CABINET 27 (31).

Meeting of the Cabinet to be held at No. 10, Downing Street, S.W.1., on WEDNESDAY, May 6th, 1931, at 10.30 a.m.

AGENDA.

1. FOREIGN AFFAIRS. (If required).

2. THE MODEL TREATY TO STRENGTHEN THE MEANS OF PREVENTING WAR.
   Memorandum by the Secretary (circulated by instruction of the Prime Minister).
   (C.P. 114 (31) - circulated herewith).

3. THE COAL SITUATION. (If required).
   (Reference: Cabinet 26 (31) Conclusion 12).

4. IRON AND STEEL TRADE RE-ORGANISATION.
   (Reference: Cabinet 26 (31) Conclusion 7)
   Statement by the President of the Board of Trade.

5. HOURS OF WORK OF SALARIED EMPLOYEES.
   (Reference: Cabinet 65 (30) Conclusion 14(a)).
   Memorandum by the Minister of Labour.
   (C.P. 110 (31) - already circulated).

6. AGRICULTURAL POLICY.
   (Reference: Cabinet 26 (31) Conclusion 6).
   (1) Home Wheat Quota Scheme.
      Interim Report of Agricultural Development Committee.
      (C.P. 52 (31) - already circulated).
      Memorandum by the Chancellor of the Exchequer.
      (C.P. 69 (31) - already circulated).
      Memorandum by the Minister of Agriculture and Fisheries on Agricultural Depression in South-Est Yorkshire.
      (C.P. 85 (31) - already circulated).
Note by the Secretary covering two Memoranda submitted to the Prime Minister by Government supporters representing agricultural constituencies.
(C.P. 112 (31) - already circulated).

(ii) Dominion Wheat Quota Scheme.
(C.P. 107 (31) - already circulated).

7. CONCLUSIONS OF HOME AFFAIRS COMMITTEE.
9th Conclusions (31) of Home Affairs Committee - to be circulated.

(i) Merchant Shipping (Safety Convention) Bill.
(Reference: Cabinet 70 (30) Conclusion 9).
Memorandum by the President of the Board of Trade, covering draft Bill.
(A.A. 13 (31) - already circulated).

(ii) Bethlem Hospital (Amendment) Bill.
Memorandum by the First Commissioner of Works, covering draft Bill.
(A.A. 18 (31) - already circulated).

8. PRIVATE MEMBERS' BILLS.
For Friday, 8th May.

(i) Registration of Unsatisfied Judgments Bill; 2nd Reading.

(ii) Shops (Sunday Trading Restriction) Bill; 2nd Reading.

(iii) Industrial Councils Bill; 2nd Reading.

(iv) National Industrial Council Bill; 2nd Reading.

(v) Works Councils Bill; 2nd Reading.

TO TAKE NOTE OF:

9. SITUATION IN INDIA.
(Reference: Cabinet 14 (31) Conclusion 2).
Note by the Secretary of State for India, covering copy of telegrams received from Government of India.
(C.P. 111 (31) - already circulated).
10. DISARMAMENT CONFERENCE.

(Reference: Cabinet 25 (31) Conclusion 2).

Note by the Secretary of State for Air, covering Memorandum by the Chief of the Air Staff.
(C.P. 108 (31) - already circulated).

(Signed) M.P.A. HAMLEY,
Secretary, Cabinet.

2, Whitehall Gardens, S.W.1.,
May 4th, 1931.
CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on Wednesday, May 6th, 1931, at 10.30 a.m.

PRESENT:--

The Right Hon. J. Ramsay MacDonald, M.P., Prime Minister. (In the Chair).

The Right Hon. Philip Snowden, M.P., Chancellor of the Exchequer.

The Right Hon. J.H. Thomas, M.P., Secretary of State for Dominion Affairs.


The Right Hon. J.R. Clynes, M.P., Secretary of State for Home Affairs.

The Right Hon. Tom Shaw, C.B.E., M.P., Secretary of State for War.


The Right Hon. Christopher Addison, M.P., Minister of Agriculture and Fisheries.

The Right Hon. W. Graham, M.P., President of the Board of Trade.

The Right Hon. William Adamson, M.P., Secretary of State for Scotland.

The Right Hon. Herbert Morrison, M.P., Minister of Transport.


The Right Hon. Lord Passfield, Secretary of State for the Colonies.


The Right Hon. W. Wedgwood Benn, D.S.O., D.P.C., M.P., Secretary of State for India.

The Right Hon. Lord Amulree, G.B.E., K.C., Secretary of State for Air.

The Right Hon. Margaret Bondfield, M.P., Minister of Labour.

The Right Hon. H.B. Lees-Smith, M.P., President of the Board of Education.


The Right Hon. George Lansbury, M.P., First Commissioner of Works.


