for this legislation under the GATT.\(^5\) He noted that Canadian public opinion was restive over the operation of the GATT since there was a growing feeling in Canada that while trade concessions made by Canada have been maintained intact, the concessions made by the U.S. are "becoming increasingly flexible". He added that the Canadian Government is being subjected to increasing pressures for higher protection, and the waiver requested by the U.S. at the present Geneva negotiations\(^6\) is making these pressures even more powerful. It is economically difficult and politically impossible for Canada to agree to the waiver. It would be a public avowal by the Canadian Government, in effect, of agreeing with actions taken or to be taken by the U.S. in restricting imports of agricultural commodities crucially important to Canada and covered in the trade agreements between the two countries.

Mr. Pearson emphasized that Canada has great trust in U.S. intentions in these matters and in the past the two countries have always been able to work out ad hoc solutions as problems arose; however, a general waiver, if sought and obtained by the U.S. over Canada's protest, would have the following unfortunate consequences:

(a) The creation of a serious disturbance in U.S.-Canadian economic and trading relations;
(b) The \(\frac{2}{3}\) majority required to obtain this waiver at Geneva would cause general economic disturbances and concessions would have to be made by the U.S. in return for a waiver. This would incite other countries to seek waivers which would cause economic and political embarrassment for Canada. Canada would be caught in the middle between pressures from the U.S. and probable pressures for various types of waivers from other countries if the U.S. waiver were obtained;
(c) A chain reaction of trade restrictions might be set up and the benefits which the U.S. would obtain under its waiver would be more than offset by increased trade obstructions generally;
(d) GATT would be undermined and its value to Canada and other countries would be lessened;
(e) The integrity of the GATT would be threatened if a major country [the U.S.]\(^7\) used the waiver procedure to gain exemption from obligations relating to a major segment of its trade; and

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\(^5\) The General Agreement on Tariffs and Trade (GATT) was concluded by the United States and 22 other nations at Geneva, October 30, 1947, for the purpose of reducing trade barriers among participating countries.

\(^6\) Reference is to the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade, which convened at Geneva, Switzerland, on October 28, 1954. During this session the Contracting parties conducted a full review of GATT provisions in the light of its 7 years in operation. For documentation on the negotiations in late 1954, see *Foreign Relations*, 1952–1954, vol. 1, Part 1, pp. 208 ff.

\(^7\) Brackets in the source text.
(f) This would impair Canada's ability to negotiate with Japan because of the linkage of such negotiations with the waiver sought by the U.S.

2. Mr. Howe stated that the past ad hoc procedure under Section 22 and the GATT had met the U.S. problem without hurting the Canadian economy too much and it would be preferable that this procedure could be continued. He stated that Canada would support the U.S. on such a basis. He emphasized, however, that a general waiver probably would cause the imposition of tariffs and other obstructions by many countries to protect their agriculture and the chances of getting these additional restrictions lifted would be very slender. Other countries would, for financial reasons, prefer to resort to such restrictions rather than continue to give subsidies to the domestic agriculture. The United States request for a waiver would give them a good excuse to follow that course.

Howe said that there was a sentiment for withdrawal from the GATT rather than going along with the general waiver, since many groups in Canada felt that it would be preferable to trade with the United States on a bilateral basis as in the past.

Howe suggested that the U.S. look at GATT Article XI which he read to the meeting. He put principal emphasis on paragraph 2(c)(i) and (ii) which read as follows:

"(c) Import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate:

(i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level;"

3. Mr. Harris noted that the many representations and deputations he receives as Finance Minister state that Canada has lived up to its GATT obligations but that the U.S., which is Canada's chief customer does not. A public avowal by the Canadian Government that it approves the general waiver under Section 22 sought by the United States would have most unfortunate effects in Canada. He said that there is already a strong and growing feeling in Canada as to whether Canada should continue to participate in the GATT. He
emphasized that he must deal with this matter in the budget speech before Parliament.

4. Secretary Dulles replied that the U.S. realizes this is a serious matter and welcomes the Canadians' coming to Washington to discuss it as friends.

He noted that by and large the U.S. has pursued, over the last few years, an enlightened economic and trade policy. He explained that this was not always very easy for the U.S. Government as the vast size and intricate nature of the U.S. and its economy make it difficult to persuade and educate the people generally as to what is in our enlightened interest. He noted that some legislators see the trade and tariff problem as it affects their local areas rather than the nation, and this affects their attitude on trade legislation. He added that the President is not discouraged by the past development of his foreign economic policy and that he hopes to obtain the enactment of legislation this year that will enable him to push ahead with the foreign economic program that he announced last year and which he will again outline to the Congress on January 10. He noted the introduction in Congress of HR-1, the Trade Agreements Extension Act of 1955. 8

The Secretary said that our views, which he felt are also those of the Canadians, is that a free world united by strong and close trade ties is indispensable to the fullest economic strength and cohesion of the free countries.

Secretary Dulles noted that the practical occasion and need for the waiver we are requesting at Geneva will diminish as Secretary Benson's programs for production adjustments and surplus disposals go forward. He mentioned specifically, for example, the beneficial use of surpluses in aid to Yugoslavia and Pakistan. He stated that the U.S. has to request a general waiver at Geneva because of the explicit provisions of Section 22, and at present there is no possibility of getting this law repealed. Now that the GATT is being revised, and since the GATT organization has to be approved by the Congress, the U.S. has no choice but to ask indulgence of our friends in this matter. The U.S. must have this waiver if it is to succeed in getting approval by the Congress of the GATT organization being negotiated at Geneva. The President has said that he would seek Congressional approval of this organization.

He said that he does not believe U.S. actions will "bust the GATT wide open" and lead to a trade restriction spiral. On the contrary, we wish to avoid this. The waiver we request would give us breathing time to correct our present agricultural surplus problem.

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8 Public Law 86, enacted June 21, 1955; for text, see 69 Stat. 162.
5. Mr. Randall referred to Mr. Howe’s suggestion for modifying GATT Article XI to cover the requirements of Section 22. He stated that the requirements of Section 22 are far broader than the exceptions allowed under Article XI. He emphasized that the U.S. Executive Branch is not a free agent in this matter because of existing law, and emphasized that the stakes in this issue are much larger as the purposes of the Trade Extension Act will fail if Congressional approval of GATT fails. If we lose the GATT, we lose the mechanism whereby we can engage in multilateral tariff negotiations. He stated that the main point in the U.S. Congress is that GATT will not pass if there is any suggestion that the Executive Branch is limiting or compromising domestic law; i.e., no executive power nor international agreement can contravene or override Section 22.

6. A rather lengthy discussion ensued as the possibility of modifying Article XI to embody Section 22. The general consensus was that a broadening of Article XI to cover Section 22 was no better than a waiver of the type being proposed by the U.S. and would create serious additional problems in itself. Mr. Randall, in answer to a question by Mr. Pearson, emphasized again that approval of the GATT by the Congress was necessary for an adequate effectuation of the Trade Extension Act. Mr. Randall explained that the issue of executive-legislative powers and the superiority of domestic law would be injected into the debate on the Trade Extension Act unless the U.S. obtained a waiver under GATT that made it crystal-clear that there would be no conflict between the two.

7. Mr. Howe suggested that one means of solving the problem would be to put off Congressional action on GATT until next year. Mr. Randall replied that this was impossible as the GATT and the Trade Extension Act were both necessary and were supplementary to each other. He stated that trading without GATT would be impracticable as this was the instrument of U.S. multilateral trading.

8. In reply to a question by Mr. Waugh, Mr. Howe said he had no proposal for a modified waiver, such as one including a time limitation.

9. Secretary Dulles closed for the U.S. by stating that the U.S. will continue to do in the future as it has done in the past in that it will take into consideration the interests and problems of its friends.

10. Mr. Pearson stated that Canada hopes to avoid, both in Parliament and at Geneva, the taking of a position in opposition to that of the U.S., but he did not state that would be possible.
11. Mr. Pearson handed to Secretary Dulles the attached memorandum\(^9\) at the close of the meeting.

12. The attached statement was handed to the press at the close of the meeting.\(^10\)

13. The meeting adjourned at 4:55 p.m.

\(^9\) An undated memorandum formally presenting the Canadian position on the U.S. waiver request; not printed.

\(^{10}\) Reference is to Department of State press release 7, dated January 6, not printed.

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18. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Secretary of State\(^1\)


SUBJECT

Waiver for United States actions under Section 22 of the Agricultural Adjustment Act, as amended

At the recent meeting with the Canadian Ministers,\(^2\) Mr. Howe raised with you the question as to whether actions taken by the United States under Section 22 are not already justified under certain exceptions in GATT, and hence whether the United States really needs open-end waiver. On the basis of subsequent discussions with Canadian officials in Washington, it seems there was some misunderstanding on the part of Mr. Howe on this subject.

We have always recognized that some actions we need to take under Section 22 are consistent with the GATT. Import fees on products on which we have not undertaken to bind the import charges against increase are in that category. Quotas on products on which we have domestic restrictions on production or marketing are likewise permissible. The difficulty is that the requirements of Section 22 necessitate the use of quotas and fees in other cases as well, where their use is not consistent with GATT. Details as to which Section 22 situations are and which are not consistent with the GATT are in Tab A.

\(^1\) Source: Department of State, GATT Files: Lot 59 D 563, GATT: Memos, 1955. Official Use Only. Drafted by Margaret H. Potter and Joe A. Robinson of the Trade Agreements and Treaties Division.

\(^2\) Presumably the meeting of January 6; see supra.
The waiver we seek is only intended to cover the cases in which the requirements of Section 22 have necessitated or may necessitate imposition of fees or quotas that are inconsistent with the GATT.

Tab A

Section 22 requires that when the President finds that imports threaten to interfere materially with farm programs or threaten to render such programs ineffective he shall impose such fees or quotas (within specified limits as to their restrictiveness) as will in his judgment prevent the interference from imports. Some restrictions that the United States must impose under these criteria are consistent with GATT and some are not.

With regard to fees under Section 22, GATT prohibits such fees without exception when they are applied to items on which the United States has granted a concession. Consequently, without a waiver, fees we must impose constitute a violation when they apply to concession items. Our fee on filberts is a case in point.

Another part of the problem arises in the use of quotas. GATT Article XI contains a general prohibition against quantitative restrictions on imports except in certain specified situations. We need a waiver to permit the use of quotas under Section 22 to the extent that such quotas are inconsistent with GATT. The few situations in which such quotas are permitted by exceptions in GATT, which Mr. Howe may have had in mind, are as follows:

Quotas are permitted on imports of an agricultural product when necessary to the enforcement of governmental measures to restrict the quantity of the domestic products permitted to be marketed or produced. The United States quota on cotton, wheat, and peanuts are justified under this provision because production restrictions are in effect on these products. (But quotas on many items are not justified because we have no production or marketing restrictions on them.)

Article XI also permits import restrictions necessary to the removal of temporary surpluses if the surpluses are being made available to certain groups of domestic consumers free of charge or at prices below the current market (note this excludes foreign giveaway). To qualify, such a program must, however, provide an effective disposal of a temporary surplus. We have no effective programs for the disposal of surplus products in the United States within the terms of this provision. In addition, it would be difficult to get others to agree that our surpluses are temporary. They are the outgrowth of the incentive price support programs and are likely to
continue indefinitely unless price supports are lowered or restrictions are imposed on domestic production.

GATT Article XX, II(c) permits import restrictions essential to the liquidation of temporary surpluses arising out of the exigencies of the war. It would be difficult to persuade other countries that burdensome surpluses which developed eight years after the end of hostilities are due to the exigencies of the war.

Our present Section 22 restrictions on dairy products, oats, rye, barley and filberts are not permitted under any provision of GATT. These restrictions, as well as future actions which we may have to take on agricultural products, would require a waiver under the GATT.

19. Letter From the Vice Chairman of the Delegation to the Ninth Session of the General Agreements on Tariffs and Trade (Brown) to the Assistant Secretary of State for Economic Affairs (Waugh) ¹


DEAR MR. WAUGH: We have had informal consultations with the Australians, New Zealanders, South Africans, Danes, Italians, British and Canadians with respect to our Section 22 waiver. It is difficult to describe the atmosphere of those discussions.

We met last night in a climate of depression and concern. All of the countries, even I believe the Canadians, though they did not say so, recognize that we will have to get the waiver. Everyone not only feels, but expressed, albeit in moderate and sympathetic terms, a sense of letdown, discouragement, and disappointment that it was necessary for the U.S. to take this position. When they were talking about possible changes in the form of the waiver, they did not take a negotiating position, but rather spoke in terms of appealing to us. Obviously, they will be stiffer in working party and will insist in a number of changes, many of which I think we can properly give them. But last night they were simply bowing to superior strength.

¹ Source: Department of State, GATT Files: Lot 59 D 563, GATT: Memos, 1955. Official Use Only; Personal. Assistant Secretary Waugh, in Washington at the time, was Chairman of the U.S. Delegation. For a list of the other members, see Department of State Bulletin, November 8, 1954, p. 711.
The meeting began with a statement by one delegate that this was the most disagreeable of a whole series of spoonfuls of bad medicine which his country had had to absorb at this meeting and ended with a statement of another that the U.S. had to get a two-thirds vote which meant that only ten countries could vote against the waiver. The delegate asked how they should decide which ones should have the privilege of doing so.

They were all terribly concerned about the effect of the waiver and its open-ended character on the efforts we are all making to limit the use of hard-core quotas by European countries. They are finding it increasingly difficult, for example, to see how they can insist on a time limit for the Europeans and none for us.

It is, therefore, clear to me that the biggest contribution we could make to success in dealing with the European hard-core problem in a manner which would satisfy us (we must not forget that those quotas will be imposed mostly on agricultural products and, for example, on coal) and to the improvement of the general US position here, would be if we could accept a time limit, even in the form suggested by DeFelice in the draft he sent back to Washington. It is too early yet to say whether this is something that we will have to do to get the waiver, or how great the cost of doing without it will be to us in dealing with the hard-core problem. I therefore do not feel I can put the proposal forward as a matter of absolute negotiating necessity.

I would, however, ask you to consider whether as a matter of general contribution to our relations with all these countries, especially as a matter of relations with Canada, and as a contribution to getting what we want and what the smaller countries of Europe, who feel they are being let down by the U.S., want in dealing with the hard-core problem, we might indicate a willingness to take some form of a time limit. You will recall that you thought of making this suggestion to Wilgess when we talked with him and Sharp in Paris, but at my suggestion withheld doing so in order that we could

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2 Contracting parties were authorized under GATT Article XIV to restrict imports from other members as long as these quotas were necessary to correct balance-of-payments deficits. However, at the same time these import quotas often shielded domestic industries which could not compete with less expensive imports. Because the elimination of these restrictions often had an adverse economic impact on the industries involved, several contracting parties supported an amendment to permit the maintenance of these so-called "hard core" quotas once the payments problems which had legitimized them had disappeared.

3 A. Richard DeFelice, adviser to the U.S. Delegation from the Department of Agriculture.

4 L. Dana Wilgess, Chairman of the Contracting Parties to the General Agreement of Tariffs and Trade and Canadian Ambassador to the North Atlantic Council.

5 Mitchell Sharp, Associate Deputy Minister of the Canadian Department of Trade and Commerce.
use it as a possible negotiating counter here. I think the time has come or will come within a couple of days when, if we were able to make this offer, it would have a striking and very beneficial effect upon the entire atmosphere of this conference and especially upon the outcome of the hard-core problem and the U.S. negotiating position in a variety of matters which are now coming to a head. Against this we must, of course, weigh the political problem which such a time limit might create for us at home.

Sincerely yours,

Win

20. Telegram From the Delegation to the Ninth Session of the General Agreement on Tariffs and Trade to the Department of State

Geneva, February 3, 1955—10 a.m.

Tagg 367. Section 22 application debated plenary today and sent to working party. Level of debate high but somber in tone, reflecting sense of crisis in affairs of GATT as result action by its leading member. Twenty delegations spoke. All except Brazil, which stated would not accept waiver under any circumstances, appreciated considerations connected with Congressional presentation which led to US request and importance firm US participation new organization, but expressed most serious concern at implications for their own trade with US and for future of GATT. Canada, New Zealand, Netherlands pointed out possibly injury to their trade. Many speakers emphasized difficulty for their governments in living up to their obligations if US got exemptions from some of its major obligations. France, Sweden, Italy, Austria and several others said US problem was no different instance from hard-core European problem and both should be treated on same basis. UK stated they would have to have facilities for their problems roughly equivalent to those received by US.

France for obvious reasons urged that US waiver be decided first and then applied to solution European hard-core problem.

Several countries emphasized inequity special treatment for US and additional imbalance such waiver would create in agreement.

1 Source: Department of State, Central Files, 394.41/2-355. Official Use Only.
No discussion terms proposed waiver but many countries urged that it be limited to existing restrictions and contain time limit. Only countries indicating clear support for waiver were France and Greece.

Discussion in steering group after plenary clearly indicated group felt US application had substantially diminished chances placing significant restrictions on use hard-core quotas.

Working party discussion will begin Friday afternoon. Statements UK, Canada and Australia being airpouched.


PARTICIPANTS

Mr. Randall, White House, Presiding
Dr. Hauge, White House
Mr. Morgan, White House
Mr. Waugh, State
Mr. Brown, State
Mr. Flemming
Mr. Stambaugh, White House

Dr. Galbreath, White House
Mr. Thibodeaux, State
Mr. Frank, State
Mr. Metzger, State
Miss Kirlin, State
Mr. Nichols, State
Mr. Pickering, State
Mr. Blake, State, Secretary

1. Full Powers

Mr. Randall stated that the problem was to determine what authority should be given to the Delegation in Geneva for signing the documents that would result from the work of the Ninth Session. He asked Mr. Brown to indicate the status of the main problems of the Session.

Mr. Brown stated that the Session was still faced with several outstanding issues on which decisions would have to be reached. After the decisions had been made on these issues the Session would be speedily terminated. These issues were:

(a) The continued stability of the tariff concessions (Article XXVIII).

1 Source: Department of State, GATT Files: Lot 66 D 209, GATT, Ninth Session Review. Limited Official Use. No drafting information is given on the source text.
2 Laurence G. Pickering of the Trade Agreements and Treaties Division.
3 James J. Blake of the Trade Agreements and Treaties Division.
(b) Certain aspects of the balance of payments provisions of the GATT, and particularly that related to the “scarce currency” provisions.

(c) The relationship of the proposed GATT Organization to the Commodity Agreement that was being drafted at the Session.

(d) The United States request for a waiver in connection with Section 22.

(e) Proposals by certain countries that they be permitted to maintain import restrictions for protective purposes after the balance of payments justification for such restrictions had disappeared.

It was the Delegation’s impression that the GATT that would emerge from the negotiations would be a substantially better one. The emphasis of certain Articles, particularly those dealing with the conditions under which import restrictions could be imposed, had been shifted in the direction of the United States point of view, and an improvement in the enforcement machinery of the GATT Articles was practically certain. The United States position on subsidies would be pretty largely reflected in the new Article XVI, except for one point to which he would refer later. The United States objective of keeping the new Organization and the Commodity Agreement far apart had been largely attained. The Delegation had been successful in preventing the inclusion of articles in the new GATT on restrictive business practices and full employment. The provisions dealing with underdeveloped countries (Article XVIII) had been simplified and the procedures in that Article and those in the balance of payments provisions had been made less complex. In sum, Mr. Brown stated, the United States will have in the new General Agreement a proposed Organization capable of improving the present enforcement and application of GATT Articles, a simpler Agreement in certain major fields, and a certainty that its desire to place the General Agreement on a permanent basis is shared by all of the Contracting Parties. He wished to point out that the new GATT would differ very markedly from the ITO Charter in that proposals for the inclusion of substantial sections of the Charter in the General Agreement had been rejected during the Ninth Session.

4The Organization for Trade Cooperation (OTC), proposed to oversee and administer the GATT agreement between sessions, was approved by the contracting parties on March 10, 1955; for text, see Department of State Bulletin, April 4, 1955, p. 579.

5The U.S. position was that the OTC should only be empowered to perform functions directly related to the GATT agreement, and should not become involved in commodity arrangements or other international issues. (See Document 25.)

6The charter for the International Trade Organization (ITO), 2 years in preparation, was signed by over 50 nations on March 24, 1948, at the close of the U.N. Conference on Trade Employment, meeting in Havana, Cuba. The ITO, which was not ratified by the U.S. Senate, was never formally established.
Mr. Randall stated at this point that a brief should be prepared which would spell out the benefits to the United States of the General Agreement. He felt that Mr. Brown's point regarding the dissimilarity between the General Agreement and the ITO Charter would be one of the most important points in the brief. He asked Mr. Brown to distinguish for the members of the group the difference between the GATT Organization Agreement and the General Agreement on Tariffs and Trade itself.

Mr. Brown replied that the Organization Agreement would be the basic charter of the new Organization that would be responsible for the administration of the General Agreement. It would contain provisions on membership, functions, subsidiary bodies, procedures and the standard provisions usually found in international instruments of this type. It was the Organization Agreement which the Administration was committed to submit to the Congress for its approval.

On the other hand, Mr. Brown went on, the General Agreement on Tariffs and Trade was a multilateral trade agreement containing many of the rules of trade which the United States had formerly incorporated in all of its bilateral trade agreements. He estimated that approximately 85 percent of the General Agreement, as amended at the Ninth Session, reflected United States experience in bilateral trade agreements. The important point was that this experience was embodied in the GATT in general provisions applicable to all of the trade of the Contracting Parties, whether covered by concessions or not.

Mr. Morgan asked what the powers of the new Organization would be—he wondered, specifically, whether the Organization would have supranational powers. Mr. Brown stated that the proposed Organization would have no sanctions but that it would have two very important functions: (a) it would be able to mobilize international opinion against countries violating the GATT and (b) it would be able to release a country adhering to the Agreement from its obligations to another country adhering to the Agreement if the latter was in violation of its commitments. However the Organization could not make any country accept an amendment to the General Agreement against its will.

Mr. Randall asked Mr. Frank to state what documents in addition to the Organization Agreement were expected to emerge from the work of the Session. Mr. Frank described them as follows:

(1) A protocol or protocols of rectifications and modifications which would incorporate any changes in the tariff schedules of the Contracting Parties resulting from renegotiations of concessions and corrections in their schedules.
(2) A declaration by the Contracting Parties extending the present status of Japan in the GATT to the end of December 1955.  

(3) A declaration by the Contracting Parties by which they would commit themselves not to use before a specified date, except in special circumstances, the right now found in Article XXVIII to withdraw or modify tariff concessions negotiated with each other.

Mr. Randall asked whether the declaration on Article XXVIII would involve an infringement on the prerogative of the Congress. Mr. Brown replied in the negative. He explained that the United States was always free to withdraw a tariff concession that it had granted. In such an event, however, the country from which the concession had been withdrawn would have the right to retaliate by withdrawing a compensatory concession.

Dr. Hauge stated that the Chairman of the Tariff Commission had spoken to him frequently on this matter during the past week, recommending against US adherence to the proposed declaration on the ground that it would encounter Congressional opposition. The Chairman of the Commission had also maintained that other countries would be able to withdraw concessions from the United States, notwithstanding their adherence to the declaration, whereas the United States could not.

Mr. Brown stated that other countries regarded their adherence to the declaration on the continued stability of the tariff concessions as a very serious matter. Many of them were initially opposed to such a declaration, and had only changed their views with the greatest reluctance. He felt certain that they would adhere to the declaration fully. He wished to point out that the US would still have access to the escape clause article of the GATT (Article XIX) even if it adhered to the declaration on Article XXVIII.

Mr. Randall asked specifically what the benefits would be to the US in agreeing not to withdraw or modify any of the concessions it had granted for a stipulated period of time except in special circumstances. Mr. Brown stated that adherence to such a declaration would assure US exporters against increases in duties which are now bound. In his view, retaliation by the US or other countries against such increases, through the withdrawal of compensatory concessions, was not an advantage to any contracting party since such actions only reduce international trade rather than expand it.

Mr. Frank pointed out that the inter-agency Trade Agreements Committee had reviewed the problem of a continued binding of the tariff concessions. The issue, essentially, was whether the United

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7During the Eighth Session of GATT, Japan was admitted as a temporary member pending its successful conclusion of tariff negotiations with individual contracting parties. For documentation, see Foreign Relations, 1952–1954, vol. 1, Part 1, pp. 158 ff.
States could go along with the general principle of extending the existing tariff concessions for a fixed period of time.

Mr. Randall asked what the effect on the GATT would be if Congress were to approve the Organization Agreement with a rider providing that the United States should not sign any declaration continuing the firm life of the tariff concessions. Mr. Brown stated that the effect of such action would be to weaken the effectiveness of both the GATT Organization and of the General Agreement itself.

[Here follows discussion of whether full powers should be accorded the United States Delegation to sign the amended GATT agreement in Geneva.]

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22. Minutes of a Meeting, Washington, February 15, 1955, Afternoon Session

PARTICIPANTS

Mr. Randall, White House, Presiding
Mr. Morse, Agriculture
Mr. Hauge, White House
Mr. Morgan, White House
Mr. Morton, State
Mr. Waugh, State
Mr. Schnellbacher, Commerce
Mr. Brown, State
Mr. Flemming,
Mr. Stambaugh, White House
Mr. Galbraith, White House

Mr. Thibodeaux, State
Mr. Frank, State
Mr. Metzger, State
Miss Kirlin, State
Mr. Nichols, State
Mr. Schaffner, Treasury
Mr. Rossiter, Agriculture
Mr. Tischner, Agriculture
Mr. Pickering, State
Mr. Blake, State, Secretary

1. Section 22

Mr. Randall stated that the issues with respect to Section 22 were whether the United States Delegation could agree to an annual review by the Contracting Parties, based on the United States report to them, of its actions taken under a Section 22 waiver, and whether

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1 Source: Department of State, GATT Files: Lot 66 D 209, GATT, Ninth Session Review. Limited Official Use. No drafting information is given on the source text.
2 E.E. Schnellbacher, Director of the Office of Intelligence and Services, Bureau of Foreign Commerce, Department of Commerce.
3 Philip P. Schaffner, Office of International Finance, Treasury Department.
4 Fred J. Rossiter, Assistant Administrator of Foreign Service and Agricultural Analysis, Department of Agriculture.
5 Presumably Gerald E. Tichenor, Deputy Assistant Administrator of Foreign Service and Agricultural Analysis, Department of Agriculture.
it could agree to having the waiver granted for a stipulated period of time.

Mr. Brown stated that the Delegation believed that an annual review by the Contracting Parties of U.S. action under the Section 22 waiver would be advantageous to the United States. Under such procedure the examination in the GATT of Section 22 actions would take place in a more or less routine manner. In the Delegation's view it would be far better to have U.S. Section 22 actions appear as a regular feature of the GATT agenda rather than in an atmosphere of challenge by a contracting party under Article XXIII. Moreover, if the United States agreed to an annual review of its actions based on a U.S. report, it might be possible to secure an annual review of the restrictions which certain countries desire to maintain to protect their industries after the balance of payments justifications for such restrictions had disappeared ("hard core" restrictions). Finally, there was considerable pressure among other Contracting Parties for including an annual review in the Section 22 waiver which it would be difficult to resist.

Mr. Randall pointed out that an annual review would afford the United States an opportunity to explain the basis for its agricultural policy. He asked for the opinion of the Department of Agriculture on this matter.

Mr. Rossiter of the Department of Agriculture stated that his agency had no objection to an annual review of Section 22 actions by the Contracting Parties, based on a U.S. report submitted to them, provided that other Contracting Parties agreed to subject to an annual review the restrictions that they desire to maintain to protect certain of their industries. Mr. Morgan asked whether the acceptance by the United States of an annual review requirement might raise at each session the question of whether Section 22 should be continued. Mr. Brown replied in the negative but stated that this question did arise in connection with whether the United States could agree to a waiver having a stipulated duration.

Dr. Hauge asked whether the annual review of Section 22 actions might lead to resolution of censure by the Contracting Parties against the United States at some future session. Mr. Brown stated that this was unlikely unless the U.S. were to use Section 22 on a very extensive basis. Dr. Hauge suggested that it would be desirable to indicate publicly, when the necessity arose for doing so, that the U.S. obligation under the waiver would be to report to the Contracting Parties, with the Organization reviewing its report. Mr. Brown stated that this was exactly the description of what the term "annual review" meant.
Decision: Section 22 Annual Review

Mr. Randall stated that if there were no dissent, the Delegation would be authorized to agree to the inclusion in Section 22 of a requirement for an annual report by the U.S. to the Contracting Parties on actions taken under the waiver, which report would then be reviewed by the Contracting Parties. There was no dissent.

Mr. Randall stated that the next issue was whether the U.S. could agree to a waiver which would be valid only for a stipulated period of time. He asked Mr. Brown to describe the elements of this problem.

Mr. Brown stated that he believed the Delegation would be able to secure a Section 22 waiver without agreeing to a limitation on the waiver with respect to time. On the other hand, if the waiver were granted for a specified period of time, there would be a strong implication that it could not be revoked before the expiration of that time limit. The main issue here was the presentation problem, i.e., whether it could be made clear to the Congress that no matter which waiver was granted, the United States would still be able to use Section 22 without any limit on its actions.

Mr. Randall asked whether a waiver having a duration of five years could be satisfactory from the U.S. point of view. He noted that the United States would want a shorter period of time on the restrictions which other countries would want to impose for protective purposes. Mr. Flemming expressed the opinion that any waiver should have a clear indication as to its duration. Otherwise, the Section 22 problem would be on the agenda of every meeting of the Contracting Parties, with the possibility of the question being raised of whether the waiver should be continued.

Mr. Randall suggested that a waiver granted for a stipulated period of time might lead the Congress to believe mistakenly that the Administration at the end of that period intended to get rid of Section 22. However, from what Mr. Brown had said, it appeared that there was some negotiating advantage to be gained by agreeing to a waiver having a fixed duration. He asked for the views of the members of the group.

Mr. Morgan stated that for presentational reasons he was opposed to a Section 22 waiver of stipulated duration. Mr. Stambaugh expressed the opinion that the waiver should be limited in time, with the understanding that the United States would not discuss the question of renewal of the waiver or its continuance during that period of time, which would be, say, five years. Mr. Morse stated that for presentational reasons the Department of Agriculture was not in favor of a waiver that would not contain any stipulation as to
its duration. Mr. Chalmers stated that the Department of Commerce favored a waiver having a stipulated duration.

Mr. Waugh for State indicated that it would be easier to present to the Congress a waiver having no stipulation as to time. Mr. Flemming stated that he was in favor of a waiver having a stipulated period of time. Mr. Brown indicated that the Delegation would probably be able to secure a waiver of unstipulated duration but that this would affect the negotiations on the restrictions which other countries desire to impose for protective purposes after the balance of payments justification for those restrictions will have disappeared.

Mr. Randall requested the members of the group to consider the problem further in view of the absence of any clear consensus of opinion and to be prepared to express a definite position on the matter the next day. Mr. Randall then asked whether Mr. Waugh could indicate the position of Mr. Phleger of the Department of State with respect to the problem of "full powers" that had been discussed by the group that morning. Mr. Waugh stated that Mr. Phleger concurred in the opinion of the group on "full powers", i.e., that all documents resulting from the Session were to be signed by the Delegation in Geneva (the Organization Agreement, ad referendum) after the documents had been examined and checked at the policy level in Washington.

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6 In the meeting held on February 16, Clarence Randall stated after some discussion that it appeared that there was a slight majority in favor of seeking a waiver of unlimited duration, and he authorized the delegation to seek such a waiver. Winthrop Brown asked whether the delegation might agree to a waiver for a stipulated period if the United States appeared to gain some clear advantage from such an agreement. Randall assented but pointed out that the basic problem would be to convince Congress that a waiver of only limited duration would not restrict the government's freedom of action in enforcing Section 22. (Minutes of Randall meeting, February 16; Department of State, GATT Files: Lot 66 D 209, GATT, Ninth Session Review)
23. Memorandum of a Conversation, Department of State, Washington, March 2, 1955

SUBJECT

United States Request for Waiver under the GATT for its Actions under Section 22 of the Agricultural Adjustment Act

PARTICIPANTS

Dr. J.H. Van Roijen, Ambassador E. and P., Embassy of The Netherlands
Mr. A.B. Speekenbrink, Economic Minister, Embassy of The Netherlands
Mr. Samuel C. Waugh, Asst. Secretary for Economic Affairs, Department of State
Mr. Keld Christiansen, WE, Department of State
Mr. Joe A. Robinson, TAD, Department of State

Mr. Waugh said that we understood that The Netherlands Government intended to vote against our request for a waiver under the GATT for our Section 22 actions, but that we were in a position where we might need their vote to get the two-thirds majority. He said that we, ourselves, did not like to request a waiver for Section 22 but that we had to in order to get Congressional acceptance of the GATT organization agreement. Without it, there might be no GATT and we would have to go back to the old bilateral system of trade agreements.

Mr. Waugh reviewed the history of our use of Section 22, pointing out that we had used it in moderation. Furthermore, he said, we were willing to agree to prior consultation; to an annual report regarding actions we take under Section 22; and to a review of the report by the Contracting Parties. He said that even with the waiver, we will have a difficult task getting the GATT organization agreement through Congress. Therefore, every vote that we lose will give the enemies of the program ammunition. He said that the United States would appreciate the vote of The Netherlands even though we know that they do not favor such a waiver. We recognize that they would be voting on the basis of choosing the lesser of two evils.

The Ambassador said that he would pass this information on to his Government; that they, here at the Embassy, understood our problem and were sympathetic with it, but that their Government had its problems also. His Government is afraid of a precedent which might be followed by other countries, such as Germany and France, who are not too enthusiastic about getting rid of quota

1 Source: Department of State, Central Files, 394.41/3-255. Official Use Only. Drafted by Joe A. Robinson of the Trade Agreements and Treaties Division, Bureau of Economic Affairs.
restrictions, and who would support the waiver in order to be able to use similar devices. Mr. Waugh said that he had heard that argument before, particularly from Mr. C.D. Howe of Canada, but that we were faced with the fact that we had a law on the books that requires our taking Section 22 action under certain conditions and that this law had to be complied with by the President. He felt that it would be better to have a GATT agreement approved by Congress with a Section 22 waiver in it than to have no GATT at all.

Mr. Waugh expressed the opinion that the Republican Party had made a tremendous swing, in support of the President, from a high protectionist policy to a pretty liberal trade policy, but in order to have a better trade policy, we have to make some concessions which we don't like. We recognize that this is not an ideal arrangement but that it is better than no GATT.

The Ambassador agreed that it would be better for the future of international trade to have the United States in GATT than to rely on a bilateral type of approach. Mr. Waugh said that he felt that if the new GATT were approved by Congress, it would be a great step forward by a Republican Administration, and emphasized that we do not want to go back to the bilateral type of trade policy. The Ambassador said that he felt Mr. Waugh's points were well taken and that he would pass them on to his Government.

Mr. Speekenbrink asked if the vote were badly needed. Mr. Waugh said that he didn't know what the most recent count was but that the vote might be close. Mr. Speekenbrink said that if it were badly needed, they might be able to vote for the waiver, but they would prefer to vote against it in order to strengthen their hand against the efforts of countries like Germany and France who would like to continue the use of quotas. The Ambassador added that if they voted against it, and we still got the two-thirds majority, they would be in a stronger position.

Mr. Waugh said that their negative vote would make it more difficult for the United States, whereupon Mr. Speekenbrink asked why we need a 100 per cent vote for the waiver. Mr. Waugh pointed out that the opponents of the program would not relate a negative vote to Section 22 but would connect it with the whole United States program, and would try to make the point that in spite of United States efforts in foreign economic relations, other countries were being uncooperative. He said that he, of course, would not expect them to vote for the waiver without making a statement in which they made clear their opposition in principle.

In answer to a question, Mr. Waugh said that Canada apparently intended to vote against the waiver but that Australia had given no indication yet that they would vote against it.
Mr. Speekenbrink remarked that in Holland the Section 22 waiver would be regarded as one part of the total picture of United States foreign trade policy. He mentioned the restrictions on butter and other products and the talk about restricting residual fuel oil. He said that all of this made up a whole picture for their people. Mr. Waugh agreed that it must be considered as a whole but said that he believed the Republican Party which had been traditionally protectionist was making progress throughout the United States in shifting to a more liberal trade policy. Of course, there were exceptions but support was being given by groups like the Detroit Chamber of Commerce, the American Federation of Labor, various women's leagues, etc.

Mr. Speekenbrink suggested that they might vote for the waiver and then find that H. R. 1 was passed for only one year with no tariff negotiations in the offing. Then they would feel that they had sold themselves cheap. Mr. Waugh said that he felt that the President had enough strength and support to get H. R. 1 in substantially its present form.

The Ambassador said that he would be glad to present our view to his Government but that he could not guarantee anything. Mr. Waugh assured him that we did not expect him to make a commitment but would appreciate his emphasizing to his Government the importance of this waiver to the United States.²

²On the same day, Assistant Secretary Waugh also met with the Belgian and Danish Ambassadors to elicit their governments’ support for the U.S. waiver. (Memoranda of conversation, March 2; ibid.)
Draft Report by the Acting Chairman of the Delegation to the Ninth Session of the General Agreement on Tariffs and Trade (Brown)  


The regular report of the Delegation  has described the main issues dealt with in the Review Session  and the outcome from the point of view of achievement of the US objectives, as well as an appraisal of the results from the point of view of the General Agreement as a whole. This report deals with some of the underlying attitudes and problems which were revealed in the course of the session, and attempts an appraisal of some of the intangibles involved. It also describes some of the more important negotiating problems which may come up to give trouble in future sessions. It also includes the customary comments on some of the more important individuals in the Session.

