable of settlement through the normal processes of international shipping business the Organisation shall so recommend. When, in the opinion of the Organisation, any matter concerning unfair restrictive practices by shipping concerns is incapable of settlement through the normal processes of international shipping business, or has in fact so proved, and provided it shall first have been the subject of direct negotiations between the Members concerned, the Organisation shall, at the request of one of those members, consider the matter.

Part III.—Membership

ARTICLE 5

Membership in the Organisation shall be open to all States, subject to the provisions of Part III.
Members of the United Nations may become members of the Organisation by becoming parties to the Convention in accordance with the provisions of Article 57.

**ARTICLE 7**

States not members of the United Nations which have been invited to send representatives to the United Nations Maritime Conference convened in Geneva on 19th February, 1948, may become members by becoming parties to the Convention in accordance with the provisions of Article 57.

**ARTICLE 8**

Any State not entitled to become a member under Article 6 or 7 may apply through the Secretary-General of the Organisation to become a member and shall be admitted as a member upon its becoming a party to the Convention in accordance with the provisions of Article 57, provided that, upon the recommendation of the Council, its application has been approved by two-thirds of the members other than associate-members.

**ARTICLE 9**

Any territory or group of territories to which the Convention has been made applicable under Article 58, by the member having responsibility for its international relations or by the United Nations, may become an associate-member of the Organisation by notification in writing given by such member or by the United Nations, as the case may be, to the Secretary-General of the United Nations.

**ARTICLE 10**

An associate-member shall have the rights and obligations of a member under the Convention except that it shall not have the right to vote in the Assembly or be eligible for membership on the Council or on the Maritime Safety Committee and subject to this the word "member" in the Convention shall be deemed to include associate-member unless the context otherwise requires.

**ARTICLE 11**

No State or territory may become or remain a member of the Organisation contrary to a resolution of the General Assembly of the United Nations.

**Part IV.—Organs**

**ARTICLE 12**

The Organisation shall consist of an Assembly, a Council, a Maritime Safety Committee, and such subsidiary organs as the Organisation may at any time consider necessary; and a Secretariat.

**Part V.—The Assembly**

**ARTICLE 13**

The Assembly shall consist of all the members.

**ARTICLE 14**

Regular sessions of the Assembly shall take place once every 2 years. Extraordinary sessions shall be convened after a notice of 60 days whenever
one-third of the members give notice to the Secretary-General that they desire a session to be arranged, or at any time if deemed necessary by the Council, after a notice of 60 days.

**ARTICLE 15**

A majority of the members other than associate-members shall constitute a quorum for the meetings of the Assembly.

**ARTICLE 16**

The functions of the Assembly shall be—

(a) to elect at each regular session from among its members, other than associate-members, its President and 2 Vice-Presidents who shall hold office until the next regular session;

(b) to determine its own rules of procedure except as otherwise provided in the Convention;

(c) to establish any temporary or, upon recommendation of the Council, permanent subsidiary bodies it may consider to be necessary;

(d) to elect the members to be represented on the Council, as provided in Article 17, and on the Maritime Safety Committee as provided in Article 28;

(e) to receive and consider the reports of the Council, and to decide upon any question referred to it by the Council;

(f) to vote the budget and determine the financial arrangements of the Organisation, in accordance with Part IX;

(g) to review the expenditures and approve the accounts of the Organisation;

(h) to perform the functions of the Organisation, provided that in matters relating to Article 3 (a) and (b), the Assembly shall refer such matters to the Council for formulation by it of any recommendations or instruments thereon; provided further that any recommendations or instruments submitted to the Assembly by the Council and not accepted by the Assembly shall be referred back to the Council for further consideration with such observations as the Assembly may make;

(i) to recommend to members for adoption regulations concerning maritime safety, or amendments to such regulations, which have been referred to it by the Maritime Safety Committee through the Council;

(j) to recommend to the Council for consideration or decision any matters within the scope of the Organisation, except that the function of making recommendations under paragraph (i) of this Article shall not be delegated.

**Part VI.—The Council**

**ARTICLE 17**

The Council shall consist of 16 members and shall be composed as follows:—

(a) six shall be Governments of the nations with the largest interest in providing international shipping services;

(b) six shall be Governments of other nations with the largest interest in international sea-borne trade;

(c) two shall be elected by the Assembly from among the Governments of nations having a substantial interest in providing international shipping services; and
(d) Two shall be elected by the Assembly from among the Governments of nations having a substantial interest in international sea-borne trade.

In accordance with the principles set forth in this article the first Council shall be constituted as provided in Appendix I to the present Convention.

**Article 18**

Except as provided in Appendix I to the present Convention, the Council shall determine, for the purpose of Article 17 (a), the members, Governments of nations with the largest interest in providing international shipping services, and shall also determine, for the purpose of Article 17 (c), the members, Governments of nations having a substantial interest in providing such services. Such determinations shall be made by a majority vote of the Council, including the concurring votes of a majority of the members represented on the Council under Article 17 (a) and (c). The Council shall further determine, for the purpose of Article 17 (b), the members, Governments of nations with the largest interest in international sea-borne trade. Each Council shall make these determinations at a reasonable time before each regular session of the Assembly.

**Article 19**

Members represented on the Council in accordance with Article 17 shall hold office until the end of the next regular session of the Assembly. Members shall be eligible for re-election.

**Article 20**

(a) The Council shall elect its Chairman and adopt its own rules of procedure except as otherwise provided in the Convention.

(b) Twelve members of the Council shall constitute a quorum.

(c) The Council shall meet upon one month's notice as often as may be necessary for the efficient discharge of its duties upon the summons of its Chairman or upon request by not less than 4 of its members. It shall meet at such places as may be convenient.

**Article 21**

The Council shall invite any member to participate, without vote, in its deliberations on any matter of particular concern to that member.

**Article 22**

(a) The Council shall receive the recommendations and reports of the Maritime Safety Committee and shall transmit them to the Assembly and, when the Assembly is not in session, to the members for information, together with the comments and recommendations of the Council.

(b) Matters within the scope of Article 29 shall be considered by the Council only after obtaining the views of the Maritime Safety Committee thereon.

**Article 23**

The Council, with the approval of the Assembly, shall appoint the Secretary-General. The Council shall also make provision for the appointment of such other personnel as may be necessary, and determine the terms and conditions of service of the Secretary-General and other personnel, which terms and conditions shall conform as far as possible with those of the United Nations and its specialised agencies.
ARTICLE 24
The Council shall make a report to the Assembly at each regular session on the work of the Organisation since the previous regular session of the Assembly.

ARTICLE 25
The Council shall submit to the Assembly the budget estimates and the financial statements of the Organisation, together with its comments and recommendations.

ARTICLE 26
The Council may enter into agreements or arrangements covering the relationship of the Organisation with other organisations, as provided for in Part XII. Such agreements or arrangements shall be subject to approval by the Assembly.

ARTICLE 27
Between sessions of the Assembly, the Council shall perform all the functions of the Organisation, except the function of making recommendations under Article 16 (i).

Part VII.—Maritime Safety Committee

ARTICLE 28
(a) The Maritime Safety Committee shall consist of 14 members elected by the Assembly from the members, Governments of those nations having an important interest in maritime safety, of which not less than 8 shall be the largest ship-owning nations, and the remainder shall be elected so as to ensure adequate representation of members, Governments of other nations with an important interest in maritime safety, such as nations interested in the supply of large numbers of crews or in the carriage of large numbers of berthed and unberthed passengers, and of major geographical areas.

(b) Members shall be elected for a term of 4 years and shall be eligible for re-election.

ARTICLE 29
(a) The Maritime Safety Committee shall have the duty of considering any matter within the scope of the Organisation and concerned with aids to navigation, construction and equipment of vessels, manning from a safety standpoint, rules for the prevention of collisions, handling of dangerous cargoes, maritime safety procedures and requirements, hydrographic information, log-books and navigational records, marine casualty investigation, salvage and rescue, and any other matters directly affecting maritime safety.

(b) The Maritime Safety Committee shall provide machinery for performing any duties assigned to it by the Convention, or by the Assembly, or any duty within the scope of this article which may be assigned to it by any other inter-governmental instrument.

(c) Having regard to the provisions of Part XII, the Maritime Safety Committee shall have the duty of maintaining such close relationship with other inter-governmental bodies concerned with transport and communications as may further the object of the Organisation in promoting maritime safety and facilitate the co-ordination of activities in the fields of shipping, aviation, telecommunications and meteorology with respect to safety and rescue.
ARTICLE 30

The Maritime Safety Committee, through the Council, shall—

(a) submit to the Assembly at its regular sessions proposals made by members for safety regulations or for amendments to existing safety regulations, together with its comments or recommendations thereon;

(b) report to the Assembly on the work of the Maritime Safety Committee since the previous regular session of the Assembly.

ARTICLE 31

The Maritime Safety Committee shall meet once a year and at other times upon request of any 5 of its members. It shall elect its officers once a year and shall adopt its own rules of procedure. A majority of its members shall constitute a quorum.

ARTICLE 32

The Maritime Safety Committee shall invite any member to participate, without vote, in its deliberations on any matter of particular concern to that member.

Part VIII.—The Secretariat

ARTICLE 33

The Secretariat shall comprise the Secretary-General, a Secretary of the Maritime Safety Committee and such staff as the Organisation may require. The Secretary-General shall be the chief administrative officer of the Organisation, and shall, subject to the provisions of Article 23, appoint the above-mentioned personnel.

ARTICLE 34

The Secretariat shall maintain all such records as may be necessary for the efficient discharge of the functions of the Organisation and shall prepare, collect and circulate the papers, documents, agenda, minutes and information that may be required for the work of the Assembly, the Council, the Maritime Safety Committee, and such subsidiary organs as the Organisation may establish.

ARTICLE 35

The Secretary-General shall prepare and submit to the Council the financial statements for each year and the budget estimates on a biennial basis, with the estimates for each year shown separately.

ARTICLE 36

The Secretary-General shall keep members informed with respect to the activities of the Organisation. Each member may appoint one or more representatives for the purpose of communication with the Secretary-General.

ARTICLE 37

In the performance of their duties the Secretary-General and the staff shall not seek or receive instructions from any Government or from any authority external to the Organisation. They shall refrain from any action which might reflect on their position as international officials. Each member on its part undertakes to respect the exclusively international character of the responsibilities of the Secretary-General and the staff and not to seek to influence them in the discharge of their responsibilities.
ARTICLE 38

The Secretary-General shall perform such other tasks as may be assigned to him by the Convention, the Assembly, the Council and the Maritime Safety Committee.

