CABINET 41 (34).

Meeting of the Cabinet to be held at No. 10, Downing Street, S.W.1., on WEDNESDAY, 21st NOVEMBER, 1934, at 11.0 a.m.

AGENDA.

1. FOREIGN AFFAIRS - (If required).

2. THE SAAR.
   (Reference Cabinet 69 (33) Conclusion 3).
   Memorandum by the Secretary of State for Foreign Affairs.
   C.P. 261 (34) - already circulated.

3. GERMAN RE-ARMAMENT.
   (Reference Cabinet 40 (34) Conclusion 1).
   Question to be raised by the Prime Minister.

4. REDUCTION AND LIMITATION OF ARMAMENTS.
   (Reference Cabinet 40 (34) Conclusion 2).

5. OIL POLICY IN JAPAN AND MANCHURIA.
   Memorandum by the Secretary of State for Foreign Affairs.
   C.P. 262 (34) - circulated herewith.

6. NAVAL CONFERENCE, 1935 - (If required).
   (Reference Cabinet 40 (34) Conclusion 3).

7. IMPERIAL DEFENCE POLICY.
   (Reference Cabinet 40 (34) Conclusion 4).

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8. **PRIVATE MANUFACTURE OF ARMS.**

(Reference Cabinet 40 (34) Conclusion 14).

(a) Draft Statement, prepared by the Ministerial Committee on Disarmament.
C.P. 260 (34) - already circulated.

(b) Possibility of formulating terms of reference for an Enquiry. Memorandum by the Secretary of State for Foreign Affairs.
C.P. 263 (34) - circulated herewith.

9. **PALESTINE LEGISLATIVE COUNCIL.**

(Reference Cabinet 14 (34) Conclusion 5).

Memorandum by the Secretary of State for the Colonies.
C.P. 256 (34) - already circulated.

10. **ENQUIRY INTO STATE OF BUSINESS IN KING'S BENCH DIVISION: TERMS OF REFERENCE AND COMPOSITION OF PROPOSED COMMITTEE.**

(Reference Cabinet 40 (34) Conclusion 9).

Memorandum by the Lord Chancellor.
C.P. 233 (34) - already circulated.

11. **DEPRESSED AREAS (DEVELOPMENT AND EMPLOYMENT) BILL.**

(Reference Cabinet 40 (34) Conclusion 11).

Statement to be made by the Minister of Labour.

12. **ADMISSION OF WOMEN TO THE DIPLOMATIC AND CONSULAR SERVICES.**

Memorandum by the Secretary of State for Foreign Affairs.
C.P. 243 (34) - already circulated.

13. **RIBBON DEVELOPMENT.**

(Reference Cabinet 40 (34) Conclusion 7).

Joint Memorandum by the Minister of Health and the Minister of Transport.
C.P. 259 (34) - already circulated.

14. **DISEASES OF ANIMALS BILL.**

Memorandum by the Minister of Agriculture and Fisheries.
C.P. 267 (34) - already circulated.
15. **UNEMPLOYMENT ASSISTANCE BOARD: DRAFT REGULATIONS**

*(If required).*

*(Reference Cabinet 40 (34) Conclusion 12).*

*(Signed)* R.B. HOWORTH,

Acting Secretary to the Cabinet.

3, Whitehall Gardens, S.W.1.,

20th November, 1934.
CONCLUSIONS of a Meeting of the Cabinet held at
10, Downing Street, S.W.1., on WEDNESDAY,
21st NOVEMBER, 1934, at 11.0 a.m.

PRESENT:
The Right Hon. J. Ramsay MacDonald, M.P.,
Prime Minister. (In the Chair).
The Right Hon. Neville Chamberlain, M.P.,
Chancellor of the Exchequer.
The Right Hon. The Viscount Sankey, G.B.E.,
Lord Chancellor.
The Right Hon. Sir John Simon, G.C.S.I., K.C.V.C.,
Secretary of State for Foreign Affairs.
The Right Hon. J. H. Thomas, M.P.,
Secretary of State for Dominion Affairs.
The Most Hon. The Marquess of Londonderry,
K.G., M.V.O., Secretary of State for Air.
The Right Hon. Sir Edward Hilton-Young,
G.B.E., D.S.O., D.S.C., M.P.,
Minister of Health.
The Right Hon. Sir Bolton Hyres Monsell,
The Right Hon. Walter Elliot, M.C., M.P.,
Minister of Agriculture and Fisheries.
The Right Hon. W. Ormsby-Gore, M.P.,
First Commissioner of Works.
The Right Hon.
Sir Kingsley Wood, M.P.,
Postmaster-General.