1. The Secretary of State for Foreign Affairs informed the Cabinet that the negotiations with China as to extraterritoriality and for a Treaty settlement had now reached a deadlock. He then read the draft of a statement which he proposed to make in the House of Commons in reply to Questions, the same afternoon.

The statement was discussed, and the last sentence was amended by the inclusion of the words underlined in Appendix I.

The Cabinet agreed —

That the Secretary of State for Foreign Affairs should be authorised to make to the House of Commons the statement attached in Appendix I.
2. The Cabinet had before them a Memorandum by the Secretary of State for Foreign Affairs (C.P.-115 (31)) dealing with the serious political situation that has arisen out of the agreement reached by Germany and Austria to conclude a Customs Union (Appendix II).

The Secretary of State for Foreign Affairs, amplifying and slightly correcting his Memorandum in the light of the latest information, stated that the Germans were anxious to bring up the subject at a meeting of the European Committee of Inquiry to be held at Geneva on May 15th, but that the French Government were understood to wish to avoid a discussion of the question in its economic aspects until the juridical issues had been considered. He was now inclined, therefore, to try and secure that both aspects should be considered simultaneously. He would propose that the question should be referred, in its economic aspects, to a League Committee, with some rather wide terms of reference such as "To consider the whole question of the proposed Customs Union in the light of the economic position in Europe". At the same time, after discussion of the question at the Council in its legal aspects, the question might be referred to the Hague Court for an Emergency Opinion, since otherwise a long delay would be involved. Before the next Meeting of the Council in August or September, Reports on both aspects of the question should be available. The Secretary of State called particular attention to a passage at the end of his Memorandum in which he expressed the hope that, as the President of the Board of Trade
would be unable to go to Geneva to take part in the important discussions which are impending, he himself might be given a sufficiently free hand to enable His Majesty's Government to contribute to the common work of removing the political danger which had been created by the proposal to set up an Austro-German Customs Union.

In the course of the discussion attention was drawn to the various alternative proposals to the Austro-German Customs Union. A caveat was entered as to the proposal of the French and Czecho-Slovak Governments, and more particularly the suggestion (Appendix II, page 7, Para.(b)) that Great Britain should be asked, in view of the special circumstances, to forgo rights of most-favoured-nation treatment. It was pointed out also that under this proposal we should be placed in an inferior position to Austria, notwithstanding our policy of Free Trade. In short, we should be prejudiced by the effect of the proposals both in the matter of most-favoured-nation treatment and on our trade in foreign markets. The extension of a system of international cartels (Appendix II, page 7, para.(c)), it was suggested, would also be detrimental to our trade. Criticism was also directed, more particularly from the point of view of the Dominions, against the "unofficial" British suggestion on page 8 that the United Kingdom should undertake for a fixed period, say three years, not to alter her present tariff system.

The Secretary of State for Foreign Affairs explained that he had desired to acquaint the Cabinet very fully with the various proposals that might be mentioned. He did not anticipate, however, that
would be unable to go to Geneva to take part in the important discussions which are impending, he himself might be given a sufficiently free hand to enable His Majesty's Government to contribute to the common work of removing the political danger which had been created by the proposal to set up an Austro-German Customs Union.

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in the course of a discussion at the League extending over only two days, there would be any attempt to reach decisions on these matters. Later on, if a Committee were set up on the economic aspects of the question, he would have to concert closely with the President of the Board of Trade and to consult the Cabinet.

The Cabinet agreed —

That in the forthcoming discussions at Geneva the Secretary of State for Foreign Affairs should use his discretion on matters of detail, but that if any questions of principle should arise, such as those raised by the various proposals summarised in his Memorandum, he should adopt a non-committal attitude and might ask that they should be formulated in detail and in writing.
3. The Secretary of State for Foreign Affairs informed the Cabinet that he had now received the Italian comment on the British reply to the French Memorandum on the Franco-Italian Naval question, which had been approved by the Cabinet at the Meeting referred to in the margin. The Italian Government was in complete agreement with the British attitude. He was inclined to think that no reply would be received from the French Government until after the Presidential Election in France on May 13th. In view of the deadlock which had been reached, he contemplated political conversations on the subject during the forthcoming Meetings of the League of Nations at Geneva.
4. The Cabinet had before them a Memorandum by the Secretary (C.P.-114 (31)), circulated by instructions from the Prime Minister, on the subject of the Model Treaty to Strengthen the Means of Preventing War. The Memorandum dealt with apprehensions which had been expressed by the Admiralty lest action which the League may recommend in order to satisfy themselves that their requests for the withdrawal of forces have been implemented under the provisions of Articles 2 and 3 of the Model Treaty should be interpreted as giving liberty of inspection of naval ports, dockyards or establishments. Such a provision might, in the Admiralty's opinion, be detrimental to national security. The matter had first been raised at the Committee of Imperial Defence and subsequently discussed at a conference arranged by the Secretary of State for Foreign Affairs, as the result of which Lord Cecil, in consultation with the Admiralty and the Legal Adviser of the Foreign Office, had drawn up the following proviso to Article 3, Proposal B, of the Model Treaty:

"The preceding paragraph shall not, however, require any High Contracting Party to permit any inspection more extensive than is actually necessary to enable the Council's representatives to satisfy themselves by investigation on the spot that any withdrawal recommended by the Council under Article 2 (1) has been effected, or that any recommendation made by the Council under Article 2 (2) and accepted by the High Contracting Party concerned is being complied with. Moreover it shall not in any case require any High Contracting Party to permit inspection of or at any military, naval or air base."

As the above draft involved an amendment to the instructions previously approved by the Cabinet, the Prime Minister asked the Cabinet to give its approval. The Cabinet approved the draft proviso quoted above.
5. The Cabinet had before them a copy of the draft Conclusions of the First Meeting of the Joint Committee of representatives of the Government and of the Miners' Federation, held on Tuesday, May 5th, at 11-30 a.m. (C.P.-116 (31)), as the result of which (in addition to certain decisions of the Joint Committee as to its future procedure) the Cabinet Committee had decided to recommend to the Cabinet —

That a Conference, to be presided over by the Prime Minister, should be held forthwith with representatives of the Mining Association, similar in character to the Conference held with the Executive on the 30th April last. It was hoped that after this Conference the Association would nominate five of its members to confer with the Cabinet Committee.

Since the above draft Conclusions had only been circulated late on the previous evening, the Secretary of State for Foreign Affairs gave the Cabinet full particulars.

The Cabinet agreed —

(a) To approve the recommendations of the Cabinet Committee:

(b) That the meeting with the Coal Owners should take place in the Prime Minister's Room at the House of Commons on Monday next, May 11th, at 3 p.m.

(NOTE: In order to meet the convenience of the Coal Owners the date was subsequently altered to Wednesday, May 13th, at 4 p.m.).
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6. The Prime Minister informed the Cabinet that on the previous day he had seen Mr Lloyd George and Sir Herbert Samuel and had explained to them the difficulty discussed at the last Meeting of the Cabinet as to the communication of Memoranda of the Cabinet and such bodies as the Economic Advisory Council to persons outside the Cabinet. Mr Lloyd George and Sir Herbert Samuel had appreciated the difficulties and it had been arranged that when it was necessary to communicate such documents they should be sent to Sir Herbert Samuel, who, as a Privy Councillor, would be careful to treat them with full regard to the obligations of his Oath as a Privy Councillor.

(For the application of this to the Iron and Steel Trade Report see the following Minute.)
7. The Prime Minister informed the Cabinet that, in accordance with the principle recorded in the previous Conclusion, he had undertaken that a copy of the Report of the Economic Advisory Council on the Iron and Steel Trade should be communicated to Sir Herbert Samuel.

The President of the Board of Trade stated that he had asked the Governor of the Bank of England and Mr. Bruce Gardner whether they would give permission for the Bruce Gardner Report to be communicated to the Liberal Leaders. Owing to the confidential nature of some of the statements contained in the Report, however, they were unwilling to give this permission. In this conversation it had also transpired that these gentlemen were strongly opposed to the idea of a Public Utility Company for the Iron and Steel trade.

The Chancellor of the Exchequer reported that the Governor of the Bank of England was considerably perturbed at the idea that the Government might be contemplating the formation of a Public Utility Company. He had indicated that in those circumstances the efforts towards the re-organisation of the industry being made by the Securities Management Trust could not be continued.

In this connection the Prime Minister mentioned that he had received information as to certain amalgamations that had already been effected in the Iron and Steel industry.

The Cabinet felt that there was a certain amount of ambiguity as to the attitude of the Governor of the Bank. When the question had been discussed on April 22nd (Cabinet 24 (31), Conclusion 2), the Cabinet had been given to understand that there was
no likelihood of money being obtained for the re-organisation of the Iron and Steel industry from the investing public (particularly in view of the failure of a recent issue in connection with the re-organisation of the Cotton trade) unless coupled with some form of protection to the industry from foreign competition. Now, however, it appeared that the Securities Management Trust was still continuing its efforts and that the Governor of the Bank of England only proposed to desist from these efforts owing to his apprehensions of Government intervention. It was felt that this situation would have to be cleared up before a decision could be taken as to the President of the Board of Trade's proposals for the rationalisation of the industry.