General Impressions

The consensus of opinion of delegates who have participated in previous sessions of the GATT and in its negotiation in 1947 was that this session involved a far more difficult negotiation than any previous session. The reason for this is apparent, namely, that the delegates at this review session were dealing far more with actual realities than they were in 1947. At that time most of the commitments taken by the non-dollar countries were blurred by the ever-present opportunity for recourse to quotas for balance-of-payments reasons. Under the comfortable shelter of this admittedly essential protection, many provisions of the GATT and many commitments involved in it seemed less real than they do today. Thus most countries were reluctant to take on new obligations because they realized that their acceptance of those obligations involved them in more definite and real commitments than had been the case before. Many even wished to re-examine existing commitments, which, because of the improvement in the general world situation, were beginning to take force and bite where they had not had practical effect before.

1 Source: Department of State, GATT Files: Lot 66 D 209, GATT, Ninth Session Review. Secret. The report was circulated in this form as background material for the discussions of the Review Session scheduled for the week of March 13.

2 A copy of the Report to the Secretary of State by the Chairman of the U.S. Delegation to the Ninth Session of GATT is ibid., Report—U.S. Delegation.

3 The Ninth or “Review” Session formally ended March 7.
Moreover, when the General Agreement was first negotiated it was done in the anticipation that the Havana Charter\(^4\) would come into effect. In the case of a good number of countries, particularly the underdeveloped countries, the Charter would have given certain escapes which are not present in the General Agreement and which during the present Review Session failed of inclusion in the General Agreement.

It is not surprising, therefore, that this Session did not result in any very great changes in the General Agreement. This is the more understandable because the Review of the Agreement revealed that in fact it was a far tighter and better Agreement than had perhaps been realized before. The rules against use of quotas for protective reasons, the obligation to maintain tariffs at the rates bound in the schedules, the obligation not to discriminate or obstruct imports through non-tariff and non-quota measures, have been in the GATT since the beginning. But their significance has been to a large extent submerged because of the extent of balance-of-payments restrictions. With the improvement referred to above in the world situation, these obligations stood out in the minds of the delegates as real commitments. True, they had not been applied in the past. But they were there as legal obligations. Actually, the rules against the use of quotas and the rules against discrimination needed little strengthening. What they needed was better enforcement. In this respect the Agreement was improved.

Another factor which stood out clearly was the inherent limitation on the capacity to effect major changes in countries' internal policies by international agreement. In case after case where a really important national interest was involved the country concerned simply refused to take a commitment to change its national policy. Countries were willing to accept limitations on their freedom to act in many ways. They were willing to accept commitments to maintain the status quo. But on big issues they were not yet ready to bind themselves to make major changes in national policy, even to get others to accept the same obligations.

This was particularly clear in the case of United States with respect to Section 22, American selling price, etc., France in connection with export subsidies, Germany with respect to the need to protect the hardcore of its agricultural production, the underdeveloped countries with respect to their programs of economic development, and so forth.

The problem, therefore, was how to work out rules which met the majority of the cases on a sound basis and provided leeway

\(^4\) See footnote 6, Document 21.
where they ran into some really immovable national interest. This is the reason for the waivers granted at the Session.

It was felt that it was healthier not to change basic rules which were considered to be right simply to meet a few major individual difficulties. It was rather thought preferable to deal with these by specific dispensations, tailored so far as possible to meet the particular case, and carrying as strict conditions as the country involved was able to accept.

The approach of delegates to the Review revealed two basic schools of thought. The first was that of the large majority which believed that the Contracting Parties should be expanded into a very broadly-based permanent trade organization comparable to the proposed ITO. The other, in which the United States was the leader, and which was very much smaller, believed that the new organization should be primarily confined to administration of the General Agreement and closely related matters. A large part of the time of the Conference was taken up in discussing and defeating efforts to expand the scope of the new Organization into the fields of commodities, cartels, investment, full employment, etc.

In this and other senses a great deal of the achievement of this Conference lay in what was not done.

US Negotiating Position

The US negotiating position in the meeting was handicapped and the US influence considerably diminished, by three main facts. The first was the necessity to ask for a blanket waiver to cover all actions that the United States might in the future wish to take under Section 22 of the Agricultural Adjustment Act.

The second was the fact that we had to oppose so many substantive things desired by other countries, and that in that opposition there was practically no flexibility in our position. We were, for example, unable to accept any commitment with respect to consultation on disposal of surpluses or liquidation of strategic stocks. We were the only country that was unwilling to do anything in the field of commodity agreements. What we were able to accept with respect to subsidies was limited as compared to what others felt was reasonable. We had to insist on retaining the right to subsidize even when no domestic price support arrangements were involved and no arbitrary restrictions were being imposed against us; in other words, when all that was involved was free competition. We were unable even to take a commitment to give notice to countries that were interested in our liquidation of surplus stocks through diplomatic channels when we had given formal public notice.
The third was the continued insistence of the United States on taking positions for presentational reasons at home which seemed unreasonable or unnecessary to other countries, while at the same time opposing the inclusion, or insisting on exclusion, of provisions in the Agreement which other countries felt were necessary for their own presentational reasons. It was true in this Conference, as has been in the case in others attended by the writer, that the United States, more than any other country, tends to insist on presentational points in matters of detail in a manner which creates great difficulties in negotiation. This is perhaps due in part to the compartmentalization of thinking in the United States Government, perhaps inherent in its size, but it is a handicap which could to a considerable extent be avoided, and which it would be very helpful to avoid, in future negotiations.

The fact that the United States asked for a waiver for Section 22 overshadowed the whole Conference on every major issue in which we attempted to seek strengthening of the rules or of their enforcement, or to ask other countries to accept obligations to give more access to our goods, or to lessen discrimination against them. We were met with the simple question, "You are not willing to accept any obligation with respect to imports of agricultural products which might perhaps someday come under one of your agricultural programs. Why should we?" Or put more simply, "You tell us that you have a real problem because of the existence of your agricultural programs and Section 22. We believe you and we will reluctantly accommodate you, but we have a problem too and we must expect you to accommodate us". That the final result contains as satisfactory rules from the point of view of the United States as it does (for example, that the so-called hard-core waiver is as tight as it is),\(^5\) is a tribute to the importance that other countries attach to the presence of the United States in the GATT. But this position did not enhance our prestige in that Organization.

The net result of all of this was to create an impression that the United States was always insisting on having its own way. This strengthened the feeling of a large and important bloc of countries that the GATT is an unbalanced and inequitable agreement largely tailored to accommodate the needs of the US.

US insistence on retaining the right to subsidize, and particularly refusal to accept the equitable share test as applied to individual markets rather than world markets, gave rise to many caustic com-

\(^5\) The "hard core" waiver, approved March 5, allowed contracting parties a maximum 5-year period during which a quota could be maintained after the balance of payments difficulties which had originally justified it had passed. For text, see Basic Instruments and Selected Documents, Third Supplement, p. 38. See also Document 26.
ments about the US as the great exponent of free competition being unwilling to accept the fact that a country might win a market by straight competition. Moreover, it was exceedingly difficult to preach the virtues of competition to the underdeveloped countries and argue against protection of manufactured goods and agriculture in Europe against the background of our double-barreled insistence on the right to use Section 22 to protect our agriculture and the right to continue the use of export subsidies for our agriculture even in cases where there was no price support and no artificial barriers against our exports.

**Negotiating Positions on Various Issues**

The annex to this report (to be supplied)\(^6\) gives a résumé of the important factors and attitudes involved in the negotiations on each of the major issues of the Conference.

One of the significant developments which could not be much publicized was the complaint made by the Danes against the export price activities of the Coal and Steel Community. In the course of the review of the Coal and Steel Community’s report, the Dane\(^7\) made it plain that he considered export prices of the Community members to be inequitable and that Denmark was having to pay much higher prices for steel from the Community than other recipients of the Community’s steel. The Community resisted the complaint, but finally, under pressure, provided the Danes with a great many facts and figures which it had theretofore consistently refused to give him. An examination of these facts and figures looked on their face as though the Dane had spoken too soon in making his claim. He, therefore, agreed to withdraw the complaint from the Ninth Session agenda but reserved his right to revert to it at a later session pending study of the figures and finding out whether the figures were complete and accurate. The Coal and Steel Community sent four representatives down to listen to this withdrawal, which took about 30 seconds, and also sent along a press officer who, according to reliable correspondents, tried to give the impression that the Dane had fully abandoned his complaint and that he had been proved to have been entirely wrong, an interpretation not supported even by the reading of the actual press announcement.

This development further reflects the inordinate sensitivity of the Community throughout all examination of its report to any kind of criticism, or in some cases even to questioning, particularly on anything having to do with the cartel issue. It also boomeranged on the Community because the Dane protested the Community’s reve-

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\(^6\) Not found in Department of State files.

\(^7\) Reference is unclear.
lation of action taken at private sessions of the Contracting Parties and their biased representations to the press. In this he was unanimously upheld by the CPs. A press denial was issued, and a formal protest sent by the Chairman of the CPs to the High Authority.

The granting of our waiver for Section 22, of course, left a bad taste in everyone's mouth because of its extremely broad terms and the precedent which everyone feared it would establish. A great many of the delegates felt somewhat less badly about the matter, however, because they did expect the United States to continue to be moderate in the use of Section 22. Much of the harm done by this waiver can be avoided and its effectiveness as a precedent for others can be greatly diminished if we continue this policy of moderation. If in practice it turns out, as it has in so many cases in the past, that the use of the Section really is limited to cutting off excessive and abnormal imports and that what might reasonably be considered to be a fair and normal share of the trade continues to be allowed to enter, we will in the future be in the position to argue much more effectively against unreasonable requests by others. Our legal position may not be much better, but our moral and negotiating position will be infinitely better. Such behavior will also protect us against the possibility of the waiver being withdrawn.

Delegations and People

One of the difficulties faced by the delegates was the fact that this Conference was not strongly led. The British Delegation started out vigorously as the leader of the group wishing to strengthen the balance-of-payments provisions. For a variety of reasons it was not able to maintain real leadership throughout the Conference. Many of the proposals it made, for example, the two-year time limit for balance-of-payments restrictions, were unrealistic and obviously foredoomed to failure. They were also opposed by a large portion of the Commonwealth. The British Delegation was not of the high calibre of its delegation in 1947; the acting leader, Edgar Cohen, of the Board of Trade, being sporadically brilliant, but not a personality calculated to be effective in a prolonged negotiation with a wide variety of countries.

The British Delegation was particularly weak, for example, in contacts with Latin America. They made little apparent effort to cultivate the Latin Americans and to dissipate the deep suspicion with which the Latin American delegates as a group regard anything

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8 The U.S. waiver was accepted by the necessary two-thirds majority on March 5 by a vote of 23–5 with 5 abstentions. Canada, Cuba, Denmark, the Netherlands, and New Zealand voted against the waiver; Brazil, Burma, Ceylon, Czechoslovakia, and South Africa abstained.
British. They frequently, for example, made the mistake of approaching Latin Americans through an Indian or a Pakistani. Nothing could have been better served to annoy the Latins, or to make them feel that their suspicions that Britain dominates the Commonwealth were correct.

The United States was not able to exercise the same leadership as it had in the past because its general prestige and moral standing in the meeting was so diminished by its request for the Section 22 waiver, the other factors described above and its unwillingness to accept any commitments with respect to inconsistent existing legislation.

The entire performance of the French Delegation was deplorable. Throughout the meeting they did their very best to disrupt and sabotage the efforts of those who wished to strengthen the GATT. They bid openly and in an almost humiliating manner for the support of the underdeveloped countries on anything that would weaken the provisions of the GATT. In so doing, according to one of their principal representatives, they were reflecting a philosophy of the French Government against any international commitments in the economic field. Thus anything that could make the GATT weaker was desirable from their point of view. They would not, however, for prestige reasons leave the GATT.

The Latin Americans were their usual difficult selves, Brazil being particularly irresponsible. The only time during which the Brazilian Delegation was in the least reasonable was during the brief period after Mr. Boucas ⁹ came to Geneva as leader of the Delegation, and at the very end. Efforts by the United States Delegation to establish direct and friendly contacts with the Brazilian Delegation were not successful until Mr. Boucas arrived. After that much greater cordiality prevailed.

The Cuban Delegation was on the whole competent and friendly. The leader, Mr. Vargas-Gomez, ¹⁰ is a sincere man who frequently gets fuzzy ideas in his mind and clings to them with the tenacity of a bulldog. Lack of clarity of thinking by the Cuban Delegation, an unwillingness to compromise on small points even

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⁹ Valentin F. Boucas, head of the Consultative Council of the Brazilian Ministry of Finance, deputy leader of the Brazilian Delegation.

¹⁰ Andrés Vargas-Gómez, Minister Plenipotentiary, deputy leader of the Cuban Delegation.
when substantial concessions were made to the Cuban viewpoint, and obsession with particular problems (such as possible loss of advantage to the Dominican Republic in sugar), often made it most difficult to deal with the Cubans and at times seriously complicated and protracted the negotiations. There were, however, uniformly, cordial and friendly relations between the Cuban and US Delegations.

The Asian Delegations, with the exception of Ceylon and Indonesia, were on the whole extremely constructive and reasonable. Ceylon was somewhat difficult on commodity problems but otherwise cooperative.

The Turkish Delegation was uniformly friendly to the United States and helpful.

The chairman, Mr. Wilgress, presided with his usual skill. He is, however, getting on in years and was handicapped by the fact that he carries heavy responsibilities for Canada in NATO and was not able to give as much time to the meeting as on previous occasions.

Mitchell Sharp\textsuperscript{11} of Canada and Paul Koht\textsuperscript{12} of Norway were newcomers of very high calibre. Both are intelligent, clear in expression and capable of carrying responsibility in future sessions.

The two outstanding personalities in the meeting were Jha\textsuperscript{13} of India and Crawford\textsuperscript{14} of Australia. Jha was uniformly intelligent, instructive, cooperative and clear-thinking. He was wise in judgment, eloquent in debate, reasonable in approach and extremely well informed. More than any other Asian with whom the Delegation has had to deal, Jha thought like a Westerner. He also had the courage to take a Western position when he believed in it and support it with other underdeveloped countries who disagreed. . .

Crawford of Australia was extremely cooperative and helpful. He also is highly intelligent, very clear-thinking, firm, humorous and well informed. He also has a great capacity for not wasting time and sticking to the point. The Delegation found him exceedingly satisfactory to deal with and it was possible at all times to be completely frank with him. On many occasions his subordinates tried to bargain too hard, but it was always possible by discussion with Crawford to come out with a reasonable and mutually satisfactory solution. He also would make a good chairman of the CPs.

\textsuperscript{11} Mitchell Sharp, member of the Canadian Delegation.
\textsuperscript{12} Paul Koht, Director of the Politico-Commercial Department of the Norwegian Ministry of Foreign Affairs, deputy leader of the Norwegian Delegation.
\textsuperscript{13} L.K. Jha, Joint Secretary of the Indian Ministry of Commerce and Industry, deputy leader of the Indian Delegation.
\textsuperscript{14} J.G. Crawford, Secretary of the Australian Department of Commerce and Agriculture, deputy leader of the Australian Delegation.
In this connection one should also mention Westerman, who was in charge of the Australian Delegation for some time. He was most cooperative and competent. In fact, throughout the whole meeting, even despite initial very strong differences of opinion on balance-of-payments problems, subsidies, surplus disposal, scarce currency and the Section 22 waiver, it was always possible to work out a satisfactory agreement with the Australians. Moreover, Crawford was willing to take responsibility for a compromise, to put it forward himself and to defend it in Working Party and plenary. The best example of this was the help he gave in connection with our waiver and in connection with scarce currency.

One potentially very important development of the Conference was the failure of an effort to establish a real working relationship between the staff of the Fund and the GATT secretariat. While the writer would agree that certain members of the GATT secretariat had been rather irritating and that they did not start the discussions in a very intelligent or tactful manner, the final impression left with them and with members of the United Kingdom and other delegations is that the Fund staff simply did not want, or were unable to give, real cooperation. Rightly or wrongly, they gave the impression of being either unable or unwilling to discuss anything on an informal basis and to feel that every kind of discussion, even of small details, had to be done on a basis of the Executive Directors of the Fund speaking to the CPs as a whole. This result, of course, plays completely into the hands of delegations here which would like to see the influence of the Fund weakened in GATT matters. While the final report that came out is a generally satisfactory document, and looks all right on the surface, the writer believes that this problem is still basically unsolved.

No commentary on people would be complete without mentioning the Executive Secretary, Wyndham White. His ingenuity and skill in finding acceptable compromises and suggesting negotiating techniques was invaluable throughout the Conference. On many occasions (for example, scarce currency, full employment, Article XXVIII, reservation for existing legislation, organizational aspects), his suggestions to a large extent helped bail the United States out of difficult positions it was trying to hold. He, more than any other single person, was responsible for the fact that any agreement was

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15 W.A. Westerman, Assistant Secretary of the Australian Department of Commerce and Agriculture.
16 International Monetary Fund.
reached on one of the most difficult problems before the Confer-
ence, Article XXVIII. He proved again to be one of the best friends
the US has in the GATT and to be a key, if not the principal, figure
making this enterprise work despite serious handicaps.

The office of the Executive Secretariat is also a very useful
sounding board through which to sense the feelings of other delega-
tions on important issues.

The Future

The writer believes that the General Agreement as it emerged
from the review is a better agreement, and that the organization
agreement is wholly satisfactory from the US point of view.

The GATT has become for many countries even more the
symbol of our cooperation in the field of trade than the Trade
Agreements Act. And it is the fact that the Organization for Trade
Cooperation will never be born if the US does not join it. The writer
doubts if the GATT could survive our rejection of the OTC, and the
blow which our rejection would give to our political and economic
relationships with other countries would be heavy indeed.

But assuming our participation, the establishment of the OTC
would be only a first step. We will have to make it work. This
means providing it with qualified people. We must have a really
first-class representative on the Executive Committee and he must
be adequately staffed and backstopped in Washington. Moreover,
our greatest check on abuse of balance-of-payments restrictions by
other countries to the detriment of our exports is through the
consultations required by the new rules. These will be complicated
and will require work and study, and qualified men to do that work
for us. If we and others do not staff this enterprise properly it will
fail.
Additional documentation on the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade is in Department of State Central Files 394.31 and 394.41 and ibid., GATT Files: Lot 59 D 563, Boxes 448–449; Lot 63 D 134, Boxes 259–270; and Lot 66 D 209, Boxes 454–458. The texts of the decisions, resolutions, declarations, waivers, and working party reports adopted by the Contracting Parties at the Ninth Session are printed in Basic Instruments and Selected Documents, Third Supplement (June 1955). The texts of both the old and revised articles of the GATT Agreement are printed in General Agreement on Tariffs and Trade, Present Rules and Proposed Revisions (March 1955). A summary of the session and its results is in Current Economic Developments, No. 463, March 15, 1955, pp. 1–11. Current Economic Developments was a semi-monthly classified periodical prepared by the Bureau of Economic Affairs in the Department of State for internal use as background and policy guidance. (Department of State, Current Economic Developments: Lot 70 D 467, Unclassified summaries)

PARTICIPANTS

Mr. Randall, White House, Presiding  Mr. DeFelice, Agriculture
Dr. Hauge, White House  Mr. Fields, Treasury
Mr. Butz, Agriculture  Mr. Frank, State
Mr. Overby, Treasury  Dr. GalBreath, White House
Mr. Rose, Treasury  Miss Kirlin, State
Mr. Morton, State  Mr. Leddy, State
Mr. Waugh, State  Mr. Metzger, State
Mr. Wormser, Interior  Mr. Schaffner, Treasury
Mr. Smith, Commerce  Mr. Schalet, Treasury
Mr. Kalijarvi, State  Mr. Thibodeaux, State
Mr. Marget, Federal Reserve Board  Mr. Weiss, State
Mr. Hutchinson, Budget  Mr. Blake, State, Secretary
Mr. Schneider, Justice
Mr. Hall, FOA
Captain Thorp, Defense
Mr. Arnow, Labor

After some opening remarks regarding the status of H.R. 1 in the Senate Mr. Randall stated that the purpose of the meeting was to examine the various documents resulting from the GATT Session with a view to having Mr. Waugh sign them on behalf of the United States. Mr. Randall then asked for Mr. Brown’s comments on the GATT Review.

Mr. Brown stated that the Delegation was of the opinion that the United States had secured substantially all that it had been instructed to obtain during the review of the Agreement. The Delegation had been successful in keeping out of the Organization Agreement provisions dealing with restrictive business practices,

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1 Source: Department of State, GATT Files: Lot 59 D 563, Memos, 1955. Limited Official Use.
2 Felix E. Wormser, Assistant Secretary for Mineral Resources, Department of the Interior.
3 Marshall M. Smith, Deputy Assistant Secretary for International Affairs, Department of Commerce.
4 Arthur W. Marget, Director of the International Finance Division, Federal Reserve System.
5 Edmond C. Hutchinson, Staff Assistant to the Director, Bureau of the Budget.
6 Edward B. Hall, Director of the Office of Trade, Investment, and Monetary Affairs, Foreign Operations Administration.
7 Capt. Wakeman B. Thorp, USN, Office of International Security Affairs, Department of Defense.
8 Philip Arnow, Associate Director, Office of International Labor Affairs, Department of Labor.
9 A. Richard DeFelice, Director of the Trade Policy Division, Department of Agriculture.
10 Morris J. Fields, Office of International Finance, Treasury Department.
international investment, and many other fields of international trade policy not related to tariffs. The proposals of other countries for the inclusion of certain chapters of the ITO Charter had been decisively rejected. The organizational provisions of the present General Agreement had been extracted from it and incorporated into a new Organization Agreement. The stability of the tariff concessions had been assured by their extension to the end of 1957 with a provision for their automatic extension for another three years after that time. In connection with this last point it had been necessary, however, to agree to a rather complicated renegotiation procedure to apply during the period of the firm life of the concessions.

Mr. Brown went on to note that the fair share concept relative to the export of agricultural subsidies had been written into the new Article XVI. Moreover, the United States had secured a waiver in connection with restrictions required under Section 22 of the Agricultural Adjustment Act, as amended. This waiver would leave the United States complete freedom of action with regard to the imposition of such restrictions and has no stipulation as to time. Its provisions for notices to countries affected by a proposed restriction and for consultations with them are consistent with United States practice. Mr. Brown expressed the view that the United States obtained the waiver because other Delegations were convinced that it was necessary to secure Congressional approval of United States participation in the proposed Organization for Trade Cooperation. The fact that the United States had employed Section 22 restrictions sparingly, with the possible exception of those imposed on dairy products, had also influenced the negotiations.

Mr. Brown stated that the balance-of-payments provisions of the renegotiated GATT were substantially the same as the present provisions. However, there had been some simplification of them, and there was provision for their more effective enforcement. A change in their emphasis in the direction of the United States point of view had also been effected. A new feature of them provided for regular consultations by all countries imposing quantitative restrictions for balance-of-payments reasons. These consultations would be on an annual basis for the developed countries, and on a biennial basis for the underdeveloped countries. Under the present arrangements, all countries are not required to consult at the GATT sessions.

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11 The amended article stated that an export subsidy which is authorized by the contracting parties should not result in the beneficiary country gaining more than "an equitable share" of the export market based on its previous exports of the subsidized product.
Related to the balance-of-payments provisions was the "hard core" problem, i.e. the desire of certain countries to continue to restrict imports after the balance-of-payments justification for such restrictions had come to an end. This problem was handled by a waiver arrangement which was considerably more strict than that covering the Section 22 waiver of the United States. Countries desiring to impose "hard core" restrictions would have to secure specific approval of the Contracting Parties, would have to show that the product in question had received incidental protection during the period when balance-of-payments restrictions were being imposed, that the removal of the restrictions on imports of the products concerned would work severe social and economic hardship on the applicant country, and that no other means was available for handling the problem under the Agreement except through the imposition of temporary restrictions on imports. The country satisfying the Contracting Parties on these points would still be required to furnish annual reports on the measures taken in connection with the waiver, the policy it was following in order to eliminate the causes of the problem, and, in addition, would have to guarantee to other countries that the volume of imports from them would be no less than that which had been permitted during the period when the general restrictions imposed for balance-of-payments reasons had been in effect.

Mr. Brown referred to the problem of the underdeveloped countries at the GATT Session. He stated that it had been generally agreed that some relaxation of the GATT rules would be necessary in order to encourage the underdeveloped countries to continue to adhere to the General Agreement. To meet this problem Article XVIII of the renegotiated GATT was made more flexible than the existing Article. The underdeveloped countries would have slightly more freedom than they now have to withdraw or modify tariff concessions, and to impose quantitative restrictions for the protection of infant industries. Moreover, they would only be required to consult every other year in connection with restrictions imposed for balance-of-payments reasons.

In conclusion, Mr. Brown stated that all the other GATT countries were looking anxiously to the United States to see what this country would do vis-à-vis the proposed Organization for Trade Cooperation. He pointed out that if the United States does not join the Organization then it will not come into existence. Other countries feel that United States willingness to participate in the OTC is more important than the passage of H.R. 1. This feeling is based not only on the importance of the United States in the world trade community, but also because the GATT after seven years, has much to commend it as an instrument of international trade policy.
Mr. Brown concluded his remarks by paying warm tribute to the members of the United States Delegation and the excellent cooperation the Delegation had received from Washington.

Mr. Randall asked whether there were any comments the members of the group desired to make.

Mr. Marget stated that he was pleased that the United States had emerged so well from the Geneva negotiations. In his opinion, the Agreement was respectable, forward-looking and, in addition, it made sense.

Mr. Overby noted that Treasury had some problems in connection with the degree of latitude that was to be given to the underdeveloped countries and also with respect to the possibility that commodity arrangements might be associated with the proposed Organization. He asked whether it would be possible to state during the presentation of the Organization Agreement to the Congress that the Agreement was reasonably divorced from commodity arrangements.

Mr. Brown stated that when the United States Delegation went to Geneva it found a strong desire among the majority of the countries for the creation of a world trade organization that would deal with all aspects of international commerce. Several countries made a strong effort to include Chapter 6 of the Havana Charter in the renegotiated GATT. This effort was defeated. A Working Party had been created to develop a separate convention on international commodity policy. The United States did not participate in the Working Party but its influence was felt. If the work of this separate Working Party materialized, a separate international body with functions in the commodity field would be created. This body would be opened to all governments for membership, including countries not members of the OTC. He felt that it would be accurate to say that the commodity agreement drafted at the Ninth Session had been “split off” from the proposed OTC.

Mr. Randall expressed some concern over the fact that so many other governments were desirous of establishing agreements in the international commodity field. In his view such agreements were the complete opposite of everything which the United States represented.

Mr. Overby noted that a problem appeared to be developing in connection with a strong desire in the Congress to impose import restrictions on foreign oil. He asked what the situation would be under the renegotiated GATT if such restrictions were imposed.

Mr. Brown stated that import restrictions might be imposed as part of an escape clause action. He noted, however, that such restrictions would have to be non-discriminatory in character, and that if they were imposed for reasons of national security they...
would still have to be non-discriminatory. Dr. Hauge noted that a
certain amount of automatic discrimination was involved in the
selection of the base periods used in connection with the allocation
of the import quotas.

Mr. Rose asked whether there would be any change in the
escape clause provisions of the GATT. Mr. Brown replied in the
negative, stating that a contracting party would still have the right
to withdraw or modify concessions under Article XIX. Countries
affected by such withdrawals or modifications would be free to
withdraw such compensatory concessions as the Organization would
not disapprove.

Dr. Hauge asked whether the removal of quantitative restric-
tions for balance-of-payments reasons might be accompanied by a
rise in escape clause actions with respect to imports from the United
States. Mr. Brown stated that such actions might increase but that
they would not amount to more than two or three a year at the very
most. He did not think that this figure would be significantly
increased after convertibility.

Mr. Randall stated that the United States Delegation appeared
to have fulfilled very well the objectives of the President’s message
of March 30, 1954 on foreign economic policy in which he had
indicated that the Administration would seek a review of the Gener-
al Agreement on Tariffs and Trade. 12 There was every reason to
believe that the renegotiated GATT, strengthened by a permanent
Organization to administer its provisions, would significantly con-
tribute to the development of outlets for American agriculture and
industry through the progressive elimination of unjustified hinder-
ances to international trade. He, therefore, suggested that the Execu-
tive Branch endorse the GATT as it had been renegotiated in Geneva
and the Organization Agreement by authorizing Mr. Waugh to sign
the appropriate documents in Geneva on behalf of the United States.
There being no dissent, Mr. Waugh was so authorized.

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12 The President’s message to Congress is printed in Department of State Bulletin,
April 19, 1954, p. 602.
27. Telegram From the Embassy in the United Kingdom to
the Department of State

London, March 24, 1955—4 p.m.

4180. Personal for the President and the Secretary from the
Ambassador.

Tariff Commission’s recommendation for increasing bicycle
duties 2 raises such fundamental issues I feel I must call them to
your attention, although I am sure you are aware of them.

Its potential effects on whole effort toward expanded interna-
tional trade and on political as well as economic relations with the
United Kingdom make the bicycle recommendation easily the most
important escape clause case to date.

Efforts over the past few years to reduce aid dependence by
encouraging British manufacturers to develop US markets have en-
countered one basic fear; that if British businessman invests capital
and effort necessary for successful sales drive in world’s toughest
competitive market, he simply risks being arbitrarily shut out by
action under escape clause.

In bicycle case, British manufacturers were somewhat reluctantly
persuaded to take part in dollar-earning drive and have been re-
markably successful. They have really created new market in US by
making and selling at reasonable price an item of high-quality
standards. While price has no doubt played some part, fundamental
reason for British success has been good light-weight design and
well-organized sales effort. Over the years, this British initiative has
resulted in an enlarged market for US producers as well.

Escape clause decision on watches 3 was understood in UK, since
it clearly involved defense industry considerations. These are not
present in bicycles case. Adverse decision this case would be taken
as sign of probable course of action in much wider field.

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1 Source: Department of State, Central Files, 411.414/3-2455. Confidential.
2 Telegram 4762 to London, March 18, informed the Embassy that the Tariff
Commission had recommended increased rates of duties on bicycles. (Ibid., 411.004/
3-1855) The recommendation followed an escape clause investigation under the Trade
Agreements Extension Act of 1951, which provided for the withdrawal of trade
concessions which threatened serious injury to domestic producers. (65 Stat 74) For
text of the Commission’s report to the President, dated March 14, see U.S. Tariff
Commission, Bicycles (1955): Report to the President on Escape Clause Investigation
3 On May 26, 1954, the Tariff Commission submitted a report to President
Eisenhower recommending certain duty increases on Swiss watches. By his proclama-
tion of July 27, 1954, the President implemented the committee recommendations. A
convenient summary of U.S. actions regarding Swiss watches is in Operation of the Trade
Agreements Program, Eighth Report, July 1954–June 1955, p. 112. Pertinent documen-
tation is in Department of State, Central Files 411.004 and 411.544.
Bicycles are therefore a crucial test of the whole idea of "trade not aid". Entire British business community, and of course the Government, are watching this case with intense concern. If tariffs are raised, British will feel that effort to stand on own feet and earn dollars they need to buy American products faces frustration, and that US Administration's interest in expanded world trade is words not deeds. Such action would give aid and comfort to those in Britain and Europe generally who argue that economic cooperation with the US is impossible and who would willingly undermine the fabric of our political and security alliance.

Furthermore, when details of Tariff Commission's report are made public, it will be difficult to explain injury in view of fact that US production increased steadily from 1949 through 1953 at same time imports were also increasing steadily. Though lower in 1954, production was still much higher than pre-war. Tariff Commission majority's case in fact seems based almost entirely on 1954 decline, which on basis of past experience of industry may be a normal fluctuation in output. Impression general here that US producers are failing to produce the type of bicycle the US consumer wants, and are continuing to demand tariff protection rather than making the required adjustment.

President of Board of Trade has asked to see me Friday and I expect he will express the Government's dismay over the recommendation in strong terms.

I appreciate grave difficulties of Administration's position with H.R. 1 pending, but for above reasons I profoundly hope that Tariff Commission recommendation will be rejected as incompatible with national interest.

Aldrich
28. Memorandum From the Secretary of State to the President ¹

Washington, April 12, 1955.

SUBJECT

Escape Clause Action on Bicycles

The Governments of Great Britain and certain Western European countries have indicated great concern about the Tariff Commission's recommendation to increase duties on bicycles. Ambassador Aldrich sends you a personal message, ² which I enclose, emphasizing the potentially serious effect on Anglo-American trade relations of the proposed increase. The British have in addition delivered a strongly worded Aide-Mémoire ³ stressing the serious effect of such an increase on future US-UK trade relations.

Acceptance of the Tariff Commission's recommendation could stimulate adverse political and psychological effects among our Allies, far out of proportion to the grievances claimed by the United States industry. This case appears to be a crucial one in terms of the future of our announced trade policy.

I, therefore, recommend that the Tariff Commission proposal to increase bicycle duties be turned down.

I am acutely aware, however, of the relationship of the case to H.R. 1. It seems most important that the Tariff Commission's recommendations be turned down in a manner that is not prejudicial to the enactment of H.R. 1. I think it will be helpful if representatives of the Department discussed procedures in this matter with Dr. Hauge.

John Foster Dulles ⁴

¹ Source: Department of State, Central Files, 411.414/3–2455. Confidential. Drafted by Frank Taylor of the Office of British Commonwealth and Northern European Affairs and Fuqua.
² Supra.
³ Dated March 25, 1955, not printed. (Department of State, Central Files, 411.414/3–2855)
⁴ Printed from a copy which bears this stamped signature.
29. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalajarvi) to the Under Secretary of State (Hoover) ¹


SUBJECT

Export of Agricultural Products to the Soviet Union

Problem

Your memorandum dated March 16 ² to Mr. Murphy requests a statement and recommendation respecting the Department’s policy with regard to the export of U.S. agricultural products to the Soviet bloc.

Discussion

This request presumably grows out of the Secretary’s query as to whether or not this is the time to deny U.S. agricultural commodities to the Soviet bloc since there is evidence of food and agricultural difficulties in those countries.

Present U.S. policies have been evolved over several years and have given consideration to the following elements: (a) security considerations inherent in our East-West trade policies; (b) the disposal of U.S. surplus commodities abroad under PL 480; (c) possible subsidized sales for cash or in barter transactions to unfriendly countries; (d) the immediate agricultural situation in the Soviet bloc and its prospective condition over a longer period of time; and (e) the advancement of U.S. foreign policy objectives through courses of action related to the agricultural situation in the Soviet bloc.

1. U.S. economic defense policies are set forth in NSC 152/3 ³ and in general permit commercial exports of nonstrategic goods, subject to appropriate licensing, to the Soviet bloc. Basically, there are no prohibitions against the export of U.S. agricultural commodities to the Soviet bloc under the NSC paper. Nevertheless, there are certain special provisions of law and policy covering and inhibiting

¹ Source: Department of State, E–CFEP Files: Lot 61 D 282A, Surplus Agricultural Commodities—CFEP 502. Secret. Drafted by John E. Mellor of the Economic Defense Division and sent through Deputy Under Secretary Murphy. Concurred in by the Bureau of European Affairs, the Offices of Eastern European Affairs and European Regional Affairs, and the Assistant Legal Advisor for Economic Affairs.
² Not found in Department of State files.
³ “Economic Defense,” November 6, 1953, adopted at the 169th NSC meeting, November 5, 1953, in NSC Action No. 951, and approved by President Eisenhower, November 6, 1953. (Department of State, S/S–NSC Files: Lot 63 D 351)
the export of agricultural commodities to the bloc. These special provisions are set forth in Tab A.

Of course, trade with Communist China and North Korea is totally embargoed, and this prohibits among other things any trade in agricultural commodities with these two areas.

2. The CFEP is making an intensive survey and review of U.S. economic defense policies and programs for the NSC. This review is scheduled for completion on June 30. Meanwhile, existing policy as set forth in NSC 152/3 is being followed. It would be premature to anticipate any modifications in that policy at this time.

3. The review referred to in paragraph 2 above will cover trade in agricultural commodities between the free world and the Soviet bloc, and OIR is in the process of an assessment of the basic considerations involved. This assessment will be the basis of a determination of what our immediate and longer range policies should be with respect to trade in agricultural commodities with the Soviet bloc. Presumably this will go to the heart of the question of whether the U.S. should either further restrict or encourage the export of its agricultural commodities to the bloc.

Conclusion

The intensive review not being conducted by the CFEP is directly pertinent and responsive to the Secretary’s question, and is being conducted as expeditiously as possible. (The Intelligence study alone on which considerations must be based has been given high priority and will be ready about the middle of May.) Therefore, barring crisis situations and overriding developments, it would seem desirable to permit the study to move ahead as expeditiously as possible and meanwhile to withhold judgment on the desirability of a complete embargo on agricultural exports to the European Soviet bloc. The modest character of U.S. agricultural trade with the Soviet bloc as indicated by the figures in Tab A would seem to demonstrate that no serious damage could result from such course of action.

