

ton. The Americans agree that there may be excellent reasons why the R.S.A. should have these dollars, but fear the criticism that they are the only people whose dollar deficit would be met without going through the established procedure of producing programmes for scrutiny by O.E.E.C. and E.C.A.

- (b) Canada, Australia, New Zealand and South Africa are, of all countries in the world, those most comparable with the United States in standard of living, way of life, &c. They have suffered no more than the United States from actual devastation due to war. Yet, according to the American point of view, notwithstanding what they may have done in the past (*e.g.*, Australian and New Zealand gifts in 1947, the Canadian Loan, the South African gold loan, &c.), and, notwithstanding what they may be supplying by way of goods, they appear at present to be making no obvious financial contribution, with the exception, of course, of Australia's £8 million gift. The Australian decision to contribute £8 million was very well received by the Americans and has undoubtedly improved the prospects of a decision in favour of including the deficit of the non-participating sterling area for E.R.P. purposes.

11. It is probably for some such reasons as these that E.C.A. suggested some time ago that they should make direct approaches to non-Participating Commonwealth Governments with the object of asking them to make direct contributions to E.R.P. They are not disposed to regard the deferment of an immediate return in the form of goods (reflected in an increase in the sterling balances of the Rest of the Sterling Area countries) as a sufficient contribution, since this involves a deferred liability on the United Kingdom economy which the United States are endeavouring to make permanently stable by large free gifts during the E.R.P. period. We have, of course, lost no opportunity of countering the American arguments and making the position quite clear to them; we have throughout urged E.C.A. most strongly that this matter can be left to the discretion of the Commonwealth Governments concerned.

12. A message dated 3rd October from Washington informs us that Mr. Hoffman told the Chancellor that he would agree to the inclusion of the R.S.A. deficit, and that he would be informing the Watchdog Committee accordingly. Mr. Hoffman's agreement was only obtained after a long discussion in which the American representatives raised various issues such as extra sterling area contributions and a close watch on the flow of commodities from the rest of the Sterling Area to O.E.E.C. participants. In face of all these suggestions we maintained the line that we could not contemplate making unilateral declarations or undertakings regarding matters concerning the Commonwealth. Further information will be available in due course.

#### *European Trade and Payments*

13. The details of the European Payments Scheme and Trade Rules will be found at Annex D. The principle of conditional aid (*i.e.*, the making of part of the dollar aid to European creditor countries conditional on their making an equivalent sum in their own currency available to debtor countries) meant that the conception of off-shore purchases could be abandoned, and will enable the Participating Countries' sterling deficit to be met without recourse to that process. It is the United Kingdom view that an essential part of the scheme is the establishment of Trade Rules, the underlying principles of which are that debtor countries must be economical in their external expenditure and do their best to increase their exports, while creditor countries must be as liberal as they can in their import policy and try to help the debtors by not insisting on the export of inessential goods that the latter do not require for their economic recovery.

14. The short effect of the Payments Scheme is that the other participating countries will, during 1949, have available the sterling equivalent of some \$500 million with which to pay for imports from the United Kingdom and the Rest of the Sterling Area. It is estimated that about 30 per cent. of this money will be spent in the United Kingdom and the remainder in Australia and other sterling area countries. The United Kingdom proportion will constitute unrequited exports, notably machinery, ships, tractors and other capital equipment. In so far as the other 70 per cent. is spent in other sterling area countries it will represent assistance by them, to the extent that they part with goods for which they get no immediate return in the form of goods or services. The supplies involved