CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1, on FRIDAY, MAY 21, 1920, at 12 Noon, and continued from 2-45 p.m. to 5 p.m.

PRESENT:

The Prime Minister (in the Chair).

Right Hon. A. Bonar Law, M.P.,
Lord Privy Seal.

Right Hon. E. Shortt, K.C.,
M.P., Secretary of State for Home Affairs.

Right Hon. the Viscount Milner, G.C.B., G.C.M.G.,
Secretary of State for the Colonies.

Right Hon. W.S. Churchill,
M.P., Secretary of State for War and Air.

Right Hon. T.J. Macnamara,
L.L.D., M.P., Minister of Labour.

Right Hon. H.A.L. Fisher,
M.P., President of the Board of Education.

The following were also present:

Earl Beatty, Field-Marshal Sir H.H. Wilson, Bart.,
First Sea Lord and Chief of the Naval Staff (for Conclusions 3 and 4).

Mr. R.P. Blackett, C.B., Controller of Finance, Treasury (for Conclusions 1 and 2).

The Chancellor of the Exchequer informed the Cabinet that he had received a telegram from the British Ambassador in Paris, reporting that M. Dubois was, in his opinion, a very suitable representative for the Reparations Commission, and stating that the French would take it as a compliment if Sir John Bradbury could propose him as Chairman.

The Cabinet took note of, and approved, the intention of the Chancellor of the Exchequer to telegraph to Sir John Bradbury, forwarding Lord Derby's recommendation and authorising him, if he thought fit, to take the course proposed.

This course was agreed to in the distinct understanding that the Secretary-General continued to be of British nomination.
ALLIED

(2) With reference to Cabinet-29-(30), Conclusion 4, the Cabinet had before them the following documents on the subject of Inter-Allied and Anglo-American Debts:

Memoranda by the Chancellor of the Exchequer (Papers C.P.-584, 597 and 842),

Memoranda by the President of the Board of Trade (Papers C.F.-621 and 1202),

A Memorandum by the Secretary of State for Foreign Affairs (Paper C.P.-1095),

A Memorandum by the Secretary of State for War (Paper C.P.-1156),

A Memorandum by Sir L. Worthington Evans (Paper C.P.-1156),

A Note by the Chancellor of the Exchequer, covering a Memorandum by Mr B.P.Blackett (Paper C.P.-1259),

A Note by the Secretary, Cabinet, of the Conversations at Rythe (Paper C.P.-1297),

A Memorandum by the Secretary of State for War (Paper C.P.-1816).

The Chancellor of the Exchequer then made a very full statement of the present position of the question with the United States Treasury. A summary of this statement is given in the Appendix.

In the course of the subsequent discussion it was pointed out that, under the American proposals, the deferred bonds, into which the interest payable during the next year or two on the American loans was to be converted, were to be marketable after five years, although before they were put on the market Great Britain was to be given the opportunity to pay money down. Clearly, once these bonds had been put on the market, all chance of their remission or cancellation under any scheme of Inter-Allied indebtedness would be at an end. Consequently, the position as regards Inter-Allied indebtedness would be gravely compromised by agreeing to this. It was strongly urged that no action should be taken now which in any way tended to compromise the future of the question. It was also pointed out that the present
"moment was extraordinarily unfavourable for settling any question of this kind finally with America," owing to the abnormal political position there, due to the approach of the Presidential Elections. Further, it was suggested that there was every advantage in not dealing alone with America in this question. France and Italy had the same interests as ourselves vis-à-vis America, and it would be better to discuss the matter in a Conference in which they also would be represented. The Lympne (Hythe) Conference introduced new factors which would justify us in not pressing forward with the present independent negotiations. It was urged that it was no more dishonourable for Great Britain to defer paying her interest than it was for France or Italy to fail in this respect. Everything was to be gained by postponing a decision.

