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~~TOP~~ SECRET

BRITISH REQUIREMENTS  
FOR THE FIRST YEAR OF STAGE II.



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U.S. No. 18TOP SECRETCOPY NO. 39SUPPLEMENT TO "BRITISH REQUIREMENTS FOR THE  
FIRST YEAR OF STAGE II"INTRODUCTION

As a result of various developments which have taken place during the two weeks since the document relating to British Requirements for the First Year of Stage II was presented to the Combined Committee, it has been thought desirable to prepare supplementary notes on certain aspects of our programme. These follow in the same order as the chapters in the original document. They are as follows:-

SUPPLEMENT TO CHAPTER 2 REGARDING OIL AND SHIPPING

ADDITIONAL MATERIAL FOR CHAPTER 3.

AMPLIFICATION OF MATERIAL IN CHAPTER 4.

At the conclusion of this supplement we have provided a table of amendments to statistics, etc. in the document itself, many of which are consequent upon the developments referred to in the notes.

Washington, D.C.

29th October, 1944.



TOP SECRETCOPY NO. 39SUPPLEMENT TO CHAPTER 2.NON MUNITIONS REQUIREMENTS IN 1945III. OIL.

The passage relating to Oil on pages 28 and 29 of our document should now be regarded as out of date except for the first two sentences.

The review of the United Nations Oil and Tanker position to which we referred in the first paragraph on page 28 of the document, has now been completed and in the light of this review amendments to our programme have become necessary.

In addition, stock levels in the U.K. both during the continuation of Stage I and in Stage II have been under discussion. At recent Anglo/U.S. discussions in London the view was taken that the existing level of approximately 7,300,000 tons should be maintained during Stage I. This is still subject to ratification in Washington. The authorities, both military and civilian, in the U.K. have, however, been considering the question of what reduction in stock level can justifiably and soundly take place by the end of the first year of Stage II. The military authorities have not yet completed their investigation but we have been authorized in the meantime to indicate a tentative figure of 5,750,000 tons as approximately the minimum level to which stocks could be allowed to fall. On the assumption, therefore, that we maintain a stock of 7,300,000 tons during Stage I, and that it is subsequently decided that this be reduced to 5,750,000 by the end of Stage II, there would be a reduction in Lend/Lease requirements as follows:

	<u>Thousand tons</u>	<u>Million dollars</u>
Aviation gasoline	940	81
Motor gasoline	425	22
Gas Oil	85	2
Lubricating oils	50	6
Other products	<u>50</u>	<u>1</u>
	<u>1,550</u>	<u>112</u>



The above reduction in U.K. stocks has, therefore, been assumed in preparing our estimate of our Lend-Lease requirements.

The total does not include oil of U.S. origin that will be re-transferred to U.S. Forces in the U.K. or Iceland, nor of any U.S. aviation spirit that will be re-transferred to U.S. Forces in Australia and India. Supplies so made available have hitherto been included in our Lend-Lease requirements and have been treated as reciprocal aid when re-transferred to the U.S. Forces. In our Stage II estimates, however, (see table below) such supplies have been treated as if they had been consigned to the U.S. Forces direct through U.S. channels. Thus against gross oil demands from U.S. sources of some \$620 million, only \$338 million will be needed to meet British requirements, the balance being for the use of the U.S. Forces. Even when Lend-Lease oil for U.S. Forces in U.K. is taken out of the account, the balance of \$338 million which appears in our estimates is in reality a statement of our gross, and not of our net requirements. For it is estimated that we shall be supplying to the U.S. under reciprocal aid during the first year of Stage II some \$193 million of sterling oil from British sources. There are, moreover, three points in connection with this sterling oil to be supplied under reciprocal aid to which we consider attention should be drawn.

Firstly, on a tonnage basis it is actually greater than our requirements under Lend-Lease (12,287,000 tons as compared with 9,201,000 tons).

Secondly, while all the above figures are on an f.o.b. basis, the delivery of sterling oil to the U.S. Forces under reciprocal aid, unlike that of Lend-Lease oil, involves substantial expenses in storage, handling and packing charges, which are not included in the above figures, particularly in cases such as U.K., or again in India, where long rail hauls are frequently necessary or where packed oil is delivered on a more or less retail basis, and the f.o.b. value of the oil itself may therefore represent only a small proportion of the total cost involved.



Thirdly, the so-called sterling oil supplied to the U.S. Forces under reciprocal aid in fact involves a substantial volume of dollar expenditure. The financial aspect of this is further considered below in the supplement to Chapter 3 (paragraph 2(iii)) and certain proposals are made.

As far as U.K. is concerned, it is assumed that strict rationing of civilian consumption is still in force in Stage II, but that some relaxation of the present severe restrictions may have to be introduced in order in particular to relieve the heavy load on public transport, and to facilitate movement of materials for certain special programmes, including housing.

Following is the revised statement of our requirements in Stage II to replace that contained in the second column of page 29:-

	<u>Tons 000</u>	<u>\$Million</u>
Aviation spirit	232	11
Motor spirit	3207	121
Kerosene	990	24
Gas-Diesel	1212	33
Fuels	1947	27
Lubs: Crudes, etc.	1613	108
Wax, T.E.L., etc.	—	<u>14</u>
Totals	<u>9,201</u>	<u>338</u> *

\* It may perhaps be desirable to add a further note on the subject of supplies to South American countries, Continental Europe, etc., for which no allowance has been made in the above, either for Lend-Lease or reciprocal aid. For shorthaul reasons it will not always be possible to arrange for shipments from British or American sources to meet the exact British or American share of trade in particular countries. A certain number of "exchange" shipments can no doubt be arranged within the industry, but it is not possible to give any precise estimate of what these will be. Net deficiencies in the supply of British oil for the British share of the trade, of an estimated value of \$15 million, should in our view be added to the total requirements in the fourth column, making a total of \$353 million.



IV SHIPPING

With the completion of the United Nations oil and tanker review, there are some consequential changes to be noted in items 6 and 14 of the Shipping Requirements table on page 31.

On the assumption that the European war ends early in 1945, our Stage II estimates under these needs should be reduced as follows:-

	\$000
6. Freight on petroleum products carried in tankers allocated by W.S.A. to British Empire programmes	190,000
14. Surplus bunkers discharged in U.K. ports	nil
The Revised total is thus . . . . .	876,720
(instead of the figure previously given, namely . . . . .)	992,960)

We should like to draw attention to the fact that, of the above figure of \$190 million, slightly over \$90 million represents freight moved in U.S. lend-lease and British tankers on oil which will ultimately be supplied to the U.S. Forces. Furthermore, it is expected that a number of British tankers will be allocated under reciprocal aid to assist with the movement of oil to areas of U.S. programming responsibility. It is estimated that the cost of reciprocal aid thus involved will be \$15 million at British rates and excluding W.S.A. 25% surcharge.



TOP SECRETCOPY NO. 39ADDITIONAL MATERIAL FOR CHAPTER 3.ADDITIONAL ITEMS TO SAFEGUARD THE BRITISH RESERVE POSITION.

1. The suggestions already made in Chapter 3 of the British Requirements for the First Year of Stage II are not exhaustive. In this supplementary statement particulars are given concerning some further items, and also some amplification and further explanation of items already mentioned. The proposals fall into three categories:-

I. The inclusion in the Lend-Lease programme of various items which otherwise would cost cash, thus safeguarding the British reserve position.

II. The inclusion of new items which the U.K. will have to go without if they cannot be obtained under Lend-Lease, the furnishing of which would materially ease the British economy in other respects, but would not affect the estimated reserve position in terms of gold and dollars.

III. Certain claims which have been in dispute or have been left in abeyance which would, if they were conceded, have the same effect as I. above, namely, to improve the reserve position.

2. Under heading I the following items already suggested may be briefly recapitulated:-

- |                             |               |
|-----------------------------|---------------|
| (i) <u>Tobacco</u>          | \$90 millions |
| (ii) <u>Off-shore Sugar</u> | \$64 millions |

This is a revised figure. There are also dollar freights involved which would be eligible for Lend-Lease if the cargo is eligible and would be eligible anyhow if the proposal made subsequently in connection with shipping is conceded.

- (iii) Dollar Expenditure in respect of Oil

Here the statement previously made needs some correction and amplification. In addition to the actual purchases of crude of \$22 million it is necessary to pay dollars to the Venezuelan Government for royalties on crude oil produced by British companies in Venezuela and subsequently



transferred to U.S. Forces under Reciprocal Aid. This item is estimated to amount to \$8 million in the first year of Stage II.

There are, however, many other dollar outgoings involved in the production of so-called "sterling oil". Besides the purchases of crude and the royalties already referred to, there are purchases of equipment, salaries and wages of oil field technicians, stores and spare parts, all of which have to be paid for in dollars. Indeed, there is no doubt that a substantial proportion of the cost of providing oil on Reciprocal Aid does in fact represent actual dollar expenditure and it is suggested that the United Kingdom might reasonably ask to be reimbursed for this proportion, particularly as we expect to supply on reciprocal aid terms, a greater volume of oil measured by quantity (though not in value) than we are ourselves receiving on Lend-Lease terms.

It is recognized, that it would be extremely difficult, if not impossible, to agree upon a basis for reimbursement on these lines. The proposal is, therefore, that the United States Government might find it convenient to make this reimbursement in the form of direct payments for oil from the Curacao and Bahrein refineries (being those refineries where the dollar proportion is highest). The value of the oil to be provided on Reciprocal Aid by these two refineries in Stage II is \$100 m. p.a. Alternatively the United States Government might prefer to make lump sum payment of \$100 million in respect of Reciprocal Aid supplies from all sources, leaving undisturbed the present arrangements whereby oil from Curacao and Bahrein is supplied under Reciprocal Aid.

(iv) The total dollar expenditure incurred by the Ministry of War Transport is now estimated at about \$125 million per annum. Of this it is thought that \$57 millions comprise items which are not suitable for Lend-Lease. There remain the following items which deserve consideration:

(a) Under present rulings freight is in general only eligible under Lend-Lease in respect of cargo of Lend-Lease origin shipped from U.S. ports. A relaxation of these rulings to cover shipments from U.S. ports of Government cargo not



procured under Lend-Lease would, it is estimated, save some \$15 million, with the probability of a small increase in the future as items now under Lend-Lease cease to be so procured. Similarly freights on W.S.A. ships loading Government cargo in Canada or the Caribbean have in the past accounted for a dollar expenditure estimated on page 38 of the previous statement at \$40 millions but now provisionally calculated subject to checking at some \$15 millions, which it is hoped might be made eligible retrospectively. For the future this item is likely to be greatly diminished, but operating efficiency may require W.S.A. ships to be again so employed, and a possible maximum of \$10 million might in this case be involved.

(b) A sum of about \$40 million is paid annually for services and supplies to British controlled vessels in U.S. ports which is not covered by Lend-Lease. This figure is being analysed to see how far it comprises items which are suitable for Lend-Lease. For the present the possibly eligible figure might be put as a rough estimate at \$10 million. It is suggested that the further analysis of this aggregate should be passed over to the shipping authorities on both sides.

(c) Dollar proportion of hire on Norwegian vessels time-chartered under the Tripartite Agreement of 1941. This item of \$5 million was formerly under Lend-Lease, but ceased to be so in 1943. It is hoped that this might be reconsidered with a view to its inclusion retrospectively which would raise the figure to \$7 millions. It should disappear with the termination of the charters after the end of the European war.

(d) Certain items on Allied vessels on time charter to us for which we provide dollars, \$18 million. There are certain technical complexities arising out of the charter terms which would need careful consideration in relation to this item, which will of course disappear with the termination of the charters.

(e) Repairs and reconversions which F.E.A. have refused to finance because, admittedly, proper procedure had not been followed by us, \$5 million. This might be reconsidered.



(v) Machine Tools. There is here nothing to add to the statement already made. Total relief might amount to \$10 to 27 millions, according to the exact rulings given.

(vi) Possible Additions to the Food Programme. There are a number of items here for which we are currently having to pay cash, the eligibility of which for Lend-Lease might be reconsidered, as follows:-

	\$
Essential oils	1,500,000
Chewing gum base	600,000
Vitamin "A" oils	1,400,000
Hops	500,000
*Purchases for NAAFI for sale to British and Allied Forces covering a large number of items, such as, biscuits, fruit juices, confectionary, chewing gum, pickles and sauces	9,000,000
Pickles etc. for the U.K. forces	5,000,000
	18,000,000
	18,000,000

\* It is perhaps appropriate to mention here that the U.K. is similarly providing a large variety of goods on Reciprocal Aid. These goods are sold to U.S. Forces by the Post Exchanges.

(vii) The eligibility of Supplies for the Colonies has been much narrowed, since most of them are now declared to be non-combat areas. These decisions were given before raw materials and foodstuffs from the Colonies were being supplied on Reciprocal Aid. Now that substantial supplies on Reciprocal Aid are being thus furnished, it is hoped that the previous decisions could be reconsidered.

A rough analysis of purchases made through Government channels during 1944 is attached showing a total figure of \$18 million. It is anticipated that approximately the same volume of supplies will be required in 1945.



## BRITISH COLONIES SUPPLY MISSION

ANALYSIS OF GOVERNMENT CASH PURCHASES DURING 1944  
(in thousands of U.S. Dollars)

## D E S T I N A T I O N S

COMMODITY	BRITISH WEST INDIES	BRITISH WEST AFRICA	BRITISH EAST AFRICA	CEYLON	OTHERS	TOTALS
FOOD	3,000	-	-	500	500	4,000
TEXTILES	-	-	-	500	-	500
PAPER & PRODUCTS	-	-	-	300	200	500
MISC. GEN. STORES	100	100	100	100	100	500
Manufactured & semi- " STEEL	1,000	500	1,250	750	500	4,000
ENGINEERING STORES	1,000	650	850	500	50	3,050
RUBBER MANUFACTURES including TIRES & TUBES	1,000	-	-	-	-	1,000
AGRICULTURAL EQUIPMENT	500	100	1,000	500	400	2,500
OTHER RAW MATERIALS	1,000	50	500	50	50	1,650
MEDICAL SUPPLIES	100	50	50	50	50	300
<u>T O T A L S</u>	7,700	1,450	3,750	3,250	1,850	18,000



3. Under heading II, there are the following items. If these could be furnished on Lend-Lease, substantial aid would be given to the British economy, but as no allowance has been made for any substantial gold or dollar expenditure under any of these headings in calculating the prospective reserves, there would follow no direct relief to the gold and dollar position:-

(i) The Repair and Equipment and Replacement of Bomb Damaged Houses

Some further examination has been given to this subject since the main statement was put in, but we still lack the fuller material from London which we hope to get. In the first place, it should be explained what was perhaps insufficiently clear, that in the raw materials programme on Page 33 of the main statement some items are already included for the repair and equipment of bomb damaged houses which, as is pointed out in the first sentence of Page 32, will only be eligible for Lend-Lease if a more favourable attitude is now adopted in regard to the eligibility of such items. The details of items under these headings already included on Page 33 are as follows:-

<u>Commodity</u>	<u>Unit of Quantity</u>	<u>Required for</u>					
		<u>Housing</u>		<u>Repairs to Bombed Buildings (b)</u>		<u>Utility Furniture</u>	
		<u>Quantity</u>	<u>(a) Value (\$000)</u>	<u>Quantity</u>	<u>Value (\$000)</u>	<u>Quantity</u>	<u>Value (\$000)</u>
Bagasse	S.T.(000)	11	250	nil	nil	nil	nil
Insulation (Building)							
Board	S.T.(000)	16	1,625	*	*	nil	nil
Softwood	Stds.(000)	200	19,300	*	*	nil	nil
Hardwood	cu.ft.(000)	nil	nil	nil	nil	1,650	1,750
Constr. Plywood	sq.ft. (millions)	nil	nil	12	1,008	60	5,400
Total Values			21,175		1,008		7,150

\* Some of the building board and softwood would probably be used for repair of bombed buildings, but we have no information about quantities; the effect of such usage would be to reduce the value figure of column (a) and increase the value figure of column (b).

The above requirements, however, have been kept down to the minimum. Greater quantities of insulation building board and



softwood and bagasse would be of the greatest help. We should also wish, if a favourable ruling is given, to put in requirements of slag wool or suitable substitutes, which are not at present included in our requirements on Page 33.

Next as regards miscellaneous equipment. Here, subject to possible difficulties of shipment which have not been fully explored, a wider interpretation of Lend-Lease eligibility would allow a most helpful supplement to the meagre supplies likely to be available from U.K. production in 1945. Examples are utility furniture, steel furniture, doors, metal window frames, stoves, and water tanks. It is difficult without further examination to give a reasoned estimate under this head. We think, however, if a favourable decision in principle could be given, that a programme of the value of some \$10 millions could be prepared. If complete kitchen or bathroom units were available and were technically suitable, the total might well be higher.

Possibly, however, the most material assistance could be given in the shape of prefabricated houses. We have not attempted so far any technical examination of the possibilities under this head. But if supplies were available, and the problems of shipping and differing building standards and practice in the two countries can be surmounted, such spectacular assistance to the housing problem created by bomb damage, and particularly by the recent fly bombs, as would be represented by the supply of houses complete in themselves, might affect the public opinion of both our countries more favourably and sympathetically than almost any other expenditure of similar volume. The housing problem during Stage II, particularly in the London area, will be most acute. Apart from the alleviation of human suffering, war efficiency would be directly increased, if assistance can be accorded in this way. It may be mentioned that U.S. manufacturers have already tentatively approached British Missions here about the prospects of the provision of prefabricated houses for the U.K. Without technical examination of the possibilities we can hardly put forward any definite figures of cost, but we fear that the cheaper Goodyear type of house, costing \$1,800 with equipment, would probably be unsuitable. Nevertheless it would



be of the greatest assistance if a programme of the order of (say) 25,000 to 40,000 units proved to be practicable.