Part IX.—Finances

ARTICLE 39

Each member shall bear the salary, travel and other expenses of its own delegation to the Assembly and of its representatives on the Council, the Maritime Safety Committee, other committees and subsidiary bodies.

ARTICLE 40

The Council shall consider the financial statements and budget estimates prepared by the Secretary-General and submit them to the Assembly with its comments and recommendations.

ARTICLE 41

(a) Subject to any agreement between the Organisation and the United Nations, the Assembly shall review and approve the budget estimates.

(b) The Assembly shall apportion the expenses among the members in accordance with a scale to be fixed by it after consideration of the proposals of the Council thereon.

ARTICLE 42

Any member which fails to discharge its financial obligation to the Organisation within one year from the date on which it is due shall have no vote in the Assembly, the Council, or the Maritime Safety Committee unless the Assembly, at its discretion, waives this provision.

Part X.—Voting

ARTICLE 43

The following provisions shall apply to voting in the Assembly, the Council and the Maritime Safety Committee:

(a) Each member shall have one vote.

(b) Except as otherwise provided in the Convention or in any international agreement which confers functions on the Assembly, the Council, or the Maritime Safety Committee, decisions of these organs shall be by a majority vote of the members present and voting and, for decisions where a two-thirds majority vote is required, by a two-thirds majority vote of those present.

(c) For the purpose of the Convention, the phrase "members present and voting" means "members present and casting an affirmative or negative vote." Members which abstain from voting shall be considered as not voting.

Part XI.—Headquarters of the Organisation

ARTICLE 44

(a) The headquarters of the Organisation shall be established in London.

(b) The Assembly may by a two-thirds majority vote change the site of the headquarters if necessary.

(c) The Assembly may hold sessions in any place other than the headquarters if the Council deems it necessary.
Part XII.—Relationship with the United Nations and other Organisations

ARTICLE 45

The Organisation shall be brought into relationship with the United Nations in accordance with Article 57 of the Charter of the United Nations as the specialised agency in the field of shipping. This relationship shall be effected through an agreement with the United Nations under Article 63 of the Charter of the United Nations, which agreement shall be concluded as provided in Article 26.

ARTICLE 46

The Organisation shall co-operate with any specialised agency of the United Nations in matters which may be the common concern of the Organisation and of such specialised agency, and shall consider such matters and act with respect to them in accord with such specialised agency.

ARTICLE 47

The Organisation may, on matters within its scope, co-operate with other inter-governmental organisations which are not specialised agencies of the United Nations, but whose interests and activities are related to the purposes of the Organisation.

ARTICLE 48

The Organisation may, on matters within its scope, make suitable arrangements for consultation and co-operation with non-governmental international organisations.

ARTICLE 49

Subject to approval by a two-thirds majority vote of the Assembly, the Organisation may take over from any other international organisations, governmental or non-governmental, such functions, resources and obligations within the scope of the Organisation as may be transferred to the Organisation by international agreements or by mutually acceptable arrangements entered into between competent authorities of the respective organisations. Similarly, the Organisation may take over any administrative functions which are within its scope and which have been entrusted to a Government under the terms of any international instrument.

Part XIII.—Legal Capacity, Privileges and Immunities

ARTICLE 50

The legal capacity, privileges and immunities to be accorded to, or in connexion with, the Organisation shall be derived from and governed by the General Convention on the Privileges and Immunities of the Specialised Agencies approved by the General Assembly of the United Nations on 21st November, 1947, subject to such modifications as may be set forth in the final (or revised) text of the Annex approved by the Organisation in accordance with Sections 36 and 38 of the said General Convention.

ARTICLE 51

Pending its accession to the said General Convention in respect of the Organisation, each member undertakes to apply the provisions of Appendix II to the present Convention.
Part XIV.—Amendments

ARTICLE 52

Texts of proposed amendments to the Convention shall be communicated by the Secretary-General to members at least 6 months in advance of their consideration by the Assembly. Amendments shall be adopted by a two-thirds majority vote of the Assembly, including the concurring votes of a majority of the members represented on the Council. Twelve months after its acceptance by two-thirds of the members of the Organisation, other than associate-members, each amendment shall come into force for a members except those which, before it comes into force, make a declaration that they do not accept the amendment. The Assembly may by a two-thirds majority vote determine at the time of its adoption that an amendment is of such a nature that any member which has made such a declaration and which does not accept the amendment within a period of 12 months after the amendment comes into force shall, upon the expiration of this period, cease to be a party to the Convention.

ARTICLE 53

Any amendment adopted under Article 52 shall be deposited with the Secretary-General of the United Nations, who will immediately forward a copy of the amendment to all members.

ARTICLE 54

A declaration or acceptance under Article 52 shall be made by the communication of an instrument to the Secretary-General for deposit with the Secretary-General of the United Nations. The Secretary-General will notify members of the receipt of any such instrument and of the date when the amendment enters into force.

Part XV.—Interpretation

ARTICLE 55

Any question or dispute concerning the interpretation or application of the Convention shall be referred for settlement to the Assembly, or shall be settled in such other manner as the parties to the dispute agree. Nothing in this article shall preclude the Council or the Maritime Safety Committee from settling any such question or dispute that may arise during the exercise of their functions.

ARTICLE 56

Any legal question which cannot be settled as provided in Article 55 shall be referred by the Organisation to the International Court of Justice for an advisory opinion in accordance with Article 96 of the Charter of the United Nations.

Part XVI.—Miscellaneous Provisions

ARTICLE 57

Signature and Acceptance

Subject to the provisions of Part III the present Convention shall remain open for signature or acceptance and States may become parties to the Convention by:
(a) signature without reservation as to acceptance;
(b) signature subject to acceptance followed by acceptance;
or
(c) acceptance.

Acceptance shall be effected by the deposit of an instrument with the Secretary-General of the United Nations.

**ARTICLE 58**

**Territories**

(a) Members may make a declaration at any time that their participation in the Convention includes all or a group or a single one of the territories for whose international relations they are responsible.

(b) The Convention does not apply to territories for whose international relations members are responsible unless a declaration to that effect has been made on their behalf under the provisions of paragraph (a) of this article.

(c) A declaration made under paragraph (a) of this article shall be communicated to the Secretary-General of the United Nations and a copy of it will be forwarded by him to all States invited to the United Nations Maritime Conference and to such other States as may have become members.

(d) In cases where under a trusteeship agreement the United Nations is the administering authority, the United Nations may accept the Convention on behalf of one, several, or all of the trust territories in accordance with the procedure set forth in Article 57.

**ARTICLE 59**

**Withdrawal**

(a) Any member may withdraw from the Organisation by written notification given to the Secretary-General of the United Nations, who will immediately inform the other members and the Secretary-General of the Organisation of such notification. Notification of withdrawal may be given at any time after the expiration of 12 months from the date on which the Convention has come into force. The withdrawal shall take effect upon the expiration of 12 months from the date on which such written notification is received by the Secretary-General of the United Nations.

(b) The application of the Convention to a territory or group of territories under Article 58 may at any time be terminated by written notification given to the Secretary-General of the United Nations by the member responsible for its international relations or, in the case of a trust territory of which the United Nations is the administering authority, by the United Nations. The Secretary-General of the United Nations will immediately inform all members and the Secretary-General of the Organisation of such notification. The notification shall take effect upon the expiration of 12 months from the date on which it is received by the Secretary-General of the United Nations.

**Part XVII.—Entry into Force**

**ARTICLE 60**

The present Convention shall enter into force on the date when 21 States, of which 7 shall each have a total tonnage of not less than 1 million gross tons of shipping, have become parties to the Convention in accordance with Article 57.
ARTICLE 61

The Secretary-General of the United Nations will inform all States invited to the United Nations Maritime Conference and such other States as may have become members, of the date when each State becomes party to the Convention, and also of the date on which the Convention enters into force.

ARTICLE 62

The present Convention, of which the English, French and Spanish texts are equally authentic, shall be deposited with the Secretary-General of the United Nations, who will transmit certified copies thereof to each of the States invited to the United Nations Maritime Conference and to such other States as may have become members.

ARTICLE 63

The United Nations is authorised to effect registration of the Convention as soon as it comes into force.

In witness whereof the undersigned being duly authorised by their respective Governments for that purpose have signed the present Convention:

Done at Geneva this 6th day of March, 1948.

[Here follow the signatures]

APPENDIX I

(Referred to in Article 17)

Composition of the First Council

In accordance with the principles set forth in Article 17 the first Council shall be constituted as follows:—

(a) The 6 members under Article 17 (a) being—

Greece. Sweden.
Netherlands. United Kingdom.
Norway. United States.

(b) The 6 members under Article 17 (b) being—

Argentina. Canada.
Australia. France.
Belgium. India.

(c) Two members to be elected by the Assembly under Article 17 (c) from a panel nominated by the 6 members named in paragraph (a) of this Appendix.

(d) Two members elected by the Assembly under Article 17 (d) from among the members having a substantial interest in international sea-borne trade.
APPENDIX II
(Referred to in Article 51)

Legal Capacity, Privileges and Immunities

The following provisions on legal capacity, privileges and immunities shall be applied by members to, or in connexion with, the Organisation pending their accession to the General Convention on Privileges and Immunities of Specialised Agencies in respect of the Organisation:

SECTION 1

The Organisation shall enjoy in the territory of each of its members such legal capacity as is necessary for the fulfilment of its purposes and the exercise of its functions.

SECTION 2

(a) The Organisation shall enjoy in the territory of each of its members such privileges and immunities as are necessary for the fulfilment of its purposes and the exercise of its functions.

(b) Representatives of members, including alternates and advisers and officials and employees of the Organisation, shall similarly enjoy such privileges and immunities as are necessary for the independent exercise of their functions in connexion with the Organisation.

SECTION 3

In applying the provisions of Sections 1 and 2 of this Appendix, the members shall take into account as far as possible the standard clauses of the General Convention on the Privileges and Immunities of the Specialised Agencies.
SECRET
C.P.(48) 185
COPY NO. 31
20TH JULY, 1948

CABINET

THE ANTARCTIC

Memorandum by the Secretary of State for Foreign Affairs

In view of developments which occurred since it was prepared I did not ask the Cabinet to consider my earlier memorandum on the Antarctic (C.P.(48) 158).