1. The Cabinet had before them a Memorandum by the Secretary of State for Foreign Affairs (C.P.-261 (34)) on a number of pending questions and difficulties relating to the Saar. The Secretary of State did not ask for any Cabinet decisions at the moment, but the situation was so anxious that he had prepared an outline of the facts in case sudden and special Cabinet consideration became necessary.

The Cabinet were informed by the Secretary of State for Foreign Affairs that it had been found necessary to postpone the meeting at Geneva of the Saar Committee, and that this meeting would probably not take place before Monday next. The Secretary of State had invited the Lord Privy Seal to confer with Mr Knox at Geneva on the general situation. Hitherto our representatives at Geneva had abstained from conference with Mr Knox because of his international position as Chairman of the Saar Commission, but it seemed pedantic to pursue this attitude in the present circumstances. Special steps had been taken to make enquiries in regard to Mr Knox's personal safety, and it was hoped that the results of these enquiries would be received in a day or two.

In the course of discussion, general agreement was expressed with the view that it would be most undesirable to entertain the suggestion of M. Laval that if French troops were sent into the Saar there should be a "token" British contribution to indicate the international character of the force. The Cabinet were warned that any such participation as was suggested by the French would certainly lead us into a position of grave difficulty and embarrassment.

The Cabinet were informed of the steps now being taken by Mr Knox to recruit a small force of police.
most of the members of which would be raised within the Saar, and the remainder abroad. Up to the present only two or three recruits had been obtained in the United Kingdom. The question was raised whether, having regard to the fact that police on the Continent could not be said to be reliable, and that any cosmopolitan police force now recruited must be inexperienced and untrained to deal with mobs, it was right that a police force should be expected to be able to deal with a Nazi "Putsch", and whether the Foreign Office had considered what would have to be done if the situation got out of the hand of the police? Should soldiers have to be sent?

On the other hand, the difficulty was pointed out of determining the country from which the military force should come. It would be out of the question to ask Germany to provide troops for the purpose, and if troops were brought into the Saar from any country other than Germany a very grave situation would at once arise. In this connection the question was asked whether, if Germany suggested that British troops should be sent to the Saar to keep order, we should absolutely refuse to entertain the suggestion?

Attention was drawn to the fact that, notwithstanding the important British financial interests involved, the United Kingdom was not represented at the meetings of Baron Aloisi's Committee in Rome. It was pointed out, however, that this Committee would report to Geneva, where the effective discussion of its proposals would take place.

The Cabinet agreed —

(a) To take note of the Memorandum by the Secretary of State for Foreign Affairs (C.P.-361 (34)) and to invite the Secretary of State to make a further report to the Cabinet if, in his
opinion, the situation in the Saar showed signs of further deterioration.

(b) To invite the Chancellor of the Exchequer, the Secretary of State for Foreign Affairs and the President of the Board of Trade to confer on the steps to be taken to safeguard British financial interests in the Saar when the Report of Baron Aloisi's Committee is considered at Geneva.
2. The attention of the Cabinet was drawn to a number of recent indications that German re-armament was proceeding in an alarming manner. For example, reference was made to information supplied by the Norwegian Minister of Justice to our Minister at Oslo regarding large German orders placed in Norway for whale oil, lard, nickel and molybdenum. (See F.O. Telegram No. 61 of November 16th, 1934.) Another indication was the arrangements which Germany was making to obtain an oil reserve, which had been the subject of discussion at the previous Meeting of the Cabinet (Cabinet 40 (34), Conclusion 10).

In the course of discussion the Cabinet were reminded that this subject was certain to be raised in the course of the Debate on the Address in connection with our general Defence requirements. All the available evidence showed that German re-armament had reached a very formidable stage. In a very short time Germany would possess an army of 300,000 men, as against an army of 100,000 allowed her by the Treaty of Versailles. There was reason to believe that in a year's time she would have as large an air force as the United Kingdom. When the available information had been collected it would be necessary for the Cabinet to consider the very important question whether we ought to abandon our policy of ignoring Germany's action in regard to re-armament. Our information was to the effect that the German authorities were afraid that the Versailles Powers would jointly accuse Germany of violating the Treaty. If such action were taken now, Hitler's prestige might be affected; but with every month which passed, Germany was becoming stronger and therefore better able to disregard such complaints.

The view was also expressed that in the very important Debate in the House of Commons in the following week
it would be necessary for the Government not only to announce their general attitude towards German re-armament, but also to give more detailed information than had been published at present in regard to the proposals for the expansion of the Royal Air Force.