As the result of the discussion the Cabinet agreed —

(a) That the Prime Minister, the Chancellor of the Exchequer and the President of the Board of Trade should discuss the question with the Governor of the Bank of England, with a view to clearing up the position as to the attitude of the Securities Management Trust towards the re-organisation of the industry.

(b) That, in execution of the decision of the Cabinet on April 22, 193[1 (Cabinet 24 (31), Conclusion E(b)), the President of the Board of Trade should give to Sir Herbert Samuel a copy of the Report of the Iron and Steel Committee of the Economic Advisory Council, but should ask him to treat the information as strictly personal and confidential for the moment and not to show it to members of the Liberal Industrial Committee. The President of the Board of Trade should intimate that as soon as he could give him greater latitude in the matter he would make a further communication. He should also, if this was necessary, inform Sir Herbert Samuel that he was not in a position to communicate the Bruce Gardner Report.
(c) That all members of the Cabinet should observe reticence on the details of the President of the Board of Trade's proposals for the re-organisation of the Iron and Steel industry.
The Cabinet had before them a Memorandum by the Minister of Labour (C.P.-110 (31)) covering a copy of the Convention and three recommendations of the International Labour Conference at Geneva on the subject of the Hours of Work of Salaried Employes. In this Memorandum the Minister of Labour recalled that, in accordance with the decision of the Cabinet on May 21, 1930 (Cabinet 28 (30), Conclusion 7), the British Government's attitude at the Conference had been that they did not know enough of the facts of employment in the diverse occupations covered by the term "salaried employes" to enable them to assist in drawing up an International Convention. Consequently the British representatives had taken no active part in the debates and had abstained from voting. It was further explained that this attitude had been justified by the event, as the Convention adopted by the Conference was even wider in scope than was at first expected, and permitted so many exceptions that it could not lead to the adoption of anything in the nature of an international standard of hours regulation. In these circumstances the Minister of Labour had no hesitation in proposing that the Cabinet should decide not to ratify the Convention.

The recommendations were also open to objection on the ground that the preamble of each made it clear that acceptance implied accepting the provisions of the draft Convention.

The Minister of Labour proposed that the Government of the United Kingdom should once more re-state their general attitude to the subject and add that consequently they were unable to ratify the Convention.
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or to accept the recommendations, which postulate an endorsement of its provisions.

In the course of a short discussion the comment was made that in certain respects this country tends to fall behind some of the Continental nations (other than France) in the adoption and application of Labour Regulations.

The Cabinet agreed —

To approve the proposals of the Minister of Labour, as set forth in C.P.-110 (31).
3. The Cabinet had before them the following documents relating to Agricultural Policy:—

1. The Home Wheat Quota Scheme.

An Interim Report by the Agricultural Development Committee (C.P.-52 (31)): A Memorandum by the Chancellor of the Exchequer (C.P.-89 (31)): A Memorandum by the Minister of Agriculture and Fisheries on Agricultural Depression in South-East Yorkshire (C.P.-85 (31)): Two Memoranda submitted to the Prime Minister by Government supporters representing agricultural constituencies (C.P.-112 (31)). The first of these, signed by two Members of Parliament, was in opposition to the proposal for a Wheat Quota; and the second, in favour of the proposal, was signed by seven Members of Parliament.

2. The Dominion Wheat Quota Scheme.

A Report by the Committee on the proposed Imperial Economic Conference at Ottawa (C.P.-107 (31)) containing the following recommendations by a majority:—

(i) That the United Kingdom Delegates to the Ottawa Conference be empowered to put forward the proposal of a quota for Dominion milled wheat in the United Kingdom as part of any general scheme of inter-Imperial economic cooperation which may emerge from the Conference.

(ii) That, pending a decision on (i) above, consultation with the millers on the method of operating the scheme should be deferred.

The Prime Minister said that the Memoranda in C.P. 112 (31) had been circulated as the result of the discussions he had been asked to undertake at the meeting on April 15th, (Cabinet 23 (31), Conclusion 1 (a)). The report on the Dominion
Wheat Quota Scheme (C.P. 107 (31)), had been called for at the same meeting. In company with the Minister of Agriculture and Fisheries he met representatives of the millers, in order to ascertain their views on the question of the home wheat quota, as desired by the Cabinet at the same meeting. The millers admitted that the position of the farmers was bad, and that the position of cereal growing in this country ought to be considered. They did not like the plan of a quota, but if it became the policy of the Government they could and would work it. They had suggested a plan of their own for the encouragement of cereal growing, which involved, inter alia, a prohibition on the importation of foreign flour.

The First Lord of the Admiralty read to the Cabinet extracts from a speech by Sir Malcolm A. Robertson, Chairman of Messrs. Spillers Ltd., in which he stated that not only the Board of this Company but also the National Association of British and Irish Millers would be strongly opposed to a quota for home grown wheat which they considered unwise, uneconomic and unnecessary. Sir Malcolm Robertson had indicated, however, that his Company at any rate would endeavour loyally to work any major policy which was definitely put before them.