The Cabinet agreed:

(a) That, having regard to the questions of high policy raised by the settlement of this question, it was one that should be dealt with direct between the Governments concerned, rather than between the two Treasuries:

(b) That the Prime Minister should address a communication on the subject direct to President Wilson:

(c) That the Chancellor of the Exchequer should immediately notify this decision to Mr Rathbone, the representative of the United States Treasury.
Cabinet 27 (20), Conclusion 3, the Cabinet had under consideration the action to be taken in North Persia in view of the recent evacuation of Enzeli. From the consideration of the local aspects of this question the discussion extended first to the question of what was the role of these British forces in North Persia, and the situation which would be created in the event of their withdrawal. This led to a discussion of the Anglo-Persian Agreement and our obligations thereunder to Persia in the event of a Bolshevist attack.

The position in Mesopotamia in the event of a Bolshevist penetration of Persia then came in for review. Finally, the decision was found to be closely connected with our general policy towards Soviet Russia.

As regards the local situation at Enzeli, it appeared from the previous Cabinet decisions and telegrams brought to the notice of the Cabinet that the position is as follows.

Ever since the British occupation of Baku, an Anglo-Indian force has been maintained at Enzeli, in North Persia, on the Caspian Sea, which has recently numbered from 500 to 700 men, together with some guns and transport. In February last, when Denikin’s army was still an effective fighting force and the Allies were encouraging the Caucasian States to resist the Bolsheviks, the General Staff had advocated its retention. In view of the changed conditions, however, the question of their retention had recently been examined by the Eastern Committee, and on May 18th a telegram (No.268) had been sent to Persia communicating the decision that this force was to be maintained for the present, though it was left to the discretion of the General Officer Commanding to retire upon Kasvin should the Enzeli position be in real danger or should a larger force be required at Kasvin.

Within the last few days the Bolsheviks had disembarked a force of some 2,000 men some miles from Enzeli, which had cut the line of retreat of the British forces there. Announcing that he was acting on his own responsibility and without
orders from Moscow, the Bolshevikist Command, after bombarding the port, had stated that his sole objective was Denikin's fleet which had been surrendered to British officers at Enzeli and subsequently disarmed and interned. This fleet still flew the Russian flag. The British forces had thereupon been allowed to march out to Resht, where they had probably arrived by this time. In the meanwhile, a naval detachment of about 3 officers and 30 men, which had been despatched from the Black Sea for the purpose of taking over the guns of Denikin's fleet at Enzeli, had been caught en route at Baku on the arrival there of the Bolsheviks. They had been made prisoners, and were reported to be subjected to ill-treatment and forced labour in the dockyard.

The War Office asked for authority to evacuate Enzeli and Tabriz; to concentrate these forces at Kasvin, together with certain battalions on the lines of communications, these military dispositions — which would take some weeks to effect — being taken with a view to an early withdrawal to Hamadan, Kermanshah, and eventually to the railhead in Mesopotamia.

This request was supported on the following grounds. The forces at Tabriz and Enzeli are costing £2,000,000 a year, owing to the immense amount of mechanical transport required for the long lines of communication. Coupled with the retention of the force at Keshed beyond the time originally contemplated, this would involve asking Parliament for a Supplementary Estimate. The Enzeli incident shows that these forces only remain in North Persia on sufferance of the Bolsheviks. Since the Cabinet decision of last February to retain them, the whole situation has been changed by the collapse of Denikin, the Bolshevikist invasion of the Caucasus and the Bolshevikist command of the Caspian Sea. The danger existed for our forces in North Persia not only from the Bolsheviks but also from the Persian Cossacks, some of whom were contaminated with Bolshevism, and a detachment of which
was actually between Tabriz and Kasvin. The policy of withdrawal from the Caucasus was based on military advice that our line of defence in South Asia should be neither the line Constantinople-Batum-Baku-Krasnovodsk-Novor, nor the line Constantinople-Batum-Smeli-Teheran-Meshed, but should be the railheads of the systems of Palestine, Mesopotamia and India, where our forces would be securely based on steam transport by rail and, in the case of Mesopotamia, by river.