General agreement was expressed with the view that it was desirable that a small Committee of the Cabinet should be appointed to bring together the available facts and figures with regard to German re-armament, and also to make definite proposals to the Cabinet as to the line to be taken in the forthcoming Debate in the House of Commons. In this connection the Committee should advise the Cabinet on the desirability of reconsidering our policy as regards the legalisation of German re-armament, i.e.:

(i) Should we agree to its legalisation?

(ii) If we are not prepared to recognise it as legitimate, how do we propose to proceed —

(a) If Germany demands legalisation, and

(b) If Germany discards all attempts at secrecy and officially announces her re-armament.

After further discussion, the Cabinet agreed —

(a) That a Cabinet Committee, composed as follows —

The Prime Minister,
The Secretary of State for War,
The Secretary of State for Foreign Affairs,
The Secretary of State for India —

should be appointed to consider the question of German re-armament, and in particular to bring together the available facts and figures regarding such re-armament and to make definite proposals to the Cabinet as to our future policy concerning the legalisation of German re-armament, on the lines of the discussion summarised in this Conclusion:

(b) That a Special Meeting of the Cabinet should be held on MONDAY, NOVEMBER 26th, to Consider the Report of the above Cabinet Committee, and that every effort should be made to ensure that copies of the Report of the Committee
are circulated to the Cabinet not later than Saturday, November 24th:

(c) To take note that the Prime Minister and the Lord President of the Council would confer in regard to the Government Spokesman in the forthcoming Debate in the House of Commons.
Reduction and Limitation of Armaments.

Previous Reference: Cabinet 40 (34), Conclusion 2.

F.R. 43(34)4.

3. No discussion took place on the subject of Reduction and Limitation of Armaments, but the Acting Secretary to the Cabinet was instructed to keep it on the Agenda Paper.
4. The Cabinet had before them a Memorandum by the Secretary of State for Foreign Affairs (C.P.-863 (34)) regarding the control of the oil industry in Japan and Manchuria. So far as Japan was concerned, the Japanese Government had passed a law having as its main objects the accumulation of large reserves of oil, obviously to meet a war emergency, and the encouragement of the refining of oil in Japan. This law gave the Japanese Government extensive powers of control over the industry. The principal British oil interest involved was the Asiatic Petroleum Company, which, if it complied with the law, would have to incur an expenditure of some £2,500,000 on the erection of additional storage tanks and accessory plant, and on the increase of current oil stocks to about three times their present volume. By the exercise of the powers allowed under the law, the Japanese Government might actually prevent the Company from recouping themselves for this large expenditure. The British Companies were now considering the desirability of threatening to withhold supplies as a means of pressure on Japan. In this event the support of His Majesty's Government would be essential:

but this threat would not be effective unless the American and the Dutch East Indies Oil Companies joined with the backing of their own Governments. The Secretary of State then set forth the arguments for and against this policy, and the political results that might follow its adoption. In Manchuria an even more objectionable situation had arisen, where the institution of a Government monopoly of sales of oil was imminent, together with the creation of a Manchurian Oil Company, 80% of whose capital would be Japanese, thus infringing the Open Door principle and various Treaty provisions forbidding monopolies in China.
In the course of discussion the Cabinet were warned that very great care would have to be exercised in regard to this matter. For example, it was not at all clear that if the British Oil Companies took the action proposed, the American Oil Companies would not offer to accept the Japanese terms and obtain the trade at our expense.

General agreement was expressed with the view that in any event there could be no question of the British Government paying compensation or in any way indemnifying the British Oil Companies for any damage they might sustain by withholding, or threatening to withhold, supplies of oil as a means of pressure on Japan.

It was suggested that any discussions with the British Oil Companies should proceed on the assumption that the transaction proposed was a purely commercial one, but that it was recognised that it had a national aspect in regard to which the British Government thought it desirable to consult with the Government of the United States of America, and also possibly of Holland.