(ii) Civilian Relief Supplies Required for Recovered British Territories in the Far East. There is as yet nothing further to add to the statement on Page 40 of the main statement.

4. There remains under Heading III the category of claims under dispute or in abeyance. In addition to the two examples already set forth on Pages 41 and 42 of the main statement, the following may also be mentioned. Some of these, it will be seen, are of a trifling amount, but nevertheless add something to the aggregate.

\$ millions

- |  |      |
|--|------|
| (1) Pre-Reciprocal Aid supplies of rubber.<br>This claim is still outstanding, and no reason is known to the British Missions why it should not be met   | 11.8 |
| (ii) Suez Canal dues on W.S.A. ships allocated to sea transport services, at present held in abeyance  | 1.3  |
| (iii) Production contracts transferred as "take-outs". This claim as such is not in dispute, but no settlement of the amount has yet been reached; we put the full value at                    | 2.2  |
| (iv) Diversions to U.S.S.R. This is a complicated story about which we are in a position to give details. The short descriptions are as follows:-  |      |
| (a) Diversions of Bostons for which we had paid dollars, with the promise of replacement, which in our view has not been made  | 12.5 |
| (b) The delivery to U.S. forces in U.K. of Airocobras for which we had paid dollars, intended for Russia, in which event we should have received dollars. Sir Frederick Phillips did not press |      |



- \$ millions
- this claim at a time when our dollar balances were increasing, but it was a claim which he believed ought to be met sooner or later 16.0
- (c) The fulfilment of a U.S. commitment to Russia by delivery of Wright engines from U.K. for which we had paid dollars. The Russians rejected our demand for payment, saying the matter was one between the U.S. and the U.K. This has not been previously taken up by us and is now raised for the first time 4.0
- (d) Powder manufactured by the New Jersey Powder Co. for which we paid dollars, but which was shipped to Russia on U.S. account. This claim has never been withdrawn, but has been left in abeyance 2.2
- (v) Certain capital facilities in the way of machine tools and other equipment, for which we had paid dollars, has been subsequently made available to U.S. manufacturers engaged in U.S. Government orders without payment. The capital value of facilities used for U.S. benefit was in 1942 \$100 millions, in 1943 \$50 millions, and in 1944 \$27 millions. The annual value of the right of free use might be anywhere between 10 per cent. and 20 per cent. of the capital value, which yields a total figure of 18-36
- In connection with this claim it should be particularly borne in mind that this is a good example of the expense incurred by the U.K. in building up the U.S. munitions industry at a time when the U.S. was a neutral, which greatly accelerated the date at which the U.S. was in a position to become fully armed. All this cost the U.K. hard dollars. The above item was a small part of the expenditure by the U.K. of some



\$2 billions in building up the U.S. munitions industry, of which about \$1 billion was spent after the U.S. came into the war, these being the expenditures which were primarily responsible for the initial exhaustion of the British reserves down to virtually zero.



TOP SECRETCOPY NO. 39AMPLIFICATION OF MATERIAL IN CHAPTER 4LEND-LEASE REQUIREMENTS OF AUSTRALIA, NEW ZEALAND AND INDIA

1. As explained in para. 1 of Chapter 4 of the document relating to British Requirements in the First Year of Stage II, the programmes submitted by the United Kingdom include supplies required from the United States by Australia, New Zealand and India in the field of munitions (except aircraft and aircraft components), oil and shipping. The following notes by the Australian, New Zealand and Indian supply representatives in Washington explain the need of their respective countries for food, raw materials and civilian goods under Lend-Lease in Stage II and itemise these requirements in greater detail. Where the figures given below differ from those in the earlier document, the previous estimates should be disregarded.

AUSTRALIAThe Australian War Effort

2. The Australian war effort is likely to have to continue at the maximum degree of intensity for a longer period than that of most other members of the United Nations. At the earliest possible time Australian forces were engaged in the Mediterranean area and supplies of all kinds were being sent to that and other theatres of war. When Singapore fell, Australia was short of men and munitions, because everything possible had been sent abroad to the actual fields of action. American forces and American supplies filled the gap and became the basis for the counter-offensive. The remnants of the Australian Navy and some of Australia's experienced jungle troops are now in the Phillipines.

3. The Australian war effort has strained her resources and manpower to an extent which is hard to measure, because much of it is in the production of ordinary foods and farm supplies. But the austerity of civilian life in Australia has become very pronounced.

4. Every possible fighting man has been used. Seven out of every ten males between the ages of 18 and 35 have



served in the fighting forces. From a total population of about 7¼ millions, 891,000 males were enlisted and 80,000 have become casualties. The numbers engaged in fighting and essential industries exceed the prewar total of the working population by 170,000 and comprise 71% of the total population between the ages of 15 and 60.

#### Reciprocal Aid

5. Comparisons with other countries are not really practicable even if they were desirable. It may be of interest to note that one fifth of the total war expenditure in Australia is for reciprocal aid to the U.S.A. forces. The dollar value of this aid, so far as it can be measured at all, is of course incomplete. But to the end of June 1944, the value was estimated at a total of \$570 millions. The dollar measure understates the Australian contribution in terms of manpower and of real effort, because the rate of exchange which must be used to convert Australian currency into dollar values does not correspond to real values.

6. Reciprocal Aid to the U.S.A. forces commenced long before there was any formal agreement on the subject. It commenced with food sent to Bataan. The Australian people have given unstintingly and have gone without normal necessities in co-operation with their Government in the provision of requirements for the American forces. The needs of these forces have been given a high priority in Australian production and have indeed required many adjustments of the Australian production programmes.

#### Lend-Lease Requirements in 1945.

7. The attached figures are estimates of Lend-Lease requirements for delivery in Australia during the calendar year 1945. They divide the programme into categories which include "non-munitions" items. But it must be emphasized that the so-called non-munitions programme is very largely made up of military requirements, direct or indirect. For instance, the food requirements are largely for the use of the armed forces; the timber is required almost entirely for war purposes, inasmuch as general building construction has



been rigorously controlled; the synthetic rubber is needed for the manufacture of military and essential war service vehicles; agricultural implements are needed for the Food Programme designed to meet the requirements of the armed forces and United Kingdom needs, and so one could go on through each item on the list. These are cited by way of example.

8. It may be observed that the non-munitions requirements for 1945 (exclusive of Petroleum and Shipping Freights included in the United Kingdom programme) total \$102 millions. By way of comparison, expenditure in Australia upon non-munitions items provided under Reciprocal Aid has been at the rate of \$360 millions per annum. It is submitted that continuance of a substantial measure of Lend-Lease, without continual scaling down on questions of eligibility, civilian end-use, etc., is necessary to enable the maintenance of a reasonably balanced economy.

#### Australia's Need for some Relief of War Strain

9. As prospects are at present, there is in sight no relief for Australia of her present war strain until the war in the Pacific is ended. Indeed as operations in that vast area are accelerated the strain could become so intense as to pass the limits of tolerance, having regard to the five years already suffered. There are no prospects of converting war production to peace production, nor any diversions of effort such as are contemplated elsewhere. This prospect has now become serious in view of the almost desperate shortage of housing and of other elementary necessities of normal civil life. In our transport and our farm and industrial equipment, the wear and tear of the war effort has reached far beyond normal limits of tolerance.

10. There is an expectation that some general relaxation of effort on a substantial scale, both in the United States and in the United Kingdom, is to follow the end of the war in Europe. Since Australia will remain in the area of hostilities, it is most unlikely that comparable relaxations or demobilisations from the war effort will be possible for



her. For this reason, Australia considers it reasonable that such steps as are practicable shall be taken to allow her such relief as is possible, and she hopes that, in consideration of the present problems, this aspect will not be overlooked.

11. The Australian Agencies in Washington stand ready to furnish any further information which may be required, to supply further substantiation on any point which may be in doubt and to represent the Australian case in any manner which may be deemed to be desirable or helpful.



LEND-LEASE REQUIREMENTS OF AUSTRALIA IN STAGE IINON-MUNITIONS BREAKDOWN  
EXCLUDING PETROLEUM AND SHIPPING FREIGHTS

(all figures in millions of dollars)

<u>Description</u>	<u>Value</u>	<u>Remarks</u>
(a) <u>Food</u>		
Tobacco - Leaf	3.1	Military requirements only. An additional \$8½ millions required for civilian purposes.
Tobacco - Native Twist	.9	Used for payment of native porters in forward battle areas.
Canned Fish - Salmon	1.4	For requirement of armed forces only. Civilian use prohibited
- Pilchards	.6	Australian food programme for allied forces.
Seeds - Vegetable	.6	Australian food programme for allied forces.
Sausage casings - artificial	.1	Australian food programme for allied forces.
Coca Cola Concentrate & misc.	.3	Coca Cola Concentrate in amount of \$275,000 entirely for U.S. Forces.
	7.0	
(b) <u>Raw Materials</u>		
Tinplate	14.0	95% for use in canning programme for allied forces
Metals - Carbon Steel	1.2	Various industrial purposes directly connected with munitions programme.
- Alloy Steel	1.0	
- Non-Ferrous	.8	
Timber - Soft Wood	2.4	Military and war production and construction. Civilian construction prohibited.
- Hard wood	1.4	
- Plywood	.2	
Pulp & Paper - Woodpulp	2.0	To augment Australian production which is inadequate for war purposes -- paper usage all under strict and rigid control.
- Fine Paper	3.5	
- Wrapping Paper	1.8	
- Sanitary & Tissue	1.0	
- All Other Paper	.7	
Raw Cotton incl. Linters		Military textiles, surgical dressings etc.
- Raw	2.8	
- Linters	.2	Largely for use in military tire programmes - supply under instructions of Combined Boards.
Synthetic Rubber - GRS	6.0	



<u>Description</u>	<u>Value</u>	<u>Remarks</u>
(b) <u>Raw Materials (Cont'd)</u>		
Carried forward	39.0	
Chemicals - Phosphate Rock	2.1	Required in connection with food programme.
- Insecticides	1.8	Required in connection with food programme.
- Sulphur	.5	Required in munitions programme.
- Photographic	.6	Required for indirect military uses.
- Alcohols	.6	Industrial alcohols required for munitions programme
- Chrome	.6	For tanning and textile industry - producing direct military requirements.
Miscellaneous		
- Miscellaneous	1.8	
- Abrasive Grains	.6	General war production usage.
- Carbon Black	1.2	Tire programme.
- Plastics	1.5	General war production usage.
- Miscellaneous	<u>.7</u>	
	51.0	
(c) <u>End Products</u>		
Automotive - Vehicles	7.0	Essential civilian war-time transport and agricultural transport-civilian gasoline rationing extremely rigid.
- Spares	2.5	
- Stationary Engines	.5	Required for incorporation in mobile welding sets, pumping units, etc. required by armed forces.
Agricultural Implements		
- Tractors	5.5	Required for food programme.
- Spares	1.1	
- Miscellaneous	2.4	
Coal Mining Machinery (Underground)	.5	
Bearings	.5	Required for maintenance of armed services' equipment performed by civilians. An additional \$1,000,000 required for general industrial purposes related directly to the war effort.
Medical Supplies		For use in Australian hospitals at the service of Allied forces.
- X-Ray	.8	
- Surgical	.3	
- Drugs	1.1	
- Proprietary	.2	
- Miscellaneous	.6	



<u>Description</u>	<u>Value</u>	<u>Remarks</u>
(c) <u>End Products (Cont'd)</u>		
Carried forward	23.0	
Textiles - Belting Duck	.5	General industrial war production use.
- Cotton Tyre Cord	4.6	Military tyre programme
- Rayon Tyre Cord	2.1	Military tyre programme
- Rayon Tyre Fabric	2.8	Military tyre programme
Silver-Bullion/Coinage	5.0	Returnable in kind under special agreement.
Miscellaneous - Film	.2	Entertainment of armed forces.
- Photographic	.2	Entertainment of armed forces.
- Business Machines	.5	To be used directly by armed forces.
- Hand Tools	2.0	General war production use.
- Elec. Equipment	1.9	General war production use.
- Industrial Eqpt.	1.2	General war production use.
	<u>44.0</u>	

GRAND TOTAL \$102.0



NEW ZEALANDThe New Zealand War Effort.

12. New Zealand approaches Stage II after over five years of war - five years of unremitting and undeviating endeavour to apply the full manpower and the full economy of the Dominion to the common end.

13. During the period when it was necessary to prepare against the possibility of actual invasion 190,000 men of a total of 355,000 of military age (18 to 45 years) were taken into the armed forces. Strenuous and successful efforts were made to meet this diminution of productive power and by the extension of working hours over a wide field of industry, by substantial overtime, by the compulsory recruitment of large numbers of women into industry, by compulsory limitation of the production of unessential goods, and by compulsory diversion of labour from unessential to essential industries it was possible on the whole to maintain production and in most fields to increase it.

14. The fighting record of New Zealand during the war has, it is felt, been fully worthy of the Dominion. More than 100,000 men, the equivalent of one in every  $3\frac{1}{2}$  men of military age in the total population, have been despatched abroad to the fighting fronts in Europe and in the Pacific, and the casualties have been grievous. The total New Zealand casualties up to the middle of this year have exceeded 30,000 - the equivalent of 1 in 55 of the total population of the country, or one in every three and a half of those despatched abroad. These figures will bear the closest comparison with those of any other allied combatant.

15. While the actual combatant functions of the Dominion in Stage II have yet finally to be decided in cooperation with the United States and the United Kingdom and while there will no doubt be some necessary adjustment between the proportions of the New Zealand population engaged in a combatant capacity and those engaged in the equally essential functions of war production services, it is nevertheless clear that the total war effort of New Zealand in Stage II will be no less than in Stage I.



16. Clearly, the capacity of New Zealand to continue her contribution to the total war effort of the Allies must depend to a substantial extent upon the Dominion's being provided in turn with the supplies necessary to maintain its people at a minimum standard of health and well-being, as well as for the production of those New Zealand commodities which are specifically required for war purposes.

New Zealand's Special Economic Position.

17. During the war years New Zealand has become progressively impoverished. This is due partly to the fact that her basic industry is farming and that heavy industry is not developed, but it is also due to New Zealand's substantial contribution to the war in manpower, to the lack of maintenance of equipment usually imported, and to New Zealand's individual economic position.

18. New Zealand's farm lands have suffered particularly because of fertiliser deficiency and also because of lack of maintenance. New Zealand's farm production is falling because of these factors and in successive years it is likely to fall further because annual maintenance, so necessary in New Zealand, has not been carried out. Labour has been directed rather into increasing production than into maintaining the land. New Zealand's railways have not been adequately maintained: the road-beds, the bridges and viaducts, signalling apparatus, locomotives, rolling stock, and workshops machinery are all below standard, and a substantial proportion of it has deteriorated to the stage of obsolescence. New Zealand's roads also have deteriorated because of lack of upkeep due to shortage of manpower and to lack of earth-moving machinery. In this respect it should be noted that New Zealand's earth-moving machinery is required for all types of developmental and public works and a substantial proportion of it was sent to Malaya, to the Middle East, and to the Pacific Islands. New Zealand's power industry has also suffered because of lack of normal maintenance; for example, the hydro-electric system has been able to maintain only 2/5ths of its normal annual necessary maintenance. Factories in New Zealand have been operating for much longer hours than formerly and in many cases have not



received normal replacements of equipment. Many machines over a wide sector of New Zealand's economy are completely obsolescent. New Zealand's timber stocks have been rapidly depleted because of the vast building programme necessary for New Zealand's defence, for United States troops and for buildings in the South Pacific and other war areas. Some of this capital loss is irreplaceable.

19. Not only did New Zealand enter the war with depleted stocks, much below normal requirements, but during the war the Dominion has been living on a hand to mouth basis, consuming its industrial capital. Unlike other countries which are in a position to replace worn out equipment to a large extent from their own enhanced industrial and skilled labour capacity and from basic materials within the country itself, New Zealand must continue for a long time to come to be a specialised agricultural country unable to provide herself with machinery and other equipment from her own resources.

Effects on Civilian Economy of Rationing and Austerity Programmes and Manpower Shortages.

20. New Zealand is predominantly an agricultural and pastoral country with manufacturing industries capable of catering for only a small portion of local requirements. The impact of the war with shipping difficulties and losses, coupled with production shortages overseas, had a most immediate effect on the availability of practically all consumer goods in New Zealand except locally produced foodstuffs. The only action possible was the quick and immediate imposition of a very strict rationing system.

21. All cotton and woollen textiles were severely rationed; these included not only wearing apparel, but household linen, such as blankets, sheets, towels, etc. Imported foodstuffs such as tea and sugar were rationed and the requirements of the United Kingdom, and Reciprocal Aid to the United States, led to the subsequent rationing of meat, butter and cream. Many articles were prohibited from importation to conserve shipping space and some items, while not rationed, virtually disappeared from the market; such items are canned fish, citrus fruit, canned fruit, eggs, pork and bacon. Gasoline was severely rationed and the present-day allowance



is 1 gallon a month for small cars and not more than 2 gallons a month, irrespective of the size of the car.

22. As one contribution to the war effort New Zealand voluntarily imposed controls, generally more rigid than in most countries not actually in the front line of battle. Manpower was brought under most rigid control; both men and women were directed under Manpower regulations into specific jobs in essential industry and those already in such industries were frozen in their jobs. It is expected that these controls will remain in force until after the defeat of Japan.

23. The guiding principle was the desire of the whole country to devote all its energies to the waging of war and to the production of essential war materials with particular emphasis on New Zealand's role in the production of foodstuffs for the Armed Services, for the United Kingdom, and for United States forces in the South Pacific. The standard of living has been drastically cut to provide for increased production for these purposes.

Reciprocal Aid to the U.S. Forces.

