ESTONIA

REPRESENTATIONS REGARDING ALLEGED DISCRIMINATION AGAINST AMERICAN TRADE IN ESTONIA, AND THE DESIRE OF THE ESTONIAN GOVERNMENT FOR MODIFICATION OF THE TREATY OF FRIENDSHIP, COMMERCE, AND CONSULAR RIGHTS, SIGNED ON DECEMBER 23, 1925[1]

660i.116/28

The Chargé in Estonia (Carlson) to the Secretary of State

[Extracts]

No. 283 (Diplomatic) TALLINN, January 29, 1935.
[Received February 21.]

SIR: I have the honor to refer to the Department's instruction (No. 21) to the Tallinn Legation dated December 12, 1934,[2] Department's file number 660i.116/23, as well as to earlier correspondence[3] on the subject of the treatment being accorded to American trade under the present foreign trade policy and practices of the Estonian authorities.

In the instruction under reference, the Legation was requested to seek an early interview with the Estonian Minister for Foreign Affairs and to point out to him that the American Government was viewing with anxiety the increasing difficulties which American trade was encountering in Estonia. At the same time the Legation was requested to leave with the Minister for Foreign Affairs a memorandum embodying remarks contained in the above-mentioned instruction on the subject of the exchange of commodities between the United States and Estonia.

I

In compliance with the above instructions, an interview was arranged with Foreign Minister Julius Seljamaa on January 3, 1935, at which time the enclosed memorandum[4] was handed to him. At the same time oral representations were made to the Foreign Minister with regard to difficulties resulting from the direct intervention of the Estonian authorities in the field of American-Estonian trade with a

[1] For previous correspondence regarding alleged discrimination against American trade in Estonia, see *Foreign Relations*, 1934, vol. II, pp. 129 ff. For text of treaty, see *ibid.*, 1925, vol. II, p. 70.

[2] *Ibid.*, 1934, vol. II, p. 131.

[3] See instruction No. 12, July 24, 1934, to the Chargé in Estonia, *ibid.*, p. 129; and report No. 43 from the Consulate at Tallinn, October 6, 1934, *ibid.*, p. 130.

[4] Not printed.

view to restricting trade from the United States and directing to other countries, particularly Great Britain, the importation of commodities formerly obtained in the United States. In its conversation with Foreign Minister Seljamaa, the Legation stressed, in particular, the policy and practices pursued by the Estonian Government to discriminate against imports from the United States in the administration of the import license and foreign exchange restrictions.

In reply, Foreign Minister Seljamaa took up a recent Estonian publication* containing, among other things, a table showing Estonia's foreign trade totals with individual countries for the past three years. He pointed to the figures for Great Britain which indicated that, according thereto, the Anglo-Estonian commodity exchanges had given favorable balances for Estonia of Ekr.[6] 10,132,000 ($2,753,000), Ekr. 7,550,000 ($2,051,600) and of Ekr. 17,639,000 ($4,793,000) in the first eleven months of each of the years of 1932, 1933, and 1934. He also pointed to corresponding figures for the United States which showed unfavorable foreign trade balances for Estonia of Ekr. 1,942,000 ($527,700), Ekr. 1,521,000 ($413,300) and of Ekr. 3,373,000 ($916,600) for the same period. The Minister thereupon asked with a slight expression of emotion whether the United States was not satisfied with a foreign trade situation which gave it such a decided advantage. Estonia, for its part, he said, was not satisfied, and an increasingly large number of voices were being raised calling for a correction of the status of Estonia's commercial dealings with the United States. Still somewhat under the influence of his emotions, the Foreign Minister added that the "great" United States could not well expect "little" Estonia to do more than it was doing at present as far as the importation of American goods was concerned.

The Legation thereupon assured the Foreign Minister that the Government of the United States was by no means referring to difficulties encountered in Estonia by American trade which had their origin in the restrictive measures introduced by Estonia to safeguard its financial system during the economic depression. It did, however, have reference to the difficulties which American trade was experiencing in Estonia because of the existing trade policies which tended to divert trade away from the United States and direct it to other countries, particularly Great Britain.

Foreign Minister Seljamaa was visibly moved as he defended the existing status of the trade relations between Estonia and Great Britain. He said that British purchases of Estonian export products

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*"Välisministeeriumi Väliskaubanduse Osakonna Teated" (Bulletin of the Foreign Trade Bureau of the Estonian Foreign Office) No. 22 of December 31, 1934, Pages 223–224. [Footnote in the original.]

[6] Estonian Krone, 3.77 to $1.00 on the Tallinn exchange in 1935.

were of such fundamental importance to the entire Estonian economic structure that Estonia could not well run any risks which might tend to curtail this trade outlet. Great Britain was also aware of this situation and was making use thereof by bringing pressure to bear upon Estonia with the view of increasing the consumption in Estonia of British-produced goods. Minister Seljamaa went on to say that, in this very vital question, Estonia had no alternative but to yield to the British requests. He added that, in his opinion, it should not be difficult for the United States to realize the importance to Estonia of the latter's export trade with Great Britain.

The Legation explained in detail the broader points of view which the Government of the United States held on the subject of international commodity exchanges and expressed the hope that the Estonian Government would accord to American goods about to be imported into Estonia the same equality of treatment which was extended to Estonian goods on the American markets. The Legation also requested for American trade the treatment to which it was entitled under the existing treaty of friendship, commerce and consular rights between the two countries.

Minister Seljamaa went on to explain that for the time being, Estonia was obliged to adhere to the principle of balanced foreign trade accounts with all countries with which it had trade relations and that it could not well depart from the practice of directing its imports to those countries with which it had favorable foreign trade balances. He stated, in conclusion, that, in its reply to the memorandum which had just been presented, the Estonian Government would probably review the present status of the trade relations between Estonia and the United States with the view of bringing about a situation more favorable to Estonia.

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III

The Legation did not hear again from the Estonian Foreign Office about the above subject until January 23, 1934 [*1935*]. On that date a telephone message was received from Mr. Wirgo [7] stating that the Foreign Office reply to the Legation's memorandum was ready. The reply was handed to the Legation later in the same day. A copy of the reply, which is also in the form of a memorandum, is attached hereto.[8]

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[7] Edward Wirgo, Director of the Foreign Trade Bureau of the Estonian Foreign Office.