[Enclosure] 4

SPECIAL PROVISIONS RELATING TO THE EXPORT OF AGRICULTURAL COMMODITIES TO THE SOVIET BLOC

Total U.S. exports to the entire bloc in 1953 were valued at only $2 million, three-quarters of which consisted of tobacco products

4 Secret.
and wool rags. In 1954 total exports were valued at $6 million. Over
$3 million of this comprised flood relief shipments of agricultural
surpluses to East Germany, Hungary and Czechoslovakia, $0.5 mil-
lion was in tobacco products, another $0.5 million in inedible tallow,
and over $1 million in wool rags.

Exchanges of government-owned agricultural surpluses for stra-
tegic materials with the bloc in barter deals appear, at least for the
present, to be ruled out by a Justice Department legal opinion of
February 21, 1955. Sales for local currency under PL 480 cannot be
made because of the provisions of that law.

Direct dollar sales of surpluses acquired from government-
owned stocks by private traders, where the sales price is less than
the government’s investment, have been disapproved on policy, not
legal, grounds. This policy was fixed in January 1954 when the
Cabinet decided not to permit licensing of butter exports to the
Soviet bloc on the grounds (1) that the U.S. should not sell this
commodity at a loss, and (2) that adverse public reaction would
follow the sale of butter to the USSR at a price below that paid by
American housewives.

In February 1954 the Cabinet further decided “as a matter of
policy to deny commercial export license applications for the export
for cash of U.S. Government-owned surplus agricultural or vegetable
fibre products to Russia or her satellites.” At that time the Cabinet
agreed that there would be no objection to bartering perishable
agricultural surpluses to the bloc in exchange for strategic minerals.
At the present time, however, barter exchanges appear to be pre-
cluded, in view of the Justice Department opinion of February 21,
1955.

This would leave only two theoretical possibilities for the export
of agricultural products to the bloc. The first possibility is in the
area of private transactions involving products acquired from com-
mercial stocks. Such transactions have not been of interest to the
bloc, as may be noted from the figures cited above.

The remaining possibility would be direct government-to-gov-
ernment sales for dollars. Such sales are legally permissible, but they
have not been affirmatively declared to be desirable on policy
grounds; and the NSC decided in April 1954 that, in the event of
such transactions, there must be a clear advantage to the U.S. and no
material injury to the trade of friendly countries.

5 Memorandum from Rankin to Morgan, not printed. (Ibid., Central Files, 460.509/
3–855)
30. Memorandum From the Director of the Office of British Commonwealth and Northern European Affairs (Raynor) to the Assistant Secretary of State for European Affairs (Merchant) ¹


SUBJECT

Escape Clause Action on Bicycles

The following information is based on a check made with the White House by E yesterday:

The White House has now received, through the Budget Bureau, the comments of the five principal interested agencies on the recommendations of the Tariff Commission. State recommended that the Commission’s recommendations be turned down. FOA has taken the same line as State. Defense and Treasury have recommended deferring action until there have been further developments on the grounds that the time has been too short to enable a judgment on injury to be made satisfactorily. Commerce has agreed with the Tariff Commission that there is injury and has recommended acceptance of the Commission’s recommendations except that Commerce would recommend an increase of 100% (instead of 200%) on lightweight bicycles.

According to E, the White House has not gone into the reports from the agencies. They have expressed the hope to a member of Dr. Hauge’s staff that the matter would be considered as soon as possible.

Neither Mr. Corse, Chief of TAD, nor Mr. Weiss, who talked with Dr. Hauge’s office, is accessible this morning, so the above information has been obtained at second hand. Tom Beale will be in touch with one or both of them this afternoon to find out whether there is anything that can usefully be done to expedite White House consideration of the problem.

¹ Source: Department of State, Central Files, 411.006/4-2055. Secret. Drafted by Wilson T.M. Beale, Officer in Charge of U.K. and Ireland Affairs.
31. Memorandum From the Deputy Director of the Office of British Commonwealth and Northern European Affairs (Beale) to the Assistant Secretary of State for European Affairs (Merchant) ¹


SUBJECT

Escape Clause Action re Bicycles

I understand that you and Mr. Waugh are to see the Secretary to urge him to take this matter up personally with the President following the Secretary’s letter of April 12. ² The problem will probably come to the President’s attention during the Secretary’s absence.

The most important aspect of this case seems to us to be not the potential damage to the European bicycle industry, but the fact that the Europeans generally regard it as a crucial test of our future trade policy. The British have made this abundantly clear on several occasions; they invariably stress the effect of an adverse decision on all British exports. The Europeans joined in the OEEC resolution of March 25 which states in part that approval of the Tariff Commission recommendation so soon after the Swiss Watch case, “to increase protection against goods of special interest to European exporters and in which they show competitive efficiency would not fail to have widespread repercussions on the confidence and initiative of all exporters and potential exporters of European goods to the U.S. market”.

If we revert to protectionism in this case, the pressure on other countries to move in the same direction will be greatly increased. Such a trend would run counter to all that we have advocated in the field of economic policy for Europe since the war.

¹ Source: Department of State, Central Files, 411.006/5-355. Confidential.
² Document 28.

32. Editorial Note

On May 11, President Eisenhower requested the Tariff Commission to update its figures and analysis of the bicycle case to ensure that the decline in domestic bicycle production indicated a persistent
trend instead of a temporary variation. The Commission’s report contained figures only through 1954. The President asked that the Commission provide data as far as possible into 1955 and estimate the industry’s prospects for the remainder of the year. He wrote that it was important to know whether the first quarter economic surge affected bicycle sales and to what degree the lagging profitability of the U.S. industry was the result of an inadequate response to shifting American preferences. He asked the Committee to submit its findings no later than July 15. For texts of the White House announcement and the President’s letter to the Tariff Commission chairman, see Department of State Bulletin, June 20, 1955, pages 1003–1005.

33. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Acting Secretary of State


SUBJECT

Request for President’s Approval of Results of Tariff Negotiations Involving Japan

Discussion

The tariff negotiations for the accession of Japan to GATT, which have been in progress since February 21, have been successfully completed. In these negotiations, 17 countries, including the United States, have negotiated reciprocal tariff concessions with Japan. The results of the negotiations, especially as concerns the balance of concessions obtained and granted by the United States, must be approved by the President before the United States negotiators can enter into an agreement embodying the concessions that have been negotiated. If the United States is to sign, Presidential approval must be sought promptly since United States authority under the Trade Agreements Act expires on June 11.

1 Source: Department of State, International Trade Files: Lot 76 D 75, Memoranda to the President, January–June 1955. Secret. Drafted by Potter and concurred in by 10 other offices or bureaus in the Department.
In an enclosed memorandum from the Acting Chairman of the Interdepartmental Committee on Trade Agreements, the results of the negotiation are described in detail (Tab B). A memorandum for your signature transmitting this material to the President is attached (Tab A).

The negotiation between the United States and Japan, after an initial setback caused by Japanese misunderstanding of the negotiating techniques, proved very substantial and entirely satisfactory. The United States negotiators were able to obtain Japanese tariff bindings or reductions (chiefly the former) on goods of which United States exports to Japan in 1953 were valued at $395 million. In exchange we granted concessions binding or reducing United States tariffs on goods of which imports from Japan were valued in 1953 at $123 million.

The tariff negotiations between third countries and Japan were considerably less comprehensive than our own, even though we intervened, where feasible, to expand the scope of such negotiations by offering to make up to the third countries compensation Japan could not provide. The decision of the United Kingdom not to participate in the negotiations, taken early last November, made the smaller European countries hesitant to negotiate especially since France took the same attitude. As a result the important Benelux countries reversed an earlier decision and did not negotiate with Japan. The United Kingdom’s later public announcement, in mid-April, that it would not accept GATT rights and obligations with Japan intensified the difficulty. Moreover, since most of the countries that did negotiate have little trade with Japan or buy more from Japan than they sell to it, the possibilities for meaningful tariff concessions were limited.

A good beginning in helping to expand Japan’s trading opportunities has nevertheless been made in the third country negotiations which cover approximately an additional $13 to $14 million of Japan’s export trade. More importantly, we anticipate that the negotiations will lead to a favorable vote by the two-thirds majority required to bring about Japan’s accession to GATT. With accession, Japan will be assured the very important benefits of guaranteed

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2 The Interdepartmental Committee on Trade Agreements, also known as the Trade Agreements Committee (TAC), was established on June 23, 1934, to make recommendations to the President on trade matters. Its membership included representatives from the Departments of State, Agriculture, Commerce, Interior, Labor, Defense, and the Treasury, the Tariff Commission, and later the International Cooperation Administration.

3 Not printed. The memorandum, signed by Acting Chairman of the Trade Agreements Committee Woodbury Willoughby, contained individual annexes detailing U.S. and Japanese concessions and third-country negotiations with Japan.

4 Not printed.
most-favored-nation treatment in all GATT countries except those which exercise their right to refuse GATT relations with Japan. This achievement alone means success in one of the important economic objectives which the United States has been seeking for Japan.  

Recommendation

That you sign the memorandum (Tab A) to the President transmitting the Committee’s recommendations.  

5 Japan became a full member of GATT on August 11, 1955, by unanimous vote of the contracting parties. The text of the “Accession of Japan to the General Agreement on Tariffs and Trade” is printed in Basic Instruments and Selected Documents, Fourth Supplement, p. 33.

6 The memorandum was signed by Acting Secretary of State Hoover on May 30, and the Committee’s recommendations were approved by the President on June 3.

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34. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Members of the Council  


SUBJECT

CFEP 529—U.S. Policy With Respect to the Disposal of CCC Owned Cotton

Your attention is invited to the attached paper by the Department of Agriculture concerning the sales policies for CCC owned cotton. This paper is distributed in connection with the briefing that Mr. James A. McConnell, Assistant Secretary of Agriculture, made to the Council on subject matter on May 31, 1955.

Paul H. Cullen
Lt. Col. USA

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1 Source: Department of State, E-CFEP Files: Lot 61 D 282A, Disposal of CCC-Owned Cotton—CFEP 529. Confidential. President Eisenhower established the Council on Foreign Economic Policy (CFEP) on December 11, 1954, to develop foreign economic programs and coordinate economic policy among the departments and agencies of the executive branch. He appointed Joseph M. Dodge the first chairman of the Council, composed of senior representatives of the Departments of State, the Treasury, Commerce, and Agriculture, and the Foreign Operations Administration (subsequently the International Cooperation Administration). The text of the President’s letter appointing Dodge as CFEP chairman is printed in Department of State Bulletin, December 27, 1954, p. 987.
[Enclosure]

SUBJECT

Review of alternative sales policies for CCC owned cotton

Facts bearing on the problem

1. Cotton is in serious surplus in the U.S. and 1955 production is limited to the minimum acreage permitted by law. Marketing quotas and acreage allotments, approximately 15 percent less than in 1954, are in effect for the 1955 crop. It now appears that the August 1, 1955, carryover will be about 10.7 million bales, the highest since 1946. Of that total about 6.5 million bales will be owned by CCC and 1.7 million bales will be under loan. The 1955 acreage is expected to be the lowest in 70 years. The objective of the Department of Agriculture in its over-all cotton production and distribution program is to reduce carryover stocks so that on August 1, 1956, they will be reduced to about 7 million bales. This would require the export of about 5 million bales. Failure to export 5 million bales would necessitate a further reduction of acreage below the extremely low 1955 acreage and would create a considerable degree of additional hardship among cotton producers.

2. Export of 5 million bales of cotton would be approximately equal to the 1948–51 average and would be substantially less than our pre-war share of world trade in cotton.

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<th>Cotton Exports—Million Bales</th>
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3. The President has enunciated the following as export sales policy: "The United States cannot be satisfied with the position of holding its own supplies off the market and accumulating surpluses while other countries dispose of their entire production. Accordingly, the United States will offer its products at competitive prices. At the same time the United States will not use its agricultural surpluses to impair the traditional competitive position of friendly countries by disrupting world prices of agricultural commodities."
1. It is essential that there be established an export sales policy for cotton for the 1955–56 marketing year. Current uncertainties are resulting in virtual world wide stoppage in the export movement in cotton. The Department of Agriculture has been subjected to pressures from all sides (producer, Congressional, trade, and foreign governments) for a policy announcement.

2. The 90% support price program of the United States has largely fixed the price level of world cotton. It has guaranteed that there will be no drastic declines in world cotton prices. Behind this price umbrella cotton production expanded greatly in the old cotton-producing countries and in many new producing areas of the world. While foreign acreage expanded, the acreage allotted to the United States producers was cut from 1953 plantings by 21 percent for 1954, and an additional 15 percent for 1955. In fact the United States producer has virtually borne the entire acreage reduction for the world. His sacrifice has maintained the world price at a high level, and encouraged foreign producers to expand acreage, and capture historical American markets in which he has been denied full participation because of his curtailed acreage.

(a) The result is that markets we have been generations in creating have been surrendered to foreign producers who have priced their cotton just under ours, with a resultant loss in grave proportions of the markets for American-grown cotton.

(b) A further incentive to expanded foreign production has been our technical and financial assistance programs to provide know-how, equipment, and irrigation projects to remove the production risks and create new production areas.

(c) The following table shows how the present U.S. policy is resulting in decreased production and increased stocks in the U.S.:
Free World Supply Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>United States</td>
</tr>
<tr>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td>1952-53</td>
<td>2.8</td>
</tr>
<tr>
<td>1953-54</td>
<td>5.6</td>
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<tr>
<td>1954-55</td>
<td>9.7</td>
</tr>
<tr>
<td>1955-56</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Production

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
</tr>
<tr>
<td>1951-52</td>
<td>15.2</td>
</tr>
<tr>
<td>1952-53</td>
<td>15.2</td>
</tr>
<tr>
<td>1953-54</td>
<td>16.4</td>
</tr>
<tr>
<td>1954-55</td>
<td>13.6</td>
</tr>
<tr>
<td>1955-56</td>
<td>28.6</td>
</tr>
</tbody>
</table>

Supply, free world total

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-52</td>
<td>39.5</td>
</tr>
<tr>
<td>1952-53</td>
<td>42.1</td>
</tr>
<tr>
<td>1953-54</td>
<td>45.8</td>
</tr>
<tr>
<td>1954-55</td>
<td>47.1</td>
</tr>
</tbody>
</table>

3. The 90 percent support price program, and our withholding policy, have not only protected the domestic and foreign cotton prices, but the system has also protected the American and foreign synthetic industries, particularly the rayon industry, which by pricing their commodity just under the price of cotton, have made great inroads into cotton consumption both in the United States and abroad. 1954 world consumption of synthetics in cotton equivalents amounted to about 10 million bales. (U.S. portion of this was about 3.5 million bales.) The result has been to further decrease the consumption of American cotton, which has made additional contributions to the present low cotton-acreage allotments. Unless it is changed the present program will in the future cause further decreases in the consumption of American cotton. Under existing law, with continued increases in production per acre in the United States, this would necessitate additional cuts in acreage allotments that would be still more disastrous to individual producers and areas of the Cotton Belt.

4. Even under the Agricultural Act of 1954, there is not much chance to obtain a significant cut in the price support level. Various provisions of legislation serve to maintain the support price level at 90 percent of parity.

5. World trade in cotton has been running about 12.5 million bales per year. Pre-World War II we exported from 5 to 7 million bales per year. If we export 5.0 million bales this would be only about 40 percent of the world trade in cotton. This is less than our

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2 Estimated. [Footnote in the source text.]
average during any representative pre-war period and could be well
defended against any criticism from other exporting countries.

6. If U.S. cotton stocks were to be withheld from the market to
satisfy foreign policy objectives, the burden should be borne, not by
the U.S. cotton producers, but as a foreign policy expenditure of the
U.S. To withhold these supplies would enable all other exporting
countries to dispose of their entire output at maximized selling
prices, while the U.S. producers would be required to cut production
further and sacrifice additional costly investments. We do not be-
lieve that the U.S. could be satisfied to be a residual supplier.

Alternative disposal programs

1. Continuation of present policy of selling cotton at no less
than the higher of (1) 105 percent of current support price plus
reasonable carrying charges, or (2) the market price as determined by
CCC.

2. Subsidizing exports of cotton or some other form of two-price
system.

Legislative changes in support program deemed essential

1. Changes the standard quality of Upland cotton for purposes
of parity and price support from Middling 7½'s inch to Middling 1
inch.

2. Eliminate Section 101(b) of the Agricultural Adjustment Act
of 1949, as amended, and add the words "cotton and peanuts" to
Section 101(a) of this Act. This would permit adjustments in the
support level as a percentage of parity below 90 percent when the
supply percentage is above 102 percent rather than 108 percent as is
now permitted.

35.       Message From Prime Minister Eden to President
          Eisenhower


            DEAR MR. PRESIDENT: I must approach you about two decisions
which are causing us much concern here and which I understand

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1 Source: Department of State, Presidential Correspondence: Lot 66 D 204, Eden
may be shortly taken in the United States. One concerns the awarding of further contracts for the Chief Joseph Dam, and the other is in regard to the application for increased duties on bicycles.

It is my earnest hope that it will be possible to avoid any action in these cases which would run counter to the liberal trade policies we have both been pursuing. Any such action would, in my sincere view, be likely to cause quite disproportionate harm in this country and in Western Europe. Adverse public reactions here and in Europe must hinder the efforts we are all making to expand trade both ways with the United States.

My colleagues and I have been much encouraged by your success in getting the recommendations of the Randall Commission accepted. The first fruits of this have been the renewal of the Reciprocal Trade Agreements Act for a further three years. I do feel, however, that any action, especially at this time, which would throw doubt upon the determination of your great country to pursue liberal trade policies would go far to destroy hopes in the free world which no one has done as much as you to build up.

I know how difficult these questions can be but do please help us in these two issues if you can.

Yours ever,

Anthony

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2 The English Electric and Export Company was currently bidding for the contract to install six generators and three transformers for the Chief Joseph Dam in the United States.

3 The Commission on Foreign Economic Policy, commonly called the Randall Commission after its chairman Clarence Randall, was established on August 7, 1953, by enactment of the Trade Agreements Extension Act of 1953 (Public Law 215). Composed of representatives from both the Executive and Legislative branches, the Commission undertook a broad review of recent U.S. foreign economic policy, publishing its Report to the President and Congress in January 1954. Documentation on the formation and activities of the Commission is printed in Foreign Relations, 1952–1954, vol. 1, Part 1, pp. 49 ff.

4 President Eisenhower cabled the following response to Prime Minister Eden on July 1: "I shall, of course, give sympathetic consideration to your letter. Possibly I can do something that you will at least partially approve. I hope so." (Department of State, Presidential Correspondence: Lot 66 D 204, Eisenhower to Eden, 1955–1956, vol. 1)

5 Printed from a copy which bears this typed signature.
36. Letter From the Secretary of Agriculture (Benson) to the President


DEAR CHIEF: The Government now has before it a proposal to adjust upward the tariff on foreign-made bicycles (Investigation #37 of the Tariff Commission).

We feel that the imposition of higher tariffs on the imports of bicycles will cause serious injury to the American farmer.

Four of the principal exporters of bicycles to the U.S. are the United Kingdom, West Germany, France, and the Netherlands. Last year these countries combined sold about $20 million worth of bicycles to the U.S. They bought over $1 billion worth of farm products from the U.S.

The bicycle case under current consideration is attracting considerable attention in Europe, particularly in the United Kingdom and West Germany. Early in June, Assistant Secretary of Agriculture Earl Butz was in London, Bonn, and Paris, where he was in conference with high government officials in the Ministries of Agriculture, Commerce and Finance, relative to liberalization of trade restrictions against U.S. farm products being imported into those countries.

Assistant Secretary Butz reports that top government officials in London and Bonn, particularly, are quite perturbed over the possibility that U.S. tariffs on bicycles will be increased. These people probably have blown the bicycle case up out of proportion to its real importance. However, they are watching our action on it with keen interest. The foreign press is discussing it. They feel this is a special market in the U.S. which the British and the West Germans have developed themselves, and which the American manufacturers now want to take over. They feel the action we take in this case will demonstrate our sincerity (or lack of it) in our efforts to liberalize trade on a mutually beneficial basis.

Upon his return to the United States, Assistant Secretary Butz stressed with me his firm conviction that an upward adjustment in

1 Source: Department of State, Central Files, 411.004/7-1155. Assistant Secretary Butz, who prepared this letter for Benson's signature, forwarded the draft to the Secretary with the following handwritten note: "This letter is written at suggestion of Gabe Hauge, with whom I discussed the European reaction to bicycle tariff. He feels the letter will help him 'hold the line'. I cannot overstress the importance of this." (Agriculture Department Records, Office of the Secretary, Foreign Relations 3) Copies of the letter were sent to the Secretaries of State and Commerce, to White House advisers Hauge and Randall, and to Gwynn Garnett, Administrator of the Foreign Agricultural Service. The Department of State copy was forwarded to Under Secretary Hoover on July 12 and was acknowledged in a letter from Hoover to Benson, July 19 (Department of State, Central Files, 411.004/7-1155)
bicycle tariffs at this time would seriously impede our efforts to obtain liberalization of existing restrictions against import of agricultural products into the United Kingdom, West Germany, and France. We would be very much concerned, therefore, if action taken in this matter should adversely affect our growing agricultural trade with the countries involved.

Faithfully yours,

E.T. Benson

2 Printed from a copy which bears this stamped signature.

37. Editorial Note

On July 14, the Tariff Commission submitted its supplementary report on bicycles to President Eisenhower. A majority of the Commission held that domestic bicycle sales continued to deteriorate and that escape clause relief remained justified. In a memorandum of discussion with the President, July 27, Secretary Dulles recorded: “We discussed the bicycle case and I reminded him of Eden’s note on the subject and his reply. He said he was perplexed about what to do. He thought it was difficult for him to avoid the finding of the Tariff Commission that there was substantial injury due to imports and he did not see how he could avoid it on ‘security’ grounds because no security interests were involved.” (Eisenhower Library, Dulles Papers, Meetings with the President, June–Dec. 1955)
38. Memorandum of a Conversation, Department of State, Washington, July 14, 1955

SUBJECT
Agriculture Department decision on 1955–56 cotton export price policy

PARTICIPANTS
Assistant Secretary of Agriculture McConnell
Assistant Secretary Waugh
Mr. Nehmer, IRD

Mr. McConnell visited Mr. Waugh to tell him of his conclusions on the question of the U.S. Government cotton export price policy for the coming marketing season beginning August 1. Mr. McConnell said that considering the attitude of Congress on this question, the Executive Branch had to take action or else legislation would be passed at the next session of Congress which would be much worse than what the Executive Branch could do at this time. Accordingly, he said, Agriculture planned to put out a press release shortly which would say that the United States was going to be competitive in its exports of cotton and that no commitment would be made with regard to an export subsidy during the coming cotton year. Then, he said, about August 1 the Commodity Credit Corporation would make an announcement that it will sell its stocks for export on a competitive bid basis. Mr. McConnell said that the program would be so administered by the Agriculture Department that foreign producers should have no fear because world market prices would not be seriously disrupted through this arrangement.

Mr. McConnell said that he envisaged the task of reducing CCC's cotton stocks to be a three-year job. He said he expected that within two years U.S. cotton producers would be forced to accept a reduction in price supports on cotton of perhaps five or six cents. In the meantime he expected a bill such as the Ellender Bill to be enacted at the next session of Congress which would change the basis for cotton price supports from $\frac{7}{8}$" to $1"$ cotton, and thereby reduce supports by two to three cents.

Mr. Nehmer asked Mr. McConnell whether bids would be accepted only if they are at or above the support level. Mr. McConnell said that bids would be accepted below the support level if necessary. Mr. Nehmer then said that considering the fact that the world supply of cotton was so much in excess of the world demand,
it would appear that the Agriculture Department program would have the effect over a period of time of bringing down world cotton prices. Mr. McConnell said that this would not result because Agriculture did not plan to administer this program in that way. He repeated the point that foreign producers would not have to worry about this program.

Mr. McConnell said that a bigger problem than the question of complaints from foreign producers was the possibility of complaints from the domestic cotton textile industry because the program would involve making raw cotton available to foreign textile mills at a lower price than to domestic mills, and therefore, placing foreign mills at a competitive advantage over domestic mills. Mr. McConnell said that probably what was needed here was either a negotiated understanding with the Japanese Government that they would keep down their cotton textile exports to the United States or Section 22 action on cotton textile imports. Mr. Waugh said that the problem of the American cotton textile industry was certainly a very serious one but that he hoped that restrictions on imports of cotton textiles could be avoided. Mr. Nehmer asked Mr. McConnell if it would be preferable to make raw cotton available to U.S. mills at the export price to the extent of the domestic mills' requirements for raw cotton for the production of cotton textiles for export, instead of limiting cotton textile imports. He said that he did not know if the Agriculture Department had legislative authority to do this. Mr. McConnell agreed that Mr. Nehmer's suggestion might be preferable to import quotas on cotton textiles. He thought Agriculture did have the legislative authority.

Mr. Waugh asked Mr. McConnell what the timing was with regard to an announcement by the Agriculture Department. Mr. McConnell said that he had hoped to have an announcement out on Monday; however, he said, he recognized the fact that there was going to be a tremendous clearance problem involved in getting such an announcement out. Mr. Waugh asked Mr. McConnell if the State Department could have a look at the draft press release since it would be most desirable, considering Mr. McConnell's assurances that world prices would not be reduced significantly, that words be used in the release to allay the fears of foreign governments and foreign cotton producers. Mr. McConnell agreed that a release would be shown to Mr. Waugh for State Department comments. He said, however, that he would not wish to see any words used which would have the effect of committing the Agriculture Department in advance not to do various things with regard to selling our cotton. He promised to get a draft release to Mr. Waugh.

Mr. Nehmer asked if Mr. McConnell planned to discuss this question in the Dodge Council. Mr. McConnell replied that he saw
Mr. Dodge at the White House earlier in the day and he gathered that the Agriculture Department was under a commitment to discuss it again in the Dodge Council.

Mr. Waugh thanked Mr. McConnell for coming to his office to discuss the problem.

39. Minutes of the 24th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, July 20, 1955, 4 p.m. ¹

ATTENDANCE


[Here follows discussion of United States policy regarding the export of rice to Asia (CFEP 505).]

CFEP 529. U.S. Policy With Respect to CCC Owned Cotton.

1. Agriculture presented for Council consideration a proposed public statement about the sale of CCC owned cotton during the marketing year starting August 1, 1955. The statement was to the effect that the U.S. would establish a two-price system whereby CCC cotton would be sold for export at competitive world prices (without any fixed price or quantity stated) while the minimum price at which it would be sold domestically would remain at the higher of (1) 105% of the current support price plus reasonable carrying charges, or (2) the domestic market price, as determined by CCC.

2. Agriculture emphasized that the CCC was expected to own about 6.4 million bales of cotton on August 1, 1955 out of a total carryover of 10.7 million bales while on the same date last year the CCC owned 1.75 million bales out of a carryover of 9.7 million bales; the CCC will acquire an additional 1.6 million bales on November 1, 1955 from the 1954 crop; the 1955 crop which is expected to be large, will soon begin to come on the market; current U.S. exports are less than last year; the international price was about

3 cents less than the domestic price; the price was weak due to uncertainty about U.S. policy on export sales as a result of large and growing U.S. stocks overhanging the market. Agriculture's proposal was to take off the established U.S. policy not to sell cotton abroad below the domestic price; to sell abroad in an orderly manner; not to meet lowest market offers; to assume the Congress will act (Eastland \(^2\) or Ellender Bills) to adjust cotton price supports, but if this was not done the international price would have to be restored to the domestic price level.

3. The discussion revolved around the following problems:

a. The U.S. one-price system on cotton has been in effect about 9 years. The proposal is a reversal of established policy and is a reentry into an export subsidy system for cotton.

b. A highly processed product rather than a direct consumption product is involved.

c. There would be discrimination against domestic textile consumers and producers in favor of foreign producers and consumers. Domestic producers have a large capital investment and employment.

d. Undoubtedly action would be taken by domestic textile producers for relief under Section 22 of the Agricultural Adjustment Act or Section 7 of the Trade Agreements Extension Act against imports manufactured from the cut-rate cotton made available to foreign producers. There probably would be a demand that the President use the Cordon Amendment to establish an emergency quota on cotton textile imports, pending the Tariff Commission investigations. Increased demands for import quotas on other manufactured products would be encouraged.

e. There is a conflict with U.S. policy as established by H.R. 1, in that the proposal would produce results contrary to its objectives and the President's foreign trade program.

f. The world market price of cotton would be established by the U.S. export price. To maintain their markets, foreign cotton producers could and would have to meet any price. No U.S. floor price being proposed, a price war is possible for which the U.S. would be blamed.

g. There could be no certainty of substantially increased cotton exports except by an attack on the world markets resulting in a curtailment of foreign production. It would be necessary to adopt the export subsidy policy permanently and go all the way on price reductions and subsidies. If this is not implicit in the proposal the announcement would be merely a gesture.

h. Re-entry into subsidized cotton exports could have a substantial and adverse effect on foreign producers and exporters and seriously disturb U.S. relations with them (viz. Egypt, Turkey, Pakistan and others).

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\(^2\) Presumably S. 2123, introduced on June 1, 1955, by Senator James O. Eastland (D-Miss.), which amended marketing quota and price support provisions applicable to upland cotton.
i. Export subsidies would not answer the fundamental problem of a support price that has tended to price U.S. cotton out of the world market.

j. The proposal would make it more difficult to return to competitive prices, and is not likely to encourage the Congress to take appropriate action to lower cotton price supports.

k. There are possibilities of increasing cotton exports without adopting a two-price system through the more aggressive use of P.L. 480, the Mutual Security program and other means.

4. At the conclusion of the discussion, the Council voted on the proposal by Agriculture to adopt a two-price system for subsidizing cotton exports. The proposal was rejected by all of the members or their representatives present with the exception of Mr. McConnell, the Agriculture representative, who supported the proposal, and Dr. Davis, representing Dr. Burns, who took no position.

[Here follows a briefing on the results of the GATT intersessional meeting and the Chairman’s request for papers on international commodity agreements.]

Paul H. Cullen
Lt. Col., USA

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3 The Agricultural Trade Development and Assistance Act of 1954, enacted July 10; for text, see 68 Stat. 454.

40. Memorandum of a Telephone Conversation Between the President and the Secretary of State, Washington, August 1, 1955, 10:13 a.m.  

The Pres. referred to this cotton thing—he did not realize the heat in it. He just had 60 Senators and Congressmen in—they are our friends as well as otherwise. We have to study this to see if we can ease up the situation a little bit. The Pres. is telling Benson to go back to Dodge’s Comm. and then go to the Sec. The Pres. said State has to look at it in a slightly larger view than we must not hurt anyone’s feelings at all. The Sec. objected to the implication in the above and said this program of Benson’s was voted down 8–1 in the Dodge Comm. The Pres. told the group we have to take a look at it—he said if you take friends away in the foreign field, you will

1 Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Transcribed by Phyllis D. Bernau, personal assistant to the Secretary of State.
pay more. They are now comparing our Administration unfavorably with the past one. The Sec. said State gets the rap on these things. The Pres. wants something that will alleviate the situation and lead us in the right direction. Anderson\(^2\) said he disposed of 7 million bales of cotton without disturbing the market.

[Here follows an unrelated topic.]

\(^2\)Reference is to Senator Clinton P. Anderson (D-N.M.), former Secretary of Agriculture from June 1945 to May 1948.

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41. **Letter From the Secretary of State to the President**\(^1\)

*Washington, August 2, 1955.*

DEAR MR. PRESIDENT: I attended, for a short time this morning, the meeting at Secretary Benson’s office to discuss the cotton matter. Mr. Hoover was with me and also Secretary Humphrey and Secretary Weeks were there.

I tried to make clear that we in the State Department are working for the United States just as much as is anybody else and that I did not like it when it was intimated to Congress, as it so often is, that we were primarily concerned with pleasing foreign interests.

I said that if, for example, there was a projected cotton policy which would gravely disrupt the economy of Mexico and which, because of its effect on Pakistan and Egypt, would jeopardize the oil situation in the Middle East, then I thought there was a duty to point that fact out. If it was decided nevertheless to go ahead I would, of course, abide by that decision.

In the present case the Agriculture Department policy was, as you know, opposed by all of the other agencies represented on the Dodge Committee. It was very strongly opposed by Secretary Humphrey and Secretary Weeks. However, it is convenient for the Department of Agriculture people, at the lower level, to concentrate blame on the State Department. I told Secretary Benson that I thought that ought to stop. He agrees but admits that it is easier said than done.

Dr. Hauge who was present will tell you about the substance of the meeting.

\(^1\)Source: Eisenhower Library, Whitman File, Dulles–Herter Series.
I stopped in to see Senator George at his apartment last evening and we had quite a lengthy and very intimate talk. Although our talk covered many things, he did not once mention cotton.

Faithfully yours,

JFD

42. Minutes of a Cabinet Meeting, The White House, Washington, August 5, 1955, 9:30 a.m.—12:15 p.m.¹

THE FOLLOWING WERE PRESENT:

President Eisenhower

Vice President Nixon
Sec. Dulles and Under Sec. Hoover
Sec. Humphrey
Sec. Wilson
Atty. Gen. Brownell
PMG Summerfield
Under Sec. of Interior Davis
(for Sec. McKay)
Sec. Benson
Sec. Weeks
Sec. Mitchell
Sec. Folsom
Director Hughes
Dr. Flemming
Chairman Young
Amb. Lodge
Dr. Burns

Gov. Adams
Gen. Persons
Gov. Stassen
Mr. Anderson
Gov. Pyle
Mr. Shanley
Mr. Morgan
Mr. Harlow
Dr. Hauge
Mr. Snyder
Mr. Rabb
Mr. Patterson

[Here follows discussion of budget policy for fiscal year 1956 and the President’s State of the Union message.]

US Policy with Respect to CCC-owned Cotton—The Secretary of Agriculture opened the discussion of this subject by reminding his colleagues that under the law he has the responsibility and legal authority to dispose of agricultural surpluses. He pointed out that the proposal he would make to dispose of some of our cotton surplus ought to be accepted and implemented now in order to avoid much more drastic and unacceptable action by the Congress later. If

¹Source: Eisenhower Library, Whitman File, Cabinet Meetings. Confidential. Prepared by Bradley H. Patterson, Jr., Assistant to the Secretary to the Cabinet.
we say we will never make a move if it adversely affects any nation, then we will never get rid of any of our surpluses. We have disposed of a great deal of surplus goods already and most of them have gone abroad. If we don’t make some kind of move now we will be faced, during the next session of Congress, with a law which will undoubtedly set up a permanent two-price system for cotton, and representatives of the cotton and wheat states will form an alliance to get such a law written. Naturally, the last thing we want is a permanent export subsidy on wheat and cotton. Stories are being spread that this Administration is dedicated to Big Business and that Agriculture is not important. In the last session of Congress we got 90% of what we wanted—in the Agricultural Adjustment Act of 1954. Because of certain gimmicks in the law, however, cotton price supports themselves could not be changed.

Mr. Benson stressed we have now made progress in getting the public to understand that high rigid price supports are evil. We even find some leaders saying that the 90% price support is hurting the cotton industry. Now, it is up to us to show our good faith and help move some of the cotton now in storage. The Secretary felt that if we do this Congress will move at its next session to give us some legislation which will be permanently helpful. Mr. Benson then read the statement of Agriculture’s position on this subject (see attached) and a copy of the statement was at this time distributed to each person in the room.

The President inquired what was meant by the phrase “competitive prices”. The Secretary explained that this meant the process of bids which we reserve the right to reject if the prices are so low as to disrupt world markets. The resulting export price is, of course, usually lower than the domestic price. He reminded the President that the government is now exporting quite a sizeable list of surplus commodities at prices lower than domestic prices, but that we have refused to sell these commodities in ways which would disrupt world markets. The President reaffirmed that this was still Administration policy.

The Secretary summed up by saying that Agriculture wished to be authorized to move not more than a million bales of this low-grade cotton within the next marketing year—probably after the first of March, 1956.

In response to the President’s request for his comments, Sec. Humphrey explained that, from the short-range point of view, naturally Treasury would like to see us sell the surplus commodities and get our money out of them. In the long-range, however, the problem is essentially one of timing, procedure and method. If we

2 Not printed.
announce now that we are going to sell cotton at less than domestic prices, it will certainly frighten domestic textile producers who pay domestic prices and will be against the Administration basic trade policy. He pointed out that the growers who want an export subsidy for cotton have teamed up with the domestic producers who want import quotas on cotton textiles, and that what we are faced with is the double-barrelled pressure. He did not believe that much of this surplus cotton would move without wrecking world markets. It is true that we are losing cotton markets to other nations, and this is wrong; we should certainly fight this at some point. The method he proposed, however, was to go to the Congress next year with an urgent request for a reduction in the support price for off-grade cotton. If we get this law we can then sell this surplus abroad without starting a two-price system and without dumping. This would be preferable to making any announcement now that we are going to sell cotton, especially since the proposed sale would not take place until March, and we might also prejudice our chances of selling our regular export of 3½ million bales. Meanwhile, of course, we should continue to use every device to get rid of our surpluses under P.L. 480, etc.

When the President asked if fats and vegetable oils were examples of recent “dumping”, Mr. Stassen explained that world demand for fats went up just as we started to put these commodities up for sale, so that we were just lucky with respect to them.

Mr. Benson stressed that to announce our selling policy now would serve notice to the world that we are not going to sit by and continue to lose our fair share of world cotton markets to foreign competitors. Mr. Humphrey still objected to making the announcement five months ahead of time, and then commented that we are in the strange position of having, through technical assistance programs, taught people all over the world how to raise cotton more efficiently and even supplied them the tractors with which to grow it. The Secretary of Agriculture emphasized again that we will not permit this million bales to disrupt world markets and that in disposing of surplus commodities to date, no markets have been disrupted yet. He questioned the cited alliance between the farmers and mill operators, and pointed out that they have promised us they will help support legislation which will get support prices down. Mr. Stassen made the suggestion that we get some of the other cotton producing countries to limit their production as we have limited ours.