At the same time, and on the same broad grounds, the War Office pressed for a withdrawal from Batum. This withdrawal, however, was also urged on the following additional grounds, namely, that, in the opinion of the Chief of the Imperial General Staff, which he expressed personally to the Cabinet, the British force was in danger from a rising in the town, from the advance of the Bolsheviks, and from the uncertain attitude of the Georgians. This view was based on the opinion of the General Officer Commanding, Constantinople, that the position was "militarily unsound and dangerous". The French had only sent an Algerian Battalion (which sailed yesterday from Constantinople) instead of the promised white Battalion, and the Italians absolutely declined to implement their promise to send a Battalion. The instructions to General Milne to withdraw the force in the event of actual danger were very similar to those that had been given to the General Officer Commanding in Persia as regards Smyrni, and just as the Smyrni force had not been withdrawn in time, so General Milne, who was not on the spot at Batum and could have no very immediate knowledge of the situation, might not have time to withdraw the Batum force. Public opinion would not stand a repetition at Batum of what had happened at Smyrni. The railway from Batum had been cut, and the moment was approaching when, if these forces were retained, we should incur responsibility for feeding the population of the town.
Against the withdrawal from Persia the former reasons were urged, namely, that the retention of this force had been repeatedly approved by the Cabinet and by the Supreme Council of the Allies; the situation had not altered for the worse, and would be improved by the arrival of the French Algerian Battalion; it was impossible to conduct a policy when changes were made so hastily; the retention of Baku as long as possible was desirable in order to avoid a junction between Mustapha Kemal and the Bolsheviks, in order to prevent Georgia becoming Bolshevist and thus opening a fresh line of Bolshevist advance into Persia by the railway to Tabriz; also as a port for the passage of arms to Armenia; if the Georgians made an arrangement with the Bolsheviks we should withdraw; and in the meanwhile General Milne had full authority to withdraw if he considered the force was threatened with danger.

Against the withdrawal it was urged that it would be tantamount to an invitation to the Bolsheviks to enter and make themselves master of North Persia; the friendly Persian Government would then fall; there would be an end to the Anglo-Persian Agreement which, without infringing the independence of Persia, had been concluded with the object of establishing decent conditions and providing a barrier against Bolshevism; the hopes that the Anglo-Persian Agreement would serve as a model for the administration of Egypt and Mesopotamia would disappear; in time the Bolsheviks would either penetrate to the borders of Mesopotamia, or Persia, proselytized by Bolshevism, would go rotten; our position in Mesopotamia could then only be secured by much larger forces than we were prepared to maintain there; the reaction of our abandonment of Persia would weaken our whole position in the East. Even though the Anglo-Persian Agreement contained no treaty obligation on us to defend Persia, it was urged as an obligation of self-interest which we could not afford to set aside.
and if we abandoned it we should have to consider whether we could secure in Mesopotamia.

Against this, however, it was pointed out that there was no evidence that the Bolsheviks had designs on Persia. They had many prior commitments in re-organising their own country, in driving out the Poles, and in establishing their boundaries. Their communications were notoriously deficient, and would probably not enable them to invade a country like Persia, where even we, with all our resources, found difficulty in maintaining a small force. Persia was not a rich country likely to attract them. Even if they entered Persia, it would be long before they could penetrate as far as the borders of Mesopotamia. It was more probable that they would seek their aims by means of propaganda, which our occupation would not prevent; or it was possible that their object might be to re-establish the position Russia had occupied in North Persia under the Anglo-Russian Agreement. The British people would never embark on a difficult and costly war for the purpose of preventing the Bolsheviks from establishing this position, or even for preventing a Russian invasion of Persia.

It was urged that our present attitude towards the Persians was a false one. We ought to recognise that we had not the military forces available to enable us to keep the Bolsheviks out. As we could not do this, we ought to encourage the Persians to conclude some arrangement with the Bolsheviks. Up to the present we had rather deterred them from doing so.

Eventually it was recognised that our policy in North Persia was intimately connected with our general policy towards the Bolsheviks. This, it was contended, was at present indefinite and somewhat paradoxical. On the one hand, the Bolsheviks were making difficulties for us all over the East, in Turkey, the Caucasus, Persia, Turkestan and Afghanistan, and had not concealed their intention to create trouble for us in India. On the other hand, we were intermediating between the Bolsheviks and the remnant of Denikin's forces under
trading relations with them, in which connection a Bolshevik
deputation was at this moment negotiating in London; and L. Krassin, a prominent Bolshevist Minister, was about to
come to London, and had made as one of the conditions of
his visit that he should be seen by the Prime Minister and
the Foreign Office.

