

THE BRITISH COMMONWEALTH OF NATIONS

UNITED KINGDOM

CONTINUATION OF INFORMAL AND EXPLORATORY DISCUSSIONS REGARDING POSTWAR ECONOMIC POLICY; NEGOTIATIONS RELATING TO THE EXTENSION OF CREDIT TO THE UNITED KINGDOM, THE LIBERALIZATION OF WORLD TRADE, AND THE SETTLEMENT OF LEND-LEASE¹

840.50/1-445: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 4, 1945—7 p. m.
[Received January 5—7:35 a. m.]

118. Hawkins² and Penrose³ had a further conversation on commercial policy today with Liesching,⁴ Eady,⁵ Robbins,⁶ Fergusson⁷ and Shackle.⁸ The United Kingdom officials commented on the oral summary of the trend of thought among experts in Washington which Hawkins had given at a previous meeting. The substance [of] the British views follows:

(1) They think that our ideas are tilted in favor of countries whose main obligation would be to reduce tariffs as against countries whose obligations would involve extensive action not only on tariffs but also on preferences and quantitative restrictions. Any redress of this balance must be sought almost solely in escape clauses.

(2) As regards tariffs, they think that the draft convention⁹ treats high tariffs no more severely than low tariffs. United Kingdom officials had proposed to introduce X ceiling but they recognize its disadvantages and will not necessarily revert to it. They suggest for study a formula X divided by Y plus Z per cent where X equals duty

¹ For previous documentation relating to these subjects, see *Foreign Relations*, 1944, vol. II, pp. 1 ff.; and *ibid.*, vol. III, pp. 31 ff.

² Harry C. Hawkins, Minister-Counselor of Embassy for Economic Affairs at London.

³ Ernest F. Penrose, Special Assistant to the Ambassador in London.

⁴ Sir Percivale Liesching, Second Secretary, British Board of Trade.

⁵ Sir Wilfrid G. Eady, Joint Second Secretary, British Treasury.

⁶ Lionel C. Robbins, Director of the Economic Section of Offices of the British War Cabinet.

⁷ Sir David Fergusson, Permanent Secretary of the British Ministry of Agriculture and Fisheries.

⁸ Robert J. Shackle, Principal Assistant Secretary, British Board of Trade.

⁹ Draft Multilateral Convention on Commercial Policy, October 1944, not printed; for previous discussion concerning this draft convention, see *Foreign Relations*, 1944, vol. II, pp. 1 ff.

on July 1, 1939, Y equals percentage initial reduction and QQ equals an ad valorem constant. The object of this formula is to achieve greater reduction of high than of low tariffs.

(3) They strongly object to our ideas from the viewpoint of the treatment of infant industries and "defense" industries, particularly the former. The basis of their objection is that countries in an early stage of industrial development, and especially those dependent largely on import duties for revenue, would react strongly against an attempt to veto any new tariffs and confine infant industry protection to subsidies and would demand a "tariff let out". The United Kingdom officials refer to our oral summary of the substance of article XVII¹⁰ and say that under the convention a country would be forced to adopt quantitative restrictions and would be debarred from raising tariffs to meet an emergency situation. They stress the "deep seated feelings" in countries which are largely agricultural in favor of developing subsidiary industries for purposes of diversification, and argue that proposals on the lines of the draft convention would at once arouse fears that sufficient revenue could not be raised for these purposes and suspicious [*suspicious*] that the developed countries were trying to restrict local development to gain or retain the market for their own manufactures.

We have pointed out that revenue duties could be imposed to raise revenue for subsidies to infant industries, but United Kingdom officials appear to favor some sort of exception, perhaps on a principle similar to that in our article XVII, or by permitting duties tapering off to zero according to a time schedule to meet the needs of infant industries. They were, however, extremely vague as to the criteria of an "infant industry".

(4) United Kingdom officials also consider that subsidies alone are inadequate for the protection of defense industries and at first connected defense industries with infant industries. When we pointed out that defense industries are not necessarily infant industries, Liesching and Robbins suggested that decisions might be made in the security organization¹¹ on the question what defense industries might be protected in particular places to facilitate international security.

(5) Even apart from questions of infant and defense industries, United Kingdom officials argue that the cutting of duties and freezing them would involve hardship in countries where import duties constitute a large proportion of total revenue and where fiscal administrative organization is weak. They suggest that there should be an

¹⁰ Article XVII permitted the imposition of quotas on articles in "emergency situations" to protect domestic producers, subject to certain specified provisions.

¹¹ For documentation on preliminaries to the establishment of an international organization for the maintenance of international peace and security, see *Foreign Relations, 1944*, vol. I, pp. 614 ff.; for documentation on the United Nations Conference on International Organization, held at San Francisco, April 25-June 26, 1945, see *ibid.*, 1945, vol. I, pp. 1 ff.

exception to meet such cases. We again pointed out that this could be met by revenue duties.

(6) The United Kingdom officials [feel?] that there should be provision for new duties exceeding the tariff floor to be substituted for quotas in cases where at present quotas without duties or with low duties are applied. It has become clear in the course of the conversations that in general they do not favor quantitative restrictions on any products except food and would like to facilitate a change from such restrictions of tariffs.

(7) As regards the floor they think it will probably be necessary to allow tariffs to rise to the floor.

(8) The United Kingdom officials consider that provision should be made to cover cases where substantial rises in prices have already reduced specific duties in real terms. Liesching referred to the 1939 level as "grotesquely inappropriate" by the circumstances of some countries, for example Iraq, and particularly countries whose governmental organization is unable to administer ad valorem duties.

Our impression from this discussion taken as whole is that the United Kingdom officials have departed widely from their approach in the Washington conversations, especially in regard to the part played by subsidies in relation to other forms of protection; that on major points their new position is likely to create serious obstacles to the attainment of satisfactory post war commercial policy; and that they have been drawn into this position under pressure from ministerial quarters and from the attitudes of India and Australia and the anticipated attitudes of other countries in a relatively early stage of development.¹²

We are continuing the conversations tomorrow.

WINANT

840.50/1-545 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 5, 1945—7 p. m.

[Received 9:05 p. m.]

159. Hawkins, Steere¹³ and Penrose had another conversation today with Liesching, Eady, Robbins, Fergusson and Shackle. The

¹² Instruction 558 to Ottawa, January 19, enclosed a paraphrase of this and several subsequent telegrams with the following comment:

"With reference to the penultimate paragraph of telegram no. 118, January 4, the Department is not entirely in accord with the Embassy's feeling that the points mentioned in the telegram indicate a wide divergence from the previous British view or that they would be likely to develop into serious obstacles. It should be borne in mind that the comment on the British views expressed in this series of telegrams is that of individuals and does not necessarily reflect the Department's opinion." (840.50/1-1945)

¹³ Lord V. Steere. Agricultural Attaché at the Embassy in London.

main points put forward by the United Kingdom officials are as follows:

1. In a discussion of the difficulties of preventing discrimination in state trading, Liesching and Eady took a somewhat more hopeful view than Robbins and Fergusson of the possibility that the concept of commercial considerations could gradually, by a sort of case law procedure, be given an objective content.

2. United Kingdom officials are apprehensive of the effect of an escape clause relating to emergency situations, along the lines of article XVII of our tentative draft. They think this is a crucial question and discussed it at length. One of the major attractions to them of a multilateral convention is that United States would give a lead in the reduction of tariffs and that what was done by one country would be done by all. In view of the creditor position and general economic importance of United States they feared that such an escape clause would create the impression that the United States could nullify or throw out of gear the whole tariff reduction on the plea of emergency situations. Officials are concerned about the reactions of some of their more skeptical ministers and of United Kingdom manufacturers. They would particularly fear the application of such a provision to textiles.

Hawkins pointed to the temporary nature of such restrictions and outlined the history of such escape clauses in our trade agreements and showed how rarely they had been invoked in practice. United Kingdom officials were impressed by the record and asked for as detailed data as possible. They are anxious to have such data, apparently for use in talking with ministers. We referred also to the scarce currencies clause in the monetary agreement.¹⁴ United Kingdom officials are impressed by the usefulness of this clause to check abuses of an emergency escape clause. Robbins referred to opposition to this clause by Williams¹⁵ and others in United States and added, "people here will watch with breathless interest what happens to the scarce currencies clause in Congress". United Kingdom officials added that even though they might rely on us not to use an emergency escape clause unduly, there was no assurance that such a clause would not be abused by other countries. They hope by separate agricultural proposals (see Embassy's 11114 December 15¹⁶) to avoid the general use of quotas.

¹⁴ Reference is to article VII of the Articles of Agreement of the International Monetary Fund resulting from the Bretton Woods Conference; for text, see Department of State, *Proceedings and Documents of the United Nations Monetary and Financial Conference*, Bretton Woods, New Hampshire, July 1-22, 1944 (Washington, Government Printing Office, 1948) vol. I, pp. 952-954. For documentation relating to the Conference, see *Foreign Relations*, 1944, vol. II, pp. 106 ff.

¹⁵ John H. Williams, Dean of the Graduate School of Public Administration, Harvard University, and Vice President of the Federal Reserve Bank of New York.

¹⁶ *Foreign Relations*, 1944, vol. II, p. 102.

3. United Kingdom officials question the desirability of complete prohibition of export duties and suggest parallel treatment of export and import duties. They think the infant industry argument is also applicable to export taxes in relation to processing industries. They appear to have in mind some of their crown colonies and while they admit the force of the argument against export duties based on freedom of access to raw materials, they feel that in some cases this argument might be offset by the principle of colonial trusteeship.

4. As regards existing preferences United Kingdom officials say they will have to insist on a minimum floor of 5% ad valorem. They consider that having preferential margins plus such a minimum floor would be an adequate counterpart to a reduction of tariffs by 50%. However, when questioned, they admit that the technique suggested by us for reducing preferential margins by horizontal reductions in most favored nation rates would not be unacceptable provided their suggested floor was agreed to. They are not willing to accept any formula that would result in a reduction of residual preferences.

Their second point on preferences is that the principles to be applied to preferential import duties should be applied also to state trading and to quotas. They are vague as to the method by which this could be given quantitative application and do not appear to have got much beyond enunciation of the principle.

The discussion of preferences was left incomplete and will be resumed on Monday.¹⁷

WINANT

840.50/12-1544 : Airgram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, January 6, 1945.

A-84. To Hawkins from Haley.¹⁸ Reurtel 11114, December 15.¹⁹ Clarification of the following points regarding tentative British views on agricultural policy would be helpful to the interdepartmental Subcommittee on Agricultural Policy:

1. Is it the intention that the proposed special provisions would apply solely to primary food products, or do the British have in mind

¹⁷ January 8.

¹⁸ Bernard F. Haley, Director of the Office of Economic Affairs and Vice Chairman of the Executive Committee on Economic Foreign Policy. This committee was established in April 1944 "to examine problems and developments affecting the economic foreign policy of the United States and to formulate recommendations in regard thereto for the consideration of the Secretary of State, and, in appropriate cases, of the President." Its membership was interdepartmental in character. For further information, see Department of State, *Postwar Foreign Policy Preparation, 1939-1945* (Washington, Government Printing Office, 1949), pp. 218-220.

¹⁹ *Foreign Relations, 1944*, vol. II, p. 102.

provisions of a more general nature which, in their case, would probably be invoked only in respect of primary food products?

2. If the provisions would be restricted to primary food products, or even to primary agricultural products, how would such products be defined? Would they include such British products as bacon, dairy products, pork, beef and potatoes?

3. Reference is made to the objectives of price stability and production stability. How would the former be achieved under the proposed special provisions, which contemplate the imposition of a ceiling on the differential between domestic and world prices? With regard to stability of (domestic) production, is it the British view that this would be recognized in the proposed convention as a permanent and accepted objective of economic policy? Specifically, would they be inclined to resist the inclusion of accompanying provisions making it clear that measures against imports imposed on the grounds of promoting stability would be merely of a transitional character and looking toward the relaxation and ultimate removal of such measures as soon as practicable? (For example, see following provisions of draft multilateral convention ²⁰ which Mr. Hawkins took to London :

a) "Proposed redraft of paragraph 2(d) of Article XVII [XVIII]", dated October 12, 1944. Numbered paragraph 3 of this paper is pertinent.

b) Paragraphs 3 and 4 of Article XXVII, Section F, as set forth in the Report of the Committee on Trade Barriers dated October 9, 1944 (ECEFP D-65/44-STB D-9/44).[.]

4. In cases in which tariffs or quotas are used for the purpose of stabilizing production (reurtel paragraph 3), how would the reduction of protection be determined if the production target were exceeded and to what extent would protection be reduced (reurtel paragraph 4)? It seems clear that in the case of subsidies, as illustrated by the pre-war United Kingdom wheat act,²¹ the British have in mind that appropriate reduction would be achieved by limiting the subsidy in effect to a goal quantity. It is not clear how this would be done if tariffs or quotas were used in lieu of subsidies.

5. In the case of subsidies, under the special provisions proposed by the British what would prevent countries from regularly promoting production in excess of the target quantity by means of subsidies which are limited to the target quantity but are larger per unit than necessary to achieve the target? For example, it seems to us that under the Wheat Act the British could have raised the guaranteed return from 10 shillings per cwt. to 13 shillings per cwt. (thus in effect further stimulating production) and this would not be in violation

²⁰ Not printed; but see footnote 9, p. 1.

²¹ Reference is to the Wheat Act of 1932; 22 & 23 Geo. V, Ch. 24.

of the proposed special provisions so long as the deficiency payments were limited to 136 million cwt. In other words, there does not seem to be under the British proposals a limit on the use of subsidies which would be effective in practice. Such a limit would be provided, of course, if in such cases the production or marketing of the domestic product were subject to quantitative restrictions. This, however, does not appear to be contemplated.

6. With regard to the moving average (reurtel paragraph 4), it is assumed that this refers to a moving average of the world price, and not to a moving average of the percentage. Please correct our impression if we have misunderstood.

7. With regard to the permitted percentage differential between domestic and world prices (reurtel paragraph 4) : would this percentage be uniform for all products? It is stated that this percentage would be the subject of international agreement. Does this mean periodic international agreement, or merely that it would be fixed in the proposed convention, and would, like the rest of the convention, have to be negotiated?

8. Do the British proposals envisage provisions which would eliminate export subsidies on the products subject to the special provisions they have in mind?

The Embassy's comments would be appreciated as to the extent to which our draft proposals, particularly those relating to quotas in conjunction with domestic restriction measures and those relating to domestic subsidies, might meet the problems which seem to be worrying the British. [Haley.]

STETTINIUS

840.50/1-845 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 8, 1945—7 p. m.

[Received January 8—6:48 p. m.]

261. Hawkins, Steere and Penrose had another conversation today with Liesching, Eady, Robbins and Shackle.

1. The tentative position of the UK officials on preferences may now be summed up as follows. They are willing to agree in accordance with the method first proposed by the Canadians to what they call "closing margins" of preference in connection with a substantial tariff cut. They think that this would leave a greatly reduced residue of preferences which would not have serious diversionary influences on trade and would at the same time meet their domestic political pressures based on sentiment rather than economics. They continue to

adhere to the position stated in section 4 of Embassy's 159, January 5 that they would not be willing to accept any cut in the preferential margins that would remain and they will hold out for a 5% floor.

You will doubtless want to make a detailed examination of the effects of these proposals.

We understand privately that UK Ministerial opinions on the subject are still not crystallized and that some ministers feel that they cannot make up their minds until they have more data before them. They are not likely to base their ultimate decisions wholly on economic grounds.

We expressed serious concern regarding the ideas of the UK officials on the extension of the principle of preferences to state trading and quotas (paragraph 2 of section 4 of Embassy's 159, January 5) and asked them how they proposed to apply the principle. The only concrete idea as to methods came from Robbins who suggested that in state trading the price to preferential sources of imports should not differ by a percentage greater than that of the preferential margin.

2. UK officials expressed concern about the idea of sanctioning import restrictions in conjunction with government sponsored measures to restrict similar domestic products. They think that this would leave too wide an opening and would allow restrictions concerned not only with primary products but also with semi-manufactured and manufactured products. They themselves think that their separate agricultural proposals would cover all legitimate needs and that it would be dangerous to extend permission to impose such restrictions beyond agricultural products. Eady and Robbins referred to the possibility that a government-sponsored rationalization or a cartel arrangement operating under government sanction might open the door to extensive restrictions of imports of manufactured products.

The conversations will be continued on Thursday.²²

WINANT

840.50/1-1245 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 12, 1945—8 p. m.

[Received January 13—7 a. m.]

433. Hawkins, Steere and Penrose had another conversation yesterday with Liesching, Eady, Robbins and Shackle. The subject of discussion was exchange controls in relation to a multilateral commercial convention.

²² January 11.

The UK attitude on this subject is dominated by the change in their debtor-creditor position during the war and particularly by the amount of blocked sterling which has accumulated. Their concern on this subject has deepened since the completion of the calculations which were embodied in the statement of requirements for Stage II of Lend-Lease, particularly.²³

Robbins, with the concurrence of his colleagues, said there would be the greatest difficulty in finding acceptance in UK of anything that went beyond Bretton Woods in regard to the transition period.²⁴ This would apply to any provision in a commercial convention that would shorten the transition period and any that would prevent an increase in blocked balances. Eady considers that there should be no reference to blocked balances in a commercial convention and that so far as exchange is concerned the position in the monetary fund agreement should be adhered to.

The UK officials discussed the problem of blocked balances in detail. They stressed not only the magnitude of the balances, but also the fact that a large part of the balances are owed to creditor countries which are in a weak economic position and which will, therefore, wish to obtain goods against at least part of their sterling as soon as possible after the war. In this respect the UK is in a markedly different position from what it was at the end of the last war.

Pointing to the huge deficit which the UK will face on both current and capital account the officials emphasize that when Lend-Lease stops it will be extraordinarily difficult to balance their current account let alone make a contribution towards the reduction of their indebtedness. When in urgent need of imports in the early post-war years they might [be] obliged to import goods against temporarily blocked sterling from countries willing to accept such an arrangement. They add that, of course, in practice there is a substantial limit to the extent to which other countries would agree to export on such terms.

Robbins, discussing modes of unblocking, said that if all unblocking was done "without strings attached" the rate of unblocking would have to be much slower than otherwise. Their economically poor creditors, however, would want to use their balances as soon as possible and would press for the form of unblocking that would enable them to make the most use of them.

²³ This statement, "British Requirements for the First Year of Stage II", not printed. This statement was presented in October 1944 by the United Kingdom delegation during the discussions on Stage II of lend-lease then taking place in Washington. Stage II (also called Phase II) usually referred to the period of lend-lease between the defeat of Germany and the defeat of Japan. For documentation on this subject, see *Foreign Relations*, 1944, vol. III, pp. 31 ff.

²⁴ See *Proceedings and Documents of the United Nations Monetary and Financial Conference*, pp. 965-966.

In response to questions UK officials expressed unwillingness to resort to direct loans either to facilitate unblocking or even to finance essential imports any further than might be temporarily required by inability to obtain them by alternative means. The viewpoint they expressed on this subject was substantially identical with that which we have noticed in Annex A, especially paragraphs 4 and 5 in their document "British Requirements for the First Year of Stage II".

Shackle expressed the view that too rigid an application of the rule of nondiscrimination in exchange in the transition period might tend to contract trade rather than facilitate recovery. As an example, he said that it might prevent UK from obtaining oranges from South America without enabling them to obtain them from California instead. He thinks the best plan would be to lay down as a general rule that there should not be more discrimination than is unavoidable during the transition and to provide for consultation with the countries concerned in all cases.

In brief, the position of UK officials is that the commercial policy convention should contain no provisions regarding exchange which go beyond what is contained in the monetary fund agreement.

The UK officials said they would be quite willing to enter into detailed discussions with us at a suitable time on ways and means of reducing discrimination to a minimum in connection with the difficulties of their financial position generally.

WINANT

841.24/1-1245

The Director of the Office of Wartime Economic Affairs (Taft) to the Vice Chairman of the War Production Board (Batt)

WASHINGTON, January 12, 1945.

DEAR BILL: You have inquired from me as to the United States position on requests by the British for the allocation of items to be purchased for cash which are in short supply in the United States, in the light of the understanding arrived at on lend lease in Phase II, and in 1945, recently announced by Mr. Morgenthau, Mr. Stettinius and Mr. Crowley.²⁶

This question is not answered by specific language in any of the documents which came out of these discussions, and the discussions themselves did not amount to any firm undertakings by any one, since

²⁶ Press release by Secretary of the Treasury Henry Morgenthau, Jr., Secretary of State Edward R. Stettinius, Jr., and Foreign Economic Administrator Leo T. Crowley, dated November 30, 1944, is reprinted in *Foreign Relations, 1944*, vol. III, p. 80.

they were always subject to appropriate action by the allocating agencies having jurisdiction.

The War Production Board is not directly concerned with the White Paper ²⁷ at all, but passes upon requests for items in short supply on the basis of the end uses proposed in the light of war necessities. It should continue to apply exactly the same criteria, bearing in mind, of course, that other things being equal, the British should not be penalized in any way because they now propose to pay cash, where before they got certain items on lend lease. In other words, the War Production Board should continue to operate just as it has in the past, prior to the recent arrangements for lend lease in 1945.

The matter will no doubt be re-examined after the defeat of Germany.

Sincerely yours,

CHARLES P. TAFT

840.50/1-1745 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 17, 1945—2 p. m.

[Received 2:10 p. m.]

580. Hawkins and Penrose yesterday continued their conversation with Liesching, Eady, Robbins and Shackle.

(1) Liesching and Shackle raised the question whether there should not be a clause which would restrain a country from imposing an import duty together with a countervailing internal tax on a given product, and using the revenue from them to subsidize domestic production of the same or a similar product. They suggested that import duties should not be regarded as offset by an internal duty, and therefore as coming within the category of nonprotective, revenue duties, if the proceeds were used to subsidize the same or similar products.

Shackle wondered whether any provision was practicable to prevent protection through the imposition of a prohibitive import duty together with a countervailing excise duty on a product which cannot be produced internally but which is to some extent in competition with another domestic product. Shackle stated as an illustration that Poland at one time had such a duty on citrus fruits to assist domestic apple growers.

(2) The UK officials think that any provision exempting from other provisions of the convention any products that might be "declared to

²⁷ For the text of the British White Paper, September 19, 1941, relating to distribution of lend-lease material, see Department of State *Bulletin*, September 13, 1941, pp. 204-206; for documentation on this subject, see *Foreign Relations*, 1941, vol. III, pp. 16-36.

be in world surplus" would give an undue stimulus to the extension of commodity agreements that would tend to bolster up high cost production. Liesching said, "We feel a rather deepseated distrust of such agreements." He added that they have yet to see a commodity agreement that provides effectively for a shift-over from high to low cost production, and that they do not want the Wheat Agreement repeated with other commodities.²⁸

Liesching then stated with emphasis that US subsidies on cotton and wheat were, to say the least, difficult to reconcile with the spirit or the letter of article VII of the Mutual Aid Agreement.²⁹ He added that US activities in this matter were being followed with much concern in UK. Robbins and Eady underlined Liesching's statement. The officials expressed the fear that the cotton subsidy provisions of the Surplus Property Disposal Act³⁰ might be used to force a cotton agreement that would have the effect of maintaining high cost producers at the expense of low cost producers. They asked also whether they should take it for granted that the subsidy measures would be allowed to run for three years in any case or whether there was any prospect that they might be modified earlier following an international commercial policy agreement.

(3) Some questions were raised by Liesching and Shackle on the definition of a customs union. They referred to their proposals for reducing preferential margins in connection with tariff reductions, and said that it was only when preferences were treated differently from tariffs that the question of defining a customs union arose. In other words if preferences resulting from tariff reductions were permitted by the convention, those which members of a customs union continued to grant would be automatically sanctioned. However, they admitted that cases of new customs unions would not be covered if no reference were made to the meaning and conditions of a customs union. Liesching raised the question whether, so far as the consent of the international trade organization might have to be obtained for a new cus-

²⁸ Reference is to the memorandum regarding international agreement on wheat, initialed at Washington April 22, 1942, effective June 27, 1942. For text and related papers, see Department of State Executive Agreement Series No. 384, or 57 Stat. (pt. 2) 1382. For correspondence prior to the agreement, see *Foreign Relations*, 1942, vol. I, pp. 501 ff. For text of the public announcement on the agreement, see Department of State *Bulletin*, July 4, 1942, p. 582. For press releases regarding meetings of the International Wheat Council held in August 1942, provided for by the Draft Convention attached to the Memorandum of Agreement, see *ibid.*, pp. 670 and 688. Concerning subsequent meetings of this body, see R. J. Hammond, *Food*, vol. I, *The Growth of Policy* (London, His Majesty's Stationery Office, 1951), pp. 353-356.

²⁹ Preliminary agreement between the United States and the United Kingdom regarding principles applying to mutual aid in the prosecution of the war against aggression, signed at Washington, February 23, 1942. For text, see Department of State Executive Agreement Series No. 241, or 56 Stat. (pt. 2) 1433. For correspondence on negotiation of the agreement, see *Foreign Relations*, 1942, vol. I, pp. 525 ff.

³⁰ Reference is to the Surplus Property Act of 1944, October 3, 1944; 58 Stat. 765.

toms union, that organization would be the appropriate body to consider the political as well as the economic aspects of the case.

(4) The UK officials raised questions concerning the relations between member and non-member countries of the international trade organization. They asked whether discriminations against non-members would be mandatory and whether it would not be difficult to apply them in some cases at least on other than tariff matters.

The questions raised under sections 3 and 4 were exploratory rather than expressions of a set position.

Further conversations will be held next Friday and Monday.³¹

WINANT

840.50/1-2045 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 20, 1945—7 p. m.

[Received 11:15 p. m.]

725. Hawkins, Steere and Penrose had a conversation today with Liesching, Eady, Robbins, Fergusson and Broadley³² and Wall³³ of the Ministry of Food.

1. The UK officials explained their position on their bulk food purchases as follows:

[Here follows discussion in some detail of bulk food purchases.]

2. Regarding the questions in Department's A-84, January 6, we have first worked out the following more precise statement of the substance of paragraph 4 of Embassy's 11114, December 15, 6 p. m.³⁴

In respect of any food product coming within the scope of the measure, let X equal the permitted protection which is the degree of protection required to maintain the permitted excess of domestic price over the average world price in the base period. Let P equal the actual protection at any given time. Let Y equal the specified level of production, which is the maximum level to which production is allowed to be raised by the permitted protection. The specified level is arrived at by multiplying average production in the base period by an agreed percentage. Let Q equal the actual quantity of domestic production at any given time. Then if P equals X but Q is less than Y no increase of P is allowed and domestic production must be allowed to remain P unless it can be raised by other than protectionist measures.

³¹ January 19 and 22, respectively. The conversations were held, however, on January 20 and 23; see telegrams 725, January 20, 7 p. m., and 834, January 24, 4 p. m., from London, pp. 13 and 15, respectively.

³² Herbert Broadley, Deputy Secretary, Ministry of Food.

³³ J. E. Wall.

³⁴ *Foreign Relations*, 1944, vol. II, p. 102.

On the other hand if P equals X and Q is greater than Y, then P must be reduced until Q is equal to Y.

We think that from the point of view of administrative practicability the term "domestic price" used above in the definition of X would have to be so defined as to include a measure of the effects of subsidies as well as a measure of the effects of tariffs and quotas. UK officials agree in principle that in so far as subsidies are used they shall be limited to the extent necessary to prevent total protection from rising above X but they have not yet committed themselves to a criterion by which this would be accomplished. We think that the term "receipts by farmers per unit of product" would come nearer to what is required than the term "domestic price" as ordinarily understood but this might not catch subsidies at the processing and transport stages. We shall discuss this matter further with the UK officials.

This appears to answer the question in paragraph 5 of your airgram A-84, January 6.

We have referred the first question in paragraph 3 and the question in paragraph 8 to the UK officials for an answer next week.

Following are the answers to the remaining questions. References are to the numbered paragraphs in your airgram.

1. The first of the two interpretations is the correct one.
2. The procedure would be to get agreement on a list of products which in the UK opinion should include those which you mention.
- 3, second question. These are intended as permanent and not merely transitional measures.
4. Precise formulas would be impracticable. Governments would be obligated to take adequate steps and would be judged on attainment of the required results rather than on methods.
6. Your interpretation is correct.
7. The answer to the first question is yes. The answer to the second question is that the percentage would be fixed in the initial negotiations.

WINANT

841.24/1-2045

*The Vice Chairman of the War Production Board (Batt) to the
Director of the Office of Wartime Economic Affairs (Taft)*

WASHINGTON, January 20, 1945.

DEAR CHARLIE: I talked over your letter of January 12, which had to do with British cash purchases, with our people. Their reaction is that the letter wasn't quite what they had hoped for, in the light of the kind of instruction which needed to be given to our divisions. They point out that while of course we are not directly concerned

with the White Paper, we have a very real indirect concern. As long as White Paper limitations prevent re-export from UK, the type of screening job which we are called upon to do is much simpler than it would be if we also had to take into account the problem of re-exports. They think, therefore, that it would be helpful to our people in WPB to be informed that the provisions of the September 10 White Paper continue to apply, whether procurement is for cash or lend-lease, at least until V-E Day.³⁵ Probably most of our people here are under the firm impression that White Paper limitations do not apply to materials procured for cash, and that the reason for shifting to cash is to permit re-exports.

What would you think of a paragraph like the attached inserted between the second and third paragraphs of your letter, as an attempt to make this situation clearer to our operating people? ³⁶

Sincerely yours,

BILL

[Enclosure]

It should be noted, however, that the original British White Paper of September 10, 1941, provided that the limitations upon exports set forth in that document apply to any materials of a type the use of which is being restricted in the United States on the grounds of the short supply and of which the British obtain supplies from the United States *either by cash payment or on Lend-Lease*, except for the cases cited in the White Paper, and except for materials for which waivers may be specifically made. No change in these provisions have been made in the above-mentioned understandings.

840.50/1-2445 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 24, 1945—4 p. m.

[Received 5:22 p. m.]

834. Hawkins and Penrose had a further conversation yesterday with Liesching, Eady, Robbins, Fergusson and Shackle. The discussion was concentrated on questions of the best procedure for obtaining international action on commercial policy.

1. The UK officials compared the multilateral approach with the bilateral and multilateral-bilateral approaches. While appreciating the complexities of the first approach, they believe that the last two approaches have such serious disadvantages that they should only be

³⁵ Reference is to the date of victory in Europe, the surrender of Germany.

³⁶ Handwritten note on the original reads: "Handled by phone with Batt Told him OK".

considered as a last resort in the event of a breakdown of attempts at the multilateral approach.

They point out that in the bilateral approach concessions are narrowed down because of the obligation to generalize them under the MFN³⁷ principle. Second, the principle of "equivalence of concessions" raises difficulties. Efforts had been made after 1860 and to some extent in the 1920's to get around these difficulties by trying to negotiate a string of bilateral agreements. But the results were largely destroyed by subsequent depressions. In any case, this approach failed to meet satisfactorily the objections to the pure bilateral approach. In addition, since an early US-UK agreement would be necessary under the bilateral or multilateral-bilateral approach, and preferences would be a major issue in such an agreement, the UK at an early stage would have to make concessions on preferences which would at once be made general. Consequently, when UK negotiated later with other countries it would not be able to get concessions in return for this.

2. Therefore, UK officials have come to the conclusion that the best procedure is to start with a statement of principles and attempt to get international agreement first on the principles and second on the establishment of an international organization charged to translate them into a detailed convention.

The UK will press strongly for a statement of general principles as the first step. On political grounds they are opposed to the presentation of a detailed convention at the start. Liesching emphasized that "not enough air has yet been let in internationally or domestically" on commercial policy. It is essential, he added, to get the subject canvassed here and among the European Allies, both among the public and among industrialists.

The UK officials conceive of the proposed statement of principles, not in the form of vague resolutions in general terms, but as concrete and specific, involving an outline of definite government commitments, and carrying with it the obligation to set up an international trade organization to work out the multilateral framework needed for the application of the principles in detail. To avoid delay they suggest that immediately following international agreement on a statement of principles an interim trade organization should be set up to start this work at once.

3. The following alternatives on the best procedure for initiating such a statement of principles were discussed as possibilities:

(a) An agreed joint statement by US-UK followed by a general conference of the United and Associated Nations.

(b) As in (a), except that the agreement of USSR and France and possibly others would be sought before a general conference was called.

³⁷ Most-favored-nation.

(c) A statement by US alone after informal agreement had been reached with UK and after US had talked it over with USSR and France; followed by a general conference.

It was recognized, of course, that the immediate task is to resolve differences developed in the course of the present talks.

WINANT

840.50/2-145 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, February 1, 1945—4 p. m.

[Received 4:15 p. m.]

1109. Hawkins and Penrose had a conversation yesterday with Liesching, Eady, Robbins, Shackle, and Miss Kilroy (a senior Board of Trade official) on the United Kingdom position on cartels.

1. The United Kingdom officials summarized the present position of United Kingdom official thought on the subject as follows. For some years the United Kingdom Government has encouraged large units in the interests of efficiency. This process will have to continue but it is now recognized that it carries with it dangers of monopolistic developments. Government policy has been stated in paragraph 54 of the White Paper on employment policy, 6527 of 1944, and legislation will be necessary to implement that statement. Such legislation will involve inquiries into the operations of British firms involved in cartels. It is doubtful whether time can be found for the legislation in the remaining life of the present Parliament. An investigation is being made into the patents and designs acts.

2. There has been a real change of opinion on the subject and in policy in Great Britain. It is now generally agreed that the dominating aim must be expansion of trade and that restrictive cartels hamper trade. It is also agreed that restrictions that are international in scope are a subject in themselves and go beyond questions of domestic monopoly.

3. However, United Kingdom officials believe that the time is not ripe for drastic and inflexible treatment. Their impression is that United States legislation on monopoly is difficult to administer even after long experience and has been toned down by considerations based on practices. They think that attempts at world application of such legislation would be difficult and dangerous and that in the present stage of international development an experimental approach must be adopted.

4. They favor the establishment of machinery for international consultation within an international trade organization. This consultative body would deal with complaints that the general purposes of

the commercial convention were being frustrated by restrictive operations of private interests. On request it would ask governments to make investigations of operations of firms within their territories that might be parties to restrictive measures of international scope. It would not have judiciary powers and there would be no formal commitments to accept rulings from it but there would be mutual agreement and obligation to take such measures as are practicable to maintain the purposes of the convention. There would be no code of rules laid down *a priori*. Each case would be considered on its own merits. Precedents would be built up which could be appealed to. The cardinal sin would be that of frustrating the purposes of the commercial convention and thus hindering the flow of international trade. Investigations would be made in the light of the principles not only of the articles of the convention but also of the preamble, and the object would be to check international practices of private enterprises that would tend to evade these principles.

5. United Kingdom officials said they were anxious that we should realize that United Kingdom is not so cartel ridden as is popularly supposed in some quarters. They estimate that three-quarters of their exports have not been and are not likely to be subject to any form of restrictive agreements and that only 16 percent were covered by monopoly agreements.

6. They said that United Kingdom could not consider the establishment of any separate body dealing with international cartels outside the international trade organization and that provisions relating to international cartels as well as those relating to commodity agreements should be included within the general commercial convention and not made the subject of a separate convention.

7. We criticized the United Kingdom position on a number of points and urged further consideration of points set out in tentative United States official papers. However, as this would be familiar ground we have confined our message to an elucidation of the present position of United Kingdom officials.

WINANT

840.50/2-545 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, February 5, 1945—8 p. m.
[Received February 5—4:11 p. m.]

1260. After further personal discussions foreshadowed in the last sentence on [*in*] the fifth paragraph of section 2³⁸ of Embassy's 725,

³⁸ Evidently telegram 725 was paragraphed differently on receipt in the Department than when sent from London. As herein printed, the reference is to the last sentence in the fourth paragraph of section 2, p. 14.

January 20 it has become clear that in the United Kingdom agricultural proposals subsidies are not treated in a precisely parallel manner with quotas and tariffs. The concept of protection in the definition of the symbol X given in the second paragraph of section 2 of the above message should be defined as follows:

Let X equal the permitted protection, which is the degree of protection by tariffs or quotas or both required to maintain the permitted excess of domestic price over the average world price in the base period.

“Domestic price” is conceived of as the price at the consumer and not the producer end.

It follows that in this context subsidies are not to be regarded as “protection” and this should be kept in mind in interpreting the third paragraph of section 2³⁹ of the message cited above. The term “protectionist measures” there used means tariffs and quotas but does not include subsidies. Thus, if in given conditions P equalled X but Q were less than Y there would be no ban on raising Q to Y by means of subsidies though there would be a ban on raising it by tariffs or quotas.

This renders invalid the second sentence in paragraph 5 of section 2 of the message cited.⁴⁰

Please bring this message to the attention of Hawkins and Steere when they arrive.

WINANT

840.50/2-545: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, February 8, 1945—7 p. m.

[Received February 8—5:25 p. m.]

1376. 1. Keynes⁴¹ in a personal conversation with Hawkins and Penrose said that much mutual toleration will have to be exercised on international economic matters in the transition period. For that reason, he added, it is all the more important that long term commercial policies should be worked out and agreed as soon as possible. This will keep expedients that may have to be resorted to in the transition period in their proper perspective and offset the danger that such temporary devices may harden into permanent practices.

2. Britain, said Keynes, is a traditionally free trade country and has a fundamental and inescapable interest in the multilateral organiza-

³⁹ As herein printed, the reference is to the second paragraph of section 2, p. 13.

⁴⁰ As herein printed, the reference is to the second sentence in paragraph 4 of section 2, p. 14.

⁴¹ John Maynard Keynes, Financial Adviser to the British Government.

tion of world trade. The circumstances of the great depression and the world war have drawn the United Kingdom into practices which were unavoidable in the special circumstances of the times but would be disastrous to Britain's interest if adopted here and elsewhere as permanent policies. Much nonsense has been written and said in favor of bilateral bargaining and restriction by a vocal minority in Britain who have had a somewhat open field because of the absorption of economists and administrators in government.

Keynes added that he and others will shortly organize a counter offensive to offset the effects of this restrictionist propaganda and to demonstrate to the public the necessity of multilateral economic relations to serve the interest of Britain.

3. Keynes said that the United Kingdom position on commercial policy will be a very moderate one. The amount of protection involved in the United Kingdom agricultural proposals (i.e. the values to be given to the symbols X and Y as defined in Embassy's 725 January 20, section 2 and 1260 February 5) will not be high. This is in accord with previous views expressed to United States by Liesching, Eady and Robbins.

4. It is important, however, Keynes added, to recognize that greater difficulties will arise when we enter into discussions with highly protectionist countries which are in an early stage of industrial development but are determined to industrialize. Keynes dwelt at some length on these difficulties, but in a very tentative manner, as if he were thinking aloud rather than expressing a clearly worked out [*oué*] position. It may not be practicable, he said, to get some of these countries, particularly India, to enter into a convention that will go as far as United States and United Kingdom will be prepared to go. In such cases he is himself somewhat heretical with regard to the most favored nation principle, but the Board of Trade is firmly wedded to it. Therefore he thought it might not be practicable to bring every country into the convention at first. Too sharp a discrimination against nonmembers might cause political difficulties. Possibly the countries in an early stage of industrialization might be given some period to adjust before fully embracing the convention. The trouble is that though they use the infant industry argument they do not want to drop protection later.

5. Keynes thinks that there will be no difficulty in getting the world bank approved in Parliament. As regards the Monetary Fund it may be best to wait for it to pass through Congress first. He emphasized once more the vital importance to British attitudes on economic reconstruction of the prospects of the maintenance of a high level of employment in the United States and added that the opposition to the

nomination of Wallace⁴² is widely interpreted here as indicative of American unreadiness to accept the implications of a full employment policy.

WINANT

*The British Prime Minister (Churchill) to President Roosevelt*⁴³

SEBASTOPOL, 13 February, 1945.

MY DEAR FRANKLIN: 1. I have to thank you for your letter of February 10⁴⁴ about Article VII of the Lease-Lend Agreement. I cabled this home to the Cabinet and have now had a full reply from them. It appears that during the past six weeks there has been a regular series of discussions in London between a group of high British officials and three American officials led by Hawkins, who was head of the division in the State Department which deals with Commercial Policy and is now attached to the American Embassy. You may remember that discussions took place in this form at the suggestion of the State Department and were designed to ascertain informally, without of course committing either Government, where both countries now stood as a result of consideration since the talks in Washington rather more than a year ago.⁴⁵ Although Commercial Policy was the main subject, the talks covered the whole range of Article VII and seemed to our people to have let light into many obscure corners.

2. Mr. Hawkins went back a week ago to Washington to report and is due to return to London at the beginning of next month to tell us the Washington reaction to the talks. We shall then be able to consider with all practicable speed whether such differences as may be found to remain between the United States and the United Kingdom can be bridged and if so, what should be lines of procedure for consideration of policy by other United Nations.

3. The War Cabinet do not wish to commit themselves at this stage of the war to sending a high-powered delegation to Washington. This must involve bringing other countries into the discussions, notably France, at an early stage and of course the present mood of the Dominions must be ascertained before we go further on general policy.

4. In view of the above, would it not be better to wait till we have both returned home and have been able to review the progress made in the informal discussions? I shall be very glad to talk this over with you when we meet.

Yours sincerely,

WINSTON S. CHURCHILL

⁴² Henry A. Wallace had been Vice President of the United States, 1941-45. He was not renominated for the position in 1944.

⁴³ Copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N.Y.

⁴⁴ *Foreign Relations*, The Conferences at Malta and Yalta, 1945, p. 962.

⁴⁵ See *Foreign Relations*, 1943, vol. 1, pp. 1099 ff.

*Memorandum by the Ambassador in the United Kingdom (Winant)*⁴⁶

[LONDON, undated.]

MEMORANDUM ON ARTICLE VII

(Prepared by Ambassador Winant with the assistance of Mr. Hawkins and Mr. Penrose.)

1) The period between the wars was one of international trade warfare. Each country, by raising tariffs, imposing quota restrictions, negotiating preferential arrangements, utilizing restrictive and discriminatory exchange controls, and by subsidizing exports tried to take care of its own producers at the expense of those in other countries. In consequence international trade was in large part destroyed. Since all countries are in varying degree dependent upon it for their prosperity, all suffered. The international economic policy of nations became a struggle for a shrinking world trade, and the very policies whereby each sought to save itself caused world trade to shrink still further.

2) The economic strength of the United States is greater than that of any other country. Its production and consumption is a large part of the production and consumption of the entire world. It is the greatest creditor nation. The policies it pursues and advocates will be decisive in determining whether mutual impoverishment or mutual prosperity will characterize economic policies in the postwar world.

3) The opportunity to do something about this is unparalleled but fleeting. When the war is over production and trade will be disorganized. Production in the United Nations must be converted from wartime to peacetime purposes. We speak of reconversion but it would be a tragic mistake if we and other countries merely went back to what we had before the war; if each country again sought to produce what it consumes without regard to the fact that it might more economically import more of its requirements from other countries and thus benefit itself and the countries from which it buys. The trade policies which nations adopt when the war is over will determine to a large extent the pattern of production which will develop throughout the world as production for war gives way to production for peace. Tragic and costly as this war has been it has for the time being destroyed much that is bad. The fact that the world economy is in a state of flux gives us the opportunity to create a new and better pattern. But it is an opportunity which we will have only for a relatively brief time. If things are allowed to drift, production and trade will tend to revert to what they were and will solidify into the prewar pattern.

⁴⁶ Copy obtained from the Franklin D. Roosevelt Library, Hyde Park, N.Y. For subsequent consideration of this memorandum, see telegram 1844, February 22, 7 p. m., from London, *infra*.

that Secretary Hull and the present Administration sought so persistently but found so difficult to change because of the resistance of vested interests.⁴⁷

4) We should seek now international agreement on a code of rules to govern trade relations. The code should outlaw high pre-war tariffs; prohibit quota systems; rule out discriminatory trade arrangements; forbid subsidies whereby Governments throw their financial strength behind their own producers to crush the competition of those in other countries; prevent private interests through cartel arrangements from frustrating the efforts of governments to stimulate international trade. At the same time agreement should be sought on the principles to govern arrangements for stabilizing the position of primary producers who have suffered so seriously from the wide swings and erratic behavior of staple commodity prices and at the same time permit customer needs to be efficiently served. An international trade organization should be established to harmonize trade policies of nations and to study the technique whereby trade policies can be made mutually helpful rather than mutually destructive, and to formulate and supervise the operation of intergovernmental arrangements having these ends in view.

5) We have had extensive discussions of an exploratory sort with British officials on these questions and find [find] a large measure of agreement on what needs to be done. They recognize that a solution of the problems of trade relations is essential; that the mutually destructive rivalry of the past created friction and ill-feeling and that if this continues in the future, it will do much to destroy the spirit of cooperation on which success in organizing a peaceful world must rest. But the difficulty of the problems presented is also recognized; these problems have defied solution in the past.

6) The following steps are suggested for consideration:

(a) Complete our discussions with the British with a view to reaching agreement in detail on the principles that should govern postwar international trade relations; the kind of measures which nations should adopt and the commitments they should make to implement those principles; and the kind of world trade organization that should be set up to foster the application of these principles and the acceptance of these commitments.

(b) Message by the President to Congress advocating the adoption of the foregoing as the policy the U.S. should seek to implement. The fact of agreement having been reached with the British should not be stated although reference might be made to the fact that extensive exploratory discussions with them and other countries indicates the

⁴⁷ Reference is to Cordell Hull, Secretary of State, March 4, 1933, to November 30, 1944, and his efforts to liberalize United States foreign trade policies, particularly by reciprocity measures as outlined in the Trade Agreements Act, June 12, 1934, 48 Stat. 943; see *Foreign Relations*, 1935, vol. I, pp. 536 ff.

possibility that there is good prospect of wide acceptance of what we advocate.

(e) The U.S. should then put forward to other countries a statement of principles on commercial policy to serve as the basis for a United Nations conference the aim of which would be,

(i) to secure general adoption of a fairly detailed set of principles on commercial policy;

(ii) to establish at once an International Trade Organization, or at least an Interim Trade Organization which would soon be replaced by a permanent organization;

(iii) to direct the Trade Organization to translate these principles into a detailed multilateral convention to which all United and Associated Nations would be invited to adhere.

7) If the President of the United States should take the lead in advocating well thought out policies and concrete proposals in the field of international trade policy, public opinion throughout the world might well fall in behind him, and plans for reconversion to peacetime production might in large measure be made in the light of the principles and policies enunciated by him.

123 Hawkins, Harry C. : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, February 22, 1945—7 p. m.

[Received February 22—3 p. m.]

1844. For Hawkins. After you left I worked with Penrose on your memorandum in [on] commercial policy⁴⁸ and made some changes in it. I discussed it in its revised form with the President who took a copy with him and asked me also to take it up with Hopkins.⁴⁹ The President wanted you to contact Hopkins in Washington. I want you to do this even if it means staying longer in Washington.⁵⁰ I am sending to you this evening by messenger a letter⁵¹ and a copy of the

⁴⁸ Mr. Hawkins had left London for Washington on February 5, 1945; reference is to Ambassador Winant's memorandum, *supra*.

⁴⁹ Harry L. Hopkins, Special Assistant to President Franklin D. Roosevelt. Ambassador Winant had joined President Roosevelt and Mr. Hopkins at Alexandria, Egypt, following the Yalta Conference and proceeded with them aboard the U.S.S. *Quincy* to Algiers; see Robert E. Sherwood, *Roosevelt and Hopkins* (rev. ed.; New York, Harper and Brothers, 1950), pp. 872-873. According to a memorandum of conversation by Secretary of State Stettinius, March 14, 1945, it was at this time that Ambassador Winant's memorandum was discussed with President Roosevelt and Mr. Hopkins (840.50/3-1445).

⁵⁰ An attached hit and a manuscript note indicated that Mr. Hawkins had already returned to London without having seen this telegram. He then made a second trip to Washington early in March, discussing economic policy and Ambassador Winant's memorandum with Secretary of State Stettinius but was unable to see Mr. Hopkins because of the latter's illness (840.50/3-1445; 121.42/-3-545).

⁵¹ Not found in Department files nor in the Franklin D. Roosevelt Library, Hyde Park, N.Y.

memorandum which I left with the President. Please keep Assistant Secretary Clayton fully informed.

WINANT

Secretariat Files : Lot 122, Box 13148

*Memorandum by the Secretary of State's Staff Committee*⁵²

[Extract]

[WASHINGTON,] March 5, 1945.

METHODS AND PROCEDURES FOR THE EXPANSION OF
INTERNATIONAL TRADE

The Problem

A decision by the Department is required as to the methods and procedures which it will support in seeking to achieve basic United States objectives in the field of commercial policy. Until a Departmental position has been taken no further progress can be made, either internationally or within this Government with plans now under consideration.

Recommendations

It is recommended that the Department approve the following position:

Methods

1. The United States should seek the agreement of as many nations as possible that the following basic objectives of commercial policy should be jointly pursued:

(a) the maintenance of high levels of employment and income by domestic and international measures;

(b) substantial reduction of import duties, and the eventual elimination of quotas and exchange controls;

(c) the elimination of all forms of discriminatory trade treatment;

(d) the elimination of export subsidies and the regulation of other subsidies affecting commodities that move in international trade;

(e) the elimination of restrictive international private business arrangements;

(f) with respect to such intergovernmental commodity agreements as may be necessary to meet emergency situations with respect to primary products in surplus supply, the establishment of procedures designed to protect the interests of consuming nations, to stimulate demand and to bring about the shifting of production from less efficient to more efficient sources of supply.

⁵² This document, SC-55b, was approved by the Secretary of State's Staff Committee on February 27, 1945. The position herein set forth was to be quickly modified by the developments outlined in telegram 1685, March 5, to London, *infra*; see also memorandum by Assistant Secretary Clayton to Mr. Hawkins April 28, p. 45.

2. In order to implement these objectives, the United States should propose and strongly support the negotiation, among as many countries as possible but including at least a nucleus of the major trading nations, of a multilateral commercial-policy agreement along the lines of the draft now under consideration in the Executive Committee on Economic Foreign Policy. This draft is summarized in Annex I attached to this document.⁵³ Briefly it would involve:

(a) recognition of the importance of maintaining high levels of employment and income by domestic and international measures and affirmation of the principle of international consultation on anti-depression policies;

(b) the substantial reduction of import duties by means of a formula applied horizontally to the tariffs of all countries, this formula to be accompanied, however, by an appropriate "escape" clause permitting temporary emergency measures limiting imports;

(c) the elimination of tariff preferences;

(d) the general abolition of quotas, subject to exceptions chiefly of an emergency or transitional nature;

(e) the general elimination of export subsidies and the regulation of other subsidies;

(f) the establishment of suitable principles concerning state trading;

(g) the regulation and eventual elimination of exchange controls by provisions consistent with and supplementary to the Monetary Fund; and

(h) the establishment of an appropriate international trade organization.

3. At the same time, the United States should propose and strongly support the negotiation among as many countries as possible, but including at least a nucleus of the major trading nations, of a multilateral understanding for the elimination of restrictive international private business arrangements, such understanding to be an integral part of the general commercial policy agreement.

4. At the same time, the United States should propose and strongly support the negotiation of a broad multilateral understanding with respect to commodity policy and commodity arrangements, such understanding also to be an integral part of the general commercial policy agreement. It should embody the agreed principles which would govern the institution and operations of particular commodity agreements, including, among others, (a) the principle that the interests of consuming nations must be protected, and (b) the principle that any commodity arrangement should, through measures stimulating demand and shifting production from the less efficient to the more efficient sources of supply, provide for the gradual correction of the abnormal supply-demand situation which necessitated the commodity arrangement.

⁵³ Not printed.

5. If it becomes clear in the course of negotiations that the agreement of a sufficient number of other countries in respect of any one or more of the measures described above cannot be obtained in an agreement of this kind, an effort should then be made to provide in that agreement for such of the measures as may be practicable and equitable, and to reach agreement that action with regard to the other measures will be taken by some other appropriate means, such as the conclusion of individual, bilateral, trade agreements, on the unconditional most-favored-nation principle.

840.50/3-545: Telegram

*The Acting Secretary of State to the Ambassador in the
United Kingdom*

WASHINGTON, March 5, 1945—9 p. m.

1685. In response to Hawkins' request while in Washington,⁵⁴ the following current developments are reported regarding trade-barriers legislation:

1. The initial reaction of House leaders (including Rayburn,⁵⁵ McCormack,⁵⁶ Doughton⁵⁷ and Cooper⁵⁸) to section 3⁵⁹ is very discouraging. While they seemed to like the objective of the section they were fearful that its inclusion would complicate and prolong Congressional consideration of section 2, and make it very difficult, if not impossible, to get section 2 unqualified by some form of Congressional approval. They did not close the door to section 3 but

⁵⁴ A memorandum of conversation by Walter M. Rudolph of the Commodities Division, February 15, 1945, recorded Mr. Hawkins' view on commercial policy "that it was indispensable at this time that we make contacts with Congressional leaders to advise them of our position and to sound out their views on the subject." He had also asked to be kept informed on developments relating to his discussions with the British in London. (840.50/2-1545)

⁵⁵ Rep. Sam Rayburn, of Texas, Speaker of the House of Representatives.

⁵⁶ Rep. John W. McCormack, of Massachusetts, Majority Leader in the House of Representatives.

⁵⁷ Rep. Robert L. Doughton, of North Carolina, Chairman of the Ways and Means Committee of the House of Representatives.

⁵⁸ Rep. Jere Cooper, of Tennessee, Member of the Ways and Means Committee and of the Special Committee on Post-War Economic Policy and Planning of the House of Representatives.

⁵⁹ Reference is to a Draft Joint Resolution, not printed, prepared for the Secretary of State's Staff Committee concerning a legislative program for extension of the Trade Agreements authority of the President (SC-39a, February 15, 1945). Section 1 of this draft resolution proposed renewal of the Trade Agreements authority for 3 years. Section 2 related the 50 percent limit on reductions of United States tariff rates to the rates in effect January 1, 1945, that is, those already reduced by Trade Agreements in force, rather than to the rates of 1934 as provided in the Trade Agreements Act, June 12, 1934 (48 Stat. 943). Section 3, drawn up as a concurrent resolution, proposed Congressional approval for a broad approach by the President in the field of international trade, designed to remove barriers and facilitate the flow of commerce.

Departmental officers who met with them came away with the feeling that the leaders felt very strongly that it should be dropped.

2. The Department and the Executive Committee are therefore considering alternative courses. Among the possibilities is to start with a two-section bill, consisting of the present section 1 plus either section 2 or section 3. Your comment on these proposals from the point of view of aid to the negotiations will be welcomed.

GREW

840.50/3-945 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, March 9, 1945—1 p. m.

[Received March 10—5:40 a. m.]

2440. From Judge Rosenman.⁶⁰ A discussion was held yesterday with Lord Keynes, Sir Wilfrid Eady and Mr. Harmer of the British Treasury on the British post-war Department and Phelps of State Department.⁶¹

It was agreed that this discussion was to be completely off the record and not for publication in any way; that it [represented personal?] views rather than the official views of the Government.

I stated briefly that the main objective of the mission was to investigate supply matters for the liberated areas but that you also wished me to speak informally with high officials about reconstruction and post-war financial problems so that some background might be secured for our own thinking on these topics.

Lord Keynes replied that their chief interest and attention had been focused on the Phase II agreement including the renewal of the Lend-Lease Act,⁶² and the request for appropriation. He stated that further discussions might be scheduled for early summer or soon after the end of hostilities in Europe. At that time the most important immediate problem would concern: (1) arrangements for the transitional period immediately following the cessation of hostilities in the Pacific during which military expenditures will continue; (2) the time and the arrangements under which Lend-Lease and mutual aid deliveries

⁶⁰ Samuel I. Rosenman, Special Counsel to President Roosevelt, was on a special mission to the countries of northwest Europe as the President's personal representative to inquire into the problem of civilian supplies for liberated areas; for documentation on the subject, see vol. II, pp. 1059 ff.

⁶¹ Apparent garble. Presumably the sentence was intended to read: "A discussion was held yesterday with Lord Keynes, Sir Wilfrid Eady and Mr. Harmer of the British Treasury and Phelps of State Department on the British post-war financial outlook." Frederic E. Harmer was Temporary Assistant Secretary, British Treasury; Dudley M. Phelps, Chief of the Division of Foreign Economic Development, was accompanying Judge Rosenman.

⁶² Approved March 11, 1941; 55 Stat. 31.

will be terminated including materials in the pipeline. Apparently the British feel that the lack of decisions on these matters and certain imponderables, including (a) the duration of the war in the Pacific, (b) the rate of growth of sterling balances, (c) the rapidity of reconversion and the increase in exports achieved after V-E Day, and (d) the results of a general election if one be held, make it impossible to evaluate accurately the British post-war financial position at this time. Lord Keynes stated it as his personal opinion that neither lend-lease nor credit arrangements under section 3c⁶³ would be acceptable to the British after hostilities in the Pacific had ceased.

Lord Keynes noted that British will be the only United Nation which will emerge from the war with a seriously impaired external financial position and stated that some way must be found to improve this position if an effective world economic structure of the type desired both by the United States and Britain is to be attained. In this discussion Lord Keynes said that bilateralism and regional preferential systems were considered by the present Government as poor alternatives to full international collaboration on a non-preferential basis. It was his belief that if a workable economic system could be established these alternatives would not appear as significant nor as attractive to British officials as might be inferred from present discussions. A further conference on this general topic will be arranged with Sir John Anderson, Chancellor of the Exchequer.⁶⁴ [Rosenman.]

Judge Rosenman requests the above message be delivered to the President.

WINANT

840.50/3-1245 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, March 12, 1945—7 p. m.
[Received March 12—4:15 p. m.]

2555. Your 1685, March 5, 9 p. m. After reviewing the talks we have had with the British in London I consider that the greatest importance should be given to the initiation by the President of negotiations towards a multilateral agreement among the United and Associated Nations along the lines of section 3 of the proposed draft bill.⁶⁵ I do not think renewal of the Reciprocal Trade Agreements Act,⁶⁶ even with powers to make greater reductions in tariffs, would in

⁶³ Section 3c was substantially altered when the Lend-Lease Act was renewed, April 16, 1945; 59 Stat. 52.

⁶⁴ No record of such a conference has been found in Department files.

⁶⁵ See footnote 59, p. 27.

⁶⁶ Approved June 12, 1934 (48 Stat. 943); as amended by the Act of June 7, 1943 (57 Stat. 125).

itself make a great enough impression in UK to counteract the views either of the reactionaries who do not like article VII or the honest doubters who wish to support it but fear that we shall not be ready to do our part in implementing article VII.⁶⁷

Our position on commercial policy will also affect the British attitude not only on commercial policy but on Parliamentary action to implement the Monetary Fund plan.

I think that the prospect of success in any area of our total plan for giving effect to article VII depends on what happens in the other areas and that it is now most urgent that we should take the lead in attempting to bring a commercial policy program as quickly as possible to as advanced a stage as the Bretton Woods proposals.

For these reasons I think that first importance should be given to the inclusion of section 3. I hope that it may yet be possible to include section 2 also, but it seems to me that sooner or later it will be necessary to obtain Congressional approval for a commercial policy measure that will go far enough to make a deep and convincing impression here and get the support of the British Government.

WINANT

[For text of press release, dated March 13, concerning discussions between President Roosevelt and Prime Minister W. L. Mackenzie King of Canada on the international economic and trading policy, see Department of State *Bulletin*, March 14, 1945, page 434.]

861.51/3-2245 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, March 22, 1945—9 p. m.

[Received 11 : 59 p. m.]

2978. For Secretary of Treasury ⁶⁸ from Mann.⁶⁹ Reference to your 1936, March 13.⁷⁰

1. Sir David Waley ⁷¹ states that in general the United Kingdom because of United Kingdom external financial position will not be in a position to extend credits to European countries. The United Kingdom Treasury appreciates fully the need of the liberated coun-

⁶⁷ See footnote 29, p. 12.

⁶⁸ Henry Morgenthau, Jr.

⁶⁹ James H. Mann, U.S. Treasury Department.

⁷⁰ Not printed.

⁷¹ Under Secretary, British Treasury.

tries of Europe for credits to obtain the imports necessary for restocking and reconstruction but feels that these countries "should look to creditor nations like the United States and Canada for necessary loans and not to debtor nations like the United Kingdom".

2. According to Waley it will be necessary in the financing of British exports to provide arrangements for short term commercial credits but the emphasis will be on selling British exports for cash whenever possible. He did not elaborate on what such arrangements would be but emphasized that while flexible enough to cover all types of goods the credits would be basically short term in nature.

3. Waley states that a credit of about 5,000,000 pounds will probably be given to Czechoslovakia because of a pre-war commitment on the part of the United Kingdom when Czechoslovakia made its gold available to the United Kingdom.

4. Reference to Embassy's 1749, February 20 to the Department.⁷² British have still not received a reply to British proposal of short term credits in the neighborhood of 30,000,000 pounds. Waley mentioned that the proposal was made largely as a political gesture and suggested that it may prove necessary for political reasons to make exceptions in the case of other nations to the United Kingdom Treasury policy of not extending credits.

5. According to Waley the Turkish Government approached the British with a view to obtaining credits and was immediately advised by the British that they were not in a position to extend credits. None of the other European countries have approached the British for credits.

6. With regard to France you are referred to the Anglo-French financial agreement⁷³ which Waley states was made available to you in Washington on March 21, 1945. [Mann.]

WINANT

840.50/4-245

*The Deputy Director of the Office of European Affairs (Hickerson)
to the Canadian Ambassador (Pearson)*

WASHINGTON, April 7, 1945.

DEAR MIKE: You may recall that when Norman Robertson⁷⁴ and you had a discussion with Harry Hawkins and me some weeks ago we promised to send Norman the views of our experts on the British pro-

⁷² Not printed.

⁷³ Anglo-French Financial Agreement of March 27, 1945; British Cmd. 6613, France No. 1 (1945).

⁷⁴ Canadian Under Secretary of State for External Affairs.

posal with regard to agricultural policy clauses in connection with the proposed multilateral approach for the reduction of trade barriers.⁷⁵

I now enclose two copies of this memorandum. Will you be good enough to send a copy to Norman. I am sure that Norman and you will appreciate the tentative and informal character [*character*] of the views expressed in this memorandum.

