CABINET.

COMMITTEE ON THE PROPOSED IMPERIAL ECONOMIC CONFERENCE AT OTTAWA.

FIRST REPORT.

In pursuance of the conclusion reached by the Cabinet at their Meeting on the 11th March, 1931 (Cabinet 17 (31) Conclusion 4(a)) that the Committee should report progress to the Cabinet at each stage of its work, the attached Draft Conclusions of a Meeting of the Committee held on March 12th, 1931, are circulated herewith.

2. For convenience of reference, the following documents mentioned in the Committee's Conclusions are also attached as Appendices I and II:


Appendix II. Memorandum by the Secretary of State for Dominion Affairs on Parcel Post Rates between the United Kingdom and Canada. (Paper O.G.(30) 13).

3. It will be observed that the attached Draft Conclusions contain the following recommendations to the Cabinet:

(I) Interim Report of Inter-Departmental Committee
   (a) that no further consideration should be given in the case of butter to:
      (i) a Quota
      (ii) an Import Board
      (iii) outright Bulk Purchase, and
      (iv) a guaranteed fixed price.

1.
that on the distinct understanding that the
further examination of the scheme mentioned
below in no way committed the Government to
its acceptance in principle, and that in their
negotiations with the trade the Inter-
Departmental Committee would invite proposals
but would abstain from making proposals on
behalf of the Government in regard to finance
or otherwise; the Inter-Departmental Committee
should be authorised to consult confidentially
with a few selected representatives of trading
interests and producers with a view to the
working out of practicable schemes covering:

(1) a special propaganda campaign in the
United Kingdom for Empire butter at a
cost of, say, £50,000 to £75,000 per
annum for three or five years;

(ii) assistance in the organisation of
centralised marketing of Empire butter
without further necessary cost to the
Exchequer;

(c) that the Inter-Departmental Committee
should be authorised to consider further and report
on the possibility of a price guarantee for
Empire butter entailing a possible liability
to the Exchequer not exceeding the difference
between the proceeds of sale and a price
based on a defined relation to the Danish price;
but that the possibility of such a guarantee
should not be mentioned to the trade interests.

(2) Parcel Post Rates between the United Kingdom and Canada.

that the United Kingdom Representatives should
be authorised to submit to the Ottawa Conference
the proposal respecting the reduction of parcel
post rates between the United Kingdom and Canada
set out in the concluding paragraph of G.C.(50) 13.

Note. This recommendation is made by the
members of the Committee other than the
Financial Secretary to the Treasury, who
asked that his reservation should be
recorded.

(3) Ottawa Conference. Composition of the United
Kingdom Delegation.

that the question of the composition of the
United Kingdom Delegation should be reserved
for consideration by the Cabinet.

Signed on behalf of the Committee

J.H. THOMAS
Acting Chairman.

2, Whitehall Gardens, S.W.1.
14th March, 1931.
CABINET.

COMMITTEE ON THE PROPOSED IMPERIAL ECONOMIC CONFERENCE AT OTTAWA.

DRAFT MINUTES of the Fourth Meeting of the Committee held in the Room of the Secretary of State for Dominion Affairs, House of Commons, on Thursday, March 12th, 1931 at 6.0 p.m.

PRESENT:


The Rt. Hon. T. Shaw, M.P., Secretary of State for War.

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

The Rt. Hon. W. Graham, M.P., President of the Board of Trade. First Lord of the Admiralty.

THE FOLLOWING WERE ALSO PRESENT:


Earl De La Warr, Parliamentary Secretary, Ministry of Agriculture and Fisheries.


Mr. G.G. Whishard, C.B., Vice-Chairman, Oversea Settlement Department.

Mr. F.W. Pethick Lawrence, M.P., Financial Secretary to the Treasury.

Sir C.J. Howell Thomas, K.C.B., Permanent Secretary, Ministry of Agriculture and Fisheries.

Mr. C.C. Upcott, C.B., Deputy Controller of Supply Services, Treasury.

Mr. H.D. Vigor, M.B.E., Principal, Ministry of Agriculture and Fisheries.

Mr. R.B. Hovorth, C.B., Joint Secretaries.

Mr. A.E. Overton, M.C., Joint Secretaries.

Mr. N.B. Archer.
1. With reference to C.C.(30) 1st Conclusions, Minute 4 (a), the Committee had before them the Interim Report of the Inter-Departmental Preparatory Committee on Quotas for commodities other than Wheat, Import Boards, Bulk Purchase, and the Organisation of Channels of Trade (C.C.(30) 10).

The questions for determination by Ministers were summarised in the concluding paragraph of the Report as follows:

(a) whether in the case of butter they approve the proposal to give no further consideration to

1. a Quota,
2. an Import Board,
3. Outright Bulk Purchase, and
4. a guaranteed fixed price;

(b) whether they desire that a more detailed examination should be made of the plans for

1. a special propaganda campaign in the United Kingdom for Empire butter at a cost of, say, £50,000 to £60,000 per annum for three or five years;
2. assistance in the organisation of centralised marketing of Empire butter without further necessary cost to the Exchequer;

(c) whether they desire that a more detailed examination should be made of the possibility of a price guarantee for Empire butter entailing a possible liability to the Exchequer not exceeding the difference between the proceeds of sale and a price based on a defined relation to the Danish price; and

(d) in the event of an affirmative decision on (b) and (c) above, whether they are willing to authorise confidential consultation with a few selected representatives of trading interests and producers with a view to the working out of practicable schemes.