The Minister of Agriculture and Fisheries, with reference to Cabinet 23 (31) Conclusion 1 (d), reported that he was not in a position to recommend to the Cabinet any alternative, within the limits of the Government's policy, to the home wheat quota for maintaining cereal farming in this country. He made
clear that without some assistance of the kind cereal farming was doomed, and that something approaching the depopulation of considerable parts of England was likely to occur.

In this latter connection it was suggested that the real fact that had to be faced was that wheat farming could not be carried out in this country without the expenditure of great sums of money in some form of assistance.

After considerable discussion, the Cabinet agreed —

(a) that a special Meeting of the Cabinet should be held on THURSDAY, JUNE 4th, at 10.30 a.m., for the purpose of taking a decision on the two questions of a quota for Home Grown Wheat and Dominion Wheat, and that, if possible, no other questions should be placed on the Agenda Paper;

(b) That Members of the Cabinet should be asked to bear in mind that it might be necessary to resume the above discussion in the afternoon or evening of June 4th.
10. The Cabinet had before them a Memorandum by the President of the Board of Trade (H.A.-12 (31)) covering a draft Merchant Shipping (Safety and Load Line Conventions) Bill, together with the recommendation of the Committee of Home Affairs thereon (H.A.C. 9th Conclusions (31), para. 1). It was recalled that the original Bill approved by the Cabinet on October 29th, 1930 (Cabinet 65 (30), Conclusion 18) had met with opposition during the Second Reading in the House of Lords, on the ground that while carrying out the provisions of the International Convention for the Safety of Life at Sea, 1929, it did not deal with the International Convention respecting Load Lines, 1930. Lord Stanhope had introduced an alternative Bill dealing with both Conventions, but drafted in a manner unsatisfactory to the Board of Trade. In these circumstances the Cabinet, at the Meeting referred to in the margin, had decided on the 26th November, 1930, that a Government Bill covering both Conventions should be prepared, and that the assistance of the Shipowners' Parliamentary Committee should be invited. The present draft was the result of that decision.

There was one point of importance on which agreement had not been reached. Where the Board of Trade's existing requirements in the case of British ships were higher than the international standard contemplated under the Convention, the Shipowners' Parliamentary Committee would, it was understood, oppose the continuance by the Bill of the Board's existing powers.

The recommendation of the Committee of Home Affairs was as follows:

To authorise the withdrawal of the former Merchant Shipping (Safety Convention) Bill, and the introduction at an early date
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The recommendation of the Committee of Home Affairs was as follows:—

To authorise the withdrawal of the former Merchant Shipping (Safety Convention) Bill, and the introduction at an early date.
in the House of Lords of the Merchant Shipping (Safety and Load Line Conventions) Bill in the form of the draft annexed to H.A.-12 (31), subject to any drafting or other minor alterations that may be found necessary or desirable.

The Cabinet approved the above recommendation of the Home Affairs Committee.
11. The Cabinet had before them a Memorandum by the First Commissioner of Works (H.A.-18 (31)) covering the draft Bethlem Hospital (Amendment) Bill, together with the following recommendation of the Committee of Home Affairs thereon (H.A.C. 9th Conclusions (31), Paragraph 2):

To authorise the introduction at an early date in the House of Lords of the Bethlem Hospital (Amendment) Bill in the form of the draft annexed to H.A.-18 (31), subject to any drafting or other minor alterations that may be found necessary or desirable.

The Cabinet approved the above recommendation of the Committee of Home Affairs.
12. The Prime Minister asked that Bills should be circulated to the Law Officers sufficiently far in advance of meetings of the Committee of Home Affairs to give time for their thorough examination.
The Cabinet had before them the following Bills introduced by Private Members, which were down for Second Reading on Friday, May 8th:

REGISTRATION OF UNSATISFIED JUDGMENTS BILL,
SHOPS (SUNDAY TRADING RESTRICTION) BILL,
INDUSTRIAL COUNCILS BILL,
NATIONAL INDUSTRIAL COUNCIL BILL,
WORKS COUNCILS BILL.