[8] Not printed.

In handing the Estonian memorandum to the Legation, Mr. Wirgo said that the principle of balanced foreign trade accounts was of such vital importance to Estonia that it could not be abandoned. Consequently Estonia would be obliged to continue to pursue the policy of directing its imports to countries with which it had favorable foreign trade balances and, in the first place, to Great Britain and Germany.

Mr. Wirgo went on to say that, since the Legation's memorandum of January 3, 1935, had been presented, he had made careful investigations of the charges of discrimination against American goods advanced by the Legation. In consequence he was able to assure the Legation that from now on the lesser employees at the Bank of Estonia and at the Ministry for Economic Affairs would refrain from all attempts to direct trade away from the United States to any other country. The foreign exchange situation in Estonia had improved very greatly of late, and it was now possible to grant currency more freely than before. In the future no difficulties would be made in regard to requests made for foreign exchange with which to pay for American goods when imported in small quantities. When, however, larger quantities were involved, the authorities reserved the right to handle the matter in the light of the balanced foreign trade account principle.

Mr. Wirgo thereupon went on to say that, in its reply to the Legation's memorandum, the Ministry for Foreign Affairs expressed its readiness to listen to proposals having for their object the increase of Estonia's exports to the United States. An advance in the volume of such exports constituted, he believed, the only certain means of removing the difficulties in the way of the free entry of American goods into Estonia. He pointed out that the present treaty of friendship, commerce and consular rights between Estonia and the United States would expire in 1936. An opportunity for the revision of the above treaty would thereby be afforded. In passing he wished to call attention to the very favorable results which had been derived from the foreign trade clearing agreements between Estonia and France and between Estonia and Latvia.

The Legation expressed to Mr. Wirgo, in behalf of the Government of the United States, its appreciation of the efforts which he had put forth to facilitate the admission of American goods into Estonia. It stated, however, that it had nothing to say on the proposals which he had advanced, whereupon the conversation came to an end.

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Respectfully yours, H. E. CARLSON

660i.116/26

The Minister in Estonia (MacMurray) [9] *to the Secretary of State*

[Extracts]

No. 611 RIGA, January 31, 1935.
[Received February 14.]

SIR: I have the honor to recall that, in the Department's mail instruction (No. 21) of December 12 last to the Legation at Tallinn,[10] the Chargé d'Affaires was directed to make certain representations to the Estonian Government on the subject of discriminations against American trade: and that a copy of that instruction was enclosed in the Department's No. 105 of December 12 to this Legation,[11] advising me that I would be further instructed with a view to my making supplementary representations on the occasion of the visit to Tallinn which I am to make in the latter part of February. The Chargé d'Affaires, Mr. Carlson, has meanwhile acted upon the instructions referred to above, and in a letter dated January 3 (of which I enclose a copy herewith)[12] he has made a preliminary report to me upon the way in which his representations were received by the Estonian authorities.

I have further to refer to the Department's telegram (No. 55) of December 5, 5 p. m.,[13] directing this Legation to prepare a report on such discriminations in Latvia, similar to that which the Consul in Tallinn had made, in regard to Estonia, in his No. 43 of October 6.[14] The report thus called for is in preparation, and will, it is hoped, be ready in the near future.[15]

From the instructions cited above, it appears that it is the intention of the Department to urge strongly upon the Government of Estonia, and also that of Latvia, its remonstrances against such comparative disadvantages as may be imposed upon American trade in the two countries. And if, upon considering the present despatch and such further reports as are shortly to be made by this Legation and that at Tallinn, the Department still considers that such protests are expedient and desirable, I shall of course consider it my duty to carry out in both capitals, to the best of my ability, the Department's policy in that respect. I acknowledge, however, that I should do so not only in the conviction that the contemplated protests would prove substantially unavailing, but with very grave doubts whether they would

[9] The Minister was accredited to Estonia, Latvia, and Lithuania, with residence at Riga.
[10] *Foreign Relations*, 1934, vol. II, p. 131.
[11] Not printed.
[12] Not printed. For the Chargé's report on his representations, see his despatch No. 283 (Diplomatic), January 29, *supra*.
[13] *Foreign Relations*, 1934, vol. II, p. 616.
[14] *Ibid.*, p. 130.
[15] See despatch No. 645, March 14, from the Chargé in Latvia, p. 552.

not in fact prove prejudicial to the trade interests which we are seeking to further.

Being considerably perturbed by the problems which the Department's instructions suggest, I felt it advisable to call Mr. Carlson into consultation, together with Mr. Hodgdon, Consul at Riga, and Mr. Abbott, Third Secretary of this Legation. I accordingly directed Mr. Carlson to come to Riga for the week-end of January 20, and on the 21st discussed the matter fully with him and with the other officers referred to. The following comments fairly represent, I believe, the views in which we all found ourselves spontaneously and whole-heartedly agreed.

As regards the possible effectiveness of such protests, I would point out that the burden of proof lies upon us; and that we are not actually in a position to establish concretely a basis for our complaints. It is not that I or the other interested officers in our Legations and Consulates in the two countries are, in our own minds, doubtful of the existence of some degree of discrimination (on however trivial a scale) against American goods: we are, on the contrary, all convinced that in both countries our trade labors under disadvantages as compared with that of Great Britain, in the first place, and of Germany, in the second. For we are familiar with the strong economic pressure which impels both Latvian and Estonian authorities to favor giving the largest possible share of their import trade to the countries on which they are dependent for the marketing of their own exports; we are aware of the very intricate and exacting mechanisms of tariffs, quotas, import licenses, and exchange regulations, which afford unlimited opportunity for manipulations by which any administrative preference can be clandestinely made effective . . . I venture to submit that for one government to urge upon the consideration of another a complaint which it is not in a position to substantiate is to risk rebuff and a loss of confidence, good will and influence, as well as failure in the immediate purpose.