It was stated that there was evidence to show that the
difficulties the Bolshevists have been making for us in the
East are a remnant of an earlier policy initiated when we
were actively supporting Denikin, which had since been
abandoned and which the Bolshevists were trying to bring to
an end. The Cabinet generally felt, however, that advantage
should be taken of the forthcoming conversations with L.
Krassin, if possible, as a condition of entering into trade
relations, to effect an all-round settlement which would
include the East as well as the delivery of British
subjects still retained in Bolshevist hands, or, at any
rate, to clear up the situation and to establish exactly
how we stand with the Bolshevists. It was felt that the
speediest manner of effecting the release of the Naval pris­
oners at Baku would be to deal with this question also in
the forthcoming conversations with L. Krassin. For the
above reasons the hope was expressed that every effort
would be made to facilitate L. Krassin's arrival.

The Cabinet agreed on the following decisions:

**GENERAL POLICY TOWARDS RUSSIA.**

(a) Advantage should be taken of the forthcoming
conversations with L. Krassin to endeavour to
clear up our whole situation vis-a-vis Soviet
Russia, including not only the question of
trade relations, which is the ostensible
subject of the conversations, but also the
position in the Middle East, the question
of the release of British prisoners from
Russia, and of the Naval prisoners detained
at Baku.

(b) The decision as to the policy to be adopted
in North Persia should be postponed until
after the above conversations.
In the meanwhile the War Office should give instructions for carrying out the military dispositions they propose for a concentration at Kazvin of the military forces in North Persia, including those at Tabriz and Resht. In the event of any obstruction to this concentration, whether by the Bolsheviks or the Persian Cossacks, the General Officer should have discretion to take such military action as he may deem essential and prudent.

(c) The Chief of the Imperial General Staff should ascertain whether any surplus arms are available for Persia.

(d) The Secretary of State for Foreign Affairs, in reply to the Persian appeals for assistance, should not encourage hopes that any financial assistance can be furnished, or any material assistance beyond the supply of arms, and these only if they are found to be available.

Batum.

(e) In view of the importance of avoiding at Batum a repetition of what recently occurred at Enzelij, the Chief of the Imperial General Staff should call the attention of General Male to his previous instructions, and direct him to report his views as to the present situation there.

Armenia.

(f) The War Office should complete the shipment of war material for Armenia, which has been interrupted by the refusal of the dock labourers to load it.

(g) The Cabinet took note that the War Office considered it unjustifiable, in existing conditions, to send British officers, even those who volunteered, to Armenia, where, in certain eventualities, they would run grave risk of being cut off from all possibility of assistance, and perhaps even from every avenue of escape.

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Conclusion (a), the Cabinet had before them a Memorandum by the Secretary of State for War covering the Report of the Committee under the Chairmanship of General Sir C.F.H. Macreedy, the Commander-in-Chief in Ireland, on the subject of the formation of a special force for service in Ireland - (C.P.1317).

It was pointed out that this decision would evoke a good deal of protest and it would be represented as the beginning of a re-conquest of Ireland. The Cabinet felt, however, that there was no reason for departing from their previous opinion recorded at the Meeting referred to above, that the present situation is so serious that all the requirements of the Irish Executive should be promptly met.

The Cabinet agreed —

To approve the report of General Macreedy’s Committee, the conclusions of which are summarised in the last paragraph of the Report as follows:

(a) The force should consist of eight garrison battalions, not permanent. Limits of age, period of service, terms of pay, etc. to be as set out in the Report.

(b) It should be raised and paid by the War Office.

(c) The legal status of the enlisted men should be that of soldiers under the Army Act.

(d) The force, when raised, should be administered by the War Office.

(e) Enlistment should be confined to Great Britain.

(f) The proportion of officers should be 35 per battalion.

(g) The proportion of non-commissioned officers should be 10 per cent. above normal establishment.

Ireland, 21st May 1920.

[Address: Belvoir Gardens, S.W.1.]