24. There is no need to elaborate on New Zealand's Reciprocal Aid contribution to the U.S. Up to April 30th, 1944, the following foodstuffs had been delivered:

	<u>Lbs.</u>
Butter	26,098,439
Cheese	8,043,615
Bacon and Ham	27,269,438
Meat, fresh	131,109,717
Meat, canned	42,945,982
Milk, evaporated	18,242,168
Sugar	40,265,729
Tea	595,525
Vegetables, canned	13,169,559
Potatoes,	48,049,741
Other fresh vegetables	45,283,694
Apples, fresh	18,457,010



25. In addition to the above are camps, hospitals, landing barges, mine sweepers and other ships, footwear, uniforms, and countless other items. The estimated value for 1944 is £ N.Z. 24 millions (\$78 millions) equivalent to some 20% of New Zealand's total war expenditure. In Stage II New Zealand expects that it will be necessary to maintain the present level of Reciprocal Aid; in fact, programmes already submitted by United States Services are at least one-tenth larger than for the current year.

Requirements and Justifications in Stage II.

26. The principal items required during Stage II (other than petroleum and shipping) are as follows (all figures in dollars):-

Raw Materials

Steel	3,500,000		
Tinplate	<u>2,000,000</u>	5,500,000	
Phosphates	240,000		
Sulphur	760,000		
Miscellaneous fertilizer and chemicals	450,000		
Naval stores	250,000		
Miscellaneous Raw Materials	<u>250,000</u>		
		<u>1,950,000</u>	7,450,000

Tobacco

1,250,000

Manufactured Items

Trucks	1,000,000		
Automotive Parts	1,000,000		
Agricultural Implements including Tractors	3,000,000		
Hand Tools	700,000		
Miscellaneous Items	<u>375,000</u>		<u>6,075,000</u>
		GRAND TOTAL	<u>\$14,775,000</u>

27. Dealing with each item in turn, the following will indicate its relationship and essentiality to the war effort:-



Steel (\$3,500,000) This requirement consists not only of needs for direct munitions and war production but also for the maintenance of New Zealand's economy on a basis to continue maximum war production. While these end uses might seem to be "normal civilian", in the case of New Zealand the general civilian economy has been short for such a long period that a failure in supply now can result only in a diminution of the war effort. New Zealand has no steel industry.

Tinplate (\$2,000,000). This is needed for the packing of foodstuffs for supply to American and other military forces overseas, to the United Kingdom, and to a very limited extent to New Zealand of those articles which can be packed only in tinplate containers. Full details are available to show that the use of tinplate is strictly controlled - certainly to an extent no less strict than with the other United Nations,

Phosphates (\$240,000) and Sulphur (\$760,000). These items are required for the manufacture of phosphatic fertilisers. These are essential for the maintenance of food production in New Zealand. Information has already been transmitted through the appropriate channels to the effect that the land in New Zealand is suffering serious deficiencies through the shortage of fertilizer over a number of years. It has been agreed that food production is vital to the war effort and increased output in the Dominion is directly related to the availability of phosphatic fertilizer. An overwhelming proportion of production is for export for war purposes and the small residual is itself fundamental to the maintenance of the civilian population which is in turn vital to the maintenance of all production. The high percentage of export is shown in the following cases:-

Butter	81% of production exported.
Lamb	96% of production exported.
Cheese	98% of production exported.

Miscellaneous Fertilizer and Chemicals (\$450,000) Naval Stores (Resin, etc.)(\$250,000) Miscellaneous Raw Materials (\$250,000).

Directly or indirectly the supply of these materials is vital, particularly to the maintenance of food production - fertilizer for the land, materials for sheep dip, weed-killer, insecticides, etc.



Tobacco (\$1,250,000). This requirement is calculated to cover only the proportional requirements of military forces, prisoner of war shipments, and other supplies related to military needs. Without question, tobacco is necessary to maintain the morale of the fighting forces.

Trucks (\$1,000,000), Automotive Parts (\$1,000,000). It is obvious that a factor essential to the maintenance of the war effort, the shipment of foodstuffs, and the movement of raw materials and military goods, etc., is transport. All transport is strictly controlled. Gasoline is rationed on a strict basis as previously outlined. These transport needs are vital and any "civilian" proportion is itself necessary to the functioning of the whole effort.

Agricultural Implements (\$3,000,000). The necessity for these is obvious and the role of foodstuffs as a war factor has been referred to above.

Hand Tools (\$700,000), Miscellaneous Manufactured Items (\$375,000)

It is apparent that the general industrial war effort of New Zealand needs maintenance attention in the form of miscellaneous hand tools, equipment, etc., in a situation aggravated by a long period of shortage of manpower for maintenance purposes, lack of importation of capital equipment, and over-working of existing plant. In many cases, since the equipment must go into stock for call as needed, it is impossible to pre-identify war uses, but, nevertheless, essentiality remains.

Petroleum and Shipping.

28. This submission does not cover our requirements under the heading of Petroleum and Shipping since these categories are being discussed in a global sense in the United Kingdom presentation. The requirements under these headings, however, are at least of equal importance to New Zealand as those categories of goods dealt with in this submission. It is requested, therefore, that no action be taken to disturb present policy relating to petroleum or shipping.



Diversions

29. It is submitted that particular consideration should be accorded to New Zealand owing to the special position in which New Zealand was placed at the outbreak of the Japanese war. Materials imported (not manufactured in New Zealand) for essential national purposes were placed at the disposal of the Armed Services. For example, tractors were withdrawn from maintenance of roads, forestry operations, etc., and despatched to the Pacific Islands to construct aerodromes. Stocks of materials that would normally have been used for maintenance of industry were utilized for emergency construction of military camps, hospitals, and other facilities for the large number of American forces that arrived at short notice in New Zealand. In this connection, it will no doubt be borne in mind that while a large proportion of New Zealand's Reciprocal Aid has necessarily taken the form of consumable goods the Lend-Lease assistance it has received has been predominantly non-consumable goods used for the most part solely for war purposes.

30. A limited quantity of Lend-Lease goods already in New Zealand is not now required for its original purpose but is urgently needed in New Zealand for essential civilian requirements including, for example, rural housing, necessary for the continued production of foodstuffs, and an expeditious procedure is necessary in regard to the diversion to essential civilian use of goods originally supplied through Lend-Lease for other purposes.

Civilian Proportions.

31. There has been an increasing tendency to exclude proportions of requirements because they are "civilian", even though these requirements have been endorsed both by the Foreign Economic Mission and the representative of Comsopac in New Zealand as being necessary to the Dominion's war effort. The war effort of New Zealand is the maximum the country can undertake. This war effort is dependent on the maintenance of a minimum economy and thus these "civilian" requirements are



just as essential as direct military materials. It is submitted, therefore, that this form of differentiation with a view to the exclusion of "civilian" proportions should be discontinued because failing the supply of these goods the New Zealand war effort must decline. This situation is peculiarly applicable to New Zealand because of the specialisation of its economy, its dependence on imports, the mixed nature of its war production, its distance from supply sources, and thus the necessity for the holding of advance stocks, the comparative lack of direct military manufactures and the long-maintained drain on civilian facilities. For these reasons it is submitted that the maintenance of essential civilian activity is itself essential to a continued and sustained war effort and that no distinction should properly be drawn for Lend-Lease purposes.

Final Observations

32. It is desired to emphasise that the predominant purpose of the New Zealand Government in expressing these views on Lend-Lease in Stage II, so far as it applies to New Zealand, is to enable the Dominion to continue in the future the policy adopted in the past of endeavouring to carry out to its fullest capacity any war measure it is requested to undertake.



INDIA

33. The attached statement gives a more detailed breakdown of the non-munitions requirements of India during Stage II (1945).

34. In putting forward this statement it is desired to emphasise (a) that India has received comparatively little Lend Lease aid for her non-military needs, and (b) that her military needs are not confined to munitions. For example, steel supplied on Lend Lease is mainly for military requirements; and this is more or less true of the remainder of the programme of Lend Lease requirements in the non-munitions field.

35. The difficulty of distinguishing between strictly military and general requirements is well illustrated by the application for locomotives and freight cars on Lend Lease specified below. This was originally included in the military requirements, but has been referred back by the U.S. War Department for inclusion in the non-munitions programme. From the strictly military point of view, if the U.S. supplies are treated as marginal to the corresponding orders for locomotives from the U.K. and Canada already under contract, they are not considered of the first order of priority. The freight wagons, on the other hand, are considered by the British and Indian military authorities as indispensable for war purposes, and will probably have to be purchased for cash in the United States if the application for supply on Lend Lease is not agreed. Quite apart, however, from the views of the military authorities, this rolling stock is unquestionably of the highest significance for the maintenance of the Indian civilian population in conditions where they are able to put forth their best efforts for the war. The recent famine in Bengal was greatly aggravated by lack of rolling stock. Bengal is always a deficiency food area, and the loss of rice from Burma has greatly increased the transport problem. The following is an extract from a telegram just received from the Government of India:-

"The decisions of Quebec are serious in their effect on



port capacity and transport facilities in India. The satisfaction of the additional military requirements will put a strain mainly on the railways, which will necessitate a reduction of civilian traffic of from 8 to 12%. At the peak of the military movement, not only passenger traffic but also industrial production, military works services and possibly food, will have to be curtailed for a considerable time. This strain can be considerably relieved by the provision of more coastal shipping and by expediting the delivery of railway rolling stock from the United States".

A refusal to supply the additional rolling stock will be taking the responsibility of allowing no margin to meet such contingencies as food difficulties or famine in any part of India. It would be impossible for the U.K. to produce the locomotives and wagons by the time that they will be needed, because manufacture could not commence until at least six months after it could be put in hand in the United States.

36. The estimates given in the statement below were framed prior to the decisions reached at the Quebec Conference. The increased burden which will be placed on India as a result of the Quebec decisions is not yet ascertainable. Present indications are, however, that the additional burden will be substantial. The effect of any such increase on the already strained resources of India is giving very serious anxiety to the Government of India, who have recently submitted representations to the United Kingdom Government in the matter.

37. India's war effort has been all-embracing. The best available statistics suggest that nearly a quarter of the national income of British India is being absorbed by the war effort in the form of direct military expenditure in India, the production of military stores and net exports of raw materials for use elsewhere. Disbursements in India for defence purposes are in fact seventeen times the pre-war figure, which itself was high in relation to the resources of the country.

38. This contribution must not be judged by direct comparison with the corresponding figures for highly industrialised economies



with comfortable standards of living, where a substantial margin existed on which, in emergency, drafts could be made. It has been wrung from a country where, though there are a few very high incomes, the great majority are so near the very border-line of subsistence that the average income comes down to the equivalent of about \$40 a year. Nowhere, except perhaps in China, has the human cost of the war behind the lines been higher. The large numbers who have perished from famine and disease are only the most outstanding and measurable illustration of this.

39. In the view of the Government of India the peak of national effort has been reached: hence their anxiety as to the effect on the national economy of any further burden arising from the Quebec decisions. Substantial and increased aid from outside is essential to maintain India's war effort and her internal economy.



INDIAN REQUIREMENTS UNDER LEND LEASE IN STAGE II  
(excluding military requirements, oil and shipping)

<u>REQUIREMENTS</u>		<u>REMARKS</u>
1. Steel	\$23,000,000	Includes - (a) wire rope for collieries, shipping operations, railways, harbours, etc.; (b) mill rolls for steel rolling mills; (c) boiler tubes, rails, wheels, tyres and axles etc. for railways; (d) tinsplate for foods and medicines for the armed forces; (e) bolts and nuts for use in munitions production, ship repair, construction of rolling stock, military vehicles, army bridges, docks, etc. (f) hoop and strip for baling jute, cotton etc.
2. Other raw materials	\$13,000,000	Includes - (a) carbon blacks required for paint for military and camouflage purposes; for cable manufacture; industrial hose, gas masks, army footwear, etc. (b) tyre manufacturing materials required for manufacture of military and aircraft tyres. (c) rayon and nylon used in the production of U.S.A.A.F. aircraft tyres. (d) sulphur, mainly required for production of sulphuric acid for war industries. (e) abrasives for the manufacture of grinding wheels used in the manufacture of rifles, machine guns and other ordnance. (f) battery materials for use in two Indian factories whose output is mainly for military use. (g) masonite for construction of bodies and radio boxes for military vehicles, combat and cargo vessels, pontoons, instrument panels for aircraft, etc. (h) paper for military and government use. (i) timber for construction of harbour lighters and small craft and for ship repair generally. (j) ferro alloys for use in the manufacture of mill rolls and high speed tool steels.



- |    |  |              |   |
|----|--|--------------|---|
| 3. | Miscellaneous<br>manufactured<br>goods | \$12,000,000 | Includes<br>(a) woodworking tools.<br>(b) metal cutting tools and files<br>and rasps for the manufacture<br>and maintenance of equip-<br>ment in ordnance factories,<br>shipyards, railway shops, etc.<br>(c) spares for pneumatic tools<br>required for use by rail-<br>way shops, mica mining,<br>ship repair shops, etc.<br>(d) farm tractors.<br>(e) lamp batteries and cells for<br>flashlights for the armed<br>forces and for maintenance<br>of signalling and other<br>operational uses on rail-<br>ways, etc.<br>(f) typewriters for use in<br>Government offices and<br>ordnance factories.<br>(g) miscellaneous engineering items. |
| 4. | Tobacco                                | \$3,000,000  | Required for incorporation<br>with Indian tobacco in the<br>manufacture of cigarettes and<br>pipe tobacco for the armed<br>forces.  |
| 5. | Food for Indian<br>Canteen<br>Services | \$3,000,000  | The Indian canteen services<br>operate solely to meet the<br>need of the Allied armies<br>within the borders of India.<br>The canteen service is under<br>the control of the Quarter-<br>master General in India.<br>All canteen stores are issued<br>by the canteen services in<br>accordance with a basic scale<br>determined by the military<br>authorities. Distribution is<br>effected only through install-<br>ations under the control of the<br>Quartermaster General in India.   |
| 6. | Locomotives<br>and wagons              | \$30,000,000 | Referred back by U.S. War<br>Department for inclusion in<br>non-munitions programme -<br>see para. 35 above. Comprises<br>60 broad gauge locomotives,<br>128 metre gauge locomotives,<br>6,000 broad gauge wagons and<br>1,717 metre gauge wagons.  |
|    | GRAND TOTAL                            | \$84,000,000 |   |



CORRIGENDA TO 'BRITISH REQUIREMENTS DURING FIRST YEAR OF STAGE II'

Page 23: For the table and second foot-note substitute the following:-

Food	1368	1064
Oil	956**	353**
Shipping	1062	877
Raw Materials	444	222
Miscellaneous Goods	042	013
	<u>3872</u>	<u>2529</u>

\*\* The estimate in the 1944-1945 appropriation was made on a gross basis. As it has been recently decided to omit from Lend-Lease and Reciprocal Aid respectively oil of U.S. origin retransferred to the U.S. Forces (in certain areas, see under Oil in Supplement) the estimate for Stage II is made on a net basis. The comparative gross figure for Stage II would be .62.

Page 28,29: The entire section after the words "it should be noted" at the beginning of the third sentence of the first paragraph is superseded by the note on oil at the beginning of this Supplement.

Page 30, Para.3, line 1: For "\$990 read "\$877"

Page 31, Item 6, Column 2: For "300,000" read "190,000"

Item 14, Column 2: For "6,240" read "Nil".

Total, Column 2: For "992,960" read "876,720".

Foot-note: \* Superseded.

See paragraph on Shipping in Supplement.

Pages 35-43: See Supplement to Chapter 3

Pages 44-47: See Amplification of Material in Chapter 4.

Annex A

Page 14: Dollar payments to third countries in 1945 are there estimated at \$225 millions. Further enquiry into the basis of this estimate was invited, since it was not easy to see how so large a total could be built up. It now appears that certain items have been included originally payable in terms of dollars but subsequently recoverable also in terms of dollars, thus causing no



net dollar burden. We are now informed that the correct net figure should be \$167 millions. Of this, \$118 millions consists of payments to the Caribbean and Central America for sugar and oil; and apart from certain small sundry items, the balance is substantially represented by reimbursements to Canada for U.S. dollar payments incurred on our behalf through Canadian agencies.



TOP SECRET

COPY NO. 75

BRITISH REQUIREMENTS FOR  
THE FIRST YEAR OF STAGE II

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BRITISH REQUIREMENTS FOR THE  
FIRST YEAR OF STAGE II

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C O N T E N T S

Introduction

- Chapter 1. - Munitions Programme for 1945.
- " 2. - Non-Munitions Programme for 1945.
- " 3. - Additional Items to Safeguard the  
British Reserve Position.
- " 4. - The Direct Lend-Lease Programmes  
of Australia, New Zealand and  
India for 1945.
- " 5. - The Export White Paper and  
Freedom to Export.
- Annex A. - Statistics bearing on the  
dimensions of the United Kingdom's  
Problem of External Finance in  
the transition.
- " B. - Civilian Living Standards in the  
United Kingdom.
- " C. - The British Manpower Problem in  
Stage II.

(Sterling has been converted throughout at £1 = \$4,  
including pre-war years.)



I N T R O D U C T I O N

1. The British members of the Combined Committee hope that their American colleagues will adopt the following main conclusions of policy, as being in accordance with the Quebec decisions:

(i) Munitions should be made available on Lend-Lease during the first year of Stage II on a scale sufficient not only to provide those categories of requirements which only the U.S. can produce in the time, but also to make possible the release of manpower from munitions production in the U.K. to the extent explained herein.

(ii) In the sixth year of war the British civilian is entitled to such moderate easements as are practicable without interfering with the prosecution of the war, both by some release of manpower in the U.K. to increase production for civilian use, and also by a Lend-Lease programme, especially for food, which will allow some raising of standards.

(iii) There should no longer be any restrictions or avoidable handicaps on the recovery of the British Export Trade so that the U.K. may begin to be more self-supporting in respect of overseas payments at the earliest possible date.

The British members also hope to establish that:-

(iv) It is in the mutual interest that the British reserve of gold and dollars, which is already dangerously inadequate, should not suffer by the end of 1945 any significant deterioration below its present level.

