

ANNEX A

THE EFFECT OF UNITED KINGDOM BILATERAL TRADE POLICY
ON SUPPLIES TO THE REST OF THE COMMONWEALTH

The effect of our bilateral trade negotiations on the supply of goods, particularly capital goods and scarce commodities, to other parts of the Commonwealth has been the subject of various representations. It may be useful to set out the facts as we see them.

2. In general our bilateral arrangements with foreign countries are a direct consequence of the absence of a multilateral system of exchanges, which means that in order to keep trade moving and increase the availability of goods, particularly (but not entirely) in Europe, Governments have to make arrangements with the object of ensuring that individual buyers and sellers can procure or dispose of quantities of goods adequate to maintain the economy of the country concerned. There are many commodities in short supply of which we are thus enabled to augment our imports. One result of that is that other countries acquire sterling which they can use to purchase wool and other goods from the Commonwealth, thereby preserving a market for these things and furnishing the other Commonwealth countries with additional sterling for purchases in the United Kingdom. Another result of course is that the foreign countries wish to spend some of their sterling in the United Kingdom. It is the demand thus created rather than any "commitment" we undertake which creates a pressure on the United Kingdom production of capital goods and scarce commodities. And it is the total demand in relation to supply rather than any priority arrangements which causes what difficulty there is in supplying customers.

3. Apart from the arrangement with Russia which is *sui generis*, bilateral trade negotiations with foreign countries amount to no more than an examination of the extent to which they will be prepared to sell to us goods which we require, in the light of the extent to which, having regard to our commitments to Commonwealth and other countries, we can supply goods against demands which the foreign country is likely to make. It must be remembered that these demands will not be wholly from the foreign Government but from private importers whose exact demands can only be approximately forecast. Apart from certain specially scarce commodities referred to in paragraph 6 below, the most we can do is to indicate broadly availabilities of particular classes of goods.

4. Although for reasons understood and followed in Commonwealth countries we have been encouraging manufacturers and traders to sell their goods in hard currency countries, particularly in the Western Hemisphere, in general we do not direct exports to particular markets. Commonwealth countries, being valued as traditional markets, are attractive to exporters and there is every indication that their share of United Kingdom exports (of every kind, capital goods, consumer goods and the scarce commodities described below in paragraph 6) is not declining. It has sometimes been suggested that the machinery figures in our bilateral agreements are such that they must hinder our manufacturers from accepting new business from Commonwealth countries and delay the carrying out of old contracts. It is true that, under the Russian Agreement, we undertook to facilitate the placing of contracts for a wide range of specified and rather specialised machinery (we have, in fact, got tenders into the hands of the Russians but most of these have been rejected) and also indicated (though we did not pledge ourselves to) prospective dates of delivery. In no other negotiations have we entered into similar commitments or mentioned delivery dates for comparable items; the amounts written in the bilateral agreements in respect of machinery are estimates of the deliveries which would take place in any event largely against orders placed in previous years; they do not represent firm commitments to ensure that a given country receives an increased flow of capital goods or, indeed, any fixed quantity at all.

5. Immediately after the war our order books were filled up with long deferred demands, principally of Commonwealth countries, but also of foreign countries. It would cause endless confusion and reduce both production and exports to go in for any widespread administrative interference with manufacturers' order books. It should be noted, however, that with machinery as with other things, we must, by any means of encouragement or assistance that are