These developments are briefly (a) that the State Department have come forward with a new plan for an international settlement in the Antarctic; and (b) that, since the opinion expressed by the Chiefs of Staff earlier this year (as quoted in paragraph 11 of my previous memorandum), there have been indications which suggest that the strategic value to us of the Falkland Islands Dependencies may be considerably less than was previously thought. This aspect is under consideration by the Minister of Defence.

I am now circulating a further memorandum setting out the present position and I ask for approval of the course of action proposed in paragraph 7.

E.B.

Foreign Office, S.W. 1.

20th July, 1948.
APPENDIX

THE ANTARCTIC

Recent Developments

After the preparation of my memorandum (C.P. (48) 158 of 21st June, but before there had been time for the Cabinet to discuss it, the State Department informed H.M. Embassy in Washington on 29th June that, being under pressure from Argentina and Chile to give them advice in regard to their dispute with us in the Antarctic, they were proposing within ten days to put forward to the Governments concerned a scheme for an 8-Power international trusteeship over the whole Antarctic continent and islands south of latitude 60° (see map attached). The State Department had prepared an aide-memoire including a draft agreement which they hoped would be accepted as a basis for discussion by the 8 Powers concerned, (United States, United Kingdom, France, Norway, Australia, New Zealand, Argentina and Chile). They said that in reference to the United Kingdom Government they had omitted the South Orkneys and South Shetland islands from the area to be discussed, in order that the United Kingdom, Argentine and Chilean Governments could embark in the near future on amicable discussion of their respective claims in these islands and if possible reach a settlement before the next Antarctic season. They added that should the three powers fail to reach an agreement, the United States Government might have to reconsider their proposal to exclude this area from the scope of the discussions for an 8-Power Antarctic trusteeship.

2. The State Department emphasised that they "wished to make their proposals known to all the participating powers at one and the same time", and they particularly asked that the Australian and New Zealand Governments should be kept in ignorance of the fact that the United Kingdom Government had been given an advance copy.

3. On receipt of the United States proposals, the Foreign Office and the Colonial Office agreed on the official level that it was desirable at all costs, within the short period of grace allowed us, to point out to the State Department the serious dangers involved in any trusteeship arrangement under the United Nations, particularly having regard to the presence of the U.S.S.R. on the Trusteeship Council. Foreign Office telegram to Washington No. 875, was accordingly despatched on 2nd July (Annex I). It will be seen that the telegram made it clear that Ministers had not been consulted and that the Dominion Governments concerned, not having been informed, could not be regarded as in any way committed.

4. We did in fact respect the wishes of the State Department and refrained from informing the Australian and New Zealand Governments of the proposal, but it subsequently emerged (Washington telegram No. 813 of 13th July (Annex II)) that the State Department communicated their plan confidentially and informally to the Chilean and Argentine Governments before taking account of our views and without informing the Dominion or other Governments concerned. We have, therefore, had no alternative but to inform the Australian, New Zealand, Canadian and Union Governments immediately of what has taken place, and the United States Embassy have been left in no doubt of our strong objection.
to Chile and Argentina having been consulted in advance about a plan which involves the disposal of United Kingdom, Australian and New Zealand territory.

5. It is clear from Washington telegram No. 3413 that the State Department have been impressed by our arguments against trusteeship to the Chileans. From a subsequent telegram it emerges that they have instructed their representative to explain to the Chilean Government that, although the United States Government favour some form of internationalisation in Antarctica, they have not yet made up their minds between the two alternative methods of trusteeship and condominium, and our Embassy have been informed by the State Department that they might be prepared, when putting the proposal formally to the seven other Powers, to substitute a condominium plan for their original trusteeship plan. A few days remain before they take this action. At the same time we are informed that the United States are about to announce their own claims in the Antarctic.

6. We are therefore faced with the necessity for giving our formal opinion on some kind of international settlement in the Antarctic and it is desirable that the Cabinet should form a view on the main points which arise.

RECOMMENDATIONS

7. The recommendations in this paper are as follows -

(a) that the Cabinet approve the line adopted in the telegram sent to Washington No. 7179 of 3rd July (Annex 1);

(b) that the Cabinet authorise me to enter into negotiations with the other seven Powers, at the invitation of the United States Government, with a view to the formulation of a plan for the pooling of Antarctic territory under a joint 8-Power administration, provided always that this does not take the form of trusteeship or involve placing the territory in any way under the authority of the United Nations. The fullest possible co-operation and association with appropriate United Nations bodies would of course be recommended;

(c) that we should endeavour to secure from the other interested Governments recognition of British sovereignty over a limited area in the South Shetlands, including Deception Island; if necessary allowing Argentina and Chile in return to retain some token island or islands;

(d) but that, if it is found necessary in order to ensure the success of the 8-Power discussions, we should be prepared in the final resort to throw the whole of the Falkland Islands Dependencies south of latitude 60° into the common pool, provided all the other powers did the same in regard to their territories;

(e) that we should inform the Australian and New Zealand Governments of our views as above and encourage them to take a similar line in regard to their territories south of 60°.

BASIS OF THE PROBLEM

6. The Cabinet will be aware from C.P.(48) 158 of the
dilemma in which we find ourselves in view of the Argentine and Chilean encroachments on the one side and on the other our own unwillingness to maintain by force our position in the Falkland Island Dependencies. The proposal put forward in my previous paper, now withdrawn was that an attempt should be made to reach an agreement with Argentina and Chile by direct negotiation, leaving the possibility of an international solution in the background as a resort in case of failure. At best, it did not seem very probable that these discussions would be successful, and the prospects have not been improved by the continuous public attention which the Argentine Government have been drawing to their claims in recent months. The appearance of a new United States plan, which would lift the dispute onto a wider, international plane, therefore, seems to offer a welcome means of escape from the embarrassment and loss of prestige which would certainly result either from protracted disagreement with Argentina and Chile or from surrender of territory directly to those countries.

**ADVANTAGES OF AN 8-POWER SETTLEMENT**

Among the advantages from the British point of view of such a scheme would be the following:

(a) Under an 8-Power regime the Commonwealth would command three votes and could probably count in most matters on the support of the French and the Norwegians, thus having a majority. On the other hand nothing could be done to our detriment by the Argentines or Chileans without the support of the United States and at least two British or European powers.

(b) The removal of Antarctic exploratory activity from the sphere of politics would restore to us the advantage which we have traditionally enjoyed and earned in the course of the last 100 years as the country with the greatest practical experience and technical knowledge of conditions both in the Dependencies and elsewhere on the Antarctic continent. In the sphere of practical scientific activities our influence on the policy of the proposed joint administration might for this reason be expected to be paramount.

(c) Experience in the past has shown that international co-operation in polar exploration is not only practicable, but has achieved notable success provided politics have not been allowed to intrude. The new arrangement may be expected to provide ideal conditions for friendly co-operation in the Antarctic with the Americans as well as our former rivals the Argentines and Chileans, should the latter decide that exploration without politics is still worth their time.

(d) The present atmosphere of political tension, if allowed to continue, might be expected to encourage the contravention of the international fishery regulations. A joint administration should facilitate agreement on controls in particular for shore whaling and sealing.

(e) The main purely British economic interest in the area is the maintenance of our occupation, if possible, as sovereigns but in any case as tenants, of Deception Island where a British whaling company proposes shortly to renew its operations and where a certain amount of capital equipment still remains from earlier operations. Our security of tenure could be safeguarded by the proposed scheme in either of its forms, and this would encourage the company, which is at present hesitating in view of
the political uncertainty, to establish a whaling station on
the island.

10. Our first conclusion, therefore, is that His Majesty's
Government should welcome in principle the initiative of the
State Department, subject to the warning already given them
regarding the dangers of trusteeship and our strong preference
for a condominium, or pooling of territory under joint
administration. It follows from this that we should recommend
the proposal to the favourable consideration of the Australian
and New Zealand Governments, whose Antarctic territories would
also be involved and who would of course be amongst the eight
Powers of the condominium.

We should also consult the Union Government in view of
their whaling interests and the Canadian Government since
developments in the Antarctic may well have repercussions on
their Arctic interests.

SOUTH SHETLANDS AND SOUTH ORKNEYS

11. The Foreign Office and Colonial Office felt, further­
more, that the chances of reaching a separate agreement with
Argentina and Chile over so small an area as the South Shetlands
and South Orkneys groups alone (as suggested by the State
Department) would be even less favourable than if the whole of
the Falkland Islands Dependencies had been available for
division. It was therefore felt that British interest would be
better served if the whole area could be dealt with within the
framework of 8-Power discussion. It seemed to be clear that
if we were forced to surrender any part of our claims in the
area, it would be preferable for them to be placed under the
control of an international body of which we were a member than
to see them pass to another individual nation. It was therefore
agreed that we should abandon the idea of separate 3-Power
discussions with Argentina and Chile and decline the American
offer to leave certain islands out of their plan for this purpose.
The Colonial Office felt strongly, however, that an attempt should
be made to retain British sovereignty at least over a portion of
the South Shetlands Island, including Deception Island, and a
reservation to this effect was accordingly made in the telegram
to Washington (paragraphs 5 and 6). The Secretary of State for
the Colonies feels that on political grounds this point of view
should be maintained. He has pointed out that the abandonment
of sovereignty, even to an international pool, over British
colonial territory will require very careful handling and that
while it may be possible to justify putting the greater part
of the (uninhabited) Falkland Islands Dependencies south of 60°
into a condominium for joint administration with other Powers,
it would be going too far to surrender everything south of that
line, bearing in mind the very considerable contribution we are
being called upon to make to the territories under the proposed
condominium.

12. There is certainly much force in this point and it is
clearly right that in the first stages of any discussions with
other powers we should endeavour to hold out for the retention of
British sovereignty over this limited area. As will be seen from
the telegram to Washington, No. 7179, we have made this proposal
to the State Department coupled with the suggestion that we
would not object if the Argentinians made a similar reservation
in respect of Laurie Island where the Law Officers consider they
have established some sort of a title. The first reaction of
the State Department was that this was a reasonable request on
our part. (Although we did not mention this, it might also be
necessary to allow the Chileans some small concession such for
example as the retention of Greenwich Island where, though their
title is extremely dubious, they have established an occupied post).