2. For the sake of simplicity in presentation, our programmes are based on the assumption that the first year of Stage II will be co-terminous with the calendar year 1945. If the German war continues well into 1945, our munitions requirements for that year will be different from those herein presented. In this event there may also be some additions to the non-munitions programme. Nevertheless, in any event, it would be convenient in our judgment to act on the assumption that the new arrangements (apart from specific war requirements affected by the above contingency) should be put into force as at January 1, 1945.



2.

3. A study of the following chapters and the annexes thereto will give some picture of the position of the United Kingdom after five years of war, and indicate the nature of our requirements during Stage II. The British members of the Combined Committee are ready to expound in further detail the arguments by which these general conclusions can be justified, and to provide the American members with any further information they may require in addition to what is contained in this paper. Meanwhile a brief introduction may be in place here.

4. During the last five years the British people have thrown everything into the prosecution of the war regardless of the effect on the future of the country. The British people, with the Dominions, is alone amongst the United Nations in having been in the front line from the first to the last day of the German war. It has expended itself in the effort, and unlike most others of the United Nations, it has endangered its actual means of livelihood in the transition period after the war. After the end of the German war the country must continue not only to fight the Japanese war for a period of uncertain duration, but besides that to face a heavy burden in occupying Europe, and in policing wide areas in the Middle East. The other European nations, liberated countries, neutrals, and even enemies, will be at peace, and, returning to the arts of peace, can restore their civilian life and their export trade in competition with ourselves. Even in the best circumstances and even after five years of incessant fatigue and many severe discomforts and privations, it is certain that a number of restrictions on civilian life must nevertheless continue for a long time. The British Government feel, therefore, that it is essential to allow some let-up for the civilian population, some relaxation of effort, some more variation in food, some additional supplies of clothing and household goods, and at least a beginning of rehousing and the repair of buildings. Some progress can be made in this direction by the release of manpower from the work of munitions to the replenishment of civilian supplies; and an important improvement in the variety of diet would follow from the acceptance of the food programme on Lend-Lease proposed in Chapter 2.



3.

5. Since our population of 47 million people is congregated in a very small territory, about one-third the size of Texas, we could not have developed out of our own resources the war effort which we have made in all quarters of the globe. To make such an effort possible, it was, therefore, inevitable that we should be forced to seek large assistance from abroad. That assistance has been given through Lend-Lease from the United States to an amount of \$22-1/2 billions, through Mutual Aid from Canada to an amount of \$2-1/2 billions, through the disposal of British-owned overseas assets to the amount of \$4 billions, and through credits advanced by neutrals and (mainly) by other members of the United Nations, to the amount of about \$10 billions, - a grand total of \$39 billions altogether up to August 1944.

6. While this assistance has enabled the British people to concentrate on the war their man and woman power and the whole of their efforts to an extent greater than in the case of any of the other United Nations (no less than 67.5 per cent. of the working population being engaged on Government work in 1944), it has greatly distorted our economy and faced us with problems the full seriousness of which is not generally understood. When normal life is renewed, the British people cannot feed and employ themselves without imports of at least the amount they secured before the war, at present prices about \$6 billions a year. These imports we were enabled to pay for in the past through our exports, visible and invisible. During the war we have been able to throw our export trade to the winds and to turn over the manpower normally thus engaged either into the Armed Forces or into the munitions factories, precisely because Lend-Lease and other assistance from abroad has been providing us with food and other means of life and production. It is just because so great a part of our contribution has taken the form of providing fighting men and the munitions of war over so long a period that we shall have exceptional difficulty in returning to the normal equilibrium of economic life. For while our need for imports on the pre-war scale has not decreased, our visible exports have sunk to less than 30 per cent. of what they were



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in 1938, and our income from invisible exports has been largely reduced through the loss of overseas assets and of shipping and in other ways. Thus we shall end the war with an immense gap between the volume of necessary imports and the means to pay for them. This is the outstanding problem facing the United Kingdom which will press upon us with all its force at the end of the Japanese war.

7. For this reason it is imperative that the United Kingdom should again be entirely free to begin the recovery of our export trade, which is for us a matter of life and death. To reach equilibrium we shall need exports five times as great as the scale of our exports in 1944. How far and how fast this recovery can be made is uncertain. It depends not only on our own efforts, but upon prosperity and stability in the rest of the world. What is vital at the moment is that a beginning should be made. One main objective, therefore, in the proposals made in this paper is to allow, first, the release of manpower sufficient to permit a substantial recovery of production for export, and, second, the greatest possible freedom for British exporters to find a market for this production. The supplies requisite to help release the necessary manpower are discussed in Chapters 1 and 2, supported by the calculations in Annex C. The question of maximum freedom of the British export trade is examined in Chapter 5.

8. The fourth purpose of the following proposals is to prevent any significant deterioration in the British reserve of gold and dollars during 1945. A further large increase in overseas liabilities is inevitable. But it is not inevitable that the present volume of our reserves, which are not much above danger point, should be depleted.

9. During 1943 and 1944 our reserve position has been sensibly improved through dollar receipts on account of the pay of American Forces in the United Kingdom and elsewhere in the Sterling Area. With the end of the German war and with the movement of the Pacific war further from the shores of Australia, this source of income will largely dry up. According to our latest estimates, our net reserves are likely to have reached their peak in the latest return which we have made to the U.S.



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Treasury, that is to say, at the end of August 1944, when the net reserves of gold and dollars stood at \$1,748 millions. Experience shows that it is extremely difficult to forecast the state of our reserves much in advance of the facts; for this balancing figure represents the difference between two large items, namely, our outgoings and our incomings, so that small proportionate changes in the two latter items may have a large proportionate effect on the difference between them. The latest estimates from London, however, indicate that by the end of this year the net reserves will have fallen from \$1,748 millions to \$1,485 millions, largely as a result of the falling off of receipts from American troops previously based on the U.K. and in Australia. This adverse factor will be accentuated in the course of 1945 and the forecast of the reserves at the end of 1945, as shown in Annex A, is for a reduction to the dangerously low level of \$1,130 millions; that is to say, a reduction of no less than \$600 millions from the last reported figure as at August 1944. This is little above the minimum level of \$1 billion below which, as is indicated in Annex A we could not go except in circumstances of the gravest emergency. Meanwhile, our overseas liabilities will have been increased by (say) \$3 billions. These figures are given under the reserve that they are partly based on what at this date can only be conjectures which can easily be falsified by events, by the course of military dispositions in 1945 and by the measure of our success in recovering our exports. Nevertheless, the trend is clear, and we regard it is essential that some means should be found to reverse this trend from which otherwise serious consequences may flow.

10. The exiguous amount of our reserves and the changes they have undergone compared with the situation in the United States, is well illustrated in the following table:-

	U.S. net gold reserves \$ millions	U.K. net gold & dollar reserves \$ millions
31st August, 1938	13,136	4,200
31st August, 1939	16,646	2,450
31st December, 1939	17,649	2,330
31st December, 1940	21,995	300
31st December, 1941	22,737	395
31st December, 1942	22,726	705
31st December, 1943	21,937	1,300
31st December, 1944		1,485*
31st December, 1945		1,130*

\* Provisional estimates, that for 1945 being highly conjectural

There is also a serious disparity in comparison with the position of others of the United Nations which not only possess



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relatively larger reserves but have no important overseas liabilities against them. For example, the reserves of certain countries are believed to be as follows: -

Russia	\$1.6 billions
France	2.25 "
Argentina	1.1 "
Belgium	.8 "
Netherlands	.9 "
China	.75 "

The gold reserves of Russia by the end of 1945 should very considerably exceed the figure reported above.

11. If such a serious reserve position as is forecasted above is actually allowed to develop, the Government of the United Kingdom will be precluded on financial grounds from taking a share in many responsibilities for which it would be to the mutual interest of the United States and the United Kingdom Governments that they should be jointly responsible. Perhaps it is scarcely necessary to enlarge on the consequences of the United Kingdom finding itself at the end of 1945 in such financial straits as those here indicated. The weakness of the reserves in relation to the liabilities, coupled with the prospect of at least three years during which there will be a large running deficit on current account, presents a problem of formidable dimensions which cannot easily be remedied. The dangers of the situation have been accumulating gradually, and unless there is a radical change in handling the position, such as the Quebec decisions contemplate, much worse than inconvenience will ensue. We lay great stress, therefore, on some action on the lines of the proposals in Chapter 3 below.

12. The aggregate of Lend-Lease aid under the headings dealt with in Chapters 1, 2 and 4 below amounted, in 1944, on the basis of the accepted programmes for that year, to about \$10 billions. It is believed that the amount of aid asked for in these chapters under the programmes for 1945 will aggregate about \$6 billions, on a basis which, except in the case of oil, the figure for which has not been netted



in 1944 in respect of oil received on Lend-Lease and subsequently returned on Reciprocal Aid, is on a strictly comparative basis. In relation, however, to both these figures it should be explained that, as noted in paragraphs 7 and 8 of Chapter 1 and the first section of Chapter 4, there are additional items which no doubt would be chargeable against the Lend-Lease appropriation. These cannot be so large as to distort the general picture, but we are not in a position to estimate them accurately. The aggregate of \$6 billions above takes no account, moreover, of the proposals to be made in Chapter 3 below, to which, as has just been mentioned, we attach special importance.

13. The programmes proposed in the following chapters set forth a particular detailed pattern by which the estimated results can be reached. While the pattern is the best which we have been able to devise, we recognise that in certain categories some agreed variation in detail may be both desirable and possible without impairing the over-all result.

14. In conclusion we ask that the objectives outlined herein should be agreed in principle and in terms of aggregate aid. If, in the event, the basic assumption that the first year of Stage II will begin on January 1st 1945 is falsified, such adjustments as are then necessary in specified war requirements may be jointly discussed within the broad cover of this general agreement.



TOP SECRETCOPY NO. 75<sup>8,</sup>CHAPTER 1.M U N I T I O N SI. BASIS OF CALCULATION AND ASSUMPTIONS

1. Our total requirements of munitions for the Armed Forces of the British Empire and Allied Forces supplied by us for the first year of Stage II have been arrived at in relation to:

(a) The tasks assigned to us at the Quebec conference and the planned deployment of our Forces against Japan.

(b) The size of the Forces we must maintain in 1945 not only to prosecute the war against Japan but also to meet our other commitments, particularly Forces of Occupation and Overseas Garrisons.

2. Our total requirements have also been based on the following assumptions:

(a) That Stage II begins on January 1st, 1945.

(b) That we can count on receiving from the United States and other countries any deficit there may be at end 1944 on supplies accepted for procurement for 1944 less, of course, any cancellations that may be notified meantime.

(c) That the duration of Stage II will be 18 months.

Note: Should the German war continue at a high level of intensity well into 1945 then our requirements in 1945 will be different from those now tabled for the first year of Stage II.

3. In calculating what we need from the United States we have had regard to:

(a) Existing capacity, i.e. we have not asked for items which the munitions industry in the United States is not already producing or is not laid out to produce.

(b) The fact that many types we need are made only in the United States.

(c) The probability that we shall not be able to obtain from Canada and the rest of the Empire a larger proportion of our total requirements in Stage II than the current level of supplies from those countries bears to our total supplies from all sources at the present time.



- (d) Stocks of equipment surviving at the end of 1944 (for this purpose the assumed end of the German war).
- (e) Out limited manpower resources in the United Kingdom (see Annex C).

Note: No requirements have been included for items now procured on direct Lend-Lease by the Australian and New Zealand Governments, notably Aircraft, since these Forces operate in a sphere of United States strategic responsibility.

## II. THE PLANNED MUNITIONS PRODUCTION IN THE UNITED KINGDOM

4. Munitions production in the United Kingdom is limited by two factors - first, capacity, and second, the shortage of manpower for our essential needs.

As regards the first, we could not at this stage of the war, contemplate installing on any large scale new capacity to produce things which hitherto have not been produced in the United Kingdom and for which capacity exists in the United States. Not only would it be wasteful to do so, but supplies from such new capacity could not possibly be available in time.

As regards the second, Annex C gives the provisional distribution of our total available manpower in the first year of Stage II on the assumptions that we receive from the United States the supplies for which we now ask and that the supplies from Canada and the rest of the Empire are maintained in Stage II at roughly their existing proportion of our total supplies.

5. The manpower in the munitions industries (iron and steel, engineering, chemical and shipbuilding) occupied on work for the three Supply departments, is the best measure we have of our munitions effort.

6. In paragraph 15 of Annex C, we show, that the proportion of our total munitions needs which we are planning to produce in the United Kingdom in the first year of Stage II is some 66% of our 1944 level of munitions production.

Annex C also shows how we arrive at this figure and demonstrates very clearly how comparatively little we shall be able to do, consistently with this level of munitions



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production, to recover some of the ground we have lost in the spheres of export trade, civilian standards of living, housing, and industrial maintenance.

### III. THE SCALE OF OUR NEEDS FROM THE UNITED STATES

7. The only basis upon which we can give a broad indication of the relative size of the programme we are now submitting to the existing level of supplies is on a basis of value. We have used the best information available to us of current prices. On that basis the munitions requirements from the United States in the first year of Stage II related to the supplies in 1944 are as shown in the following table:-

	<u>Billion Dollars</u>	
	<u>1944</u>	<u>First Year of Stage II</u>
Navy	.694	.416
Ground Army(i)	2.304	.846
Air	2.751	1.832
	-----	-----
Total(ii)	5.749	3.094
	-----	-----
	100%	53.8%

#### Notes:

(i) We have included in these figures the estimated cost of the military requirements procured through F.E.A. aggregating ~~.110~~ ~~///~~ and .077 for 1944 and 1945 respectively. The non-munitions programmes are reduced accordingly.

(ii) We have not attempted to cover in these estimates either in 1944 or in the first year of Stage II the cost of such services as ship repairs, delivery charges in the United States, costs of modification and training centres. The United States authorities would no doubt be able to make the appropriate allowances for such services having regard to the size and nature of the programme.

8. The above cover our known requirements of munitions. They do not, of course, make any allowance for such share of new developments coming into production during 1945 as might properly be assigned to British Forces for operations later in that year. Moreover, experience in the past has shown that some provision is necessary to cover unforeseen contingencies and what are known as "spot" requirements. We



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ask that a suitable overall allowance (say 10%) should be included under these latter headings.

IV. CHARACTER OF OUR REQUIREMENTS FROM THE UNITED STATES

9. A large part of the requirements are for items which are made only in the United States and the balance are items which we cannot make in the United Kingdom, either because of lack of time in which to change existing capacity or because of the limitation of our manpower resources. So far as our knowledge of United States capacity permits, we have avoided asking for any items or quantities, the supply of which would present insuperable difficulties. If, however, upon examination, there appears to be a strong case for our making more of certain items in the United Kingdom in return for a corresponding increase in the supplies of other items from the United States, we should be ready to consider how far it would be possible in the time available to vary our requirements accordingly.

We have also endeavoured to restrict, as far as possible, the number of items for which we ask from the United States. It is of the essence of our case that if supplies in one direction are curtailed, there should be corresponding increases in other directions if the total available is to be adequate to match our military obligations, having regard to the limitation of our manpower resources.

V. THE OVERALL SUPPLY OF OUR NEEDS IN THE FIRST YEAR OF STAGE II COMPARED WITH 1944.

10. Although our requirements have not been framed primarily with a view to maintaining existing proportions, approximate equity as between the 1944 and Stage II level of supplies in the various countries from which our supplies are drawn, is a factor which probably ought not to be ignored. The following table illustrates the position: -



12.

	<u>Proportion of Supplies in 1944</u>	<u>Proportion of Supplies in First year of Stage II</u>
United Kingdom	60%	64%
United States	27%	23%
Canada and the rest of the Empire	13%	13%

VI. INDICATION OF QUANTITIES OF INDIVIDUAL ITEMS.

11. In preceding paragraphs we have described in general terms the scale and character of our needs. In Sections VIII, IX and X, we show the totals for each of the main groups of items, and, within these groups, details of all of the more important items. These statements contrast the specific quantities needed from the United States for the first year of Stage II with the agreed 1944 level and they also show the dollar values used.

12. The following are explanatory notes regarding our requirements in the three main groups: Navy, Ground Army and Air.

13. Navy (Other than Fleet Air Arm included in Air Force Requirements).

The Naval requirements (excluding Fleet Air Arm and cost of Ship Repairs) in the first year of Stage II are estimated to be of the order of \$416 millions compared with a level of supply during 1944 estimated at \$694 millions. The ships for which we ask are required for the Japanese war. Practically all the other items are required to complete, convert and outfit ships intended for the Japanese war.

The Admiralty maintain that, speaking generally, Naval requirements fluctuate in the light of strategic or tactical changes to a greater degree than other munitions requirements. If, therefore, we can be assured that the Navy Department will take due note of Admiralty requirements when initiating or revising production schedules, our Naval requirements might be regarded as outside any arrangement of a protocol character such as is advocated in paragraph 16.



14. Ground Army.

The Ground Army requirements from the United States in the first year of Stage II are estimated at some ~~\$860~~<sup>846</sup> millions compared with \$2,304 millions programmed for the British in 1944. The vast majority of these requirements are now for items of U.S. type which cannot be produced in the United Kingdom; in formulating the programme, moreover, we have cut down the number of items from some 660 to rather less than 400. The programme which we are now presenting consists largely of jungle equipment, special vehicles (including amphibians), engineer stores, and weapons and ammunition, all of which are needed for the war against Japan.

15. Air.

The air requirements comprise three elements - aircraft for the R.A.F., aircraft for the Fleet Air Arm, and a group including engines, bombs, radio and radar, and other components and equipment. We estimate the 1944 level of supplies under these three heads at \$2,751 millions; the programme for the first year of Stage II for which we ask is estimated at \$1,832 millions. As already explained these figures exclude aircraft and ancillary stores supplied to the Australian and New Zealand Air Forces. The requirements are primarily those which we cannot produce at all or in sufficient quantities in the United Kingdom in time for operations against Japan. Without a flow from the United States of components and ancillary stores on the scale suggested it would be impossible for us to maintain the parallel aircraft production proposed in the United Kingdom.