Sec. Weeks stated the case of American business men who would, paying domestic cotton prices, find themselves completely undercut by foreign textile mills who could buy US cotton cheap and sell the cheaper finished product in the United States. The
Secretary of Agriculture commented that we are doing this to all sorts of commodities except cotton, and that many of them would come back in the form of finished goods if the price spread were too wide. He emphasized, however, that we will regulate the price differential in accepting the bids and will not allow the price disparity to be too much. He again emphasized that selling this million bales will help us get the support of Members of Congress, who are the only ones who can help us achieve a permanent solution to the problem of surplus cotton. Sec. Weeks, however, pointed out that Japanese competition has made US business men very much afraid; an export subsidy for cotton will appear to them as just another advantage given to foreign producers.

The President asked for State Department comments, and Mr. Hoover read a statement (copy attached). He ended with the comment that this two-price system that we have has resulted in a virtual ban on the import of so many agricultural commodities into the US and that this import limitation caused us no end of trouble in negotiating GATT.

Sec. Benson commented that we would not expect to move any great quantities of cotton immediately, but that announcement of this course of action would tend to put a stop to world market expansion at our expense. He emphasized that what Agriculture was proposing was not a radical measure and that Agriculture would not have suggested it had we not insisted, with the Congressmen involved, that we had to have them tackle this problem of support prices. The sale of a million bales, he was convinced, was the surest route to the objective we all want without the threat of extreme legislation. It would be a token of our good faith, while the alternative would be a highly unacceptable law. The President commented that some sixty Senators signed Senator Thurmond’s bill for an out and out two-price system—this would be almost enough to override a veto.

Mr. Stassen suggested that we privately warn these other producing countries that, if they keep expanding at the expense of our markets, we would have to do something. Sec. Humphrey emphasized there were just two ways to solve this problem: either by an export subsidy, or by reducing our domestic support price on off-grade materials. He warned against our trying to do for cotton what Brazil did for coffee. This export subsidy technique broke Brazil and would in time break us, too. He renewed his proposal to say or do nothing now but make a determined fight in the Congress next year.

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3 Not printed. The statement reads in part: “The damage that can occur in our foreign relations would seem to be out of proportion to the increased amount of cotton that it is proposed to sell under this program.”
for new legislation. Mr. Weeks pointed out that there were many people even in the cotton industry who were against an export subsidy. Mr. Benson commented that many, however, were in favor of it. He assured his colleagues that Agriculture could terminate the sales overnight if necessary; they have that authority. Mr. Lodge expressed sympathy with Mr. Stassen’s suggestion about consultation with other countries. Mr. Benson explained that we routinely invite in the Agricultural Attaches of the interested countries—and further commented that even the Netherlands privately admits we will have to sell our dairy surpluses at less than world prices.

Under Sec. Hoover commented that Egypt has already cut back her acreage but other countries are not in a position to do this. In response to a question from Mr. Hoover about timing, Mr. Benson explained that we would make this announcement now but not sell the cotton until all the crop was in this year, i.e., next March. Mr. Hoover commented that the effect of this would be to keep prices depressed all over the world. The Secretary of Agriculture said he was convinced, however, that there would not be any great reaction if we announce only this modest program. He pointed out that other countries subsidize their cotton exports; Pakistan, for example, used as one of its reasons for devaluing its currency the helpful effect which this devaluation would have on cotton exports. Mr. Wilson asked if the cotton in storage deteriorated. Mr. Benson said it did not. Mr. Wilson then suggested that we offer some of this cotton on the domestic market at a cut rate. Mr. Humphrey pointed out that the law prevented us from doing this and that was the law that we wanted to get changed and thus be able, later, to sell off-grade material domestically at a low price. The Vice President queried whether we can really get through a law next session which would reduce the price support level. The President said he was not completely convinced that this particular sale would help that legislation. The Secretary of Agriculture pointed out that we are engaging in this type of sale with respect to every other surplus commodity except cotton—and now cotton presents us with the worst problem. Mr. Wilson asked about the feasibility of having long credit terms for export, and the Secretary of the Treasury pointed out that there may be dozens of ways to move cotton and still keep the prices up but one of our major problems is to dry up some of the foreign competition—and the only way to do that is to get the domestic price support level reduced.

The Vice President suggested that we announce (1) that our policy is to get the law changed in January, and (2) that at some time we are going to make some foreign cotton sales. This latter announcement might encourage other countries to reduce some of their cotton production.
The Secretary of Agriculture pointed out that if we go to the Congress and ask for new legislation, Congress will simply ask us what have we done under the authority we now have; we have sold everything else but cotton—why haven’t we sold cotton?

The President said we must get notice out to the world in some way that we are not going to sit back and lose all our cotton markets. He cautioned, however, against making an announcement now and taking all the disadvantages which would be provoked in our international relations while not being sure that we will get any advantages domestically or legislatively. Somehow, however, the world should be given the picture as we see it. While other countries’ cotton production is expanding we have reduced our acreage in order not to embarrass our friends abroad. Perhaps nothing more formal than a press conference statement should be used to put the world on notice—not as a statement of fixed policy but as a warning. The President then suggested that we abandon the practice of making a specific policy announcement about the cotton market. Messrs. Hoover, Benson, and Humphrey pointed out that while perhaps this was not a good position for the US to be in, the whole world, both importing and exporting countries, was nevertheless waiting tensely for the US marketing policy announcement which was actually due a month ago. Mr. Humphrey pointed out that with eleven million bales of cotton in surplus we are the market. He suggested that, in announcing our prices for this year, we should say we are going to the Congress in January and ask for a cut in price supports. Mr. Benson commented that people already know that this is our policy.

The Secretary of Commerce felt that if we could hold out for four or five months more, we could get some legislation which would finally help us. The President commented that this was not the temper of the group who came to see him last week in his office about this very subject. When he had suggested to them that the real solution was to reduce the 90% price support, he didn’t get a single bit of support from that group. Even so conservative a Senator as Mr. Russell⁴ said he was in favor of a two-price system. Mr. Benson repeated his belief that the President would have a two-price bill on his desk next year unless we make some token move of cotton now. Mr. Hoover commented that a two-price system for other commodities was not the same as that for cotton, since the other surplus commodities do not “rebound” to the same extent in the form of manufactured imports.

The President mentioned that Senator Anderson told him that he had disposed of seven million bales of cotton when he was

⁴ Senator Richard B. Russell (D-Ga.).
Secretary of Agriculture—without even making a ripple in world markets. The Secretary of State asked if it was not one of the objectives of this proposal to make a ripple in world markets in the sense of putting the world on notice that the expansion of foreign cotton production at our expense has got to stop. Unless this proposal makes a splash, so to speak, it will not have the beneficial effect of preventing some of that foreign expansion. The Secretary of Agriculture said we simply want to announce to the world that we will sell cotton competitively and fairly—under controlled conditions. The Secretary of State again asked if this would be enough and done in such a way as to slow up foreign production. Mr. Benson said it would have that effect since the world knows that we have eleven million bales of cotton behind us. Mr. Hoover asked how much of a price spread Agriculture would expect between the domestic price and the export price. If it were something like 3½ a pound this would not disrupt markets very much but it also would not discourage very much foreign cotton acreage expansion. Mr. Benson commented that the cotton we hold is even over-priced domestically and thought that the export price would not be much lower than the domestic price.

The President commented that if we think we have a problem now, then just wait until next year when we will really have pressure from the Congress. He pointed out that we have been holding eight million bales of cotton up to now and we could continue to hold it. Announcing this new policy, however, would let the world know we are going to enter world markets competitively—but not with the whole eight million bales.

Mr. Humphrey summarized the problem as: finding the way which will most helpfully influence the development of constructive legislation. Perhaps, he said, we should export some of this cotton at a lower price and at the same time tell the American manufacturers there will be no import quotas. This would certainly arouse our domestic manufacturers to yell for changes in the law.

Returning to the question of how to make this announcement palatable, the President suggested that the State Department take the line that we are protecting our friends abroad against the threat of very harmful legislation; we are taking a step such as this now rather than being faced with something much worse later. Mr. Benson added that we could emphasize that we are selling only one grade and only a certain quantity.

The Secretary of State then stated that he was not so much concerned about what we said or how this was announced; his true point of concern was what would actually happen to the economies of Pakistan and Egypt, for instance, if these economies should fall into a tail-spin just at the time when neutralism is gaining ground in
the Near East. This would jeopardize the whole oil situation. If we handle this cotton export proposal in such a way as would not disrupt world markets, it will probably work out all right. He commented, however, that this conservative proposal will probably not achieve our objective of drying up foreign expansion. It would be unlikely that we would achieve this goal unless we engaged in a drastic dumping program. The Secretary of State said that as far as State was concerned he could live with the kind of proposal Sec. Benson had in mind.

The President asked if we could put a limit on sales in any one month. Mr. Benson replied that this might not be wise. Mr. Humphrey again summed up by pointing out that a combination of foreign export subsidy-import quotas would be wholly bad. A reduced support price and an increased participation in world cotton markets would be good, but that we would be voluntarily doing a little of the bad to achieve the good. The President commented that we ought to put US growers on notice that they should try to switch more from lower grades of cotton to the long staple grades where we have much less of an export problem.

The President then requested the Secretary of Agriculture to lay the question out in black and white for Cabinet next week in the form of a specific policy statement for the government to follow for one year and also, in the same document, a proposed press release which would be as persuasive as we can make it toward the climate of opinion we want to produce. Mr. Benson added that we could even say that we disfavor a policy of export subsidies.

The President explained that he was convinced that next year we might get very bad legislation which we might not be able to handle. The Secretary of Commerce said he could still bring forward evidence which would show that we would be better off by waiting until the first of the year. Secretary Dulles pointed out that he would very much like to see this laid out in writing. The President commented that perhaps we should call in some of the countries involved and talk frankly to them, thus giving our friends some preparation for what our policy may be.

It was agreed that Agriculture would draw up the paper requested by the President and would submit it to State, Commerce, and Treasury for comment during the week. The President said he wanted the document for press release in mild terms without any commitment to a two-price system. He ended the discussion by pointing out that every time the United States, it seems, tries to do anything to get its own economy back in shape, after the mismanagement of twenty years, foreign countries always set up a chorus of "this will break us"—even though we have given them millions in aid. For us to acquiesce constantly is to get ourselves in a complete
box. He closed the discussion by asking everybody to consider not only his own Department's particular views but all the pros and cons of Mr. Benson's proposal, remembering that we face a very hostile Congress on this subject.

[Here follows a section concerning the 1957 budget ceiling.]

Bradley H. Patterson, Jr.

43. Letter From the Secretary of State to the President


DEAR MR. PRESIDENT: The Department of State has considered the recommendation of the Tariff Commission that the duty on bicycles, both lightweight and heavyweight, be increased.

The foreign manufacturers of lightweight bicycles believe, with considerable basis, that they have not taken a market away from the American bicycle manufacturers but have developed a new market. They and their governments argue that this is typically a case when duties should not be raised to cancel out resourcefulness and inventiveness. They feel that, under these circumstances, an increase of duty must be interpreted as essentially a determination to follow a protectionist policy without regard to the equities of particular situations.

It is our opinion that, under these circumstances, an increase of duty on lightweight bicycles will be taken abroad as indicative of a protectionist trend in the United States and will provide a new argument for those in other countries who seek higher tariffs as against those who are seeking to reduce trade barriers.

In the case of the heavyweight bicycles, the same argument cannot be made. However, we should note that the principal exporter to the United States of heavy bicycles is the Federal Republic of Germany which the United States is now pressing for a reduction of duties on United States agricultural products. We feel that this effort has a good chance of success, although we cannot be certain of success. We do, however, feel that failure is almost certain at this time if the duty on heavy bicycles is increased.

Quite apart from this particular effort, we agree generally with the views expressed by Secretary Benson in his letter to you of July

1 Source: Department of State, Central Files, 411.004/8–1055.
11, 1955, that an upward adjustment in bicycle tariffs at this time would seriously impede our efforts to obtain liberalization of existing restrictions against imports of agricultural products into the countries which now manufacture and export bicycles to the United States, notably the United Kingdom, West Germany and France.

It should perhaps be noted that the United Kingdom, which is the principal exporter of bicycles to the United States, imports from the United States approximately $800,000,000 worth of goods a year, whereas it exports to the United States only about $500,000,000 of goods a year. The deficit is covered, presumably, by invisibles and triangular trades.

You will recall that Sir Anthony Eden has personally communicated to you the concern which would be felt in the United Kingdom if bicycle duties were increased.

The Department of State has also received strong representations on this matter from other governments concerned, i.e. West Germany, France, the Netherlands, Austria and Belgium.

These are the international and foreign affairs factors which you may want to weigh along with such other factors as may be involved.

Faithfully yours,

John Foster Dulles

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2 Document 36.
3 Printed from a copy which bears this stamped signature.
Minutes of a Cabinet Meeting, The White House, Washington, August 12, 1955, 9 a.m.\textsuperscript{1}

ATTENDANCE AT CABINET

The President

The Secretary of State
The Honorable Arthur Burns,
The Honorable Andrew N. Overby,
Assistant Secretary of the Council of Economic Advisers
Treasury
The Honorable Henry Cabot
Lodge, Jr., U.S. Representative
to the UN
The Secretary of Defense
The Honorable Harold E. Stassen
The Attorney General
The Honorable Sherman Adams
The Honorable Norman R. Abrams,
The Honorable Wilton B. Persons
Assistant Postmaster General
The Honorable Clarence A. Davis,
Under Secretary of the Interior
The Honorable True Morse,
Under Secretary of Agriculture
The Secretary of Agriculture
The Honorable Joseph Dodge
The Secretary of Commerce
The Honorable Herbert Hoover, Jr.,
Under Secretary of State
The Secretary of Labor
Dr. Gabriel Hauge
The Secretary of Health,
Colonel A. J. Goodpaster
Education and Welfare
The Director, Bureau of the
Mr. Murray Snyder
Budget
Mr. I. Jack Martin
The Director, Office of Defense
Mr. Bernard M. Shanley
Mobilization
The Honorable Nelson Rockefeller
The Chairman, Civil Service
Mr. Maxwell M. Rabb
Commission
Mr. Bradley Patterson, Jr.

[Here follows discussion of the Hoover Commission's recommendations on paperwork management.]

2. U.S. Policy With Respect to CCC Owned Cotton.

Mr. Benson opened the Cabinet's second discussion of this subject by summarizing several points:

1. Reports from abroad indicate that the expansion of foreign cotton acreage has been made at the expense of needed food and feed crops and that this has adversely affected the diet of some of the countries involved.

2. The cotton world expects the United States to become more competitive. (The Secretary at this point read excerpts from a magazine article to prove his point.)

3. There is some opposition to Agriculture's proposed course of action from some of the larger U.S. cotton producers—those who have spent a good deal of money to develop the foreign cotton industry.

\textsuperscript{1}Source: Eisenhower Library, Whitman File, Cabinet Meetings. Confidential. Prepared by Patterson.
4. We must let the world know that we are going to sell more competitively and fairly or else quit completely so that world markets will become stabilized.

5. A Canadian agent has recently said that he would buy four hundred thousand bales if the CCC would meet world prices. He has now gone to Mexico to make his purchase.

The Secretary of Agriculture said it was of course important that representatives of friendly nations be notified in advance of our intentions. He thought it was important that the announcement of this marketing policy be made when the world cotton markets themselves are not open. Ideally we should announce our policy this afternoon since both European and U.S. markets are closed. If necessary the announcement could come tomorrow.

The President mentioned that he had a telegram from Representative Martin warning that if we sold cotton more cheaply than CCC prices we must put quotas on cotton imports. Mr. Benson pointed out that such a small quantity is involved that quotas will not be justified. In answer to the President's question whether this million bales would depress the market, the Secretary said it would hardly put a ripple in it. He pointed out that foreign millers are even now getting cotton more cheaply from foreign growers than from the U.S.

Secretary Weeks reminded his colleagues that S. 2702, sponsored by Senator Eastland and sixty others, specifically calls for the imposition of quotas and that it is the understanding in the South that quotas will be a part of this "package." He warned of the misunderstanding when manufacturing people think that quotas are part of what is involved and we do not. He said he was sympathetic with Agriculture's desire to get rid of the surplus cotton, but that it is not really just to have foreign manufacturers given a better price on cotton than our own Government gives to domestic manufacturers. Secretary Weeks suggested that we wait until Congress comes back; we might get something helpful and beneficial all around—perhaps changing the pattern of supports.

Secretary Weeks also made the suggestion that we sell cotton at world prices to domestic manufacturers provided that they guarantee that the product of that cotton is sold only in the export market.

Secretary Benson said that this could not be done without new legislation and added that the Department of Agriculture would not look with disfavor on such legislation. He felt that the course of action advocated by Senator Eastland went too far but he was convinced that if we move now we have a better chance of getting

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2 Joseph W. Martin (R-Mass.), House Minority Leader.
some reasonable legislation. We are offering a small quantity in a market which is already below our domestic price.

The President then pointed out that we say we are not going to break the world market and then asked when even a part of those million bales is going to move. Only if the price goes down, he thought. Secretary Benson then pointed out that the consumption of cotton is rather low in some countries; very little of the type and grade of cotton involved here is consumed in this country; Agriculture believes that some of this grade of cotton will be consumed in areas which have not consumed cotton before.

Ambassador Lodge asked whether we will get the legislation we are hoping for and the Secretary of Agriculture answered him by saying that we will have a much better chance if we make this move now. Mr. Lodge suggested that we start to embark on this course of action without making any announcement and simply wait for queries from the press. Mr. Benson said this was such a sensitive matter we had to say something. Mr. Stassen suggested using only the first paragraph of the suggested press release in CP–34 and the President questioned why CP–34 was so long. Mr. Hoover emphasized that we had to make a fairly full statement since every word we said would be examined with the utmost care in the cotton markets of the world. We should even risk saying too much, but we must try to answer all the questions and criticisms which would arise.

The President reflected that the bicycle decision was a hard one too; we are not going to buy bicycles but we are going to insist that foreign countries buy our cotton. Is this not inconsistent? Logically, he said, any increase in import duties for bicycles is crazy but we get emotional about it. Mr. Benson pointed out that there is a lot of emotion about cotton too. The President said that he of course sympathized with Mr. Benson’s argument. Mr. Hoover pointed out that cotton is sold in exchanges where the laws of supply and demand apply particularly severely; bicycles are different, not being sold in that way. The President rejoined that the principle involved was the same. The President referred to the first paragraph in the proposed press release, “no more than a million bales”, and asked whether this will look like a limitation or will it scare people to death. Mr. Benson answered that it will be a notice to the world that the trend of foreign cotton acreage expansion at our expense had better stop since if it does not all our foreign markets will be taken away from us.

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It was suggested that a statement be inserted that "under the law the Secretary of Agriculture has the authority" to do so and so—in other words to quote the law. Mr. Benson pointed out that people in the cotton business know the law well. The President reminded him that the rest of the world does not. The President also suggested that the gradual nature of this sale should be emphasized in the press release, perhaps in the third paragraph.

The Secretary of Defense asked why anybody buys any of our cotton. Mr. Benson said the answer to that was that our cotton is of exceptionally good quality.

The President said that we have got to take some action on this subject but predicted that the question of quotas would start to hit us right in the face if the world cotton market should start to break. If the price differential is now three cents and then becomes four or five cents how can we duck the problem of quotas? The Attorney General suggested that our answer be that, in the coming January, we will go over with the Congress the basic question of support prices.

Ambassador Lodge then asked about consultation with the legislative leaders and Secretary Benson assured him that they will be called and consulted.

Mr. Wilson wanted to be assured that the Secretary of Agriculture had the clear legal right to take this course of action. Mr. Benson so assured him and the President commented that while he was responsible for what the Executive Branch does, Mr. Benson actually had the authority under the law. This selling program, however, does not start until after the first of the year. Mr. Wilson wondered whether this course of action would endanger the three and one-half million bales of existing exports; to add on the one hand and cut down on the other hand wouldn't get us very far. Mr. Benson pointed out that we cannot say for sure and that we may not even sell a million bales at all. The President stated that if we find we have made a mistake we can always reverse ourselves. He pointed out that he is never too proud to admit it when he is wrong. Mr. Stassen wondered whether the market may have already discounted the probability of our taking this course of action and pointed out that consumption went up in Asia last year. Mr. Benson added that our own consumption had been decreasing and Mr. Stassen attributed this to the use we are making of synthetics.

The Secretary of State said that he was acquiescing in the proposed course of action but did want to point out that unless this operation does bring world prices down it will not stop foreign planting. Foreign planting can perhaps better be slowed down by talking with representatives of some of the countries involved. No such talks have been held yet since the Executive Branch has not
until now been in a position to say: stop your planting and we will not dump our cotton. Only if world prices go down will the course of action proposed in CP-34 put a damper on foreign cotton planting. The President said he wasn't so sure; that these other countries know that all this cotton is here ready to sell. This might make them reflect. Mr. Dulles pointed out that we haven't, however, sold any of this cotton for years and foreign countries know it. But if we should start now a second dilemma arises: while it is true that the foreign textile millers have been getting cotton below the price that the U.S. millers pay, this has not been done as a result of the latters own government's action. Now the U.S. miller sees his own government selling this cotton at a lower price to his competitors and this has a new psychological impact. The proposed course of action would of course increase rather than decrease the demand for quotas from U.S. manufacturers. This he said was his best judgment of the situation but he was willing to defer to the course of action proposed.

The President asked about the size of our cotton imports and Secretary Weeks said about six percent of our production is exported and one percent of our production is imported; in other words we are exporting six times as much as we import. Mr. Weeks then read from the draft bill to which he had referred earlier and from which it was evident that the southern Senators are just as much interested in quotas as they are in the sale of cotton. General Persons pointed out that from the talks he had had with some of the Senators concerned they are not so much afraid of what is being imported now but they have a deep-seated fear of future Japanese import competition. Secretaries Benson and Weeks confirmed this impression. Mr. Benson commented that there was even some leeway in that bill which would indicate that the Senators do not feel too strongly about this.

The President asked about the new Japanese trade agreement. Dr. Hauge replied that this agreement has in it provisions for an absolutely bare minimum of textile imports; these provisions had to be in there, else there would have been no agreement and even no negotiations with the Japanese. There were some reductions made in the tariffs on lower grades of cotton. The Tariff Commission concurred in them.

The President said we have four months to see what happens. If the market settles down in those four months we can let one hundred thousand bales a month out. Mr. Benson thought that the market would probably firm up following this announcement. He said the buying has almost stopped now. Mr. Dulles added that foreign planting will not stop. The President said perhaps we must explain to them that if they keep on expanding, this problem is
simply going to get more serious. The Secretary of State, however, asked if we were really in a position to do anything more than talk this way. The President thought that we could show the foreign countries involved how gingerly we were going about this course of action and we would suggest they be equally careful. The Secretary of State emphasized that he wasn’t worried about what people will say but about what might happen. Secretary Wilson commented that somebody has simply got to be squeezed out of this business, but Mr. Dulles asked “How?”

The President summed up by stating that there were so many views we had better try something and see what happens. We are not going to make any attempt to restore our original market position back to the time when we sold so many million bales. Mr. Stassen commented that the sixth paragraph looks as though we might be saying just that. Mr. Benson asked how much time the State Department needed for consultations with the foreign governments interested. The Secretary of State asked for 24 hours and suggested that the announcement be made at noon on Saturday, August 13th. Secretary Benson made a suggestion about the procedure of consultation and the President asked that he discuss this with the State Department. The President then requested that the proposed press release be gone over again very carefully. General Persons asked that Secretaries Weeks and Benson should be sure to talk with Representative Martin on the phone about this decision. Ambassador Lodge suggested that we not only notify the Congressional leaders but have conversations with each of them and make clear to them that we expect them to help us out of this dilemma in the future. The President said we should emphasize we are taking the best course of action we know how. The Secretary of State cautioned against making too flat a statement about prospective legislation which we expect next year and Mr. Benson referred him to the language of the two closing paragraphs of the press release. The President commented that we should plan to take up legislation next year which would allow U.S. producers to buy cotton for export only (Mr. Weeks’ suggestion). Mr. Benson said that perhaps we could do what Secretary Weeks suggested administratively but we are not sure without further checking. Dr. Hauge asked whether enough analysis had really been made of this course of action—which amounts really to a major policy departure. The President closed the discussion by commenting wryly that this was one of those problems about which no matter what one does is wrong.

Governor Adams, at the end of the Cabinet meeting, reminded his colleagues that Secretary Benson was in charge of this release on cotton and any current questions coming to anyone else on this subject should be referred to Secretary Benson.
[Here follows discussion of the Attorney General’s report on investigations, the rental of limousines for government officials, Administration policy regarding the Immigration and Naturalization Act, United States economic goals and policies, and management training for career people in government.]

Bradley H. Patterson, Jr.

45. Editorial Note

On August 18, President Eisenhower officially informed the chairmen of the Senate Finance and House Ways and Means Committees that he accepted most of the Tariff Commission’s recommendations on the bicycle case. He concurred with the Commission findings that the ad valorem rate for most imported bicycles should be raised from 15 to 22½ percent, with the exception of large wheel lightweight bicycles where he determined that the rate should be increased from 7½ to only 11½ percent instead of the recommended 22½ percent. The White House announcement of the President’s action, his proclamation instituting the new rates, and the text of his letters to the Congressional committee chairmen are printed in Department of State Bulletin, September 5, 1955, pages 399–402.

46. Telegram From the Embassy in the United Kingdom to the Department of State

London, September 12, 1955—7 p.m.

998. Thorneycroft ² and Lee ³ expressed to Clarence Randall and Embassy officers in strongest terms serious adverse psychological effect decision bicycle and Chief Joseph Dam ⁴ cases would have in

[^1]: Source: Department of State, Central Files, 411.004/9–1255. Official Use Only.
[^2]: Peter Thorneycroft, President of the British Board of Trade.
[^3]: Frank Lee, Permanent Secretary of the British Board of Trade.
[^4]: Defense Secretary Wilson rejected the British bid in August 1955 even though it was 17 percent below the best domestic offer. Wilson based his decision on Section 3(c) of Executive Order 10582 promulgated December 17, 1954, which stipulated that
UK. Stressed fact that in view leadership position US and closeness with which every US action watched for indications trend US policy, these decisions would have highly dampening effect on efforts individual UK manufacturers export to US with consequent adverse effects balance of payments prospects. Moreover, decisions would be widely used by pressure groups in UK seeking persuade government adopt protectionist measures. Stressed their statements not usual protest that might be expected but reflected really deep concern in UK Government public and parliamentary circles. Chancellor expected raise this issue personally with Secretary Humphrey in Istanbul.

Decisions obviously render rather more difficult our representation for larger UK import quotas US motorcycles, whiskey, etc., and create poor climate for representations for further restrictions on export generators Soviet bloc.

They also likely reduce effectiveness Secretary Benson's statement on need for greater markets US agricultural products abroad and make more difficult US negotiating position on fruit program.

Reliably informed Polish Embassy endeavoring exploit Chief Joseph Dam case by suggesting various trade propositions even though they had no real intention buying products involved. Polish informant expressed view effect decision on East-West trade might be significant.

Recent decision ODM establish committee determine basis award bids machine tools to foreign firms adds to uneasiness especially as it appears on same day as report that UK machine tools are selling rather well in US.

Aldrich

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a contract could be awarded to a higher bidding U.S. company which agreed to perform the required work in an area of high unemployment. Westinghouse Electric and Pennsylvania Transformer, which were granted the contracts, both had plants in Pittsburgh, certified by the Secretary of Labor to be an area of a substantial labor surplus. For text of the 1954 Executive order and the accompanying White House press release, see Department of State Bulletin, January 10, 1955, pp. 50–51.

47. Current Economic Developments

Issue No. 478


Joint US-Canadian Committee on Trade and Economic Affairs Meets

On September 26 the US-Canadian Committee on Trade and Economic Affairs held its second meeting in Ottawa. Discussions took place in a frank and friendly atmosphere and were considered most beneficial by both sides. They covered a whole range of matters concerning general commercial policies and prospects, trade and payments problems, and disposal of agricultural surpluses. The most significant development was agreement that there would be further and closer consultation between officials of the two governments on disposal of agricultural surpluses. A group of Canadian and American experts will meet shortly in Washington in accordance with this understanding.

Representing the US at the meeting were Secretary of State Dulles, Secretary of the Treasury Humphrey, Secretary of Agriculture Benson, and Secretary of Commerce Weeks. Canada was represented by Minister of Trade and Commerce and Defense Production Howe, Minister of Agriculture Gardiner, Secretary of State for External Affairs Pearson, and Minister of Finance Harris.

Background The Joint Committee was established by an exchange of notes November 12, 1953 following a Washington visit of the Canadian Prime Minister with President Eisenhower when they decided it would be advantageous to have a permanent mechanism to consider economic and trade problems which are so vital in the relations of the two countries. The Committee meets once a year, with the site alternating between Ottawa and Washington. The first meeting was held in Washington March 16, 1954. It was felt unwise to have the 1955 meeting before the US Congress had completed consideration of HR-1; then, owing to the heavy schedules of the Ministers involved, it was not possible to arrange the meeting until September.

Commercial Policy Discussions Secretary Dulles, in his initial presentation, said it was settled US policy to maintain a large market for imports and explained that certain "minor" actions which might cause concern abroad did not demonstrate a trend away from this policy. He suggested that these cases tended to attract disproportionate attention from the good record of the US in the commercial

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1 Source: Department of State, Current Economic Developments: Lot 70 D 467. Confidential.
2 A copy of the minutes of the meeting is in Eisenhower Library, White House Central Files.
policy field. He added that it was not possible to have an economic policy completely immune from politics and that there would have to be a certain measure of protection of native industries against a large absorption of foreign products. He suggested that countries having obtained a certain portion of the US market should not press for its expansion to the point of forcing a political issue which might result in restrictions. In this connection he mentioned that the voluntary self-restraint of lead and zinc importers had allowed local US producers to recover, and that the problem seemed on the way to solution.

Secretary Humphrey pointed out that the world dollar shortage which was so evident two years ago has changed. Through trade, tourism, military and other aid programs, dollars have been redistributed, with foreign governments increasing their dollar holdings by slightly more than $11 billion and the US having $8.5 billion less. He suggested trade may have been somewhat overemphasized as a means of bringing about a balance as US aid declines and that a major part of the dollar flow should be through private investment. In this regard he reiterated the need to encourage other countries to make private investment attractive.

The Canadians, while agreeing to the importance of investment, emphasized the importance of trade. They said there were some uncertainties with regard to US commercial policy which caused Canadians concern. Delay in the implementation of customs simplification had not allowed forward planning for new or expanded markets. (US officials replied that they expected the customs simplification bill to be passed, with amendments, early in the next session.) The Canadians referred to the escape clause provisions of the Trade Agreements Act as another unsettling factor and noted that escape clause cases could be reopened year after year. They expressed hope that the escape clause action would be taken only when overall injury to an industry was proved. They also were concerned over the possible effects of the national security clause of the Trade Agreements Act, stressing the mutual security interests of the US and Canada. US officials replied that North America was considered as a strategic unit. They stressed that Canada need not fear that the President would look to the security clause to the exclusion of basic economic issues when passing judgment on escape clause applications.

Trade and Payments Problems The Committee shared the view that a growing volume of mutually beneficial trade between Canada and the US would develop most satisfactorily as part of a wide-spread system of freer trade and payments. In that regard they noted the high rates of employment and activity which had prevailed in most parts of the world and that the level of international trade had been
generally well maintained during the past year. While some progress had been made in removing restrictions and reducing discrimination in many countries, there remained a need for further advances in this field.

There was some discussion of recent developments which indicated a slowing down in the progress toward convertibility. US officials reiterated US desire that the pound become convertible. We feel that this is a British responsibility and agree with them that it would be a mistake to adopt convertibility without first making sure that it could be maintained under most foreseeable circumstances.

**Agricultural Surpluses** The Canadians expressed strong concern with regard to US agricultural surplus disposal procedures. They pointed out that both countries have surpluses in wheat, oats and barley and that Canadians market their goods without subsidy. They have about 300 million bushels of wheat for export annually and have developed markets over the years to take care of this surplus. They said Canada has made an effort to maintain a stable price in line with the world price of wheat but that its exports have dropped during the last six months. They are now faced with a bumper crop which will mean a larger surplus this fall. During the last six months, the Canadians pointed out, the US has disposed of some 50 million bushels of wheat under PL 480, the mutual security program and on a bid basis for export, some of which went to markets which are traditionally Canadian. They said that sale of wheat for local currencies could not be considered as a normal commercial operation, and noted that the US is also bartering agricultural surpluses for strategic materials. They regarded as particularly serious the disposal of lots of grain on a bid basis.

These US programs, the Canadians said, were having the effect of displacing Canada in its traditional world markets. They felt that the US had not consulted them sufficiently and asked that US and Canadian experts consult on how this situation could be improved.

Secretary Benson said he appreciated that the US price support system has outlived its usefulness and has put an umbrella over world grain prices. The US has lost its old markets by holding the price too high, he said, pointing out that US cotton markets have dropped almost 50%. He emphasized that the US has tried to dispose of surpluses in an orderly fashion and to secure assurances from other countries that grain delivered under PL 480 will be in addition to usual grain requirements. PL 480, he said, is a new tool which is an alternative to Congressional proposals to effect sales at any price and resort to dumping. He emphasized that the US Government has a storage bill for grain of $1 million a day and that the pressures to move our surpluses are terrific. The US Government has tried to increase consumption and reduce acreage. Benson said
that we had endeavored to establish a system of consultation with other exporting countries. He agreed, since the Canadians considered that system inadequate, to arrange for closer consultation.

In the course of discussion of surpluses the Canadians reported that their Government is highly in favor of renewal of the International Wheat Agreement, noting that this provides a good forum for consultation. US officials replied that the International Wheat Agreement problem was still under study in the US Government but that sentiment in the US seemed inclined toward renewal of the Agreement.

[Here follow sections on unrelated topics.]

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48. Telegram From the Embassy in Canada to the Department of State

Ottawa, October 12, 1955—3 p.m.

143. It is Embassy's considered view that Canadian resentment over US agricultural surplus disposal policy is outstanding issue today between two countries and one which easily could be inflated to unmanageable proportions. With every indication of increasing surpluses on both sides of border, problem is apt not only to be continuing one, but with normal crop and marketing conditions may become even more acute.

All sectors of Canadian press have criticized US position and have castigated our alleged failure dispose of surpluses without disturbing normal commercial marketings.

The initial favorable press reaction to Secretary Benson's Calgary speech June 10 and of the announcement following Joint Committee Meeting September 26 has been replaced by expressions of profound scepticism re willingness of US to dispose of its surplus agricultural products in any fair and reasonable fashion and of utility of Washington talks.

Editor of Winnipeg Free Press today told Embassy officials that apparent failure of Canadian Ministers to present Canadian position more forcefully at Joint Committee Meeting had created anger

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1 Source: Department of State, Central Files, 411.0041/10-1255. Official Use Only.
2 For text of the joint communiqué issued in Ottawa, September 26, see Department of State Bulletin, October 10, 1955, p. 576.
among prairie province farmers which he fears may have serious political implications. This same fear has been expressed by other government officials and farm leaders with whom Embassy has discussed matter.

Canadian officials challenge US contention that its disposal policies have not injured normal Canadian markets and speak in bitterest terms re our methods and their results. Two specific cases recently cited to Embassy by M.W. Sharp, Assistant Deputy Minister Trade and Commerce and Canadian Government’s foremost expert on international wheat trade, were: (1) Italy had requested Canadians to submit wheat offers but Italian interest had “dried up” immediately it was known that there was possibility of obtaining US surplus wheat; (2) West German interest in Canadian wheat had declined as result of US officials indicating to that country that its absorption of US wheat would be a criterion of its willingness cooperate with US.

Canadian officials do not feel that implementation of our policy has resulted in increased wheat consumption or that international demand for wheat has been raised by facilities we have extended.

Importance which Canadians attach to Washington wheat talks on October 20–21 3 may be judged by fact that Sharp will go to Washington instead of heading Canadian Delegation to International Wheat Agreement Conference. 4

I know personally that Minister Trade and Commerce, C.D. Howe has taken our assurances seriously that he anticipates that question will be renewed with greatest care in Washington and that positive results will be forthcoming.

It should be realized that in Washington talks Canada will be interested not only in having information on each specific deal US is contemplating but also they will wish to consider whole realm of surplus disposal policy as a joint problem.

Canadians consider that their restraint has been largely responsible for maintaining international wheat prices and they insist that rising domestic pressures will not permit them to continue to stand aside while we edge them out of their foreign markets.

Sharp said that Canadian Government is through making official protests to US Government and that it now desires some concrete evidence that US will carry out in good faith President Eisenhower’s assurances (given at time of signing of PL 480 in July 1954) 5 that PL 480 “wisely sets forth the intention of the Congress that it shall

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3 No record of these talks has been found in Department of State files.
4 This conference was scheduled to begin in Geneva, October 26, under the auspices of the United Nations.
5 The text of the President’s statement made on July 10, 1954, is printed in Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1954, p. 626.
expand world trade on a sound basis and not disrupt it. I am glad
that this makes it possible for me to assure normal suppliers to
commercial markets at home and abroad that the act will be admin-
istered so that the United States will not be engaging in unfair
competition or in other practices which would disturb world mar-
kets . . . 6 the US will not use its agricultural surpluses to impair
the traditional competitive position of friendly countries by disrupt-
ing world prices of agricultural commodities”.