13. It is possible that some arrangement on these lines
might be acceptable to the Powers concerned but we must be
prepared to find the Argentines and Chileans extremely reluctant
to recognise British sovereignty over what is in effect the key
group of islands in this sector while their claims (with very
minor exceptions) are wholly absorbed into the condominium.
Moreover, even the Dominion Governments and possibly also the
French and Norwegian Governments might argue that if the United
Kingdom can make exceptions, they can do so too, and the result
might be a general contracting-out by all claimants in respect
of the areas to which they attach importance, and a consequent
breakdown of the 6-Power discussions. In order to avoid this,
and in order to secure a satisfactory general settlement of the
Antarctic problem on an 6-Power basis, the Cabinet is asked to
agree that we should be prepared, in the last resort, to include
the whole of the Falkland Island Dependencies south of latitude
60° in the international scheme. Provided that the 6-Power
arrangement were satisfactory to us in other respects and gave
us freedom for our whaling and scientific operations, it should
not be essential on political or other grounds, to hold out for
the retention of British sovereignty in a small enclave.

ATTITUDE OF AUSTRALIA AND NEW ZEALAND

14. The Cabinet will see from the attached map that Australia
and New Zealand claim very large sectors of Antarctic territory,
together comprising very nearly a half of the total continental
area. It is true that they have not as yet established any
permanently occupied posts on this territory and their record of
exploration is not to be compared with our own in the Dependencies.
But we have recently encouraged the Australian Government to take
a more active interest in their Antarctic territory and they are
now making active preparations for more intensified exploration
in the coming season. They will not willingly accept any
arrangements which might interrupt these plans and we must,
therefore, expect to meet with initial opposition from Australia
to the whole idea of an international regime. However, it does
not necessarily follow in practice that an international regime
of the kind proposed need interfere with Australian activities
in their sector, which is not claimed by any other Power, and it
might be possible to persuade them that their long-term interests
and their immediate plans could be best served by agreeing to
join in the 6-Power discussions. The New Zealand Government
is understood to be on the whole favourably disposed to an
international solution. Nothing is known at present of the
probable attitude of the French and Norwegians, beyond the fact
that they are planning expeditions for the near future and may in
consequence be disinclined to fall in with the American proposals.

THE FALKLAND ISLANDS AND SOUTH GEORGIA

15. It will be appreciated that even if the whole of the
Antarctic problem can be solved by means of an international
scheme we shall still have on our hands the long-standing
dispute with Argentina over the Falkland Islands themselves and
South Georgia, which lie north of 60° latitude. Here, however,
it is a question of inhabited territory in which the Argentines
could never put down landing parties except with the intention of
invading the colony and consequently, presumably, of fighting a
war against the United Kingdom. Thus the position there is not parallel with that in the Antarctic and there is no need to suppose that acceptance of an international Antarctic regime would weaken our position in the Falkland Islands. On the contrary, a generous contribution towards "internationalism" in Antarctica should if anything strengthen the sympathy which we would enjoy in the United States and elsewhere in standing firm in our possession of the Falkland Islands and other Western Hemisphere colonies such as British Honduras.

Foreign Office, S.W. 1.

July, 1948.
ANNEX I

Copy of Telegram (No. 7179) from Foreign Office to Washington dated 2nd July, 1948.

Your telegrams Nos. 3149, 3150 and 3151, United States proposals for settlement in the Antarctic.

The State Department's proposals for United Nations trusteeship in Antarctica have been carefully considered here in consultation with the Colonial Office, Commonwealth Relations Office and Ministry of Defence. The views set out in the following paragraphs (which must be taken as provisional since there has not yet been time for Ministerial consultation) accordingly take into account all the factors in the situation as seen from the United Kingdom point of view. In view, however, of paragraph 2 of your telegram No. 3149 we have not informed the Commonwealth Governments concerned. From earlier consultations which we have had with Commonwealth Governments we have reason to think that the Australian Government at least would be definitely opposed to any international settlement involving abandonment of Australian sovereignty over their sector. In communicating these provisional views to the State Department you should, therefore, be careful to emphasise (a) that they cannot be regarded as committing the Commonwealth Governments in any way, and (b) that the United Kingdom Government cannot commit themselves at this stage as to the final views they might adopt after consultation with the Commonwealth Governments.

2. Subject to this, we welcome in principle the initiative of the United States Government in seeking settlement of the Antarctic problem and appreciate the opportunity which has been given us to comment before the other Governments are informed. Our first and most important comment is that, as you point out, any settlement involving United Nations trusteeship contains very grave dangers. The objections set out in your telegram No. 3151 all appear to us to have force, but the most serious of all in our opinion is that such an arrangement would give the Russians, as member of the Trusteeship Council, an opportunity to interfere in Antarctic matters.

3. While we do not rule out the possibility of some form of co-operation or association with the United Nations and such Specialised Agencies as may be concerned, we see very serious objection to any arrangement under which responsibility for the international organisation would pass to the United Nations. We should therefore infinitely prefer an 8-power Condominium, which was in fact at one time the plan formed by the State Department itself (your telegram No. 1005).

4. Further thought is being given to the whole subject but in view of the lack of time at our disposal we feel that the most important immediate objective should be to ensure that the State Department do not commit themselves in their forthcoming communication to other Governments, to any particular form of international solution (unless it were a Condominium), and particularly not to the trusteeship solution. You should, therefore, invite their immediate attention to the dangers of Trusteeship and urge them at the very least to couch their approach to the other Governments in much more general terms.

5. So far as the Falkland Islands Dependencies are

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concerned, while we appreciate the motives of the United States Government in suggesting the exclusion of the South Orkneys and the South Shetland Groups in order to enable us to reach a separate agreement with Argentina and Chile, we do not feel that in practice the attempt to divide up so small an area would have any chance of success. We for our part should certainly have to insist on the retention at least of Deception Island and King George Island and probably of others, and we could not expect the Argentine and Chilean Governments to agree to this unless they received equivalent concessions elsewhere, as for example in the islands off Graham Land, where they have already set up bases. We should, therefore, have all the trouble and embarrassment of separate negotiations with these two countries without any likelihood of a settlement. Moreover, since putting forward the proposals contained in the enclosure to South American Department’s letter to Mr. Hadow we have (for your strictly confidential information) received a fresh appreciation from the Chiefs of Staff who now attach very much less strategic importance to the harbours in the South Shetlands and South Orkneys groups. In the circumstances we are prepared to agree to the inclusion of both these groups in any international settlement of the Antarctic which is acceptable to us on other grounds with the following reservation: that we would wish to exclude certain islands of the South Shetland Group where our title is in our opinion indisputable and where we should not be willing to abandon our sovereignty except as a result of an unfavourable decision by the Court of International Justice. You might mention to the State Department that if the Argentine Government wish to make a similar reservation in respect of Laurie Island we for our part should see no objection. For your information the area to which this reservation applies is the South Shetlands other than the Elephant and Clarence group.

6. Amongst the provisions which we should wish to secure in any international regime would of course be the right to continue our whaling and sealing activities in the Dependencies and in particular to re-open the shore station on Deception Island. Any international settlement would have to include satisfactory provisions for control of whaling and administration. We should also wish to see provision made in the international regime for freedom of access for scientific activities of all the participating nations. We would naturally continue to offer all similar rights in the areas remaining under our sovereignty.

7. I hope that the offer in paragraphs 5 and 6 above may appeal to the State Department as a proof of our willingness not to press our purely national interests for the sake of a wider international settlement, which is the main aim of their initiative, and may make it easier for them to accept our point of view on the nature of the organisation to be set up.
ANNEX II

COPY OF TELEGRAM NO. 3412 FROM WASHINGTON
TO FOREIGN OFFICE DATED 13TH JULY, 1948

Your telegram No. 7179 Antarctica.

On receipt of your telegram on eve of 4th July weekend, Balfour immediately communicated views contained in it to Hickerson, impressing on him our hope that United States would abandon trusteeship proposal. Aide memoire was presented to State Department the same afternoon. Official to whom it was given offered no comment at the time.

2. On being pressed for reactions of State Department Hulley finally asked Meade and Sabbon Clare to call on 12th July. He told them that State Department regarded your views and suggestions as most constructive. He admitted that State Department had long hesitated between idea of condominium or trusteeship and had recognised that our objections to trusteeship were well founded. He added that State Department saw no objection to idea of exclusion of certain islands claimed by United Kingdom.

3. But Hulley then revealed that Green of State Department had left for South America on 4th July as Chilean and Argentine Government had apparently been pressing United States Government to send an official to discuss Antarctic problems with them.

4. Embassy representatives expressed great surprise at not having been informed of proposed action and were even more shocked when Hulley went on to say that Green had instructions to present a note to Chilean and Argentine Governments proposing trusteeship agreement, text of which was sent in my telegram No. 3150.

5. Hulley replied that, in deference to United Kingdom's view, State Department had inserted the following paragraph in their covering note - "the United States hopes that the interested nations will endeavour to agree on some form of internationalisation of the area. In order to provide a basis for discussion a plan for an international trusteeship of the area has been prepared. However the United States will welcome suggestions from Chile (Argentina) and will gladly discuss any alternative proposals". He argued that this left the door open for any alternative form of internationalisation.

6. Embassy representatives replied that it appeared only too likely that trusteeship might well appeal strongly to both Argentina and Chile, and that it was most unfortunate that this formula was being presented to them. It would now be far more difficult to persuade them to discuss some alternative proposal if they thought that United States favoured trusteeship idea. Embassy representatives stressed change which had taken place in Trusteeship Council now that Russia had taken her seat and asked whether Sayre, or Gerig (Chief of Dependent Areas Division) had been consulted. Hulley confessed that he had neither consulted them nor even knew Gerig.
7. After remarking that United States proposals had he feared already been communicated to Chilean Government, Hulley promised to try and obtain State Department agreement to the dispatch of urgent instructions to Green who was not due in Buenos Aires until the 14th, to modify note he would present to Argentine Government in order to omit specific reference to trusteeship. He also undertook to see if anything could be done to submit a revised note to the Chileans.

8. Embassy representatives expressed particular concern at South American Countries having been consulted in advance of other interested powers. Hulley's attention was drawn to unfavourable reaction which this would have on Australia and New Zealand, and hope was expressed that State Department, when they made their approach to all the interested powers, would not reveal that some of them had been consulted in advance.

9. According to Hulley, trusteeship proposal had been finally adopted by State Department because United States Government felt that it would be a mistake to bypass United Nations he enquired whether His Majesty's Government might be prepared to put forward some concrete suggestions for association with United Nations.