Yours sincerely,

JOHN HICKERSON

[Enclosure]

MARCH 1945.

SOME VIEWS OF UNITED STATES EXPERTS ON THE BRITISH PROPOSAL WITH REGARD TO AGRICULTURAL POLICY CLAUSES OF A MULTILATERAL AGREEMENT FOR THE REDUCTION OF TRADE BARRIERS

1. It is understood that the British are giving serious consideration to a proposal that, in an international agreement for reducing trade barriers, contracting states be permitted to deal with special problems of agricultural price or income support, affecting a list of "primary foodstuffs" to be set out in the agreement, by any methods of intervention they wish to use, provided:

(a) that their domestic production of these commodities does not exceed Y percent of a pre-war base; and

(b) that their domestic (presumably wholesale) market price of these commodities does not exceed the world market price by more than X percent, the values of X and Y to be negotiated and specified in the agreement. If a state's production of a commodity were to rise beyond the Y level of the agreement, the government would be obliged to modify its intervention accordingly.

2. The following observations appear to apply to this proposal:

(a) It recognizes that provisions that will permit agricultural support policies must be included in the multilateral agreement.

(b) It suggests that importing countries must be permitted to maintain a certain level of agricultural production even though, to the disadvantage of exporting countries, this probably would result in the trade barriers on certain agricultural products being reduced by the agreement to a smaller extent than trade barriers on other products. Moreover, it would seem impracticable to negotiate with regard to a separate list of products for each country or a single list for all countries and, therefore, a formula would undoubtedly have to be developed

⁷⁵ Presumably Mr. Hickerson is referring to a conversation at the Canadian Embassy on March 10 at which he, Messrs. Robertson, Pearson, Hawkins, and others, were present. In a memorandum of the conversation, dated March 14, Mr. Hickerson stated that there took place "a considerable amount of general conversation about post-war economic policy". Mr. Hickerson's memorandum did not contain mention of a promise to forward the document referred to, but this may have been because he listed only the salient points of the discussion, and because he wrote his memorandum 4 days after the event (840.50/3-1445).

that would be generally applicable wherever certain definable conditions are met; e.g. a provision, applicable to any product, under which a country could, provided it restricted its production to a fixed agreed-on percentage (say 75% or 100%) of production in a specified period, use whatever trade barrier it wished provided the domestic price of the products did not exceed the world price by more than an agreed-on percent. In this connection, a problem arises because of the fact that some importing countries had pushed their pre-war agricultural production to uneconomic levels to a much greater degree than had others.

(c) It does not seem to envisage the possibility of eventual adjustment of importing-country production toward economic levels when generally improved international conditions may permit.

(d) It leaves open the possibility for world prices of important agricultural products to be driven to abnormally low levels by competition among exporting countries for what remains of the market after the supported production in the importing countries has been absorbed.

(e) If it were applied to exporting countries, the British proposal would involve export subsidies equivalent to the value of the X percentage.

840.50/4-2145: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, April 21, 1945—9 p. m.

[Received April 21—7 p. m.]

4118. ReEmb's 1376, February 8 and preceding messages in the series. Yesterday Penrose discussed informally with Liesching, Eady, Robbins and Shackle some aspects of the draft convention on commercial policy.⁷⁶ The discussion of agricultural aspects of the subject has been postponed to a date when Fergusson and Steere are able to be present.

1. We took up as fairly closely connected aspects of the subject the questions of revenue duties, infant industries and defense industries. We expounded again in detail the position in the draft convention with respect to revenue duties and stressed both the wide openings for countries with inadequately developed taxation machinery to raise revenue by such duties and also the provision (article II section 2) against attempts at concealed protectionism under the guise of revenue duties. Finally we strongly pressed the United Kingdom officials to accept these proposals as adequate for revenue needs and not to seek exceptions for revenue purposes in the provisions for reducing existing tariffs and preventing the imposition of new tariffs.

2. Eady and Liesching asked what would be the procedure for obtaining compliance with article II section 2 and expressed the

⁷⁶ Draft Multilateral Convention on Commercial Policy, October 1944; not printed.

opinion that a general impairment clause might be invoked to bring complaints [*compliance?*] regarding actions out of harmony with that article.

3. The discussion then turned to infant industries. We stressed our preference for the use of subsidies for this purpose rather than tariffs and other protective measures and referred to the openings for raising revenue mentioned in paragraph 1 above, but indicated that if formidable pressure was brought to bear at a trade conference in favor of an infant industry exception in respect of tariffs we might be able to agree to it if adequate safeguards could be established. We considered however (*a*) that attempts should be made without delay to draft safeguarding provisions for expert examination, and (*b*) that it would probably be better to hold back such provisions in reserve for use if a strong demand arose for them at the conference.

4. United Kingdom officials expressed satisfaction at the points in the first part of the preceding paragraph but strong opposition to point (*b*). They maintain that India and other countries in an early stage of industrialization would be alienated at the outset if no provision were put forward for an exception of infant industries in the initial tariff proposals, and after considerable discussion they were still unwilling to modify their view. We do not think their position is sound and will return to it in subsequent discussions but we wish to point out that the question should be examined both in Washington and London, not simply in relation to a draft convention but also and perhaps in the first place, in relation to a draft statement of principles which should form the basis of the agenda of a future United Nations conference. Since such a statement would be less detailed than the draft convention which would have to be worked out subsequently, there may be room for some compromise between our view and that of the United Kingdom. However, though the present attitude of United Kingdom officials is unfavorable we suggest that it would be advisable to press them at least to accept among such principles a statement recommending the use of subsidies wherever practicable instead of tariffs for infant industries.

5. We questioned the United Kingdom officials closely on their conception of the precise form in which an infant industry exception to the tariff provisions could be drawn. They referred to the practice in some countries of requiring industrial applicants for tariffs to justify their claims to infant industry protection before a tariff board but they consider that it would be impracticable to apply this procedure internationally or to require the initial agreement of the international trade organization to each case of infant industry protection.

After a long discussion in which it was clear that their views were very tentative, it appeared that their preference is for (*a*) the speci-

fication in the convention of general rules to govern infant industry protection, and (b) provision for appeals to the ITO⁷⁷ if the rules appear to be infringed in particular cases.

6. As to the rules the most concrete suggestions were that there should be a "tapering" formula providing for tariff protection over a limited period not to exceed a fixed ceiling which would be lowered in successive stages during that period, and that the criterion of eligibility for such protection should be fixed in terms of the percentage of supplies coming on the domestic market from domestic producers. For example an industry might qualify as an "infant" if it produced no more than X per cent of domestic supplies. This procedure would of course leave the way open for temporary protection of many infants with little or no prospects of survival to maturity. The only condition would be that the industry should not be too grown up when it applied for protection. This was acknowledged by the United Kingdom officials. They consider that it would be administratively impracticable to lay down rules for discriminating among the prospects of claimants to the status of infancy and they regard a considerable infant mortality rate as unavoidable.

The main function of the ITO would be to determine whether there was any infringement of the formula in respect to the height and period of protection.

7. The position of the United Kingdom officials on defense industries was encouraging on the whole. They appear unwilling to leave the subject to be covered only by our proposed provision for general exception in article 28 paragraph (h) of the draft convention.⁷⁸ Liesching thinks that that provision would be interpreted by other countries as referring merely to cases of economic sanctions. But they all expressed themselves vigorously against any wide definition of defense industries and emphasized the danger that the flood gates would be opened unless defense industry protection were confined to a very narrow range of products. Eady spoke strongly in favor of restricting defense industries to those producing specific armament products such as guns, armor plating and tanks. He thinks it would be disastrous to allow defense protection to be applied to the engineering industry as a whole, or even to the production of trucks. Robbins and Eady consider that adequate infant industry provisions will facilitate the acceptance of a narrow definition of defense industries. Liesching said that United Kingdom officials have not yet obtained the views of the services on this budget.

⁷⁷ Reference is to the proposed International Trade Organization.

⁷⁸ The section of the Draft Convention referred to reads: "Nothing in this Convention shall be construed to prevent the adoption or enforcement of measures . . . (h) undertaken in pursuance of obligations for the maintenance of international peace and security. . . ."

8. A further discussion will take place next Tuesday.⁷⁹ Please bring this message to the attention of Hawkins.

WINANT

740.00112 EW/5-145

Report by Mr. Lauchlin Currie⁸⁰ on Conversations with British Officials, March 1945

[WASHINGTON,] April 24, 1945.

Introduction.

I was authorized by President Roosevelt to stop over in London en route to or from Switzerland⁸¹ for the purpose of familiarizing myself with British official thinking on some emerging economic and financial problems. After discussing the matter with Ambassador Winant I arranged with the help of Dr. Penrose for a series of interviews in the period from the tenth to the sixteenth of March.

I had conversations with the following people: Anthony Eden,⁸² Richard Law,⁸³ Ronald Nigel⁸⁴ of the Foreign Office; Keynes, Eady, Waley of the Treasury; Meade⁸⁵ of the War Cabinet Secretariat; Stone of the Central Statistical Office; Liesching of the Board of Trade; Schuster, Member of Parliament, representing City views; Durbin, a leading Labor economist, and secretary to Major Attlee;⁸⁶ Clark, of the Ministry of Production.

In general I was interested in ascertaining views on Britain's post-war economic situation with particular reference to her balance of payments. On the political side I had some discussions on the mooted Northwest European alliance and on the treatment of Germany.

Britain's Post-War Economic Position.

1. *Employment.* I came away with a strong feeling that despite a certain amount of official pessimism those who are most actively studying this problem and are in a position to influence policy are relatively optimistic over the post-war outlook. There was no fear of widespread or chronic unemployment. Rather, there is concern that

⁷⁹ April 24. The next discussion actually took place on April 26; see telegram 4319, April 27, 9 p. m., from London, p. 41.

⁸⁰ Mr. Currie was Administrative Assistant to President Roosevelt and later to President Truman, on loan as Deputy Foreign Economic Administrator.

⁸¹ For information on Mr. Currie's role as head of the Allied Mission to Switzerland, see documentation concerning economic pressure applied against Switzerland to stop exports to Germany, vol. v, pp. 765 ff.

⁸² British Secretary of State for Foreign Affairs.

⁸³ British Minister of State.

⁸⁴ Sir Nigel Bruce Ronald, Acting Assistant Under Secretary of State, British Foreign Office.

⁸⁵ James E. Meade, Economic Assistant, Economic Section, Offices of the British War Cabinet.

⁸⁶ Clement R. Attlee, British Deputy Prime Minister and Lord President of the Council.

the available manpower be employed in directions most beneficial to the national interest. There appears to be little concern about the demand for British exports. There is, however, some anxiety lest the pull of domestic requirements may leave insufficient resources to meet this demand. Some thought is being given to the various ways in which the government might, without exerting too direct control, prevent absorption of too much manpower for the satisfaction of domestic demands. There was general assent to my suggestion that, whereas our problem would be to build up sufficient consumption to absorb our productive capacity, England's problem might be to hold down consumption so as to permit the requisite degree of capital formation for domestic and foreign purposes.

2. *Balance of Payments.* I found the same degree of optimism, though even less acknowledged, with reference to Britain's foreign balance of payments. Here I made an effort to get some indication on the proposed settlement of the large volume of sterling indebtedness. After talks with both Eady and Keynes, I was satisfied that while no one formula would apply to all sterling indebtedness, the overall settlement would be such as not to burden Britain unduly. Both men used the word "token" in connection with the repayment. Keynes suggested that a more "generous" settlement would be in order for balances which represent monetary reserves of other banking systems, and for balances of colonial areas for which Britain acts in a trustee capacity. On the other hand, I received the impression that very small payments would be made on the large Indian and Egyptian balances. Keynes indicated that while they were still increasing these balances they were reluctant to raise the subject of settlement. However, he expected that the British Government's policy in this matter would be formulated by the end of the year. Keynes believed that equilibrium in the British balance of payments could be attained in three years after the defeat of Germany.

In general the possibility of Britain achieving equilibrium without assistance from America or the International Monetary Fund or Bank is dependent upon (a) the quickness with which exports can be built up, (b) the length of the Japanese War and (c) the magnitude of Britain's contribution in that war, (d) the magnitude of lend lease in this period.

The goal on imports is not a pre-war figure but rather whatever volume is necessary to permit reconstruction and to provide for higher nutritional standards than prevailed before the war. I believe that these standards have been worked out and that if they could be secured some light would be thrown upon British objectives in the fields of domestic food production and imports. It is felt that while food

production would not attain the levels reached during the war it would remain higher than before the war.

I did not have an opportunity to get any data on British cost-price relationships with American costs at the present rate of exchange. However, the economists with whom I talked all seemed to feel that the present rate would be very satisfactory to Britain. Satisfaction was also expressed with the improvement in industrial and agricultural efficiency that has gone on through the war.

3. *Trade Policy.* General views on trade policy have been fully reported by the Embassy. I found general acceptance of our broad position in favor of a return to freer world trade on a multilateral basis. However, most of the people with whom I talked adopted a cautious attitude. They felt that the British commitment to remove exchange restrictions must be conditioned upon a full recovery of equilibrium in the balance of payments; that the principle of imperial preference must remain, although further reductions in the preference might be expected; and that we have probably not given sufficient weight to the strength of protectionist sentiment in Europe and in economically undeveloped countries. Keynes renewed his objection to the generalization of all tariff reductions through the most-favored-nation clause. He thought that the better way to proceed would be for the British Empire and the United States, together with whatever countries might care to join, to form a sort of customs union within which reduced rates would prevail. This would constitute an inducement for other countries to join but not be too severe a penalty if they elected to remain outside. He was strongly in favor of the promulgation of a broad statement of principles to apply to world trade and the setting up of an international trade organization.

4. *Use of Dollar Pool.* At the time of the Phase II lend-lease negotiations last year I persuaded Keynes to write a letter to Secretary Morgenthau making a commitment that the dollar pool of the sterling area would be used only for financial considerations and not to push British exports at the expense of existing American exports.⁸⁷ This letter has never been released. I raised the question of the advisability of releasing this commitment and Keynes, on behalf of the British Treasury, said that he had no objection in principle but that the particular letter referred to the lend lease negotiations and that a new document would be more suitable. He suggested I get in touch with Mr. Brand⁸⁸ on this matter on my return to Washington.

5. *Credits to Britain.* Sir George Schuster suggested that it would be to Britain's interest to borrow from us for the purpose of re-lending

⁸⁷ The letter, not printed, was dated November 20, 1944, and enclosed a document entitled: "Statement by Lord Keynes at the Meeting in Secretary Morgenthau's Office on 17th November 1944". The subject under reference was covered in this enclosure.

⁸⁸ Robert H. Brand, Chairman of the British Supply Council, Washington.

abroad, which would enable Britain to participate in long-term foreign capital developments and place her in a position to secure repeat orders. Keynes, on the other hand, was opposed to borrowing under any conditions.

6. *Cartels*. I found little interest or concern over the cartel problem. In fact Keynes stated that such firms as Imperial Chemicals had worked to increase volume at lower cost and that the most backward industries were those in which they had hundreds of small and independent operators, as in the textile and mining fields.

7. *Coal mining*. While the Conservative Party is opposed to the nationalization of coal mines, most of the people with whom I talked thought that it would be inevitable. The antagonism between the miners and the operators is such as to make impossible the investment of the hundreds of millions of pounds necessary to bring about the requisite technical improvements in this industry.

8. *Lend-Lease settlements*. I received the impression that the British would welcome an early lend-lease settlement that would wipe out the bulk of the obligation and would leave those items having a peacetime utility to be negotiated separately. However, they feel that any lead in this matter must be left to the United States.

The Position of Economists in the British Government.

In recent years the small group of professional British economists has attained a very influential and probably permanent place in the British Government. In general they have buried their doctrinal differences and are protected by the security, prestige and anonymity of the British Civil Service. It is proposed to continue the War Secretariat as a permanent secretariat to the Cabinet, with James Meade as Secretary.

The Labor Party and the United States.

Some interesting points were brought out in a discussion with Durbin, an influential economist in the Labor Party. He said that the Labor Party generally felt some hostility toward it in the United States. He cited the mixed reaction here to the Beveridge plan⁸⁹ and thought that the Labor Party's program of nationalization of mines, railroads, and utilities would encounter a critical reaction in the United States. He expressed the hope that some particular attention might be paid to Major Attlee during his visits to the United States.⁹⁰ He thought that the Labor Party's research and thinking had been weakest

⁸⁹ British Cmd. 6404, *Social Insurance and Allied Services, Report by Sir William Beveridge, November 1942*.

⁹⁰ Mr. Attlee was a member of the United Kingdom delegation to the United Nations Conference on International Organization, held at San Francisco, April 25–June 26, 1945; for documentation, see vol. I, pp. 1 ff. In November 1945, as British Prime Minister, he held discussions in Washington with President Truman and Canadian Prime Minister Mackenzie King; vol. II, entries in Index under: Atomic energy: Attlee–Truman–King meeting in Washington.

on the international economic side and admitted that the proposal for state purchases of imports had not been thought through.

Treatment of Germany.

Keynes was very exercised over the decision to exact reparations from Germany.⁹¹ With the current destruction in Germany and the proposed stripping of industrial equipment he was fearful that the outcome might be a situation in which the United States and Britain found themselves forced to put goods into Germany while the Russians were taking goods out. He thought that exports from Germany for the purpose of paying for necessary imports should come ahead of reparations. Since, in his view, it was not feasible to contemplate the imposition of sufficiently rigid and long-continued controls to permit the rebuilding of Germany for the purpose of getting increased reparations, we should plan to stay in Germany only sufficiently long to do what had to be done to war criminals and the stripping of German plant[s], and then get out, say, in two years' time. On the Reparations Commission, the British members may be expected to take the position that goods suitable for export to pay for imports of food, etc., should come ahead of reparations, and this will probably become an issue with the Russians.

The Western European Alliance.

One of the leading controversial, though undercover, issues in British government circles centers around the advisability of British taking the lead in forming a defensive alliance with Scandinavia, the Low Countries, and France. Proponents of such an alliance include Richard Law and Ronald Nigel of the Foreign Office. I was, however, assured by Eden that this was not the present policy of the British Government and that he personally is opposed to it. While ostensibly directed against Germany it would actually be directed against the Soviet.

The matter is likely to become a party issue in Britain as the proposal derives its strongest support from the Conservative Party and is most strongly opposed by the Labor Party. Although there are exceptions, most of the influential people in the Labor Party feel that the formation of such an alliance would indicate a lack of faith in the proposed world organization, would invite retaliatory action and would mark a continuance of the balance of power concept. Proponents of the alliance feel that Britain cannot entrust its safety to the world organization until it has been proved and that the alliance would place Britain in a position "where it could better fulfill its military obligations to the world organization".

⁹¹ For documentation on this subject, see vol. III, pp. 1169 ff.

840.50/4-2745 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, April 27, 1945—9 p. m.

[Received April 28—3:40 a. m.]

4319. ReEmbs 4118, April 21, and preceding messages in the series. In a further conversation which Penrose had yesterday with Liesching, Robbins and Shackle, methods of tariff reduction and the adjustment of duties to price level were discussed. Owing to the Commons discussion on the budget, Eady was prevented at the last moment from attending and discussion of exchange controls was deferred.

1. We made it clear that our draft suggestions were intended to permit a specific duty to be replaced by an ad valorem duty not higher than the equivalent of the specific duty in 1939 values and that they provided that the International Trade Organization should assist countries in the administration of ad valorem duties by providing expert advice where requested in the determination of commercial values of imports. We also pointed out that it would be unsound to provide for raising specific duties because of rises in prices without lowering them because of price declines.

2. Liesching considers that this question is the "most thorny of the technical questions that have to be faced". He and his colleagues emphasize the great extent to which specific duties are used among nearly all countries except United States, United Kingdom and some Dominions. They imply that the subject should be approached primarily in terms of the probable effects of any given proposals on the willingness of the large number of countries using chiefly specific duties to join in a convention. In their view there is a danger that waverers may be put off if the United States and United Kingdom, as countries using chiefly ad valorem duties, appear to them to be bringing pressure on countries using specific duties either to accept heavier tariff cuts in real terms or to make a wholesale change in their systems of tariff administrations. Robbins said the convention should not be allowed to appear in effect to inflict special penalties on those countries which did not make the change to ad valorem duties earlier.

3. As regards the assistance which the ITO could give under our suggested provisions they said there are two questions, (a) the determination of the 1939 values on which the shift to ad valorem duties is to be calculated, (b) the checking of declared values in the administration of ad valorem duties. They think it is in regard to (b) that the assistance of ITO would be needed but they fear that there will be difficulties in the early stages, when this assistance will be

particularly needed if a large scale shift over is to be made, in staffing the ITO with an adequate number of experienced experts.

4. We said that we do not exclude the possibility of making provision for the adjustment of rates in countries in which very large depreciation has taken place and questioned the United Kingdom officials closely on the form in which they consider that such adjustments could be made.

5. The views of United Kingdom officials on methods of adjusting duties to price level changes appear to be extremely tentative. They divide the price rises into two parts (*a*) the rise in the "world" price level, (*b*) the rise in the price levels of particular countries. They suggest that the former might be measured by the rise in the United States price index which might be taken in two groups, the first covering foodstuffs and the second covering the remainder of the products in the index. Regarding (*b*) they suggest that the two groups of the United States price index should be taken as general bases and rises in the price levels in particular countries should be calculated in terms of these bases. Specific duties would be adjusted accordingly and the reduction provided for in the convention would be applied to the revised figures.

6. We pointed out a number of difficulties regarding this method of adjustment including (*a*) the limitations, from the standpoint of the objectives in view, which are inherent in the use of weighted averages of considerable numbers of items: (*b*) the differences both in quality and coverage of the indexes of different countries: (*c*) the effect on the representative character of the indexes from a long term point of view, of the changes made by the war economy in the relative supply and demand conditions of different commodities, and the period of transition and instability in this respect which may continue for a time after the war.

7. Robbins admitted some of these and other points which we raised but the officials tended to fall back on the suggestion that such "technical" difficulties might be resolved by statistical experts. They appear to overestimate the possibilities in this respect and to underestimate the conceptual limitations on the resort to index numbers for such an adjustment.

8. We will explore the subject further with United Kingdom officials. While they favor a transition to ad valorem duties as an ultimate objective they consider it essential to find a working solution to the problem of adjusting specific duties in the case of countries unable or unwilling to change their administrative systems at the time of adoption of a convention.

9. We have considered the possibilities of some form of adjustment that would avoid the difficulties involved in the use of index num-

bers. One possible approach in calculating the duty to which the cut is to be applied might be to allow in certain cases the conversion of a specific duty into ad valorem equivalent in the 1939 price and the reconversion of the latter into a specific duty in terms of the price at the same time when the convention comes into force. Of course this would not avoid all the difficulties involved and unless it were restricted to a limited number of cases it would result in the raising of duties because of special supply conditions of a particular commodity rather than monetary factors.

10. If the matter is approached as the British appear to be approaching it, primarily as a political problem of how to secure the adherence of countries which use specific duties chiefly or entirely, it is of course possible that some manipulation of index numbers might serve the purpose. Whatever approach is made there is a difference between (a) allowing adjustments to be made of all specific duties of all countries and (b) confining adjustments to countries in which particularly extensive depreciation has taken place. Though the position of United Kingdom officials has not yet been defined precisely it seems to be nearer the first than the second.

11. Regarding tariff reduction we pointed out that under our suggested draft the determination of ad valorem equivalents of specific duties would only arise in respect to duties in the neighborhood of the floor but that under the United Kingdom suggestion to add an ad valorem constant to the reduced duty it would arise in respect to every duty. We also pointed out that much more widespread adjustments between countries where valuation systems are based on f.o.b. values and those based on c.i.f. values would have to be made under the United Kingdom suggestions than under ours. Next we pointed out that under our proposals there was a progressive element in the reduction of duties up to 20%. Finally we strongly opposed any provision to allow duties to be increased to the floor.

12. The United Kingdom officials agreed with the first three points and expressed appreciation of their importance. Liesching said that they were not at present putting forward their suggestion concerning the addition of an ad valorem constant as a counter proposal. But while they took an accommodating position on these points they expressed strong disagreement on the final point and after a prolonged discussion adhered tenaciously to their position.

13. United Kingdom officials pressed strongly not only for allowing duties below the floor to be raised to the floor but also for allowing new duties below or up to the floor to be imposed where none previously existed. Their main arguments were (a) that freezing duties below the floor would penalize those who had been most virtuous in the past, since countries with high duties would still have con-

siderable duties left after the reduction, (b) that such duties would help to reconcile countries relying largely on quotas to the dropping of quotas (they mentioned the United Kingdom quota without duty on bacon and mutton); (c) that such duties would sometimes serve infant industry purposes; (d) that countries would be asked to do many hard things by convention and that some leeway therefore should be given in respect to small duties.

14. We strongly opposed these arguments mainly on the following general lines. In the case of products on which high duties were maintained in the past, vested interest and maldistribution of productive factors have grown up and a substantial cut in tariffs will require substantial readjustments which, however, will improve the distribution of productive factors. On the other hand, where there has been no duty in the past there is no such maladjustment to correct and therefore leaving aside infant industries no hardship in continuing with low or no duties. On the contrary the imposition of higher or new duties on such products creates new maldistribution of productive factors. As regards infant industries such duties were unsuitable since there would be no provision for tapering them off. Infant industries should be dealt with by other methods such as subsidies or if safeguards can be worked out tapering duties. We also explained the objectives [*objections?*] to the United Kingdom's suggestions based on the position of raw material exporting countries.

15. Robbins agreed with this economic reasoning but he and his colleagues fell back on political arguments and after long discussion Liesching said that "the United Kingdom will stand strictly for this viewpoint". We urged reconsideration of the matter.

16. In private conversation subsequently in strict confidence we learn that there is strong opposition in some official United Kingdom quarters to any provision against any new duties and the officials who took part in the above discussion had no leeway regarding the position they took on that subject even in informal nor [*non-*] committal discussions such as these.

Another discussion will take place on Monday.⁸²

Please bring this message to the attention of Hawkins.

WINANT

⁸² No record of any discussion on Monday, April 30, found in Department files. For the next message on these talks, see telegram 5007, May 18, 10 p. m., from London, p. 47.

Lot 122, Box 13147

*Memorandum by the Assistant Secretary of State (Clayton) to Mr. Harry C. Hawkins, Minister-Counselor of Embassy for Economic Affairs at London*⁹³

[WASHINGTON,] April 28, 1945.

The informal exploratory discussions you have been having with British officials on economic policy have been useful in revealing the trend of British thinking and will help us greatly in formulating our position for the negotiation of any arrangements that may later be undertaken. These discussions should be continued but it will be well to keep in mind the fact that the introduction in Congress with Administration support of the bill for the renewal of the Trade Agreements Act⁹⁴ has now determined the line of policy which the Executive Branch of the Government favors and, if enacted, would provide the means for implementing it. Under the bill, if enacted, this Government would negotiate trade agreements in which varying degrees of tariff reduction would be made in the light of careful selective commodity by commodity studies. This is a quite different idea than the horizontal non-selective reduction of tariffs by a uniform percentage, which was examined in discussions with foreign experts over a year ago and which has been looked into here since that time. This latter would be a much more drastic approach to the trade barrier problem than that provided for in the present Trade Agreements Act and in the pending legislation for renewing and strengthening it; such a program could not be carried out either under the present Act or under the proposed amendments. And even if that were not so there are serious objections and difficulties both of a technical and policy nature to such a policy.

In view of the fact that all these questions will have to be discussed in preparation for the proposed trade and employment conference, I suggest that in your discussions in London you endeavor to the extent you consider feasible to influence the thinking of your British conferees toward a policy that would be practicable under the pending Trade Agreements Bill, in the hope that we may make progress toward an agreed policy before the proposed trade and employment conference becomes imminent.

I should also like to urge that you explore informally with the British as soon as possible cartel policy and commodity policy, in order that we may be kept up to date on British thinking on these

⁹³ File copy attached to minutes of the meeting of the Secretary of State's Staff Committee, May 2, 1945. William L. Clayton was Assistant Secretary of State for Economic Affairs.

⁹⁴ For a brief legislative history of the Trade Agreements Act of 1945, see Leland M. Goodrich and Marie J. Carroll, eds., *Documents on American Foreign Relations, 1944-45*, vol. VII (Boston, World Peace Foundation, 1947), p. 480.

subjects. I should also like to have you exchange ideas with them on the international trade organization, so far as may be consistent with what I have said above.

All of these questions will have to be considered at the proposed trade and employment conference, on which we must begin intensive preparatory work as soon as the trade agreements legislation has been disposed of and the San Francisco Conference is over. The more we can learn of the trends of thinking in other countries, and particularly in a key country like the United Kingdom, the better we shall be able to visualize the problems confronting us and the more intelligently we can shape our own position. It is clear that the future direction of world commercial policy will depend to a large extent upon the policies that we and the British can agree upon.

W. L. CLAYTON

841.24/5-1645

The Secretary of War (Stimson) to the Secretary of State

WASHINGTON, May 16, 1945.

DEAR MR. SECRETARY: Reference is made to your letter of December 12, 1944 in response to the joint letter of November 22, 1944 from the Secretary of the Navy and myself⁹⁵ with regard to the problem of obtaining pricing information and supporting data for the United Kingdom reciprocal aid account.

A review has been made of the results of the discussions held in London by representatives of the Foreign Economic Administration, the Clearing House for Foreign Transactions and Reports and our own representatives, from which we have concluded that although the British Government has now agreed to furnish more pricing data than in the past, they have not agreed to furnish complete pricing information or supporting data.

The position of the War Department, accordingly, remains as stated in the joint letter of November 22, 1944 referred to above. The War Department believes that the manpower and accounting problems mentioned in your letter of December 12, 1944 can now be met in view of the victory in Europe. The War Department believes the British Government should provide the U.S. Government with the same detailed information with respect to reciprocal aid as the U.S. Government provides the British Government with respect to lend-lease aid. The State Department is therefore requested to ask the British Government to provide the information desired by the War Department now that hostilities have ended in Europe.

⁹⁵ For texts of letters, see *Foreign Relations*, 1944, vol. III, pp. 83 and 76, respectively. James Forrestal was Secretary of the Navy.

If the State Department is not willing to press the British for the objectives deemed essential by the War Department, as stated in the joint letters to you of October 4⁹⁶ and November 22, 1944 from the Secretary of the Navy and myself, the War Department will not be in a position to obtain a reciprocal aid account with the accuracy and completeness which it considers necessary and advisable.

Sincerely yours,

HENRY L. STIMSON

840.50/5-1845 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, May 18, 1945—10 p. m.

[Received May 18—9 p. m.]

5007. Hawkins and Penrose have discussed with Liesching, Eady, Robbins, Fergusson, Enfield⁹⁷ and Shackle the procedures that might be followed in preparation for the proposed international conference on trade and employment.

1. With the object of getting the benefit of UK thinking on the subject, Hawkins outlined orally the suggested procedure in his memorandum to Clayton,⁹⁸ indicating that it represented only his personal views. UK officials freely expressed their personal views on the suggestions in a detailed discussion.

2. UK officials have apparently given considerable thought to the subject. They are generally favorable to the broad sequence of events set out in the Hawkins memorandum. However, they raised a number

⁹⁶ *Foreign Relations*, 1944, vol. III, p. 66.

⁹⁷ Ralph R. Enfield, Chief Economic Adviser to the British Ministry of Agriculture and Fisheries.

⁹⁸ Reference presumably is to a memorandum dated April 30, of which no copy has been found in Department files. Mr. Hawkins gave this date for a memorandum by him on the subject in question in his despatch 23525, June 8, from London (560.AL/6-845). He had been in Washington from April 14 to May 2. Although the memorandum of April 30 has not been found, Mr. Hawkins' views on procedure in connection with the proposed conference on trade and employment were embodied in Document SC-115, approved by the Secretary of State's Staff Committee on May 18 (Minutes, Lot 122, Box 13147). This Staff Committee document embodied the recommendations that: (a) during July, the Executive Committee on Economic Foreign Policy consider final proposals setting forth the U.S. position in the broad area of international trade; (b) the thoughts of the United Kingdom and other countries on the subject, prior to July 1, be sought and considered in formulating U.S. policies; (c) the final recommendations of the ECEFP be submitted for approval to the Secretary of State and the President, and discussed with Congressional leaders; (d) the proposals then be submitted confidentially to the British Government for general but not necessarily specific, acquiescence; (e) following this, the proposals be sent to other governments for their consideration and published for the benefit of Congress and the public; (f) finally, the proposals, as modified—if necessary—by the above steps, be agreed upon with the United Kingdom, the British Dominions, France, and the Soviet Union, after which a general international conference be called.

of points concerning the relation of this suggested sequence to future UK political events, to the detailed amplification of procedures to be followed between the suggested US publication of an outline of principles and the holding of an international conference, and to the forms of consultation with other countries prior to the international conference.

3. Regarding UK political events, they were concerned about the period between the beginning of discussions with Congressional leaders and the publication of an outline of principles of trade and employment. During this period, they said, "leakages" are likely to occur in some form. Such leakages are likely to be partial, vague and subject to journalistic exaggeration. If they occurred on the eve of the UK election, they might be dragged into UK politics and candidates might be pressed to state their views on the issues raised and in reply tend to make premature individual commitments on particular points of trade policy. Robbins and Eady think that much would depend on the subjects of leakages; reactions would differ on different aspects of trade policy.

4. As regards UK politics, the most favorable circumstances would arise if the general election took place early, for example, at the beginning of July, and if the stage of publicity on trade policy therefore began after the election. Eady expressed the hope that there would be the shortest possible interval between the confidential discussions with Congressional leaders and the disclosure of the plan to the public.

5. UK officials raised a number of points concerning the procedure to be followed between publication of US official statement of principle and the beginning of the international conference. They agreed that preliminary informal agreement among "key" countries should be obtained, covering US, UK, France and USSR (see point *f* of memorandum). They consider that initial US unilateral sponsorship is the most advantageous procedure but suggest that after the US position has been formulated and announced the UK might announce its acceptance during the period before the conference meets. As regards other than the "key" countries mentioned, the UK officials agreed that discussions with them before the conference would probably consist in explanations and not in attempt to secure detailed agreement.

6. More generally UK officials summarized their ideas of international procedure approximately as follows: First, a unilateral statement of principles by US, perhaps followed soon by an expression of UK approval, and then measures to obtain agreement of key countries and to answer inquiries of other countries.

7. The discussion was confined entirely to questions of procedure (it is felt here that it is desirable as a first step to reach agreement on this subject).

WINANT

*The Foreign Economic Administrator (Crowley) to the Chairman of the British Supply Council (Brand)*⁹⁹

WASHINGTON, May 22, 1945.

DEAR MR. BRAND: On many occasions during the past two years representatives of our Government have discussed with representatives of the United Kingdom Government the matter of the United Kingdom Government's assuming as reverse lend-lease aid the payment of Suez Canal tolls levied against American vessels. On each occasion we have been informed that because the Suez Canal is a private company and because the Canal is situated in a third country and payment of tolls is made in a third currency, the United Kingdom Government felt that Suez Canal tolls were beyond the limits of the Reciprocal Aid Agreement.¹

With the approaching end of the war in Europe and the prospect that there will be substantial traffic through the Canal, we have again been urged in the strongest terms by the United States Government agencies concerned to obtain Suez Canal tolls as reverse lend-lease aid. They emphasize that the Canal is wholly owned by United Nations which receive lend-lease aid; that from the beginning we have provided Panama Canal tolls as lend-lease aid; and that the tolls now in question are being levied against the United States vessels passing through the Canal strictly on war business. It is the feeling of this Government that the tolls levied against United States vessels are clearly within the spirit and intent of the Reciprocal Aid Agreements and that they should, therefore, be furnished to us as reciprocal aid.

In view of the foregoing, I urge that you put this matter in the strongest possible terms to the British Treasury in the hope that a prompt and favorable answer may now be obtained.

Sincerely yours,

LEO T. CROWLEY

⁹⁹ Printed from copy in the records of the FEA Administrator.

¹ Supplementary agreement between the United States and the United Kingdom regarding principles applying to the provision of aid to the armed forces of the United States, effected by exchange of notes signed September 3, 1942. For text, see Executive Agreement Series No. 270, or 56 Stat. (pt. 2) 1605. For documentation on the subject, see *Foreign Relations*, 1942, vol. 1, pp. 537 ff.

840.50/5-2545 : Telegram

*The Ambassador in the United Kingdom (Winant) to the
Secretary of State*

LONDON, May 25, 1945—7 p. m.

[Received 7:20 p. m.]

5245. Embassy's 4118, April 21, 9 p. m. and preceding messages in the series. UK officials have given us the following informal memorandum concerning the points made in the memorandum of the Subcommittee on Agricultural Policy² which discussed the UK agricultural proposals:

"The United States' comment on our agricultural proposals.

This comment seems to rest upon fundamental misconception. So much so indeed that before discussion can be fruitfully resumed it is clearly necessary to go almost back to the beginning.

2. Broadly speaking, our original proposal may be put as follows:

(I) No method of affording protection to the producers of foodstuffs of types which enter into international trade whether it takes the form of tariffs, levies or quantitative regulation imposed under private or state trading should be used to a degree which would raise the price of any food to domestic consumers over a period of years by more than X percent above the world level.

(II) If a country's production of any group of foodstuffs of types which enter into international trade calculated at an average over a given number of years exceeded by more than Y percent a given level, say the average level of the same country's production during a given number of prewar years, then that country would be obliged gradually to reduce the degree of protection or financial assistance given to its producers.

3. The US comment on this proposal proceeds upon the assumption that X and Y would be different for different commodities and for different countries. This is a complete misunderstanding. We suggested that closely drawn exceptions might be allowed if sanctioned by the International Trade Organization acting in conjunction with the Food and Agricultural Organization.³ But in general, it was intended that both X and Y should be the same for all products and all participants in the convention⁴ and we thought that we had laid considerable stress upon the importance which we attached to this uniformity.

4. The US comment appears to assume that our proposal in some way restricts production in low cost producing countries. This is not so. The basic principle of our proposals is that they put no direct restriction on production. They only restrict assistance to production. If a country's production is beyond 100 plus Y percent of the datum

² Not found in Department files.

³ For documentation on the United Nations Conference on Food and Agriculture, May 18-June 3, 1943, and the establishment of the Interim Commission on Food and Agriculture, see *Foreign Relations*, 1943, vol. I, pp. 820 ff.

⁴ Draft multilateral convention on commercial policy, October 1944, not printed.

level then while that state of affairs persists, assistance whether by means of protective devices or subsidies has to be gradually reduced. There is, however, no limit to unassisted production.

5. It is argued that our proposal does not contemplate any adjustment of production toward a pattern corresponding with comparative international advantage. This is precisely the opposite of our intention. It is true that provision (I) permits protective devices within the limit of X percent. To this extent the pattern of international advantage may be interfered with. But provision (II) the obligation to [reduce protection once a?] certain level of production has been passed sets a limit to the extent to which both the devices permitted under provision (I) and subsidies may be resorted to. To this extent the agricultural proposals go further than the proposals contemplated elsewhere in the convention. Our proposals do not of course involve the absence of all protective devices, but they do say that once protective devices have secured a volume of production not greater than prewar by more than Y percent, then this kind of support or support by subsidies shall diminish. In an expanding world system this would mean that in low cost countries where assistance is unnecessary, production would expand but in high cost countries there would be a definite limit to the expansion of production.

6. Finally it is perhaps worth observing that our proposals applied equally to importing and exporting countries. The suggestion in the US comment that the rules should be different, e.g. 6*d* 'that there is no X limit placed on the market prices maintained in exporting countries' would seem to raise grave difficulties and certainly to be out of harmony with the desideratum that production should be adjusted towards 'a pattern corresponding to comparative international advantage.'

WINANT

[On May 28, 1945, British Prime Minister Winston S. Churchill sent a telegram to President Truman concerning the possibility of reduction of lend-lease supplies to the United Kingdom; for text, see *Foreign Relations, The Conference of Berlin (The Potsdam Conference), 1945*, volume I, page 807, footnote 5. For further documents relating to United Kingdom lend-lease matters and the need for Anglo-American financial discussions, see *ibid.*, pages 805-820, and *ibid.*, volume II, pages 1177-1187.]

102.1/6-445: Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, June 4, 1945—5 p. m.

4443. From Treasury for Taylor: ⁵ Please inform the Ambassador of the following pertaining to the present status of the Stage II Lend-

⁵ William H. Taylor, Assistant Director, Division of Monetary Research, Treasury Department, assigned as representative of the Treasury Department in London.

Lease program for Great Britain worked out last fall in consultation between the appropriate American and British representatives.

1. Early this month General Somervell⁶ reported to Secretary Morgenthau that he believed the British were exporting goods commercially in circumstances not contemplated in the Quebec⁷ and Stage II understandings and stated that, inasmuch as the Stage II programs constituted no inter-government agreement and no firm commitment, he was going to begin to cut down or deny British requisitions. The War Department has apparently referred to Judge Vinson the question of accepting certain British requisitions.⁸

2. The British have recently expressed serious concern as to the acceptance by the United States of the principles underlying the Stage II Lend-Lease program for Great Britain and the implementation of that program. This concern was first expressed in a memorandum from R. H. Brand to Secretary Morgenthau May 17. After reviewing the understandings arrived at last fall, Mr. Brand makes the following statement:

“It is understood, however, that the U.S. War Department have suggested that the agreements were not finally approved by the President and that in consequence the basic position requires reaffirmation. In particular, certain questions have been raised as to the use of U.K. munitions capacity before Lend-Lease demands are made on the United States. Accordingly the U.S. War Department have asked Judge Vinson to advise them as to the status of the munitions agreements reached in the Fall. It is hoped that Mr. Secretary Morgenthau will be willing to bring to the notice of Judge Vinson the principles underlying the agreements reached in the Fall and their continued validity to-day. It is essential to the war effort of the United Kingdom against Japan on the basis of the approved combined strategy that the programmes framed in accordance with these agreements should be agreed without delay.”

More recently Sir John Anderson⁹ and Oliver Lyttelton¹⁰ in a joint message¹¹ addressed to Secretary Morgenthau and Judge Vinson and transmitted through R. H. Brand and Sir Henry Self¹² reiterated

⁶ Lt. Gen. Brehon B. Somervell, Commanding General, Army Service Forces.

⁷ Reference is to the Second Quebec Conference, September 11-16, 1944; documentation on this subject is scheduled for publication in a subsequent volume of *Foreign Relations*. For texts of pertinent documents from the Quebec Conference relating to Phase II of Lend-Lease, see *Foreign Relations*, 1944, vol. III, p. 58.

⁸ For the resolution of this question, see the letter from Fred M. Vinson, Director of War Mobilization and Reconversion, to Secretary of War Henry L. Stimson, June 13, 1945, *Foreign Relations*, The Conference of Berlin (The Potsdam Conference), 1945, vol. I, p. 815.

⁹ British Chancellor of the Exchequer.

¹⁰ President of the British Board of Trade and Minister of Production.

¹¹ Not printed. Copy of this message in the records of the Foreign Economic Administration at the National Archives is undated, but apparently it was transmitted just prior to May 28, 1945; see H. Duncan Hall, *North American Supply* (London, Her Majesty's Stationery Office, 1955), p. 456.

¹² Deputy Chairman, British Supply Council in Washington.

the British view of the Stage II arrangements and expressed the hope that any misunderstandings that may exist in the minds of any of the U.S. agencies operating the program might be removed and that appropriations adequate to cover the requirements scheduled in the programs could be supplied.

We understand that President Truman has now received a communication from the Prime Minister on this subject.¹³

3. On May 14 Under Secretary of State Grew issued a press release¹⁴ on Lend-Lease for Stage II which stated that the supply program for Britain had been agreed upon in discussions between American and British representatives and that it is proposed to carry out the program subject to such adjustments as supply considerations require. Mr. Brand's letter to Secretary Morgenthau of May 17 quotes from this press release but it is evident that the British would like to have a specific reaffirmation of U.S. intention to carry out this program subject to supply considerations.

4. This whole matter is now before the President. We shall keep you and the Ambassador informed of developments. [Treasury.]

GREW

841.24/5-1645

The Acting Secretary of State to the Secretary of War (Stimson)

WASHINGTON, June 12, 1945.

MY DEAR MR. SECRETARY: I have your letter of May 16, 1945, in reply to the letter of December 12, 1944,¹⁵ regarding pricing information on reciprocal aid furnished by the United Kingdom.

The considered opinion of the Department of State as expressed in its letter of December 12, 1944 resulted from a careful study of the reciprocal aid pricing situation in the United Kingdom and extended discussions between American and British representatives which took place in London in October and November, 1944. A representative of the War Department participated in those discussions, and it is believed that he is fully cognizant of the practical difficulties which would be involved in attempting to furnish the complete data desired by your Department. It is not believed that these practical difficulties have been removed as a result of the ending of the war in Europe, and consequently this does not appear to be a sufficient basis for changing the position taken in the letter of December 12, 1944. Accordingly, I regret to advise you that this Department does not feel it is in a position to press the British for more information than they agreed

¹³ For text of the telegram, dated May 28, 1945, see *Foreign Relations*, The Conference of Berlin (The Potsdam Conference), 1945, vol. I, p. 807, footnote 5.

¹⁴ For text, see Department of State *Bulletin*, May 20, 1945, p. 940.

¹⁵ *Foreign Relations*, 1944, vol. III, p. 83.

to furnish as a result of the discussions in October and November, 1944.

Sincerely yours,

JOSEPH C. GREW

841.51/6-2545

*Memorandum by the Assistant Secretary of State (Clayton) to the Director of the Office of War Mobilization and Reconversion (Vinson)*¹⁶

[WASHINGTON,] June 25, 1945.

The British financial problem is admittedly the greatest present barrier to rapid progress towards free multilateral payments and relaxation of barriers to trade. It threatens not only delay but, indeed, the ultimate success of our economic foreign program. It is, therefore, definitely to our interest to give Britain the financial help required to bridge the transition to peacetime equilibrium.

It would be quite unwise, however, to consider making Britain an outright gift of the required several billion dollars, as has been recently suggested by certain critics of Bretton Woods. It would be unwise even to supply the funds as a credit without laying down conditions that would insure a sound advance towards our post-war objectives.

On the other hand, it will be difficult to persuade the British to accept dollar credits rather than work out their financial problems within the Sterling Area by the devices of blocked balances, exchange control, exchange pooling, bilateral clearing arrangements and forced exports in liquidation of sterling balances. Hence the terms of the credit we offer Britain and the conditions we lay down for granting it must be devised very carefully, with a view to Britain's position as well as to ours.

I believe we should offer Britain a dollar credit of as much as \$2 or \$3 billion as required, repayable over 30 years, but with an option on the part of the British to make prepayments at earlier dates. The amount granted must be sufficient to meet Britain's adverse dollar balance under multilateral current payments, as laid out in the section on conditions below.

In view of British reluctance to borrow, and the fact that they are able to finance themselves to a very substantial extent by blocked sterling at a fraction of 1 percent, we must be prepared to grant them

¹⁶ Transmitted with a covering letter dated June 28, 1945, not printed.

credit at the lowest possible rates. A rate of 2½ percent, such as we have used on *3c* Agreements under Lend-Lease would, in my judgment, be high enough, and possibly we should go as low as 2 percent. The British will want even lower rates. Interest charges would, of course, apply only on balances actually outstanding.

British reluctance to incur dollar indebtedness could be appreciably reduced, and possible stifling effects of service and repayment at later times be avoided, by provisions that if, because of a slump in world demand, Britain's balance of payments became unfavorable, Britain would not be considered in default. The possibility of the U.S. accepting limited amounts of sterling as repayments under certain circumstances might be considered.

I would propose the following conditions for the granting of the above financial aid:

1. Upon the granting of the credit, the Sterling Area dollar pool arrangement is to be terminated and sterling proceeds thereafter acquired on current overseas account by non-residents of the United Kingdom are to be made convertible into dollars, at the option of the holder, for current transactions.

2. A substantial funding of the abnormal sterling balances which have arisen from the war should be required. In the case of India, Egypt and certain other areas, substantial writing down of these balances is justified and to the best interest of all concerned. European and Latin American balances should, on the other hand be funded to a larger extent. It need not be required that all balances be funded, and Britain might be left free to repay agreed portions thereof by exports during the transition years, so long as sterling proceeds of current trade are kept convertible into dollars.

3. Elimination of Empire preferences, probably as one term in a new reciprocal trade agreement reached under the strengthened act or as part of a multilateral trade convention. The British will resist this most strenuously. Perhaps a substantial reduction of preference is all we can hope.

4. Britain must continue domestic import controls over non-essentials to reduce the transitional strain upon her balance of payments and hence the amount of financial aid required. She will undoubtedly wish to do this in any case.

5. Canada, and perhaps other countries whose international financial position will be strong at the end of the war, should also grant transitional financial aid to Britain. India, for example, might be asked to make her contribution in the form of sharp reduction of her sterling balances.

The above proposals will be recognized as a compromise between full-fledged freedom of payments and the strict wartime controls. Aside from the elimination of Empire preferences, their main effect

would be to secure substantial compliance with conditions laid down in the Bretton Woods Agreements very shortly after the war rather than at the end of a transition period of five years or more. It is nevertheless of the utmost importance to accelerate Britain's reconversion to multilateralism in this way, both because of the danger that bilateralism and restrictionism might otherwise become firmly imbedded in British policy during the transition, and because the American business public will demand early evidence that Britain is going to go along with us in our post-war trade policy if they are to continue to support it.

560.AL/6-2845 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, June 28, 1945—midnight.

[Received June 28—10:42 p.m.]

6547. 1. Liesching, Eady, Robbins, Enfield and Shackle yesterday placed before Hawkins, Fowler and Penrose a "specimen draft of a possible statement of principles" which gives their present view of a suitable type of statement to accompany a future invitation to an international conference on trade and employment. They emphasized that the statement represents merely their views as individuals and carries no authority or commitment of any kind.

2. Text of statement is contained in the immediately following telegram.¹⁷ A preliminary discussion took place on the draft and in view of the important light which it throws on present UK thought on commercial policy we report it fully below in the sequence in which it took place. What follows should be read in conjunction with the text of the draft statement.

3. International trade organization. UK officials said they continued to favor strongly a single international trade organization with subsections for commercial policy, commodity policy and policy regarding restrictive practices. All these subjects should be regarded as part of general trade questions.

4. Employment policy. UK officials doubt whether any separate employment section should be set up in ITO. They wish to study S F¹⁸ proposals concerning economic and social council and their

¹⁷ Telegram 6548, June 28, midnight, from London, not printed.

¹⁸ Reference is to the United Nations Conference on International Organization, held at San Francisco, April 25-June 26, 1945; for documentation on the Economic and Social Council, see vol. I, entries in Index under: Economic and Social Council (ECOSOC).

relationship to para 3 of draft.¹⁹ Possibly in statement of principles it would be enough to state obligation to avoid national action that would be detrimental to employment policy in other countries.

5. Commercial policy. Hawkins commented on para 4a of draft.²⁰ He said that question arises as to method for making tariff reductions and that the US Govt now has extensive legislative authority for doing this by bilateral agreements. He pointed out that since 1934 there had been considerable sentiment in US in favor of what amounted to a multilateral bilateral approach to tariff reduction. Secretary Hull had frequently urged that other govts should adopt trade agreements programs similar to ours and had pointed out that if the major countries of the world had done so much more rapid progress would have been made. Hawkins stated that sentiment in favor of this approach might have been strengthened by overwhelming Congressional approval for greater powers in respect of trade agreements. He added that this approach is a proved and practical method of reducing trade barriers and that if all govts of United Nations pledged themselves to negotiate as rapidly as possible with their more important suppliers and to generalize benefits, resulting agreements would bring down tariffs all around, get rid of most if not all quantitative restrictions, reduce or completely eliminate preferences and in general reach same objects as in case of uniform percentage tariff reductions.

6. Robbins said there were 3 very great objections from UK point of view to multilateral bilateral approach. First there was the length of time required to implement it. To negotiate such a multiplicity of bilateral agreements in a reasonable time was "a nightmare conception"; there were not enough qualified people to do the job. Second this approach requires negotiators to enter into a sea of general commercial policy obligations without knowing where they will, in fact, land. Third, he said, it has nothing like the psychological advantages of a uniform percentage reduction. It will seriously endanger the whole plan to reduce trade barriers if the situation is allowed to remain fluid for several years, as it would be during a period of numerous bilateral negotiations when govts will change and the currents against tariff reduction may grow. Psychologically it is essential to make a comprehensive reduction where all parties will make sacrifices at once.

¹⁹ This paragraph in the British draft urged that governments undertake policies designed to maintain a high level of employment.

²⁰ This section urged substantial overall reduction of tariffs.

7. In reply to Robbins we pointed out that in relatively short period, when conditions were extremely unfavorable due to depression and impending war, the US negotiated a large number of agreements; and that during that period the US alone was carrying on a comprehensive program of trade agreement negotiations; whereas under the multilateral bilateral approach, now all countries would be obligated to pursue such programs and would be doing so under conditions much more favorable to commercial policy reform than existed prior to the war. Consequently it can hardly be claimed that this approach would not get important results.

8. Eady said that abandonment of the multilateral approach with its general tariff cut "would be the end of all we hope to achieve". The whole impact of a new approach would be lost. With all its difficulties a new approach must be tried. What is needed is a simple, bold and challenging approach to the whole attitude on trade that has been built up in the last 20 or 30 years. To start out with the multilateral bilateral approach would be "the end of everything worth having". He added, "the UK would go into it with no heart and no expectation of anything worthwhile coming out of it. You could never tell where you stood or where you would come out. I am certain of the effects on my govt of such a proposal".

9. Liesching said he thoroughly endorsed Eady's views on every point and wished to add that the chances of dealing successfully with preferences would be much greater if a substantial uniform all round cut were made than if an attempt at gradual whittling down by a multitude of reciprocal pacts were made. Robbins expressed agreement on this point which he said was a key point in the UK domestic political position. It was much easier, he said, to swallow effective measures for dealing with preferences in a multilateral context, and it was extraordinarily difficult to believe that such measures would be swallowed at all under the bilateral method.

10. Hawkins asked UK officials whether they still thought that the technical problems in applying a formula for a general tariff cut could be solved.

Liesching, Shackle, Eady and Robbins replied that they were confident that this could be done so long as reasonable flexibility were allowed and perfect precision were not sought.

11. Eady said that there was no function for an ITO if a mere bilateral approach were adopted. What was the use, he asked, of an international organization that could at most tell a country it was not negotiating bilateral treaties fast enough?

12. Liesching said that after the confusion of war a new start must be made. Some of the European Allies were still pressing UK for a statement of its views on postwar commercial policy. If, he said, the UK were to reply by merely advising the negotiation of a host of bilateral treaties some of the Allies would be likely to launch out in an entirely different direction with little regard to what we want. The negotiation of bilateral agreements was a permissive and gradual process.

13. Eady said the significant reality is what is the US going to do. Robbins added that the world at large is not likely to take the view that bilateral treaties are adequate evidence that the US will come through. He added that the only effective position would be to say "let's all agree to a common code and all make substantial reductions at once".

14. Eady then said he feels certain that there is no chance of success in getting UK ministers to adopt any plan unless they can see clearly what they give up and put it in the balance against what they get. He added with emphasis, "I beg you to represent strongly to the State Dept what we say".

15. Robbins added that, in his judgment, to rely on nothing more than bilateral agreements would endanger not only commercial arrangements, but also the Monetary Fund arrangements. Critics of the latter in UK are constantly saying that UK should not take on the obligations under the Monetary Fund without knowing the trade position.

16. Liesching said that UK has only enough trained personnel to negotiate one commercial treaty at a time.

The US-UK agreement of 1938 took 10 months to negotiate.²¹

17. Hawkins asked whether they were reasonably confident that the uniform percentage reduction would be successfully negotiated, particularly with Dominions and India. He had in mind the possibility of getting a nucleus of important trading nations together in an opened agreement to which other countries might be more or less obliged to adhere. He stated as his personal view and they agreed that the very minimum for such a nucleus would be the US and Brit Commonwealth countries. He asked whether UK officials had con-

²¹ For documentation relating to the reciprocal trade agreement between the United States and the United Kingdom, signed November 17, 1938, see *Foreign Relations, 1938*, vol. II, pp. 1 ff. For text of the agreement and exchange of notes, see Department of State Executive Agreement Series No. 164, or 54 Stat. (pt. 2) 1897.

sidered the position they would take if a uniform tariff cut were attempted and it proved absolutely impossible to get sufficiently wide agreement. They replied that only in such a case would they agree to fall back on the other approach. An indication of this is contained in the last paragraph of the draft.

18. Quantitative regulation. We pointed out that the draft did not appear to undertake any further commitment on exchange control than was contained in the International Monetary Fund Agreement, even though it seems reasonable to go somewhat further if improved trade conditions are attained. Eady and Robbins replied that it was implicit in the Fund Agreement that exchange controls when permitted should be as little discriminatory as possible; but added that they would study the wording of the agreement further.

19. Agricultural proposals. We asked whether they had anything to add on the subject of their proposals concerning food. UK officials replied that these proposals were result of much consultation and they still believed them to be the most feasible approach to the problem. Eady and Robbins said that the magnitudes of X and Y would have to be agreed upon in preliminary US-UK discussions. Liesching added UK had in mind levels not too unattractive for primary producing countries including Dominions. The question is are the principles acceptable provided X and Y are given reasonable values. He said these UK proposals were of critical importance from viewpoint of getting whole scheme of commercial policy adopted in UK.

20. Preferences. Hawkins said the statement on preferences would be unacceptable and referred to distinction between tariffs and preferences in article VII. Liesching replied that much would depend on the precise formula for tariff reduction which is left open, that we should consider the para on preferences as [not?] completed since they are not yet able to state their position with precision and that the para is comparable to the blank we had left in our statement of June 8.²²

21. Restrictive practices. We pointed out that the draft was based on a different approach from that favored in Washington. They reiterated their view that the case by case approach, leading to development of generally accepted rules of conduct governing private enterprise, was preferable to a statutory approach.

WINANT

²² Reference is to a draft proposal to establish an international trade organization, presented to British officials in London; copy enclosed with despatch 23525, June 8, from London (560.AL/6-845).

841.50/7-945

*Memorandum of Conversation, by Mr. John M. Leddy, Assistant
Adviser in the Division of Commercial Policy*

[WASHINGTON,] July 9, 1945.

INFORMAL DISCUSSIONS ON COMMERCIAL AND FINANCIAL POLICY
BETWEEN OFFICIALS OF THE UNITED STATES AND CANADA

The following persons were present at this meeting:

FOR THE UNITED STATES:

Mr. W. L. Clayton, Assistant
Secretary for Economic Af-
fairs
Mr. Harry C. Hawkins, Minister
Counselor of the Embassy at
London
Mr. Clair Wilcox, Director, Of-
fice of International Trade
Policy
Mr. E. G. Collado, Director,
Office of Financial and De-
velopment Policy
Mr. Leroy Stinebower, Deputy
Director, Office of Interna-
tional Trade Policy
Mr. John D. Hickerson, Acting
Director, Office of European
Affairs
Mr. Winthrop Brown, Division
of Commercial Policy
Mr. T. C. Achilles, Chief, Divi-
sion of British Commonwealth
Affairs
Mr. James Earley
Mr. J. M. Leddy

FOR CANADA:

Mr. Norman Robertson, Under
Secretary of State for External
Affairs
Mr. Hector McKinnon, Chair-
man of the Tariff Board
Mr. Lester Pearson, Ambassador
to the United States
Mr. Dana Wilgress, Ambassador
to the U.S.S.R.
Mr. Thomas A. Stone, Counselor
of Embassy

The Canadian officials came in at our request for the purpose of discussing informally: *a*) commercial policy, with particular reference to the proposed international conference on trade and employment and *b*) financial policy, with particular reference to the possibility of granting post-war credits to the United Kingdom.

COMMERCIAL POLICY

The discussion on commercial policy, which was led by Mr. Clayton for the American group and by Mr. Robertson for the Canadian

group, related almost wholly to the question of how to effect tariff reduction. The main issue was whether tariffs should be reduced by horizontal, nonselective reduction, as had been contemplated in earlier discussions between officials of the United States, the United Kingdom and Canada, or whether they should be reduced selectively. The following are the main points which were brought out by each group.

By the American group:

1. The Trade Agreements Act contemplates tariff reduction by the selective process. The recent action of Congress in renewing and strengthening the Act²³ was accomplished only after great efforts by the Administration and by Congressional leaders. In the course of the Congressional hearings and debates it had been necessary both to emphasize the principle of selectivity and to stress the essentiality of the Act to our post-war foreign economic program. For all these reasons it would now be extremely difficult, even if it were desirable, for the Administration suddenly to change its course and adopt the completely different approach to tariffs inherent in the formula for horizontal tariff reduction.

2. Even if the domestic obstacles created by the passage of the Trade Agreements Act did not exist, it would probably be very difficult to obtain approval by the American Congress of the proposal for horizontal tariff reduction. It would, in fact, be impossible if, as is believed, the proposed agreement incorporating horizontal tariff reduction should have to be presented as a treaty requiring the consent of two-thirds of the Senate.

3. The proposal for horizontal tariff reduction also presents grave negotiating problems. The chances of getting a considerable number of other countries to adopt the proposal would probably be not greater than 50-50.

4. It seems desirable, therefore, to make every effort to work out a multilateral plan under which tariff reduction could be carried out selectively. One plan would be the multilateral-bilateral approach, in accordance with which each country would, in effect, institute a trade-agreements program and negotiate bilateral agreements with its principal suppliers. Another plan, still in the exploratory stage, would be multilateral agreement containing a commitment to reduce the tariff selectively in accordance with rules to be agreed upon. These rules would be designed to bring down the overall ad valorem equivalent of each nation's tariff by an agreed extent.

By the Canadian group:

1. The Canadian group had not until that moment realized that there were commitments in connection with the renewal of the Trade

²³ Approved July 5, 1945; 59 Stat. 410.

Agreements Act which would be an obstacle to the adoption of the plan for horizontal tariff reduction by the United States. This was an extremely significant development since what the rest of the world could do in the way of liberalizing trade would be limited by what the United States did.