So much relates to the formal difficulties of presenting the matter effectively; but there are inherent in the situation of these Baltic countries fundamental elements from which, under present conditions of world trade, there inevitably result tendencies favoring certain other countries, to our disadvantage. These newly-independent nations have neither the population, the territory, the natural resources, nor the geographical position, to furnish the basis for their creating (individually or collectively) any considerable industrial or mercantile development. For their mere subsistence, they are dependent wholly upon agriculture; and for the maintenance of any decent modern standard of livelihood they are dependent upon the possibility of ex-

porting a sufficient quantity of the very limited range of agricultural produce that can be raised in their northern situation. They have, in fact, virtually nothing to live by, except the export of forest products, butter, bacon, and flax: but these things, produced in over-abundance, can avail them only as there are markets to buy them. And all the neighboring countries offer the same products in similar over-abundance. The only takers, roughly speaking, are the United Kingdom and (in a more limited degree) Germany. But not only is the British market importuned by all the producers of Eastern Europe; its Government is harassed by the demands of the British dominions for preferential treatment of their similar products, and has furthermore embarked upon a policy of making home agriculture more nearly self-supporting. With Germany, Latvia has had to adopt clearing arrangements, with the resultant necessity of maintaining a bilaterally balanced interchange.

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By our complaint in Tallinn (which is of course in close relationship with Riga) we have already raised questions which, I fear, will plague us so long as international trade continues to be overshadowed by the tendency towards bilateral balancing. But the question immediately before us is whether, in the phase of the matter now reached, we should proceed to force an issue as to such discrimination as exists against our trade. And my own judgment is that it would be ill-advised to do so. I would urge, therefore, that unless the discriminations should take a more tangible form, or unless a more opportune conjuncture should present itself, we content ourselves with merely a friendly notice that we could not assent in principle or in practice to an interpretation by which the clause regarding the encouragement and promotion of British trade, in the Anglo-Latvian and Anglo-Estonian Trade Agreements,[16] would have the effect of impairing our right to favored-nation treatment. And I have no doubt that, in both countries, it would be possible to obtain such reassurance as we could find in statements that the authorities intend no discrimination against us, will investigate the possibility of its existence, and will do whatever may be necessary to guard against it. I should not, however, feel that I had fulfilled my responsibilities if I were merely to obtain and report such assurances to the Department, leaving it to be inferred that they constituted a satisfactory response to our complaints. For they would, almost of necessity, be scarcely more than nominal; and

[16] For text of the trade agreement between Great Britain and Latvia, signed at London July 17, 1934, see League of Nations Treaty Series, vol. CLIV, p. 25; and between Great Britain and Estonia, signed at London July 11, 1934, *ibid.*, vol. CLII, p. 131.

the basic disadvantageous circumstances would remain at least substantially unchanged. But while realizing that fact, I nevertheless feel that such merely formal reassurance is all that we are in a position to seek without a serious risk of bringing on developments more harmful to our present interests, and to our international trade policies, than the rather trivially disadvantageous conditions now existing.

I accordingly venture to request that the Department review the matter in the light of these comments, and instruct me further as to its views and intentions after such a reconsideration of the various elements involved.

Since the preparation of this despatch, I have received from Mr. Carlson, and take occasion to enclose herewith, a copy of the memorandum, dated January 23,[17] in which the Estonian Foreign Office replied to the representations which he had embodied in his memorandum of the 3rd instant,[18] in pursuance of the instructions contained in the Department's No. 21 of December 12 last.

Respectfully yours, J. V. A. MacMurray

611.60i31/27

The Minister in Estonia (MacMurray) to the Secretary of State

[Extract]

No. 654 RIGA, March 22, 1935.
[Received April 4.]

SIR: I have the honor to enclose herewith copies of a Memorandum handed to me at Tallinn, on February 27, by Mr. Wirgo, Director of the Foreign Trade Bureau of the Estonian Foreign Office, with reference to the desire of the Estonian Government to modify the American-Estonian Treaty of Friendship, Commerce and Consular Rights, of December 23, 1925. The substance of this Memorandum was communicated to the Department in my telegram (No. 3) from Tallinn, February 27, 5 p. m.; [17] and it is to this Memorandum that references were made in the Department's telegram of March 21, 5 p. m., to the Tallinn Legation,[17] and in my reply (No. 29, March 22, 2 p. m.) of today's date.[17]

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Respectfully yours, J. V. A. MacMurray

[17] Not printed.
[18] Not printed; but see despatch No. 283 (Diplomatic), January 29, from the Chargé in Estonia, p. 179.

[Enclosure]

Memorandum From the Director of the Foreign Trade Bureau of the Estonian Foreign Office (Wirgo) to the American Minister (MacMurray)

[TALLINN, February 27, 1935.]

The Treaty of Friendship, Commerce and Consular Rights between Estonia and the United States of America is to remain in force according to the stipulation of Article XXIX of this Treaty for the term of ten years, i. e. until May 22, 1936. In the same Article XXIX it is stipulated that "if within one year before the expiration of the aforesaid period of ten years neither High Contracting Party notifies to the other an intention of modifying, by change or omission, any of the provisions of any of the articles in this Treaty or of terminating it upon the expiration of the aforesaid period, the Treaty shall remain in full force and effect after the aforesaid period and until one year from such a time as either of the High Contracting Parties shall have notified to the other an intention of modifying or terminating the Treaty."

With reference to this stipulation and to the memorandum submitted by this Ministry to the Legation of the United States on January 23, 1935,[19] the Ministry for Foreign Affairs has the honor to ask the Legation to kindly convey to the Government of the United States that the Estonian Government would like to see the abovementioned Treaty modified.

The Ministry for Foreign Affairs has repeatedly called the attention of the Government of the United States to the fact that the balance of Esto-American trade has hitherto turned to a considerable disadvantage for Estonia. As to the causes of such a state of affairs it should be mentioned that the high rates of customs duties in the United States of America doubtless are a considerable impediment to the sale of Estonian goods to the United States. In order to improve Esto-American trade relations it would be helpful if the Government of the United States would accord a fifty per cent reduction of import duties for the following Estonian articles: flax, casein, galalith, butter, spirits (brandy), liquors, sheet-glass, box boards, sweets (confectionery), home work (handiwork) and cement, whereas for Estonian cellulose a duty free admission should be consolidated. Should the Government of the United States see their way to agree to such reductions of import duties, the Estonian Government would be prepared to enter into negotiations with the Government of the United States concerning the modification of the abovementioned Esto-American Treaty of Commerce.