10. In private talk later in the evening Balfour expressed concern to Bohlen at line State Department had taken and invoked his assistance in securing an urgent reconsideration of the problem. Bohlen who had not so far been brought into the picture, undertook to interest himself in the matter forthwith. It was incidentally a surprise to Balfour when he drew attention to the Russian factor to discover that Bohlen was unaware of the fact that the Soviet were members of the Trusteeship Council.
THE ANTARCTIC
GENERAL MAP SHOWING TERRITORIAL CLAIMS, 1946
KEY TO SYMBOLS USED

- AREAS CLAIMED TO HAVE BEEN SEEN BY EXPLORERS
- BRITISH TERRITORY
- ARGENTINE CLAIMS
- NORWEGIAN TERRITORY
- NORWEGIAN CLAIMS
- FRENCH TERRITORY
- CHILEAN CLAIMS
- SHELF ICE (Northern limit undefined)

AZIMUTHAL EQUIDISTANT PROJECTION

Prepared by the Hydrographic Dept. of the Admiralty, 18th April 1946, under the Superintendence of Rear-Admiral A. G. N. Wyatt, Hydrographer.

RESTRICTED D.6479
ECONOMIC REPORT

NOTE BY THE CHANCELLOR OF THE EXCHEQUER

I circulate a note on the more important statistics relating to the economic situation which have become available since my last Economic Report (C.P. (48) 173).

R. S. C.

Treasury Chambers,
20th July, 1948.

ECONOMIC REPORT

I.—Man-Power

Although the total number of persons in work or available for work declined by 125,000 in the first five months of the year, the number in civil employment increased by 120,000 during the period mainly because of the reduction of the armed forces and a decrease in unemployment.

2. In spite of this increase the number employed in the manufacturing industries declined in May by 15,000 (almost all women) to 7,26 million. This total of 7,26 million was the lowest for any month since December 1947. Decreases of 6,000 in clothing and of 5,000 in electrical cables and apparatus mainly accounted for the reduction in May.

Under-manned industries

3. Progress in recruitment for the under-manned industries continues to be disappointingly slow. Employment in agriculture rose further by 5,000 to 1,080,000 in May but this total is still 30,000 less than the number it was hoped to reach by the middle of 1948. Employment in the textile industries, which had increased by 6,000 in April, rose by only 1,700 in May. An average monthly increase of 12,000 during the rest of the year is needed to reach the end-1948 level of employment assumed in the Economic Survey.

4. The number of men on the colliery books was unchanged in May but rose from 723,800 to 725,000 in June. This increase took place in the first half of the month and there was no net recruitment in the last two weeks.

Unemployment

5. The number of persons registered as unemployed in Great Britain declined again, for the fifth month in succession to 274,120 on 14th June. This fall in unemployment was general throughout the country; the only increase was in the Midlands Region.
II.—Production

Coal

6. The output of deep-mined coal fell to 3·84 million tons in the last week of June and to 3·60 million tons in the first week of July. The latest figures show an increase to 3·73 million tons in the second week of July. This reduction was accounted for mainly by recognised holidays and there are no signs yet of any improvement in the trend of production.

7. The average output per manshift overall in June was 1·11 tons which, although greater than in May, was no better than in January and February.

8. Deliveries of coal for export or for bunkers rose to 439,000 tons a week in the first week of July. To achieve the target of 18 million tons for 1948, shipments over the rest of the year will need to be at the rate of about 420,000 tons a week, but it now seems doubtful whether this can be achieved.

9. Shortage of shipping has been partly responsible for restricting deliveries to some markets—in particular to Spain. Of the total shipments of 6,936,000 tons made from 1st January to 3rd July, 2,985,000 tons were for Marshall countries, 282,000 tons for non-Marshall European countries, 593,000 tons for non-European countries and 3,076,000 for United Kingdom bunkers and bunker depots.

Iron and Steel

10. After rising to 308,000 tons in the third week of June, the output of steel ingots and castings declined to 283,000 tons in the week ended 3rd July. This was due to holidays which will continue throughout July and August to keep output below the recent high levels. Total output during the first 26 weeks of this year amounted to 7·57 million tons—320,000 tons more than half the total of 14·5 million tons set as the "target" for the year.

11. The output of pig-iron is likely to be affected much less by holidays and it may be expected therefore that stocks of pig-iron will be built up in the next two months above their present very low levels.

Textiles

12. Production of cotton yarn, after rising to 18·44 million lb. in the second week of June, declined to 14·15 million lb. in the fourth week, the average for the month being provisionally estimated at 17·2 million lb. a week. This is less than the target of 18·4 million lb. a week in June.

Motor vehicles

13. A record rate of output was achieved in June by the automobile industry. Weekly production of passenger cars rose from 6,643 in May to 7,231 in June. Of the total of 7,281 a week in June, 5,926 a week were produced for export, but this still left the number produced for the home market higher than in any month since August 1947.

14. Weekly output of commercial vehicles also increased from 3,158 in May to 3,492 in June. The number produced in June for export—1,762 a week—was substantially greater than the previous record of 1,358 a week achieved in January.

III.—External Trade

15. The value of British exports (f.o.b.) rose further in June to £134 million. Exports of metal goods achieved a new record of £63·5 million and exports of coal rose to £4·04 million.

16. Imports (c.i.f.) in June were £177·1 million. They were slightly greater than in May but they were less than in March 1948, when imports amounted to £178·2 million. Imports of food, drink and tobacco fell steadily from £80·6 million in March to £71·8 million in June but imports of raw materials rose from £53·2 million to £90·7 million.

17. Table 7 shows that exports of British goods to the Western Hemisphere rose in May to £23·8 million—the highest figure yet recorded. Exports to sterling area countries have remained at about £60 million a month since the beginning of the year but exports to other countries continue to rise steadily.
IV.—Bilateral Negotiations

18. Since my last report, agreement has been reached with India and Pakistan on releases from the sterling balances and on dollar requirements.

19. A delegation from New Zealand is now in London to discuss food contracts. Agreement has been reached on the supply of butter to this country, and discussions on meat are still going on.

20. Portugal has now sent a delegation to London to review the working of the monetary arrangements made in November 1947.

21. Negotiations on trade matters have now opened in London with the Russians.

22. The Anglo-Italian Economic Committee will meet in Rome on 26th July.

V.—Balance of Payments

23. A provisional analysis of the net drain on reserves during the first half of 1948—the period covered by the forecast in the Economic Survey—shows—

(i) The United Kingdom deficit with the dollar area was nearly 20 per cent. above the Survey rate.

(ii) The rest of sterling area deficit (excluding South Africa) with the dollar area was well below the Survey figure.

(iii) The fact that we have had to finance part of the South African deficit (reimbursement being naturally in arrears) has slightly increased the drain.

(iv) The gold and dollar expenditure in non-dollar countries has been considerably above the forecast (mainly Belgium), particularly in the first quarter.

24. Provisional figures for the cost of imports in the first half of 1948 show an excess over the Economic Survey forecast of about 10 per cent. Receipts from exports were slightly better than had been forecast and invisibles (on the first rough estimate) seem to have been considerably better. The total deficit on our balance of payments account, however, will turn out to be above the Survey figure of £130 million for the half year.

VI.—Wage Rates

25. The index of weekly wage rates (June 1947 = 100) for all industries combined rose by one point to 106 in June. The index for public utilities rose by three points to 105 and the index for engineering, shipbuilding and other metal industries rose to 102 (Table 11).

26. During May settlements were reached in claims for increased wages or reduced hours without loss of pay in 10 industrial groups. Agreements to extend holidays with pay were also made in three industries. The addition to the weekly wage bill resulting from these claims and from increases under agreements made in earlier months is estimated at £108,653 affecting 340,550 workers. The most important of the agreements made in May affected craftsmen in coal mining, workers in the iron and steel scrap trade and in textiles, and pianoforte makers.

27. Agreements have been reached recently by the iron and steel industry and the Midland hosiery, bleaching and dyeing trades which link wage movements automatically with the Interim Index of Retail Prices. The iron and steel agreement provides for changes in wage rates for a movement of one point in the Index. The bleaching trade agreement will result in automatic changes in wage rates for each movement of five points in the Index. Three increases in wage rates in the waterproof clothing industry have already taken place automatically this year with the rise in the Index of Retail Prices.
### Man-power\(^{(1)}\)

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Total in civil employment</th>
<th>Manufacturing industries</th>
<th>Metals and engineering</th>
<th>Textiles</th>
<th>Building and civil engineering</th>
<th>Issued unemployed</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Total</td>
<td>Men</td>
<td>Women</td>
<td>Total man-power</td>
<td>Operatives(^{(2)})</td>
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<tr>
<td>1939</td>
<td>June</td>
<td>18,060</td>
<td>13,163</td>
<td>4,893</td>
<td>8,815</td>
<td>2,267</td>
<td>798</td>
</tr>
<tr>
<td>1946</td>
<td>June</td>
<td>17,415</td>
<td>11,893</td>
<td>5,622</td>
<td>8,887</td>
<td>2,709</td>
<td>572</td>
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<tr>
<td>1947</td>
<td>June</td>
<td>18,650</td>
<td>13,047</td>
<td>5,603</td>
<td>7,101</td>
<td>2,827</td>
<td>826</td>
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<td>August</td>
<td>18,724</td>
<td>13,190</td>
<td>5,594</td>
<td>7,116</td>
<td>2,880</td>
<td>628</td>
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<td>September</td>
<td>18,766</td>
<td>13,155</td>
<td>5,611</td>
<td>7,154</td>
<td>2,839</td>
<td>633</td>
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<td></td>
<td>October</td>
<td>18,861</td>
<td>13,260</td>
<td>5,601</td>
<td>7,229</td>
<td>2,865</td>
<td>644</td>
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<td></td>
<td>November</td>
<td>18,969</td>
<td>13,225</td>
<td>5,744</td>
<td>7,263</td>
<td>2,876</td>
<td>651</td>
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<tr>
<td></td>
<td>December</td>
<td>18,887</td>
<td>13,252</td>
<td>5,635</td>
<td>7,251</td>
<td>2,876</td>
<td>652</td>
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<td>1948</td>
<td>January</td>
<td>18,883</td>
<td>13,265</td>
<td>5,628</td>
<td>7,222</td>
<td>2,866</td>
<td>657</td>
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<tr>
<td></td>
<td>February</td>
<td>18,922</td>
<td>13,294</td>
<td>5,628</td>
<td>7,283</td>
<td>2,891</td>
<td>662</td>
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<tr>
<td></td>
<td>March</td>
<td>18,939</td>
<td>13,330</td>
<td>5,609</td>
<td>7,287</td>
<td>2,860</td>
<td>664</td>
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<tr>
<td></td>
<td>April</td>
<td>18,997</td>
<td>13,376</td>
<td>5,621</td>
<td>7,270</td>
<td>2,891</td>
<td>670</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>19,007</td>
<td>13,391</td>
<td>5,616</td>
<td>7,255</td>
<td>2,888</td>
<td>672</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Great Britain.
\(^{(2)}\) Male operatives 16 years old and over.
\(^{(3)}\) 274,100 at 14th June.

