INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.

Proposed amendments.

1. I think that the amendments to paragraph 15, which I proposed, were accepted by the meeting.

2. Paragraph 16. Leith Ross said that he would welcome the deletion of 16(ii). But if you examine 16, you will find that if you delete 16(ii) there is nothing of substance left, save (v), which is quite un-controversial, and could go on its own as a pendant to paragraph 15. I therefore revert to my original proposal to delete 16 (save for (v)).

Is there any point of view, other than that represented by Leith Ross, which favours 16? I do feel that we have to take some risks in a great scheme of this sort; that with the power of price reduction and sponsoring restriction schemes the position is sufficiently secured; that without unlimited liability the buffer stock degenerates into the old type of producer scheme.

3. Hopkins raises the important question whether the whole scheme depends on the Clearing Union. Broadly I think it does. But supposing we are driven to some arrangement for mutual credit (and we must at least have that if there is to be any Anglo-American co-operation at all), then I think the finance of the buffer stock could be modelled accordingly. So far as capital for purchase is concerned, I suggest that purchases should be payable in the currencies of the English speaking (and any other associated) countries, the particular currency used being determined by the de facto state at the particular time of the balance of payments between those countries. The Central Banks in surplus would make the necessary advance to the Council. I think one must at all costs eschew the idea that the powers should contribute to the funds for purchase in pre-arranged proportions. This would involve a dreadful haggle and might be ruinous to the U.K. ~~Any~~ My suggestion would mean applying the same principle mutatis mutandis that you have if there is a Clearing Union, namely the use of the de facto surpluses on the balance of

payments. It could also be provided that the central banks between them created extra credit in a depression equal in value to the net purchases occurring. And of course there would also be public issues of bonds as under your plan.

So far as the distribution of profit and loss is concerned, there I am afraid there would have to be a predetermined proportion. But we need not be too frightened of this, since we hope that there would not be a loss, and at worst it would presumably not have to be paid up in the near future.

This is not of course a proposal for amendment, but a note for our own people to have in mind, in case the Clearing Union seemed unlikely to float.

4. It has been suggested that the restriction arrangements are not sufficiently dynamic, on the ground that they do not make adequate provisions for eliminating or reducing the output of high cost producers, during the operation of restriction. Meade suggested that there should be a mandatory annual price reduction in this period. I see difficulty in this, if the reason for restriction is that the price is already so low as to give barely decent remuneration to the majority. But is there any reason why the provisions at the end of 15(v) should not apply if the quotas are initially agreed by the exporters?

Thus you could amend by having a full stop after "years" in line 5 of 15(v) and proceed "Whether the quotas are initially determined by agreement among the exporters or otherwise, the General Council shall diminish the share ...."

5. While I am much in favour of the principle of adjustment, when I look at the details of (v) I am troubled. (a) Costs are difficult to measure; (b) on principle I rather dislike penalising subsidisers since it is not those who choose to finance their own high costs from whom the world suffers - and presumably if they are willing to carry this burden themselves, they have good reasons for doing so - but those who expect to have a world price that shall cover their high costs; (c) as

for "the surplus country in the Clearing Union" one fears that the Americans will think of themselves as the sole victim.

Is there anything to be said, by way of alternative, for adopting the cartel system, by which traffic in quotas is allowed? Thus the low cost might tend to buy out the high cost producers.

Or could you have an arrangement of this sort? If an exporter, during the operation of the scheme, made a plea that he would prefer to accept a substantially lower price in exchange for a larger quota, it would be incumbent on the control <u>either</u> to adopt the suggestion and reduce the price accordingly, <u>or</u>, if the other exporters pleaded that the price would be too low for them, to maintain the price (or reduce it by a smaller amount than that suggested) but at the same time make a still larger transference of quota to the low cost exporter than that proposed by him.

Or, if you think these expedients too doubtful or controversial to include in your definitive proposals, how would it do to include them as tentative suggestions for the way in which the scheme might be elaborated in your section V or in a new section?

6. I should still press for adding to 14(ix) the words "save that during a world depression, defined by indices of pig-iron production, unemployment (and other suitable statistical series), it would not be permitted to reduce the basic price by more than 2% in one year".

[illegible]

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