

will consist substantially of raw materials such as wool, wheat, rubber, &c., which are all vital for the European economy, the revival of which is an essential prerequisite if markets for these products are to be maintained in the long term.

*United Kingdom Supply Commitments to Europe*

15. The Commonwealth Governments have shown some anxiety lest our commitments to Europe, either under E.R.P. or in connexion with Bilateral Negotiations, should prevent them from getting the commodities they need, particularly in the field of capital goods, from this country. This is a matter which we have had constantly in mind. The position as regards our commitments under bilateral negotiations is set out in Annex A.

16. As regards E.R.P., it is evident that the extension of greater credits to Europe must to a certain extent increase the competition for our exports. For instance, in the process of cutting down the 1948-49 programmes of the Participating Countries to bring them within the amount of United States aid, certain suggestions were made as to imports which might be switched from Western Hemisphere to other sources of supply. Nevertheless we have throughout refused to enter into specific commitments to the Participating Countries. (The only exception to this is coal, where we have undertaken to provide 6 million tons in 1948, and in fact expect to export nearly 10 million tons of solid fuel in the 1948-49 period.)

17. The \$500 million credit does not imply any change in this policy. The figure was arrived at as the result of a realistic estimate of the trade which was likely to move between each Participating Country and the Sterling Area as a whole during the course of 1948-49. It is therefore a method of financing trade which might otherwise have been frustrated. It is in no way a commitment to supply specific goods or to increase our exports beyond the volume which we would have expected them to reach in the normal course of events. As regards possible switches, some small increase in our exports to Europe may arise to the extent that United Kingdom goods are concerned and that the switches are translated in the event into actual transactions.

18. Finally, it should be emphasised—

- (a) That the credits granted under the Payments Scheme are a *sine qua non* of receipt of dollar aid, which has enormous advantages for the Commonwealth countries, and
- (b) In so far as E.R.P. assists in the rehabilitation of Europe, it will enable the United Kingdom and the other participating countries to produce more of the goods needed by the Commonwealth countries than would otherwise have been the case. It will also make Europe a more stable market than it might otherwise have been for the products of the Commonwealth countries.

*Other Long-term Commitments which might Affect the Commonwealth Countries*

19. The Customs Union Study Group is still continuing its work and we shall continue to take part in the discussions. So far these have been carried on separately from the more general question of long-term European co-operation, but we hope that in the future it may be possible to relate the question of a Western European Customs Union more closely to the wider field to be covered by O.E.E.C. Studies of possible integration in selected fields are only at their inception and it is too early to guess what their practical effect may be. It is possible, however, that they may point the way to some permanent form of European co-operation which would be more selective than a Customs Union and would fit in better with our Commonwealth associations and other vital interests. Separate notes on Customs Union and Fields of Activity will be found in Annexes E and F.

*European Economic Co-operation*

20. It is not yet possible to get a clear picture of what precisely European economic co-operation is going to mean in practice. A certain amount has already been done through the E.C.E., e.g., coal allocations. The recent work in Paris in dividing the aid for 1948-49 and in drawing up the European Payments Scheme is a tremendous step in this direction and represents a high degree of co-ordinated economic activity. The next steps are likely to emerge from the preparation by the Organisation of the long-term plan for Europe, based on the individual plans which have been submitted. The process of fitting together individual plans will throw up many fields for co-ordinated activity, but it is still impossible to foresee their exact nature.