[19] Not printed.

611.60i31/29 : Telegram

The Chargé in Estonia (Carlson) to the Secretary of State

TALLINN, May 22, 1935—4 p. m.
[Received May 22—11 : 45 a. m.]

5. Referring to Legation's telegram No. 3 of February 27,[21] the Ministry for Foreign Affairs has just handed me a note, dated May 21,[21] which after reciting the provisions of article No. 29 of the Treaty of Friendship Commerce and Consular Rights between the United States and Estonia under which this treaty may be modified or terminated on May 22, 1936, proceeds as follows:

"With reference to this stipulation the Ministry for Foreign Affairs has the honor to ask the American Legation to kindly convey to the notice of its government that the Estonian Government would like to see this treaty modified from the said date of May 22, 1936, onwards."

In the note the wish is expressed for the holding of the treaty revision negotiations at Tallinn and for the setting of the date for the opening of the negotiations.

CARLSON

611.60i31/30

The Secretary of State to the Chargé in Estonia (Carlson)

No. 36 WASHINGTON, September 9, 1935.

SIR: Reference is made to your despatch No. 368 of May 22, 1935,[22] with respect to the desire of the Estonian Government to have the existing Treaty of Friendship, Commerce, and Consular Rights between the United States and Estonia modified from May 22, 1936, and to other despatches and reports from your office on the subject of American-Estonian trade relations. The treatment of American trade in Estonia and the question of the modification of the existing Treaty were discussed with Minister MacMurray when he visited the Department recently on leave of absence.

The Department desires you to deliver at an early date to the Estonian Minister for Foreign Affairs a signed note along the lines of the draft contained in the first enclosure to this instruction. In presenting this note you should point out orally that under American constitutional procedure the modification of a treaty requires approval of the Senate and that it is hoped that an agreement with respect to the revision of the treaty can be reached without undue delay, in order that the treaty embodying the modifications agreed upon may be sub-

[21] Not printed.
[22] Not printed; see telegram No. 5 of the same date from the Chargé in Estonia, *supra*.

mitted to, and approved by, the Senate before the expiration of the existing treaty.

The Department hopes that it will be possible during the course of the forthcoming negotiations to come to an agreement with the Estonian Government which will ensure most-favored-nation treatment for American trade in Estonia. In order that the Estonian Government may be fully informed with respect to the general foreign trade policy of this Government, you should hand a copy of the memorandum transmitted herewith as enclosure No. 2 to the Estonian Minister for Foreign Affairs during the course of your interview, stating that you believe that an explanation of the general foreign trade policy of the Government of the United States would be of interest to the Estonian Government in connection with the forthcoming negotiations.

The Department suggests that the Legation endeavor to arrange discussions with the Estonian officials directly charged with the negotiations with a view to enlightening them with respect to the foreign trade policy of the American Government and to clarifying any points upon which they may not be fully informed and concerning which they may desire additional information. The general foreign trade policy of this Government has been set forth at length in the numerous press releases and other material which has been forwarded from time to time to the Legation. It is believed that the Legation can, in this manner, assist materially in bringing about a satisfactory conclusion to these negotiations, and the Department is confident that it will endeavor to facilitate in every appropriate manner complete understanding by the competent Estonian authorities of the position of this Government.

A complete report of your action should be submitted promptly to the Department. The comments of the Legation and memoranda of conversations with Estonian officials will be read with much interest. The modifications proposed by the Estonian Government should be forwarded to the Department as soon as the Legation receives them. An appropriate reference to this instruction should be made in all your correspondence with the Department on this matter.

Very truly yours, For the Secretary of State:
R. Walton Moore

[Enclosure 1]

Draft of a Note to the Estonian Minister for Foreign Affairs

I have been instructed by my Government to acknowledge receipt of the communication addressed by the Estonian Ministry of Foreign Affairs to this Legation on May 21, 1935, notifying to the Government of the United States the desire of the Estonian Government to have

the existing Treaty of Friendship, Commerce, and Consular Rights between the United States and Estonia modified from May 22, 1936.

My Government will be pleased to enter into negotiations for the revision of this Treaty and, in view of the desire of the Estonian Government to have the negotiations take place at Tallinn, has instructed me to ascertain the modifications proposed by the Estonian Government.

[Enclosure 2]

Memorandum to the Estonian Minister for Foreign Affairs

1. The Government of the United States has been considering with the greatest care the problems confronting commerce between the United States and Estonia as discussed in the memorandum dated January 3, 1935, which was left with the Estonian Minister for Foreign Affairs by the American Chargé d'Affaires ad interim at Tallinn, and in the Estonian note dated January 23, 1935, in reply thereto,[23] and the supplementary memorandum which was presented to Minister MacMurray by Mr. Wirgo at Tallinn on February 27, 1935.[24] It is hoped that a solution can be found for these problems during the course of the forthcoming negotiations for the modification of the existing Treaty of Friendship, Commerce, and Consular Rights between the United States and Estonia; and the Government of the United States, with a view to facilitating those negotiations, desires to set forth herein, for the information of the Estonian Government, its general foreign trade policy.

2. Equality of opportunity and treatment is the keynote of the foreign commercial policy of the American Government, which neither seeks nor accords preferential discriminatory treatment; it asks only that a foreign country treat American commerce no less favorably than it treats the commerce of third countries and, in turn, accords equality of treatment to the commerce of foreign countries. This policy is the opposite of discrimination and retaliation. It is a policy of respectful and friendly approach to all countries to cooperate in establishing equality of trade opportunity and treatment throughout the world. This policy reinforces and implements the most-favored-nation principle, which is the most effective means of bringing about rapidly a general reduction of trade barriers, of giving elasticity to trade arrangements, and of increasing international trade throughout the world.