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In the course of discussion it was explained that the proposal to spend £50,000 to £60,000 per annum for three or five years on a special propaganda campaign in the United Kingdom for Empire butter would be supplemental to the work now being done by the Empire Marketing Board, and that it was anticipated that the result of the campaign would be a substantial increase in the demand for Empire butter in those parts of the United Kingdom where at present there is little demand for such butter.

On the other hand, it was pointed out by the Financial Secretary to the Treasury that acceptance of the proposal in the case of butter would lead to demands that special propaganda campaigns should be instituted in the case of other Dominion commodities and to claims by the home producers of butter and other commodities for equivalent benefit. The cost of the Exchequer might well be very substantial and he was not in a position to say that the Chancellor of the Exchequer would agree to any part of the cost of the proposal being met by the Treasury.

It was, moreover, pointed out by the Parliamentary and Permanent Secretaries to the Ministry of Agriculture, that for the Empire Marketing Board to undertake a propaganda campaign in favour of a Dominion commodity, such as butter, which competed with a United Kingdom product, was an entirely new departure, and was one which would give rise to acute political controversy and inevitably to a demand by the home producer for compensating advantages to home dairy products. The policy proposed could not be reconciled with that on which the Agricultural Marketing Bill was based, namely, the rejection of the idea of direct financial assistance from the State for the home producer.
THE SECRETARY OF STATE FOR DOMINION

AFFAIRS expressed the view that no useful purpose would be served by going to Ottawa if every proposal involving cost to the Exchequer was rejected. It was the duty of the Committee to devise schemes which might be put forward at Ottawa as the United Kingdom's contribution to an arrangement of mutual advantage to each part of the Empire, and he felt that schemes should not be rejected solely on financial grounds in the absence of information as to what trade advantages might be offered by the Dominions to the United Kingdom at Ottawa. He entirely agreed that the United Kingdom producer must be brought within the scheme. The proposed further examination, in consultation with the trade, of the butter scheme, would not commit the Government to approval of the scheme even in principle, and it would be fully understood that it would be open to Ministers to accept or reject the scheme after receiving a report on the results of the examination.
The Committee agreed to recommend the Cabinet:—

(a) that no further consideration should be given in the case of butter to—

(1) a Quota
(2) an Import Board,
(3) Outright Bulk Purchase, and
(4) a guaranteed fixed price.

(b) that on the distinct understanding that the further examination of the scheme mentioned below in no way committed the Government to its acceptance in principle, and that in their negotiations with the trade the Inter-Departmental Committee would invite proposals but would abstain from making proposals on behalf of the Government in regard to finance or otherwise; the Inter-Departmental Committee should be authorised to consult confidentially with a few selected representatives of trading interests and producers with a view to the working out of practicable schemes covering—

(i) a special propaganda campaign in the United Kingdom for Empire butter at a cost of, say, £50,000 to £60,000 per annum for three or five years;

(ii) assistance in the organisation of centralised marketing of Empire butter without further necessary cost to the Exchequer.

(c) that the Inter-Departmental Committee should be authorised to consider further and report on the possibility of a price guarantee for Empire butter entailing a possible liability to the Exchequer not exceeding the difference between the proceeds of sale and a price based on a defined relation to the Danish price; but that the possibility of such a guarantee should not be mentioned to the trade interests.
The Committee had under consideration a Memorandum by the Secretary of State for Dominion Affairs (Paper O.C. (80) 13) on parcel post rates between the United Kingdom and Canada. After setting out the political and commercial arguments in favour of a reduction of the present parcel rates, the Memorandum suggested that the United Kingdom representatives should be authorised to propose at the Ottawa Conference a trial for two years of certain revised rates, on the understanding that at the end of that period the matter would be reviewed in the light of the resulting figures of volume of traffic and the loss to the two Exchequers.

In the course of discussion THE FINANCIAL SECRETARY TO THE TREASURY informed the Committee that the British Trade Commissioner in Canada had been consulted and had expressed the opinion that there was little demand in Canada for the reduction and no evidence that, if the change was made, trade would be expanded. The proposal was estimated to cost the British Exchequer about £52,000 and the Canadian Exchequer about £20,000, annually, on the basis of the present traffic. If this concession was made in the case of Canada it would, no doubt, have to be extended to the other Dominions.

THE SECRETARY OF STATE FOR DOMINION AFFAIRS pointed out that the demand for lower parcel post rates came mainly from traders in the United Kingdom, but was supported by the present Prime
Minister of Canada and other influential persons in that Dominion.

