

Empire. The French demand fifty-eight per cent and Mr. Lloyd George is willing to concede fifty per cent. Belgium would receive about seventeen per cent. The British Empire, according to Mr. Lloyd George's proposal, should receive thirty-three per cent, and France is willing to concede twenty-five per cent.

There is much uncertainty as to Germany's ability to pay. She will lose Alsace and Lorraine, but France is unwilling to consider that the recovery of these provinces is to be taken into account in considering her demand for reparation and indemnity. France also demands the exceedingly valuable coal fields of the Saar Valley and is equally unwilling to have this enormous asset considered. Germany will also lose the coal fields of Silesia, which are said to be the most valuable in Europe. Her power to pay will depend upon the availability of her natural resources and the productive capacity of her people. Manifestly the former will be greatly diminished and the result of the war may have a serious influence upon the latter. It is conceded that the demand for indemnity might be pushed to a point at which the German Government and people would accept a council [*sic*] of despair, relapse into disorder and possibly Bolshevism and invite the Allied nations to take what they could get. On the other hand there is the possibility, dependent upon conditions which are entirely beyond human estimate, that after the conditions of peace have been settled Germany may make a very quick recovery and prove an exceedingly formidable competitor in the markets of the world.

8. Next there is the exceedingly difficult question of territorial readjustment, which involves the disposition of the German Colonies as well as the boundaries of the German, Austrian and Turkish Empires and of the new States which have been or are to be created. As to the German Colonies there are but few questions awaiting determination. It is practically settled that Samoa shall be under the mandate of New Zealand, German New Guinea and some adjacent islands under the mandate of Australia, German South-West Africa under the mandate of the Union of South Africa, and German East Africa under the mandate of Great Britain or possibly of India. There are questions between Great Britain, France and Belgium with respect to German West Africa to which very little consideration has yet been given. As to the remaining questions, some are awaiting the reports of committees and others must be determined by the Council of the Great Powers. In many cases the difficulties are very serious and have not yet been approached in any effective way.

9. Another important question is that of future commercial arrangements (*a*) between the Allied powers and Germany, (*b*) between the nations represented in the Peace Conference, and (*c*) between those nations and neutral nations. These are under consideration by a number of committees and reports are expected at no distant date.

10. The committees mentioned in the accompanying memorandum have made substantial progress. The Inter-Allied Commission on Responsibility