The suggestion was made that the Oil Companies might point out that a result of the withholding of supplies by them might be the seizure of their undertakings in Japan. In this event they might ask whether the Government would give them diplomatic support. It was pointed out that the reply to this question must depend on whether there had or had not been a breach of our Commercial Treaty with Japan, and that in any event the question was a hypothetical one which the Government could not be expected to answer at the present stage.
The Cabinet agreed —

(a) That the British Oil Companies should be informed that the Government would raise no objection to their proposal that, should it appear necessary to do so and if satisfaction cannot be obtained in any other way, the British Companies may have to threaten to withhold supplies of oil as a means of pressure on Japan:

(b) That enquiries should be made through the usual diplomatic channels with a view to ascertaining what advice the Government of the United States of America were giving to the American Oil Companies in regard to this question of putting pressure on Japan by threatening to withhold supplies of oil from her:

(c) To take note that the Secretary of State for Foreign Affairs proposed to act in this matter in close consultation with the Secretary of State for the Colonies and the President of the Board of Trade.
5. With reference to the conclusion mentioned in the margin, the Secretary of State for Foreign Affairs outlined to the Cabinet the interview which he had had with the Japanese Ambassador on November 19th, an account of which is contained in the Secretary of State's despatch to the British Ambassador at Tokyo, No. 720. Copies of this despatch were circulated to the Cabinet immediately before the meeting.

General agreement was expressed with the view that it would be disastrous if the negotiations broke down at the present juncture, and that accordingly every effort should be made to continue discussions with the Japanese until it was clear beyond possibility of doubt that there was no hope of reaching any satisfactory agreement.

In this connection, attention was drawn to the remarks of Mr. Matsudaira regarding the mission of Mr. Yoshida. On a previous occasion the Cabinet had been informed that Mr. Yoshida was coming to England as the bearer of a highly important communication. It now appeared that he was merely making a tour of a number of European capitals. It seemed unlikely that Mr. Yoshida was the bearer of instructions to break off the discussions, but was it not possible that he had brought with him proposals for a settlement which Mr. Matsudaira thought it politic to reserve for the present in the hope of obtaining better terms?

The Secretary of State for Foreign Affairs informed the Cabinet, however, that this was not the impression which he had obtained from Mr. Matsudaira's references to Mr. Yoshida's mission.
The Cabinet took note of the interview between the Secretary of State for Foreign Affairs and the Japanese Ambassador as summarised in the former's despatch to Sir R. Clive of the 19th November, 1934.
6. The Cabinet had before them the following documents on the subject of the Private Manufacture of, and Trading in, Arms:

- A draft Statement (C.P.-260 (34)) suggesting the line that should be taken in Parliament, drawn up as the result of discussions in the Ministerial Committee on Disarmament:

- A Memorandum by the Secretary of State for Foreign Affairs (C.P.-263 (34)) on the possibility of formulating Terms of Reference for an Inquiry, embodying a suggestion by the Solicitor-General for securing the necessary limits to an Inquiry, and outlining his own procedure in the House of Commons if the suggested method of setting up an Inquiry was satisfactory to his colleagues.

Considerable discussion took place in regard to the question of the Inquiry. General agreement was expressed with the view that the solution suggested in C.P. 263 (34) by the Solicitor-General would not meet the case. At the same time, emphasis was laid on the widespread anxiety on this subject which it was contended could best be allayed by the offer of an Inquiry. If the Inquiry was conducted by persons in whom the public had entire confidence there should be no serious risk of the disclosure of information directly or indirectly prejudicial to the public interest.

On the other hand, the Cabinet were again reminded by the Secretary of State for War of the view of the Service Departments that the private manufacture of arms was imperative from the point of view of our national security. In the opinion of those Departments with which he, the Secretary of State, agreed, no kind of Inquiry would satisfy public opinion unless it disclosed secret information and subjected our manufacturers to criticism and
obloquy and had the effect of handing over their business to the foreigner. In brief, such an Inquiry would not meet the popular demand or, if it did meet it, it would gravely damage the cause of imperial defence.

In the course of discussion the Secretary of State for Foreign Affairs suggested that in the forthcoming debate in the House of Commons he should outline the proposals which the Government intended to make at Geneva, and that he should then repeat the remarks he had made in the debate on November 8th in regard to a suggested Inquiry, intimating that the armaments industry, like other industries, undoubtedly produced cases of improper and irregular conduct which must be reprobated by everyone. The Inquiry would consider whether a State monopoly for the manufacture of arms and munitions was a feasible proposition. Assuming that the system of private manufacture of arms tends to some abuse, will this abuse be got rid of by substituting a State monopoly for private manufacture or is there any other way by which the difficulty could be overcome? He would conclude his speech by a reference to our arrangements for the control of the arms traffic.

After some further discussion, the Cabinet agreed:

(a) To accept in principle that there should be an Inquiry held in the United Kingdom.

(b) To invite the Secretary of State for Foreign Affairs to prepare terms of reference of the proposed Inquiry, and to settle such terms of reference in consultation with the Prime Minister, the Lord President of the Council and the Secretary of State for War.
(c) That the proposed terms of reference of the United Kingdom Inquiry should be in general accord with the terms suggested in Cabinet 39 (34) Conclusion 1 (a) and (b), and that, in addition, the Commission of Inquiry should in effect be invited to suggest whether anything could be done to limit the abuses and minimise the evils incidental to the private manufacture of arms and munitions.

