

C.S.

CONFIDENTIAL

WAR/W2H/3#14

19 40

No.

C/8/40.

S. of S. Circ. Tel. Saving

SUBJECT.

19 39.

30th November.

Previous Paper.

FOREIGN EXCHANGE REQUIRED TO MAINTAIN NORMAL
PURCHASES OF TOBACCO DURING THE WAR.

MINUTES.

1-3.

S. of S. Confidential Telegram, Saving. 30/11/39.

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Submitted. So far as this
Colony is concerned all tobacco
is imported from the United
Kingdom and will of course
be under export control from
that country.

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Subsequent Paper.

From the Secretary of State for the Colonies
To the Officer Administering the Government of
CIRCULAR Telegram Saving.



30th November, 1939.

Confidential

His Majesty's Government are seriously concerned at the large sums of foreign exchange which would be required in order to maintain normal purchases of tobacco, particularly from the United States of America, during the war.

2. So far as the United Kingdom is concerned it has been decided that United Kingdom tobacco companies should cease for the present to make any further purchases of United States of America leaf tobacco and surrender to Treasury in accordance with Defence (Finance) Regulations any dollars held by them over and above unavoidable winding up expenses. The stocks of American tobacco currently held by most of the big companies will enable them to carry on without further purchases for the present.

3. Question of Colonial policy is rather more complicated since Colonial Dependencies fall into three classes, those which have no local factories but import

manufactured tobacco of various kinds, those which contain factories and if they import at all import principally unmanufactured tobacco, and the West African Colonies which import leaf tobacco for direct consumption.

4. Following are lines of policy which it seems desirable to follow in Colonial Empire. First, in Dependencies where there are factories, every encouragement should be given to the local production of tobacco, or purchase from neighbouring areas not involving the use of difficult foreign currencies. The East African group where substantial quantities of tobacco are grown should endeavour to be self-supporting and seek outlets in other Colonial Dependencies. The Eastern Dependencies in so far as they cannot supply their own needs should seek supplies preferably from other Colonies, India and China. Other Dependencies should solve their local problems as best they can on the same lines. For political reasons His Majesty's Government are anxious to assist Turkey, Greece and Bulgaria to sell their tobaccos and there are no exchange obstacles to purchase of such tobaccos by Colonial Dependencies if they are of acceptable quality and price.

5. Secondly, in all areas where importation is inevitable consumption should if possible be reduced to

some extent by increase of taxation. All imports of tobacco whether manufactured or unmanufactured should be made subject to import licence and applications for licences should be carefully scrutinized. In the case of unmanufactured tobacco the importing manufacturers should be told in confidence what the policy is and should be asked for their assistance in carrying it out. I appreciate that conditions in the Colonial Dependencies are different from those in this country since the stocks normally carried are much smaller.

6. Thirdly, if purchases in difficult currencies are inevitable it would be preferable for the present to buy Canadian rather than United States tobacco whether manufactured or unmanufactured. This is due partly to the fact that owing to dates at which the various crops become available a lower proportion of this year's Canadian crop has been purchased by United Kingdom buyers than of United States crop.

West Africa is a special case and I appreciate that substantial reduction of imports might cause such discontent as to make considerable curtailment impossible, but I hope that Governments concerned will do their best to reduce imports and if possible to provide local substitutes. I have discussed matter confidentially

with firms here, and hope that it may be possible for Nyasaland to fill an important part of West African requirements.

7. Secret. There is finally one general point which I should mention. A pledge has been given to the United States Government since the outbreak of war in the following terms:

"We have no intention whatever of using the reduction of certain imports from the United States which is forced upon us by the war for the purpose of altering permanently the channels of trade and we intend, as soon as may be possible, to return to our peace time policy as laid down in the Trade Agreement with the United States."

8. This pledge has been given in the hope that the United States Government will not denounce the United States - United Kingdom Trade Agreement of 1938 which, as you are aware, includes reductions and conventionalizations of preferential margins on Empire tobacco. The United States Government have the right to denounce the Agreement in view of the depreciation of sterling and strong pressure may be brought on them to do so. For obvious reasons His Majesty's Government in

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the United Kingdom would view such a denunciation with regret. In earlier paragraphs of this telegram I have invited Colonial Governments to stimulate the local production of tobacco and to export their surplus to contiguous Colonies. The principal factor which will enable them to do this without fearing United States competition is that the latter will be excluded by exchange control. You will realize, however, that producers must not count on receiving such protection or tariff protection beyond that now existing when the war is over. It would be as well to make this clear to producers, but the existence of the pledge to the United States Government should not be disclosed.