The Prime Minister stated that, owing to delays in the Committee Stage, a number of Private Members' Bills that ought to have been due for Report were not available. The result was that the above Bills were down for Second Reading though they had no chance whatsoever of passing through any later stages. In the circumstances he thought it was unnecessary for the Government representatives to take any part in their discussion.
15. The Cabinet took note of a Memorandum by the Chief of the Air Staff on the General Situation in respect of Air Armaments, circulated under cover of a Note by the Secretary of State for Air (C.P.-108 (31)). These documents had been prepared in connection with the Three-Party Sub-Committee of the Committee of Imperial Defence on Armaments, and corresponded to Memoranda on the Naval and Military situations respectively which had been taken note of at the previous Meeting of the Cabinet referred to in the margin.
The First Lord of the Admiralty asked whether and how soon it was proposed to pass a Resolution enabling the Kangaroo closure to be adopted in Committee in the case of the Consumers' Council Bill. The Prime Minister said that at the moment the Consumers' Council Bill was blocked by other measures that took precedence over it in Committee. He invited the First Lord of the Admiralty to discuss the question with him.

2, Whitehall Gardens, S.W. 1.
6th May, 1931.
APPENDIX I.

CHINA. EXTRATERRITORIALITY.

(Statement approved by the Cabinet on 6th May, 1931, (Cabinet 27(31), Conclusion 1), to be made by the Secretary of State for Foreign Affairs in the House of Commons.)

The position with regard to the extraterritoriality negotiations is that agreement has now been reached on a large number of the details of a Treaty providing on the one hand for the transfer of jurisdiction over British subjects in China from British to Chinese Courts and on the other hand for safeguards relating to the administration of justice, calculated to give a feeling of confidence and security to the British nationals and British interests under a new régime. A serious obstacle to the speedy and successful conclusions of the negotiations has however arisen in connexion with certain important treaty ports, which in the view of His Majesty's Government must be excluded from the operation of the treaty until such time as necessary changes have been effected in the municipal administrations at those ports to meet the new situation created by the abolition of extraterritorial rights.

This attitude on the part of His Majesty's Government was influenced not only by consideration of the chaos which must ensue from any sudden change in jurisdiction at the ports in question, but also by the fact that they could not alone decide the question, having regard to the fact that other Powers were also concerned.

As a way out of the difficulty, His Majesty's Government recently suggested to the Chinese Government that they
would be prepared, immediately on the conclusion of the treaty, to agree to the appointment of a special commission which would proceed forthwith to a study of the whole problem of the reserved areas with a view to finding a satisfactory solution.

Unfortunately the Chinese Government have not seen their way to agree either to the point of view of His Majesty's Government on the question of the reserved areas or to the appointment of the suggested commission.

His Majesty's Government, however, have not abandoned hope that, if time is allowed for further discussion, a satisfactory solution of this one outstanding difficulty will be found, and I need not emphasise our sincere desire to reach a friendly settlement.

With regard to other Powers according to the statement of the Chinese Minister for Foreign Affairs satisfactory results have been reached in certain cases, but (in the words of the Chinese Minister for Foreign Affairs) others including United States have not yielded the desired solution.
APPENDIX TO CABINET 27(31).

SECRET.

F. 115 (31).

CABINET.

AGREEMENT BETWEEN THE GERMAN AND AUSTRIAN GOVERNMENTS TO CONCLUDE A CUSTOMS UNION.

Memorandum by the Secretary of State for Foreign Affairs.

A serious political situation has been caused by the agreement arrived at between the German and Austrian Governments to negotiate a customs union. As a purely economic proposition we would have no objection to and might indeed welcome such a customs union provided that it was complete and effective. But in the present case the political issues involved are so seriously far-reaching that the question must be considered primarily from the political point of view.

A political union between Germany and Austria is forbidden except with the consent of the Council of the League of Nations (which in the present circumstances would certainly not be given). Any economic union between Austria and another country must be subject to the conditions laid down in the Protocol concluded in 1922 between Great Britain, France, Italy and Czechoslovakia on the one hand and Austria on the other when under the aegis of the League of Nations a reconstruction loan was granted to Austria. By this Protocol Austria undertakes not to conclude any "special régime or exclusive advantages calculated to threaten Austria's economic independence".

Although there would seem to be no question of the present Austro-German agreement infringing the Treaty of Versailles, it is open to grave doubt whether this agreement
does not run counter to the obligations assumed by Austria under the Protocol of 1922.

Ostensibly the reason why the German and Austrian Governments desire a customs union is in order to rescue Austria from imminent economic collapse. The German Government in particular, however, have been suspected in many quarters in Europe of having been inspired by the following ulterior political motives:

(a) By establishing an economic union with Austria they hope to take the first step towards a political union.

(b) They hope by putting forward this highly contentious scheme to awaken the European Governments to the necessity of really confronting the problem of the economic reform and reorganisation of Europe which has been the subject of desultory and ineffective discussions at Geneva during the last three years.

(c) If no alternative is offered and at the same time the ex-allied Governments prevent by legal means the Austro-German customs union from materialising, the German Government hope to use this fact as an argument to show that whenever they attempt to improve Germany's national economic position and extend her markets, they are at once thwarted, and that therefore the whole question of reparations must be reopened.