Embassy fully appreciates that question of disposal of wheat
surpluses poses an almost insoluble problem. It is concerned, howev-
er, over possible grave consequences to US-Canadian relations if
solution satisfactory to both countries is not found.

It is Embassy’s opinion that there is some validity to Canadians
contention that US surplus wheat disposals have adversely effected
normal Canadian export sales. Unless some convincing evidence is
given to Canadians that such disposals in future will be carried out
in manner consistent with President Eisenhower’s assurances, the
Washington talks will be a failure and an even more acute situation
created.

Stuart

6 Ellipsis in the source text.

49. Letter From the Chairman of the Interagency Committee
on Agricultural Surplus Disposal (Francis) to the
Chairman of the Council on Foreign Economic Policy
(Dodge) 1


DEAR MR. DODGE: I am pleased to transmit to you the study
“Prospects of Foreign Disposal of Domestic Agricultural Surpluses”
which the Council on Foreign Economic Policy, on June twenty-first,
requested the Interagency Committee on Agricultural Surplus Dis-
posal 2 to conduct.

1 Source: Department of State, E-CFEP Files: Lot 61 D 282A, Authorities and
Programs for the Disposal of Surplus Agricultural Products Abroad—CFEP-528.
2 President Eisenhower established the Interagency Committee on September 9,
1954, to coordinate the administration of Public Law 480. The Committee, headed by
(Continued)
Through the magnanimity of the Federal Reserve Bank of Chicago, we were able to obtain the services of Assistant Vice President Ernest T. Baughman as Chairman of the study group. If the study has merit, the credit is due in no small measure to the background knowledge and study, the good judgment, and the objectivity Mr. Baughman brought to the work during three months assiduous application.

The other members of the study group, assigned by ICASD members from their respective departments or agencies, varied in numbers and participation as the needs from time to time required. Without their spirit of cooperation the work would obviously not have been possible. I wish to record my appreciation for their special helpfulness.

In seeking the most useful term in which to cast the report, we have tried to follow the middle course between a paper of a single-unequivocal point of view and one representing the compromise among all points of view. The former would run the risk of being doctrinaire, the latter of failing to comply with your directive. Consequently, the study is submitted as a staff document, rather than one representing the unanimous position of the Committee. While its conclusions and recommendations correspond to my views and, in any given case, I believe, the views of a substantial majority of the Committee, they do not necessarily in every case represent the position of the member departments and agencies. Committee members have been content in the prospect of having their non-concurrences presented in the Council in due course.

In submitting the report, I feel I should recognize a fact which is occasionally adverted to in its text. The attempt to access disposal opportunities without reference to domestic policies responsible for the accumulation lends the study a certain air of unreality. I'm sure the Council was completely conscious of this in so restricting the study, nor do I think this shortcoming vitiates its form.

Sincerely,

Clarence Francis

(Continued)

White House Special Consultant Clarence Francis, consisted of senior officials from the Departments of Agriculture, Commerce, the Treasury, and State, the International Cooperation Administration, and the Bureau of the Budget. The texts of the President’s letters to Francis and the agency heads defining the responsibilities of the Committee are printed in Department of State Bulletin, October 4, 1954, pp. 500–501.
PROSPECTS OF FOREIGN DISPOSAL OF AGRICULTURAL SURPLUSES

October 1955.

Introduction

This study was undertaken pursuant to a request of the Council on Foreign Economic Policy that the Interagency Committee on Agricultural Surplus Disposal submit "a report and such recommendations as may be appropriate concerning the present laws, policies and programs for disposing of agricultural surplus products abroad." The request noted that it was hoped to learn from the report "the extent to which it is practicable and desirable to depend upon foreign disposal to meet the domestic agricultural surplus problem and the most appropriate and effective means of accomplishing such disposal." Mentioned specifically for consideration, "among such other things as may be pertinent," were the following:

"The nature and purpose of existing authorities and programs for disposal of agricultural surpluses abroad and relationships among them;
"Past and possible future accomplishments under existing authorities and programs;
"Barriers to or limitations on greater accomplishments;
"Any desirable changes in the authorities and programs . . . ;" 5
"An appraisal of the domestic and international effect of existing or possible increased disposals under present authorities and as a result of changes recommended" . . .

The pertinent findings are presented at the front of the report in a brief section entitled "Conclusions—Summary—Policy Issues".

Conclusions

There is little possibility of achieving a large enough increase in exports to make substantial inroads on current surpluses of agricultural commodities in the next few years. "Special" export programs initiated or expanded in 1954-55 apparently have achieved some increase in United States exports and a further moderate increase is indicated for 1955-56. However, only in the event of widespread and repeated crop failures in important producing countries would exports be likely to make substantial reductions in current surpluses.

3 Official Use Only.
4 Distributed to the Council as CFEP 528/2.
5 All ellipses are in the source text.
The best opportunities for increasing exports without causing substantial displacement of United States exports for dollars or of "usual" exports of friendly countries exist in the low-income, low-consumption areas. Agricultural surplus commodities can make an important contribution to programs designed specifically to accelerate capital development and increase consumption in such areas. Any additional efforts to expand non-commercial exports of United States agricultural surpluses, therefore, should give primary consideration to opportunities to use them in support of investment programs, especially in the underdeveloped countries. A program which emphasized that use of surplus commodities would be essentially a foreign aid program; the financial return to the United States would be small. Over the long-term, however, an increase in productivity in the low-income areas could result in the development of expanded export markets for United States commodities. Since capital development programs require several years for completion, it would be necessary to commit supplies of surplus commodities in support of such programs for periods up to possibly 3 to 5 years.

[Here follow "Summary" and "Policy Issues", which are printed in Department of State Bulletin, June 18, 1956, page 1019. A copy of the full report is in Department of State, E-CFEP Files: Lot 61 D 282A.]

50. Memorandum From the Deputy Director of the Office of International Financial and Development Affairs (Turnage) to the Deputy Under Secretary of State for Economic Affairs (Prochnow) ¹


SUBJECT

Briefing Discussion with Mr. Hoover Concerning the Recommendations of Clarence Francis to the Dodge Council on P.L. 480

The discussion centered around the major recommendation which concerns the use of surplus agricultural commodities to stimulate economic development and higher consumption in the low income, low consuming areas of the world.

¹ Source: Department of State, E-CFEP Files: Lot 61 D 282A, Disposal of Surplus Agricultural Products Abroad—CFEP 528. Official Use Only.
Mr. Hoover felt that the recommendation was an over-simplified expression of a rather complex process; he did not propose alternate language but indicated he might talk with Mr. Dodge about it. He said that he did not believe such programs would necessarily result in permanent new markets for U.S. agricultural products. He was more persuaded of the desirability of such programs on humanitarian grounds, and agreed that they afforded the best means of implementing P.L. 480.

He did not believe that the P.L. 480 programs should be determined by their impact on the budget. He did believe, however, that it would be possible to bring about some limited reduction in aid programs by use of P.L. 480. For example, he used the illustration that where there was an aid program of 100 units and a P.L. 480 program of an additional 100 units could be initiated it should be possible to reduce the aid program by about 20 units so as to have a total program of about 180 units. He agreed that a stronger case for reduction in aid could be made over a period of years.

Mr. Hoover stated that he would be unable to attend the Dodge Council meeting (November 8) and that Mr. Prochnow and Mr. Kalijarvi should handle the meeting for State.

51. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Under Secretary of State (Hoover) ¹

Washington, December 5, 1955.

SUBJECT

Discussion in Council on Foreign Economic Policy on an Export Subsidy for Cotton

Discussion

The Agriculture Department has reopened the question of a cotton export policy for the 1955-56 cotton marketing year ending July 31 and is proposing a policy for a three-year period. A proposal

by Agriculture will be discussed at the meeting of the CFEP on December 6 (Tab A).  

The Agriculture proposal involves a competitive bid program for export of up to 4 million bales of cotton annually for each of the next three years beginning January 1. The Agriculture proposal would also call for measures, not specified in the proposal, to protect the domestic textile industry from imports based on lower-priced cotton abroad and to subsidize the raw cotton content of textile exports. Assistant Secretary Butz has said that the Commodity Credit Corporation would administer the program in such a way as not to depress the present world price of cotton seriously and that Agriculture would envisage exports of only about 3 million bales rather than the 4-million bale ceiling that would be announced. Mr. Butz believes that unless the Administration takes action to try to increase our cotton exports, Congress will pass legislation, such as S. 2702, at its next session which will force the Administration to subsidize our exports of cotton without much discretion as to possible adverse effects on other countries.

Agriculture and State, at the staff level, together with the CFEP staff have analyzed the Agriculture proposal, indicated positive and negative considerations regarding it, and have suggested possible alternatives to Agriculture’s recommendation (Tab B).  

Recommendations

1. In view of the previous criticism of the State Department with regard to Agriculture’s surplus disposal operations, it is hoped that other Council representatives will take the lead in commenting on the Agriculture proposal. It is recommended, therefore, that you not take the initiative in the discussion of the Agriculture proposal except as you deem necessary.

2. You might wish to point out that the Agriculture proposal does not get to the heart of the problem with regard to a long term solution to the cotton situation. Considering the disclaimers by Agriculture that the program will not be administered in such a way as to seriously reduce world cotton prices, it is questionable whether the 500,000 bales in increased exports which might possibly result from the program is warranted. The questioning of the Agriculture proposal on its merits is enhanced by the many foreign relations difficulties which the Department sees in the Agriculture proposal.

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2 Not printed.
3 First presented to the Department of State on November 28. (Thibodeaux to Prochnow, November 30; Department of State, E–CFEP Files: Lot 61 D 282A, Disposal of CCC-Owned Cotton—CFEP 529)
4 Not printed.
Furthermore, the Department does not agree that the Agriculture proposal has any significant advantage to the Administration over proposed Congressional legislation such as S.2702, which the Secretary has opposed.

3. If it is felt that some action must be taken by the Administration at this time to assist Agriculture in the cotton export situation before any fundamental change is made in the present price support program, it is recommended that you suggest that the fourth alternative on page 4 of Tab B be given serious consideration by the Council. This alternative would allow export prices for all cotton held by CCC to be reduced on January 1, 1956 to the extent of the reduction in the domestic support prices which Secretary Benson will announce shortly for the new cotton year beginning August 1, 1956. In supporting this alternative you might wish to point out that this would permit treating domestic and export price equally and perhaps provide some incentive to reduce domestic support prices to the 75 per cent of parity permitted in the law.

52. Editorial Note

Documentation on the Tenth Session of the Contracting Parties to the General Agreement of Tariffs and Trade is in Department of State Central File 394.41 and *ibid.*, GATT Files: Lot 59 D 563, Boxes 448–450; Lot 63 D 181, Box 271; and Lot 63 D 208, Boxes 272–273. The texts of the decisions, resolutions, and reports of the Tenth Session are printed in *Basic Instruments and Selected Documents*, Fourth Supplement, February 1956. A list of the United States Delegation to the Tenth Session, and an informal summary of the results of the session are printed in Department of State *Bulletin*, October 31, 1955, page 721, and *ibid.*, December 19, 1955, page 1016. A classified summary is in *Current Economic Developments*, No. 482, December 6, 1955, pages 5–11. (Department of State, *Current Economic Developments*: Lot 70 D 467)
53. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Under Secretary of State (Hoover) ¹


SUBJECT

Political Impact of Disposal Policies

The chief critics of the surplus agricultural disposal policies of the United States have been Canada and Australia. Their criticism has been a matter of basic unhappiness with the implications of the policy we have adopted of selling goods on a competitive basis (i.e., subsidized), and has not been directed at any particular feature of the program. The South Africans and the New Zealanders have also been critical and apprehensive, the latter particularly about butter. It is hard to say whether our disposal policies and actions have evoked enough reaction from any of these commonwealth governments to warrant the judgment that our political relations have been impaired.

In Latin America the criticism has come from Uruguay, Argentina, and Peru. Peru has benefited from our disposal policies by accepting shipments of wheat, but has been critical of our sales of cotton. Argentina has benefited by obtaining vegetable oil, but has been critical of our wheat sales. Uruguay has not benefited from the program and has been consistently critical. It is hard to see that our political relations have been impaired in Latin America through the operation of the program, but they could be.

Our European critics are led by Denmark and the Netherlands. The British have expressed general doctrinal objections to our surplus disposal, and have particularly disliked the 50/50 shipping clause. On this latter point they are supported firmly by the Scandinavians. The Italians have benefited from PL 480, but have been critical of our deals with Austria, Japan, and Greece. We have probably made few political enemies in Europe, however, as the result of our disposal actions.

In Asia there has been considerable diversity of opinion, depending on the country in question. Thailand and Burma have been very critical about our rice disposals, and perhaps our political relations with Burma have suffered. PL 480 is being used to good effect to improve our political relations with Indonesia, Pakistan, and, possibly, Japan. Egypt and Turkey have been extremely unhap-

¹ Source: Department of State, Central Files, 411.0041/12–855. Official Use Only. Drafted by Willis Armstrong.
py about our disposals of cotton, but have been prepared to benefit by PL 480 in other commodities.

In such multilateral forums as FAO and GATT, our relations with other countries have in general been damaged by the apprehension which other countries have over what we might do under our disposal program, even though they recognize that we have been moderate.

If we did not have enemies determined and able to exploit the unhappiness caused by our disposal policies, we could adjust ourselves in individual situations so as to minimize the harm done. We are, however, extremely vulnerable to political attack encouraged by Communists, for example, for wrecking the economies of Pakistan, India, Brazil, Turkey, and Egypt by dumping cotton, and we are vulnerable to a comparable attack with respect to the impact of our rice sales on Thailand and Burma. In a political sense, the most important commodities from the standpoint of our foreign policy are rice and cotton.

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54. Memorandum From the Assistant Secretary of State for Far Eastern Affairs (Robertson) to the Under Secretary of State (Hoover) ¹


SUBJECT

Countries Where Agricultural Surplus Disposal Creates Foreign Policy Problems

Burma:

The most acute conflict between our foreign policy and foreign agricultural disposal objectives is in Burma. The Burmese economy, which is almost entirely dependent on rice for its existence, has been faced with large unsalable surpluses of rice. The entire Communist bloc, acting in concert during the last nine months, chose to exploit this situation by taking the greatest part of Burmese surplus rice under so-called barter transactions. The net result is that almost one third of the Burmese foreign exports are now going to the Communist bloc and Burma is accordingly heavily susceptible to Communist

¹ Source: Department of State, Central Files, 890b.20/12–855. Confidential.
pressures. The substantial enhancement of Communist influence in Burma finally culminated in the Bulganin–Krushchev talks. The Burmese have repeatedly and officially requested the United States to desist from disposal of surplus wheat and rice in their normal market area Asia and, right or wrong, believe that it has been U.S. agricultural surplus disposal policy which has forced them into the arms of the Communists. U Nu has stated that he agreed to accept the most recent Communist offers only after his appeal to the United States to buy some of Burma’s surplus agricultural rice had been rejected.

**Thailand:**

Thailand, like Burma, has had a large surplus of rice. The Thais have succeeded in moving the greater part of the surplus to their normal customers only through marked reduction in price. The Thais have made representations to us to desist from disposing of U.S. surplus agricultural products in the Far East and criticized the U.S. in international forums on the grounds that the effect of U.S. policy is to deprive them of their normal customers and to depress the price.

**Indonesia:**

Indonesia has requested a very large agricultural surplus program involving among other things wheat, dairy products and rice. To accommodate the Indonesian’s desire would antagonize the Australians on wheat, the Dutch on dairy products and the Burmese and Thais on rice. The Indonesians and the Department of Agriculture are talking about a total of 250,000 tons of rice under PL 480 to Indonesia.

**Philippines:**

Rice is the sorest point in the Philippines, since the Burmese and the Thais look on the Philippines as an Asian market. A rice purchasing mission was in Burma from the Philippines and returned home as soon as it became known they could obtain rice under PL 480. Secondarily, inclusion of a substantial amount of tobacco in a PL 480 agreement has engendered some friction, since it is regarded as conflicting with the interests of the small tobacco growers of Luzon.

**Korea:**

The Department of Agriculture has been insisting that if we supply Korea with foodstuffs under PL 480 we must require a pledge from them not to export rice. From the standpoint of our objectives in Korea, that country must export rice if it ever is to approach a viable economy.
Japan:

Japan wants to buy rice from Burma and Thailand in an effort to extend her relations in Southeast Asia and create new markets. To the extent we insist on high usual marketings in addition to PL 480 transactions, we are indirectly blocking the development of new Japanese markets.

55. Memorandum From the Secretary of State to the President’s Administrative Assistant (Hauge) ¹


SUBJECT

Comments on the Agriculture Department Proposal for Section 22 Action on Extra Long Staple Cotton (Reference your memorandum of December 19 ²)

The Action proposed by Agriculture ³ would be particularly unfortunate at this time when the Administration is reviewing the overall cotton problem and we are trying to develop more favorable relations with Egypt. It would also adversely affect our relations with Peru.

We have been striving to build up good will with Egypt in an effort to counteract Soviet pressures in the area, to influence the settling of the Arab-Israel dispute, and in view of Egypt’s position of leadership among the Arab States. Our efforts would be gravely prejudiced by action to restrict imports of their cotton.

If we restrict the ability of Egypt to sell cotton here, it will increase the need for Egypt to sell elsewhere. Cotton represents 85 per cent of Egypt’s exports and is its major dollar earner. Egypt exports about $16 million of cotton to the U.S. annually, half of which would be lost under the Agriculture proposal. Egypt has increased its cotton exports to the Soviet Bloc recently because its traditional free world markets have reduced their cotton imports. We believe, therefore, that the proposed action would markedly increase the orientation of Egypt toward the Soviet Bloc.

¹ Source: Department of State, Central Files, 411.0041/12-3055. Confidential. Drafted by Nehmer and Radius.
² Not found in Department of State files.
³ See Document 51.
The importance of Egypt, in relation to mid-eastern oil, and Africa, needs, I think, no elaboration here.

Peru has been concerned for years over the fact that her two principal exports, cotton and sugar, are subject to quota limitations upon entry into the U.S. Peru exports considerably less to the U.S. than it imports from us and attributes this "unfavorable" balance to our restrictive trade policies.

Any action which the Administration takes on long staple cotton should be considered within the framework of the overall cotton problem. I understand that the proposal might reduce CCC outlays by about $12 million as compared with the $1.5 billion of upland cotton in CCC's hands. I should hope that the long staple cotton problem could be solved in a different direction.

John Foster Dulles

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Printed from a copy which bears this stamped signature.

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56. Memorandum for the Record, by the President's Deputy Assistant (Persons)


SUBJECT

OTC (President's Conference with Congressman Jere Cooper, Chairman, House Ways and Means Committee, 10:00–10:30 am, Thursday, February 2, 1956)

Mr. Cooper advised the President that he was very strong for the OTC legislation and that he felt it was very much in the interest of the country to get it on the books. On the other hand, he wanted the President to know that the situation is tougher than it was when the House passed H. R. 1 by seven votes. At that time approximately two thirds of the Republicans and one-third of the Democrats voted against passage of this legislation (H.R.1). Mr. Cooper expressed the opinion that he would not be able to hold two thirds of the Democrats on the OTC bill; consequently, it was necessary to get more than one third of the Republicans. He reported that Mr. Rayburn and Mr. McCormack agreed with him that the Democrats

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would give OTC a good majority but that they could not hold as many as two thirds on their side of the aisle.

Mr. Cooper reported that he felt that he could report the bill from his Committee by a good majority but pointed out that H.R. 1 was reported out by a vote of twenty to five and still had extremely difficult sledding on the Floor of the House and that in his opinion OTC would have even more difficulty on the Floor of the House. He pointed out that the situation had been made worse by the drive of the textile and oil people against the proposal.

Mr. Cooper expressed his grave concern about the possible effect on the world situation of beginning efforts to pass OTC and failing in these efforts. He indicated that, in his opinion, it was a very high policy decision which must be made only by the President. The President replied that he had given this matter careful consideration and had concluded that we should go ahead and make every effort to enact OTC into law even though our efforts might result in failure. He stated that he thought our position before the world under these circumstances would be better than the circumstances of not having made an effort.

The President brought up the Weeks memorandum and it was agreed that it set forth the position for OTC in an excellent manner. Mr. Cooper, however, pointed out that in the matter of tariffs many of the members of the House had been "protectionists" for years and that it was extremely difficult to get them to look at the logic of a situation when the matter of tariffs came up.

Then ensued a discussion of the handling of the Hearings. The President stated that it was his opinion that if comprehensive hearings were held the facts brought out by the hearings should have a material influence on the Floor action. The President further advised Mr. Cooper that he personally would do everything that he could do, consistent with his position, to further the acceptance of the proposed legislation.

After some discussion, the following was agreed on:

1. Hearings would start the latter part of this month.
2. Practically all members of the President’s Cabinet would appear on behalf of the bill. In this connection it is realized that some Cabinet members would have only very brief statements. Mr. Dulles would lead off the Administration’s presentation.
3. Mr. Joseph Dodge would be asked to testify.
4. Efforts would be made to find two or more people from outside of the Government to testify in behalf of the bill.

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²The undated memorandum to the Cabinet by Secretary of Commerce Weeks entitled "Facts about the OTC" contained background information on the OTC and specific reasons why its enactment would benefit the United States. (Department of State, International Trade Files: Lot 57 D 284, OTC)
(5) The President indicated consideration would also be given to
the possibility of having Mr. Herbert Hoover, Jr. testify.
(6) It was agreed that as soon as the Administration's program
was worked up Mr. Cooper would be contacted and a specific date
arranged for the beginning of hearings.

Wilton B. Persons \(^3\)

\(^3\) Printed from a copy which bears this typed signature.

57. Minutes of a Meeting of the Council on Foreign
Economic Policy Subcommittee on Cotton, Washington,
February 24, 1956 \(^1\)

1. The Special Interdepartmental Committee (Dr. Hauge, Messrs.
Prochnow, Butz and Burgess) appointed by the Council on Decem-
ber 6, 1955 to submit recommendations concerning the disposal of
CCC-owned cotton for export, met on February 24, 1956 to consider
a proposed program of the Department of Agriculture to sell CCC-
owned upland cotton (additional to the one million bale program of
August 12, 1955) on a competitive bid basis for export beginning
August 1, 1956. This new program would be announced and initiat-
ed immediately.

2. Also attending this meeting were Messrs. Anderson, Johnson,
Kalijarvi, Thibodeaux, Metzger, Mueller, Foster, Overby, Rhodes,
Davis, Hutchinson, Patterson, Fitzgerald, McCall, Rand, and Cullen.

3. Mr. Butz (Agriculture) briefed the group on the proposal and
stated that it was most urgent that the program be approved and
announced publicly not later than Tuesday, February 28, 1956, to
gain Congressional support for the Administration's position on the
overall farm legislation which is expected to be voted on by the
Senate not later than Thursday, March 1, 1956, and to avoid
legislation making mandatory large exports at world prices.

4. An extended discussion took place concerning the many
aspects of the problem, particularly with respect to:

\(^1\) Source: Department of State, E-CFEP Files: Lot 61 D 282A, Disposal of CCC-
the minutes to the Council on Foreign Economic Policy under cover of a memo-
andum of February 28.
a. Whether the new proposal is consistent with the commitment made by Secretary Benson on August 12, 1955 in announcing the one million bale program.

b. The position that the United States should take with respect to placing import quotas on processed textiles in order to help the domestic textile industry.

c. Placing a limitation on the size of the new program.

d. The impact that the new proposal would have on friendly foreign countries.

5. There was general agreement (1) that the proposal was not inconsistent with the August 12 announcement, (2) that the proposal would not have a serious impact on our relations with friendly foreign countries provided it was carried out in an orderly manner, (3) that no limit should be placed on the size of the new program, and (4) that it would result in demands by the domestic textile producers to protect their markets by quotas or otherwise, which would require serious consideration.

6. Dr. Hauge requested Messrs. Prochnow (State), Butz (Agriculture) and Mueller (Commerce) to submit recommendations concerning the course of action to be taken with respect to the demands of the domestic textile producers.

7. There was agreement by all present (with the exception of the representative of CEA who dissented, and the representative of the Bureau of the Budget who abstained) that the Department of Agriculture proposal should be approved. It was agreed, however, that in view of the interest previously expressed in this problem by the President, that no action should be taken until the proposal had been brought to his attention.

8. The Chairman CFEP was advised by the Secretary CFEP by telephone on February 24 of the above action and he expressed his approval thereof.  

Paul H. Cullen

Lt. Col., USA

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2 Frederick H. Mueller, Assistant Secretary of Commerce for Domestic Affairs.

3 The Department of Agriculture proposal was approved by President Eisenhower on February 25 and was announced by the Department of Agriculture on February 28, 1956. (Memorandum from Cullen to the Council on Foreign Economic Policy, February 28, 1956)
Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the President's Administrative Assistant (Hauge) ¹


SUBJECT

Compensation to Domestic Textile Industry for Adverse Effects, if Any, of Proposed Cotton Export Program

As pointed out in our meeting this morning, it is important to differentiate import-protective measures for the domestic textile industry according to (a) remedial measures that may be taken against injury from textile imports, even without an expanded subsidy program for raw cotton exports, and (b) remedial measures addressed specifically to offsetting any adverse effects on the domestic textile industry that may result from an expanded subsidy program for cotton exports.

As to the first point above, we have had extended discussions with representatives of the textile industry regarding the course available in legislation for seeking remedial action. We are also considering further with Agriculture and Commerce the proposal made in our meeting this morning that we seek official confirmation from the Japanese Government of the levels of restrictions voluntarily applied to various types of Japanese textiles exported to the United States, and the period during which these restrictions will be in effect.

As to the second point above, it is hoped that an expanded subsidy program for cotton exports will not necessitate the use of any additional protective measures for the domestic textile industry. But if such an export program does result in a wide differential in American cotton prices here and abroad, it may be necessary, in fairness to the domestic textile industry, to arrange a system of offsetting fees on textile imports and exports. The Executive Branch has adequate legislative authority to make such arrangements. If the proposed cotton export program is approved, I suggest that the Administration might give consideration to informing the domestic textile industry that the Executive Branch intends to apply these offsetting arrangements if necessary. This would eliminate the cotton export program as an additional reason that might otherwise be advanced by the domestic textile industry for protection against imports.

¹ Source: Department of State, Central Files, 811.35212–2456. Limited Official Use. Drafted by Nehmer and Thibodeaux.
If needed as a consequence of the proposed cotton export program, legislative authority exists for offsetting compensation to the domestic textile industry in the form of (a) cash subsidies or subsidized raw cotton for textile exports, and (b) offsetting fees for relatively low-priced raw cotton in imported textiles. The legislative authority for such actions is described below.

(a) Cash subsidies or subsidized raw cotton for textile exports.

There are two authorities under which this may be done. Section 32 of PL–320, 74th Congress (approved August 24, 1935), 2 permits the Secretary of Agriculture to pay export subsidies to “encourage the exportation of agricultural commodities and products thereof.” I understand that it was under this authority that the Secretary of Agriculture paid a subsidy to exporters of cotton textiles in 1939 and 1940, in an amount equal, on a raw cotton content basis, to the subsidy on raw cotton then in effect.

Public Law 395, 84th Congress (approved January 28, 1956) 3 provides that “sales for export shall not only include sales made on condition that the identical commodities sold be exported, but shall also include those made on condition that commodities of the same kind and comparable value or quantity, be exported, either in raw or processed form.” Under this legislation, domestic mills may purchase subsidized cotton equivalent to the quantity used in exported textiles.

(b) Legislation to offset lower cotton costs in imported cotton textiles.

Section 22 of the Agricultural Adjustment Act authorizes the President to restrict by quotas or fees the importation of any agricultural commodity or product thereof when it is determined, following investigation, that imports are materially interfering with Department of Agriculture programs or operations.

It is assumed that an export subsidy program on raw cotton would be a Department of Agriculture program under this Section and therefore could provide the basis for import quotas or fees in order to prevent imported textiles from materially interfering with the export subsidy program. Since such a program would entail sales of cotton on a subsidized basis of X cents per pound, it would be possible to offset the lower raw cotton costs in imported textiles through a fee on the raw cotton content of imported textiles equal to the amount of the subsidy for raw cotton. Quota limitations would be unnecessary and undesirable for this purpose.

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2 Public Law 320, lacking any formal title, consisted of amendments to the Agricultural Adjustment Act of 1933; for text of Section 32, see 49 Stat. 774.

3 Public Law 395 was an amendment to Section 407 of the Agricultural Act of 1949; for text, see 70 Stat. 6.
Agriculture and Commerce concur in this memorandum.

Herbert V. Prochnow

Printed from a copy which bears this typed signature.

59. Memorandum of a Discussion at the 281st Meeting of the National Security Council, Washington, April 5, 1956

Present at the 281st Council meeting were the President of the United States, presiding; the Secretary of State; the Secretary of Defense; and the Director, Office of Defense Mobilization. Also present were the Secretary of the Treasury; the Attorney General (for Items 1, 2 and 3); Mr. Amos J. Peaslee for the Special Assistant to the President for Disarmament; the Director, Bureau of the Budget; the Special Assistant to the President for Atomic Energy (for Items 1, 2 and 3); the Director, U. S. Information Agency; Assistant Secretary of State Bowie; the Deputy Secretary of Defense; the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Assistant to the President; Special Assistant to the President Jackson; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follows discussion of agenda items 1–4, “A Net Evaluation Subcommittee,” “Significant World Developments Affecting U.S. Security,” “U.S. Policy Toward Austria,” and “U.S. Policy on Indonesia.”]

5. International Trade, Including Trade Between the Free World and the Soviet Bloc

[Here follows discussion pertaining to East-West trade.]

At this point Secretary Dulles once again inquired about the fate of his proposal that we offer the Czechs a large amount of our surplus agricultural commodities. Mr. Allen Dulles replied that this suggestion had not been ignored, but had been considered by the Operations Coordinating Board at a recent meeting. At the time of this consideration the Attorney General had provided an opinion

that it would be contrary to the provisions of Public Law 480 for the United States to dispose of agricultural surpluses behind the Iron Curtain.

The President then adverted to the fact that many of the restrictive laws on trade with the Soviet bloc countries had been passed when the country was in a state of hysteria and when the McCarthy problem was at its height. Now that this hysteria had lessened, the President wondered if it would not be sensible to take a fresh look at the wisdom of this restrictive legislation. Secretary Dulles said that he would confine himself to pointing out that it was "ridiculous" for the United States to have a vast pile of economic ammunition, in the shape of surplus food and agricultural products, which we could use against the Soviets but which in fact all we are doing is sitting on. The President expressed emphatic agreement with this observation, and Secretary Dulles went on to point out that the Soviets raise hell with us by their purchase of surpluses from the underdeveloped countries. Why could we not raise hell with the Soviets by offering to dispose of some of our surpluses within the Soviet bloc?

The President then referred once again to his favorite project of making West Berlin a showcase by sending to it a lot of our surplus food, so that the West Berliners would be the sleekest and best-fed people in Europe. The President recalled that somewhere or other he had had a report on this subject, and the report had said that the West Berliners were already very adequately fed.

Dr. Flemming speculated as to whether the time had not come to revive one of the President's favorite ideas, namely, that the United States should get itself in the position of being able to barter its agricultural surpluses behind the Iron Curtain in return for strategic materials. At the moment, of course, we were completely blocked from this course of action by the provisions in Public Law 480.

Secretary Wilson was inclined to doubt whether the Soviets would barter strategic materials in return for our surplus agricultural products. Admiral Radford warned that if we thus developed trade with the Soviet bloc nations, our allies could well ask us why we were attempting to keep down their own trade with the Soviet bloc.

The President said that in any case he was convinced that the Administration had been much too concerned with what Congress thought about the problem of trade with the Soviet bloc. After all, Congress was primarily moved by political considerations. There was need, therefore, for a new look at the problem of East-West trade generally.

The Executive Secretary suggested that the President might wish to ask the Operations Coordinating Board for a report as to existing
legal authority for the United States to trade with Iron Curtain countries and to dispose of agricultural surpluses in these countries. The President replied that he wanted this subject dealt with in the reports from Mr. Dodge and Mr. Dulles scheduled now for the Council meeting on April 19. He wanted all of this put together in one package, together with charts and maps.

Secretary Dulles expressed the wish that the Attorney General review his opinion (referred to earlier) as to the legal authority of the United States to sell or trade its surpluses behind the Iron Curtain.

The National Security Council: 2

a. Requested the Director of Central Intelligence, in collaboration with the Departments of State and Commerce, to present a report at the Council meeting scheduled for April 19, showing the pattern of international trade, particularly trade between the free world and the Soviet bloc.

b. Requested the Attorney General to present, at the Council meeting scheduled for April 19, a report on the extent to which the Executive Branch, under existing law, has authority to dispose of surplus agricultural commodities to the Soviet bloc.

c. Noted the President’s request that the Chairman, Council on Foreign Economic Policy, coordinate the presentation of the above reports with the presentation of the forthcoming CFEP report on multilateral controls on trade with Communist China, which is also scheduled for consideration on April 19.

Note: The above actions, as approved by the President, subsequently transmitted to the Director of Central Intelligence, the Secretaries of State and Commerce, the Attorney General, and the Chairman, CFEP.

S. Everett Gleason

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2 Paragraphs a–c and Note constitute NSC Action No. 1536.
60. Letter From the Secretary of State to the Governor of South Carolina (Timmerman) ¹

Washington, April 17, 1956.

Dear Governor Timmerman: I wish to direct your attention to certain foreign policy implications of the Hart–Arthur Act ² which has recently become law in your State. I feel confident that you will be interested in the effect which this act and the concurrent resolution requesting the enactment of similar legislation in other States may have upon our relations with Japan and other friendly countries.

A basic long-term policy objective of the United States in the Far East is the development of an economically sound, politically stable and friendly Japan. The United States has consistently recognized that the economic strength which we desire for Japan requires a high level of foreign trade. In this connection the United States has encouraged the acceptance of Japan into the world trading community. Our interest in Japan’s economic strength, however, is not solely in terms of stability in the Far East. Japan is the principal market for United States raw cotton. In 1955 Japan imported 647,000 bales of raw cotton from the United States, or 26% of our total raw cotton exports. Japan’s willingness to buy United States cotton could be affected by legislation such as that enacted by South Carolina.

The legislation also appears to run counter to the Treaty of Friendship, Commerce and Navigation between the United States and Japan, which received the advice and consent to ratification of the United States Senate on July 3, 1953. ³ Article XVI of this Treaty requires each party to grant to the goods imported from the other, in respect to all measures affecting internal distribution and sale as well as to internal taxation, most-favored-nation treatment and treatment no less favorable than that accorded to like domestic products. (Enclosed is a copy of Article XVI and of Article XXII; ⁴ the latter defines “national treatment” and “most-favored-nation treatment”.) The effect of the South Carolina law will be to provide less favorable treatment to Japanese textiles than to those of other foreign countries and of domestic manufacture.


² This legislation, passed by the South Carolina House of Representatives on March 6, 1956 and approved by Governor Timmerman on March 8, required that retail stores selling Japanese goods display the sign “Japanese textiles sold here.”

³ The treaty entered into force October 30, 1953; for text, see 4 UST (pt. 2) 2063.

⁴ Not printed.
In this connection the Japanese Government has made formal representation that it considers the South Carolina law to discriminate against the sale of Japanese textile goods and, therefore, to be in contravention of the Treaty of Friendship, Commerce and Navigation. The Japanese in their representation also pointed to the fact that their government and the Japanese textile industries voluntarily restricted the export of cotton goods to the United States in January 1956. This action, which involved difficulties for an important segment of the Japanese economy, was taken in an effort to meet the problem which the United States cotton textile industry claimed such exports created for it. The Japanese Government and press have expressed grave concern over the implications of this legislation and the adverse effects which it might have on the friendly relations between the two countries.

For your information, I transmit copies of the exchange of notes between Japan and the United States on this subject.\(^5\)

Sincerely yours,

John Foster Dulles\(^6\)

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\(^5\) The texts of both the Japanese and American notes, dated April 4 and April 16, respectively, are printed in Department of State Bulletin, April 30, 1956, pp. 728–729.

\(^6\) Printed from a copy which bears this typed signature.

Washington, April 20, 1956.

UNITED STATES POLICY REGARDING IMPORT RESTRICTIONS AND EXPORT SUBSIDIES ON COTTON

Summary and Conclusions

I. Problem

To determine the position the Executive Branch should take regarding assistance to the cotton textile industry in meeting international competition.

II. Background

Sharply rising imports of cotton cloth and other cotton products from Japan have precipitated demands by the U.S. textile industry, addressed both to the Executive Branch and to the Congress, for import quotas on cotton textiles. The industry’s concern has been heightened by the new cotton export program and the prospect of a further increase in the spread in the price of U.S. produced cotton in domestic and world markets.

The U.S. textile industry—with the support of the National Cotton Council representing the growers and handlers of raw cotton—contends that the increased imports constitute a serious menace to its own welfare and also to the domestic market for raw cotton. The main arguments are: (1) Japanese textile producers can purchase raw cotton at lower prices than the U.S. industry; (2) labor costs in Japan are far below those in the United States; (3) the Japanese textile industry has been extensively modernized since the war; (4) GATT concessions made to Japan, effective September 1955, have stimulated an additional flood of Japanese textiles into the United States.