2. The adoption of the selective tariff method by the United States would, therefore, require a complete reappraisal of what could be expected to be accomplished in the trade-barrier field as a whole. The Canadian officials had had definite hopes for the horizontal formula because they considered it as the most practicable method, politically and economically, of solving the trade-barrier problem. The proposal for horizontal tariff reduction would represent a fresh approach designed to concentrate emphasis on expanded world trade and international cooperation. Its very magnitude, and the fact that it would deal with all tariffs in all countries with an even hand would assure for it strong support and would weaken the vested minority interests in every country. Selective tariff reduction, on the other hand, tends to emphasize the sanctity of protectionism. Its adoption by the United States would have reverse effects in other countries which will inevitably adopt the same careful and cautious attitude toward the reduction or removal of tariffs and other restrictions against United States exports. Finally, the selective tariff method would probably make impossible any thorough-going action for the elimination of tariff preference. The plan for a horizontal tariff cut might have made possible the substantial wiping out of British preference system but nothing like this could be hoped for if the selective process were used.

3. The selective method of tariff reduction, as carried out by the United States under the Trade Agreements Act, had tended to strengthen the belief that trade barriers should be reduced only under the bargaining process and to obscure the truth that trade barrier reduction is also of benefit to the country doing the reducing. For example, it was virtually becoming impossible for the Canadian Government to reduce its duties unilaterally even though many of them should be reduced in the best interests of Canada.

4. With regard to the difficulties of negotiating the plan for horizontal tariff reduction, it is true that these difficulties exist, but in the Canadian view they are not likely to be as great as they seem. It was almost certain that the plan would obtain the full support of Canada and, unless other British countries should refuse to go along, of the United Kingdom. Of the British countries Australia and India offered the biggest obstacles, but it is believed that these could be overcome. The countries of Western Europe are also likely to be favorable to the plan for the reason that tariff reduction now would not have more than incidental effects as compared with the disruption arising from the war. If the United States, the British countries, and the

Western European countries should support the plan, the attraction to other countries would probably be irresistible.

5. It should be recognized that the proposal for multilateral-bilateral action suggested by the American group would require a multiplicity of bilateral negotiations and would take many years to complete. The present opportunity for effecting trade-barrier reduction while opposition to it is at a low point would thus be lost.

6. With regard to the alternative proposal for selective multilateral tariff reduction, it is believed that apart from the general disadvantages of selective tariff action, this proposal would have major technical disadvantages which could not be easily overcome.

7. On the whole, therefore, the Canadian group was of the opinion that horizontal tariff reduction represented the most promising approach to the whole problem. If the United States could not at present see its way clear to sponsor this approach actively, perhaps after the same sort of careful preparation by public and Congressional opinion which preceded the San Francisco Conference, then perhaps the problem might be met if other countries should sponsor the proposal and thus bring it up for public debate. It was clear, however, that no such proposal could finally be made effective without the support of the United States.

8. With regard to the view of the United States group that the horizontal cut would be almost certainly rejected by the American Congress, the Canadian group felt that the approach should be tried even if it should eventually fail. Mere trial of the bold approach would tend to give impetus to the carrying through of a more moderate scheme, such as the multilateral-bilateral plan.

In addition to the general discussion regarding tariff policy, there was a brief review of the plans for a general conference on international trade and employment. The Canadian group was of the opinion that a general conference of all countries might be dangerous, since the views of the many small countries might unduly weaken the bolder measures which the large trading nations might find it possible to agree upon. It would seem preferable to confine the arrangement to the large trading nations and then throw it open to adherence by others.

On the question of employment, the Canadian and American groups appeared to be in agreement that it was important to give the trade policy measures an employment slant, and to reach general agreement that countries should not adopt employment measures detrimental to other countries. They also agreed that adoption of the extreme views put forth by the Australians, favoring a rigid international commitment to maintain employment and advocating an "escape" clause from international commitments if employment were not maintained, would be impracticable and unwise.

At the close of the discussion on commercial policy, it was agreed that each group would appoint three people to meet in Canada during the coming weekend for the purpose of exploring further the possibilities of selective tariff reduction in a multilateral setting.

FINANCIAL POLICY

The discussion of financial policy was relatively brief. Mr. Clayton stated that the United States position was that UNRRA²⁴ was the proper agency to finance relief requirements of war-torn areas and that, if appropriate general agreement could be reached at the London Council meeting,²⁵ we would be prepared to ask Congress to appropriate our share of the additional funds required to finish its job.

Mr. Robertson expressed agreement that UNRRA was the proper agency for this purpose and stated that Canada would no doubt be willing to contribute its additional share if there is general agreement to go ahead. He stressed, however, the Canadian feeling that members of the United Nations who had not contributed should be required to do so. He particularly cited Argentina as a nation which should not enjoy the privileges of the United Nations without paying its way in this common program. He also expressed the Canadian view that UNRRA's reputation needed resuscitation and that a change in UNRRA's top management would be desirable.

Mr. Clayton reviewed the position of the Export-Import Bank legislation and expressed confidence that the \$3.5 billion appropriation would soon be available.²⁶ He was asked how far we had gone with respect to credits to Russia and stated that the Russians had not yet asked for a loan but that he expected such a request would be made and we were prepared to consider it seriously.²⁷

Mr. Robertson referred to the possibility that transitional or post-war credits might be confined to members of the "club" which joined in open-end international trade arrangements. The United States representatives did not express an opinion on this question but indicated it might be considered further.

Although the matter was not discussed directly, there was some indication in remarks by Mr. Robertson that the Canadians are thinking of post-war loans, at least those of a semi-relief or reconstruction character, in terms of financing country by country the direct import needs of borrowers in Canada. The United States representatives did not express their attitude towards this policy or its relation to proposed multilateral trade and financial arrangements.

²⁴ United Nations Relief and Rehabilitation Administration; for documentation regarding participation by the United States in the work of UNRRA for the year 1945, see vol. II, pp. 958 ff.

²⁵ Reference is to the third session of the UNRRA Council, London, August 7-24, 1945.

²⁶ The Export-Import Bank Act of 1945 was approved on July 31, 1945; 59 Stat. 526.

²⁷ For documentation on this subject, see vol. v, pp. 937 ff.

Mr. Robertson indicated that the Canadian attitude on credits to the United Kingdom was still substantially as expressed in our last conversations with them on March 10,²⁸ and in their telegram of two weeks before that date to London. The Canadians are willing to go ahead on a joint credit program designed to ease the British transition problem and favor the generous credit terms they suggested earlier. Mr. Robertson stated that recent Canadian discussions in London had not gone very far, so far as credits were concerned, mainly because it was recognized that the aid the Canadians could give could go only a short way towards solving the British problem.

In answer to questions, Mr. Robertson stated that the Canadians felt that transitional credits to the United Kingdom could well be part of general arrangements accelerating British relaxation of war-time financial controls, but said that the British had not directly expressed themselves on such a program. This was natural, Mr. Robertson pointed out, in as much as they were not prepared to proceed on the basis of solely Canadian aid.

London Embassy Files : 850—Article VII—Commercial Policy

Memorandum of Conversation, by Mr. John M. Leddy, Assistant Adviser in the Division of Commercial Policy

[OTTAWA, undated.]

INFORMAL DISCUSSIONS ON COMMERCIAL POLICY BETWEEN OFFICIALS OF THE CANADIAN GOVERNMENT AND OFFICERS OF THE DEPARTMENT OF STATE

The following persons participated in these discussions:

CANADA	UNITED STATES
Mr. Norman Robertson, Under-secretary of State for External Affairs	Mr. Stinebower, ITP
Mr. Hector McKinnon, Chairman of the Tariff Board	Mr. Marks, A-A ²⁹
Mr. William A. Mackintosh, Acting Deputy Minister of Finance	Mr. Leddy, CP
Mr. John Deutsch, Department of External Affairs	Mr. Homer S. Fox, ³⁰ American Embassy at Ottawa
Mr. Hubert Kemp, Wartime Prices and Trade Board	

²⁸ See footnote 75, p. 32.

²⁹ Herbert S. Marks, Special Assistant to the Assistant Secretary of State (Acheson).

³⁰ Commercial Attaché.

These discussions took place at the hotel Chateau Laurier, in Ottawa, on July 14 and 15, 1945. They were held for the purpose of exploring further the various methods of implementing tariff reductions in connection with the proposed multilateral agreement on commercial policy. The discussions were arranged at an earlier meeting between Canadian and American officials which took place in Washington on July 9 (see memorandum of July 9, 1945 summarizing the results of this meeting).

Mr. Robertson opened the discussion. He said that before going into the details of the various methods of selective tariff reduction he wished to make clear the Canadian view regarding the proposal for the horizontal reduction of all duties by a uniform percentage. He said that the Canadians were deeply disappointed and dismayed by the change in the American position which, prior to the passage of the Trade Agreements Act, had seemed tentatively to favor the proposal for horizontal tariff reduction. He recognized that difficulties had been created by the Trade Agreements Act but felt that they might not be insuperable. With regard to selective methods of tariff reduction he expressed the view that any selective method would be "hopelessly inadequate" to the needs. He thought that failure to go forward with the horizontal cut would mean the loss of three great advantages:

1. *Timing.* Of all times the present offers the best chance of effecting substantial trade-barrier reduction in all the major trading countries. Because of economic dislocation in Europe and reconversion in other areas, production and trade are in a state of flux. This would be the psychological moment, here and elsewhere, for bold action. If the selective method is adopted this opportunity would be lost.

2. *Preferences.* Horizontal tariff reduction would have substantially solved the problem of preferences, which is certain to be the most difficult problem from the viewpoint of the United States. There is no hope for any really substantial action on preferences under the selective method of tariff reduction. Moreover, under the selective method, the United States would have to pay more for what it gets. Finally, preferences cannot be handled at all by a purely bilateral approach. Since the protection afforded under a preferential system extends to foreign as well as home industries they must be attacked by dealing with several countries at once. Selective tariff negotiations involving several countries are complicated and slow.

3. *Compulsion of outsiders.* Under the plan for horizontal tariff reduction it would have been possible to compel reluctant countries to participate in the plan by threatening to withhold the tariff benefits if they did not participate. This would have been politically feasible internationally because the requirements under the plan for a horizontal tariff cut would be equitable, simple, and easily under-

standable. Any selective method of tariff reduction would be complicated and to some extent inequitable vis-à-vis outsiders and could not well be used as a weapon to force them in.

Because of the great advantages of, and need for, tariff reduction by the horizontal method, Mr. Robertson said that the Canadians had been wondering whether there was not some way to overcome the obstacles to the adoption of that method which had been created by the Trade Agreements Act. What appeared to be needed was an opportunity to take the matter up with Congress. Such an opportunity might be created, he thought, if other countries would take the lead and come out with the plan for horizontal tariff reduction. Or perhaps an opportunity would exist if the United States and Canada should endeavor to negotiate a trade agreement and if, because of the great difficulty Canada would have in granting us certain key concessions involving preferential protection to third countries (e.g. raisins, coal, tinplate, and fruits), the negotiations should fail. With regard to the question of other countries taking the lead, Mr. Robertson remarked that Mr. Clayton had appeared to think there were possibilities in this suggestion when it was originally put forward at the July 9 meeting in Washington.

In response to the foregoing it was stated on the American side that, as Mr. Clayton had indicated, the door was not completely closed to consideration or discussion of the horizontal tariff formula in the event other methods should fail. Nevertheless, both Mr. Acheson and Mr. Clayton were firmly convinced that, even apart from considerations growing out of the increased trade-agreements authority, legislative approval of the plan for horizontal tariff reduction could not be obtained and that it would be virtually useless to make the attempt. It was stated also that although other countries would of course be free to take the lead if they desired to do so, an initial approach by other countries might do more harm than good since Congress might feel that an effort was being made to put something over on the United States. If there was to be any approach to Congress at all, it would seem preferable as a first step for the Administration to talk directly and frankly with the Congressional leaders. As to the possibility of creating an opportunity through an arranged failure of trade-agreement negotiations, this seemed clearly out of the question. In short, the obstacles in the United States to adoption of the horizontal plan were very formidable and the chances of its ultimate acceptance by our Congress were remote. On the other hand the United States was fully prepared to make substantial tariff reductions on a selective basis and had the ability to make such reductions effective under the increased authority in the Trade Agreements Act. It would be extremely unfortunate if we should neglect to grasp this

opportunity to make substantial progress in the trade-barrier field in a vain effort to obtain an ideal solution.

Mr. Robertson then said that although the United States might be able to deliver selective tariff reductions, this did not mean much since the selective method was clearly inadequate to meet the requirements. It would be better to take even a long chance on an adequate plan, such as the horizontal approach. Trial of the horizontal approach would be desirable in any event, since even its failure would have good results in stimulating countries to carry through a selective approach more vigorously.

In response to a question, Mr. Robertson expressed the view that failure of the United States to sponsor the plan for horizontal tariff reduction from the beginning would not be fatal to its success provided that the United States finally came along. He admitted, however, that the absence of vigorous initial support by the United States would weaken the effort vis-à-vis other countries.

The foregoing discussion occupied Saturday morning, July 14. Saturday afternoon and Sunday afternoon were devoted primarily to an examination of the various selective methods of tariff reduction:

1. *Reduction of the over-all ad valorem equivalent of the tariff.* It was explained by the American group that under this proposal each country would, in addition to accepting provisions regarding non-tariff trade barriers (e.g. abolition of quotas), agree to make such selective tariff reductions as would bring down the over-all ad valorem equivalent of its tariff by an agreed percentage, low duties (say rates of 10%) being disregarded for this purpose. Under this proposal the United States procedure would be *a*) to issue a unilateral statement, or "White Paper", outlining the whole plan and calling for an international trade conference to discuss it, and *b*) simultaneously with the issuance of the unilateral statement, to hold public hearings under the Trade Agreements Act on approximately 500-800 tariff items on which the United States would consider granting concessions to the other participating countries, as a group. After the hearings had been held, the United States would be in a position to state, at the international trade conference, the particular percentage of over-all tariff reduction which it would be prepared to support. In effecting the over-all reduction of its tariff each country would be free to decide what individual tariff reductions should be made, that is, particular tariff reductions would not be subjected to the bargaining process.

The advantages of the foregoing proposal, it was stated by the American group, were: *a*) it would effect tariff reductions rapidly, and *b*) since it would provide certainty as to the general extent of tariff reduction, it might make it possible to obtain firm commitments

for the abolition of quotas and the removal or relaxation of other non-tariff trade barriers.

In presenting the foregoing proposal, the American group stated that although no final decision had been reached on the point, Mr. Acheson had expressed serious doubt that the plan could be effected under the Trade Agreements Act.

Apart from the doubt raised as to whether the United States could carry through on the plan for reduction of the over-all ad valorem equivalent of the tariff, the Canadian group felt that there were several objections to it:

a) If each participating country were free to select the items for tariff reductions, other participating countries would have no assurance that individual items important in their export trade would be benefited. The only way to provide such assurance would be to negotiate the reductions. It would be extremely difficult, and probably impossible, to carry on such negotiations multilaterally.

b) The plan would have some of the drawbacks of unilateral tariff reduction, i.e. each government would have to bear the whole responsibility for determining the individual reductions in its tariff and could not defend any particular reduction on the ground that it was essential to a bargain with foreign countries.

c) The application of the tariff formula would be full of technical problems. The existence in the tariffs of several nations of seasonal rates of duty, tariff quotas, and other devices would make it difficult to determine how to weight statistically the contribution to the general lowering of the tariff or reductions on items affected by such devices.

2. *Proposal for selective tariff reduction by a "substantial amount"*. This proposal was presented by the American group as being substantially the same as proposal 1, above, with certain modifications designed to remove any question as to its feasibility under the Trade Agreements Act. Under this proposal, the tariff section of the "white paper" to be issued by the United States would merely call for tariff reduction by a "substantial amount". The international conference would be called and agreement would be reached on the non-tariff provisions conditionally upon the completion of "substantial" tariff reduction. The United States would then hold hearings under the Trade Agreements Act, on the basis of which it would formulate a schedule of tariff concessions to be offered to all other countries as a group, conditional upon the offer by each of the other countries of a schedule containing equivalent tariff concessions. Such schedules would be considered equivalent if they reduced the over-all ad valorem equivalent of the tariff by the same percentage i.e. each country's tariff by the same percentage, i.e. each country's tariff would be uniformly reduced by say, 25 percent, on the average.

The Canadian view was that proposal 2 would be impracticable since the precise extent of tariff reduction would not be known at the

time that conditional agreement was reached on the non-tariff provisions. Countries utilizing primarily non-tariff controls would be inclined to take the position that the extent of tariff reduction which finally emerged in the schedules, whatever that might be, was not "substantial" enough to justify carrying out the conditional agreement reached earlier on the non-tariff barriers. This would involve endless argument and negotiation and would probably require the holding of another conference.

3. *Proposal for bilateral offers of tariff reductions by the United States precedent to a multilateral agreement on tariffs and non-tariff trade barriers.* This proposal was presented by the American group as an approach which would be practicable under the Trade Agreements Act and which would assure other countries, at the time their agreement is sought on the abolition of quotas and the removal or relaxation of other non-tariff trade barriers, of the extent to which the United States would be willing to reduce its tariff. Under this proposal, the procedure for issuing a "white paper" and calling an international conference would be the same as in 2, above. However, at the time of issuance of the "white paper", the United States would issue public notice of intention to negotiate bilateral tariff agreements with a number of foreign countries, including the major British countries. By the time the conference was ready to convene, the United States would have made definite offers of substantial tariff reductions to be incorporated in bilateral agreements with the countries for which public notice had been issued. This earnest of good faith on the part of the United States with regard to its tariff, might make it possible for the conference to agree on a multilateral agreement containing a) firm commitments on non-tariff trade barriers and b) a general undertaking to reduce tariffs by a "substantial amount" through bilateral agreements.

The Canadian group expressed the view that the machinery of proposal 3 was defective in that it did not provide for an earnest of good faith as to the extent of tariff reduction in agreements between third countries. In order to remedy the defect it would be necessary to have the conference preceded by bilateral tariff negotiations between such third countries as well. It seemed obvious that this could not be done if too many countries were involved, but it might be achieved among a relatively small nucleus of countries, say 8 to 12 of the major trading nations. The Canadian group was also of the opinion that in any event it would be undesirable to attempt to secure agreement by the method of holding a general international conference. They expressed the view that, judging from past experience, the presence at a general international conference of the less important, and for the most part protectionist-minded, countries, would inevitably result

in a watering-down of the commitments which a smaller number of the major trading nations might find it possible to enter into. The Canadian group accordingly suggested the following modification of proposal 3:

A nuclear group of 8 to 12 countries would agree on the following procedure:

1) Each member of the nuclear group would immediately begin to negotiate bilateral agreements with each other member of the nuclear group*, such agreements to incorporate substantial tariff reductions. In order to speed negotiations and assure the general extent of tariff reduction, an informal "working rule" might be adopted that the tariff reductions to be granted by each country should be such as to reduce the over-all ad valorem equivalent of the duties on imports from each other member of the nuclear group by not less than X percent. It might also be agreed that 10 percent duties need not be reduced and would not be counted for the purpose of determining the weighted average reductions.

The tariff reductions effected by the bilateral agreements would be required to be generalized to all members of the nuclear group. With regard to the treatment of tariff preferences, the following rules might be adopted:

a) Preference-receiving countries would agree to waive their contractual rights to bound margins, thus permitting the preference-granting countries to reduce or remove margins of preference in agreements with other countries. This rule would apply during the negotiations among the nuclear group but might be adopted permanently.

b) Reductions of most-favored-nation rates would automatically operate to reduce or remove margins of preference, i.e., they would not be accompanied or followed by reductions in preferential rates.

c) No margin of preference would be increased. Thus, if any preferential rate were reduced in a bilateral agreement between, say, Canada and Australia, the most-favored-nation rate would have to be reduced to the same extent.

2) The nuclear group of countries would also agree on provisions dealing with non-tariff trade barriers. These provisions would be the same for all members of the nuclear group and presumably would be negotiated through a multilateral committee of some kind.

3) When the negotiations under 1) and 2) had been completed, the resulting agreements would be concluded among the nuclear group, prior to the convening of a general international trade conference.

4) The purpose of the international trade conference would be to discuss: *a)* how other countries should be brought into the arrangement and *b)* what treatment countries participating in the arrangement should accord to the trade of countries refusing to participate.

*It was generally agreed in subsequent discussion that agreements between all the theoretically possible pairs of countries would not be necessary and that agreements might be dispensed with in cases where trade between a particular pair of countries was negligible. [Footnote in the original.]

These questions would, of course, require the reexamination of existing most-favored-nation commitments.

The Canadian group was of the opinion that the nuclear proposal outlined above appeared to be the most promising of the various methods of selective tariff reduction which had been discussed. The American group was inclined to agree with this view, but had reservations as to *a*) the possibility, under the Trade Agreements Act, of adopting even informal "working rules" regarding the percentage of tariff reduction to be achieved, and *b*) the desirability of actually concluding the arrangements among the nuclear group prior to the holding of a general international trade conference at which the views of other countries would be obtained. In this connection, the Canadian group appeared to feel strongly that the arrangements among the nuclear group should not be kept open and thereby made subject to changes at the general conference.

With regard to the countries which would form the nucleus discussion between the American and Canadian groups resulted in the following tentative list: United States, United Kingdom, Canada, Australia, South Africa, New Zealand, France, Netherlands, Belgium, U.S.S.R., Czechoslovakia and India.

There was a brief discussion of the possible tariff requirements which might be made of new members under the nuclear approach. There appeared to be two main possibilities: *a*) the weighted average reduction of the tariffs of the nuclear group might be calculated and new members might then be required to make the same over-all percentage reduction in their tariffs, or *b*) new members might be required to negotiate their way in by entering into bilateral agreements with each of the countries making up the nuclear group. It was agreed by both the Canadian and American groups that new members would, of course, be required to adhere to the non-tariff provisions of the arrangement.

With regard to the withholding of tariff reductions from the trade of outsiders, it was generally agreed that the reductions should be generalized to all countries for a probational period. Whether or not it would be feasible to withdraw the benefits after the expiration of the probational period would largely depend upon the possibility of working out a basis of adherence by outsiders which would be accepted as reasonable and equitable.

Near the close of the discussion the Canadian group suggested that it might be possible, in connection with either a trade agreement between the United States and Canada or a more general arrangement to which both countries were parties, to provide for duty-free treatment on both sides of the border in respect of certain products traded in both directions. The Canadian group attached considerable im-

portance to this possibility, stating that there were a number of cases (e.g. automotive items) where, although tariff reductions would not be of much help, free trade between the two countries would bring substantial reciprocal benefits. Since any such arrangement would require legislative approval in the United States, it might be provided for in a protocol which could be submitted separately to Congress. The American group agreed to report this suggestion and to urge that serious consideration be given to it in Washington.

In concluding the meeting the Canadian group emphasized again their strong preference for the plan for a horizontal tariff cut and expressed the hope that the United States would eventually see its way clear to attempting that approach.

103.9169 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, July 19, 1945—5 p. m.

5954. From Cramer³¹ FEA for Blaisdell.³² Cox³³ discussed with Robert Brand before latter's departure for London FEA's wish that British carefully reconsider their previous objections to giving under Reverse Lend-Lease all Suez Canal tolls paid by US. British have been told that FEA would be agreeable if British secured participation by French. Records not complete but indicate around 11½ million dollars expended by US from prior to 1943 through 1944 with probability that 1945 charges will exceed 6 million. Please give your strong support wherever appropriate. [Cramer.]

GREW

611.0031 Executive Committee/7-1645

Memorandum by the Executive Committee on Economic Foreign Policy

VIEWS OF THE EXECUTIVE COMMITTEE REGARDING DRAFT TARIFF PROPOSALS FOR PROPOSED MULTILATERAL AGREEMENT ON COMMERCIAL POLICY

[WASHINGTON,] July 21, 1945.

The necessity of rebuilding the industries and trade of a wartorn world, and the unprecedented closeness of the present political ties among the leading trading nations, offer an unparalleled opportunity

³¹ Ambrose C. Cramer, Acting Director, British Empire and Middle East Branch, Foreign Economic Administration.

³² Thomas C. Blaisdell, Chief of the United States Mission for Economic Affairs, London.

³³ Oscar Cox, Deputy Administrator, Foreign Economic Administration.

to obtain a large and world-wide reduction of trade barriers. Such a reduction has been a stated objective of United States policy for many years. The present opportunity may exist, however, for only a brief and critical interval.

1. It is understood that the British take the view that if the re-establishment of post-war international economic relations is to be based on a substantial expansion of world trade on a free-enterprise basis, the reduction of trade barriers must be very substantial. They are also understood to take the view that since the world's economic reconstruction cannot wait, the reduction must be prompt; and that definite assurances are needed at once with respect to the extent of the reduction and the time within which it will be effected.

The British appear to be convinced that these requirements can be met only through a multilateral convention, under which all participating countries agree simultaneously to reduce all of their import duties by a certain percentage. This would also make possible the general termination of non-tariff trade barriers, with appropriate exceptions, as part of the convention.

2. The Committee recognizes that either this multilateral-horizontal procedure, or any other procedure which does not allow selectivity in the reduction of United States tariff rates, would be difficult to negotiate and probably impossible to implement under the Reciprocal Trade Agreements Act as extended.

For the immediate purposes of the impending discussions with the British, therefore, the Committee recommends that the United States urge as an alternative to the multilateral-horizontal procedure, Proposal D, the selective nuclear-multilateral approach.³⁴ It is believed that this proposal comes nearer to meeting the British viewpoint than any other alternatives which are practicable under the present grant of authority by the Congress.

3. If it should appear that there is no practical possibility of acceptance of the selective, nuclear-multilateral proposal by the British, or of some variant which would likewise permit selectivity in the reduction in the United States tariff, the negotiations should still not be terminated. Every possible measure should be explored to take advantage of the present unique opportunity to preserve and strengthen the free-enterprise basis of world trade.

³⁴ Proposal D was the last of four alternative approaches listed in Executive Committee on Executive Foreign Policy Document 104/45, approved on July 21, 1945, not printed, to which this accompanying memorandum was attached. The nuclear-multilateral approach meant, briefly, that a nuclear group of approximately a dozen countries would agree to negotiate, first, bilateral agreements for selective tariff reductions, and second, an informal, multilateral program dealing with tariff preferences and non-tariff barriers, which program would then be presented at a general international conference to be concluded and made operative among the nuclear group and other nations wishing to participate.

4. The majority of the Committee believes that the multilateral-horizontal procedure, if considered apart from the limitations presently imposed by the Reciprocal Trade Agreements Act, is superior on its merits to all alternatives which have been presented. Should the British refuse to accept the nuclear-multilateral procedure, this would provide an immediate and obvious occasion for reexamining the multilateral-horizontal approach with the Congress.

883.8123/7-2445 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, July 24, 1945—8 p. m.

[Received 11:50 p. m.]

7456. In commenting informally in recent flare up in American press regarding payment of Suez Canal tolls by American ships during war despite fact that similar charges are placed under Lend Lease in case of British vessels using Panama Canal, head of Egyptian Dept³⁵ of FO (Foreign Office) today expressed concern that this question had been forced from normal course of technical discussion between FEA and British Treasury, and made subject of re-criminatory publicity. Result was that British Govt was being placed unfairly "on the spot" and Egyptian Dept head particularly stressed difference between US Govt-owned Panama Canal and Suez Canal which as result of Disraeli tradition³⁶ is not infrequently thought of as being British-owned and -controlled whereas fact of course is that it is an international company in which British Govt owns 40% of shares and remainder are in private hands. It was true that during occupation of France the British directors had assumed responsibility for maintenance and operation of canal, but they had taken care to do so merely as trustees and not to assume powers of the governing board. As matters now stand functions have been transferred practically entirely from London to Paris.

FO official observed that under existing circumstances all ships, including British, pay Suez Canal tolls and it is difficult to see how on the one hand Suez Canal Company could be asked to forego tolls with resultant risk of being forced into bankruptcy or on the other hand why British Govt should be held accountable for paying tolls on American ships as well as its own. The last thing British Govt would want to do, however, would be to be placed in position of seeming to profiteer in prosecution of war against Japan and it is entirely willing to proceed with discussion looking to a mutually satis-

³⁵ Patrick S. Scrivener.

³⁶ Reference is to the negotiation by British Prime Minister Benjamin Disraeli of the purchase in 1875 of the Suez Canal shares held by the Khedive of Egypt.

factory solution, but it is as yet difficult to see what form such a solution will take.

Incidentally Egyptian Dept head observed that as matters seemed to be turning out the highly speculative stories which had been current from time to time during the past several years regarding Axis acquisition of Suez Canal shares do not seem to be borne out by information now coming to light, which is to general effect that control of Suez shares has not changed on an extensive scale. It will only be possible to check accurately on the situation, however, when normal operations such as the distribution of profits are resumed.

Repeated Cairo as 36.

WINANT

103.9169 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, July 28, 1945—1 p. m.

6274. From Cox and Cramer FEA for Blaisdell and Griffin. Our 5954 July 19. US press and public reaction to fact that Suez Canal tolls are not being furnished under reverse lend-lease has been strongly adverse. Cox had previously indicated to Brand political disadvantages of such decision. Please do not consider incident closed and continue to press Treasury forcibly that favorable reconsideration will substantially help joint interests of our two countries.³⁷ [Cox and Cramer.]

GREW

800.24/8-145 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, August 1, 1945—7 p. m.

6415. Presidential Directive³⁸ interpreting prior Directive of July 5, 1945³⁹ has been issued to JCS.⁴⁰ Collado will bring this and rele-

³⁷ The question of inclusion of Suez Canal tolls as reverse lend-lease was pursued by the U.S. Government through the joint negotiations leading to a general lend-lease settlement in 1945-1946. On December 1, 1945, in its report to the U.S.-U.K. Lend-Lease Committee, the Combined Sub-Committee on Claims listed the U.S. claim for 13 million dollars due on Suez Canal tolls paid by U.S. vessels as having been rejected by the U.K. side but reserved by the U.S. side for consideration by the Lend-Lease Committee (611.4131/5-146). In the Mutual Aid Settlement of March 27, 1946, dealing with agreement on settlement of Intergovernmental Claims, the U.S. claim for 13 million dollars and certain U.K. claims on which agreement could not be reached were mutually waived; for text, see Department of State Treaties and other International Acts Series No. 1509, pp. 14-15.

³⁸ Dated July 29; for text, see *Conference of Berlin (Potsdam)*, vol. II, p. 1184.

³⁹ *Ibid.*, vol. I, p. 818.

⁴⁰ Joint Chiefs of Staff.

vant information to London. With respect to British Empire, issuance of munitions is authorized when of direct aid to redeployment of US Forces and of Empire Forces. Requirements for occupational forces in Axis countries are not eligible, but otherwise issue is to be in accord with agreement of October–November 1944.⁴¹

GREW

641.003/8–245

Memorandum of Conversation, by the Chief of the Division of Commercial Policy (Brown)

[WASHINGTON,] August 2, 1945.

1. At lunch today Mr. Lee⁴² stated that he understood from discussions with Canadian officials that the United States felt that commitments which the Administration had made during the Hearings on the renewal of the Trade Agreements Act would preclude it from pursuing a straight multilateral approach to tariff reduction. He stated that the Canadians were much dismayed by this development and that, although he was not personally directly involved in the problem, British officials also were very much concerned. He asked whether I could confirm that this was the case and whether it did not represent a very marked change in United States policy from that put forward by us in the 1943 discussions.⁴³

I stated that it was the case. It had been necessary for the Administration to emphasize the selective nature of the approach to reductions in the American tariff which had been adopted in the past and to give assurances that this selectivity would be continued in the future. We felt that we were bound by those assurances in the use of the new authority given us. I explained the narrowness of the margin by which the renewal statute was passed both in the House and in the Senate⁴⁴ and emphasized how unfortunate it would have been had it not been passed. He entirely agreed on this point. I stated that we recognized that this did represent a considerable change from the line of policy which we had been discussing with the British but that this had been required of us by practical political realities which we faced on the Hill. Mr. Lee again expressed his disappointment that this situation should have developed.

⁴¹ Reference is to the arrangements arrived at during the Phase II discussions on lend-lease; for documentation on the subject, see *Foreign Relations, 1944*, vol. III, pp. 31 ff. There was no formal agreement as such.

⁴² Frank Lee, British Treasury Delegation.

⁴³ See *Foreign Relations, 1943*, vol. I, pp. 1099 ff.

⁴⁴ See footnote 94, p. 45.

2. We had a general discussion on the effect of a change in government in England.⁴⁵ Mr. Lee stated his views on this subject, which were generally similar to those expressed in London Embassy's telegram no. 7708 of July 31.⁴⁶

611.4131/5-146

Memorandum of Conversation

LONDON, August 3, 1945.

Participants:

U.K.— Lord Keynes	U.S.— Mr. Clayton
Sir Wilfrid Eady	Mr. Hawkins
Mr. Robert Brand	Mr. Collado

Mr. Clayton began by stating that he was speaking informally in accordance with the President's letter of July 29 to the Prime Minister,⁴⁷ that in general he could only present his personal views, but that the matters which he would discuss were questions which had been generally discussed with the President in connection with Bretton Woods and trade agreements legislation. Lord Keynes stated that in view of the new government, the views of the British officials must also necessarily be tentative as they have not had a chance to discuss these matters with the new Chancellor of the Exchequer⁴⁸ and the new Ministers.

Lord Keynes stated that it would be difficult to obtain the attention of the new Ministers until August 15, on which day the King's message to the Parliament would be presented. He stated that the Parliament would recess and the Ministers disperse for holidays on September 1. In view of the desire for early discussions in Washington, he would like the United States to set a definite date, certainly not later than September 15. This would enable the British officials to press the Ministers for policy decisions before they go on their holidays. It would be important to get the discussions well under way in September as many of the officials would have to return in October for the presentation of the Bretton Woods proposals to the Parliament. Mr. Clayton stated that he was certain that he could cable the date within a few days after his return to Washington and report to the Secretary and President.

⁴⁵ In the British general elections of July 1945, the Conservative Government had been defeated by the Labor Party, with Clement R. Attlee replacing Winston S. Churchill as Prime Minister.

⁴⁶ Not printed.

⁴⁷ For text of letter from President Truman to Prime Minister Attlee, see *Conference of Berlin (Potsdam)*, vol. II, p. 1184.

⁴⁸ Hugh Dalton.

There followed some discussion of the method of indicating to the public the reasons for the British delegation to Washington, and Sir Wilfrid Eady suggested that it be indicated that the delegation was discussing the clean-up of lend-lease and other related matters, including post V-J⁴⁹ economic matters. Mr. Clayton stated he thought this would be all right, but he wished to study it further.

Lord Keynes stated that there were three general topics which should be discussed during Mr. Clayton's stay:

- (a) The facts of the British international position;
- (b) UNRRA;
- (c) Commercial policy.

Facts of the Situation

Lord Keynes pointed out that there were two basic problems: the handling of the accumulated blocked sterling balances and the continuing problem of deficits in the post V-J day period. These are interrelated although the latter is more important in the short run. On the other hand, it is not possible to put new obligations ahead of the existing sterling balances. Thus the balances are an obstacle to new borrowing. Moreover, it is not possible to cut off the members of the sterling dollar pool without the U.K. helping them to meet their deficits. Lord Keynes added parenthetically that he was very pleased with the letter to Congressman Celler regarding the dollar pool.⁵⁰

Post V-J Day Balance of Payments

(All figures in millions of pounds sterling)

Lord Keynes presented the following figures on the estimated balance of payments during the calendar year 1945. These figures omit munitions received on lend-lease and Canadian mutual aid, and therefore include principally types of items which in general character would continue into the postwar period. Other items of an essentially war character which are included in Lord Keynes' estimate include:

Cash outgo, including supply department expenditures in India and Australia, loans to governments, foreign office expenditures, net British troop pay and local services:

India	400
Middle East	100
Australia	150
Other	100
	750
Total	750

⁴⁹ Reference is to the future date of victory over Japan.

⁵⁰ Texts of the letter from Representative Emanuel Celler, of New York, to Secretary of State James F. Byrnes, July 3, and the reply from Acting Secretary of State Grew, July 25, are printed in *Congressional Record*, vol. 91, pt. 12, Appendix, September 11, 1945, p. A3830.

<i>Cash income:</i>	
U.S. net troop pay	50
Refunds from Australia, South Africa and other Dominions	about 100
Total	<u>150</u>
<i>Net outgo:</i>	about 600
<i>Net deficit:</i>	
on trade, shipping, investment, etc. account	900
	<u>900</u>
	<u><u>Total adverse balance</u></u> 1500
<i>Sources of Finance</i>	
Lend-Lease	600-750 or more
Canadian Mutual Aid	100-150
Sterling area (by reducing assets or accumulating new blocked balances)	700-750
	<u>1400-1650</u>

Lord Keynes stated that exports were now very low. Last year they were down to 33% of prewar. They are now 36% but a considerable portion of the increase is in items which are technically non-munitions but are in practice related to military. By the end of the year the level of exports may be up to 40%. Prewar exports were about £ 1250 at present prices. In 1943 they were £ 240, in 1944 £ 283, and in 1945 they are expected to hit £ 356. Since prices have advanced 10% during the past year, the increase in terms of volume is less.

Postwar imports, while of a somewhat different composition than present imports, will be somewhat greater. Food imports will increase. Moreover, world prices are tending upward. Lord Keynes felt that the combined purchases "bluff" was beginning to lose effect and that prices generally would increase by 20%.

Lord Keynes went on to state that the rate of reconversion and demobilization is very disappointing, that by December 31, 1945 not more than 100,000 men will have returned to export trades. Sir Wilfrid explained that conscription for domestic industry is now relaxed and as a consequence of this, and a high level of income and savings, many married women and old men and other pensioners will quit working—perhaps 1 million persons are in this category. On the optimistic side, it is expected that 1 million men will be released by the Army and 750,000 persons will flow out of the munitions industries, but because of holidays and other factors there is not expected to be an increase of more than 350,000 persons in the non-munitions labor forces. Of these, about 250,000 will go into building trades and other domestic industry, leaving not more than 100,000 for the export trades.

Keynes thinks that there may be no net increase in manpower in the export trades. Keynes and Eady pointed out that it is very difficult to take the right decision with respect to the Japanese war effort. If the British release more manpower, public opinion in the United States will say that they are not doing enough for the Japanese war. Keynes pointed out that the present military assumptions are that a full Japanese war pipeline must be maintained to December 31, 1946. This seems absurd and Keynes believes that perhaps we should reconsider and begin to taper off.

Keynes continued his discussion of the balance of payments by indicating that after V-J day, that part of the deficit which is related to military efforts will run off, but slowly at first. He estimated that by the end of the first year, it would be off 500 gross or 400 net. If there is a substantial increase in exports, say 600 total exports, which is very optimistic, and small increases in shipping and other invisibles, the net deficit will be 650 optimistic, 750 probable and 850 possible. Keynes is optimistic; Brand is pessimistic.

In arriving at these deficit estimates, Keynes is including some 300 million of additional overseas expenses into the sterling blocked balances to be added to the war settlement with the sterling area. Zero day for blocked balances would be several months after V-J.

In the second post V-J year, it is difficult to make estimates but the deficit might be 500, in the third year 200, and on an optimistic calculation perhaps zero thereafter. Thus Keynes would arrive at an estimated deficit of about 1500 over the three years. To this figure would have to be added any net releases to the sterling area.

With respect to net acquisitions from or net releases to the sterling area, Keynes insisted that there are two requirements of the British position: to make current sterling balances fully convertible and to keep consumption in the U.K. short so that goods will be available for export. If confidence can be produced in the convertibility of sterling, it may well be that the increases in ordinary sterling reserves [of?] third countries will offset outlays to help meet the deficits of certain sterling area countries. For example, Canada may be expected to help. Sweden might accumulate some sterling balances. The Northwestern European areas can be expected to meet certain arrears of payments. The French agreement, although weak, may yield something net, possibly as much as 40 if full payment of arrears is made and between 25 and 30 on current account. U.K. balances with Belgium and the Netherlands may be at first adverse but in time there will be some gold payment to the U.K. Since South Africa has large gold reserves, it might be induced to increase its sterling balances.

Lord Keynes then turned to the gold and dollar position. He stated that the gold liability to Portugal may be settled during the

coming week with a result that the net gold liability would be considerably reduced. Lord Keynes then rehearsed the development of the gold and dollar position.

(All figures in billions of dollars)

December 31, 1938	4.2	
September 1939	2.5	
April 1941	10-12	million
	(before RFC loan ⁵¹)	
December 31, 1941	.4	
December 31, 1942	.7	
December 31, 1943	1.3	
(This was over the \$1 billion figure of the U.S. Treasury and occasioned great discussion.)		
April 30, 1945	1.8	
June 30, 1945	1.846	
December 31, 1945	estimated	2.0

During the Phase Two conversations, Lord Keynes felt that Secretary Morgenthau would not be averse to a total of \$2 billion or \$1¾ billion. At the conclusion of the negotiations, especially as a result of the "Chapter III" items, Keynes expected the figure for the end of 1945 to be about 1.5. Since then the U.S. net troop pay in the U.K. is much better than had been anticipated and in addition, South Africa is expected to turn over some gold for sterling.

Of the \$2 billion, the British could use \$1 billion to meet post V-J deficits. This would last four months.

Lord Keynes again stated that all of the working officials felt that current sterling must be convertible. The alternative of tying up the sterling area tightly would lead to serious consequences so Keynes personally would want an interim program for getting rid of exchange restrictions, say not over five years as provided in the Bretton Woods program, but immediately. Unfortunately, the new officials might be superficially attracted to bilateralistic schemes, but it would be an educational process in which the permanent officials would have to point out the necessity for free exchanges and multilateral commercial policy.

Mr. Clayton pointed out that in his opinion it was essential that the blocked sterling balances be scaled down. Lord Keynes indicated that the officials had proposals with respect to the sterling balances but that they were not ready to discuss them until they had a chance to clear with the new ministers. Mr. Clayton and Lord Keynes discussed briefly the South African gold position and Lord Keynes described the difficult political position which made it impossible to

⁵¹ For text of agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and Reconstruction Finance Corporation, dated July 21, 1941, see British Cmd. 6295.

get much more than the British are already getting from the South Africans. He stated that South African gold production is approximately 100 million pounds per annum, of which about 50 million goes into imports and other current balance of payments needs, 25 million is currently being transferred to the U.K. in return for sterling balances, and the remaining 25 million is added to South African gold stocks.

At several points in the discussion Lord Keynes indicated that with good management it should be possible to trim down the total deficit. Mr. Clayton remarked that public opinion in the U.S. seemed to be settling on the possibility of the extension of \$3 billion in credits to the U.K.

The conversations were resumed in the afternoon with Messrs. Glasser,⁵² Earley and Stinebower added to the group. Lord Keynes began by stating that he had had some "extra thoughts" on the morning's discussions. In the first place, he wished to make it clear that the present V-J day arrangements could not be only between the U.K. and U.S. but must embrace all countries. The sterling area settlements must proceed simultaneously with any U.S. arrangements. The whole question must be looked upon not as a simple question of transitional financing but a series of arrangements which would be a contribution towards a basic U.K. situation that would make possible a brief transition.

Mr. Clayton thanked Lord Keynes for his complete presentation and stated that happily there was a shift in U.S. opinion with respect to world affairs both in political and economic matters. He referred to recent opinion and Congressional action with respect to the San Francisco Charter,⁵³ Bretton Woods, Export-Import Bank, and trade agreement legislation. He felt that if a satisfactory overall commercial policy agreement could be made, it might be possible very promptly to get special credit legislation which might authorize the figure he had mentioned in the morning—\$3 billion—on liberal terms. Some conditions would have to be imposed. The dollar pool is anathema to U.S. exporters. Rightly or wrongly they attributed all of their lost orders to the manipulations of the pool. Then, of course, it would be necessary to get agreements on tariffs, cartels, quotas, discriminations, etc., and these matters would be discussed Saturday⁵⁴ with the Board of Trade.

⁵² Harold Glasser, Assistant Director, Division of Monetary Research, Department of the Treasury.

⁵³ Reference is to the Charter of the United Nations, June 26, 1945. For text, see *Charter of the United Nations and Statute of the International Court of Justice*, 59 Stat. (pt. 2) 1031. The Senate had advised ratification of the Charter on July 28.

⁵⁴ August 4; for summary of these discussions, see telegrams 7903, August 6, and 8132, August 11, from London, pp. 87 and 90, respectively.

U.S. public opinion fully supports the views of government officials with respect to liberal trade and financial policies. The President and the Secretary of State believe that it should be possible to work out something satisfactorily with the U.K. along the lines of liberal commercial policy. Mr. Clayton was unable to express firm views or make definite commitments partly because of the very recent appointment of a new Secretary of State who had not been able during the pressure of the Potsdam Conference⁵⁵ to devote any attention to these matters. Mr. Clayton had discussed the problems in some detail with President Truman in connection with legislation on trade agreements, and he felt certain of the President's general views. He had talked to Secretary Morgenthau and to Judge Vinson and felt sure that what he was saying reflected Treasury's policy. Mr. Glasser nodded assent.

Mr. Clayton felt that it would be necessary to adjust the sterling blocked balances—to scale them down and to refund the remainder. It would not be possible to put in any fresh money without settling these old obligations. Lord Keynes agreed.

The United States has been bothered by recent British bilateral exchange agreements. It recognizes that in the present situation without broader arrangements with us, such bilateral exchange agreements are perhaps inevitable. If broader arrangements could be made, the present defensive measures might not be necessary. It is recognized that they are intended to expand trade, but we are afraid of the bilateralistic tendencies inherent in them.

To sum up, Mr. Clayton indicated that the U.S. wants to make possible a broad liberal multilateral trade and financial policy. Lord Keynes stated that the three British officials personally agreed in full. They could not know definitely the views of their new Ministers. There is, as he had indicated earlier, a superficial attractiveness to the bilateral course.

Lord Keynes went on to make two points. At this stage of the discussions, he would prefer "a more meaningless phrase" than "credits". Moreover, he wished to emphasize the high priority of existing balances of the crown colonies and certain other members of the sterling area. He indicated that while from some points of view the sterling area may not be regarded as having contributed to war finance, the sterling area did give unlimited credit, would permit the full imposition of U.K. exchange control, etc. In answer to Mr. Clayton's question was there any alternative for the sterling area, Keynes said perhaps not much, but that there was a real difference in the attitude of Iraq vs. Iran. Keynes went on to say that while scalings down were essential, some balances would have to be released.

⁵⁵ July 17–August 2, 1945. James F. Byrnes was appointed Secretary of State on July 3, 1945, succeeding Edward R. Steffinius, Jr.

In considering credits all obligations now outstanding would have to be taken into account.

Keynes' second point related to the figure of \$3 billion. The important thing is to restore confidence in the convertibility of sterling and some sterling must necessarily be released to the sterling area. If Britain is "but a shilling better than bust, we shall be bust".

Mr. Clayton stated that in his view if the war finance was cleared up, it ought to be possible to settle the postwar deficits for say \$3 billion. Keynes felt that the U.K. would be called upon to make very sweeping commitments on exchange and trade policy and it would need to have an adequate reserve. He did not feel, however, that it was useful to talk about the figures further at the present time and stated that he would present a detailed analysis later.

Mr. Clayton pointed out that \$3 billion is the figure in the minds of the U.S. public although Winthrop Aldrich⁵⁶ had mentioned \$5 billion. Lord Keynes hoped that the figures would not crystallize, and Mr. Clayton agreed that that would not be desirable. Lord Keynes and Mr. Clayton agreed that public opinion in both the United States and the U.K. must agree on the desirability of the measures taken.

Lord Keynes then turned to the "problem of settling war obligations" and stated that we were witnessing the twilight of lend-lease. Both lend-lease and reciprocal aid are running down both in volume and in public estimation. Lord Keynes felt that there might be a very short period of straight lend-lease after V-J day followed by a clean-up. He did not want a 3(c) agreement.⁵⁷ He felt that it was important to know what would be the date for the cessation of new procurement—V-J or shortly later—and what would be the date for discontinuance of deliveries. Then it would be necessary to arrange a settlement with respect to lend-lease stocks on hand, ships, and disposal of lend-lease stocks and surpluses.

In his opinion the clean way to do it would be to arrive at a global figure for all items not purely war lend-lease, to adopt a cash figure of all such overhanging items, also to do the same with respect to reciprocal aid exclusive of such items, of course, as the transport home of U.S. troops in U.K. vessels. The war lend-lease would of course be part of the broad settlement; the overhanging items might be gathered into a single net cash figure for settlement.

There ensued a rather full discussion of the scope of paragraph 3(c) in which it became clear that the British officials did not understand the problem and at the end of which it was agreed that there

⁵⁶ Chairman of the Board of the Chase National Bank of the City of New York.

⁵⁷ An agreement under section 3(c) of the Lend-Lease Act of March 11, 1941, 55 Stat. 31, as amended, April 16, 1945, 59 Stat. 52.

should be a further exploration of possible arrangements under Section 3(c).

At this point Messrs. Gilpatric,⁵⁸ Marris,⁵⁹ Hasler⁶⁰ and Dunnett⁶¹ entered and there ensued a discussion of UNRRA matters. No attempt is made in this memorandum to discuss the UNRRA problems except as they relate to the British financial position.

Lord Keynes stated that from the Treasury point of view the important UNRRA issues were the total requirements and the size of the U.K. share. The British were naturally concerned about the size of their expenditures—particularly externally—because even expenditures in the crown colonies are a drain on the British exchange position. The British had studied the possibility of UNRRA actually making deliveries—due to shipping and supply availabilities—and were convinced that if the Soviet request⁶² could be put aside, and with the first \$200 million only for China at this time, an increase of 50% in the quotas would handle the situation. After considerable discussion it was agreed that a working party would look into the figures.

Lord Keynes pointed out that in the U.K. the distinction is not drawn between authorization and appropriation and that the Chancellor would find it very difficult to “authorize” 1% on the chance that it might eventually be needed. Lord Keynes felt that if UNRRA thought it had 1%, ways would be found to expend it.

It was agreed that this whole matter would be discussed further.

611.0031 Executive Committee/8-645: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, August 6, 1945—5 p. m.

[Received 8:45 p. m.]

7903. For Wilcox and Thorp⁶³ from Hawkins and Stinebower. At first meeting with British on commercial policy on August 4 the first reaction to our proposed procedure was that it would be difficult to

⁵⁸ Donald S. Gilpatric, Chief, War Areas Economic Division, also Adviser and Executive Secretary, United States delegation, Third Session of the UNRRA Council, London, August 7-24, 1945.

⁵⁹ Adam D. Marris, Assistant Under Secretary of State, British Foreign Office, also member of the United Kingdom delegation, Third Session of the UNRRA Council.

⁶⁰ William J. Hasler of the British Foreign Office, member of the United Kingdom delegation, Third Session of the UNRRA Council.

⁶¹ G. S. Dunnett of the British Treasury, member of the United Kingdom delegation, Third Session of the UNRRA Council.

⁶² See vol. II, pp. 958 ff., *passim*.

⁶³ Willard L. Thorp, Deputy to the Assistant Secretary of State (Clayton).

line up the nuclear countries by separate diplomatic talks. Some of their countersuggestions might enhance the difficulty of selecting the nuclear group. For example, they tentatively suggested a first meeting of nuclear group to discuss purely procedural matters.

For our further discussions it would be most useful to have the Department's views as to indispensable minimum of nuclear list, both politically and economically. The Ottawa talks as reported to ECEFP (Executive Committee on Economic Foreign Policy) rather envisaged the following: US, UK, the four Dominions, India, USSR, France, Belgium, Netherlands, Czechoslovakia, China, Cuba, Brazil. British hope China can be omitted, strongly urge Argentina. Obviously essential that list be kept to a minimum but that it cover a substantial part of the world's trade and have a representative coverage.

If possible please send Department's political and economic judgment on the nuclear list before Friday.⁶⁴ [Hawkins and Stinebower.]

WINANT

611.0031 Executive Committee/8-645: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, August 9, 1945—6 p. m.

6720. Urtel 7903, August 6.

1. The combined political and economic judgment of the Department on the nuclear list is that the following 11 countries should be invited to participate in addition to the United States: United Kingdom, Canada, Australia, New Zealand, Union of South Africa, France, Netherlands, Belgium, U.S.S.R., China and Brazil.

2. It is believed that the number of countries should be kept small since the greater the number engaged in simultaneous negotiations the more difficult the negotiating problem, particularly for countries other than the United States.

3. This above group is as small as possible and yet includes the Big Five,⁶⁵ the members of the British Commonwealth, and major trading nations of Europe, Latin-America and the Orient. Definition of the nucleus by some easily understandable objective standard such as this is considered important in justifying exclusion of other countries.

4. The Department feels that India should not be included at this time on the grounds that any negotiations by the present Indian Government on this subject would be regarded by Indian nationals as representing British interests in India rather than Indian viewpoint,

⁶⁴ August 10.

⁶⁵ United States, United Kingdom, Soviet Union, China, and France.

and might seriously prejudice the success of subsequent negotiations with any national government that may later be chosen. Moreover, the strongly protectionist sentiment in India makes it unlikely that India could be persuaded to join nuclear group in expeditious tariff reduction.

5. The U.S.S.R. is included as a member of the Big Five and also as a means of working out a solution of problems of state trading system.

6. China is included as a member of the Big Five largely for political reasons and to afford a further opportunity of influencing along liberal lines the direction of Chinese commercial and industrial policies which are presently in process of development. This would also permit the United States to offer reductions in duties on commodities of which the Orient was practically the sole supplier.

7. France is included as a member of the Big Five, as an important country in world trade and as a country whose future commercial policies are at a turning point.

8. Belgium and Netherlands are included as countries important in world trade and especially in the trade of France and other European countries. Moreover, the projected customs union between Belgium and the Netherlands will, if carried out, probably necessitate a revision of their commercial agreements with other countries, and it is desirable that this revision should take place along lines harmonious with our general commercial policy.

9. The question of the inclusion of dependencies and colonies of the countries named will be considered by individual country committees to be set up by Trade Agreements Committee.⁶⁶

10. Department feels that in principle there should be a Latin-American representative included in nuclear list and this representative should be Brazil. Department feels inclusion of Argentina is out of the question.

11. The foregoing 12 countries (including the United States) imported over 50 percent of the world's imports in 1937 (by value). About 45 percent of United Kingdom's 1937 imports were from countries named, and over 40 percent of her exports went to such countries. About 35 percent of the United States imports came from the countries named and 50 percent of our exports went to them. Generally speaking, the percentages are higher in the case of the Dominions' trade. Inclusion of Crown colonies would further increase the amount of trade included within the group.

12. The addition of any more countries to the list given in paragraph one would raise difficult problems, in addition to the negotiating

⁶⁶ A special interdepartmental committee which maintained liaison with the Executive Committee on Economic Foreign Policy.

problem, regarding the noninclusion of other countries which are relatively as important or more important from point of view of world trade. Among these are Italy, Sweden, Switzerland, Czechoslovakia.

13. Under the circumstances the Department and the Trade Agreements Committee are of the opinion that the list should be confined at this time to the 12 countries mentioned in paragraph 1.

BYRNES

611.0031 Executive Committee/8-1145: Telegram

*The Ambassador in the United Kingdom (Winant) to the
Secretary of State*

LONDON, August 11, 1945—4 p. m.

[Received 5:25 p. m.]

8132. Part I.

1. Clayton, Hawkins, Stinebower, Fowler⁶⁷ and Penrose had a meeting with Liesching, Eady, Keynes, Robbins, Brand and Shackle at Board of Trade, August 4.

2. Clayton said US determination to move towards objectives of article VII had been shown by recent action in Bretton Woods and Reciprocal Trade Act. It was now time to move forward with something concrete in commercial policy and to take the opportunity while it lasted. Substantially enhanced powers had been obtained under new act but the US is not in a position to go into conference with object of making horizontal cuts in tariffs. Both language of act and assurances given in hearings prevented use of act for horizontal cut. Any such cut would have to be submitted to Congress and pressure would be too strong. Clayton thought however that we had a way to negotiate number of tariff agreements quickly and then call an international conference to deal with other restrictions.

3. Clayton, Hawkins and Stinebower explained Proposal D (ECEFP D-104/45).⁶⁸ Copy of Proposal D as approved by committee, with part on advantages and disadvantages omitted, was given to the British.

A discussion followed in which UK officials expressed substantially the views summarized below.

4. UK officials were particularly concerned regarding the number of bilateral negotiations involved in the US proposal. Keynes considered the bilateral procedure impracticable. Liesching said that it would be impossible to find enough teams of qualified officials to negotiate with a number of countries simultaneously. Shackle thought

⁶⁷ William A. Fowler, First Secretary and Consul, London.

⁶⁸ ECEFP D-104/45 not printed; for text of accompanying memorandum as well as an explanation of Proposal D, see p. 74.

that if the discussions were bilateral they would "drag on interminably." Liesching said bilateral pacts had taken from 5 to 29 months with average of 12 months.

5. Keynes, Eady, Liesching and Robbins took position that even if it had to be assumed that tariff cuts must be selective and not uniform percentage cuts, it did not necessarily follow that the negotiations must be carried on by separate bilateral discussions. Keynes said that each country should come into a conference of the nuclear group prepared to say what concessions it would make to the other countries and on what conditions. Robbins said there was all the difference in the world between separate discussions in pairs and negotiations in a combined group on a selective basis.

6. UK officials maintained that tariff and non-tariff restrictions should be discussed simultaneously and in part at least by the same officials. If they were dealt with separately the assumptions made in non-tariff restrictions during the tariff discussions might not be borne out in practice and tariff cuts agreed tentatively would have to be renegotiated and revised. UK officials thought the nuclear group should all be assembled together for both tariff and non-tariff discussions, which might be taken up at separate meeting in the same conference. Liesching emphasized that many of the trade obstacles facing UK were non-tariff and it was difficult to take any action on tariff without knowing what was to be done on the other aspects of trade restrictions.

7. Liesching asked what approaches could be made to non-nuclear countries pending a conference. The UK had been embarrassed by frequent inquiries from European countries as to its general views on post-war trade. He did not think they could remain tongue-tied much longer.

Part II.

8. A second informal meeting was held on August 9 between Hawkins, Stinebower, Fowler and Penrose and Liesching, Robbins, Hall-Patch,⁶⁹ Stirling⁷⁰ and Shackle. Views expressed by UK officials on the latest US suggestions were substantially as follows:

9. The UK officials spoke in strong terms against the idea of separating the discussion of preferences from the tariff discussions and taking them up along with non-tariff restrictions. Liesching said they had hoped in view of previous explanations of the position in UK this would not have been suggested. They had always made it clear that preferences were a part of a context involving tariff negotiations. If the horizontal treatment of tariffs went overboard then horizontal treatment of preferences must go too.

⁶⁹ Edmund L. Hall-Patch, Assistant Under Secretary of State, British Foreign Office.

⁷⁰ Presumably John A. Stirling, Assistant Secretary, British Board of Trade.

10. Robbins said the central point was the relation of the proposals to the political situation here. The proposed separation of tariffs and preferences increased the difficulty. He added that "the brute fact of the political situation on this point is not affected by any change of governments". Liesching added that these US proposals had put the whole matter into "a quite unmanageable position". He referred to Bevin's speech at the Labor Party conference⁷¹ and said that UK officials were now placed in a most embarrassing position from the point of view of getting ministers to agree to commercial policy measures.

11. UK officials strongly criticized US proposals on quotas, maintaining that the provisions would permit quotas on the whole front. They did not agree that the provision that corresponding domestic restrictions must be imposed was a satisfactory check on the undue use of quotas. Shackle and Robbins maintained that it was most difficult to ascertain by how much domestic production was effectively restricted and whether such restriction was equivalent to the import restriction.

12. Liesching, Robbins and Shackle objected to the proposals for subsidies on commodities in world surplus. Robbins said the main objection was to the idea that once it was agreed that a burdensome world surplus existed there should be a "free-for-all" struggle with the use of export subsidies as a bludgeon to compel agreements that might not be satisfactory to all parties. Shackle said that distress at home should not be relieved by creating disturbances in other countries.

13. The general attitude of UK officials at this meeting was extremely pessimistic.

14. A full meeting will be held on August 13.⁷² Officials have not been able to place these questions before the new cabinet. In conformity with a proposal made at Potsdam⁷³ UK suggests sending a delegation to Washington in September on trade, financial and related matters. Clayton has indicated that he will arrange after his return to have this proposal considered.

WINANT

⁷¹ Reference is to a speech made by Ernest K. Bevin at the Annual Conference of the British Labor Party at Blackpool on May 23, 1945; for text, see the *London Times*, May 24, 1945, p. 2, col. 2.

⁷² Presumably this meeting was postponed until Wednesday, August 15; see telegram 8289, August 16, 5 p. m., from London, p. 94.

⁷³ See *Conference of Berlin (Potsdam)*, vol. II, p. 1181.

800.24/8-1645 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, August 16, 1945—2 p. m.

[Received 4:20 p. m.]

8287. For the Secretary, Crowley, Thorp and LP⁷⁴ from Clayton. At our conversation Tuesday⁷⁵ we found the British extremely concerned about the immediate effects of V-J on lend-lease programs. Keynes states that they had hoped before V-J to discuss dates and types of program cut off and that they now hope no hasty decisions will be taken. They indicated that military deliveries could be cut off very quickly except for spare parts, certain transportation services, rations, et cetera, regarding which the British expect no great difference of opinion with our War and Navy Depts. With respect to the non-munitions program which consists principally of food, POL (Petroleum, Oil, Lubricants), and shipping services the British raised 2 points: (1) the financial effect and (2) physical procurement and supply. Lord Keynes asked whether it was possible for Mr. Crowley to order a continuation of the supply and procurement mechanism without prejudice to financial decisions. The British contemplate a change-over in the financial situation but hope that this can be postponed briefly pending discussions. They would propose to continue reverse aid of services.

The British hope that more formal talks can take place in Washington early in September and I am sending a separate telegram to the Secretary on this whole subject.⁷⁶

I did not make any statements or commitments with respect to the lend-lease issues. My own opinions remain the same as those I cabled to you on Sunday (my 8169).⁷⁷ I should like more information regarding the possibility of continuing the physical supply and procurement mechanism. With respect to the financial aspect of the matter I would recommend that the British be notified that requisitions will be received for processing and eventual delivery on straight lend-lease terms only up to a specific date a few weeks hence; that such requisitions plus the existing pipeline will be delivered until the end of the year; and that the amounts involved will be the subject of general settlement along with any stocks existing in the UK.