THE PRESIDENT OF THE BOARD OF EDUCATION observed that the other Dominions had refused to entertain the proposal, which he explained was based on reciprocity, on the ground that they could not afford the loss of revenue involved.

The Committee, other than the Financial Secretary to the Treasury, who asked that his reservation should be recorded, agreed to recommend the Cabinet:

That the United Kingdom representatives should be authorised to submit to the Ottawa Conference the proposal respecting the reduction of parcel post rates between the United Kingdom and Canada set out in the concluding paragraph of O.C. (30) 13.

3. THE SECRETARY OF STATE FOR DOMINION AFFAIRS enquired as to the progress which was being made by the Interdepartmental Committee with the enquiries into trade statistics and tariffs referred to in O.C. (30) 1st Conclusions, Minute 3.

SIR S. CHAPMAN explained the present position with regard to these enquiries and the PRESIDENT OF THE BOARD OF TRADE stated that every endeavour would be made to expedite the preparation of the data.

4. The Committee took note of the following documents which had been circulated for their information:

   Note of an interview between the Prime Minister of Canada and Sir W. Clark on December 16th, 1930, and Extract from Sir W. Clark's letter, 18th February, 1931.


   Copy of a despatch from Sir W. Clark regarding a recent visit to southern Ontario.

   O.C. (30) 14.
The Officials and Secretaries withdrew from the meeting at this point.

5. It was pointed out that if the Conference is to open on August 15th, any documents which are to be considered in the Dominions before their Delegations leave for Ottawa should be despatched from this country in the first week of May.

It was agreed:

That so far as the United Kingdom was concerned, no documents should be circulated to other Governments in advance of the Conference.

OTTAWA CONFERENCE DOCUMENTS.

5. It was pointed out that if the Conference is to open on August 15th, any documents which are to be considered in the Dominions before their Delegations leave for Ottawa should be despatched from this country in the first week of May.

It was agreed:

That so far as the United Kingdom was concerned, no documents should be circulated to other Governments in advance of the Conference.

OTTAWA CONFERENCE.

In pursuance of Cabinet 17 (31) Conclusion 4 (b):

COMPOSITION OF the Committee considered the question of the UNITED KINGDOM DELEGATION AND composition of the United Kingdom Delegation to the ITS STAFF.

Ottawa Conference and its staff and agreed:

1. To reserve the question of the composition of the United Kingdom delegation for consideration by the Cabinet.

2. To invite Sir Maurice Hankey, Sir H.P. Hamilton and Sir E.J. Harding to consider and report to the Committee in regard to the staff to be attached to the United Kingdom delegation.

2, Whitehall Gardens, S.W. 1.

18th March, 1931.
The Appendices to this Document have not been reproduced. Copies may be seen on application to the Cabinet Offices.
SUMMARY.

The present interim report contains a preliminary examination of the following matters in relation to commodities other than wheat, viz:—

- Quotas.
- Import Boards.
- Bulk Purchase.
- Organisation of channels of trade.

The report is specially concerned with butter on the ground that this commodity affords a good illustration of the principles requiring consideration.

It will be seen that the questions on which decisions by Ministers are now desired are as follows:

(a) whether in the case of butter they approve the proposal to give no further consideration to

1. a Quota,
2. an Import Board,
3. outright Bulk Purchase, and
4. a guaranteed fixed price;

(b) whether they desire that a more detailed examination should be made of proposals for

1. a special propaganda campaign in the United Kingdom for Empire butter at a cost of, say, £50,000 to £60,000 per annum for three or five years;
2. assistance in the organisation of centralised marketing of Empire butter, not necessarily involving cost to the Exchequer additional to that required under (b) (1) above;
(c) whether they desire that a more detailed examination should be made of the possibility of a price guarantee for Empire butter entailing a possible liability to the Exchequer not exceeding the difference between the proceeds of sale and a price based on a defined relation to the Danish price; and

(d) in the event of an affirmative decision on (b) and (c) above, whether they are willing to authorise confidential consultation with a few selected representatives of trading interests and producers with a view to the working out of practicable schemes.

Attention is drawn in paragraph 14 of the report to the need for careful consideration of the reaction on the home dairy industry of any scheme adopted for Empire butter.
At their first meeting the Cabinet Committee on the proposed Imperial Economic Conference at Ottawa decided (Conclusion 2C) to refer to the Inter-Departmental Committee the further examination of Quotas for commodities other than Wheat, Import Boards, Bulk Purchase, and the Organisation of Channels of Trade. In compliance with that decision the Inter-Departmental Committee have given preliminary consideration to these subjects and submit the following interim Report.

2. Decisions required on points of principle.

Before considering in detail the machinery that would be necessary to give effect to any of these proposals, which would require consultation with representatives of producers and traders, it has seemed best to set out the principles which appear to be involved in the various possibilities, and to ask for a decision on these before proceeding further. The points on which a decision is asked for are summarised in the last paragraph of this report.


