LITHUANIA

EXPRESSION OF CONCERN OVER THE TREATMENT ACCORDED TO AMERICAN TRADE IN LITHUANIA

660m.116/3

The Chargé in Lithuania (Stafford) to the Secretary of State

No. 60

Kaunas, April 27, 1934.

[Received May 15.]

Sir: I have the honor to transmit herewith a memorandum prepared by Mr. Basil F. Macgowan, clerk in the Consulate, of a conversation relating to Lithuanian trade practices and restrictions which he had with Mr. Bronius Garsva, of the Ministry of Finance. It is of interest as revealing the Government’s policy of attempting to balance the trade with individual countries and of encouraging importation from those which are important buyers of its own products, to the detriment of less important customers.

American purchases in this country are not sufficiently large to induce a change in policy to the disadvantage of European countries, particularly Great Britain, and in matters of this kind it does not appear probable that the Government would take into consideration the important invisible exports from the United States in the form of remittances and pensions. Nor could the fact that the balance of trade was in favor of Lithuania in 1933 and continues so be expected to constitute a determining factor, simply by reason of the comparatively small volume of the trade exchange.

Therefore as conditions do not appear to warrant any system of government guarantee, individual American firms might find it profitable to consider the policy of marketing Lithuanian products in return for orders placed here. I refer especially to firms interested in government purchases of equipment and supplies.

Charges of discrimination of American goods made by certain local merchants are more general than specific. In fact, the only actual complaint to the Consulate is that made by the local agent of the Chevrolet automobile who reported that his bid for certain cars for the use of a government department, although lower, was not accepted and the order was placed with the British firm manufacturing the Morris car. He was asked for data upon which an investigation might be conducted but neglected to supply them.
Officers of several government departments when asked why more American equipment was not purchased have stated that they were not permitted to do so, indicating a policy to place orders, regardless of bids, where the Government considered best for the economic good of the country.

Perhaps the plan for purchases by the Ministry of National Defense, mentioned in the strictly confidential portion of the attached memorandum, is worthy of more consideration than the Legation is at present inclined to give. Nevertheless, one of the most important divisions of that Ministry has let it be known that it is not bound to the restrictions on purchases and would buy the equipment which its experts recommended. This was shown in its recent orders for American-made aircraft defensive apparatus and the fact that it was ready and willing to purchase a type of American artillery had not the American firm been found to be unprepared to manufacture and deliver within a reasonable time, greatly to the disgust of the Lithuanian commission which went to New York to inspect the arm and witness demonstrations of its operation. (Please see consular despatches No. 459 of January 29, 1934, No. 460 of January 31, 1934, and No. 492 of March 26, 1934).\(^1\)

In the purchase of the aircraft defensive instruments the purchasing officer, in order to comply with the insistence of the Finance Ministry, finally consented to accept the American offer upon a reduction in the stipulated price by 10 per cent or the supplying of auxiliary appliances to approximately the same value. The company agreed to the latter. It is not a practice that may be followed consistently, although there is no reason to believe that it will not be resorted to again under favorable conditions. American firms, of course, could prepare their price quotations accordingly.

Government bids for equipment employed by technical departments, such as for railway and construction use, are perfunctory and often so worded as to bar material other than that previously decided upon and from firms with which satisfactory arrangements have been made.

The Legation has been assured by both Mr. Garsva and Mr. Jonas Norkaitis, Director of the Trade Division of the Ministry of Finance, that even should the license system, now affecting 11 products none of which is imported from the United States, be extended no licenses would be refused to those desiring to import American goods. Nevertheless, applicants for licenses are known to have been persuaded by the licensing authorities to purchase from favored countries and while not refusing the requested permits, the effect has been the same. There

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\(^1\) None printed.
is no reason to believe that American goods would not be adversely affected in the same manner.

The Legation will continue to observe the situation in the interest of American trade, however small, and would welcome any suggestion which the Department might decide to offer.

Respectfully yours,

M. L. Stafford

[Enclosure]

Memorandum by Mr. Basil F. Macgovan, Clerk in the Consulate at Kaunas

[KAUNAS,] April 25, 1934.

I had an extended interview on April 24 with Mr. Bronius Garsva, Referent of the Trade Division of the Lithuanian Ministry of Finance. His division is responsible for maintaining a favorable trade balance and administering the license system inaugurated on December 22, 1932.