The reciprocal trade agreements program recently inaugurated by the United States under the Trade Agreements Act of June 12, 1934,[25]

[23] Neither printed; but see despatch No. 283 (Diplomatic), January 29, from the Chargé in Estonia, p. 179.
[24] *Ante*, p. 187.
[25] 48 Stat. 943.

which provides that the duties proclaimed in consequence of agreements entered into with foreign countries shall be extended to all countries but also provides that those duties may be confined to such countries as do not discriminate against American commerce or pursue policies which tend to defeat the purpose of the Act, is wholly in accord with the unconditional most-favored-nation principle. The United States stands ready to extend unconditionally the tariff concessions granted in its trade agreements to all other countries which give American commerce non-discriminatory treatment. Equality of opportunity and treatment in the American market is, consequently, willingly offered to the countries of the world.

3. It is the carefully considered view of the Government of the United States that the rule of no discrimination is the only standard of international conduct sufficiently definite to be applied fairly and with a minimum of international controversy in connection with the extension of minimum tariff rates and the administration of other forms of trade control measures. The Government of the United States rejects the view that such criteria as the relative balance of merchandise trade between countries, or the absolute height of trade barriers, can be used as proper guides as to whether a country is entitled to the enjoyment of American minimum duties. The first of these rejected criteria—the balance of merchandise trade—implies the desire to bring about a bilateral balance of merchandise trade between each pair of countries and leads to the impairment or destruction of multilateral trade based upon an economical and mutually advantageous international division of production. It also fails to take into consideration other important factors in the balance of payments between countries. With respect to the second rejected criteria—the absolute height of trade barriers—such wide differences of opinions must necessarily exist and the question is, moreover, so complicated by the characteristic structure of a nation's industries, and by historical and traditional considerations, that any definite conclusions with regard to the application of such a criterion must of necessity be arbitrary. Under the policy which the Government of the United States is pursuing, and in which it urges the Government of Estonia to cooperate, the United States does not refuse generalization of minimum duties and equality of treatment to a foreign country, irrespective of the degree to which that country is restricting trade, as long as American commerce is offered equality of opportunity and accorded its fair and equitable share of the permitted importations and the means of payment therefor.

4. The President of the United States on July 9 [*8*] proclaimed a Trade Agreement with Sweden.[26] Concurrently with that action

[26] See pp. 739 ff. For text of the agreement signed on May 25, 1935, see Executive Agreement Series No. 79 or 49 Stat. 3755.

he issued instructions to the Treasury Department [27] regarding the countries to which tariff concessions made in that agreement and in previous agreements with the Republic of Haiti [28] and the Belgo-Luxemburg Economic Union [29] are being extended. Estonia is included in the third section of the President's instruction under the following qualification:

"3. In respect of the products of each country designated in this section, the proclaimed duties shall be applied so long as such duties remain in effect and this direction is not modified in respect of such country."

The Government of the United States is, consequently, continuing to accord to Estonia most-favored-nation treatment under the provisions of the Treaty of Friendship, Commerce, and Consular Rights between the two countries. Such treatment under the law can only be maintained for Estonia in the event that Estonia accords non-discriminatory treatment to the United States.

In his instruction to the Secretary of the Treasury, referred to above, the President also specified that minimum duty rates proclaimed in the agreements with Haiti, the Belgo-Luxemburg Economic Union, and Sweden shall be applied to like articles originating in a number of countries even though they are at present granting less favorable treatment to American trade than to that of other countries, until thirty days from the date on which he advises the Treasury that the United States has ceased, or on a certain day will cease, to be bound by provisions of a treaty or agreement providing for most-favored-nation treatment in respect of customs duties. In view of the forthcoming negotiations for the modification of the existing treaty, Estonia will not, pending the outcome thereof, be placed in this group of countries.

In the case of the countries now in this group or placed in this group at some future date, it is expected that notices of termination of existing treaties or agreements will be given, in accordance with their terms, since the treatment foreseen in the applicable treaty or agreement is not being accorded to American trade. The Government of the United States proposes to follow this policy with respect to all countries discriminating against trade with the United States with which most-favored-nation treaties are in force.

5. Estonia is now receiving the benefit of tariff and other concessions made in trade agreements with other countries. An examina-

[27] Department of State, *Press Releases*, July 13, 1935, p. 43.

[28] See vol. IV, pp. 642 ff. For text of the agreement signed on March 28, 1935, see Executive Agreement Series No. 78 or 49 Stat. 3737.

[29] See pp. 102 ff. For text of the agreement signed on February 27, 1935, see Executive Agreement Series No. 75 or 49 Stat. 3680.

tion of the schedules attached to the trade agreements with Haiti, the Belgo-Luxemburg Economic Union, and Sweden will show that the United States has already made concessions on several of the commodities in which Estonia expressed an interest in the memorandum presented at Tallinn to Minister MacMurray by Mr. Wirgo on February 26 [*27*], 1935. It is believed that concessions will likewise be made on additional commodities contained in Mr. Wirgo's list during the course of the negotiations with those countries which are the chief or important sources of importation of the individual commodities. Such concessions will be generalized to countries with which the United States has most-favored-nation treaties. They will, consequently, be willingly extended to Estonia as long as most-favored-nation treatment is maintained for American trade in that country. Copies of the trade agreements mentioned above are attached hereto, for the information of the Estonian Government.

There is likewise attached hereto a copy of specimen provisions for inclusion in American trade agreements.[30] These provisions illustrate the nature of the efforts made by the American Government in trade agreements to reduce trade barriers and to eliminate discriminatory trade controls. In the opinion of the American Government, these provisions operate to reinforce and implement the most-favored-nation clause. Such provisions have been incorporated in the trade agreements negotiated recently by the United States.

6. The great objective of the American Government, in its trade agreement program, is to bring about a healthy expansion of international trade; and to accomplish this result partly by the reciprocal reduction of tariff duties and other obstacles to trade, and partly by the removal, as rapidly as possible, of the numerous trade discriminatory practices which currently operate to prevent countries from having access on equal terms to foreign markets. The reduction of trade barriers by all governments, and the lessening of those trade controls which put trade necessarily on a basis of discrimination and which force and compress it within the limits of bilateral exchange, seem to the American Government essential to permit world trade to expand.