Inasmuch as the questions of policy requiring decision are likely to be similar in character in the case of most commodities, the Committee were of opinion that the most convenient course would be to examine the points of principle arising in connection with a particular commodity rather than to attempt at this stage to cover the whole range of possible commodities. The commodity selected should, as far as possible, fulfil the following conditions:

(a) There should be a substantial existing Empire production, capable of large and rapid expansion in favourable economic circumstances, available for export to the United Kingdom.
(b) There should be a large United Kingdom consumption, only partially supplied by imports from the Empire — i.e. the United Kingdom market for imports from the Empire should be capable of considerable expansion.

c) The commodity concerned should not be a commodity of interest only to one part of the Empire.

d) It should be a commodity the production and distribution of which are already fairly high centralised.

e) Other things being equal, it should be a commodity, an increased demand for which in the United Kingdom would be likely to create the most favourable conditions for migration from the United Kingdom to the parts of the Empire concerned.

The commodity most nearly fulfilling all these conditions is butter. Dairying is an important export industry in Australia, New Zealand and the Irish Free State, and may become so in Canada, South Africa and Rhodesia. In all these areas the production of butter is capable of large and comparatively rapid expansion. The value of the total imports of butter in 1929 was £254,700,000 of which £22,300,000 or about 40 per cent. was imported from the Dominions. The imports from New Zealand were £11,280,000, those from Australia £6,340,000, those from the Irish Free State £4,580,000, and those from the Union of South Africa £103,000. The home supply was estimated to represent by value in 1929 nearly 14 per cent. of the total imports. Of the foreign imports, amounting to approximately £32,500,000, nearly two-thirds come from Denmark.

5. From the Dominion standpoint, the advantages of any scheme would depend on the extent to which it promised to be successful in securing a more favourable market and increased

*The figure for 1930 was £46,900,000.
demand for Dominion butter in the United Kingdom. This would entail the reduction of the price margin between Dominion and Danish butter (which fetches the higher price) and the maintenance of that reduction in the face of a greater volume of imports of Dominion butter.

3. Quotas for commodities other than wheat.

By a quota system the Committee understand the institution of a scheme of control which would result in given proportions of the United Kingdom consumption being reserved for supplies from Home and/or Dominion sources. It would be inconsistent with our international Treaty obligations (see Appendix I) to carry out such a system by controlling imports alone and we are of opinion that (except in the case of a few commodities which go through a manufacturing process in this country, of which wheat is an example) to exercise control internally in this country, if practicable at all, would seriously clog the distribution of the goods in question and need the establishment of a cumbersome machine, the expense of which would be out of proportion to any benefits which could accrue under such a system.

For these reasons we recommend that no further consideration should be given to schemes for the institution of a quota in relation to Empire butter.

7. Import Boards.

An Import Board, as usually understood, involves a statutory monopoly. A Board exercising such a monopoly would, in view of our treaty obligations, if for no other reason, have to deal with home as well as overseas (including foreign) supplies. It would involve complicated and controversial legislation, the setting up of special machinery, and the conversion of the private merchant, so far as he was retained, into an agent of the State. In the course of the discussions by the Imperial Conference Committee on Economic Co-operation none of the Dominions favoured the establishment of Import Boards of this
type. The general view was that such a system would be liable to lead to political friction between the United Kingdom and the Dominions in the allocation of the Board's purchases and on the question of price. The apprehension was expressed that the monopoly powers of the Board would enable it to exact from the overseas producers lower prices than would be secured in the existing processes of trade. Again, from the point of view of the United Kingdom, heavy financial losses might result, which it might be impracticable to pass on to the consumers.

We, therefore, recommend that an Import Board for butter should not be put forward for consideration at the Ottawa Conference, and the same arguments would seem to apply to other commodities.

8. Outright Bulk Purchase.

The form of bulk purchase which implies the creation of a State controlled organisation to buy and sell on a large scale differs from an Import Board Scheme in not involving a statutory monopoly, and from a price guarantee scheme such as is discussed below in that the organisation would purchase outright and would therefore take any profits or bear any losses. Outright bulk purchase would be subject to the same objections as import boards, viz. friction with the Dominions, difficulties of fixing prices, interference with existing trade channels and risk of heavy financial losses. In addition the risk of loss would be all the greater in the absence of a monopoly. The experience of the Federal Farm Board in the United States is a warning. We therefore cannot recommend outright bulk purchase in this sense in relation to the commodity under consideration, i.e. butter.


By this term we understand schemes designed to improve the marketing of Dominion products in the United Kingdom but not involving a financial liability to the Exchequer in respect of
possible trading losses, though there would be some small administration charges if these were not covered by commissions. In the case of butter both Australian and New Zealand producers have statutory Dairy Produce Boards, which through their London agencies exercise a certain degree of supervision over sales by importers. Any reorganisation of methods of sale of Australian and New Zealand butter along the lines of centralised marketing would encounter a certain amount of opposition among importers in this country, who would cease to buy on their own account from factories in the Dominions and become agents selling on commission. Such opposition would probably be considerably diminished if the United Kingdom Government lent its aid in arranging satisfactory terms with importers. An outline of a scheme for centralised marketing, in the organisation of which the United Kingdom Government through the Empire Marketing Board might co-operate with any Dominion, whose import of butter into the United Kingdom was or came to be sufficiently centralised, during an initial period of, say, three or five years, is given for the purpose of illustration in Appendix II.