In discussing the report of a flax crop shortage in the United States and the prospect of developing flax exports from Lithuania to the United States in 1934, Mr. Garsva said that it would be to the mutual benefit of both countries if something would come of it and that the Lithuanian Government was taking steps to place the flax industry on a firmer basis in order to expand its exports. He reiterated what he said to me in December 1933,* that in view of the new economic policy instituted in Lithuania, to even up trade balances between individual countries, it was essential that those countries desiring to export to Lithuania take measures to increase their imports from this country and, consequently, if exports of flax to the United States could be developed anew, it would make a difference in the attitude of the Lithuanian Government towards the United States in regard to the import trade.

When it was pointed out to Mr. Garsva that the trade balance between the United States and Lithuania was favorable to the latter in 1933 by approximately Lits 1,000,000, that the United States was Lithuania's fourth best customer at the present time, and that remittances from the United States to Lithuania have aggregated about $2,000,000 per annum, he stated that the Government had noted this fact and no measures had been taken by his department against individuals or government departments desiring to import American goods: in other words, nothing has been done to restrict imports from the United States.

* Please see Diplomatic Despatch No. 14 of January 19, 1934. [Footnote in the original; despatch not printed.]
He was then informed that the Consulate had received several complaints during the past few months from local importers of American goods, for the importation of which a license is not even required, and that in one instance at least one government purchasing department had rejected the bid of the local agent of an American automobile manufacturer in favor of the British-made Morris, although the price of the latter was considerably higher. To this, Mr. Garsva replied that other factors must have entered into the purchase since his department had issued no instruction to the bureau concerned or to any other and, since all contemplated government purchases come through his office for checking against individual countries, he would have been aware of any discrimination.

I then mentioned that information had, however, been received that both the Aviation Department and the Military Technical Supply Department had intimated that they would be unable to purchase American material in 1934 in view of the demand to buy British goods—regardless of price or quality—unless the American manufacturer were in a position to offer some form of compensation in regard to exports from Lithuania. Mr. Garsva stated that this assertion belied the facts since each government department was required to submit a program at the beginning of each budget year regarding the purchases it contemplated making and from which countries. This program must be approved by his department as well as by other pertinent authorities.

To prove his point, Mr. Garsva exhibited a table which had been prepared by the Lithuanian Ministry of National Defense showing its contemplated purchases in 1934 by countries and departments.

Although I was not given an opportunity to memorize the plan, nevertheless sufficient time was had to confirm the information which Mr. Garsva himself had divulged that the Ministry of National Defense contemplates purchasing from abroad in 1934 approximately Lits 20,000,000 worth of war materials of which 50 per cent will be purchased by the Armament Department and 25 per cent by the Aviation Department. Of the total sum, Great Britain has been allotted approximately Lits 6,500,000, Germany Lits 3,900,000 and the United States, Lits 200,000. The balance of the purchases are divided between about 10 other countries, principally Czechoslovakia and France. The sum allotted to the United States represents purchases to be made by the Armament Department. Of the total purchases by the Aviation Department, aggregating about Lits 5,000,000, it is understood that Great Britain has been allotted Lits 4,500,000.

From other sources it has been ascertained that the appropriation allotted the Aviation Department in 1934, the largest in many years, is for the purpose of acquiring eight airplane motors, two to four
bombing planes, and pursuit planes, number unknown. Lits 2,000,000 was allotted Great Britain by the Armament Department for the purchase of anti-aircraft guns from Vickers (erroneously reported previously as having already been purchased from Schneider), and auxiliary equipment, consisting of height finders and anti-aircraft searchlights.

In further elaboration of the operation of the program, Mr. Garsva explained that, the Ministry having decided from which countries purchases in 1934 would be made, steps would immediately be taken by his department with those countries whose balance of trade were unfavorable to Lithuania to force them to make some concession. In the case of Germany, for instance, which has been allotted Lits 3,900,000 in military equipment purchases alone in 1934, Mr. Garsva stated that the Lithuanian Government would demand that Germany take Lithuanian butter to an equal amount. This procedure would offset the virtual stoppage in butter exports to Germany which took place recently as a result of political reprisals.

In view of the fact that the preparation of such a program as outlined by Mr. Garsva anticipated purchases from specific countries he was asked if a government department would be permitted to purchase from a different country than foreseen and what effect the bidding would have. He stated that bids were not always called for if the purchasing department had already arrived at a decision, but that, nevertheless, even where bids were called for the department had the right to make purchases elsewhere with the approval, of course, of the proper authorities.

Mr. Garsva's attention was then called to the fact that several American firms were desirous of participating in the bids on Government contracts in 1934. He discreetly stated that it was entirely up to the American firms to offer something in the way of compensating exports such as other foreign firms were doing.