(d) That the Commission of Inquiry should if possible be presided over by a distinguished member of the Judicial Bench who should be assisted by two other strong, impartial and independent persons.

The following amendments to C.P. 260 (34) were adopted by the Cabinet:

Page 2, paragraph 4, line 17, after "represent" insert "substantially".

Page 3, paragraph 7, line 4, for "complete" substitute "very full".

Page 4, paragraph 9 to read as follows:
"As regards export, we already have a system of licensing in this country which would enable us to make regular returns of all material exported."

Page 6, delete sentence beginning "If it were alleged on responsible authority" to "falsity of that charge" at end of paragraph.

The First Lord of the Admiralty informed the Cabinet that he had sent to the Secretary of State for Foreign Affairs certain other amendments designed to strengthen the draft paragraphs.

The President of the Board of Education stated that he had examined the amendments in question and agreed that they were improvements. He suggested that the Secretary of State for Foreign Affairs should incorporate these amendments in any paragraphs which he might use from the statement in the speech.
The Cabinet agreed:

To approve as the basis of the statement to be made in the forthcoming debate in the House of Commons by the Secretary of State for Foreign Affairs the draft annex to C.P. 360 (34) subject to the alterations and amendments adopted by the Cabinet and summarised above.
ROYAL COURTS OF JUSTICE.

Inquiry into the State of Business in the King’s Bench Division.

(Previous Reference: Cabinet 40 (34), Conclusion 9.)

F.R. 48(34)18.

7. With reference to the Conclusion mentioned in the margin, the Cabinet had before them a Note by the Lord Chancellor (C.P. 233 (34)) containing the following draft Terms of Reference of the proposed Inquiry into the state of business in the King’s Bench Division:

"To inquire into the state of business in the King’s Bench Division of the High Court of Justice and to report whether, with a view to greater despatch, any reforms should be adopted, and in particular what is the judicial strength required to deal with the business, whether there should be any further fusion or further sub-division of the Divisions of the Supreme Court, whether any alterations should be made in the Circuits of the Judges, whether any further measure should be taken for the devolution of work from the High Court to the County Court, and whether any retiring age should be imposed upon those appointed in the future to the Bench of the Supreme Court."

The Lord Chancellor informed the Cabinet that the proposed Inquiry would be by means of a Royal Commission of which he suggested the following composition:

The Rt. Hon. Lord Peel, G.C.S.I., G.B.E. (Chairman)
The Rt. Hon. Lord Hanworth, K.B.E. (Master of the Rolls)
Mr. J.G. Archibald (a member of the firm of Parker Garrett)
Mr. Clement Davies, K.C., M.P. (a Director of Lever Bros. Ltd.)
Mr. W.T. Monckton, K.C.
Mr. H.L. Murphy
Sir Claud Schuster, G.C.B., C.V.O., K.C.

The Cabinet agreed:

To approve the proposal of the Lord Chancellor that the Inquiry into the state of business in the King’s Bench Division of the High Court of Justice should be a Royal Commission, and that the composition and Terms of Reference of the Royal Commission should be as set out above.
8. With reference to the Conclusion mentioned in the margin, the Cabinet were informed by the Chancellor of the Exchequer that the Cabinet Committee on the Housing Bill had held a number of meetings and had nearly concluded their examination of the Bill, but that the Committee would not be in a position to report to the Cabinet before Wednesday, November 28th.

In order to save time the Cabinet Committee invited the Cabinet to authorise the circulation of the draft Housing Bill to the Committee of Home Affairs, in order that the Cabinet might have before them the recommendations of that Committee at their Meeting on November 28th.

The Cabinet agreed —

To approve the proposal of the Housing Committee relative to the submission forthwith of the draft Housing Bill to the Committee of Home Affairs, with a view to the recommendations of that Committee being submitted to the Cabinet at their Meeting on November 28th.
THE DEPRESSED AREAS (DEVELOPMENT AND IMPROVEMENT) BILL.

9. The Cabinet were informed of the position in regard to this Bill, and agreed --

That the Minister of Labour should be authorised to introduce the Depressed Areas (Development and Improvement) Bill in the House of Commons, subject to its examination in detail by the Committee of Home Affairs but without further reference to the Cabinet.

(Please refer to previous Home Affairs Report, Cabinet 40 (34) 11.)

9, Whitehall Gardens, S.W.1.

November 21, 1934.