The effect of new forms of trade control and interferences practiced by many countries has become increasingly evident. The world is producing and consuming far less than it did prior to the depression. Employment of both labor and capital has suffered and declined. Current trade control measures have even become major factors in international relations and affect world problems of political stability, disarmament, and international understanding.

World trade in quantity has advanced little, if at all, from the low point of 1932 and this fact is not unrelated to the network of discrim-

[30] Not attached to file copy.

inations which have characterized the trade policies of many countries during recent years. Estonian trade itself has suffered severely under the actual functioning of this artificial structure designed to give temporary relief.

It was amidst the increasingly difficult international conditions that the Government of the United States first offered its trade agreement program based upon the principle of equality of trade treatment and opportunity and upon the policy of fair and friendly trade methods and practices. Encouragement in support of this program has been afforded by the public utterances of responsible statesmen throughout the world. It is hoped that the forthcoming negotiations between the American Government and the Estonian Government will be productive of beneficial results in promoting commerce between the two countries and will contribute to the revival of world trade and prosperity. The Government of the United States is convinced that the prospects of success will be materially improved by the adherence of Estonia to the policy set forth hereinbefore.

660l.116/32

The Chargé in Estonia (Carlson) to the Secretary of State

No. 444 (Diplomatic) TALLINN, September 24, 1935.
[Received October 23.]

SIR: I have the honor to refer to the report which was submitted by the Tallinn Consulate to the Department on September 24, 1935 [*1934*], entitled "Present Treatment by the Estonian Authorities of American Trade",[31] and to submit herewith a memorandum under the heading of "Effects upon American Trade of the Existing Estonian Foreign Trade Policies",[32] outlining the status of American trade in Estonia since the above-mentioned report was prepared.

In general the information contained in the enclosed memorandum is based upon conversations with Estonian officials and with Estonian importers of American products. The material thus assembled shows a striking divergence between the views held on the above subject by the two groups of individuals interviewed by the Legation. The Estonian authorities maintain for the most part that no restrictions of any kind are now being placed against the admission of American goods into Estonia. On the other hand many of the importers report that it is practically impossible for them to continue their activities in goods manufactured in the United States because of existing Governmental opposition to American importations.

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[31] Despatch No. 43, October 6, 1934, from the Consul at Tallinn, *Foreign Relations*, 1934, vol. II, p. 130.

[32] Not printed.

The assertions made by the Estonian authorities may possibly be traced to the fact that from 60% to 70% of the American importations into Estonia are being admitted on conditions similar to those under which commodities from other countries enter the country. Furthermore, the authorities unquestionably feel that they are being lenient towards American commerce because no official attempts have thus far been made to insist upon the balancing of the commodity exchanges with the United States to conform with the practice which has been adopted with practically every other country in foreign trade relations with Estonia.

The fact remains, nevertheless, that from 30% to 40% of the American imports into Estonia do not appear to receive as favorable treatment from the Estonian authorities as similar imports from other countries. Furthermore, as is apparent from statements made by Tallinn importers of American goods, the negative and dilatory attitude which the Estonian authorities have been taking for the past year or more towards American importations has actually had the results which the local authorities had hoped for, i. e., of discouraging local importers from making attempts to carry on transactions in American merchandise and of encouraging them to transfer their activities to those countries with which Estonia has favorable foreign trade balances.

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It is also desired to make special mention of enclosure No. 32 [33] to the memorandum which forms the subject of the present despatch. This enclosure contains a summary of the observations of the Estonian Minister for Economic Affairs, Mr. K. Selter, on the subject of the trade relations between Estonia and the United States. The writer was impressed with the frank manner in which the Minister approached this matter and with his very evident wish for an early amicable settlement of the question of the commodity exchanges between the two countries. As was to be expected, Minister Selter's solution lay in the direction of an increase in Estonia's export trade to the United States.

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Respectfully yours, H. E. CARLSON

611.60i31/32

The Chargé in Estonia (Carlson) to the Secretary of State

No. 452 (Diplomatic) TALLINN, October 3, 1935.
[Received October 23.]

SIR: I have the honor to refer to the Department's signed instruction to the Tallinn Legation No. 36, dated September 9, 1935, concern-

[33] Not printed.

ing the desire of the Estonian Government to modify the present Treaty of Friendship, Commerce and Consular Rights between the United States and Estonia as of May 22, 1936.

The Department is hereby advised that those provisions in the above instruction which refer to the delivery of a signed note to the Estonian Minister for Foreign Affairs expressing the readiness of the Government of the United States to enter into negotiations with Estonia for the revision of the above-mentioned Treaty were carried out on September 27, 1935. There is attached hereto a memorandum [34] covering the conversation which took place on the above occasion with the Acting Estonian Minister for Foreign Affairs, Mr. J. Müller, and the Assistant Estonian Minister for Foreign Affairs, Mr. H. Laretei. It has subsequently been learned that the modifications to the above treaty to be proposed by the Estonian Government will be ready for delivery to the Tallinn Legation on or about October 8, 1935. A copy thereof will be forwarded to the Department immediately upon receipt [34a] together with a copy of the Legation's signed note of September 27, 1935,[34] in which the information contained in the Department's instruction under reference was transmitted to the Estonian Minister for Foreign Affairs.

The Legation has read with great care the above-mentioned instruction of September 9, 1935, and, in particular, those sections thereof which suggest that discussions be arranged with the Estonian officials directly charged with the negotiations of the new Treaty with the United States. In accordance with this suggestion the Legation has had conversations with the following Estonian officials:

1. Mr. Edward Wirgo, the Director of the Foreign Trade Bureau of the Estonian Ministry for Foreign Affairs.
2. Mr. R. Mickwitz, the Chief of the Bureau of Treaties of the Estonian Foreign Office.
3. Mr. K. Selter, the Estonian Minister for Economic Affairs.
4. Mr. A. Tuhk (Gutmann), the Director of the Bureau of Commerce of the Estonian Ministry for Economic Affairs.
5. Mr. H. Laretei, the Assistant Estonian Foreign Minister.