It was pointed out to Mr. Garsva that since there were no restrictions in the United States on imports and exports with the exception of alcoholic beverages, it was impossible for an American firm to obtain guarantees from its government to buy Lithuanian products. He replied to this that large American manufacturers desiring to sell their products in Lithuania or rather to compete in government bids should be able with their wide contracts to import Lithuanian goods themselves for distribution in the United States, but if this was impossible then it was up to the United States Government to conclude a trade agreement with Lithuania such as was recently concluded with Denmark whereby the foreign trade between the two countries would be balanced every six months. Similar agreements are now being negotiated with other countries. Mr. Garsva stated that an
offer by the United States to enter into such an arrangement with Lithuania would meet with favorable approval by the Ministry for Foreign Affairs, since Lithuania was gradually being forced from economic circumstances to go over to the policy of balancing its trade with each individual country.

Mr. Garsva stated further that although there was a tendency to buy in Great Britain (since the balance of trade between the two countries in 1933 was favorable to Lithuania by Lits 47,222,700), nevertheless, owing to the recent cut in the bacon quota allotted Lithuania by the former, the Government was being forced to seek other markets through the conclusion of special agreements.

Elaborating further on the possibility of expanding trade between the United States and Lithuania, Mr. Garsva asserted that, although any increased trade which might result between the two countries as a result of an agreement would comprise an infinitesimal part of the total foreign trade turnover of the United States, it would mean a great deal to Lithuania.

To summarize, I obtained the impression from Mr. Garsva, which is supported by facts, that the Lithuanian Government is using the government purchases abroad, which comprise approximately 20 per cent of the total imports into this country, to equalize trade balances and to satisfy the demands of those countries (principally Great Britain) the balance of trade of which is favorable to Lithuania. It is also evident from the conversation that the Lithuanian Ministry of Finance has issued instructions to government departments not to purchase in certain countries, including the United States, except in exceptional cases where the superiority of the material is of predominant importance unless export compensation is granted by the foreign firm. This information is confirmed by the secret memorandum issued to all government departments by the Cabinet of Ministers in November 1933.†

It is therefore believed that American firms will have no opportunity of competing in forthcoming bids unless they agree to buy Lithuanian products to the same amount, in spite of the fact that the balance of trade between Lithuania and the United States continues to be favorable to the former.

Although the import license system affecting eleven important commodities and groups was invoked to diverge Lithuania's import trade to Great Britain where possible, the Government is also encouraging the importation of other commodities from Great Britain, and, where government purchasing departments are concerned, through direct instructions. Complaints are being received especially from local im-

†See Diplomatic Despatch No. 21 of January 30, 1934. [Footnote in the original; despatch not printed.]
porters of American automotive vehicles who state that the chiefs of the government purchasing departments openly admit that they are no longer able to buy American made cars if similar types can be bought in Great Britain. As yet, however, statistics for 1933 and 1934 of automobile imports do not show any direct discrimination against American vehicles in favor of British made, although imports from the United States did decrease during 1933 but to the benefit of Germany.

The principal items of export to the United States in 1933 and 1934 were cellulose comprising 95 per cent of the total, followed by calfskins.

Lithuania formerly exported large quantities of flax and calfskins to the United States and it is possible that the American market could be opened up anew for these commodities. Other items of importance in Lithuania’s export trade which might find a market in the United States are: vodka, sawn lumber, plywood, flaxseed and tow, other hides and skins and candy. It is understood that peat moss, of which Lithuania abounds, is imported into the United States from Soviet Russia in large quantities, in which case it might be a factor in any negotiations entered into between the United States and Lithuania.

B[asil] F. M[acgowan]

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The Secretary of State to the Chargé in Lithuania (Stafford)

No. 15

WASHINGTON, May 29, 1934.

Sir: The Department has received and read with much interest the memorandum with respect to certain phases of Lithuanian foreign trade policy which was transmitted under cover of the Legation’s despatch No. 60 of April 27, 1934. Appropriate note has been taken of your statement that this memorandum was prepared by Mr. Basil F. Macgowan, an American clerk in the Kaunas Consulate.

The Department is specially interested at the present time in the treatment accorded to American trade by the Lithuanian authorities. It is hoped that the Legation will follow this matter closely and report future development promptly to the Department. Specific information with respect to the treatment of individual American commodities would be helpful to the Department in connection with its consideration of the problems confronting American exporters engaged in trade with Lithuania.

Very truly yours,

For the Secretary of State:

FRANCIS B. SATRE