In addition there are certain services and facilities, for example the British Flying Training Schools, which have been provided in the past and which we would wish to see continued.

VII. GENERAL CONSIDERATIONS.

16. It will be obvious that in the aggregate the Munitions requirements of the United Nations in Stage II will be substantially less than could be provided from existing



14.

capacity. It is clearly desirable for production reasons and for the planning, both in the United States and the United Kingdom, of the efficient utilisation of our manpower resources that the programmes as now agreed should be as firm and as definite as it is humanly possible to make them. For these reasons we submit that consideration should be given to the according of a protocol validity to the level of supplies agreed as the outcome of the present discussions. It will be clear that the requirements of some items are much more liable to variations in tactical and even strategic plans than others, but the bulk of the requirements for the Army and the Royal Air Force and the aircraft for the Fleet Air Arm might well be covered by firm assignments subject to variation only in the event of some major and unforeseen change in the course of the war. We therefore propose that consideration should be given to this point and the items jointly agreed to be suitable for such treatment appropriately marked.

17. In the Introduction and also in the note to Paragraph 2 of this Chapter we make the point that the requirements now presented assume the German war to end in 1944. If it did not, firstly, our requirements for 1945 would inevitably be increased; secondly, our requirements for the first year of Stage II would be modified, although we would not expect the change to be very substantial in total.

The representatives of our Service and Supply Departments will of course be discussing in the ordinary way the programmes for supply during the continuance of the German war if it is in fact protracted beyond the end of 1944.



VIII. NAVY REQUIREMENTS FOR FIRST YEAR OF STAGE II

The following statement indicates the requirements of the British Admiralty for deliveries in the first year of Stage II and compares them with the estimated deliveries during 1944. N.B. It is assumed throughout that the first year of Stage II is co-terminous with the Calendar Year, 1945.

SUMMARY

	<u>1944</u> \$ millions	<u>First Year of</u> <u>Stage II</u> \$ millions
<u>Section (A): Ships and</u> <u>Craft</u>	459.06	157.70
<u>Section (B): Other</u> <u>Equipment</u>	234.57	258.28
<u>GRAND TOTAL</u>	<u>693.63</u>	<u>415.98</u>

	<u>1944</u>		<u>First Year of</u> <u>Stage II</u>	
	<u>Quantity</u>	<u>Value</u> \$ millions	<u>Quantity</u>	<u>Value</u> \$ millions
(A) <u>Ships and Craft:</u>		<u>459.06</u>		<u>157.70</u>
<u>Total</u>		<u>459.06</u>		<u>157.70</u>
Escort Carriers	6	82.036	-	-
Destroyer Escorts	11	52.354	-	-
Frigates	16	78.152	-	-
A/S Vessels	1	1.935	-	-
Large Minesweepers	5	17.940	-	-
Wooden Minesweepers	4	2.580	-	-
Motor Torpedo Boats	16	2.400	-	-
Motor Launches	26	3.900	-	-
Salvage Vessels	1	1.750	-	-
Rescue Tugs	5	4.782	-	-
Fleet Tender	1	0.288	-	-
Boom Defence				
Vessels	5	72.875	-	-
Auxiliary Cargo				
Vessels	2	1.600	-	-
Fleet Repair Shops	2	34.261	3	51.400
Landing Ship Dock	2	7.870	3	11.800
Landing Ships				
(Emergency Repairs)	-	-	2	4.500
Landing Ships Tank	35	67.200	35	67.200
Landing Ships				
Infantry (Large)	-	-	2	6.000
Landing Craft				
Infantry (Large)	52	25.636	32	15.800
Landing Craft				
Personnel (Large)	150	1.500	100	1.000
(B) <u>Other Equipment:</u>				
<u>Total</u>		<u>234.57</u>		<u>258.28</u>
<u>Guns and Mountings</u>	-	<u>16.930</u>	-	<u>18.900</u>
<u>Ammunition</u>				
(000 rounds)	19,000	<u>40,000</u>	11,000(a)	<u>50.900</u>
<u>Torpedoes:</u>				
<u>Total</u>		<u>14.000</u>		<u>9.000</u>
22.4" U.S.	364	4.400	720	9.000
British Type	800	9.600	-	-



16.

	<u>1944</u>		<u>First Year of Stage II</u>	
	<u>Quantity</u>	<u>Value \$ millions</u>	<u>Quantity</u>	<u>Value \$ millions</u>
<u>Depth Charge Stores</u>				
<u>Total</u>		<u>.653</u>		<u>1.119</u>
Y Guns	100	.271	200	.542
Arbors	12,500	.200	13,500	.202
Impulse Charges	7,000	.182	15,000	.375
 <u>Fire Control Equipment:</u>				
<u>Total</u>		<u>24.990</u>		<u>9.800</u>
Mark 37 ) Director Systems)	19	3.990	28	5.266
Other F.C. Equipment	-	21.000	-	4.534
 <u>Engines: Total</u>				
		<u>35.000</u>		<u>6.850</u>
Large	940	23.500	-	-
Small	6,000	10.500	4,466	6.850
 <u>Engine Spares:</u>				
<u>Total</u>		<u>43.000</u>		<u>91.67</u>
Automatic Flow ) Spares, Replen- ) ishment Spare ) Parts, Miscell- ) aneous Engine ) Spares )				
<u>Radio and Radar</u>		<u>21.000</u>		<u>32.000(b)</u>
 <u>Naval Stores:</u>				
<u>Total</u>		<u>7.000</u>		<u>5.750</u>
Anchors and Chair Cable	-	1.000	-	1.000
Electrical Equipment	-	2.000	-	1.750
Optical and Navigational Instruments	-	2.000	-	.500
Salvage Equipment	-	1.000	-	1.500
Boiler Tubes, Castings, etc.	-	1.000	-	1.000
 <u>Works and Other Items</u>				
		<u>3.000</u>		<u>1.305</u>



17.

	<u>1944</u>		<u>First Year of Stage II</u>	
	<u>Quantity</u>	<u>Value \$ millions</u>	<u>Quantity</u>	<u>Value \$ millions</u>
<u>Victualling Stores</u>				
<u>Total</u>		<u>21.250</u>		<u>21.000</u>
Provisions	-	<u>10.000</u>	-	<u>10.000</u>
Clothing	-	<u>7.000</u>	-	<u>8.500</u>
Mess gear, Oilskins, etc.	-	<u>4.250</u>	-	<u>2.500</u>
 <u>Raw Materials</u>		 <u>2.000</u>		 <u>1.000</u>
 <u>Miscellaneous Bulk Naval Stores</u>		 <u>6.000</u>		 <u>9.000</u>
 <u>Medical and Dental Stores</u>		 <u>.750</u>		 <u>.500</u>

NOTES:- (a) Includes 640,000 V.T. Fuzes  
 (b) Includes \$17.5 million for 115 sets of  
 Radar, Type S.P.



IX. GROUND ARMY REQUIREMENTS FOR FIRST YEAR OF STAGE II

Below are listed, as examples, some typical items which will appear in the Submission, together with estimated dollar values for the remaining items and a comparison with the 1944 provision. The calculations assume throughout that the first year of Stage II is co-terminous with the Calendar year 1945.

		<u>\$ Millions</u>			
<u>Total 1944 Provision</u>		<u>2,304</u>			
<u>Total Requirement for First year of Stage II</u>		<u>846</u>			
		<u>1944</u>		<u>First year of Stage II</u>	
	<u>Quantity</u> <u>(Provision)</u>	<u>Value</u> <u>\$ Millions</u>	<u>Quantity</u> <u>(Requirement)</u>	<u>Value</u> <u>\$ Millions</u>	
<u>A.F.V.'s (A.S.P.I.)</u>					
<u>Total</u>		<u>735</u>			<u>77</u>
Tanks, Light	2,297	93	500		27
Tanks, Medium M.4 DD/BB (w/e weapons)	-	-	200		13
Other medium Tanks	8,961	485	-		-
Carrier Personnel 15 cwt. Half Track	4,000	33	2,500		31
Other items	...	124	...		6
 <u>"B" Vehicles (A.S.P.I.)</u>					
<u>Total</u>		<u>274</u>			<u>107</u>
Truck $\frac{1}{4}$ ton 4x4 Command (Jeep)	43,199	61	54,000		76
Trailer $\frac{1}{2}$ ton 2 wh. cargo (Jeep Trailer)	5,000	1	20,000		5
Truck $2\frac{1}{2}$ ton 6x6 amphibian (DUKW)	3,500	29	750		6
10 ton Trucks (G.S.L.C.)	5,800	57	-		-
6 ton Trucks	9,041	28	-		-
Tractor Heavy M4	Nil	Nil	200		5
Other vehicles	...	98	...		15
 <u>Guns &amp; Small Arms (A.S.P.I.) Total</u>					
<u>Total</u>		<u>120</u>			<u>17</u>
Gun 155 mm. S.P.	-	-	32		3
Rifle Cal. .30 M.I. (Garand)	-	-	15,000		1
Carbine cal. .30 M.I	17,100	1	75,000		5
Trailer M.10	-	-	1,200		1
Gun 155 mm.	68	4	-		-
How. 240 mm.	28	3	-		-
8" Gun	14	1	-		-
Other items	...	111	...		7
 <u>Gun Ammunition (A.S.P.I.) (000's) Total</u>					
<u>Total</u>		<u>210</u>			<u>56</u>
75mm. Gun H.E. & APC	3,240	32	-		-
75mm. " Sm.	719	5	320		2
75mm. " Cannister	...	...	510		5
105mm. How. H.E.	1,330	22	535		9
" " H.E.A.T.	96	2	50		1
" " Sm. (in coloured)	188	4	140		3
" " Cannister	20	-	20		-
155mm. Gun H.E. & Sm.	250	6	334		8
Fuzes, special	250	5	1,100		20
Other items	...	134	...		8



## IX (Continued)

	1944		<u>First year of Stage II</u>	
	Quantity	Value	Quantity	Value
	(Provision)	\$ millions	(Requirement)	\$ millions
<u>S.A.A. (A.S.P.I) (000,000's)</u>				
<u>Total</u>		<u>59</u>		<u>35</u>
.30" Carts.	522	27	-	-
.30" Carbine Ball & Tracer	56	1	75	2
.50" Carts.	180	28	200	32
Other items	20	3	-	1
 <u>Procurement from U.S.</u>				
<u>Navy Total</u>		<u>17</u>		<u>32</u>
L.V.T. 2	127	4	-	-
L.V.T. 3 & 4	414	12	1,000	21
L.V.T.(A)(4)	3	-	350	8
L.V.T.(R) 4.5"	-	-	36	1
L.V.T.(R) 7.2"	-	-	24	1
Other items		1		1
 <u>Signal Equipment</u>				
<u>(A.S.P.I) Total</u>		<u>55</u>		<u>29</u>
Radio Set SCR.499	10	(	200	2
" " SCR.300	2,988	(	2,000	1
" " AN/PRC.4 (say)	Nil	-	17,000	5
Cable W.130 (miles)	2,600	-	200,000	14
Other items		54		7
 <u>Quartermaster (A.S.P.I &amp; III)</u>				
<u>Total</u>		<u>89</u>		<u>190</u>
Jungle Clothing & Equipment	-	2	-	122
Standard Clothing & Textiles	-	49	-	30
Fork Lift Trucks, Cranes & Spares	-	6	-	5
Miscellaneous (including Insecticides)	-	32	-	33
 <u>Medical</u>				
Penicillin, Drugs & other stores	-	<u>25</u>	-	<u>25</u>
 The calculation of the detailed requirements for the undermentioned categories is not yet completed but the aggregate amounts shown in each group are the best estimates we can make.				
<u>Engineer Stores (A.S.P.I &amp; III)</u>				
<u>Total</u>		<u>245</u>		<u>87</u>
Crawler Tractors Class I & II	-	30	-	13
Class III & IV	-	16	-	7
Cranes & Shovels (Class 2 to 7)	-	16	-	7
(Class 10 to 12)	-	6	-	7
Bailey Bridge	-	11	-	-
I.C. Engines	-	25	-	-
Landing Mat	-	20	-	8
Earth Moving Equipment	-	32	-	14
Generators	-	15	-	1
Outboard Motors, etc.	-	6	-	3
Pumping Sets	-	10	-	5
Spares	-	17	-	}
Miscellaneous	-	41	-	22



## IX (Continued)

	<u>1944</u>		<u>First year of Stage II</u>	
	<u>Quantity</u> <u>(Provision)</u>	<u>Value</u> <u>\$ millions</u>	<u>Quantity</u> <u>(Requirement)</u>	<u>Value</u> <u>\$ millions</u>
<u>Ordnance (ASP III)</u>		<u>127</u>		<u>21</u>
<u>Chemical Warfare</u> <u>(ASP I and III)</u>		<u>13</u>		<u>5</u>
<u>Signals (excluding B.A.C.)</u> <u>(ASP III)</u>		<u>152</u>		<u>14</u>
<u>Transportation</u> <u>(ASP I and III)</u>		<u>72</u>		<u>70</u>
<u>Procurement from</u> <u>U.S.A.A.F.</u>				<u>4</u>
<hr/>				
<u>Procurement from F.E.A.</u> <u>for Military End-Use Total</u>		<u>111</u>		<u>27</u>
Tyres		<u>75</u>		<u>30</u>
Tyre Fabric		<u>2</u>		<u>5</u>
Spares for Non-Standard Vehicles		<u>6</u>		<u>4</u>
Photographic Stores		<u>5</u>		<u>3</u>
Quartermaster Items		<u>1</u>		<u>1</u>
Office Machinery		<u>6</u>		<u>1</u>
Paper and Paper Board (for tropical packaging)		<u>-</u>		<u>20</u>
Other Paper for Military Use		<u>1</u>		<u>2</u>
Nylon Yarn and Polymer		<u>10</u>		<u>6</u>
Other Raw Materials exclusively for Military use		<u>.5</u>		<u>5</u>



X AIR REQUIRMENTS FOR FIRST YEAR OF STAGE IIAircraft, Components, Equipment, Radio, Raw Materials and Bombs

N.B. It is assumed throughout this Table that the first year of Stage II is co-terminous with the Calendar Year, 1945.

	<u>1944</u>	<u>First Year of Stage II</u>
	<u>Value</u>	<u>Value</u>
<u>Quantity</u>	<u>\$ Million</u>	<u>Quantity (Requirement) \$ Million</u>
<u>GRAND TOTAL</u>	<u>2,751</u>	<u>1,832</u>
<u>Aircraft: Total</u>		
<u>(including initial spares)</u>		
Super Heavy Bombers	--	100
Liberator B-24	916	170
Mustang P-51	792	1,320
Thunderbolt P-47	778	540
Skymaster C-54	1	100
Dakota C-47	846	1,380
Avenger TBM	186	744
Corsair (FG)	1,423	1,140
Hellcat F6F	666	690
-- XFR	--	20
Others	4,801	358
	1,546	6,562
	1,061	
<u>Helicopters and Gliders:</u>		
<u>(including initial spares): Total</u>		
Gliders	656	1,400
	34	69
	29	61
<u>Components and Equipment</u>		
<u>(including initial spares)</u>		
<u>and Raw Materials</u>		
	<u>Total</u>	
Merlin Engines	12,865	10,630
Propellers for Mosquito, Lancaster, Lincoln, and Tudor	27,530	14,260
Others		
	486	340
	246	213
	39	20
	201	107
<u>Supplementary Maintenance</u>		
<u>Spares: Total</u>		
	150	100
<u>Radio &amp; Radar: Total</u>		
<u>(including initial spares)</u>		
AN/APN-4 - Long range Navigational Device	8,000	10,500
AN/APS-4 - 3 cm Search Radar	3,500	2,250
SCR-720 10 cm Interception Equipment	1,600	1,500
SCR-522 VHF Aircraft Transmitter Receiver	18,000	10,510
Others		
	295	162
	6	9
	55	35
	23	22
	22	12
	189	84
<u>Bombs: Total</u>	<u>346,000</u>	<u>165,000</u>
	(Short Tons)	(Short Tons)
	240	100



TOP SECRETCOPY NO. 75CHAPTER 2.NON-MUNITIONS REQUIREMENTS IN 1945.I. BASIS OF CALCULATION AND ASSUMPTION

1. Our estimates have been made on the basis that our aims during the first year of Stage II are:-

- (a) to carry out the tasks assigned to us at the Quebec Conference.
- (b) to tackle the task of re-housing and to satisfy minimum requirements for maintenance and re-equipment at home.
- (c) to start rebuilding our export trade.
- (d) so far as the home market is concerned, to begin to restore on a modest scale the supply of manufactured goods from the level of about fifty per cent of 1938, at which it now stands, to a level of perhaps sixty per cent.
- (e) to provide that degree of easement in the standard of rationing needed to enable the civilian population after five years of war efficiently to carry out its part in advancing these ends.

2. It has been assumed that the food, raw material, and other non-munitions needs of the United Kingdom should continue to be met through Stage II, as hitherto, by Lend-Lease so far as they may be drawn from American sources, after due regard to stocks and what may be obtainable from the British Empire and other sources. It is our view that these supplies are no less part of the war effort than the military supplies already discussed. Indeed, oil and shipping are largely used directly in the war effort. Civilian mouths have to be fed and the economy has to be kept going. If we drew our meat and dairy products to the maximum from Australia and New Zealand, bought all our oil from British sources in the Middle East and elsewhere, and turned our own shipping on to supplying ourselves as its first task, the Allied war effort in the Far East would be seriously impeded. In fact, Australian and New Zealand foodstuffs go to supply troops in the Far East, as



does oil from the Middle East and much of our shipping. As a corollary we have to make good our requirements from the Western Hemisphere.

3. In preparing our programme of non-munitions requirements under the five heads below, regard has been had to the desirability of eliminating any items of particular difficulty from an export standpoint.