⁷⁴ Division of Lend-Lease and Surplus War Property Affairs.

⁷⁵ August 14.

⁷⁶ See telegram 8312, August 17, 5 p. m., from London, p. 97.

⁷⁷ Telegram 8169, August 12, 2 p. m., from London, not printed. This telegram contained Mr. Clayton's tentative "first views" on the subject of lend-lease after V-J Day (800.24/8-1245).

As I have stated earlier I believe the general settlement must be such as to impose no requirement of exchange transfer on the British with respect to food, raw materials, et cetera. There may be certain categories of fixed installations regarding which further study is necessary, but I feel that we must at an early date make a complete settlement that will leave no loose ends dangling. This must include not only questions of possible financial settlements but also White Paper ⁷⁸ questions, problems affecting "similar" goods, exports, et cetera.

I have made no undertaking to discuss the matter further with the British in London but should appreciate any background information as to your views and proposed actions. [Clayton.]

WINANT

611.0031 Executive Committee/8-1645: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, August 16, 1945—5 p. m.

[Received 9:08 p. m.]

8289. Clayton, Hawkins, Stinebower, Penrose, Fowler, Earley and Fergusson had a meeting on commercial policy yesterday with Liesching, Hall-Patch, Eady, Robbins, Shackle, Keynes, Brand, Stirling and Helmore.⁷⁹

1. Liesching first asked for clarification of the view that commercial policy should be dealt with simultaneously with financial policy. First, was it desired by this to press UK into accepting US ideas on commercial policy? Second, since it would take at least a year to deal with tariffs under bilateral agreements how could negotiations on the other subjects be kept in line with the commercial policy negotiations?

2. Clayton replied that reason for coupling the subjects was not to force UK into acceptance of US ideas. The point was that the collectibility of international credits depended upon the expansion of international trade through liberal and multilateral measures. On Liesching's second point he said that what he had in mind was that in dealing with the financial and other matters there should be a pretty clear understanding of the commercial policy objectives and the procedures for reaching them.

3. Liesching replied that this explanation was helpful. He then asked whether the paper⁸⁰ given them was intended as a basis for

⁷⁸ See footnote 27, p. 11.

⁷⁹ J. R. C. Helmore, of the British Board of Trade.

⁸⁰ Presumably reference is to Proposal D of ECEFP D-104/45, not printed; for text of accompanying memorandum as well as an explanation of Proposal D, see p. 74.

discussion or as something they were asked to agree to in advance. Clayton replied that the aim was to reach an understanding on what US-UK would try to do and how they were to do it. He wanted to get US-UK ideas together on broad outlines and objectives not necessarily all the details.

4. The UK officials again emphasized the length of time required to arrive at a series of bilateral agreements and pointed out that agreement on non-tariff matters would not come into force until the last of the tariff agreements had been concluded. They think however (a) that the infant industry question may be somewhat easier to handle under selective tariff reductions than under uniform percentage cuts (b) that the UK may be able to meet its agricultural position under selective treatment. Liesching said that the exact agricultural policy of the new govt is not yet known but he hoped that something acceptable to US and UK may be found. The principal UK problem on agricultural imports was how to deal with glut offerings of exporting countries. There were administrative difficulties in dealing with these by subsidies.

5. Clayton and Hawkins explained the possibilities of shortening the tariff discussion by bringing all the nuclear countries together for the negotiations and using short cuts wherever practicable. Liesching said he was not suggesting the procedures were such that the UK could not cooperate in them but both he and Keynes stressed the interdependence of tariff and non-tariff restrictions and Stirling was less optimistic on the possibilities of speedy negotiations on tariffs.

6. On two points UK officials took very strong positions (a) the relation of negotiations on preferences to those on tariffs (b) the US proposals regarding export subsidies on commodities in world surplus. On the first Liesching restated in strong terms the objections outlined in Embassy's 8132 August 11, paragraphs 9 and 10. He said there would be extreme difficulties if preferences were not handled temperately and if they did not appear as part of the tariff negotiations. With concurrence of the other UK officials he said that if they were taken out of that context the results would be very serious on the whole of article VII matters. They should be dealt with by the selective method. The wider tariff cuts went the more could be done on preferences. But within the nuclear group he added they could not agree to all they could have agreed to under a general cut. It was agreed to explore this matter further.

7. On export subsidies Liesching said the proposal to permit them on commodities in world surplus pending a commodity agreement was almost immoral and inconsistent with the rest of the US proposals. UK did not want the sort of commodity agreement that might come that way.

8. Liesching said US position on commodity policy generally raised no difficulties but that on restrictive practices it differed from position of UK officials who preferred more tentative and empirical approach. He could not predict attitude of the new ministers but UK officials still held the views expressed in paragraph dealing with subject in UK suggested statement of principles.⁸¹ Clayton and Stinebower pointed out inadequacy of this position from US viewpoint and importance given to subject in US.

9. Keynes in a statement of personal views said in his judgment great part of US document would find acceptance in UK which had not departed from its traditional position of desiring free trade. There were however some smaller points involving deep feelings on which care was needed. (a) Preferences had an emotional content and should not be picked out *a priori* and treated by themselves. (b) Because of certain countries state grading [*trading?*] was important and some points on it might have to be expressed a little differently but he saw no major difficulty there. (c) The introduction of matter similar to that covered at Bretton Woods was dangerous. It was wiser that this document do not go beyond Bretton Woods. (d) It should not be suggested import programming was only for early special post-war stages. He did not think it could be abandoned in any foreseeable period. Their most favorable figures showed equilibrium for UK 20% less imports than prewar. Necessities must be first charge on limited resources. (e) He regretted absence of reference to shipping subsidies and thought it would help UK to include them. (f) There should be provision to restrain manufacturers from dumping in export markets by selling abroad at less than domestic prices. The receiving country might not use its right to impose countervailing duties and other potential exporters would have no redress.

10. Liesching asked whether document given to UK was to be treated as a diplomatic document requiring formal answer or whether it was open to modification. There would be danger of long delay if such a detailed document were taken up with ministers.

11. Clayton said the document represents a negotiating as distinct from an exploratory stage of discussion and that presumably the UK Govt would want to consider the US Govt proposals and formulate a UK Govt position for the talks in September. In the Washington talks the US paper might be taken as a basis for discussion with a view to reaching agreement on main objectives and how to reach them. The UK could put forward whatever different ideas they might have for example on preferences. He emphasized necessity for speedy procedure.

⁸¹ Reference is to the British statement, text of which was transmitted to the Department in telegram 6548, June 28, midnight, from London (not printed). For discussion of this British statement, see telegram 6547, June 28, midnight, p. 56.

12. Clayton proposed that in view of the need for rapid progress the US and UK should be free prior to reaching agreement between themselves to explore the subject informally with other countries. Liesching agreed.

WINANT

611.4131/8-1745: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, August 17, 1945—5 p. m.
[Received 10:15 p. m.]

8312. For the Secretary, Acheson,⁸² Thorp and Phelps from Clayton and Collado. We assume that by now you have received the full minutes of my two meetings of August 3 with the British financial group which were transmitted by pouch by Collado to Phelps. In addition I have separately reported on lend-lease matters and on my conversations with the Board of Trade.

A further financial meeting was held on Tuesday⁸³ morning with Keynes, Eady, Brand, Grant, Harmer of the Treasury, Hutton⁸⁴ of the Food Ministry and Liesching and Hall-Patch of the Board of Trade. On the American side there were Clayton, Collado, Hawkins, Stinebower, Glasser and Earley.

Keynes opened with a discussion of the Lend-Lease time table. He had hoped before the fall of Japan to discuss the dates and type of cut-off of lend-lease deliveries and now hopes that there will be no hasty decisions. He believes that military lend-lease can be cut off quickly except for spares and other current items and would expect no difference of opinion with the War and Navy Departments.

On the FEA non-munitions program consisting principally of food, POL⁸⁵ and shipping services the British are interested on two counts: (a) the financial effects on the British balance of payments (b) physical procurement and supply mechanisms. Keynes asked whether Crowley could order a continuation of the supply mechanism without prejudice of financial arrangements. The British expect that there will be arranged a program of change-over from Lend-Lease finance. They propose that reverse aid continue on services as it would be impossible properly to price the thousands of small services items for cash payment.

Keynes then turned to the date of more formal financial conversations and pointed out that since the fall of Japan time was more

⁸² Dean Acheson, Under Secretary of State.

⁸³ August 14.

⁸⁴ Maurice I. Hutton, Deputy Secretary, British Ministry of Food.

⁸⁵ Petrol, oil, and lubricants.

pressing. Clayton indicated that he might not wait for his return to Washington before attempting to complete arrangements for the talks. The UNRRA council meeting may end on Monday or Tuesday⁸⁶ and Clayton could spend the rest of next week on broad financial and trade subjects. He pointed out that international finance and trade are inextricably meshed and that the only chance of making a really satisfactory credit arrangement is to provide financial assistance for 2 or 3 years of transition and agree upon trade arrangements that will make for the sort of economic world in which the British and other nations will be able to service their borrowings.

Keynes stated that the British would not be able to discuss broad policy within 10 days; that as he had pointed out on August 3 the experts had not had an opportunity to discuss these matters with the new Cabinet which was occupied with the King's speech.⁸⁷ Keynes then went on to say that the British would like to take up first the problems of Lend-Lease wind-up and settlement; then the question of financing the British balance of payments; and finally trade policy matters. The last discussions would take many months as it would be necessary also to consult many other countries. Clayton suggested that the world would probably accept any reasonable trade program that the US and UK agree upon. When Keynes indicated a doubt Clayton pointed out that we will never find out until the US and UK agree and take it up with other countries.

Keynes repeated that if the US means agreement on a document such as proposed to the Board of Trade the trade negotiations will take a long time. Clayton replied that it is up to the British Cabinet to decide how long it wants to discuss such matters in view of the urgency of its needs. He believes that the State Department will not agree upon a board [*broad*] financial plan without British agreement on the type of economic world in which the financial plan would have to work itself out. The US would probably be prepared to extend liberal credits on moderate terms of interest and amortization with appropriate regard for cyclical fluctuations in the balance of payments. These would not be bankers terms.

Keynes with typical abruptness asserted that the British would not accept credits at all especially credits in which the new creditor, the US, would have priority over existing creditors of the UK the sterling area. If this is the US view Britain will be forced to choose the alternative trade policy a bilateralistic course. Clayton rejoined that if the UK wishes to discuss new money it must abandon that position. The sterling area had special reason for becoming the creditors of

⁸⁶ The closing date of the third session of the UNRRA Council was Friday, August 24.

⁸⁷ For text of speech, delivered August 15, see *Parliamentary Debates*, House of Lords, 5th ser., vol. 137, col. 8.

Britain during the war. Clayton refused to agree with Keynes' assertion that you cannot free trade unless the blocked sterling balances are made fully convertible; and Keynes finally agreed that a considerable portion of the blocked balances could be ended. Keynes and Eady reheard [*rehearsed?*] the entire argument relating to the external reserves of the British colonies and other middle eastern nations which they presented on August 3.

Eady then asked whether the US had in mind some period of time over which the liberalization of trade and financial policy would take place pointing out that at Bretton Woods a transitional period of as much as 5 years has been discussed. Clayton replied that the purpose of financial assistance was to permit a more rapid transition; that we might expect a discontinuance of empire preferences and the sterling dollar pool at once with full convertibility in current balance of payments items. The volume of imports would undoubtedly have to be controlled on a non-discriminatory basis for some period, perhaps as much as 3 years.

At this point Brand sought to soften the impression which Keynes had made and urged that the US not crystallize its views until it had had a chance to see a full presentation of the British situation. Clayton stated that he was most anxious to see such a presentation. Keynes and Eady then discussed the relationship of the Labor Party platform to the international economic position of Britain and stressed the necessity for time to influence the new ministers to come out with the right decisions. They reiterated that they as expert officials were not in a position to come to any working level understandings at the present time and urged that they either be permitted to come to Washington early in September or that Clayton prepare to stay in London for at least a month.

Mr. Clayton asked what could be accomplished in September if the ministers have not taken the requisite decisions and Keynes intimated that he thought he could negotiate better and with a freer hand if he were in Washington subject only to general direction than if he were in London with day to day contact with the Cabinet. Both Keynes and Eady stressed that final trade decisions cannot be taken within the lend-lease period and Liesching pointed out that the US had somewhat changed the basis of the trade discussions which had previously been on the basis of an overall multilateral agreement to reduce tariffs. To Liesching's statement that the new US proposal prolongs the schedule of trade negotiation Mr. Clayton replied that he doubted whether in fact it did as in his opinion the straight multilateral basis was probably impossible of agreement.

As the conversation continued it was evident that the British position was to try to get immediate lend-lease understandings fol-

lowed by early financial agreements with a minimum of trade commitments this year. The US group firmly resisted the attempt to divide finance and trade although recognizing that the time-table presented certain difficulties. Clayton insisted that we must have general trade understandings with the British before a general financial understanding could be reached although the trade arrangements would undoubtedly require many months to be worked out with other countries in detail.

During the entire conversation Keynes insisted that he and his colleagues wished the same sort of economic world as did the US but he kept hinting and on several occasions virtually threatening that if the US was not "inspired" the British would probably choose a bilateralistic course and that if the British swing to state trading they would have an important influence on many parts of the world. He also repeatedly stated that if the Cabinet was pressed for an early decision the results might be disastrous.

In response to Clayton's direct question as to what the British would expect to cover in Washington in September Keynes stated: (1) the details of the wind up of lend-lease, the handling of the pipeline and stocks and perhaps the principles of lend-lease settlement; (2) a full presentation of the British financial position after which the British would outline certain tentative proposals; (3) late in the discussions probably some discussion of the relationship of financial aid to the Bretton Woods agreements and possibly even to commercial commodity and cartel policy and questions of full employment. On these last matters the British might express their broad views but detailed discussions with other countries would have to be postponed until 1946.

Clayton repeated his full statement.

The US views on the interrelationship of trade and finance, the necessity of the proper trade policy of the world is to be again on a sound basis. Loans can aid in the achievement of a sound economy but only with the achievement of a sound economy can large loans be handled in such a way as not again to become a political football. He also repeated that the British should not expect that a new US credit would be on the same status or a junior status to the blocked sterling balances.

There then occurred a very interesting exchange of remarks which clearly brought out the thinking of Keynes. Clayton suggested that the US thinks of the sterling balances as being about the same level as lend-lease as the basic circumstances were somewhat similar. Keynes replied that the British certainly do not so regard the sterling balances but that they might have regarded lend-lease *pari passu* with the sterling balances if the US had handed over its gold reserves to

the UK as did the sterling area. Keynes then stated that Britain had only so much room in its future balance of payments for debt service and there would not be enough for both new US credits and the old sterling balances and that it would have to honor its existing commitments. A solution in which the entire British availability was allocated to servicing new US obligations would be an "indecent" solution. The sterling balances will have to be written down but he could not agree that the US should have an absolute priority.

Clayton indicated that he believed that it might be necessary and desirable that some small fraction of the blocked sterling balances of the middle eastern countries be made currently available but that the principle emphasis should be on full convertibility as to new trade. He then asked what is the UK suggesting in these financial discussions. Is the US to bail out the entire sterling balances? Keynes replied no, that he did not wish the US to crystallize its opinion. The "realistic" mind is an awful thing. It takes a person with a "crazy" mind to work out an "inspired" solution to the problems facing the world. Clayton replied that he had considerable sympathy with the view that bankers' solutions were not practicable but that he and, he believed, the American people were essentially "realistic" and that he would be only frank with Keynes in saying that the British should not expect to obtain financial assistance in the form of free grants. Keynes concluded by suggesting that both Governments publish the full facts and ask the American people to decide.

We have prepared the above rather full minutes of the discussions in order to indicate the type of thinking of Keynes and the considerable difficulties which may be anticipated in our further trade and financial discussion with the British. Throughout the conversation it was clear that the other members of the British group would take a milder tone than Keynes and of course we realize that Keynes is making his usual extreme presentation of the British attitude.

It is my personal view that the British are putting up a very determined front to cover a basically very weak financial position with a very serious outlook. It would be easy for the British in these circumstances to go the bilateral trading route. I believe our discussion with the British will be very difficult and they will press for types of financial assistance which we may not find it desirable or possible to offer. Nevertheless I believe that this is the most important international economic problem before the US and that we must get on with our conversations with the British. I shall telegraph separately my recommendations as to further discussions with the British.⁸⁸

Please inform the Secretary of the Treasury and Crowley regarding these and the August 3 discussions. [Clayton and Collado.]

WINANT

⁸⁸ See telegram 8390, August 18, 8 p. m., from London, p. 103.

800.24/S-1845: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, August 18, 1945—4 p. m.

7012. To Clayton and Collado from Phelps and Maxwell. At White House Conference yesterday at which Byrnes, Vinson, Crowley, Leahy,⁸⁹ Snyder⁹⁰ were present, President determined policy with respect to FEA Lend-Lease after V-J Day⁹¹ as follows:

"While the Lend-Lease Act permits the delivery of supplies and furnishing of services thereunder so long as their delivery or furnishing, in the determination of the President, is 'in the interest of the defense of the United States', it has been stated by the Administration to the Congress on various occasions that Lend-Lease would be discontinued at the end of the war. In order that the best faith may be observed towards Congress and the Administration protect itself against any charge of misuse of Congressional authorization, it is recommended that the following action be taken immediately upon cessation of hostilities with Japan:

a. No new contracts will be entered into for goods to be furnished under Lend-Lease except for such items as the Joint Chiefs of Staff may approve for payment out of military appropriations.

b. Countries with which §(c) agreements are in effect will take and pay for goods involved in contracts yet to be completed, goods awaiting shipment, those in transit, and inventories abroad.

c. Countries which have not entered into §(c) agreements may obtain goods now in process of manufacture, in storage, awaiting shipment, being shipped, or in inventory abroad, upon their agreement to pay for them on such terms as may be determined by this Government.

d. All uncompleted contracts for goods not to be delivered under (b) and (c) above shall be immediately reviewed to determine whether their completion would be in the best interest of the Government and, unless so determined, such contracts will be cancelled.

It is also suggested:

(1) No formal announcement should be made by the President at this time that might be deemed to terminate his authority under the Lend-Lease Act to reinstitute any cancelled programs, should necessity arise.

(2) All interested Governments be advised promptly of this proposed action in advance of any publicity."

⁸⁹ Adm. William D. Leahy, Chief of Staff to the Commander in Chief of the Army and Navy.

⁹⁰ John W. Snyder, Director of the Office of War Mobilization and Reconversion.

⁹¹ On and about August 18, letters were sent from FEA to the various departments and agencies which procured lend-lease materials for the FEA. A copy of the letter sent by Mr. Crowley to Clifton Mack, Director, Procurement Division, Department of the Treasury, is included in *History of Lend Lease*, pt. I, ch. XI, p. 25. This letter indicated that lend-lease would continue until midnight of V-J Day or to 12:01 a. m. of V-J Day, if the President proclaimed V-J Day in advance. After that time, goods would have to be paid for on a cash or credit basis. This official *History* is on file in the National Archives.

It is understood that the JCS intend that issue of Army-Navy lend-lease goods and services will cease except for mopping up operations and except in certain unavoidable cases where cessation would cause undue hardships. Such exceptional issue shall not include arms and ammunition and shall not continue beyond 6 months from effective date of directive.

Issue shall include such items as rations, fuel, transportation services, medical supplies where these cannot reasonably be furnished by foreign government.

Maintenance items for U.S. equipment now in hands of Allied forces may also be issued against payment upon such terms and conditions as determined by State and FEA.

Full content of JCS document will be forwarded later.⁹² [Phelps and Maxwell.]

BYRNES

611.4131/8-1845 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, August 18, 1945—8 p. m.

[Received August 18—7: 35 p. m.]

8390. For the Secretary and Acheson from Clayton. I have now had a number of talks which I have separately reported with British officials both before and after the fall of Japan regarding immediate transitional and long-range financial and trade policies and programs and the wind-up and settlement of lend-lease.

The British position is undoubtedly very serious and the moving forward of V-J means that the British will have accomplished much less reconversion for import than they had hoped and planned. The same situation, of course, applies in some measure in the US. Keynes and the other British officials find it difficult to discuss financial and trade policy because the new Cabinet until Wednesday⁹³ was entirely occupied with the preparation of the King's speech on the opening of the Houses of Parliament. Keynes hopes that in a few weeks he will be able to get sufficient clearance for further discussions with us but insists that if as a result of our pressure he urges early decisions they are likely to be the wrong decisions.

In this situation Keynes, Eady and the other officials urge a breathing spell continuation of nonmunitions lend-lease as I have reported elsewhere; broad discussions in Washington early in September on the whole range of lend-lease wind-up, clean-up, and settlement supplemented by at least fairly concrete immediate financial discussions

⁹² See footnote 37, p. 124.

⁹³ August 15.

relating to the deficits anticipated by the British balance of payments during the next 3 years. The British recognize that we will insist on discussion of commercial, cartel and commodity policy in connection with such financial discussions but are trying to maneuver us into discussing finance without requiring full trade discussions at the same time. Keynes would probably readily agree that problems of exchange convertibility and the sterling dollar pool would have to be discussed at once but Empire preferences, reduction of tariffs and other trade barriers, cartel policy and commodity policy he would like to put off into next year as much as possible.

I have indicated that it is essential that we discuss both finance and trade simultaneously; that it will be necessary for us to come to a broad understanding as to postwar trading methods and policy before we can ask the Congress for any large scale financial aid to British. I have also pointed out that the clean-up and settlement of lend-lease which Keynes so strongly urges must be associated with article VII arrangements. It was finally left that I without waiting to return home and report more fully to you and the President would take up with you steps for further discussion.

I have been informed that you will probably not arrive in London for the Council of Foreign Ministers⁹⁴ before September 10. My recommendations as to further procedure with respect to more formal discussions of the British problem are based on the assumption that you will be in London for some period following September 10 but would return to Washington before any conversations with a British delegation would be nearing their conclusion. On these assumptions I would recommend the following course:

(1) That I return to Washington 2 or 3 days after the conclusion of the UNRRA council meeting after an appointment which I have tentatively planned with the Chancellor of the Exchequer and certain aviation discussions which the British have requested. I should arrive in Washington if the UNRRA meeting goes well by the 27th. This would give me a full 2 weeks in which to report in detail to you and go over with you and other appropriate officials the main lines of policy which we would take in discussions with Keynes and his British colleagues.

(2) That without awaiting my oral report you consider requesting the President to agree to the British sending the sort of delegates which Keynes has suggested for discussions beginning early in September.

(3) That after full discussion with you prior to your departure for London we with the collaboration of the various agencies involved lay the groundwork with the British for final discussions after your return hearing the British presentation of the detailed facts of their

⁹⁴ Reference is to the first session of the Council of Foreign Ministers, September 11-October 2, 1945. For documentation concerning these meetings, see vol. II, pp. 99 ff.

position and in particular attempting to work out with FEA details of lend-lease wind-up and clean-up.

(4) That we attempt to arrive at basic understandings with the British on Lend-Lease, financial assistance, and trade policy in October after you have returned.

If you approve and the President so decides I should like to inform the British when I have my meeting with Dalton that we agree to their coming to Washington early in September. This will give the British some time in which to go into these matters adequately with Ministers and to formulate their own views.

In connection with my talk with Dalton I should greatly appreciate an indication of the decisions which have been taken on the lend-lease issues to which I referred in my earlier telegrams and if possible a specific statement of policy from you which I might transmit to Dalton.

In reviewing my communications to you I am a little afraid that I may have sounded too discouraged about the British attitude. I am not. I believe that the discussions ahead will be difficult but I am certain that we can and will get forward with them. [Clayton.]

WINANT

800.24/8-1945

Memorandum of Trans-Atlantic Telephone Conversation, by the Chief of the Division of Commercial Policy (Brown)

[WASHINGTON,] August 19, 1945.

I told Mr. Hawkins⁹⁵ that I was telephoning to tell him of the decisions which had been taken by the Secretary, the President and Mr. Crowley with regard to termination of lend-lease so that he and Mr. Clayton would know about it before the British were advised. Mr. Hawkins stated he had not heard anything yet on the subject.

I told him that letters were going out from Mr. Crowley early Monday⁹⁶ to the British⁹⁷ (and also to other purchasing missions), stating that we were anxious to enter into discussions about the basis for discontinuation of lend-lease in the most expeditious manner possible and suggesting that the following principles should govern these discussions:

1. No new contracts for lend-lease procurement should be entered into.
2. Lend-lease material now in pipe line or awaiting transfer may be taken by the British if paid for on terms to be agreed.

⁹⁵ Mr. Hawkins was in London as Counselor of Embassy for Economic Affairs.

⁹⁶ August 20.

⁹⁷ Letter from Mr. Crowley to Mr. Brand is quoted in circular telegram, August 20, 9 p. m., p. 107.

3. Any lend-lease material transferred to the British and still on hand could be retained by them on payment on terms to be agreed.

Simultaneously, procurement agencies are being told that they must stop deliveries as of V-J day, which should be in a few days. Mr. Riley⁹⁸ was going to 'phone the British Monday morning when the letter went out and ask them to come over and discuss the matter because we were going to have to stop deliveries and wanted them to have a chance to have deliveries continued by agreeing to pay for them.

I understood also that the Chiefs of Staff were authorized to continue to provide on lend-lease some items they considered necessary to help in redeployment of troops.

I told Mr. Hawkins that Agriculture had stopped loadings of food-stuffs as of noon on Saturday but that this was a mistake and Agriculture would be instructed to continue loadings until V-J day.

I asked Mr. Hawkins to pass this information also to Messrs. Blaisdell and Griffin.

Mr. Hawkins said he would pass this information on to Messrs. Clayton and Collado immediately.

800.24/8-2045 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, August 20, 1945—6 p. m.

7056. To Clayton from Secretary. After our conversation⁹⁹ I have concluded section (e)¹ of the Aug 17 Lend-Lease Directive should be changed along lines suggested by you. This change would state that countries which have not entered into 3(c) agreements may obtain goods upon agreement to pay for them "on terms to be mutually agreed on." I was unable to talk to Crowley but have discussed this matter with the President.² This change will be made before any public announcement.

BYRNES

⁹⁸ Henry W. Riley, Deputy Administrator, Foreign Economic Administration.

⁹⁹ Reference is to a trans-Atlantic telephone conversation which took place on the morning of August 20. No record of this conversation has been found in Department files; for a brief summary, see R. F. Harrod, *The Life of John Maynard Keynes* (New York, Harcourt, Brace and Company, 1951), p. 596.

¹ This should read: "section (c)".

² On September 20, the Acting Secretary of State, Mr. Acheson, sent to President Truman a memorandum, not printed, requesting his formal approval for the change in section (c) of the August 17 lend-lease directive. The memorandum bears President Truman's signature and indication of his approval. The memorandum also stated that the change in wording had been communicated to the British on August 21 and confirmed on September 6. (800.24/9-2045)

800.24/8-2045: Circular telegram

*The Secretary of State to Certain American Diplomatic Missions and Consular Offices*³

WASHINGTON, August 20, 1945—9 p. m.

Sec. 1. From FEA Crowley. The President has directed that following action be taken in regard to future lend-lease operations:

a. No new contracts will be entered into for goods to be furnished under Lend-Lease except for such items as the Joint Chiefs of Staff may approve for payment out of military appropriations.

b. Countries with which 3(*c*) agreements are in effect will take and pay for goods involved in contracts yet to be completed, goods awaiting shipment, those in transit, and inventories abroad.

c. Countries which have not entered into 3(*c*) agreements may obtain goods now in process of manufacture, in storage, awaiting shipment, being shipped, or in inventory abroad, upon their agreement to pay for them on such terms as may be determined by this Government.⁴

d. All uncompleted contracts for goods not to be delivered under (*b*) and (*c*) above shall be immediately reviewed to determine whether their completion would be in the best interest of the US Government and, unless so determined, such contracts will be cancelled.

Each of the foreign governments concerned will be informed of the action taken and no release of the information outlined herein should be made, of course, until official notification has been received by such governments.

This action does not pertain to cash reimbursement transactions. Requisitions on a cash reimbursement basis may be processed to procurement agencies for sixty days following V-J Day.

Sec. 2. A letter from FEA has been sent to the Chairman of the British Supply Council in Washington⁵ reading as follows:

"In view of the termination of hostilities, the Foreign Economic Administration is desirous of entering into discussions and negotiations immediately with you and members of the British Supply Council relating to the discontinuance of its lend-lease aid to the British Commonwealth in an expeditious manner which will best promote our mutual interests and which will be consistent with the provisions of the Lend-Lease Act. I suggest in connection with such discussions

³ Sent to London, Calcutta, New Delhi, Sydney, and Wellington.

⁴ For correction of the portion of this paragraph relating to the terms for payment, see *supra*. The memorandum of telephone conversation by Mr. Brown, August 19, p. 105, had also indicated even prior to the Clayton—Byrnes telephone conversation (see footnote 99, p. 106) that the terms for so-called pipeline goods for the United Kingdom were to be agreed upon, as contrasted with unilateral determination by the United States Government. There was still some uncertainty on this subject, however, for some days to come, as subsequent documents indicate.

⁵ Letter from Mr. Crowley to Mr. Brand, dated August 18, was not actually delivered until August 20. See memorandum of telephone conversation by Mr. Brown, August 19, p. 105; also R. S. Sayers, *Financial Policy, 1939-45* (London, Her Majesty's Stationery Office, 1956), p. 479.

and negotiations with respect to the lend-lease programs undertaken by the Foreign Economic Administration that the following general principles should apply:

“(a) No new contracts should be entered into for goods or services to be furnished on lend-lease terms.

“(b) Supplies which are now in the process of manufacture, in storage, awaiting shipment, or not yet transferred and services within presently agreed programs, may be obtained by the British Commonwealth to the extent that they are available against payment on appropriate terms and conditions.

“(c) All existing supplies which have been transferred on lend-lease terms and which are in shipment or under the control of the British Commonwealth in inventory may be retained by the British Commonwealth against payment on appropriate terms and conditions.

“(d) Cash reimbursement lend-lease will be available for sixty days after V-J Day during which time requisitions within presently agreed programs may be filed with the Foreign Economic Administration.

“It will be necessary in the course of our discussions to have an inventory of lend-lease supplies furnished by the Foreign Economic Administration still under the control of the British Commonwealth. It is requested, therefore, that you furnish, as soon as possible an inventory listing as of V-J Day, all articles that have been transferred to the British Commonwealth by the Foreign Economic Administration on lend-lease terms and that have not been lost, destroyed or consumed. I will be glad to discuss with you and the members of the British Supply Council the principles upon which such inventory should be prepared.

“I am transmitting copies of this letter to the heads of the Supply Missions of the Australian, Indian, New Zealand and South African Governments.”

Sec. 3. Negotiations referred to in above letter will be carried on in Washington and you will be advised of developments. Meantime, this will enable you to answer in general way any questions, but you should refer specific questions and those involving negotiations promptly to Washington.

You can best assist these important negotiations by exerting every effort to bring up to date all available information on inventories of lend-lease supplies.

We have already cabled you as to form in which inventories should be taken as at V-J Day.⁶

BYRNES

⁶ Telegram 7244, August 24, 5 p. m., to London, indicated that this last paragraph had been included inadvertently and should be omitted for the United Kingdom, since it applied only to the Dominions, Colonies, and India (103.9169). The last paragraph was included with appropriate changes in this circular telegram as sent to Johannesburg, Nairobi, and Accra.

*Statement Issued to the Press by the White House, August 21, 1945,
on Discontinuance of Lend-Lease Operations*⁷

The President has directed the Foreign Economic Administrator to take steps immediately to discontinue all lend-lease operations and to notify foreign governments receiving lend-lease of this action.

The President also directs that all outstanding contracts for lend-lease be canceled, except where Allied governments are willing to agree to take them over or where it is in the interest of the United States to complete them.

The Foreign Economic Administrator furthermore is instructed to negotiate with Allied governments for possible procurement by them of lend-lease inventories now in stockpile and in process of delivery.

If the military needs lend-lease supplies for the movement of troops or for occupation purposes the military will be responsible for procurement.

It is estimated that uncompleted contracts for non-munitions and finished goods in this country not yet transferred to lend-lease countries amount to about 2 billion dollars and that lend-lease supplies in stockpile abroad amount to between 1 and 1½ billion dollars.

841.51/8-2245 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, August 22, 1945—7 p. m.

7143. For Collado from Reinstein.⁸ Have cabled separately text of letters exchanged by Acting Secretary and Representative Celler⁹ on possible credit to UK. Department's letter drafted by Earley and sent out inadvertently without either Phelps or me having approved it.

There are certain parts of letter which Phelps and I thought should be rewritten or eliminated. I particularly want draw your attention last sentence of letter which suggests that granting of any credit should be tied up with relaxation of British *wartime* restrictions, but makes no reference to trade restrictions practiced before war.¹⁰

In view of publicity which letter has received it seemed desirable to inform you of circumstances under which it was sent. [Reinstein.]

BYRNES

⁷ Reprinted from Department of State *Bulletin*, August 26, 1945, p. 284.

⁸ Jacques J. Reinstein, Associate Chief, Division of Financial Affairs.

⁹ See footnote 50, p. 80.

¹⁰ In reply, in telegram 8676, August 25, 4 p. m., from London, Collado stated: "Our conversations with the British Treasury have taken the line that both wartime and other trade discriminations must be removed." (841.51/8-2545)

[On August 24, Foreign Economic Administrator Leo T. Crowley issued a supplementary statement on the termination of lend-lease, outlining a transitional program; for text, see *New York Times*, August 25, 1945, page 5, column 2.]

611.4131/8-2745: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, August 27, 1945—6 p. m.

7317. For Clayton and Collado. Department strongly supports your insistence that there can be no transition period financial arrangements without satisfactory understandings on commercial policy.¹¹ The British should understand that not only are the arrangements tied together but financial conversations would be fruitless unless conducted simultaneously with and as a part of larger discussions embracing the entire agenda which you have submitted. We are equally concerned with the absence of any ranking members of the British group on the commercial policy side and strongly approve your calling this to their attention. We think it essential that the group contain members thoroughly familiar with this part of the agenda and that they have as much Cabinet approval as possible for them to obtain. Otherwise our proposals and time schedules will suffer another serious setback.

Until there is clarification on the foregoing points, the Department is inclined not to notify the Dominions of the general talks. Before suggesting that the Dominions have representatives available for simultaneous discussions, it is important to have some confidence that the discussions with the British will be comprehensive and productive of agreement.

BYRNES

800.85 Lend Lease/8-2945

The War Shipping Administrator (Land) to the Secretary of State

WASHINGTON, August 29, 1945.

DEAR MR. BYRNES: I am sending you herewith a memorandum on the subject of shipping as affected by international arrangements covering Lend Lease and other fiscal problems, which I hope you will have an opportunity to consider carefully before you leave for London.¹²

¹¹ Messrs. Clayton and Collado had conveyed this position to the Secretary of State in telegram 8674, August 25, 4 p. m., from London. They had also reported having arranged an agenda for talks with the British in Washington in September covering, in general, lend-lease, financial questions, commercial policy, and surplus property disposal. (841.24/8-2545)

¹² To attend the first session of the Council of Foreign Ministers.

I have discussed this problem with Leo Crowley and he is in sympathy with our objectives and believes that something should be done, if possible, to protect our interest in the matter as part of the contemplated international agreements with Great Britain and other Allies covering our future economic policy.

Very sincerely yours,

E. S. LAND

[Enclosure]

Memorandum by the War Shipping Administrator (Land) for the Secretary of State

[WASHINGTON,] August 29, 1945.

We should like to direct your attention to the desirability of including in any long-range financial arrangements with foreign governments some specific assurance that they will not use their control of imports and exports in a manner prejudicial to the American Merchant Marine.

The need for such assurance was clearly brought to our attention when the announcement was made concerning the termination of Lend-Lease aid in the field of shipping.¹³ There were immediate indications that the European governments through their control of their import and export commodity programs would insist upon the use of their own vessels exclusively in order to conserve dollar exchange. To permit time to work out a solution of this problem, Lend-Lease aid in this field was extended for a period of 30 days after V-J Day.¹⁴

As you undoubtedly know, the United States Government has spent over 15 billion dollars in its merchant shipbuilding introduction [production?] program and now owns approximately 50 million dead-weight tons of shipping. Over 240,000 seamen are employed in this industry. Before the war, the United States carried approximately 25% of imports and exports in its own bottoms. It has been our objective to increase this figure to approximately 50% for the post-war period. In view of the probable elimination of German and Japanese merchant fleets, such an increase in the American participation in shipping probably can be accomplished without reducing the size of the pre-war operations of our Allies. On the other hand, if our Allies insist on destroying free trade in shipping in favor of controlled international economy, it would be difficult even to restore American shipping to its pre-war basis, let alone the achievement of a reasonable increase to reflect the growth of the American shipping position during the war.

¹³ This was not stated explicitly, but was implied in the first paragraph of the press release of August 21, p. 109.

¹⁴ This was made explicit in Mr. Crowley's statement of August 24, printed in the *New York Times*, August 25, 1945, p. 5, col. 2.

Our objective seems modest. During the three pre-war years, 1937-1939, approximately 25% of all imports and exports of the United States were carried on American vessels, and a fleet of approximately 3 million deadweight tons was sufficient for this purpose. This constituted about 25% of the total American merchant marine. During the post-war years if we have a merchant marine of 50 million deadweight tons and even if we succeed in our objective of carrying 50% of all imports and exports in American vessels, only between 10 to 15% of our total fleet will be needed for this purpose, leaving a staggering surplus for other disposition. Naturally, under these circumstances, we are very anxious that post-war international and economic relations bearing upon the utilization of American ships should be as free from foreign control and domination as possible.

This program also has a very direct impact on our internal economic structure. As stated above, over 240,000 seamen are now employed in our ocean fleet. Even under the most favorable prospects, a large part of our fleet will be laid up. Job opportunities will decline drastically in this field, as well as in the related fields, such as ship repairs, which are dependent upon the operation of our vessels. Strong repercussions from sea-going labor unions are almost certain to follow the inauguration of restrictive practices by foreign governments which result in a further diminution of employment opportunities. The steamship industry, which has invested substantial sums of money in the development of the merchant fleet, is likewise affected. But above all else, the Congress of the United States, which has sanctioned the investment of billions of dollars in the construction of the fleet and the development of a long-range American merchant marine through a series of programs dating back to the last war, is certain to react violently against any practices which would stultify the achievement of our national objectives for a reasonable and equitable participation in the world's international shipping.

If one objective of rehabilitating the economies of our Allies is the re-establishment of world trade on a free and open market basis, it must necessarily follow that the same principles should be applied to shipping and that specific assurance should be obtained from our Allies to the effect that restrictive economic practices looking toward the achievement of reasonable objectives of the United States in the field of shipping will not be applied by them and that American vessels will be allowed a 50% participation in our services to sterling areas. We believe that the desirability of this proposal would be self-evident to you but if you should desire further elaborations, we shall be glad to discuss the matter in person.¹⁵

E. S. LAND

¹⁵ No reply to this letter and memorandum found in Department files. For comment by Assistant Secretary Clayton, see his memorandum, September 3, p. 115.

[On August 30, President Truman transmitted the *Twentieth Report to Congress on Lend-Lease Operations*, covering the period ending June 30, 1945; for text, see House Document No. 279, 79th Cong., 1st sess. In this document, the President emphasized that lend-lease aid which had been consumed in the course of the war should not be considered a debt; see especially in this regard, pages 39-43 of the *Twentieth Report*.

On the following day, August 31, Secretary of State Byrnes pointed out that this did not mean that lend-lease debts were to be cancelled forthwith, pending future determination of settlements with each country. Secretary Byrnes' comments, along with the President's letter of transmittal for the *Twentieth Report*, are printed in Department of State *Bulletin*, September 2, 1945, pages 332-333.

On September 1, President Truman proclaimed September 2 as V-J Day. Transfer of materials under straight lend-lease terms thus terminated at 12:01 a. m., September 2.]

841.24/9-145

The British Prime Minister (Attlee) to President Truman

[LONDON, September 1, 1945.]

We received early this morning (Saturday) from the representatives of the British Treasury in Washington a report of a discussion which they had had with Mr. Crowley, the Foreign Economic Administrator, yesterday, 31st August, on the arrangements to be made for Lend-Lease supplies in the immediate future.

I am informed that Mr. Crowley has made it plain that any supplies which we need from the pipeline should be taken up either on payment of cash or on credit terms which he had already indicated, that is credit for thirty years at 2 $\frac{3}{8}$ th per cent. I understand that he was not prepared to await the settlement of the terms of payment until our special mission had arrived in Washington within the next few days or to agree that we should consider these credit terms as applying to the supplies coming forward within the next few weeks. He was willing however to agree that if we accepted the credit on the terms and conditions he had indicated this would be on the understanding that these conditions should be reviewed in the over-all financial discussions which were about to be undertaken with the United States Government and, if deemed desirable, would be brought into line with the decisions resulting from those discussions. Our representatives requested a reply from us within a few hours and informed us that notice had been given by the United States Administration to the Inland Transport Authorities not to load any more supplies for the United Kingdom meanwhile.

You will remember that at Potsdam on 24th July Mr. Churchill wrote to you¹⁶ that very important questions affecting Lend-Lease and the financial arrangements to be made after Lend-Lease would be coming up and that we wanted to send an authoritative mission to Washington early in September to discuss the matter with your representatives. You agreed to this and informed Mr. Churchill¹⁷ that you were sending Mr. Clayton, an Assistant Secretary of the State Department, to London to discuss the position with us, and to make a report to you.

Mr. Clayton came to London and had several discussions both with my ministerial colleagues and with senior officials. An agenda for the discussions in Washington was worked out in agreement with Mr. Clayton and his colleagues. This agenda covered in the first place Lend-Lease, the financial arrangements after Lend-Lease, and also the lines upon which further developments on commercial policy could be worked out on the principles which we have been discussing with representatives of the United States Administration over the last year or so. One of the items included under the heading Lend-Lease was "terms for continued delivery of non-munitions pipeline."

During the progress of those discussions we were advised that the Foreign Economic Administrator had indicated that Lend-Lease supplies coming forward must be accepted on terms to be determined by the United States Administration. As this was contrary to the expectations we had formed from the correspondence between you and Mr. Churchill in Potsdam, representations were made by our Embassy in Washington and we also raised the matter direct with Mr. Clayton. On the 21st August Mr. Clayton wrote to us in the following terms:

"The Secretary of State has informed me that the President has approved an amendment to the August 17th Lend-Lease directive whereby countries such as the United Kingdom which have not entered into 3(c) agreements, may obtain delivery of goods in the pipeline upon agreement to pay for them on terms to be mutually agreed on."

I must make it plain to you that none of us here had understood that letter to imply that within a few days we should be informed of the terms under which the supplies in the pipeline could go forward to us and that meanwhile orders would be given to the Inland Transport Authorities to suspend the loading of supplies for the United Kingdom. Nor can I believe that this action by the Foreign Economic Administration was in your mind when you authorized the Secretary of State to send us the communication of the 21st August.

¹⁶ *Conference of Berlin (Potsdam)*, vol. II, p. 1180.

¹⁷ *Ibid.*, p. 1184.

You are aware that in the immediate future the maintenance of the physical flow of supplies from the United States, both of food and of certain essential raw materials, is necessary for the maintenance of the living conditions of this country. You have probably also been informed by Mr. Clayton of the general financial position in which we find ourselves because our war effort took a certain shape as part of the combined war plans. I referred to this matter in my statement to Parliament on Friday, August 24th.

It is impossible for our Government to give an answer to the proposals of the Foreign Economic Administration within a matter of a few hours, and you will not misunderstand me if I say that the preparation of a suitable answer would not be made easier for me by the knowledge that instructions had been given to suspend the loading of supplies for the United Kingdom.

I hope therefore that you may feel able to give an urgent directive that supplies in the pipeline coming forward for shipment, say within the next month, may proceed to the United Kingdom and that the terms and conditions of payment for such supplies will be discussed and agreed between the United States Administration and the special mission which has been sent to Washington for this purpose. We have recognized that with V-J Day Lend-Lease as we have known it, and as you have described it in your recent striking report to Congress, is at an end. We have realized that in some form or other we shall henceforward have to pay for the urgent supplies that we need from the United States. Therefore it is hardly necessary for me to assure you that if these supplies for the next month come forward to us, as I have suggested, they will be paid for.

800.85 Lend Lease/8-2945

Memorandum by the Assistant Secretary of State (Clayton) to the Secretary of State

[WASHINGTON,] September 3, 1945.

Referring to the attached ¹⁸ from Admiral Land:

1. Naturally we all favor transporting in American bottoms *on a competitive basis* as much as possible of our imports and exports. We do not favor *buying* the right to do this by the use of excessive subsidies.

2. From the point of view of costs, the United States, of all the maritime nations, is the most inefficient operator of ships.

¹⁸ Reference is to the message from Mr. Land to the Secretary of State, August 29, p. 110.

3. We can buy shipping services cheaper than we can perform them ourselves, and the dollars that we pay for such services will be immediately spent in the United States for goods which we can produce more efficiently than other nations.

4. Even if we should force the carriage of all American imports and exports in American ships, it would reduce rather than increase employment in the United States because it would deprive other maritime nations of the dollars which they ordinarily earn by shipping services, and thus greatly curtail their purchases of goods in the United States.

5. Admiral Land's memorandum does not mention the one thing which stands out above all others as necessary to be done in the present shipping situation. I refer to the necessity of amending the present law¹⁹ which prevents the sale of our ships to foreign countries.²⁰ As Admiral Land says, we own over 50,000,000 deadweight tons of ocean-going ships. We may be able to usefully employ 10-12 million deadweight tons of these ships in domestic and foreign service. In addition, we may wish to lay up another 10-12 million tons as a war reserve. The remaining 25-30 million tons should be offered for sale on such reasonable prices and terms that the other maritime nations of the world will buy their ships from us instead of building new ones and thus adding to the present burdensome world surplus of ships. In any case, we will be compelled to lay up many of these ships in our rivers and harbors, but we should sell every single ship that the market will take and do it promptly.

W[ILLIAM] L. C[LAYTON]

611.4131/9-445: Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, September 6, 1945—6 p. m.

7656. For Hawkins from Clayton. With regard to the latest British proposals for handling the discussions on trade policy at the September meeting (reurtel 9014, September 4²¹), we consider it imperative that commercial policy discussions proceed simultaneously with the financial discussions. Accordingly, and particularly in view of the number and complexity of the subjects to be covered in the

¹⁹ Reference is to the Merchant Marine Act, approved June 29, 1936 (49 Stat. 1985), as amended.

²⁰ This provision was removed in the Merchant Ship Sale Act, approved March 8, 1946; 60 Stat. 41.

²¹ Not printed; it reported that the British planned to keep their commercial policy experts in London to advise the appropriate government Ministers on the American proposals. They were to be sent to Washington only after consideration of these proposals by the Ministers was completed. (611.4131/9-445)

commercial policy field (employment, trade barriers and discriminations, cartels, commodity policy, and trade organization), it is essential that the arrival of the commercial policy members of the British delegation not be delayed and that they include persons, of equal status with the financial people, who will be authorized to engage in detailed discussions on all of these subjects. Otherwise valuable time will be lost in getting ahead with the financial talks.

Please bring the foregoing urgently to the attention of the appropriate British officials. [Clayton.]

ACHESON

841.24/9-145

President Truman to the British Prime Minister (Attlee)

[WASHINGTON, September 6, 1945.]

I have gone into the matters raised in your message of September 1, 1945 with the Secretary of State and the Foreign Economic Administrator. I am informed that arrangements have been made for a thorough discussion of the broad economic agenda prepared in London by Mr. Clayton and your representatives, to begin on September 10²² between the special mission headed by Lord Halifax and a United States group under the leadership of the Department of State.

Mr. Crowley has given instructions that supplies in the pipeline proceed to the United Kingdom for a reasonable period pending agreement on the terms and conditions of payment for such supplies.

611.0031/9-1145

*Memorandum by the Acting Secretary of State to President Truman*²³

WASHINGTON, September 7, 1945.

Subject: *Proposal to Establish an International Trade Organization*

I am attaching a document entitled Proposal to Establish an International Trade Organization²⁴ which has been approved by the Executive Committee on Economic Foreign Policy.

This document sets forth a program in the field of foreign trade and commercial policy analogous to that provided in the financial field by the Bretton Woods agreements. If you approve, it will serve as a basis for definitive discussions with British officials during the conversations to be held here next week. At a later stage the program would form the agenda for a world conference on trade and employment, to be held early next year if possible.

²² The discussions actually began on September 11; see p. 122.

²³ Marginal note at the end of this memorandum reads: "Approved 9/11/45 Harry S. Truman".

²⁴ Not printed.

The proposed trade program contemplates the negotiation among the United Nations of a multilateral agreement containing understandings with regard to:

- a) the maintenance of employment,
- b) the relaxation of trade barriers of all kinds,
- c) the elimination of restrictive private business practices,
- d) the principles to be observed in the negotiation and operation of intergovernmental commodity agreements, and
- e) the establishment of an intergovernmental agency to discuss trade problems.

The following are the points of main significance from the viewpoint of the obligations which would need to be assumed by the United States:

1. With regard to employment, each nation would agree to take such domestic measures to maintain employment as may be "appropriate to its political and economic institutions." This pledge is important to insure the cooperation of other countries in achieving our trade objectives. It is in accordance with the Charter of the United Nations which provides that "the United Nations shall promote . . . full employment."

2. With regard to trade barriers (Chapter III of the Proposal), it is proposed that certain barriers which are severely restrictive of trade, such as quotas and exchange controls, be eventually eliminated, subject to agreed exceptions, and that certain other barriers, such as subsidies, restrictive state trading, and protective customs regulations of all kinds, be moderated. Discriminatory trade treatment in general would be prohibited.

As a necessary counterpart of these commitments, which primarily affect foreign countries, provision is also made for the substantial and expeditious reduction of tariffs, and the elimination, in so far as practicable, of tariff preferences. The tariff provisions would involve, at an early stage, the broad and substantial use of the authority under the Trade Agreements Act. The specific tariff concessions which we would offer to other countries would, of course, be submitted to you for prior consideration and would be subject to appropriate safeguarding provisions.

The sound growth of our export trade requires that we do away as much as possible with systems of tariff preference, such as that maintained among the British countries. This involves on our part a willingness to modify our own preferential relations with Cuba and possibly the Philippines. The proposals contemplate such a modification, to the same extent that the British and others prove willing to modify the preferences they now maintain.

Certain of the proposals dealing with trade barriers will probably require some additional legislation, and may involve the modification of existing laws or adoption of laws relating to agriculture. The Department of Agriculture, of course, has fully participated, and will continue to participate, in the formulation of any understandings which may affect our agricultural legislation or policy.

3. With regard to commodity agreements (Chapter IV), governments would undertake to observe certain principles in negotiating agreements which restrict production or trade in respect of particular commodities. These principles, designed to limit the agreements to necessary cases and assure fair treatment for producers and consumers, are in accord with our long-term objectives of promoting sound international trade on a nondiscriminatory basis.

The proposals dealing with commodity agreements were approved by President Roosevelt.

4. The provisions dealing with restrictive business practices (Chapter V), conform to the basic policies laid down by Congress. Only minor changes, if any, would be required in our existing anti-trust legislation.

The provisions regarding cartels were concurred in by you in a conversation with Mr. Clayton and Mr. Mason on May 17, 1945.²⁵

5. The provisions for an international trade organization (Chapters I, II, and VI) would set up an intergovernmental trade body which would be coordinated with other international agencies by the Economic and Social Council of the United Nations. The organization would have no compulsive powers but would serve largely in an advisory capacity as a forum for the discussion of trade problems, including those arising under the commitments outlined above. Enabling legislation would of course be required in connection with this organization.

The provisions dealing with organizational machinery are based on earlier recommendations of the Executive Committee contained in Outline of Proposed International Trade Organization (ECEFP D-72/45).²⁶ The earlier document, together with the dissenting views of the Department of Agriculture, were submitted to you under memorandum dated May 14, 1945, on which no action has yet been indicated. A copy of that memorandum, together with the recommendations and dissenting views of the Department of Agriculture, is attached for convenient reference.²⁷

DEAN ACHESON

²⁵ Memorandum of conversation by Edward S. Mason, Deputy to Assistant Secretary of State Clayton, not printed.

²⁶ Not printed.

²⁷ Neither printed.

611.4131/5-146

*Memorandum by the Executive Committee on Economic
Foreign Policy*

[Extract]

[WASHINGTON,] September 7, 1945.

STERLING EXCHANGE AND BLOCKED BALANCES

Conclusion

The Committee favors the principle set forth in plans III and IV that blocked sterling balances should be funded.²⁸ The Committee also favors the principle, emphasized in plan IV, of making some part of the dollar exchange provided by a dollar credit²⁹ to the United Kingdom available for use by that country to facilitate the maximum reduction of its foreign sterling indebtedness. Properly devised, such a plan would not only assist in the restoration of British international equilibrium, but would also minimize the handicap, created by blocked balances, to United States exports to sterling creditors.

In recommending a prompt solution of the problem of blocked sterling accounts and the extension of a dollar credit by the United States for that purpose, the Committee recognizes that this subject may require the approval of Congress. The following considerations may be useful in presenting the subject to Congressional leaders:

1. If the United Kingdom is forced to maintain rigid exchange controls, other countries in the sterling area and in western Europe will also be obliged to maintain them. Such action will give a pronounced impetus to state control of foreign trade in a large area of the world. A substantial dollar credit to the United Kingdom, therefore, will help to preserve free enterprise, especially in foreign trade.

2. Countries which would be directly affected by the action of the United Kingdom regarding exchange controls have customarily taken from one-third to one-half of all United States exports. A dollar credit to the United Kingdom will help to open this market to United States exports by removing barriers to United States trade.

3. The removal of these barriers will permit the United States to expand its foreign trade.

²⁸ This memorandum had taken up four possible solutions to the problem of sterling exchange: I. Devaluation of the pound sterling; II. Transitional financing, at least partly through American credits; III. Transitional financing plus funding of the blocked sterling balances; IV. Transitional financing plus partial funding plus partial liquidation of blocked balances.

²⁹ No mention as to the size of a proposed credit was made in the memorandum; it did, however, recommend the extension of "a liberal, long-term dollar credit to the United Kingdom to assist in the solution of its transitional problems", on the grounds that this would aid the expansion of American foreign trade.

4. Should a credit be extended to the United Kingdom, most of it would be utilized to make purchases in the United States.

611.4131/9-1045: Circular airmgram

*The Acting Secretary of State to Certain American Missions*³⁰

WASHINGTON, September 10, 1945—4: 25 p. m.

US AND BRITAIN TO CONTINUE FINANCIAL AND TRADE DISCUSSIONS

Financial and trade discussions with the British will open about September eleventh in Washington. Final composition of British delegation is not yet known but Halifax, Keynes, Harmer, Brand and Hall-Patch will be here. Since the State Department has prime responsibility for negotiations and since the Secretary is in London Clayton will act as Chairman until Mr. Byrnes returns from London. Department has undertaken responsibility for scheduling and organizing meeting of main group and appropriate subgroups and will provide secretariat. American delegation in addition to Clayton will consist of Crowley, Vinson, Eccles,³¹ Wallace³² and Symington³³ of Surplus Property Board. Collado will act as Secretary General.

The discussions will be divided into four main parts: *Financial problems*—Vinson will Chairman this group which will discuss (a) financial arrangements during transition period; (b) sterling area arrangements and (c) exchange convertibility, anticipating Bretton Woods formula; *Lend-Lease*—Crowley will head these discussions which will cover (a) terms for continued delivery on non-munitions pipeline (b) arrangements for wind up of munitions program (c) reverse lend-lease (d) lendlease settlement including clean-up of inventories, capital installations etc. (e) ships (f) white paper questions; "similar" goods etc. *Commercial Policy*, headed by Clayton and discussions will cover proposals presented to UK in August covering within an International Trade Organization—(a) reduction of trade barriers (b) cartel policy (c) commodity policy. Other principle group will discuss Surplus Property Disposal and will be under Symington. Another possible topic will be use of US agencies for cash procurement. Appropriate agencies of Government will be rep-

³⁰ Sent to Paris, Brussels, Madrid, Lisbon, Bern, Cairo, Rome, Ankara, Stockholm, Oslo, Copenhagen, Belgrade, United States Political Adviser for German Affairs, Berlin, United States Political Adviser for Austrian Affairs, Vienna, Dublin, Athens, Praha, Budapest, Bucharest, Sofia, Helsinki, Ottawa, and Moscow.

³¹ Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System.

³² Henry A. Wallace, Secretary of Commerce.

³³ W. Stuart Symington, Chairman of the Surplus Property Board.

resented in each instance. Recommendations of subgroups will be submitted to top group which includes chairmen of subgroups, Governor of Federal Reserve Board and Secretary of Commerce. Top recommendations will then be submitted to President.

ACHESON

611.4131/5-146

Minutes of a Meeting of the United States-United Kingdom Combined Top Committee, Held at the State Department, September 11, 1945, at 4 p. m.

[Participants]: Mr. Clayton (In the Chair)

U.S. REPRESENTATIVES	U.K. REPRESENTATIVES
Mr. Vinson	Lord Halifax
Mr. Wallace	Lord Keynes
Mr. Crowley	Mr. Brand
Mr. Eccles	Sir Henry Self
Mr. McCabe ³⁴	Mr. Hall-Patch
Mr. Collado	} <i>Joint Secretaries</i>
Mr. Early ³⁵	
Mr. Lee	
Mr. Stevens ³⁶	

1. *Opening Statements*

MR. CLAYTON said that he regretted that the Secretary of State could not be present in person to receive the U.K. representatives, but in Mr. Byrnes' name he bade them welcome.

The discussions which were about to begin involved issues of importance and complexity, but he did not doubt that if the U.S. and the U.K. representatives approached them with the same spirit of determination and cooperation as had marked the association of the U.S.A. and the United Kingdom in two world wars they would find a solution. On behalf of the U.S. representative[s] he gave an assurance that they would give thoughtful and careful consideration to any problems which the U.K. representatives might wish to bring before them.

LORD HALIFAX, on behalf of the U.K. representatives, thanked Mr. Clayton for his remarks and said that, like the U.S. representatives, he and his colleagues were entering upon the discussions in a spirit of confident partnership knowing that a wise solution of the problems

³⁴ Thomas B. McCabe, Army-Navy Liquidation Commissioner.

³⁵ James S. Earley, Adviser on British Commonwealth Financial Affairs, Division of Financial Affairs.

³⁶ R. B. Stevens, British Civil Secretariat.

to be considered would have far-reaching significance for the whole world.

LORD HALIFAX said that as he saw the position the purposes of the discussions were threefold:

(a) There was first of all the question of making suitable arrangements designed to secure the orderly winding up of Lend-Lease and Reciprocal Aid. The issues involved under this head would be largely technical but nevertheless were of significance particularly in view of the comparatively large sums which might be involved.

(b) Secondly, there was the question of the financial situation of the U.K. in the transitional period before normal peacetime economic activities could be restored. On this the U.K. representatives hoped to have the opportunity of giving the U.S. representatives, at an early date, a full factual statement of the background.

(c) Finally, there was the task of completing the conversations which had already taken place on future commercial and monetary arrangements in the international field, in accordance with the program foreshadowed in Article VII of the Mutual Aid Agreement. The U.K. representatives regarded the discussions under this head and those under (b) above as necessarily and properly interconnected.

LORD HALIFAX added that none of the U.K. representatives had any final authority to settle matters without prior reference to London. But Lord Keynes, Mr. Brand, and he had had the opportunity of full discussion with members of the new Administration and he felt confident that they were sufficiently well-informed of the Administration's attitude to be able to make a substantial—and indeed perhaps definitive—approach to a settlement of the problems which would come up for discussion. It had always been the hope of the U.K. Government to hold such discussion in the autumn of 1945, but it had hitherto been assumed that such discussions would take place while the war against Japan was still in progress. Now that that war had ended it was clearly more urgent to achieve a settlement of the questions at issue. Therefore the U.K. representatives held themselves entirely at the disposal of the U.S. Group for concurrent discussions on all subjects on the agenda in the hope that rapid progress could be made.

Finally LORD HALIFAX said that he hoped that the outcome of the discussions would be such as to show a disordered world that there was still a rallying point of sanity and cooperation to which hard-pressed men could turn with confidence as they faced the difficulties of the post-war era. It was in that spirit that the U.K. representatives approached the deliberations.

2. *Future Arrangements*

MR. CLAYTON said that, if convenient, the next meeting of the Top Committee would take place at 3.30 p. m. on the 13th September in the Board Room at the building of the Board of Governors of the Federal Reserve System. At that meeting LORD KEYNES would begin his exposition of the U.K. financial position.

LORD KEYNES said that the U.K. Group wished to raise one matter upon which an urgent decision was necessary. The U.S. Administration had given formal notice of the general termination of Lend-Lease from the 2nd September last. Although informal warnings had been given at an operating level there had been no such formal intimation as regards the termination of Reciprocal Aid. The delay in communicating such an intimation had been due to the fact that the U.K. representatives had waited the receipt of the President's directive concerning the continuation of Lend-Lease in the field of military supplies.³⁷ That directive had now been received under cover of a letter from Mr. Patterson.³⁸ The assumption in it was that the assistance to be continued would be on a mutual basis, and that would be acceptable to the U.K. Government. But Lord Keynes felt that it would now be desirable formally to intimate that, apart from this, Reciprocal Aid should be regarded as having terminated on the 2nd September and he assumed that the U.S. Administration would see no objection to such a communication. He added that in a letter to the Chairman of the British Supply Council, Mr. Crowley had intimated that Lend-Lease would be continued for a period of 30 days from the 2nd September in respect of certain shipping services and freight charges.³⁹ There was, however, no suggestion in that letter that Reciprocal Aid should be extended after the 2nd September on a similar basis and the U.K. representatives assumed that they would be correct in thinking that there was no intention of making such a suggestion.

LORD KEYNES went on to say that he thought it desirable that the proposed military sub-committee of the Lend-Lease Committee should

³⁷ Reference is to JCS 771/18, approved by President Truman on September 5.

³⁸ Under Secretary of War Robert P. Patterson.