III. Discussion

For discussion of facts bearing on the problem and consideration of alternatives see Tab A.²

¹Source: Department of State, E-CFEP Files: Lot 61 D 282A, Import Restrictions and Export Subsidies on Cotton—CFEP 538. Official Use Only. Submitted to the Council under cover of a memorandum from CFEP Secretary Cullen, dated April 21, for consideration at its meeting on April 25.

²Not printed.
IV. Conclusions

1. For the cotton textile industry as a whole (with the possible exception of certain segments) the available evidence does not support the contention at this time that increased imports have contributed substantially towards causing (or threatening) serious injury to the industry. It does not appear that action by the Government with respect to imports would materially affect existing basic problems of the industry such as (a) intense internal competition resulting from overcapacity; (b) competition at home and abroad from man-made fibers; (c) uncertainties in the price of raw material; (d) the build-up of textile industries in areas that were formerly important markets for U.S. textile exports; and (e) competition at consumer levels with hard goods. Nor does it appear that action by the Government on imports would significantly alter the fact that the rate of earnings of the textile industry is below the average for all manufacturing industry. This profit record is part of a long term decline in textile earnings which began in 1907 and has been reversed only in the two World War periods. For the cotton textile industry the interwar period of the 1920’s and 1930’s was characterized by low average earnings, frequent losses and a reduction of capitalization. In the 17 years between 1939 and 1956 the rate of earnings in textile mill products lagged well behind the average in all but four years.

2. The new cotton export program will result in an increase in the differential between domestic and export prices of U.S. raw cotton. In the interest of equity, it may be appropriate to extend to the cotton textile industry the same benefits that foreign users of U.S. cotton may derive from the program. It would be possible under existing legislative authority to provide such benefits to the domestic textile industry. (P.L. 395, 84th Congress, Section 22 of the Agricultural Adjustment Act, Section 32 of P.L. 320, 74th Congress.)

3. Relatively low prices for foreign raw cotton compared with our domestically supported prices is a major element in giving foreign mills a competitive advantage over U.S. mills with respect to raw material costs. If in the long run the domestic price support program could be adjusted to eliminate the differential between domestic and world cotton prices, one primary reason for the textile industry’s demands for protection would be removed and the competitive position of cotton vis-à-vis man-made fibers would be improved.

4. The escape clause procedure of Section 7 of the Trade Agreements Act provides the appropriate recourse for relief for the textile industry as a whole, or segments of the industry, which consider themselves injured by increased imports. However, the time element involved in making determinations under Section 7 may be
too long to relieve present industry pressures on the Administration. Nevertheless, the Tariff Commission investigations and findings with respect to pending textile cases should proceed as promptly as is practicable consistent with the requirements of the law and of sound governmental procedure. The affected industries should be fully informed as to Tariff Commission procedures and urged to cooperate by furnishing the necessary information to the Commission at the earliest possible time.

5. The concern of the domestic textile industry that the present unilateral Japanese restrictions on exports to the United States do not provide real assurance against increased exports could be dissipated, or at least reduced, by an exchange of letters between the Japanese Foreign Minister and the Secretary of State. Such voluntary limits by the Japanese Government on exports to the United States can provide a reasonable degree of stability to the import picture against which domestic textile producers can plan their own operations. Formal agreements on a government-to-government or industry-to-industry basis involve legal and commercial policy problems that rule against their use in this case.

6. The imposition of import quotas or use of export subsidies for cotton textiles in present circumstances would represent a reversal of U.S. foreign economic policy. Such action could (a) jeopardize the efforts to build up a system of freer trade and payments through GATT; (b) lead to countermeasures by other governments which would have the effect of further reducing U.S. foreign markets for raw cotton, cotton textiles and other U.S. exports; (c) adversely affect United States-Japanese political and economic relationships and thereby weaken the U.S. position in the Far East; (d) open the way for similar demands from other industries and (e) run counter to the Administration policy of minimizing controls over industry.

V. Recommendations

1. With respect to cotton textile imports, the United States should agree to an exchange of letters with the Japanese Government in which the latter would make a commitment to limit cotton textile exports to the United States by categories. This commitment should cover at least a one-year period and should provide that the United States will be advised, at least six months in advance, of an intention to terminate the commitment. The United States letter in exchange should merely acknowledge receipt of the Japanese letter and avoid appearance of a formal government-to-government agreement.
2. Import quotas or fees on textiles should not be adopted at this time, and the Executive Branch should continue to resist pressures for such import restrictions.

3. With respect to cotton textile exports, the United States should extend to the domestic cotton textile industry the same raw cotton price benefits for international trade purposes that the United States gives foreign users of its raw cotton under the new cotton export program. The manner in which such benefits will be extended should be worked out under existing legislative authority by the Department of Agriculture, in consultation with the Departments of State and Commerce, and reviewed by the Cotton Subcommittee of the Council on Foreign Economic Policy.

4. Every effort should be made to keep the differential between the domestic and export prices of United States raw cotton as small as possible consistent with the objectives of the cotton export program announced on February 28, 1956. 3

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3 On April 25, the Council on Foreign Economic Policy accepted the four recommendations of the Cotton Subcommittee and in addition decided that the United States should intensify its efforts to induce other countries to give most-favored-nation treatment to imports of Japanese textiles. (Eisenhower Library, CFEP Chairman Records, Organization, Procedures and Accomplishments of the Council on Foreign Economic Policy Prepared for Mr. Clarence Randall)

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62. Memorandum of Discussion at the 282d Meeting of the National Security Council, Washington, April 26, 1956 1

Present at the 282nd NSC meeting were the President of the United States, presiding; the Vice President of the United States; the Secretary of State; the Secretary of Defense; and the Acting Director, Office of Defense Mobilization. Others present were the Secretary of the Treasury; the Attorney General (for Items 2, 3 and 4); the Secretary of Commerce (for Items 2, 3 and 4); Mr. Amos J. Peaslee for the Special Assistant to the President for Disarmament; the Director, Bureau of the Budget; the Director, U.S. Information Agency; the Director, International Cooperation Administration (for Items 2, 3 and 4); the Chairman, Council on Foreign Economic Policy (for Items 2, 3 and 4); the Under Secretary of State; the Deputy Secretary of Defense; Assistant Secretary of State Bowie; Assistant Secretary

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of Defense Gray; Admiral Donald B. Duncan for the Chairman, Joint Chiefs of Staff; the Director of Central Intelligence; the Deputy Assistant to the President; the White House Staff Secretary; the Executive Secretary, NSC; and the Deputy Executive Secretary, NSC.

There follows a summary of the discussion at the meeting and the main points taken.

[Here follow discussion of agenda items 1 and 2: “Significant World Developments Affecting U.S. Security,” and “Pattern of International Trade Between the Free World and the Soviet Bloc.”]

3. Disposal of Surplus Agricultural Commodities to the Soviet Bloc (NSC Action No. 1536–b; 2 Memo from NSC from Executive Secretary, same subject, dated April 18, 1956 3)

Mr. Dodge made reference to the adverse opinion offered recently by the Attorney General in connection with the disposal of agricultural surpluses to Iron Curtain countries. He also pointed out that the President had recommended, in his farm message to Congress, that the latter repeal the sections of Public Law 480 which prevented the United States from trading its agricultural surpluses to Iron Curtain countries. The Congress had failed to act on the President’s recommendation.

The Attorney General said that upon receipt of the Council’s request pursuant to NSC Action No. 1536–b, he had checked with the General Counsels of the Departments of Defense, Treasury, and other responsible agencies. No response had come from the State Department, but none of the other departments had been able to perceive any way by which the Attorney General’s adverse opinion on the possibility of legally trading our agricultural surpluses behind the Iron Curtain, could be changed. On the other hand, Mr. Prochnow in the State Department believed that there was one means of avoiding this restriction on trade in agricultural surpluses without having recourse to new legislation. Mr. Prochnow had suggested that it would be legal to sell our agricultural surpluses to the Soviet bloc in return for dollars, buying with these dollars strategic materials from the Soviet bloc countries. The Department of Justice did not agree with Mr. Prochnow on the feasibility of this course of action.

2 See footnote 2, Document 59.
3 This memorandum forwarded a letter of April 17 from Assistant Attorney General Rankin to Lay which responded to the Council’s request in Action No. 1536–b. Rankin noted that the President recommended repeal of section 304 of Public Law 480 in a message of January 9 to Congress, but that Congress had taken no action on the recommendation. He concluded that “the lifting of the limitations in existing law on the disposal of surplus agricultural commodities to the Soviet Bloc rests with the Congress.” (Department of State, OCB Files: Lot 61 D 385, USSR and Satellites, 1953–56)
Speaking with great warmth, Secretary Dulles deplored the fact that the United States Government was so bound up with red tape that it was now unable to seize and exploit an unique opportunity from the point of view of U.S. foreign policy objectives. The situation in the satellites, he said, was probably more precarious than it had been in a very long time, as a result of the de-Stalinization campaign and other matters just mentioned by Mr. Allen Dulles. If we were now in a position to make up an attractive shopping list and present such a list, for example, to the Czechs, this would raise absolute hell in the Soviet bloc. What would the Soviets have to do in response to such an initiative? They would probably be obliged to try to match the U.S. offer. It was unlikely that they would permit a satellite to accept such a U.S. offer. They had not permitted this in the case of the Marshall Plan. Nevertheless, such a refusal would strain to the utmost relations between the USSR and its satellites. Indeed, it might even produce a complete collapse of the satellite relationship. In point of fact, therefore, we have been presented with a magnificent cold war opportunity and we are unable, as a government, to find a way to capitalize on the opportunity. It might be necessary to seek legislation. This problem had never really been understood by the Congress. In any event, some way must be found to make use of these vast U.S. surpluses in the interests of our national security.

The President smiled and said that it was extremely encouraging to him to have someone else make his speech for him. Referring to the restrictions in P.L. 480 as "damned foolishness", the President indicated that he believed we should go to the Congress for legislation if this were necessary. In so doing the President speculated whether we could not deal initially with the problem in the Foreign Affairs Committee and the Foreign Relations Committee, rather than the Agriculture Committee. Secretary Dulles commented that this was a fine idea if it proved feasible, although the Agriculture Committee would be jealous of its prerogatives. Both the Attorney General and General Persons thought the President’s suggestion well worth a trial.

The Vice President said that such new legislation would, of course, normally be referred to the Agriculture Committee, but if enough matter dealing with foreign policy were included in the resolution or the legislation, a diversion might be made to the Foreign Affairs Committees.

Secretary Humphrey turned to Secretary Dulles and asked him what he had in mind that the United States would buy from the satellite countries in return for the agricultural surpluses we sold to them. Secretary Dulles replied that he had not given the matter much thought, and didn’t believe it to be very important. Secretary
Humphrey replied that he thought the matter of great importance from the point of view of getting Congressional approval of the proposal suggested by the Secretary of State for disposing of our agricultural surpluses behind the Iron Curtain.

The Vice President pointed out that in the first instance what we would be seeking from the Congress was authority to make an offer of surplus agricultural materials to the Iron Curtain countries. Once this was obtained there would be the problem of determining what we would buy from them with the dollars we received for the agricultural commodities. This would undoubtedly be a problem with those members of Congress and others who dreaded competition from abroad.

Secretary Weeks stated that he assumed that all around the table knew that the so-called "Fountain Committee" was currently investigating reports which were getting around to the effect that large amounts of our surplus agricultural commodities were actually reaching Iron Curtain countries through the agency of certain Western European countries. We in Commerce, he said, believe that it would be highly desirable that we have authority to sell such commodities rather than have them reach the Iron Curtain countries through these devious channels. Time, added Secretary Weeks, was of the essence, because we would soon be hearing screams from the Fountain Committee.

The President commented that it was his belief that we have got to work up a resolution and get it before the Foreign Affairs and Foreign Relations Committees, stressing the fact that what we were doing was strictly in the context of achieving our foreign policy objectives. The Attorney General agreed, and suggested that such a resolution might be so phrased as to suggest an emergency basis with a duration of only a year or two. The President went on to say that in any case the resolution must be made to appear in the right light before the Congress. We must make clear that we were simply dangling some carrots before the satellite governments in order to increase the strength of their pull away from the USSR. As he had often said before, the President reiterated his belief that trade was the greatest weapon in the hands of the diplomat. On the other hand, the President did express agreement with Secretary Humphrey that we should give some thought to what we would buy from the satellites in return for the agricultural commodities we sold them. The President speculated that we might conceivably buy arms from Czechoslovakia, which we could then proceed to give to our needy friends and allies.
The National Security Council:

a. Noted and discussed a report by the Attorney General, prepared pursuant to NSC Action No. 1536–b and transmitted by the reference memorandum of April 18, on the extent to which the Executive Branch, under existing law, has authority to dispose of surplus agricultural commodities to the Soviet bloc.

b. Agreed that the Secretary of State should prepare an appropriate legislative proposal, based on means of furthering U.S. foreign policy objectives toward the Soviet bloc, for submission to the Congress, which would authorize greater flexibility in making trade offers to the Soviet bloc involving the disposal of surplus agricultural commodities.

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretary of State.

[Here follows discussion of agenda items 4–8, “Multilateral Export Controls on Trade With Communist China,” “Suggestions by the President’s Board of Consultants on Foreign Intelligence Activities,” “United States Policy Toward South Asia,” “U.S. Policy on French North Africa,” and “Estimated Receipts and Expenditures for Fiscal Year 1956.”]

S. Everett Gleason

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63. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Under Secretary of State (Hoover) ¹


SUBJECT

OTC Legislation

As you know, Mr. John Leddy has charge in the E Area of handling all OTC matters. Mr. Leddy prepared a comprehensive and thorough program for the advancement of this legislation and has pursued it aggressively. There have been many comments that the presentation by the Administration has been exceptionally good. We

¹ Source: Department of State, Central Files, 394.41/5–856. Confidential. A note on the source text reads: “Noted JFD.”
are getting strong press support. We expect to continue in the weeks ahead to seek every means of advancing the legislation.

The E Staff has also analyzed the question of what course to pursue if it became a serious question of whether the legislation would pass. The analysis of the E Staff, as well as the position recommended by the Staff, is found in the attached memorandum from Mr. Thibodeaux.

[Enclosure]

OTC LEGISLATION

You have asked whether, if an analysis of Congressional opinion is unfavorable to OTC, it would be wiser to hold it up this session in the hope of obtaining passage of the legislation next year. For the following reasons I believe that delay would mean just as certain defeat as a prospective adverse vote in this session of the Congress.

I do not think that we can again mobilize public support for OTC next year. That support is strong now and is reflected in public opinion polls. Much of this favorable sentiment has been developed by public groups who have worked hard on the basis of assurances that the Administration would carry through. We also have a favorable vote from Ways and Means (18 to 7) and a strong committee report. If OTC is delayed the whole hearing procedure would have to be repeated, and probably without as favorable a result. I believe, therefore, that the OTC project could not survive a postponement.

Since the OTC has already been deferred for a year (it was first introduced in 1955) I believe that both foreign governments and domestic supporters would consider another delay, with the acquiescence of the President, as a euphemism for defeat. An important part of the strategy of the opposition has been to cast doubt on the firmness of the President’s intentions despite his strong statements favoring OTC. If the President now backs down, he will in effect be conceding the opposition case and open the Administration to an even wider and more intense attack, not only on U.S. participation in the GATT but on the Administration’s trade program generally. That this is the opposition strategy is evident from several bills already introduced which are designed to sweep away the entire framework of our trade agreements program.

On balance, I think we would not be as badly off, internationally, if the OTC were defeated in Congress than if it were postponed with the consent of the Administration. The OTC was negotiated on
the initiative of the United States, and foreign governments agreed to this negotiation on the assumption that the Administration would press for its adoption. They would view deferral as an Administration decision to reject. An adverse Congressional vote would at least allow us to work with other governments in improving the administration of the General Agreement on Tariffs and Trade on the assumption of no OTC. If OTC is deferred, this will paralyze any forward movement for a considerable period. Finally, there are certain substantive amendments to the General Agreement, designed to speed up removal of restrictions of American goods, that other governments have not yet ratified pending action on OTC. If OTC were definitely out of the way (even though rejected) we could press for getting these amendments into force.

64. Memorandum From the Secretary of State to the President


SUBJECT

Section 203 of HR 10875 as reported by the Senate Committee

This section, if enacted into law, could seriously injure the economies of Mexico, Brazil, Turkey, Pakistan, Peru, Egypt and other countries, and hence would jeopardize our relations with them.

Section 203 would require the sale of upland cotton in world markets at prices no higher than those offered by other exporting countries for comparable quality. In no event could prices be higher than they had been under the one-million bale program completed earlier this year.

The stated objective is to re-gain a fair share of the world cotton market. The result, however, would almost surely be a progressive and severe decline in world prices for cotton. Other exporting countries are unable to hold stocks. They would be obliged to dispose of their current production at almost any price. The United States would be required by law to follow prices downward.

Trade and Commercial Policy

The U.S.S.R. exports only a small amount of cotton which ordinarily does not affect world market prices. Section 203, however, would create a situation in which the U.S.S.R. could determine the world price. Small lots of Russian cotton sold at price reductions in Liverpool, for example, could force the United States to meet the Russian price. Other countries perforce would have to follow the United States lead. Thus the cotton exporting countries of the free world would be at the mercy of the Communists. Their resentment, however, with considerable logic, could be directed toward the United States policy of meeting every reduction in price, as specified in the proposed bill.

Any attempt by other countries to escape the downward spiral by resorting to bilateral agreements, conducted without regard to market prices, would set back our hopes for a multilateral trading system—the only system which offers increasing opportunities for private trade and the exporting of a wide range of United States products.

This section would make the prices under the one-million bale program a ceiling, even though substantial quantities of United States cotton are already being sold for export on a bid basis at considerably higher prices under the present program. Some 224,000 bales have been sold on bids received last week at prices several cents per pound higher than the ceiling which this section would arbitrarily impose.

The new farm bill is encumbered with other provisions which are objectionable from a foreign relations standpoint. Notable among these is Section 202, which would further restrict our import quota on extra-long staple cotton and subsidize the export of such cotton—a type which the United States does not normally export. Peru particularly would be hurt by this provision, with the probability of wide repercussions in other parts of Latin America.

In view of the circumstances I have outlined above, the Department of State has no other recourse than to vigorously protest against Sections 202 and 203.  

John Foster Dulles

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2 President Eisenhower saw this memorandum on May 16. He nevertheless signed the bill into law on May 28 as the Agricultural Act of 1956 (Public Law 540); for text, see 70 Stat. 188. In his message at the signing of the bill the President expressed the hope that Congress would repair the shortcomings in Sections 202, 203, and 204. For text of the message, see Department of State Bulletin, June 11, 1956, p. 982.
I talked to Joe Martin about the foreign aid program and the chances of enacting the bill on OTC (Organization for Trade Cooperation).

[Here follows discussion of the difficulties the foreign aid bill was having in Congress.]

However, I asked Joe to come in to see me primarily because of my concern as to the general attitude toward OTC. There is a very great deal of misunderstanding concerning OTC. Attached is a memorandum that shows what OTC is.²

Joe understands this, as do the other Congressional leaders. However, since the popular concept is that OTC is a device for lowering tariffs, the project is disliked in manufacturing districts such as Joe's. Consequently, he himself is very lukewarm.

I insisted that there be a conference called of Republican Congressmen (immediately after action on the foreign aid bill is completed) to make certain that each of them understands exactly what OTC is. Moreover, I insisted that each understand how intensely interested I am in having it favorably considered. I pointed out to Joe that many of these people would, this coming fall, be asking for my blessing in races for reelection. I told him that, as always, I would stand for principles and important measures, and of the measures I would insisted was needed by our country was this OTC. [sic] This would create a very difficult situation if we found a majority of House Republicans opposing me on this point; any request of mine under these circumstances for a Republican House would be greeted with a considerable amount of justifiable ridicule.

I think that Mr. Martin got the point; he promised faithfully to get the group together and allow any Congressman to present the case to the Congress whom I might consider capable of doing well.

I told Bryce Harlow to keep in touch with the matter, and expressed the opinion that Charlie Halleck would probably do the best job of anyone.

¹ Source: Eisenhower Library, Whitman File, Eisenhower Diaries.
² Not printed. Two papers attached were entitled "Important Facts on OTC" and "The Truth about the Organization for Trade Cooperation (H.R. 5550)."
66. Editorial Note

On May 24, Secretary Dulles conferred with Senator George on several foreign policy issues, mostly economic matters. Dulles’ account of his discussion on the Organization for Trade Cooperation reads:

"Following discussion of NATO (to be reported by Mr. Palmer) I spoke alone with Senator George. I asked his views about the chances of OTC in the Senate. He said that he personally was sympathetic to OTC, feeling that it merely represented an intelligent and efficient way of doing what we had already agreed to do under the Reciprocal Trade Agreements Act. However, he said there was strong opposition and he doubted very much if it would be possible to get any action this year in the Senate. He was disposed to recommend letting the matter go over." (Memorandum from Hanes to Hill and O'Connor, May 28; Department of State, Central Files, 394.41/5-2856)

Further developments on the OTC matter were summarized in Current Economic Developments, No. 499, August 7, 1956, page 4:

"Trade Measures H.R. 5550, providing for US membership in the proposed Organization for Trade Cooperation, which had been introduced but not considered during the last session, was reported out favorably by the House Ways and Means Committee following hearings on the measure. Congressional leaders decided, however, not to bring the bill to a vote on the floor of the House in view of the uncertainty that a sufficient majority would be obtained. Some of the leaders felt that it would be dangerous to our foreign relations to risk any chance of defeat of the bill on the floor. Consideration of the OTC by the Congress at its next session would require reintroduction of legislation."

67. Letter From the Secretary of State to the Chairman of the House Committee on Agriculture (Cooley) ¹

Washington, June 7, 1956.

Dear Mr. Chairman: I urged before your Committee in executive session the repeal of Section 304 of P.L. 480 (the Agricultural Trade Development and Assistance Act). I did so in order that this Government would be in a position to make selective offers, on a

¹ Source: Department of State, Central Files, 411.0041/6-756.
barter basis, of surplus agricultural products to the European satellites of the Soviet Union.

The peoples of these countries are frequently plagued with food shortages and dietary deficiencies. I believe that it would be helpful if they could know, in a concrete and dramatic way, of the bountiful fruits of a society of freedom, which free nations share on a normal basis.

The offers we have in mind would be designed to illustrate and illuminate the possibilities which normally prevail as between free nations.

The suggestions we make do not relate to trade with the Soviet Union itself nor do they relate to the establishment of a normal pattern of trade with the Soviet satellites which might serve either to strengthen the war potential of the Soviet bloc or to entrench the present order in relation to the satellite countries—an order which President Eisenhower and I have repeatedly said, to the Soviet rulers themselves, ought to be changed in the interest of peace and justice.

Sincerely yours,

John Foster Dulles  

2 Printed from a copy which bears this stamped signature.

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68.  Letter From the Acting Deputy Under Secretary of State for Economic Affairs (Kalijarvi) to the Chairman of the Senate Finance Committee (Byrd)  


DEAR SENATOR BYRD: I understand that the Senate Committee on Finance will consider S. Res. 236  

2 and other questions related to the importation of cotton textiles at a meeting scheduled for June 28.

The Department's position on S. Res. 236 has been made known to you in a letter dated May 1, 1956. 3 In that letter the Department

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1 Source: Department of State, Central Files, 411.006/6–2756. Drafted by Nehmer and cleared by five Department of State offices, the White House, and the Departments of Agriculture and Commerce.

2 S.Res. 236 requested the Tariff Commission to make an immediate escape clause investigation of the cotton textile industry to determine whether it was being harmed by foreign imports.

3 Not printed. (Department of State, Central Files, 411.006/6–2756)
said that the escape clause investigation with regard to cotton
textiles proposed in the resolution was in accord with the position
which the Department had taken in discussions with representatives
of the textile industry, although an investigation of the scope called
for in S. Res. 236 might create a number of practical difficulties.

In view of the concern which the textile industry has expressed
regarding imports of cotton textiles, it may be of interest to the
Committee to be informed of the consideration the Administration
has given to this question and of the actions that have been taken.

Top policy-level officers of the Departments of Agriculture,
Commerce, and State and members of the White House staff have
met repeatedly with representatives of the domestic textile industry
and with residents of textile-mill areas. These meetings have been
most useful in that they have served to inform the Administration
of the views of the domestic industry and have provided the latter
with an opportunity to learn at first-hand what the Administration
has done and is doing with regard to this question.

The Administration has discussed the question of textile imports
with the Japanese Government, both in Washington and through the
American Embassy in Tokyo. The importance of diversifying their
exports so as not to concentrate on a limited number of items which
might result in injury to an American industry has been discussed
fully with representatives of the Japanese Government. Despite a
multitude of serious problems associated with restrictions on exports
from Japan, the Japanese Government instituted voluntary controls
on cotton textile exports to the United States. On May 16, 1956 the
Japanese Government officially informed this Government of its
restrictions on exports of textiles to the United States during 1956
and of its intention to adopt similar measures for 1957. Japan has
stated that it will give at least three months’ advance notice if for
any reason it might change its export quotas. I am enclosing a copy
of the exchange of notes with the Japanese Government on this
question which the Committee may wish to include in its record.

The Japanese quota for 1956 is limited on an over-all basis to
less than 1.5 percent of the United States production in 1955 of
cotton textiles and provides for restrictions on the export of specific
types of textiles to assure substantially increased diversification. The
over-all quota is 150 million square yards of cotton cloth. Within
this quota print cloth exports are limited to 20 million square yards
and velveteens to 5 million square yards. A further sub-quota on
ginghams is under consideration.

A separate quota of 2.5 million dozen ladies’ blouses was also
established voluntarily by the Japanese Government. This quota was

4 Not printed.
reduced only recently to 1.5 million dozen blouses for the twelve months ending March 31, 1957. The American blouse manufacturing industry considers that this action removes the threat of serious injury posed by blouse imports, and has withdrawn its request for an escape clause investigation. The request to stop the investigation was approved by the Tariff Commission on June 22.

Another important step of significant help to the domestic textile industry is the cotton products export program, now under preparation by the Department of Agriculture. This program, to be announced before August 1, is designed to make our cotton textiles more competitive in world markets by giving our textile exporters a price advantage equivalent to that which foreign mills enjoy in purchasing cotton under the new raw cotton export program.

These are steps which the Administration has taken and is taking. By no means has the Administration taken the position that these constitute the limit of remedy when and where remedy is needed. Other opportunities may well present themselves to provide further implementation of a basic Administration policy, stated by President Eisenhower on February 17, 1955\(^5\) and followed by every Executive agency concerned, that no domestic industry will be placed in jeopardy by the trade agreements program.

However, actions which are taken in connection with the textile import question must not be self-defeating nor must they give rise to new problems more serious than the ones which they try to solve.

In this connection action by the Congress to establish import quotas on textiles would create many problems. Such quotas, instituted without regard to the well-established and internationally-accepted escape clause procedure, would ignore the legitimate interests of all parts of our economy: producers, importers and exporters, and consumers. The escape clause procedure makes it possible for individual segments of an industry to receive protection against serious injury or the threat of such injury as a result of imports. It provides for an investigation of the facts and for public hearings by the Tariff Commission as in the case of the three segments of the cotton textile industry which have already applied under the escape clause: velveteens, pillowcases, and gingham. Experience has shown that factors other than imports are frequently the cause of an industry’s difficulties. That is why the escape clause procedure, open to all, provides such a useful way in which to ascertain the facts.

\(^5\) Eisenhower’s assurances were made in a letter to House Speaker Martin, February 17, concerning the Trade Agreements Extension Act of 1955. Martin read the letter in the House of Representatives the following day. For text, see Department of State Bulletin, March 7, 1955, p. 388.
Quotas by legislation would hurt the textile industry itself. The United States exports by value twice as much cotton textiles as it imports. On a yardage basis our cotton cloth exports in 1955 were four times as large as our cotton cloth imports. If we restrict our imports we also restrict the ability of countries to pay for our exports and we provide an excuse for other governments to take reciprocal restrictive action against our exports. Thus, the price which the textile industry might pay for action by the Congress to limit imports could be a loss of export business of great significance to the industry.

A further problem associated with legislative import quotas is that it provides an open invitation to many other industries to request similar restrictive action. If a precedent of legislative import quotas were established, the Congress would be faced with the conflicting demands of various segments of American industry. Government controls have a tendency to expand and import quotas once established by Congressional action may well lead to ever-widening government controls over the operation of our free enterprise economy.

In a narrower sense, but of almost equal importance is that complex problem which the administration of import quotas poses. It requires, among other things, regulations, government forms and enforcement. It will mean more government with increased personnel and increased expenditures.

It would also be most unfortunate if the Congress were to require the automatic imposition of import quotas prior to a Tariff Commission investigation. Such an action would put into motion all of the disruptive effects on our foreign trade and on the business community described above. It could not fail to weaken the sound procedures already prescribed in our present legislation.

The foregoing considerations indicate that the Administration is actively concerned with the question of textile import competition. It has taken significant steps to ameliorate the difficulties which may exist for certain segments of the textile industry, and it supports the escape clause procedures of the Trade Agreements Act as a fair course to seek remedial action against injurious imports. The Administration is vigorously continuing in its efforts to assist the textile industry, but it believes that import quotas by act of Congress cannot solve and may actually add to the difficulties of the textile industry.

The Department of Agriculture and the Department of Commerce concur in this letter. Officials of these Departments and of the
Department of State are at your disposal for whatever assistance they can provide on this question.
Sincerely yours,

For the Secretary of State:
Thorsten V. Kalijarvi

*Printed from a copy which bears this typed signature.*

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69. Letter From the Executive Secretary of the General Agreement on Tariffs and Trade (White) to John M. Leddy

*Source: Department of State, Central Files, 394.41/7–1856. Limited Official Use; Personal and Confidential.*


Dear John: In briefing myself for the informal discussions which you had suggested would be useful during the summer, I drew up an appraisal of the present situation of the GATT. As it now appears unlikely that it will be possible to hold these discussions I am sending you for your personal information a copy of this appraisal. It is, I realize, pitched on the pessimistic side but the more I reflect about it, the more the pessimism seems justified. In any case its object was to provoke discussion and reaction, and therefore it is more important to address oneself to the issues raised rather than to the form in which they are expressed, or the validity of the judgment implied.

I am sending the paper to you now in the hope that it may stimulate thinking on your side and I leave it to your discretion as to what use you make of it.

Sincerely yours,

Eric

*Documentation on the meetings between Wyndam White and members of the Department of State, July 31–August 2, is *ibid.*, GATT Files: Lot 59 D 563.*

*Printed from a copy which bears this typed signature.*
An appraisal of the present situation of the General Agreement on Tariffs and Trade

1. Now that we have got the review out of the way and the 1956 Tariff Negotiations have been completed, it is perhaps useful to see where we stand with the GATT.

2. As regards tariffs, it is clear that we cannot look forward to much further progress in the near future. The United States has negotiated more or less all that it can under the present Reciprocal Trade Agreements Act. If, as we hope, there is a progressive relaxation of quantitative restrictions in other countries, it is unlikely that there will be much enthusiasm in the immediate future for further tariff reduction in these countries. Moreover, the possibilities are severely limited by the dissatisfaction of the low tariff countries with the procedures under which tariff negotiations take place. One consequence of this is that the centre of interest in the tariff question has shifted to Paris. We must, therefore, assume that there is not a great deal of scope, at any rate for sometime, for positive action in the negotiation of tariff reductions.

3. On the other hand, we are running into serious problems with the underdeveloped countries of Latin America on the tariffs which they have bound under the General Agreement. The most striking and immediate case is that of Brazil which has bound 1200/1300 items in its tariff and is now embarking on a general increase in the tariff. This move is partly due to revenue reasons and partly to the desire to restore to the tariff the protectionist role which it has lost and which is filled at present by currency manipulations and import controls. This is merely an illustration of a more or less general problem in Latin America. It seems to me that, consistently with the philosophy of the General Agreement, we should be encouraging countries to rely on the tariff as a normal means of protection and to abandon the use of quantitative restrictions and other administrative devices for protection such as multiple currency practices. On the other hand, Brazil and other countries have bound a considerable number of rates in the General Agreement, usually as

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5 The fourth round of tariff negotiations were conducted in Geneva, January 18-March 23. The 311-page report of the negotiations is in Department of State Publication 6348, Commercial Policy Series 158 entitled General Agreement on Tariffs and Trade: Analysis of United States Negotiations, Sixth Round, Geneva, Switzerland, January-May 1956. For a brief summary of the resulting agreement, see Department of State Bulletin, June 25, 1956, p. 1054.
a result of carrying over their previous bilateral agreements into the GATT, and therefore any general increase in tariff rates presents a very serious problem under the GATT rules which only contemplate the modification or withdrawal of concessions against equivalent compensation, or failing that, compensatory withdrawals. In the nature of the case, the possibility of compensation is extremely limited and if the situation is redressed by compensatory or retaliatory withdrawals, the content of the tariff commitment as between these countries and the others would be reduced to little or nothing. From a commercial point of view there would seem to be a clear advantage in trying to reach an understanding with these countries that in exchange for an alleviation of their tariff commitments, they would abandon other forms of protection through currency manipulation, quantitative restrictions, etc., which in their effects are more burdensome to trade than tariffs. As the Agreement stands, however, and failing a new approach, it seems difficult to see how these problems can be dealt with. The position is particularly complicated as regards the United States whose participation in the GATT is based upon the Reciprocal Trade Agreements Act.

4. In the field of quantitative restrictions an honest appraisal of the General Agreement can only lead to the conclusion that it has hitherto proved ineffective and that the present indications are that this ineffectiveness will continue. The only effective international action in this field has been the OEEC liberalization programme which proceeds on a very different basis from that contained in the GATT. The action of the OEEC is not confined to intra-European trade but has also been extended to the liberalization of import restrictions maintained by European countries in imports from the United States and Canada. Consequently the field remaining to the GATT is so limited as to be almost non-existent.

5. It can be argued, perhaps, that this is not a bad thing since the GATT action in relation to quantitative restrictions would in any case be almost completely inhibited by the way in which the quantitative restriction provisions are written and the construction which has been placed on the relative functions of the GATT and the Fund. Even though there were some improvements in the procedures adopted in the Australian consultations in 1955, the fact remains that consultations in the GATT are in general meaningless. In the first place, as far as discrimination is concerned, the GATT exercises no control whatsoever since contracting parties which are still availing themselves of the transitional provisions of the Fund Agreement have, in effect, a completely free hand with quantitative restrictions. Secondly, as far as Article XII is concerned, it suffices

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6 International Monetary Fund.
for a country to obtain a certificate from the Fund that it has balance-of-payments difficulties to secure complete immunity from action by the GATT on any particular restrictions. Even if another contracting party is prepared to make a formal complaint, it is doubtful whether the GATT could act effectively, since the blanket cover afforded by the Fund’s certificate is all-embracing.

6. We have also seen quite clearly that the relationships between the GATT and the Fund are such that, by virtue of Article XV:9 of the GATT, it is possible for a country in balance-of-payments difficulties by adopting various devices which do not attract express Fund disapproval, to make nonsense out of any and all of the GATT commitments. This of course may be logical insofar as it may be argued that the countries concerned are in such an acute state of financial chaos that the utmost flexibility is essential. It remains, nevertheless, that the participation of such countries in the GATT is fictitious and casts little credit on the organization.

7. As regards subsidies, the results of the Review were somewhat meagre but the fruits in practice are likely to prove even more so. Here again the only positive action that is being taken is in the OEEC and I am very doubtful whether in present circumstances—or in any circumstances which I can at the present foresee—the GATT can do much more than endorse such action as the OEEC may take. I doubt, however, whether such endorsement would be of any great value. The impossibility of reaching an agreement on banning subsidies in primary products during the Review destroyed any real chance of effective action on industrial subsidies. Developments since the Review make it questionable how far even the modest progress then made can be maintained.

8. There are many problems in the field of customs formalities which could be tackled by the Contracting Parties with benefit to international trade, but meanwhile most of the European governments which adhere to the Agreement, have established another organization—the Customs Co-operation Council—which is dealing with these questions from the point of view of customs administration. The membership of the Council is now being extended to countries outside Europe. In this way, the Contracting Parties are leaving to another body a sphere of activity which would rightly fall within their competence and have accepted that these matters be considered more from the point of view of administrative convenience than from the point of view of the requirements of trade.

9. So much for a brief analysis of the impotence of the GATT in terms of subject matter. If we look a little deeper into the fundamental position of the GATT it appears to be even weaker. In the course of the Review I ventured to suggest that some consideration be given to strengthening the Agreement by making membership
more valuable, or at least non-membership more perilous. This suggestion received no support from the major powers who thought that the treatment of non-members was a matter within the competence of each country. I can see that there are very real difficulties in the way of penalizing non-subscribers. It is all the more important to try to maximise the attraction and advantages of membership. The present position is that for many countries non-membership in the GATT is a positive advantage. Let me cite an example, which could be multiplied a number of times, the position of a country like Mexico. Mexico has access to the resources of the Export-Import Bank, to the resources of the Bank and Fund, and full participation in the benefits of the Technical Assistance programme. She also enjoys most-favoured-nation treatment from the United States and other countries and therefore enjoys without counterpart the benefit of all GATT bindings. On the other side of the picture, Mexico has no commercial policy obligations whatsoever. The requirement that a contracting party shall also accept the disciplines of the Fund either by membership or by special exchange agreement finds no counterpart in the Articles of the Fund.