We have therefore decided to exclude -

- (i) All metals, minerals and chemicals (except certain items for specialised military end use which are now shown in the military programme, Chapter 1.)
- (ii) All manufactured articles for civilian use with the exception of open cast mining machinery and agricultural machinery and accessories.

We have assumed that Stage II will begin on 1st January, 1945.

SUMMARY OF NON-MUNITION REQUIREMENTS IN STAGE II

	Appropriation Programme 1944-1945 (\$ millions)	Estimated Amount First year of Stage II
Food, etc.	1,368	1,064
Oil	956 **	475 **
Shipping	1,062	993
Raw Materials	444	222
Miscellaneous Goods	042	013
	-----	-----
	3,872 *	2,767
	-----	-----

Details of each individual programme will be found later in this chapter.

\* \$4,343 billion less an amount representing Dominion and Indian estimates and U.K. items not now covered under the heading of non-munitions for Stage II.

\*\* The estimate in the 1944-1945 Appropriation was made on a gross basis. As it has recently been decided to omit from Lend-Lease and Reciprocal Aid respectively oil of U.S. origin retransferred to the U.S. Forces (in the U.K.) the estimate for Stage II is made on a net basis. The comparative gross figure for Stage II would be .70.

Our oil and shipping programmes both cover the requirements of the whole of the Empire (excluding Canada and Newfoundland), since the U.K. is responsible, broadly speaking, for programming oil supplies and shipping services for these



territories. But the other programmes cover only the requirements of the U.K. (and Colonies) and the corresponding requirements of the Dominions concerned and India, which are the responsibility of the respective governments, are shown in Chapter 4. As regards valuation it is assumed that currently ruling prices remain unchanged.

## II. FOOD, ETC.

In Annex B on civilian living standards in the United Kingdom and elsewhere in this paper, strong reasons are given, which we hope will be found convincing, why some easement should be allowed to the civilian population of the United Kingdom when the German war is over. There is no intention while the war against Germany lasts to increase rations of meat, bacon and other staples, except for possible temporary modifications. But the Ministry of Food hopes by Lend-Lease supplies from the United States in accordance with the programme set forth in detail below and by supplies from other sources, together with the use of certain stocks already in Great Britain, which it might be possible to reduce to a lower level after the defeat of Germany, to be able to raise British consumption to something nearer the pre-war level. It is estimated that for the most important commodities involved stocks might be drawn on to the extent of 250,000 tons of sugar, 105,000 tons of fats, 92,000 tons of corned beef, and 115,000 tons of carcass meat. If these withdrawals from stocks and supplies from other sources can be supplemented by the programme of Lend-Lease supplies from the United States set forth below, there will be a reasonable prospect of the target aimed at by the Ministry of Food being reached. The actual achievement of these increases of consumption, assuming the acceptance of our proposed Lend-Lease programme, would, of course, still be conditioned by shipping considerations throughout the world and by the most urgent needs of liberated Europe. In any case it is contemplated that rationing of the more important commodities will continue.



25.

The programme of Lend-Lease supplies called for by the above policy does not require a higher appropriation than that for the fifth Lend-Lease estimates. There are, however, important changes in the composition of the programme. In particular, there is a substantial reduction in the requests for dairy products and eggs, and also for canned meat. On the other hand, there is an increase in the requirements of carcass meat. Particular importance is attached to the best possible effort being made to meet this requirement, since there is no item more essential (unless it be an increased ration of sugar) to improve the quality of the diet with which the British civilian has had to remain content for so long a time. We are very conscious that the proposal in respect of carcass meat will present difficulties, but we ask nevertheless that it may be sympathetically received.

The food requirements for the first year of Stage II for the United Kingdom, British Services overseas, and certain British Colonies, are set out below.

Requirements of Services overseas do not differ materially from the latest estimates for the fiscal year ending June 30, 1945. It should be noted that even substantial demobilisation in the second half of 1945 will not result in any considerable modification of stated requirements since the resultant diminution in military consumption will be largely off-set by a greater civilian demand.

The programme further assumes that no substantial new sources of supply become available to the U.K. during the year 1945 and that the requirements of United States Services of produce from the Southern Dominions will remain as in 1944.

We have not included in this programme any commodities which are not already supplied to us under Lend-Lease except flour. The Ministry of Food are not asking on their own initiative for any extensions of the scope of food commodities to cover, for example, certain items, such as fresh and canned



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fruit, which were previously excluded from the Lend-Lease programme on the ground that they must be regarded as semi-luxuries. If, however, in the changed circumstances, and having regard to the purpose of providing easement to the British civilians wherever possible, the American Administration should feel able to offer any such supplies, naturally they would be extremely welcome to the British consumer.



FOOD, SEEDS AND TOBACCO

United Kingdom and Services Overseas  
Lend-Lease Requirements from U.S.A.

F O O D

Commodity	Estimates as Submitted for 5th Lend-Lease		Estimates for First Year Stage II	
	Quantity ( <u>'000 Long Tons</u> )	Value ( <u>\$000</u> )	Quantity ( <u>'000 Long Tons</u> )	Value ( <u>\$000</u> )
<u>Dairy Products &amp; Eggs</u>				
Cheese	110.7	83,695	87	67,000
Evaporated Milk	297.4	82,707	205	53,500
Dried Milk	51.1	22,018	53	20,900
Shell Eggs	-	-	20	14,000
Dried Eggs	62.2	184,050	35	98,000
<b>TOTALS</b>	<b>521.4</b>	<b>372,470</b>	<b>400</b>	<b>253,400</b>
<u>Fish &amp; Meat</u>				
Carcase Meat	360	205,560	427	226,500
Casings	3	6,275	2	4,000
Canned Meat	230.3	191,350	154	111,800
Bacon & Ham	192.2	119,872	135	71,300
Canned Fish	90	42,430	71	35,900
<b>TOTALS</b>	<b>875.5</b>	<b>565,487</b>	<b>789</b>	<b>449,500</b>
<u>Fruit &amp; Vegetables</u>				
Dried Fruit	139.9	56,230	113	35,200
Apples	-	-	40	8,800
Fruit Pulp	20	4,840	20	5,600
Fruit Juices	15	21,105	13	15,300
Jam & Marmalade	10.1	4,180	5	1,800
Canned Fruit (For the Forces)	52.5	19,740	26	7,600
Dried Pulses	89.6	16,447	81	13,330
Canned Potatoes	40.4	9,955	35	10,700
Baked Beans	27.1	4,000	24	3,940
Other Canned Veg.	111.7	28,173	48	11,040
Dehydrated Potatoes	12.8	14,255	10	10,530
Other Dehydrated Veg.	5.8	7,555	10	13,000
<b>TOTALS</b>	<b>524.9</b>	<b>186,480</b>	<b>425</b>	<b>136,840</b>
<u>Grains &amp; Cereal Prod.</u>				
Flour	-	-	243	23,400
Maize	145	8,295	120	9,000
Starch & Starch Prod.	61.8	6,114	126	13,350
Glucose	2	192	2	260
Rice	39	6,732	13	1,520
Soya Beans & Flour	52.5	6,150	18	1,700
Oatmeal	11	2,420	7	1,030
Other Cereal & Cereal Products	54.5	21,930	4	1,020
<b>TOTALS</b>	<b>365.8</b>	<b>51,833</b>	<b>533</b>	<b>51,280</b>
Sugar (For the Forces)	50.2	8,043	22	3,780
<u>Lard, Fats &amp; Oils</u>				
Lard	214	88,970	214	76,300
Tinned Margarine	37.9	16,500	33	13,200
Other Fats & Soap	2.1	1,068	8	2,700
<b>TOTALS</b>	<b>254</b>	<b>106,538</b>	<b>255</b>	<b>92,200</b>
<u>Other Foodstuffs</u>	9.6	7,466	5	6,000
<b>TOTALS</b>	<b>2,601.4</b>	<b>1,298,317</b>	<b>2,429</b>	<b>993,000</b>
In addition there will be some requirements for certain British Colonies, valued approximately				<u>2,000</u>
<b>TOTAL VALUE OF FOOD</b>	<b>2,601.4</b>	<b>1,298,317</b>	<b>2,429</b>	<b>995,000</b>

S E E D S   A N D   T O B A C C O

Seeds	10	20,330	12	10,000
Tobacco (For the Forces)	37.3	50,000	45.5	59,400
<b>TOTAL VALUE OF FOOD, SEEDS &amp; TOBACCO</b>	<b>2,648.7</b>	<b>1,368,847</b>	<b>2,486.5</b>	<b>1,064,400</b>



### III. OIL.

We have based our programme on the assumption that, as at present, the oil supplies available to the United Nations will be treated as a common pool to meet essential requirements, and that the short haul tanker principle will still continue to operate. Broadly speaking this entails the allocation of Middle East supplies to cover requirements in Far Eastern theatres, so that for U.K. needs we must look largely to supplies from the Western Hemisphere. It should be noted however that there will be modifications for the programme up or down because the United Nations oil and tanker position is at present under its periodical review. This review will very shortly be completed and necessary amendments to our figures will be made promptly.

In presenting our oil programme we have not taken into account the estimated requirements of the U.S. Forces in the U.K. and in other areas such as the South Eastern Asia theatre to the extent that they are likely to be supplied from U.S. sources. Supplies so made available have hitherto been included in our Lend-Lease appropriation figures and have been treated as Reciprocal Aid when retransferred to U.S. Forces. In our Stage II estimates however (see table below) such oil has been treated as if it had been consigned to the U.S. Forces direct through U.S. channels. Thus against gross oil demands from U.S. sources of some \$700 million only approximately \$475 million will be needed to meet British requirements, the balance being for the use of U.S. Forces. Moreover we calculate that we shall be providing sterling oil from British sources under Reciprocal Aid of approximately \$100 million. In addition there will be available a further \$70 million of benzol and fuel oil from sterling sources which will be provided on Reciprocal Aid if, as we expect, it is required by the U.S. The above figures of Reciprocal Aid oil are, like those of Lend-Lease oil, on an f.o.b. basis, but in fact the delivery of Reciprocal Aid oil to U.S. Forces, unlike Lend-Lease oil,



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involves substantial expenses in storage, handling, and packing charges which are not included in the above figures. The value of our Reciprocal Aid is therefore in fact considerably larger than the figures indicate.

Our programme is based on the assumption that in the U.K. strict rationing of civilian consumption is still in force in Stage II but that some relaxation of the present severe restrictions may have to be introduced in order in particular to relieve the heavy load on public transport and to facilitate movement of materials for certain special programmes including housing.

OIL

	<u>5th L/L</u> <u>Appropriation</u>		<u>Stage II</u> <u>Estimates</u>	
	/These figures included Lend-Lease oil re- transferred to U.S. Forces. 7		/These figures do not include oil from U.S. sources which will be retransferred to U.S. Forces. 7	
	Tons 000	\$ 000	Tons 000	\$ 000
Aviation gasoline	7258	422,234	1,500	105,000
Motor "	6058	242,197	5,000	210,000
Kerosene	953	21,081	1,000	25,000
Gas Diesel Fuel Oil	4525	95,568	2,500	50,000
Crudes, Lubricating oils and others	2042	175,204	1,100	85,000
	-----	-----	-----	-----
Totals	20,836	956,284	11,100	475,000
	-----	-----	-----	-----



IV. SHIPPING

In making these estimates we have assumed that the general operating policies now followed by the Combined Shipping Adjustment Board in the integration of British and U.S. control of merchant fleets will continue along the same lines as at present. We have taken account, so far as we are able to estimate them, of changes in shipping requirements arising upon the end of the war in Europe and out of the Quebec decisions as to the war against Japan. We have then assumed that the existing principles of Lend-Lease eligibility continue to apply. We have not taken into consideration the possible effects on our estimates of certain proposals outlined in Chapter 3.

We recognize that the end of the war in Europe will herald changes in the existing control of shipping and introduce a new coordinated control exercised by the United Maritime Executive Board. We have not attempted to guess what alterations in our requirements might result from these changes in the machinery of shipping control, except that it has been assumed that dollar hire will not be payable on Dutch vessels under the memorandum of June 5, 1942 (item No. 5 in the shipping estimates).

On this basis we arrive at an estimate of \$990 million, covering tanker and dry cargo freights and other forms of shipping assistance. But this figure would of course be subject to modification in the event of modification of the shipping allocations, etc., on which it is based.



BRITISH SHIPPING REQUIREMENTS IN SHIPPING FROM U.S. DURING STAGE II

	Estimates as submitted for 5th Lend-Lease Appropriation \$000	First year of Stage II \$000
1. Freight on cargoes in dry cargo vessels allocated by W.S.A. to British Empire shipping programs	255,480	262,320
2. Freight on parcels of dry cargo carried in vessels not allocated by W.S.A. to British Empire programs; freight on military mails; and freight on small parcels of military cargo	24,000	25,000
3. Freight on Australasian coast-wise cargo carried in U.S. flag vessels.	12,000	15,000
4. Hire of U.S. flag vessels allocated by W.S.A. to Sea Transport service for the transportation of military cargoes and personnel	40,000	25,000
5. 80% hire of Dutch vessels in accordance with Memorandum of June 5, 1942, regarding Netherlands East Indies Shipping	4,800	-
6. Freight on petroleum products carried in tankers allocated by W.S.A. to British Empire programs	447,520	300,000*
7. Ocean transportation of personnel in U.S. vessels in accordance with Administrative Arrangement for carriage of personnel under Mutual Aid.	3,000	3,000
8. Defensive equipment and materials necessary for the maintenance of defensive equipment to be supplied to British-controlled merchant vessels in U.S. ports	2,500	-
9. Equipment for the repair of British-controlled merchant vessels in U.K. ports.	5,000	5,000
10. Small craft and parts for small craft	25,000	3,000 140,000
11. Coaster building program		
12. Services and supplies for British-controlled merchant vessels	110,280 5,000(a)	111,400 3,000
13. Bunker Coal:		
14. Surplus bunkers discharged in U.K. ports	16,000	6,240
15. Degaussing; repairs to degaussing, defense fittings and repairs thereto; general hull, deck and machinery repairs; convoy operating measures; Sea Transport work; and conversions of British-controlled vessels in U.S. ports	108,000 3,000 1,000	90,000 3,000 1,000
16. Marine litigation		
17. General average contributions		
	<u>\$1,062,580</u>	<u>\$992,960</u>

(a) Requisitioned by British Supply Mission.

\* Of this sum, some substantial amount represents freight on oil of American origin transported to U.S. Forces operating within the Empire. This is in the assumption that that part of the oil programme is lifted in British & American tankers in proportion to their respective tonnages.



V. RAW MATERIALS

In framing this programme we have assumed a more favourable attitude in regard to the eligibility of materials for civilian end-use in the U.K. We have however eliminated items which might give rise to controversy if used for this purpose or in the export trade. We have also had in mind the reduction as much as possible of detailed administrative work both in the U.S.A. and the U.K. Iron and Steel which has hitherto accounted for a large part of previous programmes is entirely omitted from this non-munitions programme as it is hoped that U.K. production will meet requirements for some time ahead. Other metals and minerals together with chemicals and a number of miscellaneous raw materials have also been omitted. Our requirements of these items not on Lend-Lease in the first year of Stage II will involve an expenditure in cash of about 40 million dollars.

A small number of raw materials -- e.g. tropical packaging and nylon for parachutes -- the total supplies of which from all sources are either used directly by the Armed Forces or solely for manufacture into stores for the Armed Forces have been included in the military programme of requirements. (Chapter 1)

After allowing for the changes mentioned above the total estimate of \$222.25 million compares with the total estimate of \$444.40 million submitted for the Fifth Lend-Lease appropriation. In addition, the U.K. will hope to obtain during 1945, 28 m. ozs. of silver, but as, under a special arrangement, this silver is returnable in kind, no estimate of value has been included.



RAW MATERIALSU.K. RAW MATERIALS REQUIREMENTS FROM U.S.A.

<u>Commodity</u>	<u>Unit</u>	<u>Estimates as submitted for 5th L/L Appropriation</u>		<u>Estimates for First Year of Stage II</u>	
		<u>Quantity</u>	<u>Value (\$000's)</u>	<u>Quantity</u>	<u>Value (\$000's)</u>
<u>GROUP I:</u>					
Raw Cotton	L.T.	154,310	84,536	120,000	62,000
Other Cotton	"	33,159	6,206.4	---	---
Rosin	"	35,840	4,014.1	30,000	4,800
Liquid Rosin	"	2,160	145.2	2,800	200
Turpentine	"	3,213	788.5	15,000	3,750
Pine Tar	"	2,400	268.8	2,000	180
Pine Oil	"	---	---	1,500	400
Other Agricultural Prods.			191.8	---	---
<u>TOTAL</u>			<u>96,151.</u>		<u>71,330</u>
<u>GROUP II:</u>					
Wood Pulp	S.T.	106,344	6,656.3	94,752	7,116
Bagasse	"	6,720	114.2	11,200	250
Vulcanised Fibre"		1,164	751.6	1,120	820
Kraft Liner Board"		24,000	1,512	25,000	1,625
Building Board "		---	---	16,000	560
Other paper & board			1,828.9	10,975	1,680
<u>TOTAL</u>			<u>10,863.</u>		<u>12,051</u>
<u>GROUP III:</u>					
Softwood	Stds.	33,199	6,866.2	200,000	19,300
Hardwood	Cu. Ft.	7,000,000	6,680.3	8,250,000	8,415
Sleepers & crossings	Stds	---	---	50,000	5,000
Constructional Plywood	Sq.Ft.	240,000,000	20,400	342,000,000	28,769
Veneers Oak	" "	---	---	5,000,000	1,008
<u>TOTAL</u>			<u>33,946.5</u>		<u>62,492</u>
<u>GROUP IV:</u>					
<u>Synthetic Rubber</u>					
GRS	L.T.	81,000	65,318.4	86,000	69,832
GRM	"	5,000	5,040	3,674	3,909
GRI Butyl	"	15,000	11,200	2,600	1,935
Perbunan	"	300	356.2	593	707
Hycar OR			479.8	---	---
<u>TOTAL</u>			<u>82,394</u>		<u>76,383</u>
<u>ITEMS NOT IN STAGE II PROGRAMME:</u>					
Steel			129,785		
Other Metals and Minerals			30,623		
Chemicals			25,366		
Miscellaneous			5,160		
<u>TOTAL</u>			<u>190,934</u>		
<u>MILITARY ITEMS:</u>					
<u>(a) Now transferred to Military Programme</u>					
			13,816		
<u>(b) Not in any Stage II Programme</u>					
			16,299		
<u>TOTAL</u>			<u>30,115</u>		
<u>TOTAL OF RAW MATERIALS FOR U.K. IN 5TH L/L APPROPRIATION</u>			<u>444,403</u>	<u>TOTAL STAGE II</u>	<u>222,256</u>



VI. MANUFACTURED GOODS

It has been decided not to ask for assistance in Stage II in this field except in the case of four items directly part of the war effort. These will amount in all to \$14 million in the first year of Stage II. A number of items formerly classed as manufactured goods, but having a direct military end-use have been transferred to the munitions programme.