There is some reason to believe that the principle of centralised control of sales would commend itself at least to some of the Dominions concerned and would be a useful, though not altogether essential, adjunct to the special propaganda campaign for increasing demand referred to in the next paragraph. It would also be an essential part of the machinery for any such scheme as is discussed in paragraph 13. Much closer examination, however, in conjunction not only with the trade interests in this country but with the representatives of the producers in the Dominions would be necessary before any such scheme could be put forward at Ottawa.

10. A Propaganda Campaign.

In addition to the types of scheme specially referred to them, the Committee have considered a proposal for a special
propaganda campaign designed to increase the demand for Empire butters. Such a campaign would be the simplest and most direct way of achieving, at any rate in some measure, the object aimed at, its cost to the Exchequer can be accurately measured, and it can be operated either alone, or as a part of any other method which it may be desired to adopt.

The Empire Marketing Board have hitherto deliberately restricted their efforts, except to a limited extent, to a general "background" appeal in favour of Empire buying; but if, on grounds of policy it should be decided to launch a special campaign for Empire butter and sufficient funds were available for the purpose, there is little doubt that substantial results could be achieved. An outline of such a scheme, prepared for the purpose of illustration by the staff of the Empire Marketing Board and estimated to cost from £50,000 to £60,000 per annum for three years, is annexed to this report (Appendix III).

It is noteworthy that the great bulk of the Dominion butter sold in this country is sold in the South and West of England, and there is a well-marked line across the Midlands to the North of which there is at present little demand for Australian and New Zealand butter. The Empire Marketing Board, with the active co-operation and good-will of the trade, have already done a good deal of ground work with a view to advancing this "butter front" northwards. It is believed that a sustained campaign, such as is outlined in Appendix III, would have a considerable effect in increasing the demand for Dominion butter and thereby raising its relative price; and that the results to be achieved would be fully commensurate with the estimated cost.

*We are given to understand that the sum of £50,000 to £60,000 could not be found out of the present and prospective resources of the Empire Marketing Board having regard to their existing programme and policy.
11. The need for some form of guarantee.

Of the types of scheme dealt with in the preceding paragraphs, the Committee have felt unable to recommend either (a) a compulsory quota, (b) an Import Board exercising a statutory monopoly, or (c) outright Bulk Purchase. They have recommended for further examination (d) the possibilities of the organisation of centralised marketing, and they have expressed the view that (e) a special propaganda campaign would have a considerable effect in increasing the demand for Dominion butter and thereby raising its price.

They feel, however, grave doubt whether either (d) or (e) in itself constitutes an offer which is likely to carry much weight politically at Ottawa or is calculated to produce any valuable counter-offer from the Dominions. The effect of measures such as a propaganda campaign or centralised marketing cannot be easily estimated, and, even though it is conceivable that they might in practice be more advantageous to the Dominions than a small tariff, it is certain that they would, in themselves, be definitely less acceptable, at any rate from the political point of view.

In fact, neither of these methods, either separately or in conjunction, is likely to commend itself politically to the Dominions unless it is accompanied by some form of guarantee which will enable the minimum effect which, in the opinion of the United Kingdom Government, will be produced by it to be clearly shown. In other words, if the United Kingdom Government believe that e.g. a special propaganda campaign will increase the demand for, and raise the price of, Empire butter in the United Kingdom (and unless they do so believe, the offer of such a campaign is not worth making), it is worth consideration whether that offer should not be fortified by a price guarantee, thereby much increasing its attractiveness to the Dominions.
12. Guarantee of a fixed price not recommended.

A guarantee could be devised which would avoid the heavy financial risk and the other objections to outright Bulk Purchase by a public marketing authority, and would yet give the producers the kind of security they desire.

If the Government are prepared to consider at all the question of offering a guarantee, such an offer might take the form of a guarantee either of a fixed price or of a price based on a defined relation to an independent standard market price.

The Committee are of the opinion that it would be undesirable, both economically and politically, to guarantee a fixed price for Dominion butters. The question of the level at which the price was to be fixed from time to time would almost inevitably give rise to friction between the United Kingdom Government and the Dominion Governments concerned. In any case, if the guaranteed price was so low as to be reasonably safe to the Exchequer, it would be of little or no interest to the producers; whereas, if it were fixed on the basis of what the producers might regard as a reasonable figure, it would involve a large contingent liability to the Exchequer. A loss of 25%, for example, on the value of Dominion butter imported in 1929 would amount to about £5,500,000. If the price were fixed for any long period ahead, it would be a pure gamble and would be liable to lead to friction between the parties concerned, as the open market price went markedly above or below the fixed price. Further, a guaranteed fixed price to the producer would almost certainly have undesirable reactions both on quality and on quantity of production. On the complications involved in giving a compensating advantage to the home producer it is unnecessary to enlarge.