APPENDIX.

SUMMARY OF A STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER ON THE SUBJECT OF INTER-ALLIED INDEBTEDNESS.

The British Government has a debt of approximately £1,000,000,000 sterling in the United States of America, including a good deal of money at call. In respect of part of that debt America holds certain bonds, shares, etc., which were given to American bankers as security before the United States came into the War. After the entry of America into the War, the United States Government took over these debts, and with them they took over the securities which were collateral for those debts. The British Government pays 3½ per cent. to the holders of these securities. The Treasury were now anxious to get the securities back and return them to their owners.

Interest has been due on the outstanding debt for some time, but the United States Government agreed to postpone for a period, one of their conditions being that the principal should be converted from demand obligations into definitive bonds. Congress had said that the United States Treasury had no authority to waive their right to the interest even on this condition. The United States Government, with difficulty, managed to persuade Congress that they had this power on condition that the immediate demand obligation was transformed into bonds for deferred payment. Mr Blackett, of the Treasury, had been conducting negotiations on this basis with Mr Rathbone, the representative of the American Treasury in Europe, since last September. His instructions had been discussed and recorded in a Paper of the Finance Committee dated September 27, 1919 (Paper F.C.-1). In the course of these negotiations correspondence took place, which Mr Chamberlain proceeded to read. This correspondence came to an end on January 14, 1920, and as a result the Chancellor of the Exchequer, in the subsequent negotiations, had proceeded on the understanding that it was the intention
of America to accord the same treatment to each of the debtors, and that public opinion would consider any less favourable treatment to any of the debtors as an unfriendly act. The American Treasury had replied, however, in the sense that the United States Government considered that they had done all that they could be expected to do after they came into the war, but that what had happened before was not their affair, and that they assumed that each debtor would cease to borrow and do its best to arrange to repay what it owed them. They recognised that in the case of some of the European States the circumstances would prevent the debtors from carrying out this desire, but they were only willing to recognise this in each case where it could be shown to be of overwhelming disadvantage to the State concerned or to the world at large, including the United States. Eventually they had presented the Treasury with a long draft Agreement, and had proposed that, when we had accepted it, they and we should go together to our French and Italian debtors and ask them to accept an Agreement on the same lines. In terms, the Agreements proposed between Great Britain and the United States, and between Great Britain and the United States, on the one hand, and France and Italy on the other, did not differ, but in reality they differed materially.

A stipulation was included that, as soon as the Exchange value of any two debtor and creditor countries reached par, payment of the interest on the debt should be made. The reason why this rendered the Agreement one-sided was that whereas the sovereign might, and probably would, reach par, there was no chance of this happening with the franc and the lire. Behind this proposal of the Americans was the reason that in their view the sovereign might go to par because Great Britain was fortunate, and the franc and the lire would not go to par because they were unfortunate, and it was therefore justifiable, in their view, to make the more fortunate country pay. The American
draft had also contained the conditions specified in paragraph 5 of C.F. 1259, according to which the terms described by Mr Rathbone as "liberal" were conditioned on reparation matters and other matters such as tariffs and concessions, being arranged subject to the approval of the Secretary of the American Treasury.

The Chancellor of the Exchequer, on reading this, had informed Mr Rathbone that he could never insult the French by presenting such a demand to them, and so far as Great Britain was concerned he could never consent to sell his country into bondage by accepting it. He would rather pay if he could, or default if he could not. Mr Rathbone had then stated that he had to make, but this had included putting the objectionable paragraph into a letter to accompany the draft Agreement, and Mr Chamberlain had felt he had no course but to decline to receive such a letter. There was little doubt that the United States wanted to use this Agreement as a weapon to compel what they considered proper conditions as regards the German indemnity. Mr Chamberlain's view was that American insistence on an Agreement of this kind would justify the British Government in defaulting if they could not pay; and if they were compelled to default, the justification on broad political grounds would be so strong that it would scarcely affect their credit.

Mr Rathbone had left London, but before leaving had stated that he was willing to come back on June 2nd or 3rd, before catching his boat at Cherbourg on June 6th. Mr Chamberlain had informed Mr Rathbone that he had reported the question in general terms to the Cabinet, but that they had not yet had time to consider it in detail, and that he would be glad to avail himself of Mr Rathbone's offer to return.