Cash purchasing in the U.S. of items formerly included in the Manufactured Goods heading is estimated to be of the order of \$60 million.

U.K. REQUIREMENTS FROM U.S. ON LEND-LEASE DURING STAGE II IN MANUFACTURED GOODS

Estimates as Submitted for 5th L/L Appropriation      Estimates for First Year of Stage II

Millions of Dollars

Opencast Mining Equipment	-	5
Agricultural Machinery	10	5
Tractor Tyres (not made in U.K.)	1	1
Other Tyres	1	-
Bearings	7	-
Electrical Equipment (Lamps, Batteries, Radio Parts)	4	-
Hand Tools	6	-
Medical Stores	8	-
Services	5	2
	<u>42</u>	<u>13</u>



T O P S E C R E TCOPY NO. 75<sup>35.</sup>CHAPTER 3.ADDITIONAL ITEMS TO SAFEGUARD  
THE BRITISH RESERVE POSITION.

1. The programme for non-munitions assistance from Lend-Lease set forth in the preceding chapter does not go outside the same general ground as that which is covered by the fifth Lend-Lease Appropriation. It covers, in fact, somewhat narrower ground, since a number of items, in the fields both of raw materials and of manufactured goods, have been excluded in case they might lead to export difficulties.
2. Moreover, the field of the fifth Lend-Lease Appropriation had been itself somewhat narrowed by the exclusion of certain items, which had been included in some previous Appropriations and would, therefore, appear to be eligible within the terms of the Lend-Lease Act. It is believed that this narrowing of the field was partly influenced by the fact that, at the time when these programmes were being compiled, the British gold and dollar reserves were steadily rising. It was also in the atmosphere of rising British reserves that the scope of Reciprocal Aid was enlarged so as to cover not only the expenses of the U.S. Forces (apart from pay) in the Sterling Area, but also certain raw materials and foodstuffs.
3. It has, however, been shown in the introduction, supported by further particulars in Annex A, that the cumulative effect of these measures, continued into a period when the earnings of the Sterling Area in respect of the pay of the American Forces are being steadily reduced, will be to cause the British Treasury to incur gold and dollar outgoings considerably in excess of its receipts and thus to suffer by the end of 1945 a loss of what might amount to the greater part of the improvement in the balances which occurred between the summer of 1943 and the summer of 1944. Yet during the period subsequent to the summer of 1943 the



British overseas liabilities will have increased by several billions.

4. If no mitigating measures are adopted, the British Treasury are likely to enter Stage III with reserves of less than \$1½ billion, and perhaps not much over \$1 billion with liabilities approaching 15 billions, and with a running adverse balance on current account which can scarcely be put at less than 4 or 5 billions before equilibrium is reached. A comparison with the reserve position not merely of the United States itself, but also of Russia, France, Belgium, Holland, China and Argentina has been given in the Introduction.

5. It is for the U.S. Administration to consider whether this is the right and proper outcome of the sacrifices and efforts which have been made and whether it is consistent with the principle of pooling by which in many fields our policies are now governed, greatly to the common advantage. It is also for consideration whether it would be convenient that one of the major Allies should enter the period of pacification, re-settlement and reconstruction, unable, merely on financial grounds, to take its natural part in the sharing of duties and tasks and responsibilities.

6. The British Treasury has shown itself ready to take, deliberately, great financial risks. Nor do they take a tragic view of the impending situation. What they see in front of them is very far from disastrous. On the contrary, not only has the unselfregarding use of their resources been an instrument of victory employed with full fore-knowledge of the consequences, but they well know that the wealth and prosperity of the country have very little to do with the reserves and other sequelae of the past which are a half-dead affair. In the long run - and not in the very long run - it is the national productivity, the national capacity and the national character which will matter. The financial situation, here portrayed, should not, therefore, be regarded as more than an embarrassment. But it is, for the time being,



a very great embarrassment and it is capable of interfering with post-war collaboration on the lines, which on other grounds would be thought the most mutually desirable, to an extent altogether out of proportion to the amount of money involved. Moreover, it is not a question of completely removing the embarrassment, which we shall find some way of handling in due course, but of sufficiently mitigating it to allow a little more elbow room in the near future during which fateful decisions will have to be taken.

7. It is, therefore, suggested that, in the light of all these matters, some consideration should be given to the re-inclusion in the programme of certain items which have been cut out at one time or another; and also, perhaps, to certain outstanding claims relating to past transactions, which it was agreed to hold in abeyance at the time when the British balances were increasing.

8. In the first category, the most important items are the following:-

(i) Tobacco \$90 millions. On the Lend-Lease programme at one time from which it was removed when our reserves were believed to be sufficient, but the restoration of which should not, it is believed, involve any particular difficulty.

(ii) Off-shore sugar \$90 millions. On the Lend-Lease list at one time. It is believed that Russia is still receiving off-shore sugar on Lend-Lease. Admittedly this item is not an easy one to handle, there being supply as well as financial difficulties. On the other hand, it is one of the items involving a substantial sum.

(iii) Crude Oil Purchases for the Curacao and Bahrein Refineries The operation of these refineries is so designed as to produce the maximum amount of critical oil products for the war effort, a large proportion of which is handed over to the U.S. Government on Reciprocal Aid. In order to implement this programme it is necessary to purchase for dollars considerable quantities of crude oil from American companies in Venezuela and Saudi Arabia. These amounts are currently



running at the rate of \$16 million per annum and are estimated to increase in Stage II to \$22 millions per annum. It is therefore suggested that it will be appropriate to bring these outgoings within the ambit of Lend-Lease with effect from the date in 1944 from which oil from the above refineries was made available to the U.S. on Reciprocal Aid. This would involve payment of about \$38 millions in the period up to the end of 1945.

(iv) Certain Shipping Expenditures in Dollars This is a difficult item which will have to be specially examined by the experts. At the present time the British Treasury are having to find sums which may aggregate as much as \$150 millions a year to meet shipping expenditures in dollars which have not been found eligible for Lend-Lease.

A substantial part of this expenditure may be of a character not justifying us in asking for it to be covered by Lend-Lease funds. But there is an important field of expenditure where existing rulings might well be reviewed. This includes freight on dry cargo where it has, generally speaking, been held that such freight is eligible for Lend-Lease only if it arises from the movement from U.S. ports of goods of Lend-Lease origin. In this connection we would ask that favourable consideration should be given to one item, not merely currently, but also retrospectively, namely the freight charges on munitions and other goods shipped on U.S. vessels from Canadian ports. There seems to be no sufficient reason for ruling such freight to be ineligible. The amount involved next year is small, perhaps \$5 millions; but there are arrears of some \$40 millions which we hope may be brought within any ruling which may be now given. Similar considerations apply to the freight on U.S. vessels carrying such commodities as off-shore sugar, and there may be other cases which might be covered by a suitable formula.

A somewhat similar case occurs in the case of certain Allied vessels operating under various forms of control short of actual time charter where the arrangement is that the British Treasury reimburses the dollar deficits



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incurred as the result of their trading, often by agreement, for sterling freights. This item at present amounts to some \$15 million a year and we hope that it might be covered by Lend-Lease.

(v) Machine Tools In November, 1943, it was decided that machine tools should be excluded from Lend-Lease (despite the "recapture" provisions of Article 5 of the Lend-Lease Agreement) on the general grounds that it would not be defensible to obtain on Lend-Lease assistance which might result in the permanent strengthening of the capital equipment of British industry. The result has been that we are buying machine tools for cash at a rate of \$30 million per year. We suggest that it is appropriate that this decision should now be reviewed. Except for a trivial percentage, all the machine tools which are at present being bought for cash are required for, and are being utilized on, war production. Moreover a substantial proportion of them are of so specialized a nature (e.g. machines required for the production of equipment to increase fire power in naval vessels) that they cannot be regarded as of use for ordinary post-war industrial production; indeed the bulk of the remainder could not be so used without extensive modification. Further, some tools are directly required for military end-use under military control - e.g. tools operated by R.A.F. personnel in aircraft repair depots.

There seems to be abundant reason why machine tools for Naval Vessels and R.A.F. Repair Depots can properly be restored to Lend-Lease; this limited assistance would be in the neighborhood of \$10 million. But since the great bulk of machine tools continues to be used for war production, we believe that the U.S. would be justified in granting a more ample measure of help by regarding all machine tools as eligible for Lend-Lease with the exception of any that may not be required for utilization on war production; this would mean a relief of about \$27 million.

(vi) The Repair and Equipment of Bomb-Damaged Houses  
Generally speaking supplies for this purpose have been ruled



ineligible and cash has to be paid. The present practice means that the United States Government is ready to supply on Lend-Lease tarpaulins and glass-substitute windows for bombed out workers, but is not ready to supply materials which are essential to give them more effective and durable shelter, on the ground, it is understood, that these more durable articles will have some use beyond the war. The present condition of housing, especially in the London area, has now become in fact one of the gravest handicaps to efficiency. Since it is obvious that tarpaulins do not meet all the necessities of the case and that under such conditions the British worker with the best will in the world cannot do his best, even during the war, considerations of war efficiency are likely to involve us in practice in some cash dollar expenditure. The sums involved are small, and this context, in which only large sums are useful, is not perhaps the right place in which to raise the question. There is no doubt, nevertheless, that a new ruling in this field would give great satisfaction.

(vii) This may be the right place in which to raise the question of civilian relief supplies which may be required for recovered British territories in the Far East (Burma, Malaya, Hong Kong, North Borneo) in the military period (i.e. the first six months after recovery). If such supplies are ruled eligible on Lend-Lease this will not allow any relief in respect of the estimates given above, since no item has been included to meet this contingency, but it would, of course, help to prevent the actual outcome from proving worse than the estimates.

Our representatives on the Joint Staff Mission have recently referred to the Treasury Delegation at Washington certain telegrams which have passed with London on this matter. The U.S. War Department have stated that, if H.M.G. wish such essential civilian supplies to be given under Lend-Lease, requests should be submitted for consideration "through established channels and in accordance with established procedures". The military planning authorities



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have not yet worked out what proportion of civilian supplies required for Far Eastern territories in the military period will, in fact, have to be drawn from the United States. But a general ruling of principle at this stage would nevertheless be very helpful.

9. There remain the outstanding claims relating to past transactions referred to above. There is a long story lying behind most of these, and the case for some of them is undoubtedly much stronger than for certain others. The total amounts involved are very substantial indeed approximating to \$350 millions. A full statement can be prepared at short notice as a supplement to this chapter, if desired, that a few illustrations may suffice to show that the time has come when these questions deserve reconsideration and it is suggested that a special sub-committee might be established to report upon them and any other proposals having a similar purpose.

10. Two of the largest items relate to the financial principles which should govern the transitional period between the time when the U.K. was paying cash for its munitions orders in the United States and the time when they were fully covered by Lend-Lease. Two examples of this are given below:-

(i) Aircraft and engines paid for in cash in dollars by U.K. and subsequently diverted to the U.S. War Department. In this matter no consistent practice has been followed. We have already received some \$80 millions for a diversion which took place between the 7th and 31st December 1941. There was subsequently, however, a still larger-scale diversion which resulted from the Arnold-Portal agreement - an oral agreement made at a time of war emergency between military officials with no provision whatever for financial issues. This was in order to supply the U.S. War Department at a critical moment with a large number of aircraft, which we had ordered and paid for and alone possessed. The aircraft turned over to the U.S. War Department as a result of this



agreement had been paid for by us in cash dollars to the amount of about \$250 millions. Sir F. Phillips put forward our arguments for repayment in a letter to Mr. Morgenthau (30th July 1942), and again referred to our claim in a letter of 8th October 1942. Since then the matter has been left in abeyance. It can, of course, be claimed that this diversion has been subsequently compensated many times over by other aircraft supplied on Lend-Lease terms, and this argument might, if the other surrounding conditions were appropriate, carry the day. Nevertheless, there does not seem to be any very valid argument, having regard to all the circumstances, and to the fact that we severely depleted our balances to pay for these aircraft, why the financial settlement for the second diversion should be different than for the first.

(ii) The second example relates to what used to be known as the "take-outs" of capital facilities. At the time when our financial difficulties were very great, items, additional to those previously dealt with, to the value of \$50 millions were listed by Mr. Morgenthau in his letter of 28th September 1942 as items which the U.S. might take over and pay for in cash. Payments did in fact take place to the amount of \$12 millions. Of the balance, some sales to manufacturers and others have since been made. Nevertheless, if the settlement originally contemplated by Mr. Morgenthau were to be completed as at the original date, a figure approaching some \$38 millions would remain to be paid. It would seem that with the improvement in our balances position a measure which had been originally intended to restore them was allowed to fall into abeyance; but it might perhaps be revived now that the difficulties which originally led to it have recurred.

11. It is not proposed that there should be any reduction in the scope of Reciprocal Aid from the U.K. and Colonies either in the field of the supply of raw materials or otherwise, although the scale of this, which has reached about a billion dollars in the last year, is undoubtedly one



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of the elements contributing to our financial embarrassment. The British Government would prefer to continue such aid as heretofore. For a retrocession here would represent, on our part, a withdrawal from the principle of pooling, whereas it is precisely the hope of a confirmation and further implementing of that principle which underlies the entire argument of this chapter. There would be great difficulties in the way of a comprehensive application of any principle of financial pooling. But it is not so difficult to take some practical measures which would bring us nearer, if only a very little nearer, to what the situation would have been if the principle of financial pooling could have been fully carried through.

12. We have limited ourselves in this chapter to putting forward suggestions which would seem to us to be practicable without departing from the same general principles of Lend-Lease and the like which have served our two countries so well and so successfully hitherto.



T O P S E C R E TCHAPTER 4COPY NO. 75

44.

I LEND-LEASE REQUIREMENTS OF AUSTRALIA, NEW ZEALAND AND INDIA.

1. The case for assistance in the first year of Stage II which has been put forward in the earlier sections of this paper is primarily one which relates to the United Kingdom only. It should be noted, however, that in accordance with past practice, the programmes as submitted comprise, in certain cases, the requirements of the Dominions concerned (Australia and New Zealand) and of India. Thus in the munitions field the programmes comprise all supplies required from the United States for India together with all supplies for Australia and New Zealand other than aircraft and certain components which will be obtained on direct Lend-Lease and are not included in the foregoing programmes. In the non-munitions field, the figures in respect of oil and shipping include requirements for Australia, New Zealand and India, but that is not the case as regards food, raw materials or civilian goods.

2. The question of Lend-Lease assistance for Australia, New Zealand and India is finally, of course, a matter for the U.S. Government and the representatives of the Dominion Governments concerned and of the Government of India. Nevertheless, in order to give a global picture of lend-lease demands from the British Commonwealth, it has been thought helpful to indicate in this statement the scope of the direct Dominion and Indian lend-lease requirements so far as they are known. No doubt opportunity will be given as may be required for the representatives of the Dominions concerned and of India to discuss the questions arising from this paper so far as their Governments may be more directly concerned and in the light of special considerations which apply in their respective cases.

3. It will be appreciated that in all three countries concerned the strategic requirements of the Pacific War may necessitate a continued degree of mobilisation for war to an extent greater than in the United States or the United



Kingdom, while the presence of large numbers of U.S. military forces in or near the territories concerned may mean that the provision of goods and services on reciprocal aid will continue to absorb a considerable portion of the productive capacity and manpower of all three countries.

## II. AUSTRALIA

4. The Australian requirements during the first year of Stage II may be summarised as follows:-

(Note: A conversion rate of \$3.20 per £1 Australian has been adopted in these calculations).

### A. DIRECT MILITARY REQUIREMENTS

These are the aircraft and components mentioned in paragraph 1. The scale of requirements under this head will be agreed with the U.S. War Department in view of the fact that the supplies are, in effect, required by the U.S. Command in the South Western Pacific. Provisionally it is thought that the cost may be of the order of over \$200 m.

		5th L/L Appropriation \$ m.	1st Year Stage II \$ m.
<b>B. <u>NON-MUNITIONS</u></b>			
<u>Food</u>	mainly canned fish and tobacco leaf for manufacturing tobacco for military forces	9.5	7
<u>Raw Materials</u>	mainly chemicals, synthetic rubber, tin plate, miscel- laneous metals, timber, paper and photographic materials	49.	70
<u>Miscellaneous Civilian Goods</u>	mainly miscellaneous machinery, agricultural tractors, textiles and medical supplies	<u>80</u>	<u>44</u>
	TOTAL	138.5	121
		=====	=====

As already stated, the above figures are exclusive of Australian shipping and oil requirements, which are covered in the programmes given in Chapter II.



III NEW ZEALAND

5. The New Zealand requirements during the first year of Stage II may be summarised as follows:-

Note: A Conversion rate of \$3.25 per £1 New Zealand has been adopted in these calculations.