(d) The Brunning Government hoped to strengthen their position with Germany by a forward foreign policy. France and Czechoslovakia are the two countries who are chiefly concerned to prevent at all costs the conclusion of the proposed customs union. Both of them fear it because
(1) they see in it a first step towards a political union:

(2) the agrarian countries in Eastern Europe might be forced to accede to it and thereby prepare the way for Germany's political domination in Central and South-Eastern Europe; and

(3) both for geographical and economic reasons Czechoslovakia would probably be starved into acceding to the union and thereby endangering her national independence.

I think it is clear from the above analysis of the political situation created by the Austro-German proposal that if it is allowed to materialise in its present form it is capable, owing to the fears and suspicions it has aroused, of endangering the whole policy of European cooperation and disarmament which it is the object of His Majesty's Government to promote. For this reason means must, in my opinion, be found for removing the proposal from the domain of international politics. But this ought to be effected, not by the imposition of a direct veto, but by some gentler method which will save the faces of those directly concerned and not perpetuate the bitterness already generated.

As soon as I heard of the Austro-German agreement, I proposed, in order to gain time and to get the question under proper control, that the subject should be placed on the agenda of the forthcoming meeting of the League Council who could then, if necessary, consult the Hague Court as
to whether the contemplated union would constitute a violation of the Protocol of 1922. I realise, however that a merely legal decision, even though given by the Hague Court, is not by itself going to solve the problem which has been created. An inconclusive decision will settle nothing. A decision in favour of the union would lead France and Czechoslovakia to adopt the most violent and dangerous counter-measures for the defence of their political interests to the detriment of the whole policy of European co-operation and disarmament. Lastly, a decision condemning the union without any substitute being offered would leave Germany and Austria with a bitter grievance which, as pointed out above, Germany would exploit on every possible occasion for political ends. It might also lead to the fall of the German Government and a revival of Hitlerism.

It would of course be possible to allow matters to run their course in the hope that when it came to the point there would be so many practical difficulties in the way that Austria and Germany would never be able to agree on a real union. (It is known that there is already considerable objection in certain political and industrial circles in Austria to the idea of a union.) Also the German and Austrian Governments have said that other Governments would be free to join the Austro-German customs union. The Germans and Austrians might be taken at their word and we might demand that the
question of the entry of other States into the union should be examined before any further progress is made with the direct negotiations between Germany and Austria. If this course were adopted, the whole scheme of an extended customs union might break down under its own weight and after months of futile discussion this failure would give both Germany and Austria the opportunity of saving their faces and abandoning the whole idea of a customs union without being accused by their public opinion of yielding to British or French pressure.

But at the best this is a risky and ungrateful policy. We may eventually have to come to it but to begin with at any rate I should much prefer to adopt a more constructive course by co-operating with the whole body of European Governments in elaborating some economic solution which both France and Germany would be able to accept as an adequate alternative to the customs union, and which would at the same time represent some definite progress in the direction of that economic co-operation and "disarmament" between the various European States towards which we have been striving in vain for so long. My intention, therefore, is to start off at any rate by offering my services as honest broker between France and Germany without
committing myself to either, and thereby to use
the present opportunity to advance the cause of
economic co-operation between nations. With this
object in view I shall try at Geneva to arrange for
the question of the customs union to be dealt with
primarily as an economic rather than as a juridical
or even political problem, and shall advocate the
creation of one or more special technical committees
which shall be authorised to examine alternative
schemes to take the place of the proposed union.

Germany has already placed the question on the
agenda of the Commission of Enquiry for European
Union which meets two days before the League Council,
but I do not yet know what line the German representa-
tive will be instructed to take. I have told the
German Ambassador that I shall be glad to be
enlightened on this point.
Meanwhile the French and Czechoslovak Governments are going to put forward a proposal on the following lines:

(a) In order to prevent the agrarian countries of Eastern Europe from being drawn into the Austro-German orbit, the chief grain-importing countries of Europe (excluding Great Britain) should (without, it is hoped, their asking for any quid pro quo) grant a tariff reduction on imports up to a stipulated quota to the agrarian countries (excluding Russia) such as would enable them to dispose of their present grain surplus. In order that this preference should not encourage over production in the agrarian States, consortia should be created both in the importing and exporting States in order to regulate the production of and trade in cereals. The grain-producing countries outside Europe should be asked not to claim a similar preference in virtue of their most-favoured-nation treatment.

(b) In order to assist in her economic distress, which presumably had driven her into the arms of Germany, the European States generally should grant a preference to specific Austrian goods in the form both of a quota and tariff reduction. The countries enjoying most-favoured-nation treatment, including Great Britain, would be asked, in view of the special circumstances, to forego their rights.