### Man-power in certain undermanned industries\(^{(1)}\)

**Table 2**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>910</td>
<td>1,048</td>
<td>1,045</td>
<td>1,055</td>
<td>1,055</td>
<td>1,060</td>
<td>1,069</td>
<td>1,075</td>
<td>1,089</td>
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<tr>
<td>Coal industry</td>
<td>735</td>
<td>699</td>
<td>718</td>
<td>718</td>
<td>721</td>
<td>722</td>
<td>724</td>
<td>724</td>
<td>724(^{(2)})</td>
</tr>
<tr>
<td>Pig iron</td>
<td>15</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17(^{(3)})</td>
</tr>
<tr>
<td>Tinplate and sheet steel</td>
<td>25</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15(^{(4)})</td>
</tr>
<tr>
<td>Iron foundries (other than engineering)</td>
<td>98</td>
<td>60</td>
<td>72</td>
<td>74</td>
<td>75</td>
<td>76</td>
<td>76</td>
<td>77</td>
<td>77(^{(5)})</td>
</tr>
<tr>
<td>Gas undertakings</td>
<td>125</td>
<td>122</td>
<td>130</td>
<td>131</td>
<td>131</td>
<td>130</td>
<td>130</td>
<td>130</td>
<td>130(^{(6)})</td>
</tr>
<tr>
<td>Textiles—</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>344</td>
<td>247</td>
<td>289</td>
<td>287</td>
<td>289</td>
<td>272</td>
<td>274</td>
<td>277</td>
<td>278(^{(7)})</td>
</tr>
<tr>
<td>Cotton spinning</td>
<td>179</td>
<td>159</td>
<td>144</td>
<td>150</td>
<td>151</td>
<td>153</td>
<td>154</td>
<td>156</td>
<td>157(^{(7)})</td>
</tr>
<tr>
<td>Cotton weaving</td>
<td>165</td>
<td>168</td>
<td>115</td>
<td>117</td>
<td>118</td>
<td>119</td>
<td>120</td>
<td>121</td>
<td>121(^{(7)})</td>
</tr>
<tr>
<td>Wool</td>
<td>210</td>
<td>153</td>
<td>169</td>
<td>178</td>
<td>179</td>
<td>180</td>
<td>180</td>
<td>182</td>
<td>182(^{(7)})</td>
</tr>
<tr>
<td>Silk and rayon</td>
<td>73</td>
<td>57</td>
<td>66</td>
<td>70</td>
<td>71</td>
<td>72</td>
<td>72</td>
<td>73</td>
<td>73(^{(7)})</td>
</tr>
<tr>
<td>Bleaching and finishing</td>
<td>83</td>
<td>60</td>
<td>69</td>
<td>72</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73</td>
<td>73(^{(7)})</td>
</tr>
<tr>
<td>Pottery</td>
<td>68</td>
<td>57</td>
<td>65</td>
<td>69</td>
<td>70</td>
<td>70</td>
<td>71</td>
<td>71</td>
<td>71(^{(7)})</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Great Britain.
\(^{(2)}\) 725,006 at 3rd July, 1948.
\(^{(3)}\) 131,350 at 25th June, 1948.
### Coal

<table>
<thead>
<tr>
<th>Year</th>
<th>Week Ended</th>
<th>Production</th>
<th>Stocks</th>
<th>Output per man-shift overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Deep-mined</td>
<td>Open-cast</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thousand tons</td>
<td>Thousand tons</td>
<td>Thousand tons</td>
</tr>
<tr>
<td>1938</td>
<td></td>
<td>4,353</td>
<td>880</td>
<td>6,700</td>
</tr>
<tr>
<td>1947</td>
<td>January</td>
<td>3,587</td>
<td>127</td>
<td>5,518</td>
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<tr>
<td></td>
<td>February</td>
<td>3,636</td>
<td>148</td>
<td>5,925</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>3,717*</td>
<td>139*</td>
<td>6,477</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>3,494</td>
<td>213</td>
<td>5,907</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>3,667</td>
<td>112</td>
<td>6,566</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>3,629*</td>
<td>98</td>
<td>10,638</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>3,113</td>
<td>220</td>
<td>12,122</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>3,143</td>
<td>201</td>
<td>12,842</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>3,553*</td>
<td>228*</td>
<td>14,903</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>3,774</td>
<td>247</td>
<td>16,418</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>4,843</td>
<td>211</td>
<td>16,981</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>3,598*</td>
<td>194*</td>
<td>16,149</td>
</tr>
</tbody>
</table>

*Computed from figures for calendar months.

### Steel

<table>
<thead>
<tr>
<th>Year</th>
<th>Week Ended</th>
<th>Production</th>
<th>Despatches to blast furnaces</th>
<th>Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Steel ingots and castings</td>
<td>Steel sheets</td>
<td>Pig iron</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thousand tons</td>
<td>Thousand tons</td>
<td>Thousand tons</td>
</tr>
<tr>
<td>1947</td>
<td>January</td>
<td>246*</td>
<td>26.3*</td>
<td>154*</td>
</tr>
<tr>
<td></td>
<td>February</td>
<td>236</td>
<td>21.4</td>
<td>126</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>196</td>
<td>22.7</td>
<td>123</td>
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*Average of five weeks.
## Production of motor vehicles and coalmining machinery

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<th>Month</th>
<th>Motor vehicles</th>
<th>Coalmining machinery: Deliveries</th>
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<tr>
<td></td>
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<td>For home market</td>
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### Exports and imports of the United Kingdom

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<th>Textiles</th>
<th>Other manufactures</th>
<th>Re-export</th>
<th>Total imports</th>
<th>Food, drink and tobacco</th>
<th>Raw materials</th>
<th>Manufactures</th>
<th>Retained imports</th>
<th>Export</th>
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*(1) Including chassis.
*(2) Carrying capacity.
* Average of five weeks.
## Exports and Imports of the United Kingdom: Regional Analysis

**Exports of United Kingdom produce**

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<th>Month</th>
<th>Total (sterling area)</th>
<th>To Western Hemisphere</th>
<th>To sterling area</th>
<th>To other countries</th>
<th>Total</th>
<th>From Western Hemisphere</th>
<th>From sterling area</th>
<th>From other countries</th>
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<td>32-5</td>
<td>41-4</td>
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<td>14-1</td>
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<td>19-9</td>
<td>57-4</td>
<td>35-6</td>
<td>148-1</td>
<td>65-1</td>
<td>56-8</td>
<td>37-9</td>
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<td>10-4</td>
<td>51-6</td>
<td>38-3</td>
<td>133-4</td>
<td>80-0</td>
<td>40-6</td>
<td>34-7</td>
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<td>160-7</td>
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<td>47-7</td>
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Notes: (1) Including Japan and Philippines but excluding sterling area countries.

## United Kingdom exports—progress compared with end-1948 targets for principal commodities

**Table 8**

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<th>Product Category</th>
<th>1st Quarter 1948</th>
<th>Average April/May 1948</th>
<th>Targets for end-1948 at end-1948 prices</th>
<th>Increase required from average April/May to reach target</th>
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<td></td>
<td>£ million (monthly rates)</td>
<td>Per cent.</td>
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<td>Other</td>
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Notes: (*) It has been assumed that the rise in export prices in 1948 will be 5 per cent.
### Reserves and liabilities

**Table 9**

<table>
<thead>
<tr>
<th>Year</th>
<th>Gold</th>
<th>United States dollars</th>
<th>Canadian dollars</th>
<th>Total gold and dollar holdings</th>
<th>Unused credits</th>
<th>Total gold and dollar reserves</th>
<th>Non-sterling liabilities</th>
<th>Net sterling liabilities</th>
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<tr>
<td>June</td>
<td>598·1</td>
<td>31·8</td>
<td>8·7</td>
<td>566·6</td>
<td>930·5</td>
<td>245·5</td>
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<td>13·0</td>
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1) Gold and dollars spot: holdings of E.A.A. only. After payment of subscriptions to International Bank and Monetary Fund.
2) Excluding loans to and by His Majesty's Government and holdings of the International Bank and Monetary Fund.
3) Western Hemisphere, Sweden, Switzerland, Belgium and Portugal.
4) Including Egypt and Palestine.

### Prices

**Table 10**

| Year   | Index of import prices | Index of wholesale prices | Index of retail prices | Index of wholesale prices of farm products | Currency circulation (\%) | Yields on 2½% Consols | Small savings S
current week (\%) |
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<tr>
<th></th>
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1) Exports of United Kingdom produce.
2) Average estimated circulation with the public.
4) Average of five weeks.
### Table 11

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<th>Month</th>
<th>All industries</th>
<th>Agriculture</th>
<th>Mining and quarrying</th>
<th>Chemical, brick, pottery, &amp;c.</th>
<th>Engineering, shipbuilding and other metal industries</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Other manufacturing industries</th>
<th>Building, civil engineering, and electrical installation</th>
<th>Transport</th>
<th>Public utilities</th>
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(*) Based on rates at the end of the month.
NEWFOUNDLAND: CONSTITUTIONAL POSITION

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

IN his memorandum of 20th March, 1947 (CP. (47) 95), my predecessor referred to the steps which were to be taken to enable the people of Newfoundland to choose their future form of Government. My colleagues may like to know the developments which have since occurred.

2. The first referendum took place in Newfoundland on 3rd June last with the following results:

1. For the continuation of Government by Commission for a period of 5 years — 21,944 votes.
2. For Confederation with Canada — 63,110 votes.
3. For restoration of Responsible Government as it existed in 1933 — 69,230 votes.

Thus the referendum was inconclusive, since no form of Government secured an absolute majority of the votes cast.

3. A second referendum is therefore necessary and will be held on 22nd July. On this occasion the form of Government which secured the lowest vote (i.e., Commission Government) will disappear. The choice will thus be between Responsible Government and Confederation with Canada.