³⁹ In a letter of November 13, 1945, to the Chairman of the British Supply Council, Robert H. Brand, Assistant Secretary of State Clayton summarized the principles governing United States policy on the continuance of lend-lease assistance to the British Commonwealth in the field of shipping. Mr. Crowley, he said, in three letters to Mr. Brand, dated August 27, September 7, and September 20, "stated that certain specified shipping services would continue to be provided under lend-lease for a period of 60 days after 12:01 a. m., V-J Day, September 2, 1945". With the expiration of this period, Mr. Clayton informed Brand, the United States was prepared to extend these services for another 30 days beginning at 12:01 a. m., November 1, 1945. In the 30-day extension, however, the services were to be provided under proposed offsetting arrangements, then under discussion in the lend-lease settlement talks, and not under straight lend-lease. (841.24/11-1345)

be convened at an early date in order to discuss the interpretation to be attached to the President's directive as set out in Mr. Patterson's letter and in order to ensure that the necessary instructions to act in accordance with it were issued to the military commanders on both sides.

MR. CROWLEY said that he thought that these Reciprocal Aid questions should be considered in the first instance by the Lend-Lease Committee which he would undertake to convene as quickly as possible. He thought that following upon that committee it should be possible to arrange for the military subcommittee to consider Mr. Patterson's letter and the questions arising on it mentioned by Lord Keynes. The Sub-Committee would refer its recommendations to the Lend-Lease Committee, and that Committee would refer in turn to the Top Committee.

It was agreed that the procedure suggested by Mr. Crowley should be adopted. Accordingly a meeting of the Lend-Lease Sub-Committee⁴⁰ was arranged for 11 a. m. on the 13th September in Mr. Crowley's conference room.

3. Organisation of Committees and Sub-Committees

A general interchange of views took place on the proposed organisation of committees and sub-committees. The arrangements tentatively proposed for that organisation met with general approval. It was agreed that efforts should be made to arrange for two main committee meetings each day—one in the morning and one in the afternoon—so as to avoid an overlap which would cause personnel difficulties. It was agreed that the organisation of meetings of the sub-committees would be primarily a matter for arrangement by the Chairman of the appropriate main committee.

4. Press Relations

MR. CLAYTON said that he understood that a proposed press release had been agreed with the U.K. representatives and that something in the nature of a joint press service was contemplated.

LORD HALIFAX confirmed that a joint press release had been agreed. He expressed some doubt, however, as to the desirability of the proposed arrangement whereby U.S. and U.K. press officers should attend committee meetings, on the grounds that if they did so they would be the more likely to be under embarrassing pressure from the press to divulge information. He wondered whether it would not be better simply to arrange for the Joint Secretariat to prepare an agreed press release at appropriate intervals.

MR. CLAYTON thought that complete reliance could be placed on the discretion of the press officers who could in any event work under

⁴⁰ Reference is to the U.S.-U.K. Combined Lend-Lease Committee.

close direction as to the extent of the information which they were to release.

MR. VINSON stressed the risk of leakages and the desirability of taking all possible steps to avoid them. He suggested that it would be well to defer a decision on the question of the presence of press officers at committee meetings. It was agreed to follow this advice and to arrange for discussion of this question outside the committee before the further meeting of the Top Committee on the 13th September.

5. *Position of Dominions*

MR. CLAYTON asked whether the U.K. representatives desired any Dominion representatives to be associated with the discussions.

LORD KEYNES said that the U.K. representatives would maintain touch with Dominion representatives on matters of common concern. But it would be embarrassing for the U.K. representatives if the impression were given that they were negotiating on behalf of Dominion Governments. If questions affecting the Dominions arose it would be better for them to be discussed separately with the U.S. Government, although the U.K. representatives would naturally be prepared to facilitate such discussions.

MR. CLAYTON said that the position in this respect was fully understood by the U.S. Group.

6. *Closing Statement*

MR. CLAYTON said that just as the U.K. representatives had no authority to take final decisions without reference to London, so the U.S. representatives were under the obligation to report to the Secretary of State and the President. But although neither side could take definitive decisions he was confident that they would be able to reach the state of agreeing upon recommendations which, when submitted to the Governments of both sides, would be found to be acceptable.

WASHINGTON, 12 September, 1945.

740.00119 Council/9-1445 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, September 14, 1945—7 p. m.

8009. Secdel 51. For Secretary of State. Yesterday Lord Keynes presented an analysis of the current and prospective deficit of the UK on current account.⁴¹ As of V-J Day the deficit at the current annual

⁴¹ To accompany his oral statement, Lord Keynes presented to the U.S.-U.K. Top Committee a document entitled "Tables Relating to U.K. Financial Position". (611.4131/5-146, Folder 4, 3) Some of the material prepared by the British delegation is published in British Cmd. 6707 (1945) : *Statistical Material Presented During the Washington Negotiations*.

rate was running at about \$5 billion which is expected also to be the approximate figure for the whole of 1945. This 1945 deficit will be met to the extent of about \$2 billion by non-munitions Lend-Lease and to an extent of about \$3 billion by Mutual Aid and increase in sterling balances. There will be little reduction in the rate of deficit before the end of 1945. Despite the assumption that exports in 1946 will be almost double those for 1945, the deficit is expected to be about \$3.2 billion for the coming year. It should fall very sharply in 1947. The UK expects to have to run a deficit for the next 3 to 5 years. Keynes states that the UK can recover in 5 years with a "very austere" import program and in 3 years with an "austere" import program which would permit greater expansion of exports. An "austere" import program will have to be instituted in any event. Whether recovery will come in 3 or 5 years depends also on the amount of pressure exerted to increase exports and the degree of curtailment and regulation of domestic consumption. The cumulative deficit over the 3 to 5-year period will fall between 4 and 6 billion and will probably be nearer to \$6 billion. It is "inconceivable," Lord Keynes stated, that the deficit will be less than \$4 billion. The crucial factor, aside from the ability to hold down imports and to taper off overseas military expenditures rapidly, is the question of expanding exports; the major difficulties here being the manpower shortage (slow rate of release from military service), reconversion of factories, and availability of factory space. While Keynes gave no estimates of exports for 1947 and subsequent years, he stated that the UK had to increase them by 50 percent over their pre-war volume (not value) to reach balance on current account.

At Friday's meeting Lord Keynes is expected to cover the accumulated deficit during the war, the manner in which it was financed and especially the blocked sterling balance problem.⁴²

ACHESON

611.4131/9-1945 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, September 19, 1945—10 p. m.

[Received 11:59 p. m.]

9701. 1. Liesching has informed Penrose that the party which will leave Saturday on *Queen Mary* will consist of Liesching, Shackle and

⁴² At the meeting of the U.S.-U.K. Top Committee on Friday, September 14, Lord Keynes continued his analysis of the United Kingdom's external financial position, its gold and dollar reserves and liabilities, mainly expanding upon the salient points made in the meeting of September 13 (611.4131/5-146, Folder 4, Third Meeting).

Andrew, Board of Trade; Robbins, Cabinet Secretariat; Enfield, Ministry Agriculture; Clauson,⁴³ Colonial Office. Young will act as secretary. If necessary a Ministry of Food official may be added from Washington Food Mission.

2. Liesching said that he would have liked the group to have been smaller but felt it was necessary to have officials from Agriculture and Colonial Office, particularly in latter case because of importance of colonial raw materials. He expressed the hope that US group taking part in talks would be kept as small as practicable or alternatively at least that the resolution of knotty points should be done by a small group.

3. Regarding basis for commercial policy discussion Liesching said UK officials would not favor working on a suggested draft convention or even a summary of a convention such as we had given them.⁴⁴ They considered that such a document was of great value for use at later stage but that the forthcoming talks should be centered on the outstanding issues and especially those on which there were difficulties. A short statement on these outstanding questions would be a more appropriate basis for discussion than any detailed draft. Liesching's desire for a small group is partly related to his desire to settle outstanding issues of principle before entering on technicalities.

4. Liesching reiterated uncompromising UK opposition to any provision for export subsidies on commodities in world surplus. As regards agricultural proposals he thinks that the techniques developed in US in recent years are not altogether suitable for dealing with the problems of a number of other countries including UK. So far as change of government here was concerned the interests of producing classes, including agricultural labor in reasonable stability was represented in the Labor Govt but so also were the interests of consumers in adequate nutrition for the workers.

5. Regarding preferences he indicated that UK officials would take an uncompromising stand that preferences must be placed in similar framework of discussion with tariffs. If there was no general formula on tariffs there could be none on preferences. He did not however oppose the suggestion that there was an obligation to reduce them initially in greater proportion than tariffs and to recognize elimination as the objective when mutual obligations in other directions were met. He repeated that the political importance in UK of dealing carefully with this question was paramount.

6. Liesching said that commercial policy has been put before Ministers in terms of certain general principles and officials were author-

⁴³ Sir Gerald L. M. Clauson, Assistant Under-Secretary of State, British Colonial Office.

⁴⁴ See telegram 8132, August 11, from London, p. 90.

ized to enter into discussions on basis of a general instruction. He added in strict confidence that Ministers who understood the issues best as well as officials were convinced that it would be unwise at this stage to review the subject in detail with the whole Cabinet. Liesching did not mention names but Cripps and Dalton may be assumed to be among the Ministers whose judgment was referred to. It should be noted that the small War Cabinet has been dropped and the present Cabinet consists of about 20 Ministers. The UK officials will within their general terms of reference aim at working out lines of agreement in Washington which they can recommend to Ministers for adoption.

7. Andrew Board of Trade will specialize on cartel questions in the discussions. Stirling will remain in London and Helmore will return here when the group reaches Washington. Meade has taken Robbins' place as head of Economic Section of Cabinet Secretariat. Robbins remains as advisor. He will return to University perhaps at end of year.

8. Liesching referred to the serious shortage of man power in Board of Trade and throughout Whitehall. All officials concerned in article VII talks have for years carried a heavy load of work on the war economy quite apart from long term economic questions. Many are greatly fatigued. Great efforts are being made to recover pre-war civil servants who have been mobilized or have served in other capacities abroad. But the process of recovering them is slow. There were few exemptions from military service and the civil service was closely combed. Liesching is seriously disturbed at the scarcity of experts on tariff negotiations.

9. Some appraisal of the general position here with reference to the commercial and financial talks will follow.

WINANT

800.24/9-2045

*The Acting Secretary of State and the Foreign Economic Administrator (Crowley) to the Secretary of War (Stimson)*⁴⁵

[WASHINGTON,] September 20, 1945.

DEAR MR. SECRETARY: AS you are aware, the President on September 5, 1945, approved a memorandum to the Joint Chiefs of Staff⁴⁶ concerning issuance to Allied Governments of Lend-Lease munitions and the provision of Lend-Lease services, procured and sponsored by the War and Navy Departments. Section (c) of the memorandum stated that "Aid may be furnished to supply maintenance items for United

⁴⁵ The same, *mutatis mutandis*, to the Secretary of the Navy (Forrestal).

⁴⁶ JCS 771/18, not printed here.

States equipment now in the possession of Allied forces against payment upon such terms and conditions as determined by the State Department and Foreign Economic Administration in accordance with established procedure. Such aid will be reduced and finally eliminated at the earliest date practicable and in no case will it be extended beyond six months from the effective date of this instrument.”

The State Department and Foreign Economic Administration have considered what should be the terms and conditions of payment, and have concluded that issuance of the maintenance items in question should be for full cash payment upon presentation of a bill by the Foreign Economic Administration. If the State Department and the Foreign Economic Administration should decide in the case of an individual country that special circumstances warrant a deviation from this policy of full cash payment upon presentation of a bill you will be immediately notified.

Sincerely yours,

DEAN ACHESON
LEO T. CROWLEY

611.0031 Executive Committee/9-2545

*Memorandum by the Acting Secretary of State to President Truman*⁴⁷

WASHINGTON, September 21, 1945.

Subject: *Future International Controls on Short Supply Items*

There is submitted herewith for your approval as a basis for discussion with other governments a document regarding policy which should be followed in the transition period in respect of the international control of items in short supply.

It is recommended that in cases in which it is necessary to maintain such controls for purposes of stability, reconversion or rehabilitation, the responsibility therefor be transferred as quickly as practicable from the Anglo-American Combined Boards⁴⁸ to international commodity committees composed of representatives of principal producing and consuming countries.⁴⁹ This policy, if adopted, may require legislation to extend authority to control imports into the United States, to make public purchases abroad, and to control and to give priority assistance to exports from the United States of the commodities involved should existing authority expire before the end of the transition.

DEAN ACHESON

⁴⁷ This memorandum bears the notation: "Approved Harry S Truman".

⁴⁸ For information on the establishment and organization of the Combined Boards, see Department of State *Bulletin*, July 1, 1945, pp. 17-20; regarding the continuation of some of the Boards, see *ibid.*, September 2, 1945, p. 333. See also *Foreign Relations*, 1944, vol. II, pp. 1 ff., *passim*.

⁴⁹ For text of statement to this effect by the President of the United States and the Prime Ministers of Great Britain and Canada, December 10, 1945, see Department of State *Bulletin*, December 16, 1945, p. 975.

[Annex]

Memorandum From the Executive Committee on Economic Foreign Policy, Committee on Wartime Trade Controls

SEPTEMBER 1, 1945.

UNITED STATES POLICY DURING THE TRANSITION PERIOD WITH
RESPECT TO SHORT SUPPLY ITEMS

1. The established foreign economic policy of this government is to remove all wartime controls of international trade and government participation in such trade as rapidly as is consistent with the objectives of this government for an orderly economic transition from war to peace. These objectives include:

- a. Prompt conversion of the economies of the world so as to maximize the production of goods and services required for domestic and foreign needs.
- b. Stabilization of the general level of prices.
- c. Equitable distribution of available supplies.

2. A continuation of some wartime controls may be required if the above objectives are to be attained. Control should be limited to products in global short supply i.e. those which, in the absence of such control, would be subject to substantial world price increases. Control should be further minimized by limitation to products which are relatively important to stabilization, reconversion or rehabilitation programs. A tentative list of commodities likely to meet these conditions is appended.

3. The following procedure is recommended:

a. A committee should be created for each commodity for which control is continued and should be composed of representatives of the countries which are the principal producers or consumers of such commodity. Where Combined Board committees already exist they should be utilized and appropriately enlarged. These committees should in general exercise the functions now performed by the Combined Boards themselves.

b. The coordination of the American representatives on the committees concerned with food products should be centered in the Department of Agriculture and on other committees in the War Production Board or in such other United States government agency as may later be established to take over the relevant functions of the agency. These agencies should be charged with the responsibility for consulting with all other interested departments and agencies of this government on issues arising in the Committees. The actions of the representatives of the responsible agencies should conform to the foreign policy of the United States.

c. Each commodity committee should be liquidated as soon as the conditions leading to its establishment, as stated in paragraph 2, have ceased to exist or as soon as it becomes apparent that the price increase

which would follow the removal of control is necessary and appropriate to bring about the long term adjustment of supply and demand requisite to the restoration of a competitive market.

7. The Combined Boards as such should be terminated as quickly as practicable and in any case should terminate their functions immediately so far as each commodity is concerned for which a commodity committee is established. However, until the new committees assume responsibility in their respective fields, or whenever the prospective duration of the continued control does not justify or makes impractical the creation of new committees, the Combined Boards should be utilized to perform the necessary functions of control.

4. The effectiveness of the controls contemplated above depends upon the continuation of authority to control imports into the United States, to make public purchases abroad, and to control and to give priority assistance to exports from the United States of the commodities involved. Steps should, therefore, be taken to extend such authority if it should otherwise expire prior to the end of the transition period.

5. For illustrative purposes only a tentative list of products for which controls may be required follows. Such a list may be enlarged or reduced when supply-requirements analyses, now almost completed, have been made.

- | | |
|---|---------------------------------------|
| 1. Rubber | 9. Jute and jute products |
| 2. Tin | 10. Fats and oils |
| 3. Bovine hides and leather | 11. Sugar |
| 4. Newsprint | 12. Meat |
| 5. Lead | 13. Canned and dried fish |
| 6. Antimony | 14. Food and feed grains and proteins |
| 7. Coal | 15. Rice |
| 8. Manila, sisal, henequen, hemp and their manufactures | 16. Cocoa |

841.51/9-2445

Memorandum by the Assistant Secretary of State (Clayton) to President Truman

WASHINGTON, September 24, 1945.

Subject: Progress of U.S.-U.K. Negotiations

1) During last week considerable progress was made in the discussion of the overall financial problem of the British. The British put forward the following informal proposal as a basis for further consideration: ⁵⁰

⁵⁰ Most of this informal proposal had been set forth by Lord Keynes at the second meeting of the U.S.-U.K. Financial Committee on September 20. The first meeting, on the preceding day, dealt with a general analysis by Lord Keynes of possible alternatives open to the United Kingdom in regard to external financial affairs (611.4131/5-146, Folder 5).

a) Exchange controls on current transactions would be lifted on January 1, 1947, making all current sterling balances freely convertible, and liquidating the sterling area dollar pool. The British would thus waive the Bretton Woods transitional period and as of January 1, 1947 embark on the full post-war exchange arrangements.⁵¹

b) Exchange arrangements would be progressively liberalized during the next 15 months.

c) The blocked sterling system would be terminated on December 31, 1946 and sterling obligations to the sterling area (estimated then at \$12 billion) would be handled as follows:

- i. \$4 billion would be written off.
- ii. Of the remaining \$8 billion, 10% or \$800 million would be made freely convertible for any current purposes.
- iii. The remaining \$7.2 billion would be funded at no interest, to be paid off in 50 annual instalments of 2% beginning after five years.

d) Sterling obligations in South America would be paid off by sale of British investments in those countries. Obligations to Norway, Greece, and other European allies and neutrals would be paid off partly by construction of ships for Norway and Greece (the obligations consist in considerable measure of Lloyd's ship insurance) and partly in goods or dollars and gold which such nations urgently need. The Portuguese obligation is being funded at rather long term. Dollar obligations to the RFC⁵² will be worked off by gradual realization of the collateral. Dollar obligations to Canada, it is hoped, may be cancelled by Canada.

e) In order to meet the adverse balance of trade during the three to five year period of British recovery, the British request that the United States establish a line of credit of \$5 billion.⁵³ Britain expects to obtain credits of \$500 million to \$1 billion from Canada, Sweden, and possibly other countries. Britain would hope to use considerably less than the total dollars thus at her disposal, but believes that a substantial line must be available in order to engender confidence in the pound. The British made no suggestions as to terms.

f) In addition to these amounts, Britain will owe any net figure arising out of war liquidation, lend-lease pipeline, inventory, surplus property, etc.

2) Mr. Crowley has arranged an interim plan for handling the lend-lease pipeline and inventory pending conclusion of overall arrangements.

⁵¹ According to section 4 of article XIV of the Bretton Woods Agreement, it was expected that the member nations would have removed currency restrictions within 5 years from the coming into force of the Agreement; for text, see *Proceedings and Documents of the United Nations Monetary and Financial Conference*, vol. I, pp. 965, 966.

⁵² Reconstruction Finance Corporation.

⁵³ At the second meeting of the Combined U.S.-U.K. Financial Committee, September 20, Lord Keynes had indicated that \$5 billion would be a satisfactory figure for the credit, although suggesting that ideally \$6 billion might more adequately cover Britain's expected cumulative adverse balance over the next 3 to 5 years (611.4131/5-146, Folder 2). This figure did not include the sum for lend-lease settlement; see p. 162.

3) Preliminary discussions of surplus disposal continue while the Army is ascertaining what goods will be in surplus.

4) Commercial policy discussion will begin at the end of this week when a strong British trade delegation will arrive.

5) We are asking the Dominions to send representatives for parallel discussions.

6) I am encouraged by the progress of the discussions and the reasonable attitude of the British. Their proposal with respect to the blocked sterling obligations is generally regarded as satisfactory and we are going into its details. The Financial Committee headed by Secretary Vinson is considering the overall financial request.

W. L. CLAYTON

611.4131/9-2445: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, September 24, 1945—8 p. m.

[Received 9 p. m.]

9904. 1. Liesching in conversation with Penrose said the United Kingdom group would work intensively during voyage on detailed position they will take on basis of ministerial instruction. They are expecting United States group to make concrete suggestions on short cuts and on methods by which as far as practicable selective tariff cuts may be negotiated multilaterally. They remain apprehensive of delays involved in selective method and consider that opportunities for reduction of trade barriers will decline seriously if the procedure for reducing tariffs is cumbersome and slow. It seems likely they would be disturbed at idea of fixing date for international conference on trade policy far into 1946. They would like an earlier date.

2. The United Kingdom officials do not seem to have reached definite conclusions on the synchronization of discussions on tariffs and discussions on non-tariff barriers but it is unlikely that they will be prepared to give final undertakings on the non-tariff provisions until some conception is reached of the extent of the tariff cuts.

2. [*sic*] The developments in financial talks in Washington are being followed closely in United Kingdom and commercial talks will attract equal attention. Beaverbrook⁵⁴ press attacks Keynes for statements on multilateral trade and on preferences but its viewpoint is unlikely to gain ground provided (a) balance of payments solution is obtainable and (b) an appropriate strategy of negotiation is followed in regard to interrelationship between commercial and financial talks.

⁵⁴ William Maxwell Aitken, Lord Beaverbrook, publisher of the *Daily Express* and *Evening Standard*.

3. Regarding (a) little comment is needed in view of United Kingdom delegation's statements in Washington. Liesching in conversation referred to above again emphasized that proposals would continue to be judged by their contributions to the restoration of equilibrium. This point and its implications with respect to loans have been frequently made in informal talks and private conversations here.

4. As regards (b) it is clear that the main reason for earlier United Kingdom hesitation to enter into negotiations on commercial policy commodity agreements and cartels at the same time as the financial negotiations was the fear that we intended to use financial necessities of United Kingdom as a means of trying to force on them our views on the other questions. Though the atmosphere has improved there is still some uneasiness here on this point. Earlier cabled news reports that United States would demand instant and complete abolition of preferences in return for financial aid created public opposition here. Even that section of United Kingdom opinion which is most opposed to preferences would be antagonized if a demand for their abolition were put in this form. On the other hand results in line with our policy should be obtainable if reductions on preferences are linked with reductions on tariffs and if position is taken that article VII involves obligation to make greater proportionate reductions in preferences from the start and their abolition later. This approach will appeal to all parties except the Amery⁵⁵ group of Tory imperialists and the Beaverbrook clique who are fighting for Empire preference, an exclusive sterling area and bilateral bargaining since in the minds of the public here the Ottawa measures in 1932⁵⁶ are regarded largely as a response to the Smoot-Hawley Tariff in 1930.⁵⁷

5. The great majority in United Kingdom agree that the success of any financial remedies depends in part on trade policies. It can be pointed out that this view is also implicit in the United Kingdom position that any proposal must be judged by the extent to which it provides means of attaining future equilibrium in the balance of payments.

6. However as far as United Kingdom public and parliamentary opinion are concerned it is of greatest importance that statements on the interrelationships between financial and commercial measures shall not carry any implication that the United States is using the financial negotiations as a means of forcing United Kingdom to accept United

⁵⁵ Leopold S. Amery, Conservative Member of Parliament, formerly British Secretary of State for India and Burma.

⁵⁶ Reference is to the system of bilateral treaties inaugurated at the Imperial Economic Conference, held in Ottawa in 1932, whereby various Commonwealth members extended preferential treatments on tariffs to one another. For texts of agreements, see British Cmd. 4174, *Summary of Proceedings*, pp. 19-94; *British and Foreign State Papers*, 1932, vol. 135, pp. 250-264, 799-800; *ibid.*, 1933, vol. 136, pp. 501-520.

⁵⁷ Tariff Act of 1930, approved June 17, 1930; 46 Stat. 590.

States proposals on commercial commodity and cartel policy. In existing conditions here the strategy that holds best prospect of lasting success of broad United States policies would be to treat each of the broad groups of questions on the agenda on its own merits and endeavor to reach a solution the intrinsic soundness of which is recognized on both sides.

7. A second reason in favor of this approach is that if balance of payments difficulties can be overcome there will be no need of pressure to persuade the United Kingdom to support drastic cuts in trade barriers. It may be predicted that Liesching and his group will criticize United States proposals on trade barriers for not going far enough rather than for going too far.

8. All sections of the United Kingdom public and political parties feel that the serious external financial position of United Kingdom is the result of the scope and intensity of the United Kingdom war effort. The United Kingdom public has been prepared for difficult times ahead. Food and clothing conditions are even more stringent here now than during a large part of the war period. The fuel shortage this winter will involve greater hardship than at any time during the war. Austerity is still preached and accepted as inevitable for some time to come. With increasing realization of future difficulties there is no serious demand for scrapping of economic controls. Adverse criticism is confined mainly to rate of demobilization and reconversion. The indications are that the United Kingdom public would be prepared if necessary to endure scarecrow conditions for some time to come.

WINANT

811.24/8-1545

*The Acting Secretary of State to the Under Secretary of War
(Patterson)*

WASHINGTON, September 25, 1945.

MY DEAR MR. PATTERSON: In your letter of August 15⁵⁸ you outline the negotiations which have been going on since June 3, 1941, for the acquisition by the United States of seven industrial facilities owned by the British in this country. On November 18, 1943, Mr. Byrnes as Director of the Office of War Mobilization and Reconversion, gave the War Department the authority to proceed with this acquisition, provided the State Department and the Foreign Economic Administration had no objection to purchase for cash.⁵⁹

⁵⁸ Not printed.

⁵⁹ Letter from Mr. Byrnes to Mr. Patterson, November 18, 1943, not printed. For previous correspondence on this subject, see *Foreign Relations, 1944*, vol. III, pp. 31 and 40.

In the opinion of the State Department, a commitment exists to purchase the seven facilities for cash or its equivalent. It is possible, however, that this commitment might properly be met by considering the sum due as an offset to dollar obligations of the British to the United States. Mr. Clayton has indicated to you in a recent telephone conversation that he will keep in mind this commitment during the current fiscal conferences with the British.⁶⁰

Sincerely yours,

DEAN ACHESON

740.00119 Council/10-245 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, October 2, 1945—10 a. m.

8670. Secdel 150. The US-UK Committee on Commercial Policy held its first meeting today.⁶¹ The session revealed substantial agreement between the two governments as to the procedural steps to be followed in negotiating and bringing into force the proposed multi-lateral arrangements in the commercial policy field, these steps including: (a) the holding of a general international conference on trade and employment in June 1946, and (b) the holding of a preliminary, negotiating meeting among the principal trading nations in March 1946. The British have asked that India be included among the nations to meet in March and have also made certain proposals, at variance with our own, regarding the policy to be followed in generalizing the benefits of tariff and trade concessions to the trade of countries which after a considerable period, fail to adhere to the arrangements. These two points will be discussed in later meetings.

ACHESON

⁶⁰ On December 4, Assistant Secretary of State Clayton wrote a letter to Secretary of War Patterson advising of subsequent developments relating to the acquisition of the British-owned industrial facilities. The final paragraph is as follows: "The Department [of State] advises that tentative arrangements have been agreed upon whereby the cost of these facilities will be considered as an off-set to the Lend-Lease balances. You may therefore immediately take title to these facilities to protect the interest of the United States Government." (811.24/8-1545)

⁶¹ The first meeting of the Commercial Policy Committee had actually taken place on October 1. The points covered in this telegram accurately synopsise those contained in the minutes of this first meeting (611.4131/5-146, Folder 3). The file copy of the telegram bears manuscript corrections indicating that its release time was changed from October 1, 8 p. m., to October 2, 10 a. m.; thus the word "today" should be corrected to read "yesterday".

611.4131/10-245 : Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, October 2, 1945—6 p. m.

8703. The U.S.-U.K. Committee on Commercial Policy met today and agreed upon *a*) the inclusion of India among the principal trading nations which would meet in March 1946 for the purpose of conducting negotiations preliminary to the general conference on trade and employment to be held in June 1946, and *b*) the treatment which should be accorded to the trade of countries which fail to carry out the obligations of the proposed multilateral arrangements on trade barriers.⁶² After agreeing upon the order in which the principal issues (tariffs and preferences, subsidies, state trading and exchange control, and cartels) should be taken up, the Committee began discussions regarding the American proposal to eliminate tariff preferences. This discussion, which was inconclusive, revealed a wide divergence between American and British viewpoints which may be difficult to bridge.⁶³

ACHESON

⁶² It was agreed, subject to further scrutiny, "that new members adhering to the proposed multilateral arrangements on trade barriers would be required to make adequate tariff reductions in order to receive the benefits of the arrangements". (611.4131/5-146, Folder 3)

⁶³ The British delegation protested that elimination of preferences would leave the United Kingdom defenseless in trade negotiations, since margins of preference provided the basis of the principal concessions which the United Kingdom could make in return for other countries' tariff reductions. Mr. Clayton replied that he felt that the U.S. proposal did not call for unilateral sacrifices by the United Kingdom and proposed the following statement regarding tariffs and preferences put forth by the U.S. side for inclusion in its "Proposal to Establish an International Trade Organization" (ECEFP D-108/45):

"1. *Import tariffs and preferences.* Members should undertake to take effective and expeditious measures, in accordance with methods to be agreed upon, for the substantial reduction of import tariffs and the elimination of tariff preferences. In the light of the principles associating the two which are set forth in Article VII of the Mutual-Aid Agreements, the rule should be that the reduction of tariffs and the elimination of preferences should be dealt with together, as follows:

"*a*) Margins of preference on any product should in no case be increased.

"*b*) Whenever most-favored-nation tariffs are reduced, such reductions should operate automatically to reduce or eliminate margins of preference.

"*c*) In order to carry out the foregoing, existing international commitments to maintain margins of preference should be abrogated and no new commitments should be entered into.

"*d*) As a part of the negotiations regarding tariffs and preferences, suitable arrangements will be made for the early elimination of such tariff preferences as are not eliminated by the application of the foregoing principles."

For subsequent alteration, see p. 160.

841.241/10-545

*The British Prime Minister (Attlee) to President Truman*⁶⁴

No. 15

[LONDON,] October 3, 1945.

The British Cabinet have recently given the most urgent and earnest consideration to the need to speed up the return of British Servicemen from overseas in the period before Christmas of this year. Many of these men have been on active service and away from their homes for five or more years, and the demand by the people of this country for their early return now that hostilities are over has become loud and insistent.

2. Even after eliminating or deferring movements which would normally command a high priority, we cannot with our present allocation of personnel shipping, achieve the minimum repatriation programme at which we have hitherto aimed, let alone achieve any acceleration.

3. In these circumstances, I have no alternative but to remind you that the arrangement to loan you the two *Queens*⁶⁵ and the *Aquitania* until the end of 1945 was conditioned solely by the urgency of re-deploying American Forces for the war against Japan. With the unexpectedly early termination of the Japanese war, these conditions have for some time now ceased to exist.

4. It is our desire that the two *Queens* and *Aquitania* should continue in your service for a period, and we fully realise the desire on the part of the United States to welcome back their soldiers and airmen who have been fighting in Europe. Our own urgent necessities, however, have compelled us to request that you should loan us in return for the *Queens* and *Aquitania* an equivalent personnel lift in American-controlled troop ships with a view to their being used on the main British trooping routes, i.e. from India and Australia to the United Kingdom. It will be understood that help on the North Atlantic route would not solve our problem.

5. Our Combined Chiefs of Staff have discussed this question between them but have failed to reach agreement. Your Chiefs of Staff "regret that the necessity to return United States Forces from Europe as expeditiously as possible requires all lifts scheduled under present agreements to December 1945, and that therefore they are unable to provide assistance in United States controlled troop shipping before the end of 1945". Your Chiefs of Staff go on to say that "action

⁶⁴ Copy transmitted to the Acting Secretary of State by the British Ambassador (Halifax) under date of October 5, 1945.

⁶⁵ The *Queen Elizabeth* and the *Queen Mary*; see *Conference of Berlin (Potsdam)*, vol. II, p. 1192.

on certain of the captured German passenger ships will in part, fulfil the need for additional troop lift as expressed by the British Chiefs of Staff." This latter statement may be true for some time in early 1946, but the captured German passenger ships will not alleviate the position in the all important period before the end of this year.

6. Your Chiefs of Staff seem to think that this question, which is absolutely vital to us, can await discussion at an overall personnel shipping review to be held some time this month, the results of which could not possibly take effect till very nearly the end of the year.

7. I shall speak with the utmost frankness. While so many of our troops overseas are awaiting repatriation after nearly six years of war and of separation from their families, I cannot continue to justify to the British public the use of our three biggest ships in the American service. I am reluctant to suggest the return of the *Queens* and *Aquitania*. I must, however, ask you most earnestly, Mr. President, to provide us in the immediate future with an equivalent lift for these three ships.⁶⁶

611.4131/10-445: Telegram

The Acting Secretary of State to the Ambassador in the United Kingdom (Winant)

WASHINGTON, October 4, 1945—6 p. m.

8785. Today's meeting of US-UK Commercial Policy Committee was devoted to question of subsidies and of agricultural policy generally. The British took position that American proposals appeared to be tailored to American situation and that, primarily because of provision in US proposals for eventual elimination of domestic subsidies, they would prevent United Kingdom from carrying out its program of agricultural subsidization.⁶⁷ Since the discussion revealed considerable agreement on basic objectives, matter was referred to a technical subcommittee for further consideration.

ACHESON

⁶⁶ Upon receipt of this message, identical letters were drafted and signed by the Secretary of State addressed to Secretary of War Patterson and Admiral Leahy suggesting that the *Aquitania* or its equivalent in tonnage be turned over to the British. According to a memorandum of October 15 by Under Secretary of State Acheson (not printed), before these letters could be transmitted, word was received that President Truman had acted on the matter through the War Department. The *Queen Elizabeth* and *Aquitania* were returned to British service, while the *Queen Mary* remained temporarily in use as a U. S. troopship.

⁶⁷ The British also took the position that the American plan to allow export subsidies on commodities in world surplus would alleviate conditions in exporting countries but aggravate them in importing countries (611.4131/5-146, Folder 3, Third Meeting).

611.4131/5-146

*Minutes of a Meeting of the United States Top Committee*⁶⁸

[WASHINGTON,] October 6, 1945—11 a. m.

Present:	Mr. W. L. Clayton, Chairman	
	Secretary Vinson	Mr. Harry White
	Mr. Amos Taylor	Mr. Howard
	Mr. McCabe	Mr. Hannaford
	Mr. Eccles	Mr. Angell
	Mr. Paul	Mr. Gardner
		Mr. Orchard
	Mr. Collado	Mr. Szymczak
	Mr. Luthringer	Mr. Raynor
	} Gen. Secy.	

1. Mr. Clayton reported that Secretary Vinson and he had had three talks with Lord Halifax and Lord Keynes in which they had gone over informally the whole question of a credit to Britain—amounts, terms, interest, maturities.⁶⁹ The British had strongly urged that there be no interest. No conclusions had been reached and no commitments made.

2. Mr. Clayton referred to the Executive Order providing for the transfer of Lend-Lease and Foreign Surplus Disposal functions to the Department of State,⁷⁰ and reported that the function of lend-lease settlement had already been transferred as of October 4. The remaining functions would be transferred within a few days. State would organize these functions into one operating organization with Mr. McCabe in charge. It was therefore recommended and approved that the Lend-Lease and the Surplus Disposal Committees be merged into one under the chairmanship of Mr. Clayton with Mr. McCabe acting as his Deputy.

3. Mr. White⁷¹ reported that the Finance working group was preparing a written report on the British balance of payments deficit and the blocked sterling accounts. He presented an oral interim report as follows:

With respect to the balance of payments the British had estimated a net deficit of \$5-6 billion in three years. Incomplete data indicate that these figures are too pessimistic. The British now state the deficit may total \$5.3 billion. The working group estimates that, exclusive of lend-lease cleanup and surplus disposal and about \$1 billion of additional accumulation in 1946 of sterling balances, the deficit will

⁶⁸ This was the first meeting of this committee.

⁶⁹ No record of these talks has been found in Department files.

⁷⁰ Executive Order 9630, September 27, 1945, 10 *Federal Register* 12245; reprinted in Department of State *Bulletin*, September 30, 1945, pp. 491-492.

⁷¹ Harry Dexter White, Assistant Secretary of the Treasury.

amount to \$3.3 billion, although these figures might be out to the extent of \$1 billion either way. Of the total \$1.5 billion represents a deficit in dollar payments. If no financial aid to Britain were forthcoming from the United States this deficit might be met by \$500 million reduction in dollar balances, \$500 million in South African gold, and \$500 million reduction in imports.

With respect to the sterling balances the British had stated they were \$13 billion on V-J and would reach \$15-15.5 billion by December 31, 1946. \$2 billion could be handled by miscellaneous arrangements (South America, Australia, Greece, Norway, etc.) and an additional \$2 billion might be agreed as ordinary working balances, leaving a V-J remainder of \$9 billion. The British had suggested that a reduction in principal of \$4 billion be made, leaving \$5 billion. By the end of 1946 this would have increased to \$7-7.5 billion at the most.

Mr. White indicated that probably \$1 billion could be obtained by the British, \$600 million by a Canadian credit, and \$400 million by South African gold operations.

He pointed out that the 10 percent of liquid funds to be offered in the sterling accounts settlement could be used only for current transactions, and that the British felt that it would take the sterling area three or four years to use up this amount.

After some discussion of individual items in the above estimates, Mr. White concluded that it would take \$4 billion to clean up the British balance of payments deficit and sterling accounts "nicely" (some members of the working group believe it would require \$5 billion); that with \$2 billion a less adequate job could be done; while with less than \$2 billion no very useful results could be achieved.

There followed a lengthy discussion of these figures and conclusions, and of methods of meeting the British financial needs including the possibility of making dollar credits available directly to members of the sterling area which in turn would make sterling credits available to Britain. Mr. White suggested that sterling balances accumulated before V-J be treated in one way, while post-V-J sterling accumulations and new dollar credits should be treated *pari passu*. This led to a discussion of the moral arguments for scaling down the sterling indebtedness and the comparability of such indebtedness with lend-lease. Mr. Angell⁷² urged the adoption of a principle regarding scaling down of such indebtedness based on its originating from transactions which were similar to lend-lease and furnished by the U.S.

⁷² James W. Angell was an Assistant Administrator in the Foreign Economic Administration until its dissolution. Later in October he was appointed U.S. representative, Allied Commission on Reparations, Germany.

Mr. McCabe pointed out that most of these arguments had a defensive character and that it was essential to take the offensive in presentation and explain the future benefits to the United States of the broad program we were proposing with the British. It was generally agreed that the United States interest should be stressed in public presentation. It was also agreed that it was essential that the financial and commercial policy understandings be accompanied by an overall settlement of lend-lease, surplus disposal, and related claims and benefits.

800.24/10-845

The Secretary of War (Patterson) to the Secretary of State

WASHINGTON, October 8, 1945.

DEAR MR. SECRETARY: I acknowledge receipt of the joint letter from the Foreign Economic Administration and the State Department dated September 20, 1945, setting forth the terms and conditions of payment for the issuance of maintenance items for United States equipment now in the possession of Allied Forces, under paragraph *c* of the Presidential Policy on Military Lend-Lease contained in JCS 771/18, dated September 5, 1945.⁷³

I am enclosing herewith a copy of the War Department directive⁷⁴ issued to the Commanding General, Army Service Forces,⁷⁵ Commanding General, Army Air Forces,⁷⁶ and to all Theater Commanders.

The War Department will render separate reports for billing purposes to the Foreign Economic Administration or its designated successor organization covering all transfers made under this authority and require that all requisitions accepted from foreign governments bear the statement: "It is agreed that full cash payment will be made upon presentation of a bill by the United States Government."

The War Department takes the position that it may transfer reasonable quantities of materials without any limitations as to total value of aid furnished under this arrangement. Further, such aid will be rendered to all countries which have received Lend-Lease aid unless otherwise specifically instructed by the State Department.⁷⁷

Sincerely yours,

ROBERT P. PATTERSON

⁷³ Not printed here.

⁷⁴ Not printed.

⁷⁵ Lt. Gen. Brehon B. Somervell.

⁷⁶ General of the Army Henry H. Arnold.

⁷⁷ Information concerning the furnishing of maintenance items in return for cash payment was communicated in a note from the Secretary of State to the British Ambassador on October 12, not printed. For text of note sent, *mutatis mutandis*, on the same date to the Soviet Chargé, see vol. v, p. 1042.

611.4131/10-945 : Telegram

*The Secretary of State to the Chargé in the United Kingdom
(Gallman)*

WASHINGTON, October 9, 1945—6 p. m.

8934. On October 5 US-UK Commercial Policy Committee discussed problems of state trading, export taxes, and exchange control. With regard to state trading there appeared to be no difference of objectives between the two groups. On export taxes British disagreed with US proposal that protective export taxes should be completely abolished, and proposed instead that they should be subject to individual negotiation as in case of import tariffs.⁷⁸ With regard to exchange control, British feel that since this subject has been covered in International Monetary Fund Agreement, no substantive provisions relating to it should be included in proposed multilateral agreement on commercial policy.⁷⁹ These three topics have been referred to subcommittees for further discussion on details.

On October 8 US-UK Committee on Commercial Policy discussed the British counter-proposal to US cartel policy. British agree in principle in opposing cartels and restrictive practices, but would leave door open for the existence of some cartels whose effect is not considered harmful.

US proposal would bind the signatory countries to prohibit their nationals from entering into agreements that restrict international trade, and lists in detail certain practices, such as price-fixing, which *ipso facto* are considered to be in restraint of trade. It would provide for a Commission on Business Practices under the International Trade Organization to deal with these questions.

British, on the other hand, are unwilling to accept the flat proscription of all the described practices, and would prefer to deal with abuses on a case by case basis. They therefore propose that the Commission on Business Practices be empowered to receive complaints from member states that commercial policy objectives of the ITO are being jeopardized by the operation of any particular agreement. That body would then consult with member states on a remedy, and would call upon them to enforce it. A subcommittee will consider cartel question further in an effort to secure an agreed position.⁷⁹

BYRNES

⁷⁸ The United States representatives re-drafted their proposals to accord with the British suggestion on export taxes (611.4131/5-146, Folder 3, Sixth Meeting).

⁷⁹ See telegram 9593, October 31, 7 p. m., to London, p. 152.

611.4131/5-146

Minutes of a Meeting of the United States Financial Committee

[WASHINGTON,] October 11, 1945—2:30 p. m.

Present: Secretary Vinson (in the Chair)

Secretary Wallace	Mr. A. Taylor
Mr. Clayton	Mr. Collado
Mr. Eccles	Mr. Angell
Mr. McCabe	Mr. Gardner
Mr. White	Mr. Knapp

Mr. Glasser—Chairman of Technical Subcommittee

Mr. Coe	} Secretaries
Mr. Hebbard	

Mr. Kindleberger—Secretary General

Summary of Tentative Agreements

The Chairman called the attention of the Committee to the agenda prepared by the Technical Subcommittee (U.S./Tech. Fin-4).⁸¹ He suggested that agenda items (a), (b), and (c), under No. 1, be left for later discussion. Tentative agreement on other items of the agenda was reached as follows:

1. *Loan vs. Line of Credit*

(d) Financial assistance should take the form of a line of credit which could be drawn upon as needed, and available for 5 years.

2. *Interest Rates*

(a) The line of credit should not be interest-free.

(d) The obligation would be serviced in equal annual installments, combining interest at 2 percent and amortization over 50 years. Thus, the amount of the annual payment on a \$1 billion obligation would be \$31,800,000 per year.

3. *Other Provisions Involving Interest Rates and Maturities*

(a) An initial period of grace of 5 years would be granted before interest and amortization payments would begin.

(b) There was agreement in principle that there should be a clause providing for the waiver of interest and the postponement of amortization payments during years when the British balance of payments was especially difficult. The Technical Subcommittee was asked to prepare various types of objective criteria by which this principle might be implemented.

(c) No provision for review of the interest rate during the period of the credit would be proposed.

4. *Maturity and Amortization*

The tentative acceptance of 2(d) precluded the necessity of discussing possible provisions for other than straight-line amortization.

⁸¹ Not printed.

Loan vs. Credit

In answer to a question from Mr. Vinson, Mr. Clayton stated that he believed the Committee was thinking in terms of a credit, rather than a loan. Mr. White agreed that a credit would be better, but pointed out that a large loan would permit the British to show a very strong reserve position and might build up confidence in sterling. He hoped that it was agreed that if a credit were granted it would not be offered only for the purchase of U.S. products. There was general agreement with this. Mr. White then transmitted a suggestion of Mr. Glasser's that the credit could be granted in the manner of a banking overdraft: the British could repay and later draw again up to the limit of the credit which had not already been amortized, and thus limit the amount of their obligation outstanding at any time to the amount actually needed. In answer to a question from Mr. Vinson, Mr. White and Mr. Clayton agreed that the longer the period granted to the British within which to draw against the credit, the less likelihood there would be that they would feel it necessary to draw the whole amount made available, since if the period of time was short, they would be unable to measure the contingencies of the transition period. At Mr. Clayton's suggestion, the Committee registered its tentative agreement on agenda item No. 1(d): a credit would be made available for a period of 5 years.

Interest Rates

Mr. Vinson, Mr. Eccles and Mr. McCabe pointed out the difficulty of obtaining public acceptance of an interest-free loan. Mr. Angell stated that a very good case could be put forward for an interest-free loan, considering the close relationship to the war and the huge sums spent upon the war. The United Kingdom presented a special case. Another possibility was to limit the interest to the lowest rate at which the U.S. Treasury could borrow funds, such as the short-term rate at which funds were obtained. Mr. Vinson observed that a 50-year credit would indicate a higher rate than 2 percent if based upon the rates paid by the Treasury. Mr. Eccles thought that it would be as easy politically to obtain approval of an interest-free credit as to lend money at the lowest short-term rate available to the Treasury.

Mr. White pointed out two corollaries to the provision that the U.S. credit should carry an interest charge. If the U.S. charged interest, it would be more difficult for the U.K. to arrange interest-free loans from other countries such as Canada and the Union of South Africa. Secondly, if the U.S. justified a low rate of interest to the U.K. on the basis of not wishing to make a profit out of the transaction, this was tantamount to admitting that the U.S. was at-

tempting to making a profit on loans to other nations which were associated with the U.S. in the war, and which would presumably be charged a higher rate.

Mr. Vinson stated that the payment of a fixed rate of interest and amortization per year would be more easily understood and therefore more readily acceptable. Mr. Wallace suggested that the interest and amortization payments, whether begun immediately or after a period of grace, might begin with a low figure, gradually working up to a fixed amount. Mr. Vinson thought the relative simplicity of the fixed-payment formula gave it a considerable advantage; in addition, if a period of grace of about 5 years was granted, the U.K. would presumably have had two years after balancing its international payments in which to prepare for meeting the first installment.

At Mr. Clayton's suggestion, the Committee recorded its tentative agreement upon fixed annual payments combining interest and amortization, with an initial period of grace of 5 years before payments were begun. Mr. White called attention to the Technical Committee's calculation that an initial period of grace of 5 years would reduce the effective interest rate on a 2 percent loan to about 1.63 percent, and Mr. Taylor⁸² and Mr. Collado pointed out that if waivers of interest were in fact found to be advisable the rate of interest would be even lower.

The Committee recorded its tentative agreement not to consider a clause providing for the review of interest rates during the period of the credit.

Waiver of Interest and Postponement of Amortization

Mr. Eccles emphasized the necessity of avoiding those difficult default situations which had characterized previous loans, when both creditor and debtor were agreed that some waiver of service charges might be advisable, but were prevented from acting by the terms of the loan contract. It might be advisable to include a clause giving the British the privilege of requesting the deferment or waiver of the annual service charge, with the U.S. reserving the right to waive or defer the interest and amortization charges. Mr. White agreed that the provision for a waiver should be granted in the Act of Congress which provided funds for the credit, but he would hesitate to make such a provision a part of the contract with the U.K., because of the difficulties inherent in such a provision. He pointed out that the decision to waive interest or postpone amortization would fall upon some administrative official, and in view of the differences in opinion which always arose when the future financial position of the U.K. was

⁸² Amos E. Taylor, Director, Bureau of Foreign and Domestic Commerce, Department of Commerce.

being considered, that official would be placed in a difficult position. He agreed with Mr. Eccles that some method of obtaining flexibility was advisable, but stressed that both the technical problem of ascertaining the future position of the U.K. balance of payments and the administrative problem of deciding whether conditions merited a waiver or postponement, were very difficult. It would be helpful if some relatively objective criterion could be developed for determining whether the waiver clause should be put into effect in any given year. Mr. Clayton suggested that one guide might be the degree to which the *previous* year's balance of payments position of the U.K. had presented difficulties. Mr. Gardner⁸⁸ suggested that the gold and foreign exchange reserve of the British would indicate the extent to which there was pressure on sterling because of the balance of payments situation.

After some discussion, it was tentatively agreed that the waiver of interest and postponement of amortization in difficult years was accepted in principle, and that the Technical Subcommittee would be asked to suggest various types of objective criteria by which the principle might be implemented.

Seniority of U.S. Obligation

Mr. Vinson said that although in conversations with the British he had strongly pressed for priority on the U.S. credit, he nevertheless understood the British position that they had a fiduciary responsibility to the creditors which were also members of British Empire. He thought that the American position on the matter required further consideration. Mr. Clayton said that he felt similarly, and Mr. Eccles agreed.

Amount of the Credit

Mr. Vinson observed that time would not permit the Committee to reach a decision with respect to the amount of the credit to be granted, but asked Mr. White to clarify the estimates of the Technical Subcommittee and point out their relation to the amount of financing required by the U.K. Mr. White stated that if the Technical Committee had correctly estimated the size of the three-year deficit at \$3.3 billion, the amount of assistance required from the U.S. to meet a part of this deficit was relatively small. It was to be presumed that about \$1.0 billion of the deficit would be met out of borrowings from other countries, primarily the Union of South Africa and Canada. Of the remaining \$2.3 billion, about \$1.5 billion was to be added to the sterling balances remaining after the reductions mentioned by Lord Keynes, and estimated by him at about \$7.2 billion. This meant that less than \$1.0 billion would be required from the U.S., if the only

⁸⁸ Walter R. Gardner, Federal Reserve Board.

purpose of the credit was to cover the transition deficit of the U.K. Mr. Clayton felt that this analysis should be modified on two points: The reduction of the sterling balances as outlined by Lord Keynes presumably entailed some drain on the gold and dollar balances of the U.K.; in addition, the British had estimated the deficit at \$5.0 to \$6.0 billion, rather than the \$3.3 billion suggested by the Technical Committee.

Mr. Eccles gave the Chairman a memorandum regarding the proposed credits.⁸⁴ Mr. Vinson stated that the time and place of the next meeting would be announced at a later time.

611.4131/10-1145 : Telegram

*The Secretary of State to the Chargé in the United Kingdom
(Gallman)*

WASHINGTON, October 11, 1945—6 p. m.

9039. On October 11 US-UK Commercial Policy Committee ratified agreed positions, which had been worked out earlier in combined subcommittees, regarding a) procedure for holding proposed conference on trade and employment in a manner designed to avoid unilateral decision by US as to whether non-United Nations should be invited to conference; b) export taxes; c) state trading; and d) subsidies. There remain for consideration subjects of cartels, exchange controls, and preferences. It is hoped that an agreement in subcommittee regarding first two of these will be reached shortly.

BYRNES

*The Foreign Economic Administrator (Crowley) to the Assistant
Secretary of State (Clayton)*⁸⁵

[WASHINGTON,] October 15, 1945.

DEAR MR. CLAYTON: I wish to take this opportunity to report to you on the activities of the Lend-Lease Committee which has been negotiating with the British and of which I have been Chairman.

The Lend-Lease Top Committee held one combined meeting with the British. This meeting was held on September 13 and the following matters were discussed:

1. The British representatives stated that reverse lend-lease in general had ended on V-J Day but that they were prepared to issue instructions for the continuance of reverse lend-lease which would parallel the U.S. instructions for the continuance of lend-lease. The

⁸⁴ Not found in Department files.

⁸⁵ Printed from copy in the records of the FEA Administrator.

U.S. representatives accepted this statement of the U.K. Government but stated that the manner of settlement for supplies and services furnished by the U.K. and Colonies after V-J Day should be a matter for further discussion. Following the instructions of the US/Top Committee, I stated that the U.S. was of the opinion that the supplies and services furnished by the U.K. and Colonies to the U.S. after V-J Day should not be paid for in cash, but should be offset against the sums which the U.K. would owe to the U.S. for the pipeline and inventory.

2. There was considerable discussion of the terms and conditions upon which the U.K. would pay for the items selected from pipeline. Following the directive of the US/Top Committee, I stated that the British would have to pay for these, either in cash or on *3(c)* terms, i.e., over a period of 30-years with interest at 2- $\frac{3}{8}$ % per annum. The British representatives accepted the liability to pay for such items but wished to defer for further consideration, the terms and conditions upon which they would make payment.

On September 20, I had a conversation with Lord Keynes at which we had further discussions of the terms and conditions upon which the U.K. might obtain items selected from the pipeline and the entire civilian inventory. Members of my staff and of Lord Keynes' staff subsequently prepared drafts of an exchange of letters between myself and Lord Keynes covering the substance of this conversation. These letters have never been finalized for reasons with which you are familiar, but copies of the latest drafts of them are attached hereto as Exhibits I and II.⁸⁷

The other activities of the Lend-Lease Committee have been carried on by Sub-Groups. The following Sub-Groups were organized:

- Sub-Group 1 -Pipeline and Inventory
- Sub-Group 1(a) -Petroleum
- Sub-Group 2 -Ships
- Sub-Group 3 -Military Lend-Lease and Reverse
Lend-Lease
- Sub-Group 3(a) -Shipping Services
- Sub-Group 4 -Capital Goods and Installations
- Sub-Group 5 -Lend-Lease Settlement

Sub-Groups 1 and 3 have been the most active because the subjects assigned to them for discussion required decisions most urgently. They have held several meetings with the British and have appointed combined working parties to investigate and report on several technical subjects. Each has prepared a report on its activities, copies of which are attached hereto as Exhibits III and IV.⁸⁷

⁸⁷ Neither printed.

I wish to call your particular attention to the paragraph on the top of page 4 of Sub-Group 3's report which states that the Army and Navy are requiring cash in advance for certain supplies and services furnished to the U.K. Military, instead of allowing collection to be made through the offsetting arrangements. If this situation is not remedied, the offsetting principle may break down and we may be forced to pay cash for supplies and services received from the U.K. and Colonies.

The other Sub-Groups held no meetings with the British. Sub-Groups 1(a) and 2 did, however, hold several interagency meetings to develop a U.S. position for presentation to the British. Copies of the documents that they have agreed for presentation to the British and of the minutes of their meetings are attached hereto as Exhibits V and VI.⁸⁸

Sub-Groups 4 and 5 have not held any interagency meetings as the matters assigned to them did not require as urgent settlement as the matters assigned to the other Sub-Groups. Informal discussions have been held among members of Sub-Group 5 at which it has been suggested that claims arising out of the war which the U.S. has against the U.K. and which the U.K. has against the U.S. must be presented for settlement during the current negotiations if they are to receive the consideration that should be accorded them. It would be my recommendation that this principle be adopted by you as you carry forward in the discussions.

I shall, of course, be happy to make available to you any further information which is in my possession and which will be of assistance to you in concluding the negotiations.

Sincerely,

LEO T. CROWLEY

841.51/10-3045: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, October 30, 1945—6 p. m.

[Received October 30—4:20 p. m.]

11360. 1. Ronald, in personal conversation with Penrose today, said the position in regard to the financial talks in Washington is regarded in Govt circles here as "very grave". The greatest difficulty centers on proposal to place financial arrangements on a commercial basis.

WINANT

⁸⁸ Neither printed.

611.4131/10-3145 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, October 31, 1945—7 p. m.

9593. U.S.—U.K. main committee on commercial policy has not met since meeting reported in Deptel 9039 of October 11. Work at technical subcommittee level has been proceeding, however, and we are reasonably certain of agreement on exchange control, preferences and cartels.

On exchange control it has been agreed in subcommittee that the trade proposals should include a provision requiring the Fund and the Trade Organization to have a common membership and should incorporate by reference the exchange principles of the Fund.

The draft on preferences, which has been agreed upon in subcommittee, and which we understand the British are now clearing with the Cabinet, provides: *a*) that definite arrangements should be made for the substantial reduction of tariffs and for the elimination of tariff preferences, *b*) that as an initial step in the process of eliminating preferences it should be agreed that reductions in most-favored-nation rates of duty will operate automatically to reduce or eliminate margins of preferences, that existing international arrangements will not be permitted to stand in the way of action agreed upon with respect to preferences, and that no new preferences will be introduced, and *c*) that action for elimination of preferences will be taken in conjunction with adequate measures for the substantial reduction of barriers to world trade on a broad scale. It will be observed from the foregoing that the draft on preferences makes it clear that we are not asking the British to give us a unilateral commitment on preferences in consideration for financial aid and apart from what may be done on tariffs and trade barriers generally.

With regard to cartels, the draft agreed upon in subcommittee largely reflects the original U.K. proposal for a case-by-case approach to the problem of restrictive business practices.⁸⁹ We understand that this draft has now been approved by the British Cabinet.

There remains for consideration the question of quotas used for balance-of-payments purposes during the postwar transitional period. The British have thus far insisted on the inclusion of a provision granting freedom to discriminate during this period. Such a provision is necessary, they say, because *a*) British opinion would react unfavorably toward anything more hampering of U.K. freedom than the Monetary Fund Agreement, which permits exchange discriminations during the transitional period, *b*) the pound is likely to remain

⁸⁹ See telegram 8934, October 9, 6 p. m., to London, p. 144.

inconvertible for at least a short period (perhaps a year) after the projected loan goes through, and so long as this is the case discrimination by the U.K. cannot be avoided, and *c*) the loan arrangements as they now stand do not appear liberal enough to warrant any hard-and-fast commitment by the U.K. that it will not discriminate during the transitional period.

In an effort to meet some of the British preoccupations we have made tentative counterproposals on quotas which would permit discrimination when necessary to the utilization of inconvertible currencies for needed imports. The British have taken the position, however, that this is not enough.⁹⁰ A further meeting on the subject with Liesching and Lee (Treasury) will be held today.⁹¹

BYRNES

841.51/11-345: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, November 3, 1945—8 p. m.
[Received November 3—6:20 p. m.]

11568. For Assistant Secretary Clayton.

1. In strictly confidential conversation this afternoon Hall-Patch told Penrose that UK circles considered that great progress had been made with commercial policy negotiations but that the position on the financial talks was serious.

2. Regarding commercial policy he said that in UK opinion the prolonged talks in London over the last year had prepared the ground thoroughly and familiarized officials with it in detail and had thus contributed largely to the satisfactory progress of present negotiations.

3. The chief UK difficulty on commercial policy now was [*is?*] the present attitude of the Australians. Hall-Patch said the Dominion's Secretary⁹² is having "a hell of a time" with Evatt⁹³ who is pouring in forcible protests against the commercial policy understandings.

4. On the financial negotiations Hall-Patch said the difficulty centered on the US insistence on a loan on strictly commercial lines. The difficulty was with the inadequate size of suggested loan and the burden of servicing it. Those two difficulties were interconnected. If interest

⁹⁰ As a result of these British objections, the original American proposal was altered before agreement was reached. Chapter III, section c, 2, of "Proposals for Expansion of World Trade and Employment", concerning restrictions to safeguard the balance of payments, should be compared with paragraph 9 of the Anglo-American Financial Agreement; for citations to texts, see bracketed note, p. 194.

⁹¹ No record of this meeting has been found in Department files.

⁹² Viscount Addison, British Secretary of State for Dominion Affairs.

⁹³ Herbert V. Evatt, Australian Minister for External Affairs.

as well as amortization payments had to be made on the entire loan, then the size of the loan which the UK could take with any hope of servicing it was so limited that they would not be in a position to undertake the commitments regarding the freezing of sterling, and entry into multilateral arrangements which were called for in other parts of the general settlement. Whatever happened the UK were determined not to take loan commitments which they could not meet.

5. A clause on the interest and amortization payments in case of balance of payments difficulties, Hall-Patch said as the US had not put up any definitive plan it was left to the UK to make proposals on this subject. This was an extremely complicated matter for the Cabinet to pass on in a hurry.

6. The Cabinet are greatly worried over the financial negotiations, particularly from the point of view of public opinion here which in part is suspicious that the US political and financial interests wish to bring pressure to bear against the Labor Govt's domestic policy.

7. The Cabinet is meeting this evening but Hall-Patch is uncertain how far they will be able to cover the ground and thinks it likely that the subject may not be dealt with fully before Monday.⁹⁴

8. Hall-Patch paid tribute to the good will of US officials and governmental circles and said that UK officials appreciated fully the extraordinary difficulties of our negotiators in having to negotiate on the basis of hypotheses as to what they think Congress will accept and then having from time to time to "take the temperature" of Congress by soundings on the Hill, following which they are obliged in some cases to modify their position.

WINANT

611.4131/11-545 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, November 5, 1945—8 p. m.

9725. Personal for Ambassador and Mr. Dunn.⁹⁵ Following is summary of progress report on US-UK economic negotiations sent to the President on Oct 26.

1. Finance. On overall financial aid our present suggestion is 5 years with no interest or amortization followed by equal annual payments of \$31.8 million per billion dollars of credit for 50 years. This

⁹⁴ November 5.

⁹⁵ Assistant Secretary of State James C. Dunn had served as Deputy to Secretary of State Byrnes at the first session of the Council of Foreign Ministers, September 11-October 2, 1945, at London, and remained in London after the session had terminated in order to make arrangements for future meetings. For documentation on the first session, see vol. II, pp. 99 ff.

is equivalent to interest at 2% over 50 year period or 1.63% if the 5 years of grace are taken into account. British continue to insist on a lower rate of interest. We are agreeable to waive interest and postpone amortization in any year in which British exports and visible receipts fall below an agreed amount. On amount of overall financial aid British negotiators have indicated that they would recommend to London \$4.5 billion⁹⁶ instead of \$5 billion originally requested. Although we could probably settle for \$4 billion we have suggested \$3.5 billion.⁹⁷ Except for possible restrictions on capital movements British have offered to put sterling on convertible basis by end of 1946 thus going on full Bretton Wood basis and eliminating sterling area dollar pool. We do not expect any serious British opposition to our request that this changeover date be advanced to not later than middle of 1946. We shall probably accept British offer to settle or reduce blocked sterling obligations to about ½ face amount and fund balance at no interest with amortization over 50 years.