(c) As regards tariff reductions the French scheme contemplates the extension of the system of international cartels as being a more promising line of approach than the proposals hitherto made for a flat reduction covering all goods.

(d) The French scheme provides for the creation of an international agricultural credit organisation under the League of Nations, in which French banks would co-operate.

Meanwhile other tentative schemes have already been
suggested and it will be the work of the technical committees which I have in mind to scrutinise one and all of them, with a view to elaborating a generally acceptable scheme which will serve as an alternative to the proposed customs union.

The other schemes which have been suggested up to date are:-

(1) An unofficial British suggestion.

In order to satisfy German and Austrian demands for larger foreign markets, there should be an agreement among the protectionist countries to reduce their tariffs by 25%. Great Britain would join in this agreement by undertaking for a fixed period, say three years, not to alter her present tariff system. The protectionist countries which declined to enter the agreement, i.e., declined to reduce their tariffs, would not be entitled to enjoy the benefits of reduction by other countries notwithstanding their most-favoured-nation rights.

(2) A Belgian semi-official suggestion.

The Government concerned should take as basis the procedure laid down in the Final Act of the Economic Conference (November 1930) whereby Governments were encouraged to negotiate bilateral agreements for the mutual reduction of tariffs. His Majesty's Government have already taken action in this sense and negotiations are proceeding between Great Britain and seven other countries. A concerted effort should now be made to extend and hasten these bilateral negotiations so as to include as many countries as possible, and especially France, Germany and Italy. The resultant bilateral agreements should then be consolidated into a collective Convention. It is hoped that world-wide economic pressure, combined with the shock caused by the proposed Austro-German union, would lead many countries to be more forthcoming than would otherwise be the case. If the results were successful, it would, like scheme No. (1), secure to both Germany and Austria that extension of their foreign markets which they require.
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Against all these schemes opposition can be raised both on general grounds and from the point of view of British interests and perhaps of British tariff policy. The same, no doubt, is true of any possible combination of the above schemes or of any other alternative economic solution of the present European difficulty that may be put forward. Without going into a detailed analysis, the Cabinet will no doubt desire to lay it down that His Majesty's Government in the United Kingdom could not be a party to any international agreement in which we were under any obligation to discriminate in the matter of customs duties in favour of countries who are parties to such a union and against parties who are outside it. But starting from this basis it may be said that any such schemes as those outlined above may in one way or another raise the following questions of policy:

(A). Where it is proposed to apply a preferential tariff to meet the present grave politico-economic emergency, we ought, for reasons of high policy, without abandoning our adherence to the principle of most-favoured-nation treatment, to be willing to introduce a certain elasticity into our interpretation of it, thus:

(1) If in a multilateral agreement for tariff reduction the continental signatories desire to adopt the new interpretation of most-favoured-nation treatment given.

* This new interpretation would permit signatories of general conventions for tariff reduction or removal of other obstacles to international trade to refuse the benefits of such conventions to non-signatory states provided the conventions are open to any states which will accept its terms.
two years ago by the Economic Committee, ought we not to agree to allow them to do so, provided the benefit of their tariff reductions is extended to Great Britain in virtue of our liberal régime?

(ii) It is conceivable that circumstances might arise in which we should be faced with the demand to give up for a specific purpose e.g. assistance to Austria and within certain limits our most-favoured-nation treatment.

(B) If continental governments are prepared to make a multilateral agreement for tariff reduction based on the new interpretation of most-favoured-nation treatment, should His Majesty's Government in the United Kingdom secure for Great Britain the advantages of the tariff reductions which that agreement might mean, although the Dominions are not also willing to adhere? (It is of course understood that no such agreement could in any way affect the present tariff relations between Great Britain and the Dominions).

(C). If in the negotiation of an agreement of the kind above described for the general reduction of tariffs the continental governments request us, as our contribution to that end, to agree not to put on protective duties for a fixed period of time, shall His Majesty's Government in the United Kingdom agree to do so, provided the advantage to be obtained from the reduction in tariffs is substantial?

It must be recognised that if we cannot give an undertaking of this kind, we shall, rightly or wrongly, be held responsible for making a general system of tariff reduction impossible.
If Great Britain is to use the present opportunity to co-operate in building up some measure of European economic union, she will be required to make certain sacrifices, otherwise she runs the risk of being held responsible for having brought to nought the joint efforts of Europe to replace the dangerous Austro-German customs union by some progressive scheme for the economic union of Europe.

As the President of the Board of Trade will be unable to go to Geneva to take part in the important discussions which are impending I hope therefore that on the questions of policy enumerated above I may be given a sufficiently free hand to enable His Majesty's Government to contribute to the common work of removing the political danger which has been created by the proposal to set up an Austro-German customs union.

(Intlld.) A.H.

May 5th, 1931.