4. At my request, the Governor of Newfoundland (Sir Gordon Macdonald) visited London earlier this month with the Commissioner for Justice (a Newfoundlander). The discussions which they had here with the Under-Secretary of State, officials of the Commonwealth Relations Office and me (in some of which the Canadian High Commissioner joined) showed that no real difficulties of procedure are likely to arise if the forthcoming vote is in favour of the restoration of Responsible Government.

In that event, the 1933 Constitution will be revived by Letters Patent, which must be laid before Parliament for a period of twenty-one days, and are subject to a negative resolution. When that period has expired, the Governor will arrange for the holding of a General Election. On learning the result of the election, he will ask the leader of the majority party to form a Government. The new Government should be able to take over on or about 1st January next.

5. Should there be a substantial majority in favour of Confederation with Canada, no major complication should arise, although the change-over would be more protracted than in the case of a return to Responsible Government. Whatever the detailed machinery for bringing Newfoundland within the Confederation, legislation will be required by Parliament in London; we may hope that it would not be controversial, though if there should be disorder in Newfoundland—see paragraph 9 below—this might affect the prospect. We are already discussing procedure on a provisional basis with the Canadian Government.

6. But it is the Governor's considered view that if there should be a majority for Confederation, it is almost certain to be a narrow one. If that happens, it will be for Canada to decide whether or not she regards the majority as large.
enough to justify the entry into Confederation of a new Province with so large a dissentient minority. This possibility, and its consequences, were discussed with Sir Gordon Macdonald; and they are now being discussed in Ottawa by the United Kingdom High Commissioner with the Canadian authorities. On our side, we are making it clear to the Canadians that—

(1) we should regard any majority, no matter how small, as conclusive; but
(2) we recognise that there are two parties to Confederation and the decision must, therefore, primarily rest with Canada.

7. I think it unlikely that the Canadian Government will reach a decision until after the referendum.

8. If Canada should decide to proceed with the admission of Newfoundland into Confederation, we must proceed as rapidly as possible with the necessary legal steps: but owing to Parliamentary complications in Canada it is unlikely that they can all be completed before 1st April, 1949. If Canada decide not to proceed, we shall have no alternative but to restore Responsible Government. It will then be for Newfoundland to decide for herself, through her Parliamentary institutions, whether to retain Responsible Government or to seek entry at some later date into Confederation.

9. There is one final point. The Governor has expressed to me the view that, especially if there should be a close contest, there is a serious risk of civil disturbance in the Island. In his view, this risk springs from the fact that entry into the Confederation would be an irrevocable act to which a substantial minority of the people of Newfoundland would be permanently committed against their will. The danger, he feels, would be all the greater because the great number of the supporters of Responsible Government are concentrated in and around the capital, St. John’s, whereas the supporters of Confederation are scattered throughout the country.

10. As a precautionary measure, and after discussion with the Prime Minister, I have thought it right to ask the First Lord of the Admiralty whether he can arrange for a warship to be available in Western Atlantic waters at the time of the referendum and able to move in to St. John’s at short notice on call. I hope very much that in fact there will be no disturbances; but we must be prepared to maintain order so long as we are in charge of the Island.

P. J. N. B.

Commonwealth Relations Office, S.W. 1,
19th July, 1948.
ANTI-INFLATIONARY MEASURES IN THE COLONIES

MEMORANDUM BY THE SECRETARY OF STATE FOR THE COLONIES

WITH reference to the Cabinet's discussion on 13th July (C.M. (48) 50th Conclusions, Minute 2) I am circulating, for the information of my colleagues, the following notes on anti-inflationary measures in the Colonies.

I.—INTRODUCTION

1. The Colonies have little share in the primary cause of inflation. Every penny of money issued in the Colonies is the result of a transfer from sterling in London. If the monetary circulation in a Colony goes up, it is because part of the total of sterling available in London has been converted into cash in West Africa, Malaya (or wherever it may be), instead of being held in cash or in a bank deposit in the United Kingdom.

2. Once an increased amount of money has been created, various things can be done to counteract or remedy its effects. These are divisible into true counter-measures, which aim at the genuine removal of some of the purchasing power which is pressing on the market, and measures which are primarily designed to deal with symptoms without really reducing the pressure of purchasing power. In the first category are measures for the withholding of some part of current money incomes, e.g., price stabilisation schemes; personal savings and investment in long-term Government securities; and budgetary policies aiming at the creation of true budget surpluses by collecting more in revenue than the State is currently paying out in expenditure. The measures which deal with the symptoms rather than the underlying causes are measures of price control and of subsidisation of the cost of living. These are not necessarily useless, but it is important to realise the difference and also that their effective use tends to create a rather novel kind of monetary phenomenon which has come to be known as suppressed inflation, which in turn creates new problems of its own.

II.—GENERAL MEASURES AGAINST INFLATION IN THE COLONIES

3. Colonial Governments have been advised where appropriate to use all or any of the measures referred to above. In particular:

   (i) Schemes, of which particulars are given in Section III below, have been in operation in some cases for many years past to withhold from Colonial producers part of the exceptional rises in the price of their products.

   (ii) Colonial Governments have been repeatedly exhorted to increase revenues and build up revenue surpluses.

   (iii) A great deal of effort has been devoted to the encouragement of personal saving by Colonial residents, but the results have been disappointing. This is almost certainly due to the lack of attraction which current rates of interest on Government securities hold for the average inhabitant in the Colonies.

   (iv) All Colonial Governments have established systems of price control, but their effectiveness is much less than in this country owing to the more primitive character of the communities and the administrations. The Report of the Gold Coast Commission reluctantly recognises the impossibility of any really tight price control in African conditions.
Price control has been used rather to prevent sudden and sharp increases than to hold down the level of prices permanently.

(v) Subsidisation of the cost of living, adjusted to local circumstances, has been used by a large number of Colonies. It has been financed partly from local resources and partly by grants from His Majesty's Government; and the basic object has been to prevent the beginning of an inflationary spiral by rises in wages to keep pace with the cost of living. The policy is to keep subsidisation within reasonable limits and to remove it gradually.

III.—MARKETING SCHEMES FOR COLONIAL PRODUCE

4. Provision has been made in a number of cases for bulk marketing schemes under which the price paid out to producers has been less, in some cases very much less, than the current prices obtained on resale of the produce, the balance being put aside for price stabilisation or developmental purposes. Such schemes commenced for West African cocoa very early in the war and are to-day in operation for cocoa, palm oil, palm kernals and groundnuts in West Africa, cotton in Uganda, and sugar in the West Indies, Mauritius and Fiji. They have always been regarded as most appropriate for products produced mainly by peasant growers. It is less necessary to arrange for such compulsory withholding of income in the case of plantation and mining industries since the amount of purchasing power put into circulation by wage payments is not directly related to current prices and the firms concerned are themselves likely to put aside to reserve a large part of any exceptional increases of prices.

IV.—TAXATION POLICY

5. Colonial Governments have several times been advised to consider increases of import duty as a means of mopping up purchasing power, although the use made of this particular method has been limited. Insofar as it has been used, there has been no special discrimination between European and non-European consumption; but, where particular kinds of goods are mainly consumed by one class of the community or the other, regard has been given to the available purchasing power of the class in question in fixing import tariffs.

6. The suggestion that increased import tariffs might operate in restricting the amount of goods available for purchase reflects a conflict of thought between—

(a) the desirability of putting up prices of consumer goods in order to mop up purchasing power (which underlies the purchase tax policy in the United Kingdom); and

(b) the desirability of having as many goods as possible available for purchase.

It is one of the most difficult problems of Colonial economic administration to steer a middle course between these objectives, and it is not a matter on which any general principle can be laid down. There is no doubt a need in many Colonies to put many goods on sale at low prices both to counter inflation and to act as an incentive to production. Decisions must depend on judgment of local psychology and the relative urgency of the need for increased production.

V.—SUPPLY OF CONSUMER GOODS

6. The problem of making more goods available, which is the fundamental remedy for excess purchasing power, does not, however, primarily turn on taxation policy. Nor are import controls to-day an important difficulty. Goods from the United Kingdom or other Colonies (and to a large extent from the sterling Dominions) are imported quite freely except for a short and diminishing list of things which are either under allocation or are reserved by the United Kingdom for sale in hard-currency markets. It is indeed the policy of Colonial Governments to secure the maximum flow into their territories of consumer goods and particularly incentive goods. It is the continuous effort of the Colonial Office and the Colonial authorities to achieve this end; but in present conditions the fact is that there are just not enough goods to go round in the world as a whole, and our efforts can often do no more than relieve in small measure the local inflationary situation at the cost of intensifying inflationary pressure elsewhere.

A. C. J.

Colonial Office, S.W. 1,
19th July, 1948.
PARLIAMENTARY PROCEDURE; EFFECT OF THE LOCAL GOVERNMENT ACT, 1948

Memorandum by the Chancellor of the Exchequer

At their meeting on 18th March, 1948 (C.M. 23rd Conclusions, Minute 2) the Cabinet considered the effect on Parliamentary procedure of the Bill for the Local Government Act, 1948, authorised certain immediate action for the present session, and invited me, in consultation with the Lord President of the Council, the Minister of Health and the Secretary of State for Scotland, to consider what changes in procedure should be made for future sessions.

2. This question has arisen because under the new system of equalisation grants provided for in the Local Government Act, 1948, any change in the rateable values of a local authority or any increase in its expenditure may result in an increase in its Exchequer grant. This means, under the procedure which has obtained hitherto, that a financial resolution in the House of Commons will be required to cover provisions of any Bill, public or private, which either affects rateable values or authorises an increased charge on local rates, unless, of course, it also contains provisions excluding the expenditure from the calculations on which equalisation grant is based.

3. My colleagues and I are agreed that there is no reason to make any change in this procedure for ordinary public Bills - that is, public Bills other than the three classes of confirming Bills dealt with in paragraph 5 below. We therefore propose no changes in the Standing Orders of the House of Commons relative to public business.