13. Guarantee of a price defined in relation to the price of Danish butter.

An alternative is to guarantee a price in relation to the open market price. A suitable independent standard is supplied
by the price of Danish butter in London. In the case of Australia and New Zealand, their Dairy Produce Boards would consign butter to the central marketing authority who would dispose of it in the market through agents at current prices. The guarantee would operate if, at the end of a season of twelve months, the price realised fell short of the prescribed price, which would be defined as a certain percentage of the price of Danish butter. In case of a deficiency being disclosed on either Australian or New Zealand butter, the amount would be paid to the Dairy Produce Board concerned, who alone would have direct relations with the producers. It would be for the central marketing authority to take such steps in the direction of increasing the demand for Empire butter as would if possible ensure that current prices did not fall below the prescribed price, and for this purpose a propaganda campaign, such as is referred to in paragraph 10 above, would no doubt be necessary. The risk of loss to the Exchequer would depend on (a) the effectiveness of the campaign and (b) the relation of the prescribed price to the price of Danish butter. The price to be aimed at would be that which it is hoped that Dominion butter would fetch when a definite goodwill in favour of the Empire product has been established in the districts where Danish butter is at present in the ascendant. The guarantee of any price in excess of this figure would clearly be in the nature of a permanent subsidy, which is not contemplated. It is thought that at the present time an offer of a guarantee on the basis of a price for New Zealand finest 10% below that of Danish finest would involve a minimum risk to the Exchequer and would be attractive to the Dominions concerned. (In 1929 New Zealand finest was about 5% below Danish finest; in 1930 about 10%; and at the present time it is about 15%).

It would be essential that existing standards of quality and methods of grading should be maintained unimpaired, and
some machinery of inspection and arbitration would have to be provided. The prescribed ratio to the Danish price would only be fixed for twelve months ahead and would require fresh consideration for each season.

The applicability of such a scheme to other Dominions would depend on the existence or creation in the Dominion concerned of suitable centralised exporting organisations. Otherwise they could not benefit by the scheme.

14. The Home Dairy Industry. It should be emphasised that any scheme involving liabilities to the Exchequer for furthering the marketing of Dominion butter would almost inevitably give rise to a demand by the home producer for compensating advantages to home dairy products (not necessarily butter). On the information before us, the home butter producers are not now organised in a form which would enable them to take advantage of a scheme of this kind.

15. Summary.

(a) For reasons indicated in paragraphs 6, 7 and 8 of this Report, the Committee suggest for the consideration of Ministers that, in so far as the preparation of proposals for submission to the Ottawa Economic Conference is concerned, no further consideration should be given to the application to Dominion butter of

(i) A Quota scheme, or
(ii) An Import Board scheme, or
(iii) Outright Bulk Purchase.

(b) The Committee suggest that the practical objective of any scheme relating to butter should be to increase the demand for Empire butter and thus raise the price received by the Dominion producer more nearly to the level of that received by the Danish producer and eventually cause more butter to be produced in the Dominions and sold here (paragraph 5).
(c) The simplest and most direct way of increasing the demand for Empire butters would be an intensive campaign of propaganda and publicity to be conducted by the Empire Marketing Board at a cost of £50,000 to £60,000 per annum for a period of three or five years (paragraph 10). An outline of a scheme on these lines is set out in Appendix III.

(d) As an adjunct to a special propaganda campaign and as a means of furthering sales it might prove desirable for the United Kingdom government through the Empire Marketing Board to co-operate with the Dominion producers' organisations in establishing the principle of centralised control of marketing (paragraph 9) on the lines suggested in Appendix II. This re-organisation of trade channels need not by itself involve any financial liability to the Exchequer. It would, however, provide the necessary machinery for any scheme of price guarantee.

(e) The suggestion at (c) and (d) above, however, would be of little political value at Ottawa unless accompanied by a guarantee that the price realised for Dominion butters should not fall below a defined relation to the price of Danish butter. This would involve the Exchequer in a liability, if sales did not yield prices up to or above that level (paragraphs 11 and 13).

(f) The reaction of any scheme on the home dairy industry is explained in paragraph 14 and will need careful consideration.

16. Points for decision

Ministers are accordingly asked

(a) whether in the case of butter they approve the proposal to give no further consideration to

1. a Quota,
2. an Import Board,
3. Outright Bulk Purchase, and
4. a guaranteed fixed price;

(b) whether they desire that a more detailed examination should be made of the plans for
(1) a special propaganda campaign in the United Kingdom for Empire butter at a cost of, say, £50,000 to £60,000 per annum for three or five years;

(2) assistance in the organisation of centralised marketing of Empire butter without further necessary cost to the Exchequer;

(c) whether they desire that a more detailed examination should be made of the possibility of a price guarantee for Empire butter entailing a possible liability to the Exchequer not exceeding the difference between the proceeds of sale and a price based on a defined relation to the Danish price; and

(d) in the event of an affirmative decision on (b) and (c) above, whether they are willing to authorise confidential consultation with a few selected representatives of trading interests and producers with a view to the working out of practicable schemes.
CABINET.
COMMITTEE ON PROPOSED IMPERIAL ECONOMIC
CONFERENCE AT OTTAWA.