2. Lend-Lease and Surplus Property. We have yet to reach agreement on pricing principle on inventories and have yet to suggest lump sum for settlement of surplus war property durable goods and remaining installations. We must still work out details of certain intangible benefits which we wish. Difficulty in reaching agreement with British on most of these points is not anticipated. Agreement already reached on handling of pipeline and other post V-J Day items.

3. Aviation. British have so far failed to send qualified representatives to discuss aviation problems.⁹⁸

4. Telecommunications. We are endeavoring to obtain immediate acceptance by British of general principles involved in main questions at issue in telecommunications field before Bermuda Conference on Nov. 19.⁹⁹ No formal reply yet received. Embassy is familiar with latest developments on radio telegraph circuit between U.S. and Saudi Arabia.¹

5. Commercial Policy. Discussions on this subject are nearing completion. On all vital issues substantial agreement has been

⁹⁶ At the fourth meeting of the U.S. Financial Committee, October 17, Mr. Clayton had reported on two informal talks held with the British since the meeting of October 11. Mr. Clayton stated that the British officials had received instructions from London to request \$5 billion which sum would include a credit of approximately 500 million for lend-lease settlement; hence the figure \$4½ billion. The Americans did not include the lend-lease sum in talking of the total amount of the credit, while the British often did (611.4131/5-146, Folder 2).

⁹⁷ This tentative figure had been agreed on at the fourth meeting of the U.S. Financial Committee, October 17 (611.4131/5-146, Folder 2).

⁹⁸ For documentation relating to civil aviation, see pp. 224 ff.

⁹⁹ The Conference opened on November 21; see p. 245.

¹ For documentation concerning representations to Saudi Arabia and the United Kingdom regarding proposed establishment of a direct radio telegraph circuit between the United States and Saudi Arabia, see vol. VIII, pp. 1009 ff.

achieved or is in sight. Key points on which agreement has been reached may be summarized as follows:

A. Procedure. Principal steps which we have proposed and the British accepted in negotiating and bringing into force proposed multilateral arrangements on commercial policy² are as follows: (a) Commercial policy proposals will be published by Dept as a plan prepared by American experts for consideration by an international conference on employment and trade; (b) The US will invite 13 or 14 other countries (including USSR, France, China and British Empire countries) shortly after publication of plan to attend a meeting in Mar 1946, chief purpose of meeting to be to negotiate a multilateral trade agreement embodying trade barrier parts of "plan." We would put this into effect under Trade Agreements Act. Countries meeting in Mar would also endeavor to reach substantial agreement on rest of the plan including machinery for international trade organization, measures to maintain employment, cartel policy and commodity policy; (c) About Dec of 1945 we would urge UNO to call an international conference on trade and employment to meet following June. We hope that results of Mar meeting among principal trading countries can be submitted to June conference for general adoption by United Nations and such other countries as may be invited by UNO to conference.

B. Substance. On substance matters British have raised questions regarding preferences, export taxes, subsidies, state trading, cartels and exchange controls. On export taxes, state trading and on subsidies agreement has been reached and for each of the others a basis for agreement has been worked out. In a few days we hope all outstanding questions will be cleared up.

BYRNES

841.51/11-645: Telegram

*The Ambassador in the United Kingdom (Winant) to the
Secretary of State*

LONDON, November 6, 1945—midnight.

[Received November 6—10:04 p. m.]

11664. Personal for Secretary Byrnes and Assistant Secretary Clayton.

1. Thank you for 9725, November 5 just received, directed to me and Dunn. Dunn sailed on the *Queen Mary* on November 4.

2. This afternoon I saw Bevin about a number of subjects. Before I left he brought up the question of the financial discussions. He was plainly troubled about Britain's future and about the chances

² See footnote 8, p. 160.

of getting the cooperative world that he wants. He feels that unless the US is able to assist on a sufficient scale to meet Britain's balance of payments difficulties the future is not promising.

3. He then sketched briefly the main points which he thought necessary to meet the difficulties. He divided the necessary financial assistance into two parts:

First, a 2½ billion dollar credit at an interest rate of 2% with repayment beginning after 5 years and spread over 50 years, and with provision for a waiver clause.

Second, a 2 billion dollar credit interest free but with repayments beginning after 5 years and spread over 50 years to be available to be drawn on to the extent necessary for the release of sterling.

4. It seems to me likely that the figures mentioned by Bevin were approved by the Cabinet last night for Hall-Patch and Robbins to take back to Washington as a revised British proposal.

5. Bevin argued that the credit of 2 billion would be to our advantage since it would open the sterling area to American trade and it should therefore be free of interest.

6. I realize that this may be a simplification of a difficult and complicated problem and that questions of the writing down by creditors of British external obligations in sterling are involved but I do believe that the interests of security and the hope of restoring multilateral trading depend on success in the present discussions.

7. There is also the danger that if the service charges on the total loan exceed Britain's ability to make current payments she may be tempted to cut down her requests for funds to an amount which is insufficient to carry through successfully a multilateral trade program. A cramped world trade will react against full employment in the US and will create general economic insecurity.

WINANT

611.4131/5-146

Minutes of a Meeting of the United States Top Committee

[WASHINGTON,] November 7, 1945—10 a. m.

Present: Secretary Byrnes, Chairman

Mr. Clayton	Mr. White
Secretary Vinson	Mr. Taylor
Secretary Wallace	Mr. Gardner
Mr. Eccles	Mr. Knapp
Mr. McCabe	Mr. Orchard
Mr. Collado—Secretary General	Mr. Smithies

The Secretary of State opened the meeting by stating that he was very pleased to participate directly for the first time in the British

negotiations and that he regretted that his absence from Washington and other duties had not made it possible for him to participate earlier. He called upon the Secretary of the Treasury to indicate the status of the financial negotiations.

Secretary Vinson summarized the background of the discussions, indicating that the British had originally come to Washington with the idea of getting financial aid in the amount of \$6 billion in new money plus perhaps \$500 million of lend-lease settlement. They had subsequently reduced this request to \$5 billion plus the amount of lend-lease settlement.³ They had originally proposed to handle the blocked sterling accounts, which they estimated would amount to \$14 billion, when the new exchange arrangements went into effect sometime in 1946, as follows: they would undertake to settle with non-sterling area countries approximately \$2 billion of blocked sterling accounts against various British investments and other assets in those countries, reducing the amount relating to the sterling area proper to \$12 billion. Of this they would propose one-third be cancelled as a contribution to the war—though not necessarily on a horizontal cut basis country by country. Of the remaining \$8 billion, 10% or \$800 million, would be made available in convertible funds at once and \$7,200 million would be funded into long term non-interest bearing obligations. As these long term obligations were amortized, the proceeds would be made fully convertible.

The U.S. technical staff had carefully worked over available information on the balance of payments deficit and had discussed the matter at great length with the U.K. group. As against the lowest British estimate of 3-4 year deficit of about \$5 billion, the U.S. technical staff estimated a range of \$2.3 billion to \$4.3 billion with a "most probable" figure of \$3.3 billion. In view of these figures and after taking careful count of existing British gold and dollar balances and the possibility that the British would obtain funds in other countries, notably Canada, the U.S. finally offered to recommend a credit of \$3.5 billion. There was some difference of opinion in the U.S. group with a number of people favoring an offer of \$4 billion of new money from the U.S.

Secretary Vinson went on to discuss the terms of financial aid, pointing out that the British originally requested a grant and since then have tried to separate the amount into two or more parts or "tranches", of which at least part would be interest free.⁴ The U.S.

³ For Mr. Clayton's explanation that the British request for \$5 billion would include the amount for lend-lease settlement, see footnote 96, p. 155.

⁴ This idea had been formally advanced in a document entitled "U.K. Draft on Terms of Financial Agreement," dated November 5, 1945 (611.4131/5-146, Folder 2, U.S. Fin. Document 4). In this draft, the British requested a sum of \$4 billion, not including the amount for lend-lease settlement, of which \$2 billion would be interest free. This proposal of two "tranches," however, was abandoned in the next "U.K. Draft on Terms of Financial Agreement," dated November 7 (611.4131/5-146, Folder 2, U.S. Fin. Document 7).

group had decided unanimously that interest must be charged on the entire amount of the credit although we were prepared to concede five years of grace and a clause permitting the deferment of payments in the years in which the British balance of payments was bad. With respect to years of grace the U.K. had originally wanted ten years but was prepared to accept our offer of five years. At the first U.K. wanted no deferment privileges; the latest paper requests them.⁵

Secretary Vinson summed up by stating that there were two principal financial problems before the U.S. group: the amount of the credit and the question of interest. A subsidiary financial question related to the financial terms to be imposed in connection with settlement of lend-lease and surplus disposal.

Secretary Vinson went on to state that at the last meeting he and Mr. Clayton had had with Lord Halifax and Lord Keynes, he had suggested that in addition to \$3.5 billion of new money the Eximbank might hold open \$250 million for use by the British if necessary on the so-called 3 (c) terms of 2½% and 30 years.⁶ He further stated that Governor Towers of the Bank of Canada had told him and Mr. White that the Canadians might be prepared to extend a credit of \$1 billion U.S. dollars to the U.K.

Secretary Vinson recommended that the U.S. stand on our maximum offer of \$3.5 billion and interest at 2% as we had previously proposed to the British.

Secretary Vinson then went on to discuss points 4 and 5 in the British paper relating to waiver and/or deferment of interest and principal. Although the British paper did not so indicate, Secretary Vinson and Mr. Clayton stated that the British had said that paragraph 4 was a "Washington" proposal and paragraph 5 an alternative "London" proposal. There ensued considerable discussion in the Committee regarding waiver vs. deferment and it was generally agreed that there should be no accumulation of interest on interest and that what everyone had in mind was that the payment of interest and amortization postponed in any particular year should be made in exactly the same amount at the end of the 55 year period. It was also agreed that the criteria listed by the British in paragraph 5, subsections *a*, *b* and *c*, were not satisfactory. It was finally agreed to pass this entire subject to the technical group for consideration and report.

With respect to one of the two principal points raised by Secretary Vinson—the question of interest—it was agreed that the U.S. Group would stand on its former position of interest at 2 percent on the

⁵ Reference here is to the draft of November 5.

⁶ Presumably reference is to an informal meeting of which no record has been found in Department files.

entire amount of the credit actually drawn by the British with five years of grace and a deferment provision.

Mr. Clayton then expressed his views with respect to the amount of the credit. He pointed out that estimation of the balance of payments deficit involved a great many uncertainties, that it was necessary to look well into the future, that many small variations could cause a substantial difference in the total deficit, and that the whole process was highly speculative. The U.K. wants not an outright credit but a line of credit to be drawn against when needed. In view of the necessity of paying interest and making amortization payments, the U.K., a careful people, would not draw any more than necessary. The U.K. points out that it is being asked to revolutionize its world trading methods, that this involves many uncertainties, and that it must have a reserve. Mr. Clayton believed that the negotiation should end up with the amount of new money at \$4 billion—that the U.K. would not accept less. He pointed out that the U.S. Group had had Congressional reactions in mind, and expressed the opinion that the difference between a line of credit of \$3.5 billion and one of \$4 billion would be regarded as relatively unimportant by the Congress. He doubted the advisability in view of the overall purpose of the economic negotiations of trying to squeeze the British down to \$3.5 billion.

Secretary Vinson questioned whether the scope of British agreement on empire preferences and cartels would not disappoint the Congress and the public. Mr. Clayton stated that he was fully reconciled to the position on empire preferences and pointed out that the cartel problem was a very difficult one in which foreign views were very different from our own and on which there was a diversity of opinion within the United States. The understanding on empire preferences is:

"1. *Import tariffs and preferences.*⁷ In the light of the principles set forth in Article VII of the mutual-aid agreement between the United States and the United Kingdom, the United States and the United Kingdom will, in the immediate future, enter into the multilateral negotiations envisaged in Comtrade 3⁸ for the substantial reduction of tariffs and for the elimination of tariff preferences, action for the elimina[tion] of tariff preferences being taken in conjunction with adequate measures for the substantial reduction of barriers to

⁷ For previous version, see footnote 63, p. 138.

⁸ Document of the U.S.-U.K. Committee on Commercial Policy entitled "Procedure for Negotiating and Implementing the 'Proposals for Consideration by an International Conference on Trade and Employment'" (Com/Trade-1), revised as of November 5; not printed. Com/Trade-1 in its final form, along with supplementary material, became "Proposals for Expansion of World Trade and Employment," made public on December 6, and printed as Department of State publication 2411; also reprinted in Department of State *Bulletin*, December 9, 1945, p. 913. For Draft Combined Minutes of the United States—United Kingdom Committee on Commercial Policy, see p. 178.

world trade, as part of the mutually advantageous international arrangements contemplated in Comtrade-1.

"It is agreed that as an initial step in the process of eliminating tariff preferences in the negotiations envisaged in Comtrade-3:

"a. Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.

"b. All negotiated reductions in most-favored-nation tariffs will operate automatically to reduce or eliminate margins of preference. (That is to say, in respect of any product on which the most-favored-nation rate is reduced or bound against increase in the negotiations, the margin of preference which may apply to such product may not exceed the margin by which the most-favored-nation rate, as reduced or bound against increase, exceeds the pre-agreement preferential rate.)

"c. Margins of preference on any product will in no case be increased and no new preferences will be introduced."

Mr. Eccles stated that the question of the amount of the credit turns on the justification to be made in selling the arrangements to the public and the Congress. He reviewed all the figures and indicated a belief that \$3 billion was all the British actually needed.

Mr. White then stated that he had just received a document from Lord Keynes⁹ that suggested that while the British would go a long way towards convertibility with respect to the sterling area countries, they would not abandon their bilateral clearing agreements with other countries. Mr. Clayton emphasized his conviction that the discriminatory features of the bilateral agreements must be eliminated, and the sterling area dollar pool must be abolished. In his view the abolition of the dollar pool was much more important to U.S. exporters than the elimination of empire preference.

Mr. Clayton then pointed out that the earlier decision to offer \$3.5 billion to the British had been a compromise in order to get forward. At that time he had urged \$4 billion and the vote in the U.S. Financial Group had been 3 to 2 in favor of \$4 billion. Since Secretary Vinson and Mr. Eccles had objected to the figure, he had changed his position with respect to the amount to be offered at that time, but had indicated his intention to press for \$4 billion if the occasion arose.¹⁰ He felt that the amount of the line of credit is the easiest point on which to meet the British in the considerable number of points under discussion, that the British would actually only use \$3-3.5 billion, and that it

⁹ Presumably reference is to the second draft of a document entitled "Sterling Area Arrangements", dated November 7, 1945; not printed.

¹⁰ This had taken place at the fourth meeting of the U.S. Financial Committee, October 17 (611.4131/5-146, Folder 2).

would be as easy to convince the Congress on the desirability of \$4 billion as on \$3.5 billion.¹¹

The Secretary of State then summed up the discussion as follows: The decision was to maintain the U.S. position on interest. From the point of view of public presentation the stipulation regarding interest would be helpful. In addition it should be stressed that this was a line of credit to be used only if necessary. With respect to amount the Group should first press fully with the British the question of handling of sterling convertibility, the sterling area dollar pool, and the status of the bilateral agreements.

During the meeting several references were made to the lend-lease settlements and the Secretary of State indicated his strong view that understanding should be readied at this time on the whole problem of lend-lease settlement so that no loose ends would be left for the future.

611.4131/5-146

*Minutes of a Meeting of the United States-United Kingdom Finance Committee*¹²

[Extracts]

[WASHINGTON,] 19 November, 1945—2 p. m.

Present: Secretary Vinson (In the Chair)

U.S. REPRESENTATIVES

Mr. Clayton
Mr. Amos Taylor
Mr. Eccles
Dr. White

Also Present

Mr. Collado
Mr. Hawkins
Mr. Knapp

U.K. REPRESENTATIVES

Lord Halifax
Lord Keynes
Mr. Brand
Prof. Robbins
Mr. Hall-Patch
Mr. Harmer

Also Present

Mr. Bureau

Mr. Coe }
Mr. Lee } *Joint Secretaries*

¹¹ At the fifth meeting of the U.S. Financial Committee on November 8, Mr. Clayton advocated the extension of a \$4 billion credit to the British. Following discussion, Chairman Vinson put it to the Committee as a motion, which was defeated with State and Commerce in favor and Treasury and Federal Reserve opposed (611.4131/5-146, Folder 2).

¹² These are agreed combined minutes. This was the fourth meeting of the Committee.

3. Discussion centered in the first instance on the question of the amount to be inserted in paragraph 1 (i) of the draft,¹³ concerning the size of the proposed credit.

Mr. Vinson said that he thought that the position in this respect was well known to the U.K. representatives and that it was not intended by the U.S. representatives that the proposal should be sent to London with no figure shown as the total credit. The U.K. proposal, as he understood it, was that the credit should be \$4.5 billion inclusive of the amount required in connection with the Lend Lease settlement, whereas the U.S. view was that the amount should be \$3.5 billion *plus* whatever amount was required in connection with the Lend Lease settlement.

Lord Keynes explained that, given the commitments into which the U.K. was expected to enter, as indicated in later paragraphs of the U.S. draft, the minimum amount of new money which the U.K. would require under the credit would be \$4 billion. This would be exclusive of the amount required to wind-up Lend Lease and Reciprocal Aid, which had always been thought of as a figure up to \$500 million: indeed the U.K. representatives had received instructions from London to the effect that any figure in excess of \$500 million would be politically impracticable so far as the U.K. was concerned. In short, the instructions of the U.K. representatives were to ask for a credit of \$4 billion of new money plus the sum required for the wind-up of Lend Lease and Reciprocal Aid on the basis that the payment on that account must not exceed \$500 million. Secretary Vinson said this was new. He had thought that the U.K. request was for \$4.5 billion, inclusive of Lend Lease and surplus. It had been so stated in the U.K. memorandum of November 12.¹⁴ Nothing had been said of a \$500 million limit for Lend Lease and surplus goods. Mr. Eccles asked whether, in putting the requirement of new money at \$4 billion, full account had been taken of the degree to which U.K. could expect to obtain assistance from countries other than the U.S. Lord Keynes and Professor Robbins replied that due account had been taken of such assistance. A sum of \$4 billion represented the minimum amount of new money which the U.K. would require from the U.S.—after taking into account assistance from other countries—in order to assume the obligations of multilateral trade and to maintain adequate reserves, having regard to the magnitude of the estimated cumulative deficit in the U.K. balance of payments. Indeed that figure (which was a reduction from the earlier request for assistance of \$5 billion plus the amount required to wind-up Lend Lease and Reciprocal Aid) had been based on estimates

¹³ Reference is to a U.S. draft memorandum of understanding on financial matters, dated November 18, circulated at this meeting; not printed.

¹⁴ Not printed.

as to the rate of recovery of export trade which might well prove to be too optimistic. In reply to Dr. White, Lord Keynes said that, in making the calculations of the amount of assistance required from the U.S., Canada had been left out on both sides of the account. That was to say the U.K. representatives had assumed that assistance from Canada would be on a scale adequate to cover the cumulative adverse balance of payments with that country. There was no prospect that assistance from Canada could be obtained in excess of that amount.

Some discussion took place on the question of whether it would be possible to arrive at a settlement in respect of the winding-up of Lend Lease and Reciprocal Aid which would be within the limit of \$500 million which had been stipulated by the authorities in London. It was agreed that this would have to be the subject of further discussion at the operating level, and that the position might be radically affected one way or another by whatever decision was taken on certain large U.K. claims aggregating over \$250 million.

Lord Keynes said that no other question of importance arose on paragraphs 1 to 3 of the U.S. draft.¹⁵

4. On paragraph 4(i) (a)¹⁶ two points arose:

(a) the base amount for the waiver procedure was shown in the U.S. draft as £866 million. This was indeed the exact average of the value of U.K. imports during the years 1936-38. But the U.K. representatives had rounded this up to the closest £25 million, giving a figure of £875 million. They hoped that the U.S. representatives would be prepared to accept such a figure since this would give the U.K. a certain margin over the 1936-38 basis to the amount of about \$72 million a year at current prices. If such a margin could be accorded it would be of material help in enabling the U.K. to refrain from the continuance of protective measures such as import restrictions which otherwise might appear essential.

Mr. Vinson said that he sympathised with the desire of Lord Keynes to see such a margin. But it would create an immediately unfavourable impression on hostile critics in Congress if it could be shown that a figure which purported to represent the average value of U.K. imports in 1936-38 was in fact too high by some £9 million a year.

¹⁵ Reference is to the U.S. draft of November 18; not printed.

¹⁶ This paragraph was designed to set up an automatic figure for waiver of interest payments based partly upon whether Great Britain's income was, on the average over the 5 preceding calendar years, less than the average annual value of its imports during 1936-1938, as adjusted for possible changes in the price level of these imports.

At the previous meeting of this committee, November 15, the United States had proposed in a draft dated November 14, an automatic formula providing for deferment of annual payments, which the United Kingdom had rejected on the grounds that it involved excessive surveillance by the United States of the management of British economic affairs (611.4131/5-146, Folder 5).

Rather than having such a risk it would be better for a purely arbitrary figure to be selected.

Lord Keynes said that he thought that on this matter the U.K. representatives must leave themselves in Mr. Vinson's hands.

[Here follow paragraphs 4(b) and 5. Paragraph 5 contained a discussion of the United States proposal in its November 18 draft that a waiver of interest clause should not operate unless the United Kingdom reduced proportionately its payments on other loans contracted after January 1, 1945, and during the tenure of the Anglo-American agreement and its releases of sterling balances. The British objected to the retroactive application of this waiver requirement to agreements concluded in 1945 and said that the United Kingdom could not bind itself respecting agreements to be negotiated during the whole period of the United States credit. In a counter-proposal, the British suggested that the United Kingdom commit itself to obtaining waivers on similar terms for any financial assistance contracted for during 1946.¹⁷]

6. . . . The position of the U.K. representatives on this matter¹⁸ was that they would be prepared to consider a provision whereby any annual payments in respect of sterling area balances in excess of an amount of \$150 million a year would not rank equal in priority to service on the U.S. credit and would have to be waived or deferred if the U.K. exercised the waiver in respect of the U.S. credit. They would equally be prepared to consider a proposal that the figure of \$150 million should be amended to \$175 million and the arrangement made applicable to payments in respect of other external sterling balances as well as those held by sterling area countries. It was necessary to emphasize, however, that there had been no consultation with the authorities in London in regard to such a provision, and it was not known what line they would take in regard to it.

The U.K. representatives could not, however, go further than this. They could not commit themselves to any form of words which directly or indirectly would prescribe a maximum amount which could be paid in respect of balances held by sterling area countries. The last sentence of paragraph 5 (ii) of the U.S. draft would in effect prescribe such a maximum, since its purport was that if payments in excess of \$175 million a year were made to holders of sterling balances there must be a corresponding increase in payments on the U.S. credit. There had as yet been no negotiations with the holders of sterling balances and it would be quite out of the question for the U.K.

¹⁷ For the ultimate resolution of this question, see paragraph 6 (ii) and (iii) of the Financial Agreement of December 6, Department of State, *Treaties and Other International Acts Series No. 1545*, or 60 Stat. (pt. 2) 1841. Also printed in Department of State *Bulletin*, December 9, 1945, p. 907.

¹⁸ The discussion at this point dealt with provisions in the U.S. draft of November 18 relating to limiting the resources used by the United Kingdom in servicing or releasing the accumulated sterling balances.

to enter such negotiations—particularly with members of the sterling area—having previously agreed in negotiations with a third party to conditions which would have to be incorporated in any settlement reached and which would inevitably be regarded by the countries concerned as detrimental to their interests. From a constitutional standpoint it would be impossible for the Government of the U.K. to accept obligations which would directly affect the interests of Dominion Governments and the Government of India without full prior consultation with them. Therefore if the U.S. representatives pressed for the maintenance of their proposal it would be necessary for full consultation to take place with Dominion Governments and the Government of India, with the risk of very serious delay. It might be that such consultation would be necessary even in regard to the *pari passu* proposal which the U.K. representatives were ready to consider.¹⁹ But certainly consultation on that basis would be likely to involve less difficulty and delay than the proposal of the U.S. representatives. This was a political and constitutional issue on which it was impossible for the U.K. representatives to compromise; he hoped, therefore, that the U.S. representatives would be prepared to withdraw their proposal.

Mr. Clayton said that this question was a very difficult one for the American representatives also. He did not see how it would be possible for the Administration to persuade Congress to accept a settlement under which the U.K. would be left free to make payments to its sterling creditors considerably in excess of payments on the U.S. debt. The effect of such payments might well be to deplete the U.K. reserves with the result that the U.K. would be forced nearer the position of having to seek a waiver of interest payments to the U.S. In the eyes of the U.S. people the sterling obligations represented to a very large degree debts in respect of supplies and services which had been required for the winning of the war and which ought therefore to have been made available to the U.K. on a basis analogous to Lend Lease.²⁰ In some cases, too, the obligations had been swollen by reason of inflated prices charged for such supplies and services. It was fundamental to the U.S. position that they should be able to assure Congress that the U.S. credit was not being used to redeem such obligations, that there would be some form of limitation on the amount which the U.K. should pay in respect of these obligations in relation to the amount paid on the U.S. credit, and that in any year when the U.K. exercised its rights of waiver in respect of the U.S. credit a similar waiver should operate in respect of payments being made to

¹⁹ The *pari passu* proposal involved making payments respecting sterling area balances rank equally with service on the American credit.

²⁰ At the first meeting of the Combined U.S.-U.K. Finance Committee, September 19, Mr. Clayton had made this comparison between lend-lease and the debts represented by the accumulated sterling balances, in pressing the British delegation for an indication of what part of the balances would be written off (611.4131/5-146, Folder 5).

sterling creditors. It had been the hope of the U.S. representatives that the form of wording now proposed in clause 5 (ii) of the U.S. draft—which did not directly impose any ceiling on the amounts which the U.K. might pay to the sterling creditors but stated that to the extent that those amounts exceeded \$175 million a year there should be a corresponding increase to payments on the U.S. credit—would provide a way round the difficulties to which Lord Keynes had referred.

Lord Keynes and Professor Robbins said that they fully appreciated the spirit in which the revised U.S. draft had been put forward but they feared that the formula proposed in paragraph 5 (ii) was not acceptable. The U.K. would not in practice be able to increase its payments on the U.S. credit and the figure of \$175 million mentioned in that paragraph would therefore be regarded as constituting a “ceiling”, imposed in advance of any negotiations, on the aggregate of the payments which the U.K. would be able to make in respect of its sterling obligations. The other points which Mr. Clayton had mentioned could be met by the provisions of paragraph 2 (ii) of the U.S. draft and by the proposed *pari passu* arrangement which the U.K. representatives were prepared to put to London for consideration. But they saw no possibility whatever of acceptance by the authorities in London of any provision in an agreement with the U.S. which set a limit to the amounts which the U.K. could pay in settlement of its sterling obligations. There was of course no divergence of interest in this matter between the U.S. and the U.K. It was in the interests of the U.K. that the amounts paid to the sterling creditors should be kept as low as possible. But for the U.K. to predetermine that issue in an agreement with a third party before any negotiations whatever had been begun with the countries concerned was a course which was quite out of the question: it would inevitably prejudice the negotiations and might jeopardise more fundamentally relations within the Commonwealth.

After considerable further discussion on this subject, the matter was finally left on the basis that the U.K. representatives would refer the issue to London and in doing so would indicate the importance which the U.S. representatives attached to the considerations mentioned by Mr. Clayton.²¹

²¹ Ultimately both the British plan for *pari passu* treatment and the U.S. proposal to limit directly sterling releases were dropped in favor of a general statement of understanding that the United Kingdom would not use the American credit to discharge obligations to third countries outstanding on the effective date of the agreement, paragraph 6 (i) of the Financial Agreement. At the eleventh meeting of the U.S. Financial Committee (611.4131/5-146, Folder 2), November 28, it was proposed and agreed that releases of sterling in excess of \$175 million should not be deducted in calculating net income from invisible current transactions, see paragraph 5 (b) of the agreement.

Both these provisions were embodied in the U.S. draft of November 30, paragraphs 5 (i) and 4 (b), pp. 175 and 174, respectively.

611.4131/11-2445

*Minutes of a Special Meeting of the United States-United Kingdom
Combined Top Committee*²²

[WASHINGTON,] November 24, 1945—10:30 a. m.

Present: U.S. REPRESENTATIVES	U.K. REPRESENTATIVES
Secretary Vinson	Lord Keynes
Mr. W. Clayton	Sir Henry Self
Mr. T. McCabe	Mr. F. E. Harmer
Dr. Harry White	Mr. F. G. Lee
Mr. E. G. Collado	Mr. R. B. Stevens
Mr. W. Friedman	
H. Havlik	
Mr. W. R. Lester	
Mr. J. Pehle	
Mr. Frank Coe	
Mr. R. Brenner	

1. *General.*

The meeting had before them statements prepared on the U.S. side headed "Lend-Lease and Surplus Property" and "Claims and Counter Claims", which are attached to these Minutes as Annex "A" and Annex "B" respectively.²³

Mr. Clayton said that a good deal of work had been put in at the operating level on both sides on calculations relating to the various ingredients of the Lend-Lease settlement. He thought that the time had now come to consider an over-all figure in the light of the calculations that had been made. For this purpose the two documents (Annex "A" and "B") had been prepared on the U.S. side. Referring to the Lend-Lease settlement document (Annex "A"), Mr. Clayton drew a general distinction between two groups of items cited as Schedule A and Schedule B.²⁴ He stated that it was the view of the U.S. that it would be necessary for the U.K. to settle for Schedule A either in cash or under 3C credit. The U.S. was willing to include in Schedule A, Item 4 ("Net claims accepted") representing a balance of \$53.44 million due to the United Kingdom. It would also be necessary for the settlement relating to U.S. surplus property in the U.K. to be dealt with on the same terms as Schedule A, namely, on a cash or 3C credit basis, since these were the terms on which U.S. surplus property was being offered to other countries and it would be difficult to offer any other terms to the United Kingdom. Mr. Clayton stated that with respect to the items listed in Schedule B, the U.S. was willing

²² These are agreed combined minutes.²³ Neither printed.²⁴ Schedules A and B concerned pipeline and inventory materials, respectively.

to settle on the basis of the same credit terms which would apply to the financial credit under discussion by the Combined U.S.-U.K. Finance Committee.

Mr. Clayton went on to say that the lowest amount which would be acceptable to the United States for the complete settlement with respect to Lend-Lease and surplus property as representing the net balance due to the United States by the United Kingdom was \$750 million. Of this sum, \$150 million had been taken as representing the net balance of the Schedule A items including the settlement for U.S. surpluses in the U.K. He added that any figure agreed upon at the present meeting would have to be cleared with the Top Committee on the U.S. side, and that the present figure was conditional upon a satisfactory conclusion of the overall economic discussions.

Lord Keynes said that while there was substantial agreement on the U.K. side with many of the figures in the U.S. statement, there still remained a number of important points on which agreement had not been reached, such as the adjustments requested on the Civilian Inventory, the method of settlement for the Military Inventory, the figure for the U.S. surplus property in the United Kingdom and certain outstanding claims. Mr. Clayton stated that the \$750 million was a lump sum and that an examination item by item would add up to a considerably higher figure.

2. Schedule A: Cash Settlement.

With regard to Schedule A, Lord Keynes observed that the cut-off date for services and reverse lend-lease raw materials had been taken as December 31, 1945 whereas the U.K. side had been working on the assumption that the cut-off date for services would be February 28, 1946. Mr. Lee said that if the earlier date were chosen the figure in respect of the value of services formerly given on reciprocal aid would be somewhat lower. Mr. Collado said that, if practicable, the U.S. side would prefer to make November 30 the cut-off date for lend-lease shipping services since to continue beyond that date would merely tend to exhaust the supply of lend-lease appropriation funds. The U.K. side saw no objection to this proposal on financial grounds.

It was agreed that, subject to the possible exception with respect to shipping mentioned by Mr. Collado, the general cut-off date would be December 31, 1945.

The Meeting recognized that adjustments might be necessary in certain items in Schedule A, but these could be made later in the light of detailed bookkeeping. For purposes of the settlement, Mr. Clayton suggested that the present figure of \$118 million should be taken as the amount due by the United Kingdom with respect to the items listed in Schedule A and that after the actual accountings on

each of the items, except that of claims, had been completed, any necessary adjustment in the net amount due could be effected.

Lord Keynes agreed that this would be an appropriate procedure and stated that the sums listed in Schedule A appeared to be approximately correct. He enquired how the U.S. Administration would want the settlement effected if it were to be for cash. He assumed that it would be in order for part of the proceeds of the loan to be utilized for this purpose.

Mr. Clayton said that there would be no objection to this course.

3. *U.S. Surpluses in U.K.*

Lord Keynes pointed out that if a settlement for U.S. surpluses in the United Kingdom were to be dealt with in the same manner as the items in Schedule A it would be necessary to arrive at a precise figure for the surplus settlement. Mr. Clayton said that the figure which he had quoted of \$150 million would result in a nominal figure of \$32 million for U.S. surpluses in the U.K. In the U.S. view, this was considerably less than the value of these surpluses, but for the sake of a quick over-all settlement the Administration would, he believed, be prepared to agree to a round figure of \$150 million as representing the balance due on all the items for which payment in cash was required.

The U.K. representatives said that on the basis of the advice they had received from London they could not possibly offer more than about \$5-\$10 million for U.S. surpluses in the United Kingdom. Sir Henry Self recalled that these surpluses had been examined by U.S. Departments; that in many cases they duplicated U.K. surpluses which were already a drug on the market; that U.S. surpluses had been combed over a number of times by the U.S. military authorities and those items which had any real value been removed; that the remainder were for the most part non commercial in type and that their value even as scrap was at best doubtful. The U.K. Government had virtually no use whatever for these surpluses and any sum paid for them would be for the purpose of relieving the U.S. Government of an embarrassment rather than on account of anything which could be realized from their resale. In these circumstances it would be impossible to justify to Parliament the purchase of these surpluses for a sum of the dimensions suggested by Mr. Clayton.

Secretary Vinson said that in the U.S. view the figure at which these surpluses was being offered was exceedingly low and was contingent upon U.K. agreement on an over-all figure. If the U.K. were not prepared to agree to the over-all figure of \$750 million including the surpluses, he could only suggest that the U.S. proposal of \$750 be withdrawn and that the meeting should go through the table item by

item and work out on a more detailed basis what the net balance due to the United States ought to be. There were a number of items such as military food which might well be charged for at full value if dealt with individually, and it would be found that the net balance due on such a basis would be considerably in excess of \$750 million. A settlement for U.S. surpluses in the U.K. at \$5 million such as Lord Keynes had suggested would be totally unacceptable in the United States, which, in such circumstance, would rather remove them from the U.K.

Mr. McCabe said that he could understand that the value of the surpluses to the United Kingdom might be considerably less than the sum which could be obtained for them elsewhere. He believed that these surpluses were of considerable scrap value to the United States. The United Kingdom might not be the best market for the sale of scrap. Included in the U.S. list were some items such as Jeeps which might be disposed of more advantageously in third markets. He asked whether the U.K. imported scrap, and Sir Henry Self stated that some scrap was imported in normal times. He added that previously Sir Henry Self had mentioned a figure of \$10 million, as compared with the \$5 [million] now offered by the U.K. Sir Henry Self indicated that the \$5 million was based on a valuation of surplus apart from lend-lease settlement considerations, of which he was well aware.

Mr. McCabe stated he had understood at a meeting which he had attended in London in August that the United Kingdom Government wished to arrange an over-all deal for the purchase of these surpluses, but if this were not the case he thought that the position ought to be reconsidered with a view to the U.S. taking over those items which would be useful for its own scrap stockpiling programme or for sale to third countries.

Mr. Harmer said that at the meeting in London to which Mr. McCabe referred the United Kingdom representatives had indicated that they would like to be provided with details of U.S. surpluses in the U.K. so that they could see whether an acceptable offer could be made. The main purpose of this suggestion, however, had been to avoid the political friction which might arise if the United States were debarred from disposing of their own surpluses in the United Kingdom and compelled to take them away.

Lord Keynes said that he thought Mr. McCabe's remarks on this problem were very helpful. If the United Kingdom offer created embarrassment he would much prefer to see the question handled in the way which Mr. McCabe suggested. The value of these surpluses to the United Kingdom was, according to the information he had

received, insignificant, e.g., they included very little if any heavy scrap; consisting mostly of alloy and light scrap in which the United Kingdom was not interested.

Mr. Lee enquired whether it would not be possible to arrive at a lend-lease settlement without taking account of the U.S. surplus problem. The two were not really related and it now seemed that it might be difficult to reach agreement on U.S. surpluses until further studies had been made to determine what part of the surpluses the U.K. might wish to purchase and what part the U.S. might wish to remove.

Mr. Clayton said that he would prefer to deal with the lend-lease and surplus problem as a whole. Once the process of excluding difficult items from the settlement began it was impossible to say where it might end. He thought that both sides were anxious that the settlement when reached should be final and comprehensive.

Secretary Vinson said that if surpluses were to be left out of the settlement and the complete settlement broken into separate pieces, he would be strongly inclined to add a substantial sum for military food and other civilian type items in the military inventory.

Mr. McCabe referred to the substantial benefits to the U.K. which flowed from the willingness of the U.S. Military to hold off from the general recapture of items in the Military Inventory in consideration of the over-all terms of lend-lease settlements and the satisfactory conclusion of the other U.S.-U.K. economic negotiations. The exercise of a general right of recapture could only be a source of embarrassment to the United Kingdom. He considered, however, that unless an over-all settlement were reached it would be difficult for the U.S. side to take a liberal position as regards recapture.

Mr. Harmer suggested that if the settlement for U.S. surpluses could be included in Schedule B, namely, that part of the arrangement for which no detailed accounting was required, it would be easier to present on both sides of the Atlantic.

Lord Keynes stated that before considering the surplus question further he would like to look at the rest of the U.S. statement with a view to discussing certain items still in dispute.

[Here follows paragraph 4 dealing with discussion of a claim advanced by the United Kingdom regarding aircraft purchased in the United States for dollars by the United Kingdom and subsequently turned over to the United States at the latter Government's request after Pearl Harbor.²⁵]

²⁵ For the ultimate disposition of this claim, see Agreement II, paragraph 3, of the Mutual Aid Settlement between the United States and the United Kingdom, March 27, 1946; Department of State, *Treaties and Other International Acts Series No. 1509*, p. 14.

5. *General.*

Lord Keynes said that he entirely appreciated the difficulties of the position as Secretary Vinson had described them. At the same time, he had to emphasize that an arrangement which involved the payment of \$750 million for the winding up of lend-lease also created a grave problem for the U.K. Government and he believed that if a settlement of this kind were laid before Parliament, it would provoke even more vigorous reactions than those in Congress of which Secretary Vinson had spoken. If it were possible to agree on a global figure of \$500 million for the lend-lease settlement, he believed that this would be acceptable to public opinion in the U.K.

Secretary Vinson said that the figure of \$750 million already represented a substantial concession on the part of the U.S. He thought that the figure might well be considerably higher.

It was agreed that it would not be possible to make any further progress in discussing the foregoing matters at the present meeting, and they were accordingly held over for later consideration.²⁶

[Here follows paragraph 6 which briefly summarizes discussion concerning various points raised in U.S. paper Annex A, not printed.²⁷]

611.4131/5-146

*United States Draft Memorandum of Understanding on
Financial Matters*²⁸

[WASHINGTON,] November 30, 1945.

(This is designed to serve as the basis for the more detailed contract, financial agreement and other documents which may be agreed.)

1. *Amount of the Line of Credit*

(i) The Government of the United States will extend to the Government of the United Kingdom a line of credit of billion.

(ii) This line of credit will be available until December 31, 1951.

²⁶ At the 11th meeting of the United States Financial Committee, held on November 28, 1945, it was agreed that a sum of \$650 million for the lend-lease and surplus property settlement would be acceptable to the United States and that this figure would be considered separate from the amount of the credit (611.4131/5-146, Folder 2). For proposal of this sum to the British, see p. 187.

For an analysis of the lend-lease and surplus property settlement sum of \$650 million, see *Additional Report of the Special Committee Investigating the National Defense Program*, Senate Document, 79th Cong., 2nd sess., Report No. 110, pt. 5, pp. 23-33, 87-91.

²⁷ No agreement was reached on these points at this meeting.

²⁸ Presented at the sixth meeting of the U.S.-U.K. Combined Finance Committee on December 2 at 10:30 a. m. For summary of this and the seventh meeting held at 3:30 p. m., on the same date, see telegram 10476, December 3, to London, p. 185.

2. *Purpose of the Credit.*

The purpose of the credit shall be to facilitate purchases by the United Kingdom of goods and services from the United States, to assist the United Kingdom to meet transitional postwar deficits in her current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars and to assist the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

3. *Amortization and Interest*

(i) The amount of the credit outstanding on December 31, 1951 shall be repaid with interest in 50 annual installments, beginning on December 31, 1951, subject to the provisions of (4) below.

(ii) The rate of interest shall be 2 percent per annum. For the year 1951 interest shall be computed on the amount outstanding on December 31, 1951, and for each year thereafter, interest shall be computed on the amount outstanding on January 1, subject to the provisions of (4) below.

(iii) The 50 annual installments of principal repayments and interest shall be equal, amounting to \$31.8 million for each \$1 billion outstanding on December 31, 1951. Each installment shall consist of the full amount of the interest due and the remainder of the installment shall be the principal to be repaid in that year.

4. *Waiver of Interest Payments*

In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in that year, the Government of the United States will grant the waiver if:

(a) The Government of the U.K. finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves *and*

(b) As certified by the International Monetary Fund, the income of the U.K. from home-produced exports plus its net income from invisible current transactions in its balance of payments (as defined in Article XIV(i) of the Articles of Agreement of the International Monetary Fund) was on the average over the five preceding calendar years less than the amount of U.K. imports during 1936-8, fixed at £866 million, as such figures may be adjusted for changes in the price level of these imports. Any amount in excess of \$175 million released or paid or used in any year on account of sterling balances accumulated in the hands of overseas governments, monetary authorities and banks before the date of this Agreement, shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for

that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding the given year.

5. Position of this Credit in Relation to Other Obligations

(i) It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the date of this Agreement will be found from resources other than this line of credit.

(ii) The Government of the United Kingdom will not arrange any long-term loans from governments within the British Commonwealth after the date of this Agreement and before the end of 1951 on terms more favorable to the lender than the terms of this line of credit.

(iii) Waiver of interest will not be requested or allowed under 4 above in any year unless the aggregate of the releases, payments or other uses in that year of sterling balances accumulated in the hands of overseas governments, monetary authorities and banks before the date of this Agreement, are reduced proportionately, and unless interest payments on loans referred to in (ii) above are waived. The proportionate reduction of the releases, payments or other uses of sterling balances shall be calculated on the basis of the aggregate released in the most recent year in which waiver of interest was not requested.

(iv) The application of the principles set forth in this section shall be subject of full consultation between the two governments as occasion may arise.

6. Sterling Area Exchange Arrangements

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than the end of 1946 under which, immediately after the completion of such arrangements, the sterling receipts from current transactions of all sterling area countries, apart from any receipts arising out of military expenditure by the United Kingdom prior to December 31, 1948, which it may be agreed to treat on the same basis as the balances accumulated during the war will be freely available for current transactions in any currency area without discrimination; with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

7. Other Exchange Arrangements

(i) The Government of the U.K. agrees that after the date of this Agreement it will apply no exchange restrictions, except in ac-

cordance with the Articles of Agreement of the International Monetary Fund, which will restrict payments or transfers in respect of products permitted to be imported into the U.K. from the U.S., or of other current transactions between the two countries as defined in Article XIX(i) of the said Articles or on the use of sterling balances in the hands of U.S. residents arising out of current transactions; and in pursuance of the policy of reducing restrictions on trade between the two countries at the earliest possible date it agrees not to avail itself, in respect of the transactions referred to above, of Article XIV of the Articles of Agreement of the International Monetary Fund.

(ii) The Governments of the U.S. and the U.K. agree that not later than one year after the effective date of this agreement, unless a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current international transactions as defined in the Articles of Agreement of the International Monetary Fund. The obligations of this paragraph shall not apply:

(a) to balances of third countries and their nationals accumulated before this paragraph becomes effective;

(b) to restrictions imposed with the approval of the International Monetary Fund (but the U.K. and the U.S. agree that they will not continue to invoke the provisions of Article XIV, Section 2 of the Articles of Agreement of the International Monetary Fund after this paragraph becomes effective); or

(c) to restrictions imposed in connection with measures designed to uncover and dispose of assets of Germany and Japan.

(iii) The obligations assumed by the Governments of the U.S. and the U.K. under this section and section 8 are also assumed by all of their respective colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

8. *Import Arrangements*

If the Government of either country imposes or maintains quantitative import restrictions, such restrictions shall be administered on a basis which does not discriminate against imports from the other country in respect of any product; provided that this undertaking shall not apply (a) in cases in which its application would have the effect of preventing the country imposing such restrictions from utilizing, for the purchase of needed imports, inconvertible currencies accumulated up to December 31, 1946, or (b) in cases in which there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war. The provisions of this paragraph shall become

effective not later than one year after the effective date of this Agreement unless a later date is agreed upon after consultation.

9. *Accumulated Sterling Balances*

(i) The Government of the U.K. has communicated its intentions to the Government of the U.S. as follows:

The Government of the United Kingdom intends to make an early settlement, varying according to the circumstances of each case, of the sterling balances accumulated by sterling area and other countries prior to such settlement (together with any future receipts arising out of military expenditure by the U.K. which it may be agreed to treat on the same basis). The settlements with the sterling area countries will be on the basis of dividing these accumulated balances into three categories, (a) balances to be released at once and convertible into any currency for current transactions, (b) balances to be similarly released by installments over a period of years beginning in 1951, and (c) balances to be written off as a contribution to the settlement of war and postwar indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

(ii) In view of the importance of the interest of the United States in the method of dealing with sterling balances from the standpoint of their relation to non-discriminatory trade policies, and in consideration of the fact that an important purpose of the present credit is to promote the development of multilateral trade and facilitate its early resumption on a non-discriminatory basis, the Government of the United Kingdom agrees that, not later than one year after the effective date of this Agreement unless a later date is agreed upon after consultation, any sterling balances available for payments, whether pursuant to settlement of [or] otherwise, will be available for use in any currency area without discrimination.

10. *Consultation on Agreement*

Either Government shall be entitled to approach the other for a reconsideration of any of the provisions of this Agreement, if in its opinion the prevailing conditions of international exchange justify such reconsideration, with a view to agreeing upon modifications for presentation to their respective legislatures.

611.4131/5-146

Draft Combined Minutes of the Meeting of the United States-United Kingdom Committee on Commercial Policy

[WASHINGTON,] December 1, 1945—11:30 a. m.

Present: Mr. Clair Wilcox (In the Chair)

U.S. REPRESENTATIVES

Mr. Oscar B. Ryder
Mr. Robert Schwenger
Dr. Amos Taylor
Mr. Norman T. Ness

U.K. REPRESENTATIVES

H. E. Lord Halifax
Lord Keynes
Sir P. Liesching
Prof. L. C. Robbins
Mr. R. J. Shackle

Others Present (U.S.)

Mr. George Bronz
Mr. Lynn R. Edminster
Mr. Charles Harley
Mr. Arthur Smithers
Mr. Leroy D. Stinebower
Mr. Frank A. Waring

Others Present (U.K.)

Mr. J. H. Magowan
Mr. E. L. Hall-Patch
Mr. F. G. Lee
Mr. B. Cockram
Mr. P. Bareau

Secretaries

Mr. Winthrop G. Brown
Mr. John M. Leddy
Mr. P. S. Young

1. The Chairman, in opening the meeting, said that he had been asked by Mr. Clayton to express his regret that, owing to ill-health, he was unable to attend this final meeting of the Committee on Commercial Policy.

2. *Comtrade 1 Revised as of November 5th, 1945.*²⁰

Mr. Wilcox explained that this document included both the amendments to the earlier texts of Comtrade 1 which had been agreed in U.S./U.K. Sub-Committees and also those formally adopted at previous plenary sessions of the Comtrade Committee. He said that he believed that the U.K. side had certain points which they wished to place on the record in connection with this document.

3. *U.K. Comments on Comtrade 1*

Sir Percivale Liesching said that he had the following points to make:

²⁰ See footnote 8, p. 160.

(a) *Non-Tariff Preferences* (Reference Chapter III, Section B, paragraph 1, and 4th Plenary Minutes, paragraph 2).³⁰

Sir Percivale Liesching said:

“On non-tariff preferences I refer to a point which was made at the 4th Plenary meeting and the subsequent discussions, and would place on record our view that the principle of negotiating tariff preferences applies also to trade preferences other than tariff preferences”

Mr. Wilcox in reply, said:

“We (i.e. U.S.) understand that this statement is made in the light of the comment offered by the U.K. side at the 4th Plenary—namely, that to the extent that tariff preferences may remain after the bilateral negotiations, these margins of preference may be reflected in the operation of State trading monopolies. We do not understand that the U.K. members mean to suggest that discriminatory quotas or exchange controls must be negotiated individually. Otherwise the general quota and exchange control provision would have no meaning.”

Sir Percivale Liesching replied that what he had just said was not intended to relate to exchange preferences. It was true, as Mr. Wilcox had said, that the U.K. point had originally been raised when State trading was under discussion. As regards preference under quotas the U.K. attitude was as he had given it in the statement which he had just made. The question was no doubt one which would come up for discussion at the Spring Conference.

(b) *Import Restrictions on Balance of Payments Grounds* (Chapter III, Section C, paragraph 2)

Sir Percivale Liesching said:

“We should like to place on record that in the administration of quotas, when they are applied on balance of payments grounds, our intention is to have regard to commercial considerations, such as price. We are not necessarily prepared to pay more for things we can get cheaper elsewhere merely because they have a past history.”

Mr. Wilcox said that the U.S. side understood this.

³⁰ The fourth meeting was held on October 5; minutes not printed. Paragraph 2 reads as follows: “With regard to preferences under state trading, Sir Percivale Liesching suggested that in so far as tariff preferences remained after the bilateral negotiations, it would only be right and proper that these should be reflected in the operations of state-trading monopolies. He mentioned the point at this stage in order that there should be no doubt about the attitude of the U.K. side; but he thought that its discussion in the state-trading context could profitably wait till there had been a further exchange of views about tariff preferences.” (611.4131/5-146, Folder 3)

(c) *The International Trade Organization* (Chapter VI)

Sir Percivale Liesching said:

"On the subject of organization, there are some points, such as voting procedure, amendments to the constitution, and relations with other specialized agencies, on which we have not formed any final judgment.

On one of these points (namely voting in what is called the Conference of the International Trade Organization) we feel that the present wording in Chapter VI, Section C, paragraph 2, tends to prejudge the issue in favour of 'one State, one vote'.

We have not made up our minds on these points, but will put forward our views about them at the Spring Conference."

Mr. Wilcox said that the U.S. side understood that the position of the U.K. representatives on this point was reserved, and that further discussion would take place at the Spring Conference.

Lord Keynes said that he earnestly hoped that further thought would be given to the question of voting. From his experience at the Peace Conference after the first World War he could say that the principle of "one State, one vote" was extremely dangerous. The smaller nations, by having a greater preponderance than their status merited, could wreck plans upon which the greater nations were agreed. He said that a satisfactory solution to this problem had been reached at Bretton Woods and he therefore strongly recommended that the I.T.O. should follow this precedent. The voting arrangements of the I.T.O. need not, he thought, be exactly the same as Bretton Woods. But he thought that as Bretton Woods was a precedent on analogous economic matters, voting in the I.T.O. should be on the same lines. Mr. Wilcox said he felt that there were differences between the two cases, and he would prefer not to discuss their relative merits now. Further thought would, however, be given to the question of voting and full discussion would take place at the Spring Conference.

4. *Printing Errors in Comtrade I.*

Mr. Wilcox said that the U.S. side wished to place two points on the record:

(a) In the Printed Copy of Comtrade I, in Section B.⁸¹ (Tariffs and Preferences) the word "international" had inadvertently been omitted from the final words of the first sentence of paragraph 1 which should read "as part of the mutually advantageous international arrangements contemplated in this document".

(b) In Chapter VI of Comtrade I, Section E, paragraph 4(b) (i) (The Commission on Business Practices) it had been agreed in discus-

⁸¹ Reference is to chapter III, section B.

sion with the U.K. side that, in order to bring the passage into line with the revised text of Chapter IV, subparagraph 1(b) should read "Inquire into complaints regarding activities" etc. The introduction of the words "complaints regarding" had been agreed in Sub-Committee after Comtrade I had been sent to the printers. Efforts had been made to get the words inserted but without success, and the words did not appear in the printed copy.

Mr. Wilcox said that the record of the 7th and final meeting of the Committee on Commercial Policy should show that these words i.e., "international" in Section B and "complaints regarding" in Section E. para: 4(b) (i) had been inadvertently omitted in the printed document. He thought it preferable not to attach an errata sheet to the document as this would tend to draw attention to the omitted words and give them an importance which they did not merit. The understanding of the substance of the passage was perfectly clear. Sir Percivale Liesching said that he had consulted London on these points and the U.K. side agreed that, for the reasons given by Mr. Wilcox, it would be undesirable to issue a corrigendum slip. The document would therefore appear in the U.K. in the form in which it was printed in the U.S.A. This, however, would be done on the understanding that the U.K. Government were at liberty to say, if necessary, in public that the words had been omitted in error. Mr. Wilcox agreed.

5. *Adoption of Comtrade I.*

Sir Percivale Liesching said that the U.K. side had no further points for the record and concluded by saying:

"The United Kingdom members of the Comtrade Committee are in full agreement on all points of importance with respect to the proposals in Comtrade I".

Mr. Wilcox said that the U.S. side also had no further comments on Comtrade I and that there was agreement on the U.S. side on all important points in that paper. The paper was then formally adopted.

6. *Shipping Subsidies.*

Mr. Wilcox said that in the course of the Committee's discussions the question of shipping subsidies had been raised. He desired to place the following statement on the record:

"The United States agrees that the collection and examination of data relating to shipping and ship-building subsidies and the analysis of the effects of such subsidies upon international trade would be a desirable function to be performed by some international organization which would study such questions and make recommendations relating thereto.

It is our position, however, [that?] the I.T.O. is not the proper body to assume jurisdiction over this question for the following reasons:

1. Shipping is only one form of transport, and should not be dealt with independently of other forms of transport, particularly aviation.

2. Shipping problems involve many closely interrelated elements of which subsidies are only one.

a. Other types of protection are frequently more injurious to the free flow of trade than subsidies; e.g. exchange control for shipping payments, deferred rebates and other restrictive shipping conference practices, discriminatory tariffs and preferential through rates, tie-ins between carriers and shippers, etc.

b. Important problems of national and international security are involved in shipping subsidies which are outside the scope of I.T.O.

a. Problems of competition within the shipping field between types of vessels and types of operations, which raise questions of rates, conferences, pools, surplus tonnage, operating costs, etc., must be considered in conjunction with subsidies.

3. In view of these considerations, the inclusion of shipping subsidies within the jurisdiction of I.T.O. would lead either to inadequate consideration of one part of a much larger problem, or the discussion of all shipping questions in I.T.O.

4. Tentative proposals have been made for the establishment of a permanent Transport and Communications Commission under the E.S.C.O.C.²² of the United Nations Organisation, and unofficial suggestions have also been made that a permanent international shipping organization take the place of the United Maritime Authority when it goes out of existence on March 2, 1946. With these developments pending, the allocation of segments of shipping problems to other agencies would prejudice consideration of transport problems as a whole.

The United States would be glad to discuss with the United Kingdom what body other than I.T.O. should appropriately study shipping questions and the scope and terms of reference of such a body.[²³]

Sir Percivale Liesching replied:

"Mr. Chairman we take note of your statement and do not object to your proposal that shipping subsidies should be dropped from the commercial policy discussions and that they should be pursued in another context. We wish, however, to place two points on record—

The first is to emphasise again the extreme importance of this matter to the United Kingdom in view of the contribution which shipping income makes to her external balance of payments. In this respect the question is highly germane to the general subject matter of the present Anglo-American discussions.

The second point is that our Government are not ready to be com-

²² Presumably reference is to the Economic and Social Council of the United Nations (ECOSOC).

mitted at this stage to remit such questions to the Transport and Communications Commission of the Economic and Social Council. The terms and functions of that Commission have, we understand, not yet been considered."

7. *Adoption of Comtrade 3 (Revised as of 5th November, 1945).*³³

Mr. Wilcox asked whether the U.K. side had any comments on this document.

Sir Percivale Liesching replied that the U.K. members of the Committee were agreed upon the procedure indicated in Comtrade 3 for negotiating and implementing the proposals in Comtrade I.

Mr. Wilcox thanked Sir Percivale Liesching and said that there was also agreement on the U.S. side.

Comtrade 3 was formally adopted.

8. *Adoption of Comtrade 10—Joint Report to Combined Top Committee.*

Mr. Wilcox read a draft Joint Report (Comtrade 10)³⁴ to the Top Committee as follows:

"1. The Combined U.S.—U.K. Committee on Commercial Policy, having completed its work, presents to the Combined Top Committee the following documents:

(i) The document entitled "Proposals for Consideration by an International Conference on Trade and Employment" and bearing the reference "Comtrade-1" (revised as of November 5, 1945) and

(ii) The document bearing the reference "Comtrade-3" dated November 5, 1945, indicating the procedure for negotiating and implementing the proposals in Comtrade-1.

2. There is full agreement within the Committee on all important points with respect to the proposals in document (i), above.

3. There is also agreement within the Committee upon the procedure indicated in document (ii), above, for negotiating and implementing the proposals in document (i).

4. The Committee recommends that the two documents be submitted to the United States and the United Kingdom Governments for their favorable consideration, and invites the Top Committee to secure and record the agreement of the two Governments to give general support to the proposals contained in these documents and to use their best endeavors to bring the international discussions envisaged to a successful conclusion, in the light of the views expressed by other countries."

Lord Halifax said the U.K. side agreed to it. The report was thereupon adopted.

³³ See footnote 8, p. 160.

³⁴ Dated November 19, 1945.

9. *Conclusion of Proceedings.*

Mr. Wilcox said that with the adoption of the Joint Report the work of the Commercial Policy Committee was at an end. They were most gratified that this part of the U.S./U.K. negotiations had come through to such a happy conclusion, and he thought that agreement on the issues which had been before the Committee held out real hopes for the peace of the world.

Lord Halifax said that he wished to record on behalf of the U.K. group the appreciation which they all felt of the manner in which these negotiations had been conducted. He had not been so closely connected with the work involved as other members of his group. But he was left with the feeling that the happy agreement to which the Chairman had led the Committee would be a prelude to agreement on other issues. It was, he hoped, a good augury for larger things to come.

Sir Percivale Liesching said that, before the final session of the Comtrade Committee rose, he would like to make a few remarks on behalf of himself and his colleagues. They all remembered the important series of meetings in plenary session at which they had broken successfully into the main commercial policy topics under the wise and patient chairmanship of Mr. Clayton. They joined in wishing him a speedy return to good health.

A smaller number of officials of both sides, under the authority and guidance of the main Committee, had been entrusted with the working out of many points of principle and detail. If he might speak of that working party which had spent many long days and weeks of arduous work under the Chairmanship of Mr. Wilcox, he would like to say this on behalf of the U.K. officials who took part: they were grateful to Mr. Wilcox for his steady guidance; and they had as civil servants—if he might speak professionally—a profound respect and admiration for their opposite numbers; and as men they had, both for Mr. Wilcox and for his colleagues, feelings of high personal regard and friendship.

Mr. Wilcox said that the problems with which they had had to deal had been difficult and the way had not always been easy. Speaking for his colleagues and himself he had found the work extremely interesting and the contacts a source of great personal satisfaction. They hoped that these pleasant contacts would be renewed in the spring and summer.

The Chairman then declared the meeting concluded.

800.515/12-345: Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, December 3, 1945—6 p. m.

10476. For Hawkins³⁵ from Collado. Vinson, White, Coe,³⁶ Acheson, Clayton, and I met all day Sunday³⁷ with full British finance groups including Bridges³⁸ and Grant. They said London wished to present Bretton Woods to Parliament on December 12 and 13 together with documents on commercial policy, finance including credit, and lend-lease and surplus settlement. All of these would have to be published Tuesday or Wednesday of *this* week in order that members would have an opportunity to study them. [It was later agreed that a Thursday morning (December 6) was the earliest we could shoot for.]³⁹

We presented our November 30 draft on finance—which you have, and they presented a new draft.⁴⁰ We insisted on our draft with following modifications:

1. Page 1—no change
2. Page 2—In sentence re \$175 million,⁴¹ British wish to include balances accumulated to cut-off date—not merely date of signing this agreement.
3. Section 5(iii) first sentence—Except balances of Colonial Dependencies.
4. Section 6—Re date change to one year from effective date unless in exceptional cases a later date is mutually agreed after consultation.⁴²

³⁵ Harry C. Hawkins had recently returned to London after having been in Washington since September, participating in the economic negotiations.

³⁶ Frank Coe, Director, Division of Monetary Research, Department of the Treasury.

³⁷ December 2. The sixth and seventh meetings of the U.S.—U.K. Combined Finance Committee were held on this date at 10:30 a. m. and 3:30 p. m., respectively.

³⁸ Sir Edward Bridges, Permanent Secretary of the British Treasury.

³⁹ Brackets appear in the original.

⁴⁰ Dated December 1, 1945; not printed.

⁴¹ Section 4 b. Also in connection with waiver of interest payments, the British proposed at the sixth meeting that principal, as well as interest payments, be deferred in any year when the basic conditions were met. At the afternoon session, the Americans rejected this plan (611.4131/5-146, Folder 5).

⁴² Concerning sterling convertibility, the United Kingdom delegation had stated, in a draft document entitled "Sterling Area Arrangements," November 7, that: "The Government of the U.K. would be prepared on the basis of aid on a scale appropriate to the size of the problem, to proceed not later than the end of 1946 to make arrangements under which the current earnings of all sterling area countries would be freely available to make purchases in any currency area without discrimination, apart from any receipts arising out of military expenditure by the U.K. which it may be agreed to treat on the same basis as the balances accumulated during the war. . . ." (611.4131/5-146, Folder 2, U. S. Fin. Document 6)

The United States Financial Committee discussed this proposal at its fifth meeting on November 8 and decided: (a) that convertibility of sterling holdings of *all* countries should be insisted on; (b) that the date fixed for beginning of

Footnote continued on following page.