A. DIRECT MILITARY REQUIREMENTS

These are the aircraft and components mentioned in Paragraph 1. Here again the scale of requirements under this head will be agreed with the U.S. War Department. Provisionally it is thought that the cost may be of the order of over \$60 m.

B. NON-MUNITION REQUIREMENTS

	5th L/L Appropriation \$ m.	1st Year Stage II \$ m.
<u>Raw Materials</u>		
mainly steel, tin- plate and chemicals	19	7.5
<u>Miscellaneous Manufactured Goods</u>		
mainly agricultural implements and motor vehicles	10.5	6
<u>Tobacco for Military Forces</u>	<u>1</u>	<u>1.2</u>
TOTAL	30.5	14.7

As already stated, the above figures are exclusive of New Zealand shipping and oil requirements, which are covered in the programmes given in Chapter II.

IV INDIA

6. It has already been explained that all munitions requirements for India are included in the munition programmes given in Chapter II.

The Indian non-munitions requirements in 1945 have been estimated as follows:

	5th L/L Appropriation \$ m.	1st Year Stage II \$ m.
<u>Raw Materials</u>		
mainly steel, paper chemicals and timber	71.	35
<u>Miscellaneous Manufactured Goods</u>	6.2	10
<u>Food Supplies</u>		
for military canteens in India	2.5	3
<u>Tobacco</u>		
for military forces	<u>2</u>	<u>1.5</u>
	81.7	49.5



The above requirements do not include the 80 million ozs. of silver which the Government of India hope to obtain from the U.S. in 1945 for coinage purposes since, under a special agreement, this silver is to be returned in kind after a period of years.

V. RECIPROCAL AID TO THE U.S.

It is anticipated that during Stage II Australia, New Zealand and India will continue to give reciprocal aid, but the extent of such aid depends on a number of factors, including the strength of the U.S. forces in or near the countries in question, and it is not possible therefore to give at present any estimate of its cost.



T O P S E C R E TCOPY NO. 75<sup>48</sup>.CHAPTER 5.I THE EXPORT WHITE PAPER AND FREEDOM TO EXPORT.

The President agreed at Quebec that if the U.K. is to begin to pay its way it is essential that the United States should not attach any conditions to supplies delivered to Great Britain on Lend-Lease which would jeopardise the recovery of her export trade. Estimates concerning the prospective balance of trade in 1945, given in Annex A below, which were not available at the time of the Quebec Conference, confirm to the full the urgency of measures which will allow us to make a beginning with a recovery of our export trade.

As mentioned in the introduction, the volume of British exports in 1944 is below 30 per cent. of the pre-war level. They will have to rise to five times their 1944 figure before we shall reach equilibrium in post-war conditions.

It is proposed, therefore, that as from December 1st, 1944, His Majesty's Government, acting in agreement with the U.S. Administration, should withdraw the White Paper of September 1941 (which was a unilateral declaration on their part made at a time when the U.S. was a neutral), so that from that date British exporters will be free unconditionally to export any article to any market (apart, of course, from any regulations which the British Government may find it necessary to impose in connection with the Japanese war for other purposes of their own).

In order that any complications arising from this may be minimised, great care has been taken in drawing up both the munitions and the non-munitions programmes to exclude items which might give rise to special difficulty.

In particular, all steel and other metals, minerals and chemicals and various miscellaneous items have been excluded from the non-munitions programme (the only items of this character being certain direct military needs included



in the munitions programme), and the programme is confined to agricultural and forestry products and synthetic rubber; while in the list of manufactured goods to be included in the non-munitions programme, all items have been excluded except opencast mining machinery and agricultural machinery and accessories.

As regards the use in export of the remaining raw materials still included in the Lend-Lease programme, we propose in general the same condition which has hitherto applied - namely, that, where segregation is impracticable, the supply of such materials on Lend-Lease shall not exceed the domestic consumption of the material in question, any excess over this amount obtained from U.S. sources being paid for in cash. (Perhaps the same principle should also apply in the case of materials similarly supplied by the U.K. Government to the U.S. on Reciprocal Aid). Where, however, materials which are identical or can be, at least partially, substituted for one another, such as synthetic and natural rubber, and oil products, raw and refined, are supplied both on Lend-Lease and on Reciprocal Aid, there shall be, on the principle of reciprocity, no restrictions on the use of the material by either recipient party for export and otherwise. In fact, supplies of natural rubber on Reciprocal Aid are of approximately the same amount as the supplies of synthetic rubber on Lend-Lease, and the distribution of the responsibility to find oil for the combined effort is determined through a combined pooling system by which the position should be sufficiently safeguarded.

It may be that there are further matters of detail which will require discussion. But we hope that the freedom to export which is now essential to us should not, in view of the prospective state of our balances, lead to any further exclusions from Lend-Lease eligibility of any significant amount.



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We hope, further, that there can be in this connection a clean-cut and a new start at December 1st, 1944, to be taken as a fixed date irrespective of the date of termination of the German war.



TOP SECRET

COPY NO. 75<sup>1.</sup>ANNEX A.STATISTICS BEARING ON THE DIMENSIONS OF THE UNITED KINGDOM'S PROBLEM OF EXTERNAL FINANCE IN THE TRANSITION.I. BRITISH OVERSEAS LIABILITIES AT THE END OF JUNE 1944.

1. The grand aggregate of the net liabilities (i.e. after deducting similar British assets abroad) amounted to \$11,223 millions at June 30th 1944, compared with \$8,588 millions a year earlier. This can be broken up into the following main groups, certain of which are clearly much less burdensome in the near future than others:-

(a) United States and Canada  
(including governmental loans)

Canada	\$ 640.0 millions
United States	367.2 "

(b) The Special Account Balances  
owing to South America and Neutral Europe

Portugal (a gold liability)	\$ 266.4 millions
Argentina	240.8 "
Brazil	102.0 "
Other South and Central America	64.4 "
Other Neutral Europe	63.6 "

(c) The Balances of the  
Sterling Area Dominions

Australia	\$ 436.0 millions
New Zealand	100.8 "
South Africa	96.4 "

(d) The Balances of the major  
Sterling Area countries the currency  
reserves of which we hold

India	\$3,298.0 millions
Egypt	1,278.4 "
Eire	362.8 "

(e) The Crown Colonies and Mandates  
the currency reserves of which we hold

Malaya	\$ 382.8 millions
Palestine	380.0 "
Other Colonies and Mandates	337.2 "
West African Colonies	314.4 "
East " "	302.4 "
British West Indies	221.6 "
Ceylon	165.6 "
Other British Africa (excluding South Africa)	141.6 "
Hong Kong	130.4 "



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(f) Certain Allies and others which do not normally keep substantial balances in London

Iraq	\$ 254.8 millions	
Free France and Colonies and French blocked balances	242.0	"
Greece	230.8	"
Norway	185.2	"
Netherlands and Colonies	209.6	"
China	89.2	"
Belgium and Colonies	84.0	"
Persia	51.2	"
Iceland	43.6	"

2. The chief difficulties in the early post-war period are likely to arise from the last three categories above. All these countries will seek to spend their sterling balances on a considerable scale as soon as goods and shipping are freely available, in so far as they are free to do so. Under the existing arrangements, the countries in the sterling area are free to spend their sterling balances anywhere in the Sterling Area without restriction, and to obtain external currencies on condition that they are required for essential goods which cannot be obtained from the Sterling Area. It is only the shortages of goods and shipping which have made it financially possible to continue these arrangements unchanged during the last three years, and it is not anticipated that a similar latitude to spend sterling balances outside the Sterling Area can be continued much longer. On this assumption, and provided the Sterling Area countries are prepared to continue to sell their exports to the U.K. on the present basis, no acute financial problem will arise in the early period. The balances will have to be repaid, as and when it becomes possible, through British exports. Thus the existence of the above large volume of sterling balances affects the financial position of the early post-war period much more because they affect the amount of the further sums which the U.K. can afford to borrow, than because the U.K. can be called upon to repay these monies immediately, since in the nature of things this is impossible.



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3. Nevertheless, there must be some exceptions to the restriction of the use of the abnormal balance. The members of the Sterling Area have placed at the disposal of the London Exchange Control all their earnings of external currencies, more particularly dollars. Moreover, the majority of them have entrusted the whole, or nearly the whole, of their currency reserves to London, thus enabling the British Government to pay their way over a considerable part of the world in terms of paper backed by sterling Treasury Bills in London. When the holders of this paper are again in a position to purchase goods, there will be a heavy moral responsibility on the British Government to do anything which lies in their power to operate the above system with as much moderation and as much regard to the freedom of international trade generally as is financially possible. Some part of the British gold reserves, though in present circumstances it may have to be a very small part, must, therefore, be regarded as available for the use of the rest of the Sterling Area. Equitable and satisfactory means of allocating the amounts, if any, which may turn out to be available when we know the size of our reserves at the end of Stage II have not yet been worked out. Those Colonies which are not themselves substantial dollar earners, and the entire currency reserves of which have been accumulated in London, would seem to have a particularly strong claim to any ration of gold or dollars which can be spared.

4. It is not the purpose of this memorandum to offer, or to debate, the ultimate solution. Nevertheless there are certain general principles to which we must hold henceforward with the utmost resolution, if we are to face realistically the consequences of the overseas financial policy which we have adopted during the war. We do not intend to seek outside assistance in meeting the war debts which we have



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incurred to the other Sterling Area countries and to neutrals. We propose to meet these over a period of years in the shape of British exports and perhaps, to a small extent, by a further disposal of our pre-war investments in their territories. But we shall ask those concerned to agree that, in view of the origin of the debts, the interest element shall be reduced to a minimum or altogether extinguished. That is to say, it is the capital sum which we shall endeavour to repay. Furthermore, subject to only minor exceptions, repayment must take the form of direct British exports, additional to what we need to pay for necessary imports, and cannot take the form of free exchange, of which we see no prospect of possessing a sizeable surplus in the foreseeable future. The abnormal war balances can be made available to those who own them only by instalments and only subject to these conditions. During the transitional period we hope to be able to allow certain transfers of indebtedness between our creditors within the Sterling Area. But in general we cannot agree to borrow outside currencies in order to make sterling war indebtedness available to buy exports from outside. For we should have no sufficient expectation of being able to repay such loans. All this is rooted in the inescapable necessities of the case.

5. It has been indicated above that the willingness of the United Kingdom to borrow will be a limiting factor, as well as the willingness of other countries to lend. The United Kingdom have already entered into obligations for the purposes of the war on so vast a scale that their capacity of repayment even over many years will be gravely strained. It is not the intention of the British Government to enter into further obligations on a scale or on terms which might jeopardise the security of ultimate repayment of the capital, either of existing or of subsequent loans. Even if the interest element can be kept down to an insignificant figure, this consideration may well impose a narrower limit on the



aggregate of future credit facilities than is set on the other side of the account by the willingness of lenders to lend. The British Government are determined not to borrow more or on more onerous terms than they have a reasonable expectation of being able to repay over a term of years.

## II. THE GOLD AND DOLLAR BALANCES OF THE U.K.

6. A year before the outbreak of war our reserves were substantial and stood at \$4,200 millions. The expectation of war led to a large-scale withdrawal of foreign balances, and at the outbreak of war we were reduced to \$2,450 millions. Shortly after the commencement of Lend-Lease (April 1941) we were practically cleaned out, having gold and dollar reserves of \$264 millions with \$252 millions gold liabilities against them, so that our net reserves were down to \$12 millions. Thereafter came the R.F.C. Loan; the old (pre-Lend-Lease) commitments had been substantially met; almost all our current requirements from United States were for a time lent-leased; and the Sterling Area was beginning to gain substantial earnings from the United States troops; with the result that our reserves began to rise quite steadily. They reached a peak of about \$1,750 millions in August 1944. Unfortunately, a livelier awareness by the United States Administration of this recovery in our reserves than of the much greater increase of our liabilities led to a substantial curtailment of Lend-Lease facilities, and at the same time a reduction of our earning power corresponding to the increase in reverse Mutual Aid, with the result that we became unduly dependent on precarious earnings from the United States troops in the Sterling Area. With a reduction of these earnings as the U.S. Forces move into Europe and as the war in the Pacific becomes based to a lesser extent on Australia, our dollar account is already on the wrong side, so that our reserves have begun to fall.



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7. Fuller statistics of the gold and dollar reserves in relation to our liabilities are given below:-

	31st Aug. 1938	31st Aug. 1939	31st Dec. 1939	31st Dec. 1941	31st Dec. 1942	31st Dec. 1943	30th June 1944	31st Dec. 1944	31st Dec. 1945
	\$ millions						Forecast		
<u>Reserves</u>									
Gross gold and dollar reserves	4200	2450	2330	500	930	1720	2171	2032	1727
<u>Less gold and dollar liabilities</u>	-	-	-	105	235	420	557	547	597
Net reserves	4200	2450	2330	395	705	1300	1614	1485	1130

Liabilities

Banking liabilities, liabilities of Crown Agents and Currency Boards and* certain overseas loans	3150	2015	2335	4900	7140	9670	11,223	12,000	14,500
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\* Amounting on 30th June 1944 to \$1,168 millions.

8. Nearly the whole of the very large decrease in reserves between the end of 1939 and the end of 1941 was used to pay for war expenditure in the U.S.. The net increase in Reserves during the Lend-Lease period up-to-date from March 1, 1941, to September 1, 1944, was not the result of our receiving Lend-Lease assistance on such a scale that the U.K.'s normal current earnings of dollars exceeded its requirements. For example, the normal dollar earnings of the U.K. fell short of its own dollar requirements by \$287 millions in 1942 and by \$240 millions in 1943; and its total dollar earnings, including pay of U.S. troops in U.K., fell short by \$237 millions in 1942 and \$50 millions in 1943. The increase in reserves was partly due to the disposal or pledging of capital assets and partly to the dollar earnings of the rest of the Sterling Area, the chief sources from which we obtained the increase in our Reserves, after the commencement of Lend-Lease, being as follows. At the end of August 1944 when our net reserves reached their peak of \$1,748 millions, the cumulative increase since the commencement of



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Lend-Lease on March 1, 1941 (when our reserves stood at \$169 millions) was \$1,579 millions. During this period the following amounts of gold and dollars were obtained from capital transactions:-

	\$ millions
<u>Gold</u> from South Africa against sale of securities	307
do. do. sterling balances	83
<u>U.S. \$</u> from sales of securities to U.S.	255
Viscose sale	54
R.F.C. Loan less amortisation	307
B.A.T. Loan	<u>17</u>
	<u>1,023</u>

The balance of \$556 millions was found from the excess of the current dollar earnings of the rest of the Sterling Area (the dollars thus acquired involving a corresponding increase in our liabilities to the countries handing them over to us) over the current dollar deficit of the U.K. No exact analysis of these receipts is available for the broken period of 1941 or for the broken period of 1944. But, as it happens, the net excess thus earned in the latter of these two periods almost exactly balanced the net deficit in the former of them. Thus it was the excess earnings of the rest of the Sterling Area in the years 1942 and 1943 over the dollar deficit of the U.K. in these two years which almost exactly made up the difference, namely, \$556 millions, between the total growth of reserves and the capital receipts specified above.

	\$ millions	
	1942	1943
U.K. current a/c with U.S.	- 287	- 240
U.S. troops in U.K.	50	190
Rest of Sterling Area current a/c with U.S.	119	150
U.S. troops in rest of Sterling Area	<u>194</u>	<u>365</u>
	<u>86</u>	<u>465</u>



### III. THE LOSS OF PRE-WAR OVERSEAS ASSETS.

9. The above aggregates of war indebtedness incurred by the U.K. take no account of loss of pre-war overseas assets disposed of during the war in order that the growth of war indebtedness might be correspondingly less. The amount of such disposals was estimated by the Chancellor of the Exchequer in April last at about \$4 billions. The balance which remains is largely unmarketable and only realisable, if at all, by special arrangements, so that it is not easy to estimate its capital value. A recent attempt, however, has been made to estimate, both what has been lost and what still remains, on an income basis, as follows:-

Net Income from Investments Abroad (\$ millions)			
	<u>1938</u>		<u>1943</u>
Lord Kindersley's estimates of amounts distributed as interest and dividends to U.K. residents	740	Bank of England provisional estimates on a similar basis to Lord Kindersley's	456
Undistributed profits, U.K. office expenses, etc.	<u>120</u>	Undistributed profits, U.K. office expenses, etc.	<u>104</u>
	860		560
Less, payments to non-residents on their investments in U.K.	<u>60</u>	say	<u>40</u>
<u>U.K. Net Income</u>	<u>800</u>		<u>520</u>

10. It would be unwise to capitalise the income for 1938 and for 1943 at the same rate. Dividends on equities are probably now higher than in 1938, and the fall in capital outstanding no doubt somewhat greater than simple comparison of the two incomes would indicate. Nevertheless the broad conclusion seems to be that about one-third has been disposed of or otherwise lost as a result of hostilities. If the pre-war value was around \$14 billions, the remaining value is now around \$10 billions.

11. Against this, we have to reckon with a net indebtedness on short term of \$12 billions as at the end of 1944. The year 1945 will add \$2-1/2 to \$3 billions to this, and the post-war transition, on the basis of the most optimistic assumptions, will add not less than another \$4



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to \$5 billions. (This calculation neglects both the small excess of reserves over net short term liabilities at the beginning of the war and the unpredictable level of reserves at the end of it.) Thus the U.K. will have entered the war with a net creditor position of (say) \$14 billions and will end it with a net debtor position of (say) \$9 billions, showing a net deterioration of \$23 billions in the overseas position. The other side of the medal is that almost every other country in the world, apart from the enemy and occupied countries, has improved its overseas position to an extent, in the aggregate, approximately equal in amount. It may be mentioned that the liabilities of \$19 billions, with which we shall come out of the transitional period, represent the total exports of the U.K. for a period of six years on the basis of their pre-war volume.