At the very end of the above negotiations had come the Lympne (Hythe) Conference. The French there had started
from the thesis contained in the Declaration made in London by the Allies on economic affairs, that Europe could not yet
back to normal economic conditions until the obligations
between the enemy and the Allies and between the Allies and
the United States among themselves had been settled. M. Marsal
had begun by pointing out that no-one knew the assets or
liabilities of the enemy or of the Allies, and the consequence
was that no-one had any credit. The only decisions reached
at that Conference had been those contained in the Communiqué.
An important however, had been not to re-open the
arrangement in regard to priorities, whereby the British
Empire received £5 for every £11 received by France. In the
end, after many projects and counter-projects had been dis-
cussed, all these were referred, on the suggestion of the
French, to the Experts. The Conclusion of the Lympne Confer-
ence had contained the following sentence:

"The two Governments are further of opinion
that in order to provide a solution for the
economic difficulties which are gravely
weighing upon the general situation of the
world, and in order to mark a definite begin-
ing of the era of peace, it is important to
arrive at a settlement which will embrace
the whole body of the international liabilities which have been left as a legacy of the
war, and which will at the same time ensure
a parallel liquidation of the Inter-Allied
War Debts and of the Reparation Debts of the
Central Empires".

One advantage of this arrangement was that if the French
showed themselves unreasonable towards the Germans, we should
be in a position to adopt a similar attitude towards them,
and, consequently, to check them. In view of the suggestions
made by the French at the Lympne Conference, Mr Chamberlain
proposed to tell Mr Rathbone that he could not deal with the
French debt at the same time or in the same terms as the
debt to the United States of America. He would be prepared
to give bonds in regard to part of the debt on the terms
provisionally settled between Mr Churchill and Mr Rathbone,
but he would repeat that if he gave the bonds it must be
without prejudice to any general settlement of Inter-Allied
indebtedness.
There were two subsidiary matters to which Mr. Chamberlain referred. The first related to debts incurred by us on behalf of our Allies. Our contention was that, but for obligations incurred on behalf of our Allies, we could have financed the War without incurring debts. This, however, was a difficult matter to prove definitely, owing to the complication involved by such considerations as the fact that we had bought wheat in America to replace wheat which we had bought in India, but which, in order to reduce the voyage through dangerous waters, had been landed in Italy. Similarly, as regards steel, we had bought steel in America to replace steel which had already been put into manufacture for our Allies. Such considerations introduced matters of controversy, and made it difficult to prove our case. Mr. Blackett, however, had reached a fairly satisfactory agreement in regard to these matters.

The American claim for 180,000,000 dollars had been reduced to 6,000,000 net, but this had only been accomplished by transferring the debt from a disputed to an undisputed account. Another subsidiary question was the repayment of the Pitman silver, on which a satisfactory settlement had also been reached. Both these settlements, however, were dependent on the main agreement as to the transfer of part of the interest immediately payable to a system of deferred bonds.

During the War, a proposal had been made to America that we would cease to borrow there if America would take over our obligations from France and Italy. America would have accepted this if the Chancellor of the Exchequer of the day had been willing to state that Great Britain was at the end of her resources. Mr. Bonar Law had refused to make a statement so damaging to our credit, and the matter had fallen through. Later in the War, Lord Milner had taken a similar line, and had strongly urged that no statement that we could not pay our obligations from our own resources should be issued. On the whole, our financial position had improved from the courageous attitude that we had adopted. If we were now to
say, as the Americans wished us to say, that we could only pay on such humiliating conditions, we should damage our credit and cause the greatest difficulty as regards future purchases of wheat and other essential foodstuffs. Mr Chamberlain therefore was very unwilling to say either that we could not pay or would not pay, except on such preposterous terms as were now advanced.

At present, however, the only reason why we were not in default was that America had not pressed us for our interest, and owing to the negotiations for exchanging our demand liabilities for a deferred bond issue.

2, Whitehall Gardens, S.W. 1.

May 21, 1920.