5. Section 7 (i)—After *effective* date
6. Section 7 (ii)—Re date add in exceptional cases as in Section 6. [Note: this is interpreted to mean by individual countries.]⁴³ Also replace “with the approval” in subparagraph (b) by “in conformity with the provisions of.”
7. Section 7 (iii)—Omit—but minutes will show and British will write letter stating they will do this to extent they have legal and actual control along lines of your suggested wording.
8. Section 8—Last paragraph [*sentence?*]⁴⁴—British offered and we accepted the old language—“as soon as practicable and in any case not later than December 31, 1946.”⁴⁴
9. Section 9 (i)—slight rewording⁴⁵
10. Section 9 (ii)—Completely reworded but substance unchanged—or if anything strengthened.⁴⁶
11. Add a section on coming into force of agreement—related to Congressional action.
12. Add a section at British suggestion reviving old section “The Government of U.K. may accelerate repayment of the line of credit.”

convertibility should be June 30, 1946 instead of December 31, 1946; and (c) that only sterling acquired during the next 3 years through military expenditure should not be convertible (*ibid.*, fifth meeting).

At its sixth meeting, November 13, the Americans agreed to accept British arguments that the beginning date should be set at the end of 1946 (*ibid.*, sixth meeting). When, at the sixth meeting of the U.S.—U.K. Combined Finance Committee, the U.K. subsequently proposed that no fixed date be set, the U.S. offered an agreeable compromise that the date be designated as one year after the coming into effect of the agreement (*ibid.*, seventh meeting).

The British accepted point (c), but objected to making convertible sterling earned by non-sterling area countries which could, in contrast, block their currencies earned by exports from the United Kingdom. This was at the fourth meeting of the U.S.—U.K. Combined Finance Committee, November 19 (*ibid.*, Folder 5). The Americans, however, rejected these arguments; see p. 190 and paragraph 7 of the Financial Agreement; text cited, p. 194.

⁴³ Brackets appear in the original.

⁴⁴ This “old language” had appeared in the U.S. draft of November 18, not printed (611.4131/5-146, Folder 5, fourth meeting, Annex). The alteration in the effective date for section 8 was agreed to by the British in return for U.S. acceptance of the change in date in section 6 (*ibid.*, seventh meeting). At the fifth meeting of the Combined U.S.—U.K. Finance Committee, November 26, the British had urged strongly that no specific date be set for the lifting of Anglo-American bilateral quantitative import restrictions (*ibid.*, fifth meeting).

⁴⁵ This section was based substantially upon a formula proposed by the British in their document “Sterling Area Arrangements”, November 7, p. 4 (611.4131/5-146, Folder 2, U.S. Fin. Document 6).

⁴⁶ The basis for this section on convertibility of released sterling balances, not present in any previous U.S. drafts, was apparently introduced by the State Department at the eleventh meeting of the U.S. Financial Committee, November 23 (611.4131/5-146, Folder 2). No copy of the State Department draft has been found in Department files. At this eleventh meeting, it was decided to refer the draft paragraph to the Technical Committee for changes of wording. The concept was agreed to by the British, subject to change as indicated, at the seventh meeting of the U.S.—U.K. Combined Finance Committee (611.4131/5-146, Folder 5).

The change in Section 7 (ii) reflects Article Eleven (2) of Bretton Woods⁴⁷ and would make it possible for U.K. to impose restrictions against Argentina or other nonmembers (say in case they blocked U.K. pesos) unless such restrictions in opinion of IMF were prejudicial to interests of Fund or other members. We felt our previous formulation went further in tying our own hands on this than we wanted to.

We turned down British requests as follows:

1. To defer principal.
2. To base waiver on 1-year rather than 5-year average.
3. To replace all of Section 5 by simple "with due regard to the principle of equitable treatment as between all their external creditors."
4. Removal of effective dates from Sections 6, 7 (ii), and 9 (ii).
5. Removal of date from inconvertible currency exception in subpoint (a) in Section 8.

The British, who had again asked for \$4.5 billion including lend-lease, appeared very pleased with \$3,750 million plus \$650 million lend-lease.⁴⁸ They stated that Sections 7 (ii) and 9 (ii) would cause "difficulty" in London especially on short time schedule available for consideration. They stated everything—including lend-lease—would have to be referred to London for approval. We are quite confident, however, that they will accept everything except possibly part of Section 9 (i). We feel Bridges had a lot of authority. It appeared that Bridges may have been sent because of dissatisfaction re Halifax, Keynes, *et al* or London feeling that the latter were not adequately informing London. This feeling I am certain was fully cleared up in Bridges' mind and Secretary Vinson went out of his way to build up actions of and effective negotiations by the older group.

⁴⁷ See *Proceedings and Documents of the United Nations Monetary and Financial Conference*, p. 959.

⁴⁸ As indicated by the minutes of the meeting of the U.S. Top Committee, November 7, p. 157, there was disagreement among the American delegates on the amount of the credit to be extended to the United Kingdom. At the eleventh meeting of the U.S. Financial Committee on November 28, following inconclusive discussion as to whether \$3½ or 4 billion should be extended, Assistant Secretary of State Acheson suggested that the matter be referred to the President for settlement (611.4131/5-146, Folder 2). President Truman indicated that he decided upon the final figure: \$3,750 million; see *Memoirs by Harry S. Truman*, vol. I, *Year of Decisions* (Garden City, Doubleday and Company, Inc., 1955), p. 479.

Regarding the lend-lease figure, see footnote 26, p. 173.

On lend-lease we made the offer with which you are familiar—\$650 million all on same terms as credit consisting of about \$532 million fixed for Schedule B and surplus and \$118 million for Schedule A subject to exact accounting.⁴⁹ It already appears that this item will rise to \$140 million (total to \$672 million) as reverse lend-lease deliveries of rubber, etc., will not reach figures we previously used.⁵⁰ The British were delighted and stated they would recommend acceptance by London.

We are meeting Monday [*Tuesday?*]⁵¹ morning re documents and timetable. Documents will probably be a joint communiqué, the commercial policy understanding, the finance memo as now drafted, and a short document on lend-lease and surplus including the letter on Article VII—air, shipping, telecommunications, etc.⁵² A more detailed lend-lease paper would follow.

It has been agreed to have joint release of these documents simultaneously in London and Washington. The Monday evening Senatoral dinner is on. There will be some sort of meeting with House leaders Tuesday. The release on ITO will have to be simultaneous with the rest. We are now discussing shooting for Thursday publication with Tuesday afternoon press conferences if possible. This implies fast drafting of final documents and fast London clearance.

We will post you further. [Collado.]

BYRNES

841.51/12-345 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, December 3, 1945—11 p. m.

[Received December 3—10 p. m.]

12668. Personal for Secretary Byrnes and Assistant Secretary Clayton. At 7 p. m. London time Prime Minister Attlee asked me to meet with him at No. 10 Downing Street. When I arrived there he told me he wanted to discuss with me the loan and trade agreements being negotiated in Washington.

⁴⁹ Schedule A comprised pipeline material and Schedule B inventory goods.

⁵⁰ On the contrary, by subsequent agreement the sum due the United States was reduced as a result of further supplements and modifications. See the agreement signed between the two governments on July 12, 1948, Department of State Treaties and Other International Acts Series No. 1770, or 62 Stat. (pt. 2), 2034.

⁵¹ No record of a meeting held on Monday, December 3, has been found; presumably the results of such a meeting would have been included in this telegram, since it was not sent until 6 p. m.

⁵² Drafts of this letter were being worked on at this time, but the letter was not published at the conclusion of the negotiations.

He wanted to discuss specifically the cancellation for Great Britain, in the last US draft of the financial arrangements, of what he referred to as the main safeguards of the Bretton Woods Agreements. He explained to me that he felt that without these safeguards Parliament would not accept the Bretton Woods Agreement. Other questions under negotiation, he told me, had been agreed upon. Timing, he said, was important as the Parliament adjourns on December 19. The debate in the House on these measures, he said, would occupy at least 2 days and, if passed, the Lords would require additional time and at least a day's debate.

It was not easy for me to meet his arguments, as I have not been currently informed on the financial negotiations and have seen no recent copies of the US proposals. I did tell him, however, that in my opinion he could not expect the Congress to approve the loan agreement if the British Parliament rejected Bretton Woods. I also asked him if he would give me a note on the points in the US draft to which he objected. He then sent for Mr. Dalton, the Chancellor of the Exchequer, who came accompanied by Sir Stafford Cripps.

After a brief interchange the following statement was given to me :

“The three essential points in which the financial agreement runs counter to the Bretton Woods Agreement are first, we are deprived of the benefit of the 5-year transitional period provided at Bretton Woods, which, for us, alone among all the signatories, is cut down to 15 months; second, we are deprived, alone of all the other signatories, of the benefit of the scarce currencies clause; third, we are deprived, alone of all the other signatories, of the right to resign membership of the fund and regain freedom of action in all matters regulated by the Bretton Woods Agreement. This third freedom, moreover, is withdrawn from us for more than half a century, i.e. during the currency of the loan agreement.”

All three men agreed (1) that they could not “recommend with conscience” the Bretton Woods Agreement with these restrictions; (2) that if they did recommend it, it would be voted down in the Commons, (3) that the Govt could not afford a serious defeat on a measure of this importance. All three with great earnestness assured me that they wanted to get agreement on the loan, that they believed that the trade agreement, which they heartily approved, was of world importance, and that they wanted Bretton Woods and were certain that Parliament would accept it as it was agreed to at Bretton Woods.

WINANT

611.4131/5-146

*Minutes of a Meeting of the United States-United Kingdom
Combined Finance Committee*⁵³

[WASHINGTON,] 4 December, 1945—11:30 a. m.

Present: Secretary Vinson (In the Chair)

U.S. REPRESENTATIVES

Mr. Clayton

Mr. Acheson

Mr. Wallace

Mr. Eccles

Mr. McCabe

Dr. White

Mr. Collado

Also Present

Mr. Brenner

Mr. Friedman

Mr. Glasser

Mr. Gardner

Mr. Knapp

Mr. Waring

U.K. REPRESENTATIVES

Lord Halifax (part time)

Lord Keynes

Mr. Brand

Prof. Robbins

Mr. Hall-Patch

Mr. Harmer

Sir Edward Bridges

Also Present

Mr. Grant

Mr. Coe	} <i>Joint Secretaries</i>
Mr. Lee	

1. Lord Halifax said that after the prolonged discussions which had taken place on the 2nd December the U.K. representatives had referred to London the text of the draft agreement in the form which the U.S. representatives were prepared to accept.⁵⁴ He was happy to say that the authorities in London had now authorised the U.K. representatives to accept the draft in its entirety, subject to one very important reservation. That reservation related to the provisions in the draft which would, in effect, involve the withdrawal from the U.K. of the safeguards specifically provided in the I.M.F. agreement. The most essential of these safeguards was contained in Article XIV Section 2 of the I.M.F. agreement, governing the transitional period: under paragraph 7(ii)(b) of the draft agreement the U.K. would be required to give up all its rights under that Section at the end of one year from the effective date of the agreement—i.e. in perhaps fifteen months time. Ministers would in any event face a difficult task in persuading Parliament to accept the I.M.F. agreement: if they had

⁵³ These are agreed combined minutes.

⁵⁴ The draft agreement here referred to is the U.S. draft of November 30 as amended by discussions of the sixth and seventh meetings of the U.S.-U.K. Combined Finance Committee, pp. 173 and 185, respectively.

to say that the particular safeguard which the supporters of the I.M.F. agreement had always emphasised in discussions would disappear in fifteen months time, the chances of their obtaining Parliamentary approval for the I.M.F. agreement would be gravely jeopardized. The protection given by these rights was indeed one to which all parties in the U.K. attached importance in the difficult period which lay ahead. In the circumstances, the Prime Minister had expressed the earnest hope that the U.S. representatives would be able to agree to the deletion of the particular words in paragraph 7(ii) (b) of the draft loan agreement which would deprive the U.K. of that protection.

Ministers were also concerned at the fact that the draft loan agreement would apparently involve the disappearance of any safeguards on which the U.K. could rely in the event of a scarcity of dollars. Further, as at present drafted, the agreement appeared to deprive the U.K. of the right, by resigning its membership of the I.M.F., to regain its freedom of action in matters regulated by the I.M.F. agreement. Indeed it would be deprived of the right for the whole fifty-year period of the loan agreement.

Lord Halifax trusted that it would be possible for the U.S. group to agree to appropriate amendments of the draft loan agreement to meet the U.K. position on all the foregoing points.

2. Secretary Vinson and Mr. Clayton said that they thought that on the last two points mentioned by Lord Halifax an amendment of the draft would be possible in order to safeguard the U.K. position. But they feared that on the first question—that of the transitional period safeguards—no compromise was possible. It had always been fundamental to U.S. thinking on the proposed credit that one of its main objects—and certainly one of its main attractions in American eyes—would be that it would enable the U.K. to dispense with the transitional period safeguards after a shorter period than that envisaged in the Bretton Woods Agreement. That Agreement, of course, did not take into account the provision of a substantial credit by the U.S. Government, to one of the member powers: if such a credit were granted it was only logical to suppose that the recipient country would thereby be able to do without safeguards which otherwise would be essential. It was quite clear from soundings which the Administration had made that if the U.S. representatives were to make a concession on this point, the support for the credit of powerful political and commercial organisations would be lost, since this provision was to them a cardinal point in its favour. Much as the U.S. representatives would regret a breakdown in negotiations which had come so near a successful conclusion, that must be the outcome if the U.K. felt unable to accept the substance of this particular provision.

Sir Edward Bridges and Prof. Robbins urged that in other provisions of the agreement the U.K. would be specifically committed to forego the safeguards in question vis-à-vis both the U.S.A. and the sterling area countries. There was no suggestion of any retreat from those commitments. But in the difficult and uncertain political circumstances which were likely to obtain over parts of the world in the next few years it was surely not unreasonable to ask that, outside the wide area represented by the U.S.A. and the sterling area countries, the U.K. should be free from specific commitments abrogating the protection given by the I.M.F. agreement. It would of course be the intention of the U.K. Government to move as rapidly as possible along the road to full convertibility, and the provision of the credit would enable them to quicken their pace. But to be required to enter into specific commitments would involve very serious political difficulties. Mr. Eccles said that one of the strongest arguments for the credit was that it would make the I.M.F. really effective at an early date. He did not see how any compromise was possible.

In summing up the discussion, Mr. Clayton said that the U.S. representatives would be prepared to insert words in paragraph 7 (ii) (b) of the draft agreement providing that in exceptional cases the U.S. and U.K. Governments could agree after consultation, that the provisions of Article XIV Section 2 of the I.M.F. could still be invoked. But further than that they were definitely unable to go.

The U.K. representatives said that they must report the position reached on this point to the U.K. Government.

3. After further discussion it was agreed that the draft agreement should be amended in the following respects in order to meet the other points emphasised by the U.K. representatives:—

(a) A new subparagraph should be added at the end of paragraph 7 to indicate that that paragraph and paragraph 8 were in anticipation of more comprehensive arrangements by multilateral agreement and would operate until the end of 1951. This would safeguard the right of the U.K. to recover its freedom of action by the course of resigning from membership of the I.M.F.

(b) A new subsection (c) should be added to paragraph 8 in the following terms:—

“or (c) either Government imposes quantitative restrictions having equivalent effect to any exchange restrictions which that Government is authorised to impose in conformity with Article VII of the Articles of Agreement of the I.M.F.”. This would safeguard the exceptional provision for the use of discriminatory quantitative restriction in the event of a declaration of a condition of scarcity of any particular currency.

4. Lord Keynes said that he wished to raise one further point. It would be recalled that the U.K. representatives had always made it

plain that they interpreted the undertakings in paragraph 5 of the draft agreement (or, indeed, any other undertakings elsewhere in the agreement) as in no way precluding or restricting the freedom of the U.K. to make overseas loans of any character. He thought that this was fully accepted by the U.S. representatives, but in order that there should be no possible misunderstanding he would be grateful if a passage could be inserted in the minutes in the following terms:-

“It has been understood in these discussions that there is nothing in this agreement which restricts the future freedom of the U.K. to make overseas loans of any character.”

Mr. Clayton said that the U.S. representatives were in full accord with the summary of the position as given by Lord Keynes and readily agreed that the passage which he had quoted should be incorporated in the minutes.

611.4131/5-146

*Minutes of a Meeting of the United States-United Kingdom Combined Finance Committee*⁵⁵

[WASHINGTON,] 5 December, 1945—11:45 a. m.

Present: Secretary Vinson (in the Chair)

U.S. REPRESENTATIVES	U.K. REPRESENTATIVES
Mr. Clayton	Lord Halifax
Mr. Acheson	Lord Keynes
Mr. White	Prof. Robbins
	Mr. Harmer
	Sir Edward Bridges
Mr. Coe	} <i>Joint Secretaries</i>
Mr. Lee	

1. Lord Halifax said that the U.K. Cabinet had now considered the whole position and were prepared to accept the agreement in its latest form. But Ministers wished the U.S. representatives to know that it would help the U.K. Government considerably if the operative date for paragraph 7(ii) (relating to the transition period safeguards) could be made the 31st December 1947 instead of one year from the effective date of the agreement. This would give perhaps another nine months' breathing space and would be of much assistance vis-à-vis Parliament.

2. Secretary Vinson and Mr. Clayton said that they wished it were possible for them to accept the amendment mentioned by Lord Halifax. They appreciated the position of the U.K. Government in this matter,

⁵⁵ These are agreed combined minutes.

but they were convinced that from a U.S. political standpoint it was essential that the time limit provided in paragraph 7 should not be altered. Otherwise the acceptance of the credit proposal by the U.S. Congress and people would certainly be jeopardized.

3. Lord Halifax took note of Secretary Vinson's and Mr. Clayton's statement and said that, in the light of it, the agreement would be signed without alteration. The negotiations had thus reached their end. Both he and his colleagues deeply appreciated the spirit of cooperation, courtesy, fair-mindedness, and patience which the U.S. representatives had shown throughout the long period of the talks. It was his confident hope that the outcome would be a happy augury for the future. Secretary Vinson and Mr. Clayton warmly reciprocated Lord Halifax's remarks.

4. It was confirmed that the agreement would be signed at 10:30 a. m. on the 6th December in the State Department.

[For text of the Financial Agreement between the Governments of the United States and the United Kingdom, signed at Washington, December 6, 1945, effective July 15, 1946, see Department of State Treaties and Other International Acts Series No. 1545, or 60 Stat. (pt. 2) 1841; text also printed in Department of State *Bulletin*, December 9, 1945, page 907.

For text of the Joint Statement by the United States and United Kingdom regarding the understanding reached on commercial policy along with supplementary material and the text of the "Proposals for Expansion of World Trade and Employment," released December 6, see *ibid.*, pages 912-929.

For text of the Joint Statement by the United States and the United Kingdom regarding settlement for lend-lease, reciprocal aid, surplus war property, and claims, also released December 6, see *ibid.*, page 910; also Department of State Treaties and Other International Acts Series No. 1509, or 60 Stat. (pt. 2) 1564.]

800.24/12-745: Telegram

*The Secretary of State to the Ambassador in the Soviet Union
(Harriman)*

WASHINGTON, December 7, 1945—7 p. m.

2470. The Prime Ministers of UK and Canada and the President will make an announcement at 10 a. m. Washington time Dec. 10 concerning the future of the Combined Boards.⁵⁶ It is desired that

⁵⁶ Department of State *Bulletin*, December 16, 1945, p. 975.

before that time you transmit to Soviet Foreign Office the following note which has been approved by UK and Canada :

"The Soviet Govt will be aware that during the period of war emergency the Govts of the US, the UK and Canada have endeavored to secure the equitable distribution and allocation of foodstuffs, raw materials and manufactured products in short supply from their own sources and others to which they have had access through the medium of the Combined Food Board, the Combined Raw Materials Board and the Combined Production and Resources Board in Washington. Each of these Boards has set up a number of subcommittees concerned with particular commodities in short supply. Many countries with a major interest in the commodity concerned have been brought into close association with the work of these committees if their relationship with the Boards had not already been effected in some other way. Thus, for example, under the quadripartite Protocol⁵⁷ between the US, Soviet Union, UK and Canada any Soviet requests for supplies from sources within the purview of the Boards were sponsored before the Boards by the member country on which the request was placed.

It is the view of the three Govts that the Boards have performed an invaluable role in assembling facts, securing increased production and ensuring efficient distribution of commodities essential to the war-making capacity and civilian economy of the United Nations. With the termination of the war, however, the time has come to review the work of the Boards and to determine what part of their functions can be considered unnecessary or inappropriate in conditions of peace. The conclusion has been reached that the number of industrial commodities which remain in critical supply and which can be effectively allocated is not such as to justify the maintenance of the Combined Raw Materials Board and the Combined Production and Resources Board after Dec 31, 1945, on which date they will accordingly terminate. Difficult supply conditions still persist, however, in rubber, tin, coal, hides, skins and leather, and broad-woven cotton goods and cotton yarn. It is accordingly being proposed by the Boards to the subcommittees concerned with these commodities that they should continue to operate for such further period as may be necessary in the light of supply conditions. As from Jan 1, 1946, therefore, it is expected that these five committees will make themselves responsible for the continued allocation of such supplies of the commodities in question as are available to the associated Govts. For practical reasons, and in view of the temporary character of the arrangements, they will continue to conduct their business in Washington (and London in the case of the London Coal Committee). With the disappearance of the Boards, the responsibility for making procedural arrangements and for adding to their membership any countries which it may be desirable to associate with the arrangements

⁵⁷ The Fourth (Ottawa) Protocol, covering the period from July 1, 1944, to June 30, 1945, was signed on April 17, 1945, by the United States, United Kingdom, Canada, and the Soviet Union. For text, see Department of State, *Soviet Supply Protocols*, pp. 89-156. The announcement of the signature made in Ottawa on April 20, 1945, is printed in Department of State *Bulletin*, April 22, 1945, p. 723. For documentation on conclusion of wartime assistance from the United States for the Soviet Union, and consideration of a supplementary see vol. v, pp. 937ff.

by reason of their interest, whether as major producers or major consumers, in the commodities concerned, will naturally devolve upon the Committees themselves.

In the field of agricultural products there remain a much larger number of commodities in critical short supply. These comprise beans and peas, cereals, citric and tartaric acid, cocoa and spices, dairy products, essential oils, fats and oils, feedstuffs, fishery products, dried fruits, meat and meat products, rice, seeds, sugar, vitamins, tea and fertilizers. In view of the inter-relationship of many of these commodities, it has been thought impracticable to place the committees of the Combined Food Board concerned with them on an independent basis at this stage, and the three member countries have accordingly reached the conclusion that it will be in the interest of all concerned to prolong the life of the Combined Food Board for a further period. It is anticipated that the Board will be dissolved on June 30, 1946, or sooner if conditions permit. After its termination any food commodity committees which continue to be necessary for supply reasons will operate independently, as is proposed for the industrial material committees after Jan. 1. Meanwhile, however, the subcommittees of the Board, with which other countries are already associated as members, will continue the policy of enlarging their membership where this seems desirable.

The Govt of the US, by agreement with the Govts of the UK and Canada, has thought it appropriate to explain to the Govt of the Soviet Union in detail the arrangements proposed for the allocation after the end of 1945 of these particular commodities which remain in short supply. The three Govts would be glad to receive any observations which the Govt of the Soviet Union may wish to make in connection with the present communication and to be informed of any interest which the Govt of the Soviet Union may have in the work of these committees."

Please inform UK and Canadian representatives of the fact that you are transmitting this note on behalf of our three governments.

BYRNES

841.51/12-1445: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, December 14, 1945—5 p. m.

[Received 5:03 p. m.]

13127. Personal to the President, Acting Secretary Acheson and Assistant Secretary Clayton. In reading this message please see my 12988 of Dec 11 and my 13069 of Dec 13.⁵⁸ Also Emb's 13126 report on the debate.⁵⁹

⁵⁸ Neither printed; in these telegrams Ambassador Winant commented on the attitudes of the Labor and Conservative Parties regarding the agreements with the United States (841.51/12-1145, 12-1345).

⁵⁹ Telegram 13126, December 15, 5 p. m., from London, not printed; but for the debates of December 12 and 13, see *Parliamentary Debates*, House of Commons, 5th series, vol. 417, col. 421 and col. 641, respectively.

The debate last night in the Commons in support of the motion to accept the loan, the Bretton Woods Agreement and the proposal for an international trade organization had more vigor, positiveness and drive on the Labor side than any meeting since the new govt took office. The Conservative position of abstaining, while adopting a more critical attitude, on the ground that the govt should take full responsibility since they were not parties to the negotiations and not kept currently informed on the negotiations, I felt was political and weak. The Conservative leadership failed to keep over 70 members from voting against the resolution. Yesterday afternoon I sent the following letter to Mr. Churchill:

"In reading the record of yesterday's debate it seemed to me that there was an omission in the statement of facts on the Conservative side that could be misunderstood in the US.

Under lend-lease if you include exports from the US to the UK and services rendered the contribution under lend-lease totals to something over 20 billion dollars. The reverse lend-lease contributed by the UK totals to something under 5 billion dollars.

These figures have reference to lend-lease operations for the period which ended on the cancellation of lend-lease on V-J Day. During that period you were Prime Minister of England, Mr. Eden was Minister of Foreign Affairs, and Sir John Anderson was Chancellor of the Exchequer.

In the agreements which are being considered under the Govt's motion of approval are the loan, the Bretton Woods Agreement and the commercial policy proposals. There is, however, also included a final settlement of lend-lease accounts. No mention of this has up to this time been made by the Conservative ex-Ministers.

It is my opinion that not only the 'principles applying to mutual aid in the prosecution of the war against aggression' should be brought to the attention of the House of Commons but also the Lend-Lease Act passed by the Federal Congress which is binding upon the administration. This act also reflects American opinion.

Under section 3 of this act, paragraph (5) [sub]section (b), appears the following language:⁶⁰

'The terms and conditions upon which any such foreign govt receives any aid authorized under subsection (a) shall be those which the President deems satisfactory, and the benefit to the U[nited] S[tates] may be payment or repayment in kind or property or any other direct or indirect benefit which the President deems satisfactory: provided, however, that nothing in this paragraph shall be construed to authorize the President to assume or incur any obligations on the part of the U[nited] S[tates] with respect to post war economic policy, post war military policy, or any post war policy involving international relations except in accordance with established constitutional procedure.'

⁶⁰ Reference here is to section 3, subsection (b) of the Lend-Lease Act, March 11, 1941, 55 Stat. 32, as amended by the Act of May 17, 1944, 58 Stat. 223. Paragraph 5 was part of subsection (a) and its insertion here is an obvious error.

There was a writing off of 'those things that were consumed, lost or destroyed'⁶¹ and an acceptance of the obligations that 'in the final determination of the benefits to be provided to the U[nited] S[tates] of America. . . .⁶² the terms and conditions thereof shall be such as not to burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world wide economic relations'. There is also a clause⁶³ in the master agreement between the US and the UK that 'the Govt of the U[nited] K[ingdom] will return to the U[nited] S[tates] of America at the end of the present emergency as determined by the President of the United States of America, such defense articles transferred under this agreement as shall not have been destroyed, lost or consumed, and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America'.

There is similar language in the act passed by the Congress.

Over and above reverse lend-lease, the obligations under article VII, and the stipulation to write off 'those things that were consumed, lost or destroyed' there was still the unsettled balance of several billions to be settled by mutual agreement.

The arrangements which are now before the House of Commons and under consideration under the resolution put forward by the Govt include the 'complete and final settlement' of lend-lease and reciprocal aid. The failure by ex-Ministers to recognize this concession by the

⁶¹ See article V of the Preliminary Agreement between the United States and the United Kingdom regarding principles applying to mutual aid in the prosecution of the war against aggression, signed at Washington, February 23, 1942; for text, see Department of State Executive Agreement Series No. 241, or 56 Stat. (pt. 2) 1433.

The policy of writing off the cost of material consumed or used up in the war effort had long been the generally accepted unofficial policy of the U.S. Government, although not stated explicitly. In May 1945, the Secretary of State's Staff Committee approved a draft document (SC-110a) recommending that no direct financial payment be sought for lend-lease material used in the war effort, but that indirect benefits under article VII be sought (Lot 122, Boxes 13147 and 13148, Staff Committee Minutes, May 12 and 17, 1945). A subsequent version of this draft document, dated August 13, 1945, maintained the principle of not requesting direct payment for lend-lease supplies employed in the common war effort (*History of Lend Lease*, Part II, Chapter II, Exhibit 109, Tab 8e). President Truman's "Twentieth Report to Congress on Lend-Lease Operations," submitted August 30, cited on p. 113, broadly outlined U.S. policy in similar terms. Finally, the report, drafted November 2, 1945, of the U.S. Working Group on Capital Goods, Installations and Intangible Benefits in connection with the British lend-lease settlement stated its agreement with the British position, "that they have no obligation to make settlement for goods lost, destroyed, or consumed in the war." (*History of Lend Lease*, Part II, Chapter II, Exhibit 109, Tab 7d). This policy, upon which was based the British lend-lease settlement, was stated precisely in a letter from Secretary of State Byrnes to Senator James M. Mead, of New York, March 7, 1946, as follows: "First, the settlement did not establish any financial obligation on the part of either country for lend-lease or reciprocal aid goods which were lost, destroyed, or consumed during the war. Such goods and services were used to defeat our enemies, thus achieving the primary purpose of lend-lease and reciprocal aid. Neither country profits financially at the expense of the other as a result of such mutual action, since both were devoting maximum shares of their national output to war production . . ." For complete text, see p. 87 of report cited in footnote 26, p. 173.

⁶² Omission indicated in the original; this subquotation is from article VII of the Preliminary Agreement.

⁶³ Reference is to article V of the Preliminary Agreement.

US Govt, which is considerably greater than the total loan, does not give a fair picture of the general settlement.

You have always been the first to recognize the extent of the contribution made under lend-lease and reciprocal aid. I remember your reference to this act as 'the most unsordid act in human history'.⁶⁴ It is because I know that you would not knowingly ignore this large item on the credit side of the final settlement that I call this omission to your attention."

Neither Mr. Churchill nor any other Conservative ex-Minister mentioned the cancellation of lend-lease obligations. Mr. Bevin did use this material. Mr. Churchill, however, incorporated the following sentence in his statement:

"Whatever complaint we made about these present proposals and whatever misgivings and they are very serious, are aroused in our breasts by them the generosity and championship by the US of the cause of freedom will ever stand forth as a monument of human virtue and of future world hope."⁶⁵

He told me afterwards that he could not get agreement within his party to support the resolution, that he would have liked to have freed members and voted for the resolution himself but that he recognized the necessity of accepting the arrangements made and felt that by asking for abstention he would influence the action in the House of Lords in which there are only 25 Labor peers.

The vote was taken at 10:30 last night with 345 voting for and 98 against.

I spent an hour afterwards with Bevin discussing his Moscow trip. He left this morning by plane. I know he wants to work in complete cooperation with Secretary Byrnes.

WINANT

S41.51/12-1545

The Acting Secretary of State to the British Ambassador (Halifax)

WASHINGTON, January 11, 1946.

EXCELLENCY: I have the honor to acknowledge the receipt of your two notes of December 15, 1945⁶⁶ in which you place on record the position and intentions of your Government in respect of the application to the colonial dependencies of His Majesty's Government in the United Kingdom of sections 8 and 9 of the Financial Agreement between the United States and the United Kingdom signed on December 6, 1945. I also acknowledge the receipt of the list, transmitted with these notes, of the territories comprised in the term "Colonial dependencies", which appears in section 6(iii) of that Agreement.

⁶⁴ See *Parliamentary Debates*, House of Commons, 5th series, vol. 410, col. 76.

⁶⁵ *Parliamentary Debates*, House of Commons, 5th series, vol. 417, col. 718.

⁶⁶ Neither printed.

Sections 8 and 9 of the Agreement relate respectively to the relaxation and removal of exchange restrictions on trade and other current transactions and to the nondiscriminatory application of quantitative restrictions on imports. I am pleased to note that the Government of the United Kingdom will give full application to these principles in respect of the several dependencies in which it has the authority to do so, and, in the dependencies in which it has not such authority, will use every endeavor to persuade the competent authorities to comply with these principles.

With regard to the application of sections 8 and 9 of the Financial Agreement to the territories and possessions of the United States, the Secretary of the Treasury has undertaken to direct to you a letter setting forth appropriate assurances in this regard.⁶⁷

Accept [etc.]

DEAN ACHESON

841.50/1-1146 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, January 11, 1946—11 p. m.

[Received January 12—8:55 a. m.]

374. This is British Economic Reconstruction No. 2 in the series. Mytel 13186 of December 15 was No. 1.⁶⁸

1. There is much concern in Britain re ability of UK to meet all obligations resulting from the financial agreement with US. In this series of messages efforts will be made to analyse from time to time material which has direct or indirect bearing on the question and to follow developments in the views of UK economists and administrators. The difficulties of prediction should be recognized and in view of the dangers of spurious quantitative forecasts, discussion of the question in sections of next few messages will be largely qualitative.

2. Those concerned with economic side of international relations should recognize importance of non-economic aspects of the US-UK financial agreement. It will be noted from Embassy messages reporting press and Parliamentary views on the agreement that discussion of practicability of the agreement has been equalled and in some quarters overshadowed by discussion of its equity from the standpoint of contributions to a common war effort. In the year preceding the agreement we frequently had occasion to point out that the British people, from Cabinet Minister to man-in-the-street are

⁶⁷ On January 30, 1946, the Secretary of the Treasury informed the British Ambassador that the provisions of sections 8 and 9 would apply to all U.S. territories and possessions. Copy of note, not printed, obtained from the Department of the Treasury.

⁶⁸ Not printed.

convinced that the reason why UK came out of the war with unfavorable external financial position is that, apart from help from Dominions, she alone held off the enemy for more than a year, and in equity should be paid by rather than have to pay her creditors for this service. This feeling is strengthened by documentation from US prosecutors at Nuremberg to prove that Nazis plotted world domination before 1939.⁶⁹ Interest payments on the loan, small though they may be in proportion to national income, are felt to be the most inequitable feature of the agreement and if the agreement runs its course without alteration the annual payments will serve as an annual reminder for half a century of what is considered by the British to be an unjust outcome of the war, quite independently of UK economic capacity to meet the payments.

3. Since these views on non-economic aspects of agreement are shared by Labor Ministers and the Labor Party, it follows that Labor Government and vast majority of Labor MP's acted from economic motives in firmly steering the measure through Parliament. In art VII messages we pointed out that the fundamental position of Labor and Liberal Parties were more in accord with objectives of art VII than was position of Conservative Party even though under coalition there was sufficient support from Conservative left and center to enable coalition to support art VII. When the coalition broke up conservatives, who were no longer under necessity to give and take in relation to other parties but were anxious to emphasize their differences from them, were torn apart internally on art VII matters and the reactionary section gained ground.

4. That Labor rose to the occasion confirms the point that British Socialism and Trade Unionism the first from its beginnings and second through most of its history, are essentially international in outlook. Hyndman and Robert Blatchford⁷⁰ showed nationalistic tendencies in their times but their influence in this respect was never deep, since the international outlook is strongly rooted in rank and file of Labor. As regards trade matters this outlook may have appeared to some to be obscured at times by Labor's belief in planning on a national scale and by Labor attacks on the Liberal Party in period in which Labor fought its way to position of chief opposition party. Labor spokesmen, except Philip Snowden,⁷¹ were sparing in their advocacy of "free

⁶⁹ See *Trial of the Major War Criminals Before the International Military Tribunal* (Nuremberg, 1947-1949), *passim*; also *Nazi Conspiracy and Aggression* (Washington, Government Printing Office, 1946-1948), which is a collection of documentary and guide material prepared by U.S. and British prosecuting staffs for use in presentation before the International Military Tribunal, not all of which appears in the *Trial* records. Further documentation relating to the foreign policy of the Nazi regime is printed in *Documents on German Foreign Policy*, series C and D.

⁷⁰ Henry Mayers Hyndman and Robert Blatchford were prominent in the beginnings of the British Labor movement.

⁷¹ British Chancellor of the Exchequer, 1924, 1929-1931.

trade" because of its frequent association with the Liberal Party, with *laissez faire* and with exclusive private enterprise. Indeed, Labor's views on trade differ substantially from those of 19th and early 20th century advocates of free trade who linked it indissolubly with private enterprise.

5. But these differences must not be allowed to obscure the fact that, except in war or near war conditions, British Labor could not without reversal of its whole political convictions become the advocate of exclusive economic blocs, or of deliberate discriminations on nationalistic and imperialistic grounds. Nor could it take the initiative in erecting or raising barriers to economic intercourse with the workers of other lands. Recently Fleming, Cabinet Secretariat Economics, told Penrose that he thought the Labor Ministers whose antecedents were in Liberalism could be relied on to support article VII more than those whose antecedents were in Conservatism. But in fact no Minister was firmer during recent events than Cripps. Perhaps the central point is that Labor has a strong enough tradition of its own to absorb effectively persons of diverse antecedents. In any event it is clear that Labor's basic outlook and its political strength make it a more reliable instrument of UK cooperation in realizing the objectives of art VII taken as a whole than can be found in any other political party in UK.

6. Recent events confirm importance of Keynes' role in art VII matters. From the signing of art VII we have believed that Keynes' active support and participation were more important than those of any other single person in UK. This may be said in full awareness of the lapses in his views on international trade in 1933 and 1941 and his occasional irritability and arrogance—aggravated by ill-health—in argument and negotiation. These defects are more than offset by the power and range of his mind which always bring him back from a partial to a comprehensive viewpoint that places economic issues in a world and not a mere national setting. Other economists among the UK team are more tactful in negotiating an agreement: None commands one-tenth of Keynes' influence in gaining acceptancy of the agreement in Great Britain.

7. Thus acceptance of the US-UK agreements in UK is result of their economic merits in opening way for multilateral trade instead of barter and for economic cooperation instead of economic warfare, rather than from any special attachment to the CS [US?]. Britain has swung decisively from conservative to progressive courses and this change has benefited the forces in US striving for world economic cooperation and freer trade. But the progressive forces in UK look doubtfully at the US because they have little confidence that Congress and the US public will move in a progressive direction in economic

matters. They fear that the US public is swinging in opposite direction to UK public and putting its faith in outworn slogans of reliance on private enterprise and *laissez faire*, except when it suits vested interests to have Government intervention of a type that is usually against the interests of other countries. They probably exaggerate these tendencies and may be underestimating progressive forces in US but at moment they point to mutilation of Full Employment Bill, scrapping of controls, lack of provision for low cost housing, and frustration of attempts at extending Social Security. Hence at present in economic matters the US has little attraction for the predominant political and intellectual groups in Britain.

8. This attitude might, of course, change if distinctive American types of social measures could get through Congress. Of all New Deal measures the TVA ⁷² has the greatest appeal to progressive forces in UK. Here they feel was a great American achievement in social as well as technical organization that outdid anything that Europe could show in that field and from which Europe, including UK, could learn. Developments on similar lines in other parts of US would make a great impression here.

9. There are three points on which officials in Whitehall particularly fear that the purposes of the general US-UK agreement may be frustrated by US action or inaction. First, for reasons already given they fear that Congress has made or will make it impossible for the Administration to pursue a full employment policy. Second, they fear that shipping interests will induce Congress to pursue a [nationalist?] shipping policy out of harmony with the commercial policy proposals. Third, they stress the inconsistency of US tied loans with US policy against discriminations.

10. In the eyes of Whitehall and of others in UK divergencies on loan policy and anticipated divergencies on shipping policy weaken the force of American declarations on freer trade and nondiscrimination. It is considered that trade, transport and investment are so interconnected that inconsistency in international policies governing them would seriously hinder the expansion of international trade. In immediate future particularly in 1946 tied loans might possibly be represented as being offset by permissible methods of adjusting sterling balances. But as long term policy they could hardly be reconciled with freer international trade, with nondiscrimination or with pursuit of the best international division of labor.

11. The difference between the approach up to now to the question of international machinery on trade and that on shipping and inland transport policy may slow up the process of achieving consistency between trade and transport policies. The part played by subsidies

⁷² Tennessee Valley Authority.

in both fields, effects of subsidies in one field on the other, and effects of manipulation of transport rates on trade, seem to necessitate adequate machinery to achieve consistency.

[Here follows part 2 of this telegram which deals with the long-term plans of the British Labor Government.]

WINANT

REPRESENTATIONS BY THE UNITED STATES TO THE UNITED KINGDOM FOR SUPPORT IN OBTAINING OVERSEAS BASES

811.34553B/9-1945

The British Embassy to the Department of State

AIDE-MÉMOIRE

His Majesty's Government have had under consideration the question of the withdrawal of the British forces which have been established in the Islands of Terceira and Fayal in accordance with the facilities granted under the Azores Agreement of 1943.⁷³ Unlike the agreement between the United States and Portuguese Governments relating to the island of Santa Maria,⁷⁴ which provides for a maximum period of nine months within which United States forces must be withdrawn, the Anglo-Portuguese Agreement lays down no time limit for the duration of the facilities granted to His Majesty's Government, but when the latter originally approached the Portuguese Government in 1943 an assurance was given that British forces would be withdrawn "at the end of hostilities". His Majesty's Government are now anxious to withdraw their forces as soon as practicable and they feel that in any case their occupation of the Islands should not be prolonged beyond a maximum of six months from the date of the end of the war, that is to say, from September 2nd, 1945. It is estimated that the process of withdrawal can in fact be completed within this period. His Majesty's Government intend, therefore, to inform the Portuguese Government accordingly, adding that they would hope thereafter to enjoy emergency and diversionary rights in the Azores.

2. In view of the share which the United States forces have had in the facilities accorded to His Majesty's Government by the Portuguese Government, and since it is understood that the United States

⁷³ For texts of the documents constituting agreements between the United Kingdom and Portugal concerning facilities in the Azores, signed at Lisbon, August 17, 1943, November 28, 1944, and May 30, 1946, see *British and Foreign State Papers*, 1946, vol 146, pp. 447-452.

⁷⁴ For documentation pertaining to efforts of the United States to obtain military privileges in the Azores, see *Foreign Relations*, 1944, vol. iv, pp. 1 ff. For texts of agreement and exchanges of notes, signed at Lisbon, November 28, 1944, see Department of State, *Treaties and Other International Acts Series No. 2338*, or United States *Treaties and Other International Agreements*, vol. 2 (pt. 2), pp. 2124 ff.

forces established in the Azores may be hoping to continue to enjoy the alternative facilities which they now possess on the island of Terceira for as long as they themselves remain established at Santa Maria (that is to say, possibly for as long as nine months after the end of hostilities, which would be three months after the latest date for the British withdrawal from Terceira) His Majesty's Government wish to inform the United States Government beforehand of their intention.

3. His Majesty's Government are anxious to make their communication to the Portuguese Government as soon as practicable, and as they assume that the above arrangements will be convenient to the United States Government, they would propose, unless they hear to the contrary, to send instructions to His Majesty's Ambassador at Lisbon ⁷⁵ at the end of the current month to approach the Portuguese Government.

4. The withdrawal of the British forces will of course involve the termination of British responsibility for the air-sea rescue service on the Azores, and His Majesty's Ambassador at Washington ⁷⁶ has been instructed to enquire whether the United States authorities will be able to take over this service. If so, His Majesty's Government would be glad to know the date on which the transfer could conveniently be effected.

WASHINGTON, September 19, 1945.

811.34553B/9-1945

Memorandum of Conversation, by the Chief of the Division of Western European Affairs (Culbertson)

[WASHINGTON,] September 26, 1945.

Participants: Mr. G. H. Middleton,⁷⁷ of the British Embassy
 Mr. Outerbridge Horsey, WE ⁷⁸
 Mr. Paul T. Culbertson, WE

We asked Mr. Middleton to come in this afternoon in order to discuss with him the British Embassy's memorandum of September 19, concerning the British proposal to withdraw their military personnel from the Portuguese islands of Terceira and Fayal. I told Mr. Middleton that we had not yet heard from our military authorities with regard to the disposition of American military personnel on these islands, the effect of the British withdrawal on American deployment from Europe and on how soon the sea rescue work could be taken over

⁷⁵ Sir Owen St. Clair O'Malley.

⁷⁶ Lord Halifax.

⁷⁷ George H. Middleton, First Secretary, British Embassy.

⁷⁸ Division of Western European Affairs.

by our forces. I stated further that we have under study at the present time plans with regard to the possible use of the Azores as a long term security base, possibly with the British and Portuguese, and possibly as a UNO⁷⁹ security base. I told Mr. Middleton that these plans were not yet definitely formulated and that we were not, therefore, in a position to discuss them with the British Government, and we, therefore, hoped that his Government could delay in informing the Portuguese of their plans until we had had an opportunity to talk to the British.

In response to his question I told him that I hoped we could have our plans formulated within the next two or three weeks, at which time we could talk to them.

Mr. Middleton said that he understood our position and would make inquiry of his Government.⁸⁰ He added that they were of course anxious to make gestures to the Portuguese, citing as a past difficulty the Australian attitude with regard to Portuguese reoccupation of Timor.⁸¹ Although the shoe did not seem to fit the example, I made no comment.

811.24500/11-645

The Department of State to the British Embassy

AIDE-MÉMOIRE

Mr. Byrnes⁸² spoke to Mr. Bevin⁸³ on one or two occasions while he was in London about the post-war military base program of the United States.

It will be recalled that the United States Government informed the British and Soviet Governments of its proposed approach to the Icelandic Government in regard to post-war bases before official negotiations were opened with Iceland.⁸⁴ At that time Mr. Bevin sent a letter to Mr. Byrnes⁸⁵ expressing the hope that no action would be taken indicating a lack of confidence in the United Nations Organization just at the time it was getting under way. Mr. Byrnes replied in

⁷⁹ United Nations Organization.

⁸⁰ A memorandum, not printed, of November 13, from the Chief of the Division of Western European Affairs (Culbertson) to the Director of the Office of European Affairs (Matthews), indicated that the British Government had decided to delay its approach to the Portuguese Government concerning the withdrawal of British troops (811.24553B/11-1545).

⁸¹ For documentation regarding Timor, see vol. v, pp. 452 ff.

⁸² James F. Byrnes, appointed Secretary of State on July 3, 1945, was in London for a meeting of the Council of Foreign Ministers, September 11-October 2, 1945; for documentation, see vol. II, pp. 99 ff.

⁸³ Ernest K. Bevin, British Secretary of State for Foreign Affairs.

⁸⁴ See bracketed note, vol. IV, p. 953.

⁸⁵ Not printed here.

a note⁸⁶ stating that far from regarding its action in Iceland as indicating lack of confidence in the United Nations Organization, the United States Government feels that its proposed action will reinforce and strengthen the Organization. The United States proposals to Iceland visualize that the bases operated by the United States in Iceland will be made available to the Security Council on its call if the Icelandic Government is agreeable to doing so.

Mr. Byrnes discussed briefly with Mr. Bevin the relationship between the United States post-war military base program and the question of a lend-lease settlement as well as the negotiations between the two countries looking to the opening of a credit for the United Kingdom Government.⁸⁷ At the time of the conversation with Mr. Bevin, he seemed to feel that he would prefer that there be no exact relationship established between these subjects.

Mr. Byrnes has visualized that in the course of the next few months there may well result a number of agreements between the United States and the United Kingdom Governments growing out of the present conversations. He attaches a very real importance to a satisfactory agreement between the United States and the United Kingdom Government in regard to post-war bases. He feels that negotiations looking to such an agreement should be undertaken at once. It would be agreeable to him to have no connection established between the lend-lease settlement and the financial talks and negotiations about bases, other than in the matter of timing.

The things which the United States Government wishes the British Government to do for the United States in connection with its post-war base program are as follows:

1. The United States Government desires an assurance that the British Government will support and assist the government of the United States in negotiations between the United States Government on the one hand and Iceland and Portugal on the other in regard to United States post-war base requirements in those countries. The United Kingdom has been informed in some detail in connection with the United States desiderata in Iceland. It is expected that the United Kingdom Government will be informed in detail in the next few days in regard to the rights which the United States Government desires to obtain in the Azores and Cape Verde islands.

2. There is enclosed a list of the places in territories administered by the United Kingdom, Australia or New Zealand where the United States Government wishes to obtain long-term military base rights.

⁸⁶ Not printed here.

⁸⁷ For documentation pertaining to financial discussions between the United States and the United Kingdom, see pp. 1 ff.

Included in this list are two places, one under a mandate administered by the Australian Government and the other under a mandate administered by the New Zealand Government. The United States Government has not yet informed the Australian and the New Zealand Governments of its desire to obtain base rights in these places and it requests that the British Government not inform those governments until the British Government has checked informally with the United States Government and has learned that the latter has informed Australia and New Zealand. Similarly, the French Government has not yet been informed about our desire to obtain base rights in Espiritu Santo and it is requested that the British Government not inform the French Government until the United States Government has itself taken up this question with the French Government. It will be observed that three of the places on this list, Canton Island, Funafuti and Christmas Island, are places over which sovereignty is claimed by both the United States and United Kingdom Governments, and which are also dealt with under numbered paragraph four of this *aide-mémoire*.

The British Government and the United States Government with the assistance of the Indian and Egyptian Governments established during the war a series of military airbases extending through North Africa, Egypt, and the Near East into India and Burma. In many cases such bases were created by enlargement of existing commercial air fields, and wholly or in part by construction financed by Reciprocal Aid. Contribution by the United States Government to such construction in Egypt, India and Burma, however, exceeded \$12,000,000. Construction in India appears to have been performed under local arrangements with the Indian Government under which the United States Government agreed to return the bases to the Indian Civil Aeronautics Authority or other appropriate office at varying periods after the close of hostilities.

The Government of the United States would like to have the British Government make mutually available to the military aircraft of the United States on similar terms, any continuing rights which the British Government is able to make permanent for use of such fields in transit and as emergency and refueling stations. The United States would similarly seek to make any such rights it obtains in this area available to the British Government. It is particularly suggested that the British and American Governments jointly enter into prompt negotiation with the Indian Government to secure its agreement to continued use by military planes of the United States and British Governments of the Dudhkundi and Barrackpore airports in the Calcutta area and the Karachi Airport at Karachi, while leaving the control of these airports in the Indian Government. Rights for landing, fueling, repair and if desired, the continuing right to retain, or later

station, up to 100 air force personnel of either government should be established.⁸⁸

Mr. Byrnes believes that the provision of the bases mentioned above will contribute materially to the effectiveness of the United Nations Organization in maintaining peace. It is anticipated that in drafting the contemplated agreements for furnishing military facilities to the Security Council of the United Nations Organization, these and other United States bases, along with existing and projected ones of all member nations, would be considered in determining the availability of bases for carrying out such enforcement measures as may be directed by the Security Council.

3. The British Government will recall that over a considerable number of years there has been correspondence between the governments of the United States and the United Kingdom in regard to territorial claims to Pacific islands. In a note dated August 16, 1939,⁸⁹ Secretary Hull⁹⁰ transmitted "a list of islands in the central Pacific which, in addition to islands in the Phoenix group, are claimed by the United States." Secretary Hull's note stated that "the American Government is prepared to discuss its claim and any British claim to each and every one of these islands with the British Government at any time convenient to the latter."

In an *aide-mémoire* dated June 8, 1940,⁹¹ the British Government expressed a willingness in principle to enter into discussions regarding the status of the islands specified in Secretary Hull's note. The British *aide-mémoire* suggested that the discussions be temporarily postponed because of the war. In a note dated August 10, 1940,⁹¹ Secretary Hull acquiesced in the postponement of discussions in regard to the status of these islands.

[4?] Mr. Byrnes believes that the present would be an appropriate time for the British and New Zealand Governments to sign an agreement with the United States under which those governments would withdraw their respective claims to these islands and would recognize the sovereignty of the United States over them. These islands, which

⁸⁸ At the time that he presented the list of bases to Lord Halifax, Secretary of State Byrnes emphasized the importance of the bases in India and indicated his desire that the British Government help to secure their retention for United States use. Lord Halifax demurred, suggesting instead that the United States negotiate with the Government of India concerning civil air rights and approach the Government of India for military base rights through the machinery of the United Nations. (740.00119 FEAC/10-2245) Subsequently, both civil and military air rights were negotiated bilaterally between the United States Government and the Government of India; no record has been found of British intercession on behalf of the United States on the subject of base negotiations in India.

⁸⁹ See *Foreign Relations*, 1939, vol. II, p. 317.

⁹⁰ Cordell Hull, Secretary of State, 1933-44.

⁹¹ Not printed.

have for many years been the subject of conflicting claims and correspondence, are the following:

Vostok	Penhryn (Tongareva)
Malden	Manahiki (Humphreys)
Starbuck	Rakananga (Rierson)
Caroline Island	Danger Islands (Puka Puka)
Flint	Nukufetau (De Peyster)
Christmas Island	Funafuti
Atafu	Nurakita (Sophia)
Nukunono	Nukulailai (Mitchell)
Fakaofu	

Phoenix Group

Canton Island
 Enderbury Island
 Phoenix Island
 Sydney Island
 Hull Island
 Gardner Island
 McKean Island
 Birnie Island

Secretary Byrnes hopes very much that the British and New Zealand Governments will be disposed to sign such an agreement without entering into a discussion of claims and counter-claims to each island. The strategic importance of these islands to United States defenses in the Pacific as exemplified in the course of the present war requires no comment. Such an agreement would, of course, contain a provision terminating the exchange of notes of April 6, 1939⁹³ between the United States and the United Kingdom Governments providing for a joint administration of Canton and Enderbury islands in the Phoenix group for a period of 50 years.

Mr. Byrnes hopes that the British Government will be prepared to enter into detailed discussions looking to agreements covering the above-mentioned topics at an early date. Both he and the President attach real importance to the early conclusion of such agreements.

WASHINGTON, November 6, 1945.

⁹³ *Foreign Relations*, 1939, vol. II, p. 313.

[Enclosure]

LIST OF PLACES IN TERRITORIES ADMINISTERED BY THE UNITED KINGDOM, AUSTRALIA OR NEW ZEALAND WHERE THE UNITED STATES GOVERNMENT WISHES TO OBTAIN LONG-TERM BASE RIGHTS

<i>Place</i>	<i>Sovereignty</i>	<i>Nature of Rights</i>	<i>Use</i>
Ascension Island	British	Joint*	Air
Canton Island	U.S.—British Joint Control	Exclusive†	Naval and air
Christmas Island	Disputed U.S.— British	Exclusive	Air
Espiritu Santo	French—British Condominium	Joint	Naval and air
Funafuti	Disputed U.S.— British	Exclusive	Naval and air
Guadalcanal— Tulagi	British	Joint	Naval and air
Manus	Australian Mandate	Joint	Naval and air
Tarawa	British	Joint	Naval and air
Upolu	New Zealand Mandate	Joint	Air
Viti Levu	British	Joint	Naval and air
Dudhkundi and Barrackpore Airports (near Calcutta).	India	Participating rights with British	Air
Karachi Airport	India	Participating rights with British	Air

811.34553B/11—1945

The Department of State to the British Embassy

AIDE-MÉMOIRE

In Mr. Byrnes' *aide-mémoire* of November 7 [6], Mr. Bevin's attention was drawn to the interest of the United States in acquiring long-term rights to operate military bases in the Azores and Cape

*The long-term right for the United States to use as a military base jointly with the government exercising sovereignty. [Footnote in the original.]

†The long-term right for the United States to use as a military base under the exclusive control of the United States. [Footnote in the original.]

Verde Islands, as a part of the United States Government's post-war military base program. In that *aide-mémoire* Mr. Byrnes stated that the United States Government desires an assurance that the British Government will support and assist the Government of the United States in negotiations with Portugal looking to the acquisition of such rights. He added that he would inform the United Kingdom Government in detail in regard to the rights which the United States Government desires to obtain in those Portuguese islands.

The United States Joint Chiefs of Staff have now given Mr. Byrnes a statement of the rights which they desire the United States Government to obtain in the Azores and the Cape Verde Islands, which are described in the following paragraphs.

It should be pointed out that the United States Chiefs of Staff attach the highest importance to the acquisition by the United States of rights to operate on a long-term basis air and naval facilities in the Azores. The United States Government built and equipped, at its own expense, the airfields at Santa Maria and Lagens. The cost of the United States installations at Santa Maria was thirteen million dollars; at Lagens the United States expenditures were twelve and a half million dollars.

There are no existing United States installations in the Cape Verde Islands. It is doubtful if the United States Government will find it necessary to develop facilities in those Islands or to station military personnel there within the immediate future, except possibly a small party for a limited period of time to survey the Islands. The United States Chiefs of Staff have requested, however, that negotiations be undertaken with the Portuguese Government for rights to install and operate bases there at such sites as may from time to time be mutually agreed upon, if the United States Government decides that the construction of bases in the Cape Verde Islands is necessary.

As regards the Azores, the United States Joint Chiefs of Staff have requested that Mr. Byrnes negotiate an agreement with the Portuguese Government, giving the United States long-term rights jointly with the Republic of Portugal:

1. To defend the Azores, and to establish, utilize and maintain military bases therein.

2. To occupy, maintain, improve, operate and control military bases at

- a. Santa Maria (air base)

- b. Lagens, Terceira (air base)

- c. Such other sites as may be agreed upon with the Portuguese Government.

3. To install, maintain, and operate at locations to be mutually agreed upon port and naval anchorage facilities and facilities for defense to include warning systems, weather reporting, communication, and aids to navigation.

4. To operate military craft, including aircraft, vessels and vehicles into, through, over and away from the territory of the Azores without restriction except as mutually agreed.

5. Such other facilities and privileges as may be mutually agreed upon in order to give the necessary implementation of the foregoing desired rights.

The United States Joint Chiefs of Staff point out that they consider that it is essential to have alternative airfields in the Azores; that weather studies show that both Santa Maria and Lagens airfields can be expected to be closed simultaneously only six percent of the time in the course of a year, and that these considerations necessitate United States rights on both airfields. The United States, therefore, has an immediate requirement for Santa Maria as a main air base and Lagens as a satellite airfield and naval air station, together with the use of the necessary port facilities and an anchorage area in the Islands.

The proposals which the United States Government contemplates making to the Portuguese Government envisage an agreement providing for joint United States-Portuguese operation of the bases, giving full recognition to the sovereignty and independence of Portugal. The proposals will provide for the possibility that, if and when Portugal becomes a member of the United Nations organization, Portugal may wish to make available to the Security Council on its call some or all of the military facilities resulting from the agreement between Portugal and the United States. Recognizing the importance of the Azores to trans-Atlantic commercial air service, the proposals which will be made to the Portuguese Government will provide that the use and facilities of the airfields may be extended to civil aviation on a most-favored-nation and non-discriminatory basis.

The rights in the Cape Verde Islands, which the United States Joint Chiefs of Staff have requested Mr. Byrnes to obtain, are in general similar to those described in the foregoing paragraphs in the Azores.

Mr. Byrnes wishes to point out that the United States Government feels that its proposed action in the Azores and the Cape Verde Islands will reinforce and strengthen the effectiveness of the United Nations Organization in maintaining peace. He repeats, that the United States' proposals visualize that its proposed bases in these Islands will be made available to the Security Council on its call, if the Portuguese Government is agreeable to doing so. Thus, it is anticipated that in drafting the contemplated agreements for furnishing military facilities to the Security Council these and other United States bases, along with existing and projected bases of other member states, would be considered in determining the availability of bases for carrying out such enforcement measures as may be directed by the Security Council.

The United States has not yet informed the Portuguese Government of its desire to institute negotiations for base rights in the Azores and Cape Verde Islands. Mr. Byrnes is anxious to approach the Portuguese Government on the subject at an early date. Mr. Byrnes hopes that the United Kingdom Government will take special precautions to prevent any information in regard to this matter reaching the Portuguese Government, pending an approach to that Government by the United States Government.

WASHINGTON, November 19, 1945.

811.24500/11-1945

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] November 19, 1945.

Lord Halifax left with the Secretary a memorandum containing a message from Mr. Bevin to the Secretary⁹⁴ asking clarification of certain points in the American note on bases.

With regard to the disputed places, the Secretary told Lord Halifax the United States does not believe these places to be of particular value but in as much as the United States has built military installations on them during the war, he thinks it would look good for the entire negotiations if the asserted claim were settled. It would create the impression that the British, having a claim, have denounced it in favor of the United States.

Lord Halifax said Mr. Bevin had mentioned another matter which he had not included in the note—Mr. Bevin is concerned over difficulties that will arise if New Zealand and Australia are not consulted about these bases. He wants to be at liberty to mention to them what is involved and what is being discussed.

The Secretary agreed that they should be consulted and wondered if it would be better for the US to approach them. Lord Halifax thought it might be and said he would communicate with Mr. Bevin to ascertain his views on this.

[Annex]

The British Ambassador (Halifax) to the Secretary of State

MESSAGE FOR THE SECRETARY OF STATE FROM MR. BEVIN DATED
NOVEMBER 15TH

I am glad to have received from Mr. Byrnes total claims which the United States Government is making on us but it is obvious that.

⁹⁴ Printed as an annex to this memorandum.

this raises a very difficult problem to decide and while you in your telegram said it was for me alone it was obvious that I could not deal with it without advice. I therefore privately consulted Chiefs of Staff and asked them to look into it from military angle.

Meanwhile pending their report there are certain points upon which perhaps Mr. Byrnes can help to clarify my mind.

The first—and this rather attracts me—is proposal to deal with a number or all of these places jointly. To what extent would Mr. Byrnes be willing to reciprocate by allowing a wider area of joint use over some of the already United States owned bases, for instance Manila?⁹⁵ It would go better with the British people if it were felt that this was a mutual arrangement.

The next thing is, how much is wanted for military purposes and how much for civil aviation, because it seems to me that a number of these places have no military value at all. Obviously if a commercial proposition is involved, the question will have to be dealt with on two different grounds.

The next thing is, Mr. Byrnes has told me what bases he wants in our own territory and as regards support by us in Iceland and in Portuguese territory. Does he want anything from other countries such as France or Holland?

With regard to the Azores this raises separate problems on which I will telegraph later.

With regard to India, it is virtually a sovereign state in all these matters and I really could not handle India in the way suggested.