10. It should not be thought that this situation is not known and recognized. On the contrary the privileged position of Mexico has made a considerable impression on the other Latin American countries who at present somewhat dubiously participate in the GATT.

11. Of course, the effects of this somewhat sterile prospect would be to some extent offset if participation in the Agreement offered other demonstrable benefits. In this connexion however there has been strong opposition to any suggestions for liberally interpreting the functions of the Contracting Parties so as to include within the purview of the Agreement matters which, though not normally germane to a commercial treaty, are of primary concern to the less developed countries. We have made a modest effort to improve the position by instituting the Trainee Scheme. This was greeted with considerable enthusiasm by the under-developed countries but with indifference by some of the leading trading countries. At best it appears to have carried grudging approval provided that it involved no increase in the budget.

12. The attractions of the GATT to outsiders received a recent and striking assessment when we issued an invitation to negotiate for accession. Response: nil.

13. This narrow approach to the GATT has to be seen also in relation to the movement that has begun in the United Nations for more cooperation in the trade field. Whatever one may think of the motives which have inspired this movement, or of the results which may flow from it, the fact remains that there is a general conscious-
ness of the need for and importance of a world-wide organization for dealing with trade problems. It had been my hope that when the Organization for Trade Cooperation was established, it would be possible to put it forward as the appropriate organization for sponsoring world-wide cooperation in the trade field. I am now beginning to have serious doubts about this in the light of recent developments. The Secretary-General of the United Nations has drawn attention to the gap in the existing international machinery for trade cooperation, and it would be difficult to argue in present circumstances that the GATT—or even the OTC if it were established—could fill that gap. Secondly, I had hoped that we could embody in the OTC a generous associate member clause which would have facilitated cooperation of countries which, though not desirous of subscribing to the specific GATT obligations, were anxious to take part in cooperative action in the trade field. It would then have been possible to channel suggestions, such as those that are being made for intra-regional trade consultations, along safer and more constructive lines than are likely to be followed in the United Nations. There are, moreover, very real problems lying ahead in relationships between the non-state trading countries and the state trading countries. These again it seems to me can be more constructively and safely handled in the GATT or OTC atmosphere than in the more political atmosphere of the United Nations. In any case they could hardly be ignored by an organization with any serious claim to be considered as responsible for initiating consultations on international trade problems and international negotiations on trade matters.

14. There would be some compensation for these apparent weaknesses in the GATT structure if one could discern elements of strength in other directions. These are not altogether lacking. I particularly have in mind the increasing support of the United Kingdom and the very striking change of front in Australia. Moreover, Canada continues to be a strong supporter of the GATT although clearly public support of this position is less strong than it was. The negative factors are, however, disturbing. Though the United States Administration continues to give strong public support to the GATT, it is constrained by reasons of internal politics to adopt a cautious line as regards the activities and development of the GATT.

15. So far as the continental European countries are concerned, although most of the countries express support at the GATT meetings, it is permissible to doubt how much hold the GATT has on these countries and on public opinion. It is notorious that GATT obligations are considered very light-heartedly in the OEEC. For example, governments in the OEEC refer without inhibition to
quantitative restrictions which are maintained solely for protectionist purposes or for bilateral bargaining. This never appears to arouse any surprise even in the case of countries which are at the same time parties to the General Agreement. In fact a general air of polite scepticism regarding the GATT prevails generally in OECD circles. More recently the discussion of the common market has dominated the thoughts of the principal European countries. It is significant but consistent with what is said above that there is little disposition to associate the GATT with the preparatory discussions of this project even though its realization would clearly have profound implications for the Contracting Parties. It is clear that if a waiver is eventually required in the GATT the discussion of it would be somewhat unreal since whatever European project is agreed upon will have such powerful political support that the Contracting Parties’ action is unlikely to be more than a formality.

16. The position of the rest of our countries is somewhat different. In the main I have the impression that the GATT is unknown except to a limited group of officials and that it is generally regarded as of only minor relevance to major problems in these countries. It has always been a matter of some surprise to me that these countries continue to find it worthwhile to send delegations to meetings, the agenda of which can be of very little concern or interest to them. An examination of these agenda would demonstrate how difficult it would be to explain in Santiago or Djakarta why money should be spent on sending delegations long distances to attend them. Some countries, such as Nicaragua, Peru and Uruguay appear already to have drawn this conclusion since they are usually not represented. The representation of others of these countries is more nominal than real.

17. In brief, therefore, I see few comforting elements in the present situation and a number of negative elements. In this situation it seems to me essential that the leading countries provide dynamic leadership which will revive and strengthen the interest of other countries. In the past this leadership has sprung in the main from the United States and related almost exclusively to tariff reduction. During the Ninth Session it appeared that new leadership would be provided by the United Kingdom as an essential part of a drive towards the restoration of convertibility. For the moment the steam appears to have gone out of this particular movement, although it might conceivably revive in the future. There is a risk, however, that meanwhile the somewhat shaky foundations of the GATT will be further weakened, in which case it would be a frail instrument indeed to deal with the difficult problems which would arise after restoration of a measure of general currency convertibility.
18. This appraisal of the present situation of the GATT led me to suggest in April that the first few days of each session should be devoted to an exchange of views, at ministerial level, on the trends and problems in international trade with a view to laying down broad general directives to guide the Contracting Parties in their work. The indifferent response I have had to this suggestion seems to indicate that my pessimistic appraisal is justified.

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70. Letter From the Minister for Economic Affairs in the United Kingdom (Brown) to John M. Leddy


DEAR JOHN: Eric has sent me a copy of a memorandum which he has done appraising the present status of the GATT which he tells me he has also sent to you. I must say that I think the appraisal is pretty realistic. We have a piece of machinery which we created at enormous effort which we are not prepared really to use after we’ve got it.

The Brazilian problem lies directly within the competence of the GATT. But unfortunately we have, in writing the rules of the GATT, so boxed ourselves in that it is almost impossible to deal with it. As you know, I have for a long time felt that many of the Latin American countries were in a position which could not be sustained indefinitely since they had bound a wide range of very low tariff rates which they would have to raise for revenue purposes if for no other reason.

Eric is quite right in feeling that we would probably be better off if these countries had slightly higher tariffs and could be induced to rely on the tariff and decrease their reliance on quotas and exchange manipulations. I confess I don’t know the answer to this problem, but I would hate to see us continue to be in a position where our own rules keep us from achieving a result which we might consider to be substantively desirable.

Eric is also quite right about our lack of use of the GATT on quotas. It has now become apparent that a lot of countries, in Europe at least, are using quotas for protective reasons which are not justified on balance of payments grounds. But the Contracting

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1 Source: Department of State, Central Files, 394.41/8–2256. Personal and Confidential.
Parties haven’t done anything about it and in fact haven’t even complained. I am glad to see from a Position Paper of the TAC, No. D-170/56 of August 13, that we are beginning to see if we can’t do something about this because I should think that if we could get some effective results it would greatly strengthen the GATT at home and help keep it from withering on the vine as Eric feels it will.

Eric said that he had some very useful talks with Frank Southard on this subject and came away hopeful that we might be able to work out something with the Fund that would permit attack on these protective quotas without necessarily raising the issue of Article XIV.

In all these issues and most of the others mentioned by Eric, our position is decisive.

I understand there is a possibility that you might go along with the Boggs sub-committee on their trip. I certainly hope you do. It would be extremely helpful to them and very valuable for the Department. Also it would give us a chance to see you.

Sincerely yours,

Win

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\(^2\) Not found in Department of State files.

\(^3\) The House Subcommittee on Customs, Tariffs, and Reciprocal Trade Agreements, established in July 1956 under the chairmanship of Congressman Hale Boggs (D-La.), was preparing an extensive study trip to Europe and Japan in late November and early December 1956.

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71. **Letter From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to Edward B. Hall**

*Washington, November 9, 1956.*

DEAR ED: The enclosed memorandum sets forth some of our views with respect to the international impact of Public Law 480. It has been prepared in response to your request in connection with your report to the Council on Foreign Economic Policy.

In general, our experience with Title I has not been sufficient to permit a definitive evaluation of all aspects of its operation. Sales

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\(^1\) Source: Department of State, Central Files, 411.0041/11-956. Limited Official Use. Drafted by Kalijarvi and Nichols.

\(^2\) Not printed.
agreements have reached a large total in value, but shipments of commodities have experienced a time-lag; and even a longer delay has occurred with respect to loan agreements and the use of foreign currencies.

The discernible results of Title I are mixed—some favorable, some unfavorable. On the favorable side, a substantial quantity of commodities has already moved and even larger quantities of surpluses will be moved in the future. Importing countries have an opportunity to secure commodities with minimum expenditure of their own resources. They are able to finance economic development through long-term, low-interest loans. On the unfavorable side, in spite of the restraint exercised by the Department of Agriculture, there is the danger of displacing commercial markets, disrupting prices and discouraging economic production. Title I programs have disturbed our relations with a number of friendly foreign countries exporting the same or competitive products on a commercial basis. It is doubtful that the programs entered into have achieved or are likely to achieve additional consumption which would not otherwise occur. The enclosed memorandum is, for the most part, addressed to Title I.

The foreign policy interests of the United States have been well served by Title II and those divisions of Title III which authorize donations to non-profit voluntary agencies and international organizations, but even these programs have been criticized on occasion by exporting countries as interfering with normal marketing.

The barter operations under Title III are extremely complicated, and their difficulties are not easily identifiable. In total, these transactions present a danger of encouraging uneconomic production and displacing competitive trade. The barter operations would profit by closer interagency consultation and a more complete coordination of interdepartmental views. It is the view of this Department that the size of the barter program needs to be continued under strict limitations if disorganizations and distortions of production and trade are to be held within manageable bounds.

Sincerely yours,

Thorsten V. Kalijarvi

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3 Printed from a copy which bears this typed signature.

PRESENT

Clarence B. Randall, Special Assistant to the President—Chairman
Thorsten V. Kalijarvi, Acting Deputy Under Secretary of State
George M. Humphrey, Secretary of the Treasury
Harold C. McClellan, Assistant Secretary of Commerce
Earl L. Butz, Assistant Secretary of Agriculture
John B. Hollister, Director, International Cooperation Administration
Wakeman B. Thorp, Chief, Office of Special Projects (ISA), Department of Defense
Victor E. Cooley, Deputy Director, Office of Defense Mobilization
Leo R. Werts, Deputy Assistant Secretary of Labor
Percival F. Brundage, Director, Bureau of the Budget
Felix E. Wormser, Assistant Secretary of the Interior
William H. Jackson, Special Assistant to the President for National Security Affairs
Joseph S. Davis, Member, Council of Economic Advisers
Gabriel Hauge, Special Assistant to the President
Clarence Francis, Special Consultant to the President
Paul H. Cullen, Secretary, Council on Foreign Economic Policy and their assistants.

I. The Council approved the minutes of October 4, 1956.

II. CFEP 542—Reappraisal of P.L. 480.

1. The Council agreed on an Administration position with respect to the renewal of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480). This action was based on a consideration of CFEP 542/1, distributed to Council members on November 13, 1956. The position adopted by the Council was:

   a. That Title I of P.L. 480 be extended to June 30, 1958 with an added authorization of $1 billion.

   b. That Title II be extended to June 30, 1958 with the authorization restored to $500 million.

   c. That Title III be continued except for Section 304.

   d. That in submitting this recommendation to the Congress, the President should advise the Congress of his conviction that local currency sales and barter should be regarded as temporary expedients, and of his opposition to permanent status for the legislation because of its conflict both with the Administration’s foreign trade policy and the Administration’s desire to further the removal of Government from business.

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2. The Council also requested Mr. Clarence Francis, Special Consultant to the President, and Assistant Secretary of Agriculture Earl Butz to undertake a study of alternative measures for the disposal of agricultural surpluses.

[Here follows consideration of the effect of regional economic integration on United States trade.]

Paul H. Cullen
Lt. Col., USA

73. Letter From the Acting Deputy Under Secretary of State for Economic Affairs (Kalijarvi) to the Chairman of the Council on Foreign Economic Policy (Randall) ¹


DEAR CLARENCE: Reference is made to the conclusion reached in the CFEP meeting of November 20 that an extension of Public Law 480 should be recommended, with certain revisions.

Time was not available in that meeting to consider several recommendations for legislative revision which the Department of State was prepared to submit to the Council. In view of the Department’s interest in this matter, it would be appreciated if the following suggestions could be considered in the detailed development of the legislative program.

We suggest adoption of the recommendation by Mr. Hall in favor of an amendment to restrict sales under Title I to commodities owned by the Government or for which the Government is committed as a result of price support programs, in amounts exceeding a reasonable carry-over. Our experience to date indicates that this would be more effective than handling the problem by administrative action.

In order to provide stronger statutory safeguards against displacement of commercial trade, the Department recommends that Section 101(a) be amended by including the underlined inserts, as follows:

¹Source: Department of State, Central Files, 411.0041/11-2356. Official Use Only. Drafted by Nichols and by Howard Gabbert of the International Resources Division, Bureau of Economic Affairs.
“(a) take reasonable precautions to safeguard usual marketings of the United States and those of friendly third countries and to assure that sales under this Act will result in increased consumption and will not unduly disrupt world prices of agricultural commodities.”

The Department also wishes to recommend that the Act be amended to provide a new subsection under Section 104, as follows:

“104(k) for financing programs of the international exchange of persons activities under the programs authorized by Section 201 of the United States Information and Educational Exchange Act of 1948, as amended (22 U.S.C. 1446).”

In connection with the deletion of Section 304, which was favored in the CFEF meeting of November 20, the Department believes that authorization for barter is not needed in P.L. 480 and would preferably be omitted in any extension of this legislation.

We believe that these revisions would increase the constructive possibilities of the legislation and further strengthen the safeguards against dangers which were noted during the discussion by the Council. We will be glad to discuss the proposals with interested agencies and look forward to assisting in every way we can in the further preparation for action by Congress.

In view of the decision to recommend an extension of Title I operations, the Department suggests that the possibility of making this Title applicable to Bloc countries be examined as part of the proposed review in the near future of sales policies and related legislation bearing on the question of trade with the Bloc.

Copies of this letter are being sent to Messrs. Brundage, Francis, and Butz.

Sincerely yours,

Thorsten V. Kalijarvi

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2 Printed from a copy which bears this typed signature.
Memorandum of Discussion at a Meeting of the Clarence Randall Working Group, Washington, November 26, 1956

The meeting was called by Mr. Randall to decide on the Administration’s program of trade legislation for the forthcoming Congressional session. In addition to Mr. Randall, the White House was represented by Jack Stambaugh, Ed Galbreath, Roemer McPhee and Gerald Morgan. Agency representation was substantially similar to that of the CFEP. Among those present were Messrs. Overby, Kendall and Dan Throop Smith of Treasury; Mr. McClellan of Commerce; Mr. Burmeister of Agriculture; and Mr. Cooley of ODM. Messrs. Kalijarvi, O’Connor and Frank attended for State.

OTC

It was noted that the first public announcement of the Administration’s decision to resubmit the OTC to the Congress was made that morning (November 26) by Secretary Weeks in his speech before the National Foreign Trade Council. Mr. McClellan said that Commerce plans to get all the mileage possible out of Weeks’ speech.

Mr. Randall expressed his confidence that the OTC would go straight through the Congress but others, including Mr. McClellan, said they expected it would be a tough fight.

Mr. Kalijarvi suggested that John Leddy should again be given the task of coordinating interagency staff work for the OTC, and that the White House should designate someone for liaison with public groups as well as someone to handle Congressional relations. Mr. Randall agreed with the suggestion about John Leddy. He also noted that the White House Congressional liaison was being organized on a functional basis so that a single individual would carry through on a particular subject both for the House and the Senate. It was announced that Jack Martin, who unfortunately was out of town, had been assigned the OTC job.

It was agreed that the amended OTC bill should be reintroduced. The possibility was discussed that only supplementary hearings need be held in the House, perhaps by the Boggs

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1 Source: Department of State, International Trade Files: Lot 57 D 284, OTC. Limited Official Use. Prepared by Isaiah Frank.
2 H. Roemer McPhee, Special Assistant at the White House.
3 Gustave Burmeister, Assistant Administrator for Agricultural Trade Policy and Analysis, Foreign Agriculture Service.
Subcommittee. Mr. Randall felt that so far as the House was concerned the less beating of drums the better. Mr. Kalijarvi pointed out that one of the first things to be done was to check with Jere Cooper. Mr. Randall said that as soon as Jack Martin returned, Mr. Morgan and Mr. Kalijarvi should get together with him and discuss tactics.

Authority for Customs Reclassification

Mr. Kendall explained the Treasury position that the Administration should not request advance authority to put into effect the recommendations on tariff reclassification which the Tariff Commission is scheduled to make by March 1958.

The principal reasons given were: an effort to get such advance authority in the forthcoming session would dilute the effort on OTC; we do not know what the Tariff Commission will come up with; and it will open up opposition to the effect that Congress is being asked to buy a pig in a poke.

It was also decided that the Tariff Commission should be pressed to complete its report by March 1958, and Mr. McPhee was requested to follow up on this.

Frelilnghuysen Bill

This is the bill to increase the present customs exemption for returning travellers from the present $500 to $1000. All agreed that it was a good idea to include it in the President's program for the coming session.

Preparations for Trade Agreements Legislation in 1958

Mr. Randall called for comments on the State Department draft of terms of reference for an interdepartmental working group to consider trade agreements renewal legislation. Only Agriculture responded. They indicated they wished to add something to the Department's proposal but would submit it in writing.

Mr. Kalijarvi suggested that the interagency working group might be the same one that would work under John Leddy on the OTC preparations. Mr. Randall indicated that the latter was an action job whereas the former required a study group. In any event he suggested that the personnel of the group not be chosen until after the first of the year.

Both Mr. Morgan and Mr. Overby hoped the activities of such a group would be kept confidential. Otherwise, the knowledge that the Administration was preparing to seek new authority would arouse suspicions and adversely affect the prospects for OTC.
Tax Concessions

Dan Throop Smith gave a number of reasons why the Administration should not again seek legislation to provide tax concessions on income from foreign investments.

1. It is just about impossible to separate out exporters from bona fide investors. As a result, the legislation would get us into the problem of export subsidies with the danger of countervailing duties being applied against us.

2. It would mean singling out a single piece of tax legislation for the benefit of a certain group rather than introducing it, as originally planned, as part of a package.

3. There is already a good bit of opposition to the Western Hemisphere tax provisions. Resubmission of the general tax concession proposals might result in reopening the whole subject of the existing Western Hemisphere concessions.

4. The oil companies would oppose the bill since they want both tax depletion and the new tax concession, and not just a choice of either as provided in the Treasury proposals.

Mr. Randall expressed the view that the subject of tax concessions to stimulate foreign investment requires further study and stated that he would ask Forrest Siefkin of his staff to undertake such a study. Mr. Siefkin is from International Harvester and has had considerable experience in the tax field. Mr. Randall thought that one aspect that should be looked into is the possibility of investment of mutual funds in foreign undertakings.

75. Letter From the Chairman of the Council on Foreign Economic Policy (Randall) to the Acting Deputy Under Secretary of State for Economic Affairs (Kalijarvi) 1

Washington, November 27, 1956.

Dear Kal: May I make this suggestion by way of reply to your letter of November 23 on the subject of Public Law 480? As soon as it can be done after our return from the Pacific, I shall call another meeting of the CFEP to consider questions having to do with the administration of this law, as distinguished from the law itself.

At that time, I shall be very glad to afford you an opportunity to present to the Council itself any proposals that you may wish for

1 Source: Department of State, Central Files, 411.0041/11–2756.
amendments to the law, even though some of them may require reconsideration of the formal actions taken on November 20.

Personally, I feel that it would be inappropriate for the Administration to suggest amendments.

This is a bad law. We all know it. We are therefore struggling to meet the practical situation without perpetuating a law which we wish circumstances did not require.

I hope the Administration will make it clear that it believes the law to be bad and, therefore, one to be extended for the minimum term.

For the Administration itself to suggest amendments does two things which I believe to be undesirable: (a) it takes the edge off our criticism of the law and suggests that we ourselves are trying to shape it towards permanency; (b) it invites Congress to make amendments, and we would get them by the bushel. We would have amendments to the amendments.

I hope you will find this procedure satisfactory.²

Sincerely yours,

CBR

²In a letter to Randall, December 1, Kallajarvi replied that the Department of State continued to believe that adoption of the proposals in his letter of November 23 would not require reconsideration of the actions taken in the Council meeting on November 20. He added that some of the Department’s objectives could be partially achieved by administrative arrangements without actual revision of the P.L. 480 legislation. (Ibid.)

76. Editorial Note

Documentation on the Eleventh Session of the Contracting Parties to the General Agreement of Tariffs and Trade is in Department of State Central File 394.41 and ibid., GATT Files: Lot 59 D 563, Boxes 448–450; Lot 63 D 181, Box 271; and Lot 63 D 208, Boxes 272–273. The texts of the decisions, resolutions, and reports of the Eleventh Session are printed in Basic Instruments and Selected Documents, Fifth Supplement, January 1957. A list of the United States Delegation to the Eleventh Session, and an informal summary of the session results are printed in Department of State Bulletin, October 29, 1956, page 686, and ibid., December 3, 1956, page 893. A classified summary is in Current Economic Developments, No. 507, Novem-
77. Memorandum From the Acting Deputy Under Secretary of State for Economic Affairs (Kalijarvi) to the Chairman of the Council on Foreign Economic Policy (Randall) ¹

CFEP 528/8


SUBJECT

Sales of Surplus Agricultural Commodities to Bloc Countries at World Prices

This question was recently considered by the Council and further consideration was expected at approximately this time. Recent developments, in the view of the Department of State, make it a matter of urgency that the Council should consider a modification of existing policy.

The Department recommends that United States policy should allow surplus agricultural commodities to be exported to Eastern European countries when political developments, in the opinion of the Secretary of State, indicate that it is in our national interest for these commodities to be exported for dollars at world market prices.

The Department believes that this recommendation is in accord with the views of the members of the Council. The prompt approval by the Council is sought. Upon such approval and following such consultation with Congressional leaders as may be determined to be appropriate, the Department would instruct the American Embassy in Warsaw to inform the Government of Poland that the United States is prepared to discuss some of the commodities in which Poland has recently expressed an interest. The change of policy would also place the Administration in a position of readiness to take prompt advantage of other opportunities which might arise in Eastern Europe.

¹Source: Department of State, E-CFEP Files: Lot 61 D 282A, Disposal of Surplus Agriculture Products Abroad—CFEP 528. Confidential.
The attached comments on the problem and the recommenda-
tion are offered to indicate briefly the considerations and objectives
which require the attention of the Council at this time.

Thorsten V. Kalijarvi

[Enclosure]

SALES OF SURPLUS AGRICULTURAL COMMODITIES TO
BLOC COUNTRIES AT WORLD PRICES

The Administration has been concerned for some time with the
problem of establishing adequate means to exploit opportunities for
advantageous placement of surplus commodities in Eastern Europe.
This problem has been given particular urgency by the current
interest of Poland in acquiring United States cotton and other
agricultural and non-agricultural products if they are available at
world market prices.

The Administration emphasized to the last Congress the need
for flexibility in arranging transactions with Eastern European
countries if full advantage is to be taken of special circumstances
arising from time to time which cannot be foreseen in detail. The
importance of being in a position to capitalize on opportunities for
the employment of surpluses to foster foreign policy objectives has
become even more evident.

Title II of Public Law 480 can be used in cases of famine or
other emergency. Title III can be used for donations through private
organizations or international agencies. These authorities, however,
are not well adapted to all of the cases in which the interests of the
United States could be promoted by the use of surplus commodities.

At a later time it may be possible to arrange barter transactions
or sales for foreign currencies, but those programs are prohibited by
statute as regards countries in the Soviet Bloc at this time. Some of
the opportunities in Eastern Europe, however, call for prompt action.

There is legislative authority for sales of surplus commodities
for dollars at export subsidy prices. Such exports to satellite
countries are not prohibited by any statute, but they are not allowed
under the existing policy of the Executive Branch. Modification of
this policy to allow sales at the same prices which apply to U.S.
exports to other destinations could be accomplished quickly if the
Administration were to consider this to be advantageous.

2 Printed from a copy which bears this typed signature.
3 Confidential.
The current interest of Poland in cotton illustrates an opportunity of which advantage could well be taken through a modification of the dollar sales policy. Poland appears to be interested in purchasing 15,000–20,000 metric tons of U.S. cotton. This transaction would involve $10 million or somewhat more at world market prices. The indications are that the Government of Poland would need deferred payment terms, but would also insist that the transaction should be designed along commercial lines and not be accompanied by any political strings.

The National Security Council has decided that economic assistance in moderate amounts should be made available to Poland. It is felt to be highly desirable that the U.S. place itself in a position to explore with the Government of Poland practical ways by which assistance could be extended in meeting this requirement for cotton.

As a prerequisite to the undertaking of detailed discussions with Poland, the United States would need to be prepared to sell cotton at world market prices and to have some means of providing financing if credit is required. Section 401 of the Mutual Security Act could be employed to finance this sale, although the funds made available by that Section would not be sufficient to finance similar transactions with satellite countries on a continuing substantial scale. This Section would not be drawn upon for the Polish transaction if another source of credit were available. Because of the provisions of the Battle Act, however, there does not seem to be another source of credit readily available for the transaction immediately in view.

A modification of the existing dollar sales policy seems desirable in the particular case of cotton for Poland, and it also seems desirable to take the occasion to obtain a broader change of policy which would apply to any of the European satellites. This would avoid the necessity for obtaining separate exceptions if opportunities should arise later in the case of Rumania, Hungary, or some other Eastern European satellites.

We believe that the change of policy for Eastern Europe need not apply to the Soviet Union. There is no clear prospect of sales to that country. The change of policy could be accomplished by administrative action and therefore need not create a formal public differentiation which would threaten to prevent countries in the current situation of Poland from feeling able to enter into the type of transaction envisaged. The Far Eastern Communist countries are not likely, for the present at least, to present advantageous opportunities. We conclude that the existing policy should remain in effect for them.
78. Minutes of the 50th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, December 18, 1956

PRESENT

William H. Jackson, Special Assistant to the President—Acting Chairman
Thorsten V. Kalijarvi, Acting Deputy Under Secretary of State
W. Randolph Burgess, Under Secretary of the Treasury
Harold C. McClellan, Assistant Secretary of Commerce
Earl L. Butz, Assistant Secretary of Agriculture
D.A. FitzGerald, Deputy Director, International Cooperation Administration
W.B. Thorp, Chief, Office of Special Projects (ISA), Department of Defense
Victor E. Cooley, Deputy Director, Office of Defense Mobilization
Percival F. Brundage, Director, Bureau of the Budget
Joseph S. Davis, Member, Council of Economic Advisers
Robert Amory, Deputy Director (Intelligence), Central Intelligence Agency
Gabriel Hauge, Special Assistant to the President
Clarence Francis, Special Consultant to the President
I. Jack Martin, Administrative Assistant to the President
Joseph Rand, Acting Secretary, CFEP and their assistants.

I. CFEP 528—Authorities and Programs for the Disposal of Surplus Agricultural Commodities Abroad.

1. The Council on Foreign Economic Policy considered the recommendation of the Department of State, distributed to Council members on December 13, 1956 as CFEP 528/8, and agreed:

   a. That United States policy should be modified so as to allow surplus agricultural commodities to be exported for dollars at world market prices to Eastern European countries (except the Soviet Union) on a selective basis in the national interest; and

   b. That Congressional leaders be informed with respect to this policy.

Paul H. Cullen
Lit. Col., USA

1 Source: Eisenhower Library, CFEP Records. Secret.
Memorandum by Steven H. Rogers of the Trade Agreements and Treaties Division, Bureau of Economic Affairs


SUBJECT

Canadian Reaction to U.S. Foreign Economic Policy

There has recently been a resurgence of Canadian criticism, expressed both by government officials and in the press, of United States foreign economic policies which, the Canadians believe, have damaged markets for Canadian exports. Criticism has centered on the U.S. surplus disposal program, and especially during the past few weeks on the feature of tied sales. The Export-Import Bank and other programs which aid customers for American goods have also been mentioned as disrupting Canadian export trade.

It has been suggested that U.S. import barriers are unreasonably restrictive when compared with the liberal trade policy followed by Canada, which is both our best customer and our biggest supplier. Some Canadians think that the United States has not paid sufficient attention to Canadian interests in formulating its foreign economic policies, considering the degree of economic interdependence between the two countries. The situation has been aggravated by the traditional Canadian deficit in trade with the United States, which may reach one billion dollars this year, and by the small degree to which Canadians participate in ownership and management of Canadian corporations controlled by United States citizens.

In general, the reaction of Canadians to United States foreign economic policies which they believe have hurt them seems to be that Canada cannot possibly compete with the United States by establishing her own export-promotion programs, and that a complete withdrawal from a liberal trade policy would be unwise. However, there have been suggestions that pressures be brought to bear on the United States to change her policies, by cutting purchases of farm machinery and other United States products, by discussing the matters in international forums such as the meetings of the Contracting Parties to the GATT and the FAO, and in general by making their views and fears known to this country. A less cooperative attitude on the part of the Canadian Government toward American interests may already have been felt, and could be very

1 Source: Department of State, Central Files, 411.0041/1-1157. Official Use Only. Drafted by Steven H. Rogers, Forwarded January 11, 1957, by Frank to Edward C. Galbreath who requested it for CFEP Chairman Randall.
unfortunate in connection with American economic, political and military relations with Canada.

The remainder of this paper consists of examples of the Canadian attitude toward United States foreign economic policies as shown in diplomatic notes, public speeches and newspaper commentaries.

Canadian Government Reaction

The Canadian Minister of Trade and Commerce, C.D. Howe, told Parliament on August 9 that United States procedures for disposal of surplus farm products had been very harmful. After the public had become aware of the tied-sales clause in some P.L. 480 agreements, he said in a speech on October 9, according to the Montreal Star, that the United States is attempting to tie up markets for a long period of time.

Speaking in Milwaukee, Howe said on October 16:

There is, in the Canadian view, nothing to be gained by one country attempting to dump its surplus problems on to the other. This can only have the effect of making the whole problem worse. I believe that we in Canada have practiced what we preach. Our wheat has all been sold for Canadian currency, which, as you know, is as hard as the United States dollar, at steady prices and there has been no subsidization of production or export sales.

A Canadian note delivered to the Department of State on September 4 included the following:

The Canadian Ambassador is . . . ² under instruction to express, as has been done on several previous occasions, the serious concern of the Canadian Government about the effects of the surplus disposal activities of the United States upon commercial markets for wheat, and particularly upon markets which under ordinary competitive conditions would be supplied by Canada. Notwithstanding these representations, the United States has increased the pace of its wheat disposal activities with the effects upon commercial markets that the Canadian Government had forecast.

. . . The evidence suggests to the Canadian Government that the main result of the various surplus disposal programmes has been to reduce ordinary commercial markets and to cause serious damage to the interests of friendly countries, such as Canada, which, unlike the United States, depend so largely upon the export of wheat.

In discussing the tied-sales feature of the agreement with Brazil, the note referred to "discriminatory practices, so clearly at variance with the professed objective of the United States Government in matters of trade." The note concluded with the statement that the Canadian Government is "much perturbed by the use of economic

² All ellipses are in the source text.
aid as a device to prevent Brazil from exercising a free choice in spending dollars to buy wheat."

At the Eleventh Session of the Contracting Parties to the General Agreement on Tariffs and Trade, Mr. Isbister \(^3\) of the Canadian delegation discussed the surplus disposal problem at a plenary meeting with special reference to the United States.

... His Government had made clear to the United States Government its concern about the increasing number of countries whose markets were being affected by surplus disposals. With respect to wheat, of direct concern to Canada, he recognized the willingness of the United States to consult at all times, but his Government had noted with regret that its representations were having less effect upon the actual transactions in this field. In the view of his delegation, damage to normal trade was particularly likely to arise when the United States required a country purchasing a surplus on concessional terms to commit itself to purchase an additional quantity from the United States for dollars. This was a discriminatory practice preventing other exporters from competing and this question should be further studied by the United States delegation and Government.

... To the extent that the exports of other countries were adversely affected, their ability to maintain a high level of imports was impaired.

—Taken from Summary Record

[Here follow critical Canadian press reactions to the United States surplus disposal program as well as official Canadian criticisms of other United States policies.]

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\(^3\) C.M. Isbister, Director of the International Trade Relations Branch, Canadian Department of Trade and Commerce.
80. Memorandum of a Conversation Between the Deputy Under Secretary of State for Economic Affairs (Dillon) and the British Commercial Minister (Garran), Department of State, Washington, April 26, 1957

SUBJECT
British Views on Wool Textile Tariff Quota

Mr. Garran, at his request, called upon Mr. Dillon. He said his primary interest at the moment was the wool textile problem which arose as a result of the exercise by the United States of its reservation on wool under GATT. Mr. Garran reiterated the British view that tariff quotas should be sparingly resorted to and pointed out the effects such a quota would have on the sizeable British trade in the item. He said he hoped the United States would set the level of imports to enter at the lower duty under the tariff quota at as high a percentage of domestic production of wool textiles as possible.

Mr. Dillon told Mr. Garran that discussions were scheduled for the afternoon and that he would know more of the progress of the report to the President at that time. He assured Mr. Garran that the Department was giving most careful consideration to the British views. In answer to Mr. Dillon’s inquiry into the arrangement the British might find most acceptable Mr. Garran said that he rather hoped that six and one-half per cent of domestic production could enter as imports at the lower duty and that the minimum figure of five per cent would not be settled on. Mr. Garran described the nature of the British textile trade and the advantage of the higher figure. Mr. Dillon thanked Mr. Garran for his explanation.

Mr. Garran inquired into the status of the legislation on OTC. Mr. Dillon said it was difficult to speculate on the chances of action.

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1 Source: Department of State, Central Files, 411.006/4–2657. Confidential. Drafted by Warrick E. Elrod, Economic Officer, United Kingdom and Ireland Affairs.

2 On September 28, 1956, President Eisenhower issued Proclamation 3160 establishing a quota for certain woolen and worsted fabrics. It provided that the ad valorem rate of duty applying to most imported woolen textiles would be increased when such goods exceeded 5 percent of the average U.S. annual production calculated over 3 years. The President’s action was authorized under paragraphs 1108 and 1109a, Section 350 (a) of the Tariff Act of 1930, and under the Geneva Protocol to the General Agreement on Tariffs and Trade, signed October 30, 1947. For texts of the White House announcement of the wool quota and the President's proclamation, see Department of State Bulletin, October 8, 1956, pp. 555–557.

3 H.R. 6630, which authorized U.S. membership in the proposed Organization for Trade Cooperation, was introduced in the House of Representatives in April after the President sent a special message to Congress urging its passage. For text of the message, April 3, 1957, see ibid., April 22, 1957, p. 657. The House Ways and Means Committee subsequently discussed the OTC bill in executive session but neither scheduled hearings nor voted formally on the bill. The Senate Finance Committee took no action on the bill.
on the OTC bill, but that he felt that when legislative committee hearings were held strong proponents of OTC would come forward to testify. Mr. Dillon pointed out that the OTC (ITO) had got off to a rather bad start in the beginning (1947) but that over the years its supporters had increased, some of whom came from industries originally in opposition. However, Mr. Dillon added that a long contest was still to be fought and that liberal trade policy would likely be a major issue in the coming year. Mr. Dillon told Mr. Garran he remained an optimist until, and, in the event of defeat, even after, a battle were lost. Mr. Garran said he was pleased to find such optimism when most observers were generally pessimistic on OTC.

Mr. Garran briefly mentioned the ODM hearing on woolen textiles scheduled for June 3. Mr. Dillon said he had spoken with ODM Chairman Gray and learned that the hearing was to consider a long-standing petition that imports of woolen textiles constituted a threat to national security as defined under Section 7(b) of the Trade Agreements Extension Act of 1955. Mr. Dillon added that the hearing was mandatory and should not be considered as indicating any ODM position on the merits of the case.

81. Letter From Minister of External Affairs Casey to Secretary of State Dulles

Canberra, March 13, 1957.

MY DEAR SECRETARY OF STATE: I am attaching a memorandum prepared by my Ministerial colleagues concerning setting out the Australian attitude towards the disposal of United States Agricultural surpluses.

I had hoped for an opportunity to have had a few moments' discussion with you on this subject, but I am afraid there will not now be an opportunity.

I am,

Yours sincerely,

R.G. Casey

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1 Source: Department of State, Central Files, 411.4341/3–1957. Transmitted to the Department of State as Enclosure 1 to despatch 447 from Canberra, March 19.

2 Printed from a copy which bears this typed signature.
Enclosure 2

DISPOSAL OF UNITED STATES AGRICULTURAL SURPLUSES

1. The attitude of the Australian Government towards the farm surplus problem has been made known to the United States Administration on a number of occasions over the past two or three years. It may be summarised as follows:

(a) Australia recognises that the problem of surplus production is, in many respects, a result of the great efforts made by United States agriculture to meet the special problems of war and post-war world food shortages.

(b) It is also recognised that, the world having emerged from the position of food shortages, the necessary re-adjustments of the level and pattern of United States farm production pose very great economic, social, and political difficulties for the Administration, as well as for farmers themselves.

(c) The Australian Government appreciates that the United States Administration has made substantial progress towards restoring a reasonable balance between production and market opportunities for a number of commodities. Recent legislation, including particularly the "Soil Bank" programme, appears to offer promise that further progress will be made towards solving the fundamental problem of excess production, which gives rise to farm surpluses.