4. The combination of a private Bill and a financial resolution is, however, so awkward, that unless some change is made, local authorities will in practice either be unable to obtain spending powers by private Bill, or be forced to provide for the exclusion of the resulting expenditure from the equalisation grant calculations. This would in many cases be unfair; it would be equally undesirable, however, to exempt such Bills from the requirement of a financial resolution without a compensating safeguard for the Exchequer. We therefore propose:

(a) No change should be made in the procedure for provisions affecting rateable values. In practice this will mean that it will in future be almost impossible to affect rateable values by private Bill. In our view no harm will result from this.
(b) Provisions in private Bills authorising rate-borne expenditure should be exempted from the requirement of a financial resolution, but it should be an instruction to committees considering such Bills that where a report made on behalf of the Minister of Health or the Secretary of State for Scotland so recommends, they should insert a clause excluding the expenditure from the calculations on which equalisation grant is based. This will mean that while it will still be possible for local authorities to obtain spending powers by private Bill, the effect on the Exchequer will be properly safeguarded.

Draft Standing Orders to this effect are given in paragraph 3 of the Annex to this paper; paragraphs 2 to 4 contain certain minor consequential amendments to other Standing Orders.

5. There are three classes of Bills for the confirmation of Orders which, although public in form, are similar in content to private Bills. These are:

(a) Provisional Order confirmation Bills.

(b) Bills confirming Scottish Provisional Orders under the Private Legislation Procedure (Scotland) Act, 1936.

(c) Bills confirming Orders under the Statutory Orders (Special Procedure) Act, 1945.

These Bills follow procedures analogous to that for private Bills. It is equally awkward to combine them with a financial resolution, and, from the Government's point of view, this is quite unnecessary, since the provisions contained in the Orders which the Bills are to confirm are under the control of Ministers, who can safeguard the interest of the Exchequer before the Bill reaches the House. All that is necessary in their case, therefore, is to exempt them from the requirement of a financial resolution. This is effected by the amendments to Standing Orders given in paragraphs 5 to 7 of the Annex.

6. If the proposals made in the two preceding paragraphs are approved in principle by the Cabinet, it will be necessary for the Minister of Health and the Secretary of State for Scotland to inform local authorities of what is proposed and invite their comments. They will expect to be given some indication of how it is intended to exercise the power of requiring rate-borne expenditure to be excluded from the calculations for equalisation grant. We suggest that the line should be that the power will not be used unless it appears that the proposed expenditure may become substantial, and then only if it is of a novel kind and not merely a new method of operating a power generally exercised by local authorities.

7. We therefore ask the Cabinet:

(a) To approve in principle the proposed amendments to the Standing Orders of the House of Commons relative to private business, as set out in the Annex to this memorandum;

(b) To authorise their communication to local authorities, with an explanation, on the lines of paragraph 6 above, of the manner in which the new powers will be exercised.

Treasury Chambers, S.W.1.
19th July, 1948.
ANNEX

PROPOSED AMENDMENTS
TO THE
STANDING ORDERS OF THE HOUSE OF COMMONS
RELATING TO PRIVATE BUSINESS

1. After Standing Order 156, page 189, line 3, at the end insert the following new Orders:

156 A. For the purposes of the Standing Orders and practice of this House relating to provisions authorising charges upon the Public Revenue, a private Bill shall not be deemed to authorise such a charge by reason only that it contains provisions authorising expenditure by a local authority which would or might operate to increase the amount of any Exchequer Equalisation Grant under Part I or Part II of the Local Government Act, 1948.

156 B. Where a Bill contains any provision authorising such expenditure as is mentioned in Standing Order 156A (Modification of practice as to charges on public revenue) and the Standing Orders and practice of this House mentioned in that Standing Order have not been complied with, in respect thereof, it shall be an instruction to the Committee on the Bill that they shall, if a Report made upon the Bill on behalf of the Minister of Health or the Secretary of State so recommends, insert therein a clause providing that the said expenditure shall not be taken into account in computing the expenditure of the local authority for the purposes of section four or section twenty (as the case may be) of the Local Government Act, 1948."

-3-
2. Standing Order 168, page 195, line 16, at the beginning insert "Subject to the provisions of Standing Order 156 A (Modification of practice as to charges on the public revenue)".

3. Standing Order 169, page 195, line 26, at the end add - "Provided that, for the purposes of this Order, a provision of a Bill shall not be deemed to involve a grant from any Government Department by reason only that it authorises expenditure by a local authority which would or might operate to increase the amount of any Exchequer Equalisation Grant under Part I or Part II of the Local Government Act, 1948."

4. Standing Order 191, page 204, line 11, at the end insert - "or authorise any such expenditure as is mentioned in Standing Order 156 A (Modification of practice as to charges on the public revenue)."

5. Standing Order 219, page 216, line 30, after "House)" insert "156 A. (Modification of practice as to charges on public revenue)."

6. Standing Order 228 A, page 223, line 14, after "Orders" insert "156 A. (Modification of practice as to charges on public revenue)."

7. After Standing Order 248, page 237, line 7, at the end insert the following new Order:­

248 A. Standing Order 156 A. (Modification of practice as to charges on public revenue) shall apply to Bills introduced under the Special Procedure Act."
19TH JULY, 1948

CABINET

THE SITUATION IN MALAYA

Memorandum by Secretary of State for the Colonies

I circulate for the information of my colleagues an account of further steps taken since 1st July, when I circulated a paper (C.P.(48) 171) describing the main features of the situation in Malaya up to the end of June.

2. During the first eleven days of July there was no great improvement or deterioration in the situation. During that period, bandits were responsible for 26 murders, all but one of them non-European, in country districts mainly in the estates of Perak and Johore. There was no large-scale operation by the bandits until 12th July, when there occurred the incident at Batu Arang, the site of the only coal mine in Malaya, in which a band attacked the village and murdered four people. No important incident has occurred in the few days since the Batu Arang raid, though there were three murders on the following day, 13th July.

Measures to meet the situation

3. The authorities in Malaya and Singapore have continued their action to improve the means of protection and counter-attack against terrorists. The following additional measures have now been taken.

Federation of Malaya:

(i) The regular police force is to be expanded by 3,000 local other ranks and 85 officers, most of whom will be looked for from the Palestine Police.

(ii) A considerable additional force of Special Constabulary is being raised consisting of voluntary part-time constables, and paid full-time constables. The present strength of the Special Constabulary is between two and three thousand; the ultimate target will be in the region of six thousand. This plan will require up to 500 Palestine constables for training, inspection, etc.

(iii) A scheme has been drawn up by G.O.C.-in-C., Malaya District, for the formation of jungle units for offensive operations against guerillas in the jungle. Four
units are to be raised initially. Each unit will be officered by ex-officers of Force 136, where available, and both Malays and Chinese will be recruited. The force, which is being given the code name "Ferret", is to be raised under Emergency Regulations, and will be administered by the Malay Regiment and trained at the Malay Regiment H.Q. at Port Dickson. No publicity is being given to the raising of this force.

(iv) A scheme has also been drawn up by the C.O.C., Malaya District, for the formation of a mixed force to operate in the Northern Frontier to prevent illegal immigration and gun running. This will probably make necessary the raising of a third Battalion of the Malay Regiment; this question is still being studied by the Acting High Commissioner and his advisers.

(As these additional police and other locally recruited forces become operational, two Battalions of the Malay Regiment and one Squadron of the R.A.F. Regiment (Malaya) now employed on static guard duties, can be released for operational roles. In addition some 4,000 Gurkha troops now used as guards at strategic points could be returned for further training.)

Singapore:

(v) The situation in Singapore has up to now been a good deal less difficult than in the Federation, though there is evident that we must be prepared for the possibility of trouble. The Governor is recruiting twenty-five additional commissioned police officers, of whom one will be a Gurkha-speaking officer, four will be locally promoted Asiatic inspectors, and twenty officers selected from this country. I am endeavouring to obtain as many as possible from among the ranks of the former Palestine Police.

(vi) In addition 600 special constables and a considerable number of unpaid part-time volunteers are being raised in Singapore.

Equipment of the Police.

Measures are being taken here to expedite the despatch of all the equipment required by the police. The authorities in Malaya have telegraphed statements of outstanding orders and new orders which they wish met quickly, and already a substantial part of their requirements has been despatched by air and by fast passenger vessel. Three items are causing a little difficulty which will, I hope, be quickly overcome. The Malayan authorities asked me for 10,000 carbines. These are not obtainable in this quantity: I have asked them to accept Stens or Lancasters instead and am awaiting their reply. They have just asked me for 200 mobile wireless sets and supply possibilities are under urgent investigation. (The need for these, to enable forces to be summoned urgently to points of attack, is obvious.) They also require five armoured
reconnaissance cars and 70 armoured cars. The War Office have offered instead 100 Lynx armoured cars and a reply from Malaya is awaited. The Lynx cars can be shipped quickly.

Strength of the Garrison

5. My colleagues will wish to have a statement on this subject. In paragraphs 16 to 19 of C.P.(43) 171 I gave a brief summary of the plan of operations proposed by the Commissioner-General after consultation with the civil and military authorities. The plan of operations was drawn up in two phases, phase 1 consisting of the measures required to restore law and order in the settled areas of the territory, to maintain the economic life of the country, and restore morale, and phase 2 - the further measures necessary to liquidate the guerilla bands whose headquarters are in the jungle. In submitting this plan of operations to me the Commissioner-General said that the C.-in-C. Far East Land Forces, considered that the military forces available to him were, for the time being, sufficient, with some additional assistance from the Royal Air Force. The 1st Innishillings are being moved from Hong Kong to Singapore, and the additional air assistance required, which consisted of sufficient O.P. Flights to bring the total up to five Flights, is being provided. The Commissioner-General and the civil and military authorities have recently assured me that they have sufficient forces to ensure that phase 1 is successful.

6. I have now received a telegram dated 31st July from the Acting High Commissioner, Kuala Lumpur, reporting representations by the leading Malayan rubber and tin interests, who assert that unless the situation is cleared up in a few months they cannot guarantee to continue production, and demand as an immediate reinforcement two further brigades. The Acting High Commissioner, Sir Alec Newbould, is discussing this matter with the British Defence Co-ordination Committee.

7. The number of troops required for phase 2 depends, as already indicated, upon the success of phase 1, and I was warned by the Commissioner-General that if phase 1 went badly an additional Division of troops would be required for phase 2. I have since seen Ministry of Defence telegram to C.E.O. Far East (C.O.S.E.E.A) of 31st July warning F.A.E.O. that there will be great difficulty in sending reinforcements on a large scale for phase 2, and that there is no prospect of sending a division; one brigade is being earmarked for reinforcement should this be essential, and the possibility of sending another brigade is being considered.

A.G.C.

Colonial Office,

19th July, 1948.