As to the disputed places mentioned in paragraph 3 of Mr. Byrnes' *aide-mémoire*, I am having this question examined, but could you tell me what is at the back of Mr. Byrnes' mind? Are the United States Government thinking of establishing military bases in them (and if so, under United Nations system) or what is special value attached to them by the United States, e.g. is civil aviation at the bottom of it?

Now I come to the real crucial point. As far as joint bases are concerned in British territory is it really necessary to formalise the existing arrangements in advance of international system of security under United Nations charter?⁹⁶ I cannot see that there is any conflict with United Nations or with Russia so long as in the event of aggression the joint base would be open for use by the Security Council. Surely what we want to do is at the right moment to formalise the existing United States position in British territories in question, as joint users of the bases, in the United Kingdom's "special agreement" with the Security Council under Article 43 of

⁹⁵ For documentation regarding a preliminary understanding with the Philippine Commonwealth for acquisition by the United States of military and naval bases in the Philippines, see pp. 1203 ff.

⁹⁶ For text of the United Nations Charter, signed June 26, 1945, see Department of State Treaty Series No. 993, or 59 Stat. (pt. 2) 1031.

the Charter. I am concerned at the risk of harming United Nations Organisation (and of giving the Russians serious ground for complaint) by attempting to formalise the existing arrangements in advance and appearing to face them with a *fait accompli*. The same applies to the arrangements about the future of the disputed Pacific Islands. I have made a declaration in the House that all my policy must square with the obligations we have entered into, and this preliminary series of dealings about bases and territories will look to the world like sharp practice and I do not want my foreign policy to be guilty of that. Therefore it would mean careful study.

There are two places which are mandated territories. Can we fortify mandated territories without the organisation which is taking the place of the League of Nations? That is another worry.

Finally, when I have had the thing studied in all its aspects I will communicate with you again, but although I have entered into what looks like criticism, again let me thank Mr. Byrnes for being so helpful and letting us see the picture as a whole. If he does not mind my putting a few daubs of paint on it from our angle, so as to make it a better picture I will be glad.

811.24553B/11-2945

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] November 29, 1945.

Lord Halifax called, at his request, to see the Secretary.

Lord Halifax handed to the Secretary an *Aide-Mémoire*⁹⁷ about the Azores and Cape Verde Islands.

The Secretary told the Ambassador Secretary Vinson⁹⁸ had inquired today about the base negotiations, in connection with the financial discussions which have been going on since September 10, and I told him we had no definite statement about bases.

Lord Halifax read to the Secretary a message⁹⁹ he had received from Mr. Bevin regarding the bad effect on world peace of considering the Azores as a military base. Mr. Bevin suggests that his Government approach the Portuguese with the proposal that the Azores be made a "free-for-all civil aviation station, and that in the event of war it would be available to the Security Council". Portugal should retain sovereignty and agreement to equip the Islands should be between Great Britain, the U. S., Canada and Brazil.

Lord Halifax explained that Bevin's general thought is that he doesn't want to be left out of the Azores, that it would be much better

⁹⁷ *Infra*.

⁹⁸ Fred M. Vinson, Secretary of the Treasury.

⁹⁹ Annex to this memorandum.

for him to approach Salazar,¹ and he does not see the same urgency of forestalling Russia in the Azores as the Secretary saw in Iceland.

The Secretary said he would consider the messages left with him.

[Annex]

The British Ambassador (Halifax) to the Secretary of State

MESSAGE FROM MR. BEVIN DATED NOVEMBER 27TH, 1945

I have given considerable thought to the question of the Azores. I think it bad in the interests of world peace to talk about the Azores and Cape Verde being military bases. Everybody recognises that the Azores are a great air communications station, and would it not be better if they were treated as such? Should this view be accepted by the United States it would be preferable that as a result of our treaty arrangements, His Majesty's Government should approach Salazar and induce him to make the proposal that the Azores should be treated as a free-for-all civil aviation station but that the agreement to equip the station should be between Portugal, who would retain sovereignty, Brazil, (which would bring in South America and please Portugal) the United States, Canada and His Majesty's Government. In the unlikely event of war, if the station were supplied with meteorological equipment and His Majesty's Government had again to use it for warlike purposes it would be very easily convertible; and there could be a declaration that in the event of war it would be available to the Security Council. But in my view it would give great satisfaction in Great Britain and in many other countries in the world if His Majesty's Government talked less of bases and more of development along the above lines, and I would like you to approach Mr. Byrnes with this rather bigger view.

811.24553B/11-2945

The British Embassy to the Department of State

AIDE-MÉMOIRE

Mr. Byrnes' Top Secret *Aide-Mémoire* of the 19th November set out a statement by the United States Joint Chiefs of Staff of the rights which they desired the United States Government to obtain in the Azores and Cape Verde Islands for the operation of military bases in those Islands.

2. Mr. Bevin wishes to thank Mr. Byrnes for this information and to explain that, owing to the special problems which it presents, he

¹ Antonio de Oliveira Salazar, Prime Minister of Portugal.

thinks it would be best if the question of bases in the Azores and Cape Verde Islands were dealt with as a separate matter, apart from the other questions of bases which the United States Government have raised with His Majesty's Government.

3. Mr. Bevin feels sure that Mr. Byrnes will understand that before he can express any opinion on the proposals set out in the *Aide-Mémoire* of November 19th, Mr. Bevin must consult the British Chiefs of Staff and His Majesty's Ambassador at Lisbon. Mr. Byrnes can be assured, however, that in consulting the latter Mr. Bevin will only inform him of the proposals regarding Portuguese territory and not of the wider United States plans.

4. Mr. Byrnes will also appreciate that His Majesty's Government will have to give serious consideration to the effect of the United States proposals on the Anglo-Portuguese alliance and the responsibilities which devolve on the United Kingdom therefrom. Consideration must also be given to the situation which might arise if the United States were neutral in a war in which Great Britain was engaged.

5. Before, however, Mr. Bevin can proceed to consult the British Chiefs of Staff, he would be glad for some clarification from the United States Government on the following points:

(a) Are these bases in the Azores and Cape Verde Islands the only bases which the United States Government are seeking in that part of the Eastern Atlantic? Or are they also contemplating establishing bases at Dakar or elsewhere in French Colonial territory, or in Liberia, etc.?

(b) In earlier conversations² arising out of the desire of His Majesty's Government to withdraw their forces from the Azores at the earliest possible moment, the United States Government had spoken of their desire to establish bases in the Azores either under tripartite Anglo-United States-Portuguese control or under the Security Council of the United Nations Organisation. The present proposals, however, seem to contemplate both in the Azores and Cape Verde Islands a predominantly United States base under joint United States-Portuguese control in which His Majesty's Government would have no part. In conversations with Mr. Freeman Matthews³ it was made clear that in the event of it being decided to proceed with plans for a base on a short-term lease pending the entry into force of the World Security Organisation, His Majesty's Government would wish to participate. It was subsequently suggested that the possibility of Brazilian participation should be carefully considered.

As regards the question of British participation, quite apart from His Majesty's Government's vital interest in this part of the world from the strategic angle, their long-standing and intimate connection with Portugal makes it politically essential from their point of view that, if any base is to be set up in the Azores and the Cape Verde

² See p. 205.

³ Director of the Office of European Affairs.

Islands before the coming into force of the World Security Organisation, His Majesty's Government should participate in it as an equal partner. Furthermore, in view of the previous attitude of the Portuguese Government over the negotiations for the establishment of war-time bases in the Azores, His Majesty's Government cannot help feeling that if the United States Government were to press for a base with which His Majesty's Government were not actively associated, they might well meet with a refusal from Portugal.

As regards the participation of Brazil, His Majesty's Government believe that this would be likely to make the project considerably more acceptable to Portugal, more particularly if the Portuguese Government were allowed to take the initiative in approaching the Brazilians.

(c) What action does the United States Government contemplate taking vis-à-vis the French Government in respect of their Cape Verde Islands proposals? These Islands are not far from Dakar and, apart from their general interest in the security arrangements for that part of the Eastern Atlantic, the French Government would, presumably, be particularly interested in any arrangements for the establishment of bases in the Cape Verde Islands. To ignore this interest might have embarrassing consequences.

6. Apart, however, from the foregoing considerations, His Majesty's Government feel strongly that it would be wiser not to proceed with any plans for the establishment of bases in the Azores or the Cape Verde Islands now, but to await the coming into force of the World Security System, and the entry of Portugal into the United Nations Organisation. Apart from the obvious objections in principle to doing anything which might be regarded as implying a lack of confidence in the United Nations Organisation or which might encourage the U.S.S.R. to take unilateral action in respect of bases they desire, there would not seem to be any necessity from the military point of view for establishing bases in these Portuguese Islands in the immediate future. Nor is there the same need, as there is in the case of Iceland, to forestall the Russians. Furthermore, it is believed that the chances of Portugal agreeing to the setting up of a base in Portuguese territory would be very greatly increased if these bases were to form part of the general World Security System and if the Portuguese action could be represented as a valuable contribution from Portugal to international security. Mr. Bevin wishes therefore to represent to Mr. Byrnes the advantages of pursuing this matter on that basis.

If, however, the United States Government feel obliged to press on with the matter now, His Majesty's Government will, of course, be very ready to consider to what extent they can assist. They would first, however, be glad to know the answers to the three points set out

in paragraph 5 above. Mr. Bevin would also be grateful for assurances that,

(i) the bases were being sought on a purely short-term basis pending the coming into force of the World Security Organisation,

(ii) His Majesty's Government would be associated in both projects as an equal partner,

(iii) The United States Government would coordinate their representations to the Portuguese Government very closely with His Majesty's Government.

8. Mr. Bevin hopes that the United States Government will not make any approach to the Portuguese Government until agreement has been reached between the United States Government and His Majesty's Government as to the best method of proceeding. Mr. Byrnes will appreciate that, if approached unilaterally by the United States Government, the Portuguese Government might well consult His Majesty's Government and make some appeal to the Anglo-Portuguese alliance, which would place His Majesty's Government in a highly embarrassing position.

9. Finally, Mr. Bevin desires to remind Mr. Byrnes that, at the request of the State Department, His Majesty's Government some weeks ago postponed a communication they were about to make to the Portuguese Government notifying them of the date on which the British forces would evacuate the present British base in the Azores. The Portuguese Government had already, a little time before, been informed that His Majesty's Government were giving consideration to this matter and would shortly be making a further communication to them on the subject. The delay in making the further communication is becoming increasingly embarrassing. Furthermore, the delay is also embarrassing to the British Service authorities who are anxious to start making their plans for evacuating the base and cannot do so until the date has been agreed upon with the Portuguese Government.

WASHINGTON, November 29, 1945.

811.34553B/12-1045

*The Secretary of State to the British Secretary of State for Foreign Affairs (Bevin)*⁴

I have given careful consideration to your personal message to me of November 27 and to the *aide-mémoire* of November 29 in regard to the Azores and the Cape Verde Islands. I am grateful for your assurance that your Government is ready to consider to what extent

⁴ This message was sent to the British Ambassador on December 10 for transmission to Mr. Bevin.

it can be of assistance to us in this matter. For my part I should like to assure you in turn that the United States Government will not make an approach to the Portuguese Government until there has been full discussion between you and me as to the best method of proceeding.

As you know, our military people are using the field at Santa Maria in our redeployment program and it will be necessary for us to continue to operate the field as a military airport for a good many months in bringing our soldiers home. In my earlier message I informed you that our military people feel strongly that it is necessary that both the field at Santa Maria and the field at Lagens be operated so that one will be available when the other is unusable for weather reasons. Our Chiefs of Staff, therefore, feel that if your Government finds it necessary to move out of Lagens that arrangements would be made for our Air Transport Command to take over the operation of this field for continued use in our redeployment program.

In the circumstances, would it not be a good idea for your Government to continue to operate the field at Lagens for the frank purpose of assisting the United States in its redeployment program? It seems to me that it would be preferable that you do this rather than that we have to take over the operation of the field for this purpose.

The idea of emphasizing the Azores as a great civil air communications center set forth in your message of November 27 appeals to me. I do not, however, feel that it would be desirable to bring Brazil or Canada into this situation. They are not parties to present agreements and the advantages of bringing them in would, I think, be offset by irritation in France and perhaps in USSR and other countries over their being left out.

What would you think of an approach to the Azores problem along the following lines: The United States would open negotiations with the Portuguese Government for an agreement under which the United States would assist Portugal in maintaining and operating a civil airfield at Santa Maria. It is clear that Portugal is not now in a position to take over the operation of this field. It should be operated as a great civil airport with transit and technical stop rights for civilian planes open to everybody. The agreement would provide that it either be operated by the United States on behalf of Portugal or that there be a Joint United States-Portuguese Commission to operate it.

The United States agreement in regard to Santa Maria, while emphasizing the operation of the airport for civil purposes, would provide that the United States should have the right to land military planes there and that in an emergency the field would be made available to the Security Council on its call. In the event it became

necessary to use the field for military aviation purposes the United States would assist Portugal in providing the necessary collateral facilities necessary there in operating and defending the field.

The United Kingdom Government would approach the Portuguese and negotiate an agreement along similar lines for the joint United Kingdom-Portuguese operation of the field at Lagens. Our people would probably like an understanding or an agreement to the effect that if you do not exercise your option of operating the field at Lagens the United States should have the right to replace the United Kingdom in the joint operation of this field with Portugal. If you wish, our ⁵ there could be a parallel provision giving you the right to operate Santa Maria if we should elect not to do so.

Our agreement with Portugal would provide that our military planes should have the right to make collateral use of Lagens and your agreement would provide that your military planes have the right to make collateral use of Santa Maria, each of us mutually to recognize such rights.

While this procedure has not had full discussion here, I am willing to give it full support if it meets the difficulties you have mentioned and if you will support us in a vigorous presentation of the plan to the Portuguese Government. We could then consider future installations in the Cape Verdes, with the ice broken and this more important negotiation behind us.

WASHINGTON, December 10, 1945.

811.34553B/12-1045

*The Secretary of State to the British Secretary of State for Foreign Affairs (Bevin)*⁶

Your messages of November 15th⁷ and of November 27th⁸—the latter accompanied by *aide-mémoire*, indicate that you intend to make further reply to mine of November 7th [6th] and 19th after consultation with your advisers. Since, however, you request additional information from me, and because the subject is for several reasons somewhat urgent, I attempt now to furnish you with the added information which you require and which I hope will enable you to assist us in this procedure which I first mentioned to you in London.

Let me say at once that I agree with much of the thought contained in your personal message of the 27th November and will send you

⁵ Presumably the word "our" should be omitted here. The original indicates that an erasure was made prior to final agreement on this sentence, and it is most likely that the word "our" was not erased through oversight.

⁶ This message was sent to the British Ambassador on December 10 for transmission to Mr. Bevin.

⁷ *Ante*, p. 214.

⁸ *Ante*, p. 217.

further reply in respect to the Portuguese negotiations. However, I am convinced that in the case of nearly all of these bases, including those in Iceland and the Azores, it will be far easier for the United States and the British Government unilaterally or jointly to continue in being the bases, and the rights to them, which were established by them during the war and to join the governments having sovereignty in turning them over to the United Nations Organization, as established, going, concerns, than it will be to bring about with the nations concerned, common consent to appropriate locations, renegotiate contracts, and provide for the hundreds of details and thousands of procedural questions that will arise if the United Nations Security Organization seeks to create and organize these facilities afresh. Without pessimism, I submit that our experience justifies this conclusion. I feel that to hold bases against the completion of the United Nations Organization will inspire and continue faith that it will come into being as an effective organization, and that to abandon bases will detract from such faith.

It is precisely because of the early date of expiration of existing agreements, and the irritation likely to arise as to the precise date of expiration of many of them, that I feel your help will be greatly appreciated here while we seek approval of the various agreements under consideration between our governments.

In most of these cases except those to which the traditional position of the United States attaches for western hemispheric reasons, the United States will, I am sure, welcome participation by the British Government in the rights and duties to be performed as trustee for the future United Nations Organization, and if I failed to stress this before, it has been because you advised me orally that the task might be a heavy one for the British Government during the next year or two.

Specifically we would have no objection to negotiations by the British Government with the Government of the Philippine Islands to rights at the Manila base similar to those which we expect to obtain, but I think that future reflection might cause you to question the procedure.

As respects the disputed islands in the Pacific, there is a definite program to maintain military bases on three of them, and no definite program now for the improvement of others as commercial air fields. The idea is rather now to settle amicably a dispute and provide this country with added assurance of cooperation by your Government at a time when we seek to extend cooperation to your Government.

As regards requests by the United States for base rights from other countries in Europe and Africa, we are frankly uncertain whether to make them. While there have been suggestions to that

end by the military, it is likely that procedure in respect to such requests will depend to an extent on whether or not the program set forth in my memorandum of November 7th [6th] is realized. We have made no such requests of which you are not apprised.

If with these assurances you are willing to assist us with respect to the Portuguese negotiations, and to consider details of long-term leases on those bases of the list sent you with my note of November 7th [6th] which are under the control of the British Government, I will be pleased to propose agreements, send one or more representatives to England, or take any other steps deemed suitable by you to expedite serious consideration of the program, for there are perhaps some reasons why it would be better to conclude the Portuguese negotiations ahead of those with Iceland.

WASHINGTON, December 10, 1945.

DISCUSSIONS LEADING TO AN INTERIM ARRANGEMENT ON COMMERCIAL AIR SERVICES BETWEEN THE UNITED STATES AND THE UNITED KINGDOM⁹

S41.796/10-2045 : Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

LONDON, October 20, 1945—4 p. m.
[Received October 20—1:25 p. m.]

11008. Copy of letter of October 6 from Hildred to Satterthwaite is en route by despatch¹⁰ but following is its substance in belief that despatch has not yet reached Department.

Begin substance. Great Britain has just emerged from desperate conflict to which all its national resources have been devoted for 6 years. It is seeking to restore its national organizations, including civil aviation organization, to peace-time footing but this takes time. Transition from military to civil control is incomplete and Air Navigation (Restriction in Time of War) Order is still in force. RAF (Royal Air Force) has not yet been able to release airdromes needed for civil flying.

In circumstances Britain cannot yet permit civil air services to be operated here on full commercial basis. British Government has reluctantly advised Swedes, Swiss and other Europeans that only "courier" services could at present be authorized, namely services established primarily for national purposes and limited to frequencies

⁹ For related documentation, see *Foreign Relations, 1944*, vol. II, pp. 355 ff.; *ibid.*, 1945, vol. II, pp. 1455 ff.; *ibid.*, vol. VIII, pp. 64 ff.; *Foreign Relations, The Conference of Berlin (The Potsdam Conference), 1945*, vol. I, pp. 181-182, 821-823, and *ibid.*, vol. II, pp. 1188-1191.

¹⁰ An undated copy of this letter from Sir William Hildred, Director General of Civil Aviation, British Ministry of Aviation, to Livingston Satterthwaite, Civil Air Attaché in the United Kingdom, was enclosed with despatch 26123, October 17, 1945, from London.

necessary for such purposes but allowed to utilize vacant space after priority requirements have been met for commercial traffic. This is also position of BOAC's (British Overseas Airways Corporation) operations and similar to ATC (Air Transport Command) operations.

British Government will be ready to issue permits for civil services on basis of limited frequencies to be specified. It would appreciate information as to what frequencies we consider necessary for governmental purposes.

Such an interim arrangement would be superseded as soon as conditions permitted by normal peace-time arrangements which would provide for operation of ordinary commercial services in accordance with terms of inter-governmental agreement which it is hoped would be settled in the meantime, replacing pre-war exchange of notes concerning limited reciprocal facilities for Pan American and Imperial Airways.¹¹

Remainder of letter concerns airports.

Following substance of further letter of October 18 from Hildred to Satterthwaite.

Begin substance. Hildred had advised Ambassador and Satterthwaite orally that American companies were welcome to start provisional operations in order to try out their equipment and British Government would not wish to hold them up pending conclusion of satisfactory bilateral agreement. He had not been able in talking to US operators to specify any particular frequency. He believed that both operators would require some weeks before they would be able to operate more than one or two services weekly. He refers to Satterthwaite's question as to whether Pan American could enter UK during next few weeks at rate in excess of twice weekly frequency specified in pre-war agreement. Wartime agreements,¹² to which Satterthwaite had referred, were held by Hildred to be purely wartime agreements and in no way appropriate now that war is over.

Hildred refers to his letter of October 6 to which he had received no reply, particularly to his statement that the British Government would be "quite ready to issue permits for your civil services on the basis of limited frequencies to be specified." He asks for our views on provisional frequencies and expresses confidence no difficulty will be encountered. He states that he obviously cannot say "come as often as you like" and expresses belief that wartime permits did not mention entry into the UK. He expresses preference for dealing on basis of frequencies our Government requests rather than dealing piecemeal with operators.

GALLMAN

¹¹ British notes dated March 4 and March 30, 1937, and reply by Secretary of State, April 20, 1937, none printed. For prior documentation pertaining to the exchange of notes, see *Foreign Relations*, 1936, vol. I, pp. 720 ff.

¹² On August 23, 1944, the British Foreign Office transmitted to the American Embassy in London a note along with permits to Pan American and American Export Airlines authorizing both companies to operate, in connection with the war effort, flights into the United Kingdom. The number of flights was not specified, but the United Kingdom was to be informed in advance concerning frequency. (811.79640/9-744). The United States signified its acceptance of this arrangement on September 20, 1944 (811.79640/9-1944). As a result, Pan American was operating, in addition to its two weekly flights under the 1937 agreement, three additional flights, while American, with no prewar permit, was operating three flights under the 1944 arrangement.

811.79641/10-2045: Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

LONDON, October 20, 1945—4 p. m.

[Received October 20—2: 50 p. m.]

11009. Gallop of Foreign Office and Cribbett, Deputy Director General of Civil Aviation, asked us to call this morning and expressed serious concern over Panam's (Pan American Airline) recently announced trans-Atlantic rate.¹³ Cribbett expressed belief that no company could operate profitably at this rate and that Trippe¹⁴ was determined to use Panam's substantial reserves to force both his American and British competitors out of trans-Atlantic run. He read telegram from Masefield¹⁵ to indicate that other American operators and Department were also seriously concerned over Panam's rate. He stated that British Govt was urgently seeking means of dealing with this problem.

His proposal, which was made only orally, was that United States Govt agree to denunciation of 1937 exchange of notes. He stated that 1937 agreement would be superseded, without interruption of services, by interim arrangement which would provide frequencies of five weekly for Panam and three for Export. It would also provide for agreement on rates (repeat agreement on rates). He also expressed willingness to proceed as quickly as possible in negotiating permanent agreement. He and Gallop both expressed British Govt's reluctance to denounce 1937 agreement unilaterally and strong hope that we would be sufficiently disturbed by Panam's rate either to join in denouncing agreement or publicly to acquiesce in British denunciation. We did not comment other than to express opinion that unilateral British denunciation would have regrettable effect on American public opinion. They indicated that no action was contemplated to prevent Panam inaugurating service next week but they hoped steps could be taken and announced before end of next week. Your urgent instructions will be appreciated. In this connection, see our 11008, October 20, 4 p. m.

Cribbett remarked incidentally that while the Government was publicly committed to stating its aviation policy on November 1,¹⁶ no agreement within Cabinet on aviation policy was in sight.

GALLMAN

¹³ Pan American Airways, Inc., had announced intention to fix its New York-London rate at \$275.

¹⁴ Juan T. Trippe, President of Pan American Airways, Inc.

¹⁵ Peter Masefield, Civil Air Attaché, British Embassy.

¹⁶ For text of statement on that date by Lord Winster, British Minister of Civil Aviation, see *Parliamentary Debates*, House of Lords, 5th series, vol. 137, col. 623.

811.79640/10-2545 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, October 25, 1945—1 p. m.

9417. Your 11008 and 11009 Oct. 20. The Dept relying on statements reported your 9596 Sept 18¹⁷ has gone on assumption that for time being there would be no limitation on frequencies and the carriers have been so informed. Serious embarrassment is therefore caused by our first learning October 22, of Hildred's letter to you of Oct 6.¹⁸ Dept had assumed operating plans of Panam and Amexport¹⁹ were under discussion between company representatives in London and the appropriate Govt officials. In absence of any word from Emb we had supposed that satisfactory understanding had been reached. Dept will ascertain carriers views on number of frequencies they feel they must have for interim period.

Dept would be reluctant to agree to immediate termination of 1937 agreement which provides Panam with at least two frequencies a week terminable only on two years' notice and to replace this with a temporary agreement which might however run for a protracted period, providing for some increase in frequencies but in a total amount Dept believes would still be inadequate to take care of traffic requirements. As you are aware this Govt has no authority at this time to fix rates for its international carriers and therefore could not enter into an agreement with the Brit under which rates would be fixed by the Govts.

BYRNES

¹⁷ Telegram 9596, September 18, 6 p. m., from London, not printed. The pertinent portion read: "With respect to validity of war-time permits, our feeling is that pending an air transport agreement with the United States, or in the event of a breakdown in the negotiations the British will not raise the question of cancellation or termination. To do so would throw services back to the pre-war twice-a-week basis and responsible British officials are beginning to be aware of the unfavorable publicity which would arise in not only the United States but in England as well if stories were printed, based partly on fact, that if an American wished to go to London he would have to stop in Ireland or Amsterdam, or if a British subject wished to go to the United States he must do so by way of Mexico or Canada." (811.79640/9-1845)

¹⁸ File copy of telegram 11008 from London, p. 224, embodying substance of Hildred's letter, bore the stamp of the Department of State's Aviation Division with the date October 22. Telegram 9417 to London was drafted by Stokeley Morgan, Chief of the Aviation Division, also on October 22.

¹⁹ American Export Airlines, Inc. Approval had been given by the Civil Aeronautics Board on July 5, 1945, for acquisition of American Export Airlines by American Airlines, Inc. Subsequently, the routes operated by American Export were taken over by American Overseas Airlines, Inc., the overseas division of American Airlines System.

711.4127/11-1845

The British Ambassador (Halifax) to the Secretary of State

AIDE-MÉMOIRE

NORTH ATLANTIC AIR SERVICES

1. His Majesty's Ambassador presents his compliments to the Secretary of State and, on behalf of His Majesty's Government in the United Kingdom, has the honour to propose that an Interim Agreement between His Majesty's Government and the United States Government on the subject of North Atlantic commercial air services should be drawn up through an Exchange of Notes.

2. His Majesty's Government propose that arrangements made under this Exchange of Notes should cover a period of not more than one year from the date of effect and should be terminable by either Party at any time on giving six months notice to the other Party. The formal bilateral Agreement, when concluded, would take the place of this Interim Agreement.

3. His Majesty's Government propose that the Interim Agreement should be in the following terms:—

Article I

United States air carriers should be authorised to operate a load capacity of up to a total of 500 seats per week in each direction. Any aircraft operated solely or primarily for transport of cargo should be subject to a separate agreement.

Article II

British North Atlantic air carriers should be authorised to operate in return a capacity equal to that of United States carriers.

Article III

The 1937 Agreement should remain in effect. But any capacity operated thereunder should be included in the above allocated capacity of up to 500 seats per week to carriers of each Nation.

Article IV

Operation into the United Kingdom shall be permitted only at the rate approved by His Majesty's Government provided that operations at the rate from time to time agreed by the International Air Transport Association²⁰ shall be regarded as satisfying this requirement.

²⁰ The International Air Transport Association was a voluntary organization, established as a result of a meeting at Havana in April 1945 of representatives from the airlines systems. Its purpose was to provide for consultation concerning and unofficial regulation of certain aspects of international air travel. It held its conference for the year 1945 in Montreal, October 15-18.

Article V

Should carriers operating under the 1937 Agreement not conform with rates laid down by the International Air Transport Association, those carriers would be limited to capacity represented by frequencies prescribed in that Agreement.

Article VI

His Majesty's Government give assurance that fares charged by British carriers will not be less than those agreed by the International Air Transport Association.

Article VII

His Majesty's Government agree that United States air carriers may, by agreement between Governments, operate such capacity as is required to carry traffic offering in addition to 500 seats mentioned in Article I, provided that when British air carriers are ready to take up a share of that capacity, any adjustment then found necessary will be made in the capacity operated by the United States carriers in order to bring the capacity and the traffic offering on the route into equilibrium on the basis of an agreed load factor and in order to ensure the division of capacity between the United States and the United Kingdom carriers in accordance with the traffic embarked principle.

Article VIII

Notwithstanding the above, the United States carriers may in agreement with the United Kingdom air carriers increase their capacity to meet sudden traffic demands. But such increase of capacity will be subject to confirmation or modification by His Majesty's Government.

Article IX

Provision for American services to operate Fifth Freedom²¹ traffic beyond the United Kingdom should form the subject of a separate agreement.

WASHINGTON, November 13, 1945.

²¹ The Fifth Freedom involved the right to land or take on passengers, cargo, and mail in an intermediate country while en route from the country of origin to the country of ultimate destination. For text, see *Proceedings of the International Civil Aviation Conference*, Chicago, Ill., November 1-December 7, 1944, Department of State publication No. 2820 (2 vols.; Washington, Government Printing Office, 1948-49), vol. I, p. 179. For documentation on the Chicago Conference, see *Foreign Relations*, 1944, vol. II, pp. 355 ff.

711.4127/11-1945: Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, November 19, 1945—6 p. m.

[Received November 19—4:35 p. m.]

12128. For Assistant Secretary of State Clayton. Please read Embassy's 12115, November 19, 2 p. m.²²

I believe that the rejection of the interim agreement will adversely affect chances of early conclusion of permanent agreement. The interim agreement was worked out by those on the British side who care most about seeing the permanent agreement with us. I further believe the rejection of the interim agreement will tend to destroy the increasingly friendly approach which I think will be helpful to us in the final negotiations.

WINANT

711.4127/11-1345

The Department of State to the British Embassy

MEMORANDUM

The Department of State and other agencies of this Government, as well as officials of the United States airlines now serving the United Kingdom, have given very careful study and consideration to the *Aide-Mémoire* of November 13, 1945, left at the Department by the Civil Air Attaché of the British Embassy, which proposed that an interim agreement (set forth in the *Aide-Mémoire*) on North Atlantic commercial air services should be drawn up through an exchange of notes.

An agreement between the Government agencies and airlines concerned was not reached with respect to acceptance of the British proposal, which includes certain principles which this Government has consistently opposed and is not now prepared to accept. Furthermore, since it is anticipated that negotiations looking to the conclusion of a bilateral agreement covering all phases of the air transport problem will be held in the very near future, the Department does not believe that an interim agreement is essential for such a brief period.

WASHINGTON, November 19, 1945.

²² Not printed. This telegram reported that Sir William Hildred was trying to clear arrangements for a bilateral aviation conference to meet in Washington, possibly as soon as November 26. Hildred had consistently shown himself ready to deal with the United States and now felt strongly that failure to conclude the interim arrangement on North Atlantic commercial services would cause unfavorable publicity for the proposed talks on a permanent agreement. (711.4127/11-1945)

711.4127/11-2245

The British Ambassador (Halifax) to the Secretary of State

AIDE-MÉMOIRE

His Majesty's Ambassador presents his compliments to the Secretary of State and has the honour to refer to the Memorandum of November 19th from the Department of State regarding the proposals for an interim agreement on trans-Atlantic Commercial Air Services put forward by the Embassy on November 13th 1945.

2. His Majesty's Ambassador is instructed to express the regret of His Majesty's Government that the United States Government is not prepared to entertain these proposals and that the Department of State does not believe an interim agreement is essential at this stage in view of the proposed negotiations for a bilateral agreement between the two Governments covering all phases of the air transport problem.

3. His Majesty's Government wish to place on record their view that the failure to find a basis for a working agreement covering the Third and Fourth Freedoms²³ on the North Atlantic routes seriously impairs the prospects of wider negotiations. They wish to recall that in his conversation on November 15th with the President and the Secretary of State²⁴ the Prime Minister expressed his desire to discuss with the United States Government in conference points of difference in regard to a long term bilateral agreement in the expectation that the two Governments were already on the point of agreement on an actual working arrangement for an interim period on the North Atlantic routes.

4. His Majesty's Government is reluctant to believe that the Memorandum under reference from the Department of State represents the final position of the United States Government in this matter, more especially as it in no respect enters into the merits of the proposals which His Majesty's Government in the United Kingdom put forward. His Majesty's Ambassador is, therefore, instructed to inquire whether the State Department are prepared now to state the proposals which in their view should form the basis of negotiations on all phases of the air transport problem together with any suggestions they may have to offer for the transatlantic operations of the commercial air lines while the negotiations are in progress.

5. In view of the desire of His Majesty's Government to settle the arrangements for the United Kingdom representation in the prospec-

²³ These two freedoms covered respectively the right to carry passengers, cargo, and mail from the country whose nationality the plane possessed to another country, and the right to carry such traffic from another country to the country whose nationality the plane possessed. For texts, see *Proceedings of the International Civil Aviation Conference*, vol. I, p. 179.

²⁴ No record of this conversation has been found. Prime Minister Attlee's discussions with various officials on the occasion of his visit to the United States dealt principally with atomic energy matters.

tive negotiations, His Majesty's Government would be glad to receive the observations of the Department of State as a matter of urgency.

WASHINGTON, November 22, 1945.

811.79641/11-2545

Memorandum of Telephone Conversations, by the Chief of the Aviation Division (Morgan)

[WASHINGTON, November 26, 1945.]

At Mr. Clayton's request, on Sunday, November 25 I got in touch by telephone with General C. R. Smith, President of American Overseas Airways [Airlines] and Mr. J. T. Trippe, President of Pan American Airways, and told them both that we had now received formal notice from the British²⁵ that they were going to limit frequencies of the American carriers and also insist that rates charged by the American carriers be first cleared with the British Government. For the time being the British are limiting American Overseas to three frequencies a week and Pan American to the two frequencies a week authorized under the 1937 agreement, if Pan American charges the \$275.00 rate which the British Government considers too low. If Pan American charges a rate which the British Government considers satisfactory, the British Government would consider permitting Pan American to offer some additional frequencies. If American Overseas charges a rate which the British Government considers too low, American Overseas will not be permitted to operate any frequencies.

I was to advise General Smith and Mr. Trippe that after careful consideration, the Department had decided that while it could not agree with the British on a set of principles which were contrary to ours, namely the control of frequencies, fixing of rates by governments and severe limitations on the Fifth Freedom, nevertheless under the circumstances all we can do is to tell the British Government that we recognize that our carriers cannot in the absence of an inter-governmental agreement operate into the U.K. except under such conditions as the British Government may prescribe, and we are prepared to have our carriers accept those conditions and operate on that basis for the time being. We should of course expect the British carriers, when ready to operate into the U.S., to comply with such conditions as we may prescribe.

I told the above to General Smith and Mr. Trippe. General Smith said that he was prepared to go along with that policy. He agreed

²⁵ Reference is to an *aide-mémoire* dated November 19, from the British Embassy, not printed, as elaborated upon informally in a letter, also not printed, of November 24 from the British Civil Air Attaché (Masefield) to the Chief of the Aviation Division (Morgan).

with the Department that there seems to be nothing else we can do under the circumstances. Mr. Trippe demurred somewhat and said Pan American was in a very difficult situation and asked for an opportunity to discuss the matter with us. I told Mr. Trippe that if he could not approve of the actions we proposed, he would have to suggest an alternative as we could not ourselves see any. He said he would be in Washington on Monday, November 26 and would get in touch with me immediately.

STOKELEY W. MORGAN

711.4127/11-2745

The British Ambassador (Halifax) to the Secretary of State

MEMORANDUM

NORTH ATLANTIC AIR SERVICES

His Majesty's Ambassador presents his compliments to the Secretary of State and has the honour to recall that in a Memorandum of November 13th he set out the proposals of His Majesty's Government in the United Kingdom for an Interim Agreement with the United States Government on the subject of North Atlantic commercial air services. For convenience of reference a copy of that Memorandum is enclosed.

2. In a Memorandum of November 19th the State Department rejected these proposals on the grounds that they included certain principles which the United States Government was not prepared to accept.

3. His Majesty's Embassy, on instructions from His Majesty's Principal Secretary of State for Foreign Affairs,²⁶ then defined the position of His Majesty's Government with particular reference to the announced intention of Pan-American Airways to reduce their fare to \$275 and of American Overseas Airlines to increase the number of their frequencies to and from the United Kingdom. His Majesty's Ambassador requested an assurance from the United States Government that United States air carriers would conform with international practice and not seek to increase frequencies before they have obtained the permission of the country to which they desire to operate. If Pan-American Airways adhered to their intention as announced, His Majesty's Government would be reluctantly obliged to restrict the number of Pan-American services to the United Kingdom to the two per week permitted under the Exchange of Notes of 1937. In the case of American Overseas Airlines His Majesty's Government felt bound to give warning that, if they aligned their fares with

²⁶ Ernest K. Bevin.

those proposed by Pan-American Airways, His Majesty's Government, while ready to accept any rates recommended as economic by IATA, would have no option but to refuse American Overseas Airlines the right to operate to the United Kingdom.

4. On November 22nd His Majesty's Ambassador left with Mr. Clayton a Memorandum expressing the disappointment of His Majesty's Government at the rejection of their proposals for an Interim Agreement and inviting the United States Government to put forward, as a matter of urgency, their counter-proposals for dealing with the air transport problem, together with their suggestion for an interim arrangement covering the North Atlantic routes. On receipt of this communication Mr. Clayton enquired whether His Majesty's Government would agree not to suspend the additional services proposed by Pan-American Airways and American Overseas Airlines in order to afford further time for the adjustment of the matter.²⁷

5. His Majesty's Government have given careful consideration to this suggestion but regret that they are unable to accept any additional frequencies at fares which have not been agreed. In order, however, to meet Mr. Clayton's request and to facilitate the immediate expansion of trans-Atlantic services they are prepared to permit Pan-American Airways and American Overseas Airlines, pending a formal agreement between the two Governments, to operate a total of up to seven services per week each to the United Kingdom, provided that they will charge not less than the fare of \$375 provisionally agreed at the last meeting of the International Air Transport Association.

6. It should, of course, be understood that in the case of both Companies such permission refers to straightforward Third and Fourth Freedom services, and that His Majesty's Government cannot approve Fifth Freedom services until these are covered by formal agreement.

7. His Majesty's Government feel bound to repeat that, with the exception of the two frequencies operated by Pan-American Airways under the 1937 Exchange of Notes, they cannot permit any service at rates less than those agreed from time to time by IATA. His Majesty's Government rely on the United States Government to convey the necessary warning to the Companies concerned, if this has not already been done.

8. Finally His Majesty's Ambassador desires to remind the Secretary of State that the preparations of His Majesty's Government for the conference on a long term Agreement await the counter-proposals from the United States Government, requested in his Memorandum of November 22nd.

WASHINGTON, November 27, 1945.

²⁷ In a covering letter to Mr. Clayton, Lord Halifax referred to talks between them which had taken place over the weekend (811.79641/11-2745). Presumably, Mr. Clayton made his inquiry at that time; no record of these talks found in Department files.

800.796/11-2845 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, November 28, 1945—7 p. m.

[Received 8:05 p. m.]

12442. For Morgan and Civil Aeronautics Board from Ryan²⁸ and Satterthwaite. The following is message we tried unsuccessfully to get to you in teletype conference this afternoon.

"MR. RYAN: The Embassy and I have arranged this conference because we think that recent developments have made it highly desirable for prompt decisions to be taken on the interim agreement by the Board and the State Dept.

Satterthwaite and I had a talk with Hildred day before yesterday. Hildred said that he was very much confused by the attitude of the Civil Aeronautics Board toward the proposed interim arrangement, and particularly their attitude as reported to him on IATA. He said that in an effort to meet the American position the British Govt had offered to agree to accept automatically the findings of IATA on rates. Hildred asked us what our position is and what we would like the British to propose. At this point I would like to have Satterthwaite explain what he and the Ambassador believe to be the present position, after which we can discuss this with you.

MR. SATTERTHWAITE: 1. The British mean business in their limiting Pan American to two flights per week. As soon, however, as Trippe indicates that he is willing to discuss rates, we feel this attitude will change, although Pan American's position has suffered.

2. We are convinced that Hildred is completely sincere in his statements that there is no quarrel with the rate as such. The British Govt, however, are in deadly earnest in their insistence on the establishment of some method of controlling rates to prevent subsidy and rate wars. We know that in the last few days the British have made a careful check of the views of nearly all of the European countries on this matter, and they are certain that they will all support the British view on rate control.

3. We believe if a satisfactory rate control method is arrived at the British in an interim agreement are prepared to abandon completely restrictions on frequencies involving third and fourth freedoms, including any restrictions on capacity and as far as an interim agreement is concerned, leave out the question of the fifth freedom pending a bilateral permanent agreement with the US, or alternatively a formula to be developed by PICAQ (Provisional International [Civil] Aviation Organization) which will be acceptable multilaterally. In practice in the interim period, while we do not think the British will specifically grant fifth freedom rights, we do believe they will not in fact raise any question about US airlines carrying fill up fifth freedom traffic.

4. As far as rate control methods are concerned, Hildred told Mr. Ryan that they look upon IATA as a searchlight to find out what the true costs of the operations are, and to detect questionable ac-

²⁸ Oswald Ryan, member of the Civil Aeronautics Board.

counting. They insist they do not wish to hold up the rates artificially. They are perfectly willing that the CAB (Civil Aeronautics Board) have complete power to declare any IATA arrived at rate as contrary to the public interest as far as the US carriers are concerned. They agree the rates must be based on the most efficient operator. They will insist, however, that the rate first be arrived at through discussion under IATA, which will then make all the facts available to the CAB on which the rate is determined. The CAB or any other body would be perfectly free to arrive at a different finding. The British have complete confidence in both IATA and the CAB, and, therefore, feel that it would be highly unlikely IATA would set a rate the CAB would not find in the public interest. The Embassy repeats that the British fully believe their position on rates is the right one and they are convinced that they have the solid support of most of the European countries behind them. Hildred has told Satterthwaite that they will not permit Pan American to get around the two frequencies restriction via shuttle service from Ireland or Belgium. As you are aware the British will permit pending other arrangements, American Airlines to operate once a day, and Hildred has told both Satterthwaite and Slater²⁹ that they will undoubtedly permit them to operate as many frequencies above seven a week as they can, on request, and in view of the need for transportation, Hildred has expressed the hope that American will increase its schedules from five to seven as quickly as possible.

The Department is, of course, aware that France and many of the European countries do not look upon aviation as a business, and unless a scheme is worked out under which rates cannot be controlled unilaterally by one operator or one country, the probabilities are great that the tourist associations, the hotel keepers and possibly the airline officials who are not under the compulsion of making money but only to enhance the prestige of their country, will reduce rates way below cost if there are no safeguards. The British also feel that IATA's searchlight will detect non-commercial services which might have security implications.

In short, the Embassy feels that a very good interim arrangement can be made with the British if we accept IATA control of rates, subject to approval in the case of American carriers by the CAB. We think this interim agreement can be made involving no control on the third and fourth freedoms, but no mention of fifth freedom one way or the other. Hildred thinks that in the trial period during which the interim agreement operates, it is quite possible that the CAB will find that in practice IATA will not rig any rates above the cost of the most economic carrier, and perhaps they will find that the American lines operating under unlimited third and fourth freedom frequencies and tacitly carrying fifth freedom traffic, will not be as harmful to European transport as they once felt. At the end of a reasonable period, they will then build up experience on which we can judge the dangers or lack of them in IATA, and they can judge the dangers or lack of them in the third, fourth and fifth freedoms. During this period, we can then decide whether we wish a bilateral

²⁹ John E. Slater, executive vice president of American Export Airlines, became chairman of the board, American Overseas Airlines, Inc., after the merger of American Export with American Airlines; see footnote 19, p. 227.

agreement or whether we will prolong the interim arrangement until PICAQ has found a satisfactory solution in a multilateral basis. They most certainly do not want to start formal talks for a long term bilateral agreement at this time.

Railey³⁰ has been here this week and wishes the Board and Department to know that the French position on IATA is the same as the British."

[Ryan and Satterthwaite]

WINANT

811.79641/11-1945

The Department of State to the British Embassy

MEMORANDUM

Reference is made to the Embassy's *aide-mémoire* of November 19, 1945³¹ regarding commercial air services at present being operated by American carriers between the United States and the United Kingdom. The Department further acknowledges a letter dated November 24, 1945³² from the Civil Air Attaché of the British Embassy addressed to an official of this Department, explanatory of the *aide-mémoire* referred to above, and the memorandum dated November 27, 1945.

From these documents and from conversations with officials of the British Government, it appears that the British Government is insistent that pending the conclusion of an inter-governmental agreement American carriers shall operate only a limited number of frequencies with commercial rights in the United Kingdom on a trans-Atlantic service and that these operations shall be dependent upon prior agreement upon fares between the American operators and His Majesty's Government, and also that in the event prior agreement upon fares is not reached with the carriers, His Majesty's Government will restrict services to the United Kingdom to the two a week operated by Pan American Airways under the 1937 Agreement.

The United States Government is most anxious to do everything possible to further the development of international air transport services upon what it considers to be sound, economic principles. The United States Government however is unable to accept the British conditions for such operations (as set forth in the British *aide-mémoire* of November 13, 1945) even for an interim period. At the same time, the United States Government recognizes the problem which is created for the British Government if American air carriers seek to operate on a basis unacceptable to the British Government.

³⁰ Howard B. Railey, American Civil Air Attaché in France.

³¹ Not printed; see footnote 25, p. 232.

³² Not printed.

The basis upon which the United States Government desires to see international air services conducted is as set forth in bilateral agreements signed during the past twelve months with various European nations³³ with all of which agreements it is believed the British Government is familiar.

However, the United States Government recognizes that in the absence of an agreement between the two Governments covering air transportation matters, the United States carriers can serve the United Kingdom only upon such conditions as the British Government may prescribe.

Accordingly, the United States Government will interpose no objection to its carriers continuing operations to the United Kingdom for the present upon such conditions as the British Government may prescribe.

The United States Government requests that such frequencies as the British Government may now permit to be operated by United States carriers in addition to the two provided under the 1937 Agreement, shall be made available to the United States Government, which will in turn apportion them among the United States carriers certificated to operate to the United Kingdom.

In the meantime the appropriate authorities of the United States Government will study the problem of reasonable and economic rates for trans-Atlantic operations between the United States and the United Kingdom, and will submit the results for the information of the British Government at an early date.

The United States Government reiterates its hope that it may be possible for representatives of the two Governments to meet at an early date in an effort to reach a satisfactory agreement covering all phases of international air transport between the two countries.

WASHINGTON, November 29, 1945.

811.79641/12-145 : Telegram

*The Secretary of State to the Ambassador in the United Kingdom
(Winant)*

WASHINGTON, December 1, 1945—3 p. m.

10449. Regarding Satterthwaite's telephone conversation with Walstrom November 30.³⁴

³³ A list of civil aviation agreements, including those concluded during the period under reference, is contained in Department of State *Bulletin*, December 22, 1946, p. 1126.

³⁴ In a memorandum of conversation, dated November 30, 1945. Assistant Chief of Aviation Division Joe D. Walstrom recorded that Mr. Satterthwaite had called from London to report that he understood from a talk with Harold M. Bixby, vice-president of the Pan American World Airways System, that Pan American was willing to accept the \$375 trans-Atlantic rate. Pan American
Footnote continued on following page.

CAB informed representatives of American Overseas Airlines on evening November 30 that they had understood through Dept that Pan American now thinking of adopting \$375 rate under certain conditions. CAB did not feel it could go further at this time, in which Dept concurs. American Overseas representatives expressed interest but did not commit themselves, although it is understood that they had previously considered \$375 rate as acceptable.

As Dept has stated previously, CAB cannot approve or fix rates. However, if Panam files for \$375 rate with request for waiver of 30-day period, CAB will consent.

CAB has previously stated that total number of schedules to UK will be divided equally. In other words, Panam's two frequencies under 1937 arrangement will be included in the 50-50 division.

BYRNES

811.79603/12-945 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, December 9, 1945—6 p. m.

[Received 6:48 p. m.]

12921. Dept's 10667, Dec 8.³⁵ We have advised British Govt PAA and American have filed \$375 rate. We observe that as yet we are not instructed to ask British Govt to increase frequencies permitted to PAA, for allocation by US Govt (reference Satterthwaite's conversation with Morgan Thursday ³⁶ on Nov 27 [*aide*] *mémoire*).

There were meetings Saturday at the Ministry of Civil Aviation at which the cabled text of PAA press release of Dec 7 ³⁷ was discussed, particularly [with?] relation, if any, to the attitude of the US Govt toward conference recommendation of rates. Hildred called Satterthwaite Saturday night to say that the British Govt would like to consider the filing of the \$375 rate by the two American companies as an agreed rate and therefore reasonably meeting their position until developments in January with respect to US attitude on IATA rate conference, or bilateral talks, but found it difficult to do so in the light of PAA release. He said it was common knowledge that the rate of

also proposed that it retain its two frequencies under the 1937 Agreement and that additional frequencies be divided equally between it and American Overseas Airlines. Pan American urged that these proposals be cleared with American Overseas and the Civil Aeronautics Board. (811.79641/11-3045)

³⁵ Telegram 10667, December 8, 1945, 6 p. m., to London, reads as follows: "Please inform appropriate authorities that Pan American Airways and American Overseas Airways have today filed with CAB fares of \$375 to London (\$675 round trip). These fares effective December 10 CAB consenting to waiver of 3-day term." (811.79603/12-845)

³⁶ No record of conversation on December 6 found in Department files.

³⁷ For summary of Pan American's statement, with quotations therefrom, see *New York Times*, December 8, 1945, p. 19, col. 5.

\$375 was based on consultation, informal, of course, but consultation nevertheless. As the Dept is aware, Hildred is one of the leaders of that group of British Aviation people, Govt and private, wishing to come to a reasonable understanding with the United States. The recent deterioration in aviation relations has hurt Hildred's influence and strengthened those who believe in the extreme position taken by the British at Chicago. While Hildred did not directly say so in his conversation yesterday with Satterthwaite, it is apparent that the events of the last few days have made the British more and more hesitant to abandon restrictions on frequencies, which they were getting ready to do if they were assured a solution to the rate question. Hildred did not refer to Bixby's explanation of what might happen if frequencies were not limited (see Embassy's 12734, Dec 5, 4 p. m.³⁸), but it is clear that it has had an affect on him, as has BOAC, to whom Bixby also discussed the frequency question. We, therefore, feel that uncertainties in present situation, particularly those involving attitude of US Civil Aeronautics Board, may again cause British to return to an increasingly restrictive policy. Related to this is loss of influence of Hildred, through apparent destruction of principle, developed largely by him, that operators could work out much [*such?*] problems as rates for themselves, and that this would be acceptable compromise between original British position of international Govt authority and completely uncontrolled unilateral action.

In spite of foregoing, it is possible that a letter from the Embassy to Hildred, referring to the *aide-mémoire* of Nov 27, informing him that PAA and American having filed identical rates, we assume conditions of *mémoire* have been met, and that therefore pending formal arrangements, the British Govt will permit both carriers to move as much traffic as their limited equipment will permit, will produce a satisfactory reply. A statement couched in such terms would both avoid saying the \$375 rate was an agreed one, and that it was not an agreed one. If we refrain from bringing up the "agreed" question, the British Govt might reply that they had noted that the two American carriers had filed identical rates, which met the spirit of the British position. They would then either permit them to come

³⁸ Not printed. The pertinent portion of this message reads as follows: "Bixby saw Hildred this morning in presence of Satterthwaite. Bixby reviewed present position of Pan American in terms of its domestic competitive situation and assured Hildred that Trippe was in favor of full cooperation with IATA (International Air Transport Association) on rates and other matters but that he did not feel the US Govt supported this position. Bixby said he was disturbed by the thought of unlimited frequencies on the North Atlantic since Pan American had 28 and American 14 large aircraft which for domestic competitive reasons both companies would have to put on the North Atlantic. This would mean, Bixby said, some 40 flights per day. This remark of Bixby's will clearly not make it easier to sustain principle of unlimited frequencies." (811.79641/12-545)

in with a specified or unlimited amount of frequencies. If specified, they could be allocated by the US Govt as it saw fit.

Bixby thinks foregoing may work, and said that Trippe had agreed and would so notify CAB which was meeting Monday.

Bixby reported Trippe as saying that he was afraid CAA [CAB] would issue a statement Monday against conference idea, and that this would upset delicate avoidance of "agreed rate" principle in exchange of letters between two Govts. The British might not, of course, move from their present position until talks begin at first of year, but if they can do so without seriously compromising their principle of consultation on rates, they would like, we think, to have talks preceded by a few weeks of relative peace, rather than mounting difficulties.

WINANT

711.4127/12-1045 : Telegram

The Ambassador in the United Kingdom (Winant) to the Secretary of State

LONDON, December 10, 1945—6 p. m.

[Received December 10—4:20 p. m.]

12948. Hildred told Satterthwaite today that when British Govt learned PAA and American had filed identical rates with CAB, and following meetings held on Saturday,³⁹ they sent telegram to Halifax, observing that while there was no rate conference, informal consultations had taken place among the operators after which a \$375 rate was put into effect by some of them. He said that pending certain assurances that neither of the carriers would try to circumvent the \$375 rate through large baggage allowances or through cheaper rates to Eire and on to England from Eire at a rate the sum of the two halves of which would be less than direct fare, the British Govt would allocate 500 seats per week, which could be expressed if we preferred in terms of 14 frequencies per week, for distribution by the US Govt among its carriers, until an agreed recommended rate was arrived at and approved. Hildred said he would agree to eliminate words such as "consultation", or "agreed" in any public statements or releases, and thought we should equally refrain from raising this issue.

Reference Embassy's 12921, December 9, 6 p. m. We feel unless something like the foregoing is worked out, the present unsatisfactory *status quo* will remain until after the bilateral talks or possibly until after the January IATA meeting.

WINANT

³⁹ December 8, 1945.

811.79641/12-1045

The British Ambassador (Halifax) to the Secretary of State

MEMORANDUM

His Majesty's Ambassador presents his compliments to the Secretary of State and has the honour to refer to the Memorandum from the Department of State dated 29th November, on the subject of North Atlantic Air Services. His Majesty's Government consider that it may be of assistance if they set out in detail the arrangements for the operation of North Atlantic Air Services pending the conclusion of a formal Bilateral Agreement.

2. His Majesty's Government understand that both Pan American Airways and American Overseas Airlines have filed with the Civil Aeronautics Board trans-Atlantic fares of \$375 and that the Board has agreed to these rates, effective from 10th December.

3. His Majesty's Government are prepared to grant landing rights to the United States air carriers which are prepared to charge the agreed passenger fare of \$375 and a freight rate and excess baggage allowance related to this \$375 fare.

4. His Majesty's Government wish to emphasise that this arrangement is temporary and that the agreement of His Majesty's Government is subject to the rate of \$375 remaining in force until an agreed recommendation on fares on the North Atlantic has been reached by the International Air Transport Association's North Atlantic Conference.

5. His Majesty's Government wish to make clear the fact that the principle of a rate agreed by them, after consultation between North Atlantic air carriers, is a condition of the grant of rights to air carriers to operate, to the United Kingdom from the United States, any capacity in excess of that allowed under the existing 1937 Agreement.

6. Subject to the above conditions, His Majesty's Government are willing that up to fourteen services per week within a total capacity of 500 seats per week should be available to the United States Government to apportion among United States carriers.

7. Pending the conclusion of a formal Bilateral Agreement, these services will be straight forward Third and Fourth Freedom services without conferring any Fifth Freedom rights.

8. Finally, His Majesty's Government assumes that full reciprocal rights will be accorded to British air carriers to operate parallel services.

WASHINGTON, December 10, 1945.

[Acting Secretary Acheson on December 14 wired to Secretary of State Byrnes at Moscow to urge him to emphasize to Foreign Secretary Bevin the importance of negotiating as soon as possible a long-term agreement of the United States and the United Kingdom on international commercial air transport (telegram 2525, Secdel 9, December 14, 1945 (740.00119 Council/-12-1445). No record has been found of a conversation of Byrnes and Bevin at Moscow on this subject. For documentation on the meeting there of the Foreign Secretaries of the United States, United Kingdom, and Soviet Union, December 16-26, 1945, see volume II, pages 560ff.]

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The Department of State to the British Embassy

MEMORANDUM

Reference is made to the British Embassy's memorandum of December 10, 1945 on the subject of North Atlantic air transport services. The Department of State notes the conditions under which the British Government is prepared to permit operations by American air carriers between the United States and the United Kingdom, including the provision that fourteen services per week within a total capacity of 500 seats per week have been made available to the United States Government to apportion among United States carriers. Copies of the Embassy's memorandum under reference were transmitted to the Civil Aeronautics Board and to American Overseas Airlines and Pan American Airways.

In reply the Department of State desires to inform the Embassy that the Civil Aeronautics Board has apportioned these schedules equally between Pan American Airways and American Overseas Airlines.⁴³

With reference to paragraph 2 of the Embassy's memorandum, the Department assumes that the Embassy understands that the Civil Aeronautics Board did not actually approve the \$375 rate but simply agreed to this rate becoming effective in less than the 30 days statutory period. The Civil Aeronautics Board does not have the authority to approve foreign rates and the action referred to in the Embassy's memorandum was directed only to the date upon which the rates set by the carriers should become effective.

⁴³ The Civil Aeronautics Board had set forth this policy in an order dated December 13, a copy of which was transmitted with a letter of December 20 (not printed), from L. Welch Pogue to Stokeley Morgan.

With respect to paragraph 8 in which the Embassy assumes that full reciprocal rights will be accorded to British air carriers to operate parallel services, the Department is pleased to inform the Embassy that the British carriers will be awarded reciprocal rights.

WASHINGTON, December 28, 1945.

ASSURANCES SOUGHT BY THE UNITED STATES THAT THE UNITED KINGDOM WOULD NOT OPPOSE EFFORTS BY THE UNITED STATES TO CONCLUDE BILATERAL CIVIL AIR TRANSPORT AGREEMENTS WITH VARIOUS GOVERNMENTS IN THE NEAR AND MIDDLE EAST

[For documentation on this subject, see volume VIII, pages 64 ff.]

REVISED ANGLO-AMERICAN PETROLEUM AGREEMENT, SIGNED AT LONDON, SEPTEMBER 24, 1945

[For text of agreement, see Department of State *Bulletin*, September 30, 1945, page 481. Agreement is a revision of the original agreement, signed August 8, 1944, which did not receive approval of the Senate and was returned to State Department at the request of President Roosevelt on January 10, 1945. For documentation pertaining to this agreement of August 8, 1944, see *Foreign Relations*, 1944, volume III, pages 94 ff. The return of the agreement was followed by conversations between representatives of Government and industry at which misunderstandings were removed and changes agreed upon. Then on September 17, 1945, a new Anglo-American conference opened at London resulting in a revised agreement signed September 24, 1945. This was submitted to the United States Senate and it too failed to obtain ratification and on July 5, 1952, by Joint Resolution of Congress, was returned to the State Department.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM ON THE USE AND DISPOSITION OF RECAPTURED VESSELS

[Effected by exchange of notes signed at Washington May 7 and June 15, 1945. For texts of notes, see Department of State, *Treaties and Other International Acts Series No. 1556*, or 60 Stat. (pt. 2) 1909. For previous documentation on this subject, see *Foreign Relations*, 1944, volume III, pages 140 ff.]

**TELECOMMUNICATIONS AGREEMENT BETWEEN THE UNITED STATES,
THE UNITED KINGDOM, CANADA, AUSTRALIA, NEW ZEALAND, THE
UNION OF SOUTH AFRICA, INDIA, AND SOUTHERN RHODESIA**

[For texts of the agreement with respect to telecommunications, signed at Bermuda December 4, 1945, together with an annex regarding general conditions governing the establishment of direct radio-telegraph circuits, and the protocol between the United States and the United Kingdom covering exclusive telecommunications arrangements, signed at Bermuda December 4, 1945, see Department of State, Treaties and Other International Acts Series No. 1518, or 60 Stat. (pt. 2) 1636.]

**CONVENTION BETWEEN THE UNITED STATES AND THE UNITED
KINGDOM FOR THE AVOIDANCE OF DOUBLE TAXATION ON ESTATES**

[For text of the convention between the Governments of the United States and the United Kingdom for the avoidance of double taxation and the prevention of fiscal evasion with respect to the estates of deceased persons, signed at Washington April 16, 1945, see Department of State, Treaties and Other International Acts Series No. 1547, or 60 Stat. (pt. 2) 1391.]

**CONVENTION BETWEEN THE UNITED STATES AND THE UNITED
KINGDOM FOR THE AVOIDANCE OF DOUBLE TAXATION ON INCOME**

[For text of the convention between the Governments of the United States and the United Kingdom for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, signed at Washington April 16, 1945, see Department of State, Treaties and Other International Acts Series No. 1546, or 60 Stat. (pt. 2) 1377.]

**WORK OF THE COMBINED FOOD BOARD, THE COMBINED RAW
MATERIALS BOARD, AND THE COMBINED PRODUCTION AND
RESOURCES BOARD**

[The White House, on January 19, 1945, released to the press a statement by President Roosevelt and an announcement by the President and Prime Ministers Churchill of the United Kingdom and Mackenzie King of Canada of their decision to maintain the Combined Production and Resources Board, the Combined Raw Materials Board, and the Combined Food Board until the end of the Japanese war. A further continuation was announced on August 29. For texts, see Department of State *Bulletin*, January 28, 1945, pages 119-121, and September 2, 1945, page 333.]

President Truman and Prime Ministers Attlee and King announced on December 10, 1945, that the work of the C.P.R.B. and C.R.M.B. would terminate on December 31, and that some of their remaining functions would be assigned to certain committees on an appropriate international basis. It was further stated that because many foodstuffs were still in short supply and because of their close interrelationship, the Combined Food Board would be retained as a supervisory and coordinating mechanism, presumably until June 30, 1946. For text of the announcement, which was released by the White House on December 10, see *ibid.*, December 16, 1945, page 975.

For a description of the various United States-United Kingdom combined economic agencies and for a survey of their records (primarily those in American custody), see National Archives and Records Service, *Federal Records of World War II*, volume I, *Civilian Agencies* (Washington, Government Printing Office, 1950), pages 1021 ff. For a general account of their organization and operations, see S. McKee Rosen, *The Combined Boards of the Second World War* (New York, Columbia University Press, 1951).]