Summaries of the statements made to the Legation by the abovementioned Estonian officials concerning their views of the approaching commercial treaty negotiations with the United States are contained in enclosures to the present despatch.[35] The Legation's general impression of the Estonian attitude towards the above subject as reflected in its conversations with the Estonian officials in question is that there seems to be an apparent willingness on the part of

[34] Not printed.
[34a] See despatch No. 527, December 20, *infra*.
[35] None printed.

some of these officials to accept the most-favored-nation principle as suggested by the American Government as the basis for the coming negotiations. Three of the persons questioned, i. e., Mr. Wirgo, Mr. Selter and Mr. Laretei, appeared to be quite ready to agree along general lines with the American viewpoints concerning foreign trade. The remaining two—Mr. Mickwitz and Mr. Tuhk (Gutmann) seemed to be somewhat in doubt as to the possibility of fitting most-favored-nation treatment for foreign trade as suggested by the United States into the existing Estonian foreign trade program.

In general, it already appears to be clear that Estonia will probably take the statements which are contained in the memorandum which is mentioned on page 2 of the Department's instruction to this office of September 9, 1935, and of which a copy was handed to the Estonian Foreign Office on September 27, 1935, as the basis for the modifications which it is to propose in the existing Treaty of Friendship, Commerce and Consular Rights between the United States and Estonia. At the same time it seems to be equally clear, however, that in these modifications the Estonian Government will endeavor to change the wording of certain of the articles suggested by the United States for inclusion in the modified Treaty in such a way as to correspond to the existing Estonian foreign trade system.

Furthermore, the Legation is practically convinced that the Estonian authorities will insist upon the inclusion in the modified treaty of a list of Estonian commodities on which customs duty reductions are to be requested from the Government of the United States. It is believed that Estonia's readiness to enter into a commercial treaty with the United States upon a most-favored-nation basis will depend in very large part on the attitude to be taken by the United States towards the Estonian request for customs duty reductions.

On the other hand, the Legation also believes that the question of the interpretation of most-favored-nation treatment in respect to American commodities seeking admission to the Estonian markets is likely to cause difficulties. As has been pointed out by the Legation in despatches and reports concerning the subject of American-Estonian trade relations, Estonia's foreign trade policies are determined to a very large extent by the dominating positions occupied by Great Britain and Germany in Estonia's export trade. It is felt that, despite the apparent existence of a sincere desire on the part of Estonia to accord equitable treatment to American products entering its territory, it will be very difficult for Estonia to carry this wish out in practice as long as it continues to adhere to its present system which calls for the bilateral balancing of commodity exchanges with all countries. It now remains to be seen whether Estonia will be prepared to make an exception in this respect in behalf of the United States.

Further observations on the above subject will be made at the time of the submission to the Department of the Estonian suggestions for a modified commercial treaty with the United States. These are, as already stated, expected to be forthcoming in the very near future.

Respectfully yours, H. E. CARLSON

611.60i31/35

The Chargé in Estonia (Carlson) to the Secretary of State

[Extract]

No. 527 (Diplomatic) TALLINN, December 20, 1935.
[Received January 8, 1936.]

SIR:

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On October 8, 1935, during a visit to Tallinn of Mr. Robert F. Kelley, the Chief of the Division of Eastern European Affairs at the Department of State, the latter had a conversation with Mr. E. Wirgo, the Chief of the Foreign Trade Bureau of the Estonian Ministry for Foreign Affairs, on the subject of Estonia's desire to modify its commercial treaty with the United States. During this conversation it became apparent that it was the wish of the Estonian Government not to modify the above treaty, but to negotiate a reciprocal trade treaty with the United States of the kind with [*which?*] the latter is now concluding with other countries. There is attached hereto a memorandum [36] covering the most important points touched upon in the above-mentioned conversation.

While in Tallinn, Mr. Kelley was given to understand that the Estonian reply to the Legation's note of September 27, 1935, on the above subject would be forthcoming almost at once. This did not, however, prove to be the case, and it was not until today that the Foreign Office in Tallinn delivered to the Legation the note setting forth the wishes of the Estonian Government in respect to a new commercial treaty with the United States.

There is attached hereto a copy of the foregoing note, of which the original is in the files of the Legation. After having studied this note the Legation requested from the Foreign Office further information concerning the following statement which is made in paragraph (4) of the note:

"(4) As far as the trade between Estonia and the U. S. A. is concerned, it is known that during the past ten years (1925–1934) Estonia has paid on the average over ten million Est. crowns annually more for the goods imported from the U. S. A. than it has been able to sell to the latter."

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[36] Not printed.

Inasmuch as the above average seemed to be rather high, the Foreign Office was requested to explain the manner in which the sum in question had been reached. As a result the material which is contained in enclosure No. 4 [37] to the present despatch was handed to the Legation.

In conclusion it may be pointed out that in accepting the above note, the writer made the remark that in view of the fairly large number of treaty proposals which were now under consideration by the Government of the United States and of the time which would be required to make the necessary study in Washington of the Estonian proposal, a response thereto would probably not be forthcoming for some months. The writer was thereupon advised informally that, should it not be found possible to come to an understanding on the subject of the new treaty before May 26, 1936, the date on which the present treaty is to expire, Estonia might possibly be willing to give consideration to a proposal foreseeing the prolongation for the period of one year of the treaty which is now in existence if made to it by the United States.

Respectfully yours, H. E. CARLSON

[Enclosure—Extracts]

The Chief of the Foreign Trade Department of the Estonian Ministry of Foreign Affairs (Wirgo) to the American Chargé (Carlson)

791-W TALLINN, 20 December, 1935.