PARCEL POST RATES
BETWEEN THE UNITED KINGDOM AND CANADA
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Memorandum by the Secretary of State for Dominions Office.

I circulate herewith, for the consideration of
my colleagues on the Committee, a memorandum regarding a
proposed revision of the parcel post rates between the
United Kingdom and Canada. The question of the revision
of those rates was raised in June 1930 by the Canadian
(Mackenzie King) Government, who suggested that the rates
should be reduced to the pre-war level. The present
memorandum deals with a proposed reduction in these rates,
which, though smaller than that suggested in June, would,
it is understood, be acceptable to the present Canadian
Government. This reduction would involve a loss of
revenue to the Exchequer here and to the Canadian Exchequer
of about £32,000 and £20,000 per annum, respectively, on the
basis of the present traffic.

The Chancellor of the Exchequer, in October last,
was unwilling to approve these reduced rates, but although
the matter was discussed informally during the Imperial
Conference, no reply has yet been sent to the Canadian
Government and I think that the question is one of
sufficient importance to merit its consideration in
connection with our preparations for the Ottawa
Conference.

I need not stress the political desirability
endeavouring by cheap communication to offset where possible the effects of the geographical propinquity of the United States of America to Canada. As to the commercial side, it is not possible to establish by statistical methods the precise effect upon our trade with Canada which would result from a reduction of parcel post rates, partly because the flow of international commerce is determined by many economic factors whose individual effects often cannot be isolated and partly because it is difficult to compute to what extent an increased use of the parcel post would encourage the bulk shipment of United Kingdom goods.

The following points may, however, be noted as bearing on this question:

(i) Much lower parcel post rates are available to Canada from France, Germany and the United States than from the United Kingdom;

(ii) Chambers of Commerce and similar bodies frequently complain because our parcel post rates to Canada are higher than some of those charged on the Continent;

(iii) Canadian Government officials stated at the time of the recent Imperial Conference that the geographical advantages of the United States, combined with their lower rates of postage, are a serious obstacle to United Kingdom merchants in competing with United States traders. They pointed out that the parcel post, particularly since the limit of weight was extended beyond 11 pounds, affords great advantages over other
channels of conveyance in the case of small quantities of goods, and they suggested that a reduction of parcel post rates might well suffice to divert to United Kingdom merchants business which is now being secured by their United States or European competitors;

(iv) the statement in (iii) are borne out by the fact that about 50% of the parcels at present sent from this country to Canada are trade parcels, e.g., articles of clothing such as gloves, ties, woollen underwear, etc., cigarettes cutlery, stationery, and samples of various kinds;

(v) on the other hand, parcels arriving here from Canada are for the most part private parcels; thus unless Canada proposes to develop some new trade, under the lowered rates, the commercial benefits of the reduction would seem likely to accrue chiefly to this country.

(vi) The offer to reduce rates was made by Canada and it would be prima facie desirable to accept rather than to refuse such an offer, especially when made in the interests of inter-imperial trade and involving a sacrifice of revenue by the Canadian Government.

I should like to suggest that the United Kingdom representatives should be authorised to propose at the Ottawa Conference a trial for two years of the revised parcel post rates proposed on page 2 of the attached memorandum on the understanding that at the end of that period the matter would be reviewed in the light of the resulting figures of volume of traffic and loss to the
two Exchequers. The Postmaster General has informed me that he agrees, so far as he is concerned, with the views set out above.

(Initialled) J.H.T.
Early in June the Canadian (Mackenzie King) Government suggested by telegraph that the Parcel Post rates and credit between this country and Canada should revert to those in effect prior to the war, "in view of the common desire of the two Governments to facilitate inter-imperial trade".

They pointed out that the rate for parcels between Canada and the United States was 14 cents per pound and if their proposal were accepted the rates between Canada and the United Kingdom would be reduced from 18 to 12 cents per pound. (From the more detailed figures supplied by General Post Office it is evident that these figures are only a rough approximation).

The suggestion to revert to pre-war rates dates however from the Postal Union Congress of 1929 when the Canadian Delegate made a similar proposal at discussions which took place between the United Kingdom and Dominion delegations.

The General Post Office was engaged at the time in a very elaborate survey of the whole field of the Imperial and Foreign Parcel Post and it was for that reason that no immediate action was taken on the suggestion.

The General Post Office, to which the present proposal was referred, proposed to the Treasury an arrangement whereby, in order not to be forced to comply with the general practice under which reductions in Parcel Post rates have to be extended to all foreign countries sending parcels in transit, substantial reduction should be effected by foregoing altogether that part of the existing charge which is attributable to sea conveyance, since it is the accepted practice that reductions in sea
rates between a Metropolitan country and Dominions, Colonies, etc., need not be passed on to the foreigners. The land charges were to be similar in the United Kingdom and Canada.