SIR: The Estonian Government has carefully studied the memorandum and documents attached thereto, presented by the American Legation to the Estonian Foreign Office on September 27, 1935. Highly appreciating the wish of the United States to see the normalization of international trade relations, and desiring to contribute as far as possible to the obtaining of this end, the Estonian Government can, nevertheless, not be a pioneer in this matter. Estonia would be prepared to adhere to the principle of equality of opportunity and treatment, so well expressed in the U. S. A. memorandum, but unfortunately it would be able to follow this principle to a full extent in the forming of its policies only in case the principle is also accepted, if not by all of Europe, then at least by the countries which hitherto have been the best customers for Estonia's produce. . . .

It is clear that Estonia, whose foreign trade in 1934 formed 0.08% of the total foreign trade of the world, cannot ignore the wishes of such countries, as are the best buyers of its products, even though these demands, from the point of view of the "do ut des" principle,

[37] Not printed.

sometimes violate the most-favored-nation principle. If, however, the U. S. A. would provide greater facilities for Estonia's exports and would contribute to a considerable increase in the purchases of the U. S. A. in Estonia, the problems of the Estonian–U. S. A. trade would be solved automatically without Estonia being compelled to give full consideration to the "do ut des" principle.

2. However, the principle of "equality of opportunity and treatment" has been of practical importance only in cases where the customs barriers of the country offering such treatment are not kept at heights which render the exports to that country entirely impossible. Should it become evident that Estonia's principal export commodities would be subject to prohibitive tariff rates upon importation into the U. S. A., this kind of "equality" could not provide a normal basis for the development of the exchange of commodities. For this reason Estonia can not leave the question of individual tariff rates out of consideration in the forthcoming negotiations.

3. With regard to the principle of balanced foreign trade accounts between two countries, Estonia also deems it advisable that the principle of bilateral treatment be replaced by that of a multilateral treatment. The latter principle implies, however, that it be recognized not only within the limits of relations between any two countries, but by all countries. Estonia has at present fairly considerable so-called "frozen sums" tied up in several countries which unfortunately can not be liquidated in any other manner, but by artificial directing of imports to such countries. Before the world crisis, Estonia made use at its own discretion of all funds credited to it in other countries. It has now been deprived of this possibility and is compelled to reckon with the principle of bilateral balancing of trade.

This question is in logical relation with the question of restrictions in the foreign exchange transactions. Recently it seemed possible to predict, if not a complete removal, then at least a considerable alleviation of these restrictions in Europe. Also in Estonia the restrictions on the foreign exchange transactions are actually applied far more leniently than was the case, for example, a year ago. Unfortunately, however, the general position now obtaining in Europe is different. Several European countries have this year enforced restrictions, which reach beyond the requirements of balanced foreign trade accounts between two countries, by permitting imports from a country only to the extent of 60% of the exports to that country, while others which throughout the crisis years and up to the present have been able to manage without exchange restrictions, have recently introduced a control over foreign exchange transactions. This fact further curtails Estonia's freedom of action and compels it to consider not theoretical maxims but the requirements of practical life. All of these circumstances compel the European countries and at

times also Estonia to act in its foreign trade in a manner which, from the point of view of the purely most-favored-nation principle, may in certain cases be interpreted as discrimination. Since, however, this kind of foreign trade system in Europe has totally deprived Estonia of freedom of action, it also cannot follow a different policy if it does not want to completely ruin its economics, and particularly its export trade. For this reason it is unable to accept to their full extent any references to discrimination.

4. As far as the trade between Estonia and the U. S. A. is concerned, it is known that during the past ten years (1925–1934) Estonia has paid on the average over ten million Est. crowns annually more for the goods imported from the U. S. A. than it has been able to sell to the latter. During the period from 1925 to 1934, Estonia's total exports reached the highest point in 1928, having amounted to Ekr. 127,109,000, and the lowest point in 1932, having totaled Ekr. 42,571,000. The annual exports during the ten year period averaged Ekr. 86,784,000, while the annual imports during this period averaged Ekr. 83,363,000, the annual favorable balance thus having amounted to Ekr. 3,421,000. These figures are the best proof of what proportion the favorable balance of U. S. A. trade with Estonia constitutes with the general totals of the latter's foreign trade.

It must be mentioned at this point that, as long as Estonia had full freedom to make use of the surpluses which had accrued from the trade with other countries, it had no unsurmountable difficulties in overcoming the unfavorable balance of its trade with the U. S. A. At present, where this freedom no longer exists, it is able to purchase U. S. A. products only when it knows which source it is able to use for making payments for these purchases. Such source may only be created from the money obtained from the U. S. A. against Estonia's exports, since otherwise, should Estonia, for instance, desire to use another source, it may happen that the latter has been blocked for other purposes. If, however, Estonia continues its purchases in the U. S. A. without giving consideration to the possibilities of effecting payments therefor, "frozen" funds may accumulate in Estonia to the credit of the U. S. A., which hardly would be desirable to either country.

5. From the foregoing, it must be concluded that the question of the facilities Estonia may promise to the U. S. A. in the new agreement, is entirely dependent on what the U. S. A. itself is prepared to offer to Estonia. . . .

Consequently, Estonia must, first of all know whether the U. S. A. is prepared to guarantee the admission of its products to the United States, and if so, in what quantities. Before this question is settled, Estonia will not be able to assume and declare its definite attitude towards the proposals made by the U. S. A.

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In order to facilitate action on the part of the U. S. A., suggestions are made below not only regarding the tariff reductions to be offered, but also concerning quotas for which such reductions are to be allowed, with regard to some of the products already mentioned by Estonia as well as those which Estonia believes not to be able to leave out of consideration during the negotiations opened. This would enable the U. S. A. to grant to third countries the tariff reductions only to the extent of the quotas provided for in the agreement signed with Estonia. For a further alleviation of the position of the U. S. A. it might also be provided that in case it appears, after the lapse of one year, that most of the tariff quotas obtained by Estonia have not been made use of by the latter, the parties may come to an agreement regarding the reduction of this quota, raising at the same time the quota allotments for other lines where the allotments provided for in the agreement have not proved to be sufficient. This matter might be discussed in detail after an agreement had been reached regarding the principles that are being set up.

[The remainder of this note comments on details of tariff schedules on particular products, and in regard to items for inclusion in a draft agreement.]

I avail myself [etc.] E. WIRGO