The suggestion put to the Treasury was intended to be a proposal for submission to the Canadian Government as an alternative going in the same direction, although not quite so far, as their original scheme. From unofficial discussions with the Canadian Post Office officials who were in England for the Imperial Conference the General Post Office has reason to think that the modified proposal would be accepted by Canada.

Analysed into their constituent elements the present rates to Canada are as follows:

<table>
<thead>
<tr>
<th></th>
<th>3 lbs.</th>
<th>7 lbs.</th>
<th>11 lbs.</th>
<th>15 lbs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom land</td>
<td>10</td>
<td>1.5</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Sea</td>
<td>7</td>
<td>1.2</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Canada land</td>
<td>10</td>
<td>1.5</td>
<td>2.5</td>
<td>3.2</td>
</tr>
</tbody>
</table>

(to nearest 3d.) 2s.2d. 11.3d. 5s.0d. 8s.9d.

Under the General Post Office's proposal the rates would be:

<table>
<thead>
<tr>
<th></th>
<th>3 lbs.</th>
<th>7 lbs.</th>
<th>11 lbs.</th>
<th>15 lbs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom land</td>
<td>10</td>
<td>1.4</td>
<td>1.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Canada land</td>
<td>10</td>
<td>1.4</td>
<td>1.9</td>
<td>2.6</td>
</tr>
</tbody>
</table>

1s.8d. 23s.9d. 39s.6d. 58s.0d.

The effect of this adjustment would not be equivalent to the full restoration of the pre-war rates which for the first three of the above points in the scale were 1s/-, 2s/- and 3s/- (11 lbs. being then the maximum in either direction). It would, however, be sufficient, in the opinion of the General Post Office, to act as a stimulus to parcel post traffic between
the United Kingdom and Canada and would approximate to certain specially favourable rates available to Canada from France and Germany. The cost of the adjustment to the United Kingdom exchequer would be, approximately and on the basis of the existing traffic, £23,000 per annum, while Canada would also lose in so far as their receipts for inward parcel traffic would be reduced by 4d., 9d., and 1.3d. respectively on parcels of 7 lbs, 11 lbs and 15 lbs.

In the reverse direction, the General Post Office proposed that the Canadian Post Office should be asked similarly to eliminate the cost of sea conveyance and to credit the United Kingdom as a terminal rate with half the total postal rates it proposed to charge for this traffic.

The existing rates from Canada to the United Kingdom are made up as follows:

<table>
<thead>
<tr>
<th>Weight</th>
<th>Canada land and sea</th>
<th>United Kingdom land</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 lbs.</td>
<td>26 cents</td>
<td>24</td>
</tr>
<tr>
<td>7 lbs.</td>
<td>34</td>
<td>43</td>
</tr>
<tr>
<td>10 lbs.</td>
<td>120</td>
<td>66</td>
</tr>
<tr>
<td>15 lbs.</td>
<td>160</td>
<td>90</td>
</tr>
</tbody>
</table>

(For parcels between 1 lb. and 10 lbs., there is a different charge for each weight, but the above figures only are shown for simplicity and comparison with the outward charges). The pre-war figures for this Service were 36 cents, and 120 cents, respectively, for parcels of 3 lbs., 7 lbs., and 10 lbs. The cost of the proposed adjustment so far as the United Kingdom is concerned, is estimated at £4,000. Sufficient data are not available to calculate exactly the corresponding cost.
to Canada, but according to the best estimates which could be formed by the General Post Office the probable loss to Canadian revenues for the reduction in both directions would be of the order of £20,000 a year. The loss to both parties would of course increase if the traffic developed.

In this connection the General Post Office observed that situated politically and geographically as she is, Canada is necessarily exposed to a flood of newspapers and other publications from the United States; considerations similar to these, which had long been regarded as justifying an exceptionally low rate for magazine post to Canada (involving a loss of £36,000 per annum) should be given due weight in the examination of the present suggestion.

In reply to a request for the Secretary of State's views, the Treasury were informed that Mr. Thomas felt that the immediate loss which the adoption of the proposal would entail to the United Kingdom Exchequer (£32,500 per annum, representing a total loss on the service of £39,000 per annum, as against the existing loss of £7,000 per annum) might well be more than offset by resultant advantages, and that he had no reason to think that the new Government in Canada would take a view of the matter different from that of their predecessors.

At the Communications Committee of the Imperial Conference, a resolution was passed (and accepted by the Canadian Delegation) in the following terms:-
"The reduction on existing parcel post rates within the Empire is desirable in the interests of trade and commerce, but the Conference recognises that this question must be governed by considerations of general financial policy."

The Canadian delegation when accepting this Resolution apparently did not know what the decision would be as regards the reduction of parcel post rates between the United Kingdom and Canada, but they have since been warned to expect a refusal. In any case the Conference itself decided that no action should be taken on the above resolution and it is not included in the final Summary.

The Treasury have now stated that, after careful consideration, they regret that they are unable to agree to the proposal made by the General Post Office for a reduction in the parcel post rate between the United Kingdom and Canada.