(d) In spite of these developments, however, the fact remains that existing stocks of surplus farm commodities constitute a continuing threat to the stability of world trade in these products.

(e) The Australian Government has never sought to deny these surplus products entry into world trade channels. Nor has it ever sought to obstruct their disposal, on generous concessional terms, for consumption by needy peoples who would not otherwise be able to purchase like commodities under commercial trading conditions. But the Australian Government has striven consistently to ensure that the arrangements made by the United States and other countries for the disposal of surplus stocks on concessional terms should cause the least possible disturbance to traditional commercial trading patterns. It has felt entitled to claim that the legitimate trade interests of Australia, and of other countries, should be respected. Whilst we cannot hope, in respect of each and every transaction, to eliminate the possibility of some damage to our interests, the Australian Government regards as completely reasonable its request that the United States should so arrange its disposal programme that the disruptive effects of individual transactions are reduced to a minimum.

(f) The Australian Government has taken the view that undue disturbance of commercial trade can be avoided only if the parties to

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3 Reference is to Title I of the Agricultural Act of 1956 (P.L. 540), enacted May 28, 1956. The soil bank program, by providing financial incentives to farmers to withhold lands from cultivation, was designed primarily to reduce farm surplus production. For text, see 70 Stat. 188.
a concessional disposal transaction afford other countries, whose interests are likely to be affected, the opportunity for effective consultations. To be effective, such consultations must represent far more than advice that a disposal transaction is being negotiated. They must provide for the transmission of information concerning the proposal in sufficient detail and in sufficient time for the interested country to examine the proposal usefully, and to make known its views to the parties to the proposal. And above all, the whole procedure of consultations can serve no purpose unless the representations made in the course of consultations are given full and genuine consideration by the country disposing of the surpluses.

(g) This view has received general endorsement by all international bodies (F.A.O., G.A.T.T., etc.) which are concerned with the problem of the disposal of surpluses. Indeed, the United States itself has subscribed to the G.A.T.T. Resolution which explicitly recognizes the place of consultations in surplus disposal activities.

2. In accordance with the attitude summarised above, the Australian Government has endeavoured to operate procedures for friendly and constructive consultations with the United States on all disposal transactions of interest to us. Considerable material, relating to particular transactions and to the markets and commodities of interest to Australia, has been provided for the use of the United States Authorities. One of the difficulties which we have experienced is that there appears to have been frequent changes of personnel in the branches of the United States Departments concerned with disposal activities. The Australian Government would hope that officers taking over new appointments are acquainted with the material provided by Australia so that full consideration may be given to the representations made from time to time.

It is a matter for regret by the Australian Government that the consultative procedures have not always proved effective. The recent Indian transaction⁴ illustrates the difficult position in which the Australian Government is placed unless the United States, by providing adequate time and information and by giving full consideration to our representations, is prepared to make the consultation technique worthwhile. The Australian Government would hope that the United States will, in the future, pay particular attention to this point.

3. Apart from the question of consultations referred to above, there are two aspects of the United States surplus disposal activities which are of growing concern to the Australian Government. The first is the apparent tendency by the United States to regard a concessional disposal transaction as a means of determining the

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⁴ On August 29, 1956, India signed an agreement with the United States at New Delhi to purchase over $360 million of surplus U.S. commodities over a 3-year period. For further details, see Department of State Bulletin, September 17, 1956, p. 454.
pattern of commercial imports of a particular country. The Australian Government has no quarrel with the principle that a country obtaining farm commodities on concessional terms from the United States should undertake to purchase on a commercial basis, without distinction as to source, stated minimum quantities of the same products. Provided the level of the "minimum guaranteed commercial purchases" is realistically related to the normal commercial imports of the country concerned, this device could be a very useful safeguard to commercial suppliers. However, it is an entirely different proposition when the recipient country is obliged, as a condition of a concessional arrangement, to obtain a disproportionate share of its commercial imports from the United States. The use of concessional sales techniques to induce importers to thus "tie-up" their commercial purchases for the benefit of the United States is, in the opinion of the Australian Government, contrary to every concept of fair trade practices.

4. The second important point of concern to the Australian Government is the suggestion that it is completely open to the United States to take advantage of so-called "fortuitous" marketing opportunities to move surplus stocks on concessional terms. This point may be illustrated in two ways. It has been suggested that if, for example, Japan requires unusually high imports of wheat in a particular year, other wheat exporting countries should have no ground for complaint if the United States meets the exceptional import demand by supplying surplus stocks on concessional terms, even if in the same year another country (e.g. India) should require substantially less-than-normal imports. Again, it was suggested in discussions on the recent Ceylon transaction that Australia would not be affected by the importation by Ceylon of concessional United States flour, since the United States flour would replace flour which would have been imported from France had not that country suffered crop damage. The Australian Government cannot accept the principle implied in these suggestions that the supply of goods to meet "abnormal" market opportunities such as these should be regarded as the prerogative of the United States disposal authorities. Such "abnormalities" are, of course, characteristic of normal commercial marketing. The "ups and downs" of the market, in different places or at different times, to some extent offset each other. The removal, as a result of United States disposal policies, of the opportunity for other exporters to "make good" reduced trade in one market by additional trade to another, or to compensate low shipments at one time by higher shipments at another time, is a pronounced destabilising factor in world trade in primary products.
5. The Australian Government would hope that the United States will review its attitude on these two specific aspects of its surplus disposal policies.

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82. Minutes of a Cabinet Meeting, The White House, Washington, April 12, 1957, 9-10:15 a.m.¹

THE FOLLOWING WERE PRESENT

President Eisenhower

Under Sec. of State Herter
(for Sec. Dulles)
Sec. Humphrey
Sec. Wilson
Deputy Atty. Gen. Rogers
(for Mr. Brownell)
Mr. Summerfield
Under Sec. of Interior Chilson
(for Sec. Seaton)
Sec. Benson
Sec. Weeks
Sec. Mitchell
Sec. Folsom
Director Brundage, and
Deputy Director A.R. Jones
Mr. Gordon Gray
Dr. Saulnier
Mr. Arthur Larson, USIA
Mr. Harris Ellsworth, CSC
Mr. Warren B. Irons, CSC
Asst. Sec. Butz, Agriculture
Mr. Don Paarlberg, Agriculture
Gov. Peterson, FCDA
Gov. Adams
Gen. Persons
Mr. Rabb
Gen. Goodpaster
Gen. Cutler
Dr. Hauge
Mr. Shanley
Mr. Morgan
Mr. Martin
Mr. Jack Anderson
Mr. Patterson
Mr. Minnich

[Here follows discussion of health insurance for government employees.]

Polish Economic Assistance—Sec. Herter ² briefly reviewed the Polish request for economic assistance and stated that the Department of State was pretty well convinced that the Gomulka regime was making a determined effort to avoid being a Moscow tool. He indicated that the Polish request was larger than what the United States could do in terms of money but that adequate action might be accomplished through the P.L. 480 program if the new legislation is approved. Any agreement must await Congressional action on this

² Christian A. Herter became Under Secretary of State on February 21.
legislation. The President commented on his recent meeting with three exiled Polish leaders who very much favored the aid program.

Mr. Herter noted the Canadian interest in any agreement involving surplus wheat. He said that it seemed possible to work out something that would not affect Canadian shipments of wheat. The Poles could not fill their requirements completely from Canada, since Canadian credits are not available. The President noted the importance of avoiding any new cause for difference between Canada and the United States. Mr. Butz stated that he had told Canadian officials that the United States would not send any wheat to Poland without Canadian concurrence.

[Here follows discussion of payments in lieu of taxes.]

83. Letter From Acting Secretary of State Herter to Minister of External Affairs Casey


DEAR MR. MINISTER: Before leaving for Bonn, the Secretary asked me to reply to your letter of March 13, 1957, in which you enclosed a memorandum on surplus disposal. He had hoped to be able to give you a detailed reply to the points which you raised. However, since these matters are complicated and involve several agencies of the Government it has not yet been possible to give them the full consideration which they warrant.

I assure you that the United States endeavors to conduct its disposal activities in a way that will minimize the disruption of normal marketing patterns, and our search for safeguards against injury to the trade of friendly competing countries is a continuing process. The possibilities for modifying our consultation and programming procedures along lines suggested by your memorandum

1 Source: Department of State, Central Files, 411.4341/5-457. Drafted by Robinson.
are being explored, and I have requested other interested agencies of this Government to give the matter their urgent attention.

Most sincerely yours,

Christian A. Herter

2 Printed from a copy which bears this stamped signature.

84. Memorandum From the Acting Secretary of State to the Director of the International Cooperation Administration (Hollister) 1


SUBJECT

Australian Protest Over U.S. Surplus Disposal Programs

The Minister of External Affairs of Australia has recently sent the Secretary a memorandum on U.S. agricultural surplus disposal. 2 Because it sums up so well the attitude of Australia and other friendly exporting nations towards our surplus disposal programs, I am taking the liberty of sending you herewith a copy together with a copy of my reply. 3 I am also enclosing a memorandum which summarizes the Department of State's position regarding the specific objections raised by Australia. 4

These objections have been raised before, both by the Australians and others, but they have now become a source of considerable friction in our international relations and we feel that the time has come for the interested U.S. agencies to explore the possibilities of undertaking more effective remedial action.

I should, therefore, very much appreciate receiving your views on these matters, and any suggestions you might wish to make as to

1 Source: Department of State, Central Files, 411.4341/5-457. Official Use Only. Drafted by Howard Brandon of the International Resources Division, Office of International Trade and Resources.
2 Document 81.
3 Supra.
4 Document 86.
steps which could be taken to resolve the problems which have been raised.  

Christian A. Herter  

[Enclosure]  

Washington, April 30, 1957.

The Australians have long been dissatisfied with U.S. surplus disposal practices and have registered numerous protests in cases where they believe their interests have been affected. Similar representations have been made by the Canadians, not only in the recent wheat talks but also by the Prime Minister in a letter to President Eisenhower. In his reply the President wrote, "I want you to know that it is the intention of all of us here to reduce to a minimum the points at which our respective interests diverge."  

While the Australians tend to object to our disposal programs as a matter of principle, even when injury to the Australian economy is slight, there does appear to be considerable justification for some of the points made, particularly the statements that consultation procedures are inadequate and that the United States uses special disposal programs to take advantage of fortuitous market opportunities to the exclusion of other suppliers.

As the agency primarily concerned with foreign policy, the Department of State must, of course, accept the primary responsibility for any shortcomings in consultation procedures. In light of recent developments, this Department feels that past practices leave something to be desired. Consultation in the past has consisted largely of informing friendly competitor nations of Title I agreements almost on the eve of their signature when there was little possibility of altering the programs, even if convincing arguments for so doing were advanced. There has been no consultation on Section 402 programs. While the United States must reserve to itself the final decision as to whether any proposed program should be carried out, consultation with interested friendly countries could round out our own thinking and provide a desirable balance in our approach to disposal problems. Meaningful prior consultation, moreover, could

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5 Herter sent an identical letter to Secretary of Agriculture Benson. No reply has been found in Department of State files.
6 Printed from a copy which bears this stamped signature.
7 Official Use Only.
8 Reference is to a letter from Prime Minister St. Laurent to President Eisenhower dated January 11 and Eisenhower’s reply of February 5. (Department of State, Presidential Correspondence: Lot 66 D 174, R–Z, 1957)
do much to improve our relations with other countries, regardless of substantive changes in our disposal programs. We should like, therefore, to work out with the other agencies concerned, particularly with the Department of Agriculture and ICA, consultation procedures that will substantially meet the desires of other exporting countries on this point.

With regard to fortuitous market opportunities, it frequently develops that a country that does not normally import a given agricultural product is forced to do so because of crop failure or other reasons. Similarly, a country that normally does import a given agricultural product may find its import requirements increased substantially in any one year. With rapidly growing populations, the incidence of such fortuitous market opportunities will likely increase in the future.

There can, of course, be no valid objection to our entering such markets as long as this is done on a competitive basis. A problem is created, however, if we satisfy these exceptional demands on concessional terms through one or another of our surplus disposal programs and render it almost impossible for friendly countries to participate in such markets on a commercial basis. Since increased requirements in some areas are commonly offset by reduced requirements in others, such practices obviously narrow the possibilities for export by other countries. While it is not suggested that we refrain from engaging in disposal operations where fortuitous market opportunities develop, we should use moderation and make every effort to leave to commercial competition, including our own, a substantial portion of such markets. Here again, we recognize that the Department of State may, to some extent, have been responsible for promoting programs that have virtually excluded other countries from commercial competition in certain markets.

In addition to the foregoing, the Australian memorandum also raised objections to the usual marketing provisions included in Public Law 480 agreements. The usual requirement under this heading is that countries obtaining commodities under Title I programs also take specified quantities of the same commodities from the U.S. on a commercial basis. The terms of PL 480 unquestionably require us to protect U.S. normal marketings. We should be pleased, however, if an alternative procedure more acceptable to other exporting countries could be worked out and thought is being given in the Department of State to such a possibility.
85. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Dillon) to the Secretary of State

SUBJECT

Proposed new tariffs on lead and zinc

As part of a proposal for a long range minerals program the Department of Interior is recommending additional tariffs on the importation of lead and zinc. This proposal is supported by Secretary Humphrey, and Dr. Hauge feels that some action to restrict imports is necessary, although he does not specifically approve the Interior Department's proposal.

The Department of Interior desires to send their proposals to the Congress in the immediate future and their report will be under consideration at the White House this week.

Such additional restrictions will have very damaging effect on our relations with Canada, Mexico, Australia, and to a lesser extent, Peru and Belgium. To take action now, as recommended by Interior, without a new study by the Tariff Commission would seem to violate our obligations under GATT, and therefore would seriously weaken our ability to protect the interests of U.S. exporters.

Even if it is decided, as a result of domestic pressure, that some action must be taken to increase tariffs, there is an important question of timing involved. To avoid embarrassment for the Canadian Government no public announcement regarding the possibility of such increases should be made prior to the election on June 10. Any announcement should also be delayed, if at all possible, until after the Buenos Aires Economic Conference in August.

There is attached as Tab A a memorandum more fully treating this subject, which has the concurrence of all the interested bureaus.

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1 Source: Department of State, Central Files, 811.2543/5-1557. Confidential. C. Douglas Dillon assumed his duties as Deputy Under Secretary on March 15.

2 The Economic Conference of the Organization of American States was scheduled to convene August 15 in Buenos Aires, Argentina. Secretary of the Treasury Robert B. Anderson headed the delegation; Dillon was assigned as his deputy. A list of the entire U.S. Delegation is printed in Department of State Bulletin, August 26, 1957, p. 363. See also vol. vi, pp. 497 ff.

3 Not printed.
Recommendations:

1. It is recommended that you discuss the matter with the President to determine whether it will be possible to avoid the imposition of additional tariffs on lead, zinc and fluorspar.

2. If, in the light of other Administration responsibilities, additional consideration must be given to the imposition of tariffs, it is recommended that you urge the President (a) to take no action without a new study and investigation by the Tariff Commission, and (b) to avoid any public announcement regarding the possibility of tariff increases until after the Buenos Aires Conference in August.

4 On May 17, Secretary Dulles discussed import taxes on lead and zinc with President Eisenhower. A memorandum from Dulles’ special assistant Richard D. Drain to Dillon, May 20, contains the following account:

“I discussed briefly the lead and zinc situation. The President felt we could not continually be refusing any protection without creating such an adverse Congressional sentiment that all our efforts to liberalize trade would be swept aside. I agreed the situation might call for some protective action, but felt strongly we should at first at least get the report from the Tariff Commission. Since this would take more time than the balance of Congress, he could perhaps indicate his willingness to act affirmatively if such a report showed that the present market condition was due to imports.” (Department of State, Central Files, 811.2543/5–2057)

86. Memorandum From the Director of the International Cooperation Administration (Hollister) to the Under Secretary of State (Herter)


SUBJECT

Australian Protest Over U.S. Surplus Disposal Programs

This is in reply to your memorandum of May 4 on U.S. agricultural surplus disposal to which was attached a memorandum from the Australian Minister of External Affairs, same subject.

We recognize that our foreign policies and our domestic policies may seem to be, and no doubt are, at times contradictory, and that there is little hope of fully reconciling them, in part because much of the difficulty results from Congressional action. Perhaps the Administration should make a more determined effort to assure that the Congress is aware of the foreign policy implications of domestic

1 Source: Department of State, Central Files, 411.4341/5–2057. Official Use Only.
legislation, particularly agricultural legislation, than it has done at times in the past. Would it be desirable for the Department of State to follow domestic legislative proposals more closely and to request an opportunity to be heard in every instance in which it appears that proposals may have a serious adverse effect on foreign relations?

We suggest also that it would be highly desirable to be clear among ourselves and to make clear to other countries the essential difference between Title I of Public Law 480 and Section 402 of the Mutual Security Act. 2 The essential purpose of the former is to dispose of agricultural surpluses on terms which may be concessional but at the same time designed to afford the greatest possible returns to the United States. Except for those few Title I agreements which have been initiated to provide economic aid in lieu of the use of the Mutual Security Act for such purposes and excluding political considerations, the objective has been to make sales which maximize financial returns to the United States and correspondingly minimize loans for economic development.

Since the enactment of PL 480, sales under Title I have constituted a significant proportion of international trade in agricultural products. Such sales may have interfered to some extent with other supplying countries' sales of such products. Because of the volume of Title I sales and because such sales may be concessional and intended to maximize returns to the United States, and minimize economic assistance to the buying country, it is understandable that other supplying countries would be concerned about interference with their own sales.

In the case of Section 402 of Public Law 665, the criterion is entirely different. The countries to which sales are made are selected upon the basis of judgment on the part of the United States that it is in the U.S. interest to provide them with economic assistance. The provision of this economic assistance, incidentally, is in the interest, in the long-run, of the whole free world and not only of the United States. Since we can provide economic assistance in an amount equal to the minimum earmarking of Section 402 only by the provision of agricultural products, it inevitably follows that this magnitude of economic assistance must be provided in this way or not at all. We should recognize that the provision of economic assistance in this form may interfere with sales which might otherwise be made by a supplying country and which the supplying country may consider normal marketings. We should not attempt to argue, therefore, that economic assistance provided as required by law in the form of

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agricultural commodities does not upon occasion interfere with normal marketings. We should recognize this fact frankly and at the same time point out the alternative would be the failure to provide such assistance.

In this connection it might be noted that Australia as well as other countries, such as Canada, are furnishing modest amounts of economic assistance under the Colombo Plan or otherwise. So far as we are aware, these countries, including Australia, provide such assistance exclusively from their own production. As it happens, the assistance they provide is usually in the form of products other than agricultural commodities, but the principle is the same. The provision by Australia of tractors to Vietnam or by Canada of a pumping station to India, may interfere with a sale which a United States producer otherwise might make. So far as I am aware we have not objected to this policy. We suggest that it is somewhat less than appropriate for other countries to object to the United States adopting the same policy in respect to only a small portion of the much larger magnitude of economic aid which this country is furnishing under PL 665. I feel, therefore, we should make no apologies in those instances in which provision of economic aid under Section 402 interferes with the potential sale of agricultural products by another supplying country.

The volume of economic aid under PL 665 provided in the form of agricultural products has been steadily declining. Back in the Marshall Plan days it amounted to nearly a billion dollars a year. Two years ago the Congress placed a minimum of $300 million on this form of assistance; last year the minimum was reduced to $250 million and, as you know, we are requesting the Congress again to reduce the minimum for next year to $175 million. We have felt that the provision of economic aid was sufficiently in the U.S. and free world interests to assure that we achieve the minimum required by the Congress to be furnished in the form of agricultural commodities, but we have not advocated programs—as perhaps we could have done and certainly many people feel we should—to substantially exceed these minimums.

Two further comments: First, ICA is fully aware of the sensitivity of other supplying countries on the matter of surplus agricultural products as we plan our Section 402 programs. We consult continuously with the Department of State and have advised that we have no objections to discussing the general scope and content of these programs in the Interagency Staff Committee on Surplus Disposals. Secondly, insofar as we are aware, only one complaint has been raised about our Section 402 program this fiscal year. This particular complaint involved less than one percent of the
entire program. It is suggested, therefore, that we are handling a sensitive problem with a fair amount of judgment and success.

Returning again to PL 480, primary responsibility for the sales agreements rests, as you know, with the Department of Agriculture. I assume, therefore, that you have posed the issues raised by the Australian Aide-mémoire to that Agency. Perhaps improvement in the Title I consultation procedure with other supplying countries can be worked out with that Department. In view of the very large current demands from other countries for PL 480 agreements in relation to the new authority likely to be available—I understand requests on file amount to $2.5 billion whereas the prospective new authority is only $1 billion—perhaps the selection of countries should be based largely, if not exclusively, on the need for economic assistance rather than on financial returns to the United States, and the sales agreements should provide the maximum amount of economic assistance authorized by the law. If this policy were adopted, it would be much more difficult for other supplying countries to claim that PL 480 agreements were interfering with sales which they otherwise could make.

I hope these observations are of some value to you. I shall be most happy to discuss the problem with you personally or to follow up with further discussions between our respective staffs.

John B. Hollister

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87. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Dillon) to the Secretary of State


SUBJECT

Tariffs on lead and zinc

At the conclusion of an hour’s session with Governor Adams, Secretary Humphrey and Secretary Seaton, it was decided to proceed with the recommendation for new sliding scale tariffs on lead and zinc. It is planned to present this program to the President during the course of the week and to bring it up for Cabinet discussion on Friday if he approves.

1 Source: Department of State, Central Files, 411.004/5-2357. Secret.
During the discussion it was pointed out that Congress was determined to legislate on this subject at this session regardless of the Administration's desires. The introduction of this legislation has been held in abeyance with difficulty by the promise that the Administration program would be sent to the Congress promptly. It was further pointed out that the President would not be in a position to veto such legislation unless there was an alternative Administration program providing immediate relief. A new Tariff Commission study would not be sufficient as an alternative.

I pointed out that such action seemed clearly in violation of the spirit of the GATT, if not of its letter. It was pointed out in return that if we should inform the Congress that they could not legislate on this subject because of our obligations under the GATT, this would certainly be a mortal blow to the OTC and probably a mortal blow to next year's renewal of the Trade Agreement Act. Therefore, it was not deemed practicable to make this argument to the Congress.

There was general consensus that Congress would desire to go considerably beyond the proposition to be submitted by the Interior Department and would only be held within bounds by the prospect of a veto for anything which surpassed the Administration's recommendations.

I was informed that as a result of my objections at the previous meeting the proposed new tariff on fluorspar had been dropped from the program.

I then objected to the details of the Interior proposal, pointing out that it was proposed to apply the new increases in a manner that seemed too abrupt. I suggested that the additional tariffs be applied in two steps, rather than all at once, using a graduated scale which, in the case of lead, would mean applying half of the additional tariff when the price went below 16 cents, and the remainder when the price went below 15 cents. This in contrast to the Interior proposal to apply the whole additional tariff when the price went below 16 cents. Secretary Seaton agreed to consider this and telephoned me later that the Interior Department would accept this change.

On timing I found that Secretary Seaton thinks he has a commitment to Senator Murray 2 to send a message to the Congress prior to June 1, and he proposes to brief the Republican leadership on it next week. I pointed out the effect that any such information might have on the Canadian election, and asked that every effort be made to postpone action until at least June 10, the date of the Canadian election, lest it be thought that the U.S. was acting in an

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2 James E. Murray (D-Mont.), Chairman of the Senate Committee on the Interior and Insular Affairs.
unfriendly manner toward the present Canadian Government. Governor Adams was not in the room during this part of the discussion and Secretary Seaton said that he would see what he could do, but he was not hopeful of being able to postpone the matter until June 10th.

Recommendation: (1) In view of the overpowering political arguments in favor of an additional tariff on lead and zinc it is recommended that you accept the proposal of the Interior Department as modified.

(2) That in the Cabinet discussion on Friday you make every effort to delay publication of this report until after the Canadian election on June 10th.³

³ Secretary Dulles approved both recommendations. The lead and zinc issue was neither formally scheduled nor informally discussed at the Cabinet meeting on Friday, May 24. (Eisenhower Library, Whitman File, Cabinet Meetings)

88. Memorandum of a Telephone Conversation Between the President’s Assistant (Adams) and the Secretary of State, Washington, May 23, 1957, 8:38 a.m.¹

The Pres signed the wool recommendation but we have not put it out yet.² A told the Pres he would call the Sec because of the contrary view from State. The overriding issue was statistics of the domestic wool industry which look pretty bad. A mentioned the combat with the cotton people and how they want to beat OTC and HRI and take authority away. We have to negotiate them out of business—according to them. The Sec said they indict State for making recommendations and think we don’t see their side. We are trying to make them see OTC is an organization which will give them a broader base of considerations when negotiations come up. A said on the basis of the jam we are in we are pushed in reluctantly—he wants OTC so signed. The Sec does not know if it makes a great

¹ Source: Eisenhower Library, Dulles Papers, Telephone Conversations. Transcribed by Phyllis Bernau.

² On May 24, President Eisenhower established a new tariff quota on woolen fabrics which stipulated that the rates of duty on imports in excess of 14 million pounds, estimated to be roughly 5 percent of average domestic production, would be 45 percent ad valorem instead of the lower rates which would normally apply. The texts of the White House announcement and the President’s letter of May 24, 1957, advising the Secretary of the Treasury of his action are printed in Department of State Bulletin, July 8, 1957, pp. 84–85.
deal of difference whether Congress pulls down our trade structure or we do it ourselves. A said it is one item. The Sec said it adds on to lead and zinc and the cumulative effect will satisfy the world they cannot depend on US markets. The whole purpose of our trade agreements is being frustrated. The Sec went into a discourse on this and mentioned lead and zinc. Under agreements we are not supposed to put duties on these unless 2 conditions prevail—there is a finding it is due to imports and unless some compensating benefits to trade are off(?) A said if he were to give an opinion re this he would think where things are so precarious it is better to make a couple of mistakes than to risk completely this whole structure. The Sec said we are throwing it away. Then A said that is strong. The Sec said they indict State for not recommending as they want but we point out what we consider foreign policy aspects and you decide knowing both sides. It will be bad for Mexico, Peru, Australia and to some extent Canada. The Sec said he told the Pres we support the Swiss watch thing—we tried for voluntary importation restrictions on lead and zinc and so on—and this when the country is enjoying prosperity.

89. Memorandum of a Conversation, Department of State, Washington, May 24, 1957

SUBJECT
Proposed Measures Affecting Lead and Zinc

PARTICIPANTS
His Excellency Señor Don Manuel Tello, Ambassador of Mexico
Señor Don Vicente Sanchez Gavito, Minister Counselor, Embassy of Mexico
Mr. R.R. Rubottom, Jr., Acting Assistant Secretary
Mr. William A. Wieland, Director, Office of Middle American Affairs
Mr. Louis F. Blanchard, Acting Officer in Charge, Mexican Affairs

The Ambassador referred to recent press notices indicating that the United States Government proposes to take some measures which will restrict imports of lead and zinc. Recognizing that the matter is internal, he nevertheless emphasized the adverse international results of such a move, citing references made by President

1 Source: Department of State, Central Files, 411.004/5-2457. Drafted by Rubottom.
Eisenhower to the international aspects in 1954, when attempts were made to raise import duties on these two metals. As a result of the President's interest on that occasion a stockpiling program was initiated which saved the situation. Mexico has since cooperated with the Administration's recommendation to limit exports voluntarily. Should duties now be increased or quotas established Mexico would find itself at a distinct disadvantage with respect to other countries that had failed to refrain from taking advantage of the measures adopted in 1954. Taken together, monthly average exports of Mexican lead and zinc amounted in 1953 to 28.9 thousand tons, as against 24.3 thousand in 1956.

Ambassador Tello mentioned the importance of lead and zinc to Mexico as two of the five most valuable factors in its foreign commerce. Contrasting the $831 million imports from the United States with United States purchases in Mexico of only $404 million in 1956, he cited cotton policies already adopted by the United States which resulted in losses for Mexico of some $96 million.

Commenting on the continued applicability of President Eisenhower's statement in 1954 that restrictions on importations of lead and zinc would be of doubtful benefit to the United States mining industry, he recalled that there were United States smelting concerns which depended exclusively on Mexican imports.

Mr. Rubottom explained that the steps now being considered derive from public statements made by the President promising to devise a long-term minerals program, and also from strong domestic political pressures, especially the western minerals producing States, calling for relief. The stockpiling program has resulted in glutting the market to the point where domestic producers are in need of relief and this program has also been very costly. While Mr. Rubottom himself has vigorously for some time past given full expression to the various international factors involved, it is nevertheless a fact that some defensive measures are going to be taken. Just what shape these measures will assume is not yet known. Referring to the marginal producers who would benefit from corrective steps, he pointed out that other countries also had marginal producers who were benefiting from the stockpiling program. Referring to decreases in imports cited by the Ambassador, he noted information in his possession showing increases in the value of lead and zinc imports by value since 1953; and with respect to cotton, he cited United

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3 On August 20, 1954, President Eisenhower wrote identical letters to the chairman of the Senate Finance and the House Ways and Means Committees explaining why he had decided not to raise the duties on lead and zinc; for text, see Department of State Bulletin, September 6, 1954, p. 339.
States estimates of Mexico’s losses as not exceeding some $12 million. He assured the Ambassador that despite the Department’s sympathetic view of the problems to be created for other producing countries, he was unable to make any hopeful statement regarding the outcome of the consideration now being given to a difficult domestic situation.

Mr. Tello repeated his assurance that Mexican producers had not taken undue advantage of the stockpiling program, as established by his figures, and asked that this be taken into account along with Mexico’s continuing deficit in foreign trade, and the fact that two very important exports will be affected, to say nothing of curtailment of subsidiary production of gold and silver. His immediate interest, however, is to ascertain just what measures will be taken, either increase in duties or establishment of quotas, or a combination of the two, in order that his Government may be informed as soon as possible. It will be necessary for him to have appropriate information along these lines in order to prepare adequate statements in support of his Government’s interests. Note No. 2745⁴ was left with Mr. Rubottom with this end in view. Mr. Rubottom assured him that this information would be made known to him as soon as it is available.

⁴ Not found in Department of State files.

90. Memorandum of a Conversation, Department of State, Washington, May 29, 1957 ¹

SUBJECT

Pending United States Action on Lead and Zinc

PARTICIPANTS

Mr. Norman A. Robertson, Ambassador of Canada
Mr. A.E. Ritchie, Minister, Embassy of Canada
Mr. R.G.C. Smith, Commercial Minister, Embassy of Canada
Mr. Dillon—W
Mr. Frank—ITR

The Ambassador said he was sorry to have to take the occasion of his initial courtesy call on Mr. Dillon to express his Government’s

serious concern about the Administration's decision to recommend to
the Congress increases in the lead and zinc tariffs. He left a note
(copy attached)\(^2\) which also expresses concern about a reported
decision to reinstate the barter program for imports of these and
other metals in exchange for surplus grain. In the Canadian view
both sets of measures would "cause serious damage to important
trade and economic interests and would be bound to have a pro-
found effect on Canadian-United States trade relations."

Mr. Dillon said we would check on the status of the barter
program but that, in any case, he was certain that any decisions with
respect to it were unrelated to the Cabinet decision to recommend
additional duties on lead and zinc.

Mr. Dillon went into some detail on the background of the
pending Administration action on lead and zinc. He noted that the
President, in vetoing a bill relating to minerals in 1955 and again in
a message this year, promised that the Administration would come
up with a program of assistance for the domestic minerals industry,
and directed the Department of the Interior to develop such a
program. Mention was also made of the Tariff Commission's recom-
mendations in 1954 for increased duties under the escape clause and
the fact that these were not adopted by the President. Instead, an
effort was made at voluntary controls and a program of stockpiling
was adopted. Mr. Dillon pointed to the recent situation in the
market for lead and zinc and the strong political pressures that have
been building up to assist the domestic industry. The tariff action to
be recommended will be the smallest increase believed necessary to
stabilize the domestic market and provide the required protection. In
fact, the recommendation to the Congress will be in the form of a
sliding scale duty under which even the existing duty would be
removed if the price rises above a certain point.

After sketching the background of the Administration's decision,
Mr. Dillon took up the point in the Canadian memorandum that the
proposed measures "would constitute a serious impairment of con-
tractual obligations by the United States." He noted that there were
provisions in the GATT which would permit this action to be taken:
Article XXVIII which would allow the unilateral withdrawal of
concessions on January 1, 1958; and Article XIX, the escape clause
provision, under which concessions may be withdrawn under cir-
cumstances of serious injury to domestic producers. He also noted
the legal possibility of such withdrawals taking place prior to
January 1, 1958 under the "special circumstance" procedures of the
declaration of March 10, 1955.

\(^2\) Not printed.
Mr. Dillon explained that we fully understood our obligation under those provisions to negotiate and to seek to provide compensatory concessions. If this were not possible, we recognized the right of affected countries to make retaliatory withdrawals of concessions. Mr. Dillon conceded the point made in the Canadian memorandum that the United States would not have enough authority left to offer adequate compensation. In the circumstances he saw one of three possible ways of restoring the balance of concessions between the United States and Canada. One possibility would be to wait until the Trade Agreements Act is renewed next year in the hope that an adequate basis for compensation would be provided in the new authority. The second possibility would be for the Canadians to withdraw equivalent concessions. The third possibility would be some combination of the first two. One consideration Mr. Dillon felt the Canadians should keep in mind is that the proposed action on lead and zinc has an important bearing on the prospects for renewal next year of the Trade Agreements Act. If the Administration could not or did not act on lead and zinc, many votes would be lost on the reciprocal trade issue next year.

The Canadian Ambassador stated that, however arguable the economic impact of the proposed measures may be, they were politically a major step backward in the relations between the two countries. Moreover, the prospect of reciprocal withdrawals was not something the Canadians would look forward to. He also questioned the proposed action in terms of hemispheric defense considerations, but Mr. Dillon noted that we were not trying to relate this action in any way to considerations of strategic necessity. Mr. Ritchie noted, nevertheless, that the action could have strategic consequences in terms of its effect on the sources of supply that the United States would have to rely on in an emergency. The Ambassador stated that the proposed action is particularly troublesome when added to the other problems in Canadian-United States trade relations, notably those arising from our surplus disposal program.

Mr. Dillon assured the Ambassador that throughout the inter-agency discussions on this subject the Department has been much concerned about the effect of the proposed action on our relations with Canada and had brought this aspect of the matter to the attention of the Cabinet. He indicated that the views contained in the Canadian memorandum would be given further consideration but he was not hopeful regarding any change in the decision.
Circular Instruction From the Department of State to Certain Diplomatic Missions

CA-10147


SUBJECT

New Increased Duties and/or Excise Taxes on Imports of Lead and Zinc

The Tariff Commission in 1954 found that lead and zinc were being imported into the United States in such increased quantities as to cause serious injury to the domestic mining industry. To remedy this injury the Commission recommended increased rates of duty. The rates recommended were 50 percent above those existing on January 1, 1945, the maximum permissible under trade agreements legislation.

The President at that time took no action on the Tariff Commission’s recommendations, but instead instituted stockpile programs to help domestic producers. The President’s 1954 announcement also contemplated voluntary action by the exporting countries to limit shipments so as not to take advantage of the U.S. stockpiling programs. Consultations were held with the major exporting countries at that time. The voluntary plan proved unsuccessful and imports of lead are up approximately 16 percent over 1954 levels and zinc up approximately 40 percent. Increases in imports have come from almost all exporting countries.

U.S. stockpiling programs are now approaching completion and, as part of a new long-range minerals program to be submitted to the Congress, the Administration is recommending that new excise taxes or a combination of duties and excise taxes be applied to imports of lead and zinc. The new rates will be approximately 3¢ per pound on lead and 2¢ per pound on zinc. These are slightly higher than the rates recommended by the Tariff Commission in 1954. It is proposed that the new rates be applicable on a sliding scale depending on the price of each metal. Proportional increases will also be recommended for lead and zinc ores and concentrates and lead and zinc semi-manufactures.

It is, of course, not known what action the Congress will take on the Administration’s proposals. The recent declines in lead and zinc prices have, however, precipitated considerable demands from producers, from labor and from the Congress for some kind of action to curb imports.

1 Source: Department of State, Central Files, 411.004/5-2957. Sent to Belgrade, Bonn, Brussels, Canberra, Copenhagen, Guatemala, La Paz, Lima, Madrid, Manila, Mexico City, Ottawa, Pretoria, Rabat, Rome, Tegucigalpa, and The Hague.
Representatives of the major producing countries in Washington have been informed of the Government's intentions. The Canadian, Australian, Belgian and Peruvian representatives, the principal producing countries which are also Contracting Parties to the General Agreement on Tariffs and Trade, were informed that the United States recognized that it had commitments under the Agreement with respect to tariff treatment to be afforded these products. Pending enactment of legislation, however, it has not been determined under which article of the Agreement the United States would act.

Dulles

92. Memorandum of a Conversation, Department of State, Washington, June 4, 1957, 5 p.m. ¹

PARTICIPANTS
Secretary of State Dulles
Secretary of Commerce Weeks
Assistant Secretary of Commerce McClellan
Under Secretary of State Herter
Deputy Under Secretary of State Dillon (for latter part of meeting)

Secretary Weeks opened the conference by stating that he had made a review of the situation on the Hill with respect to the ratification of the OTC and had found things in bad shape. Congressman Jere Cooper, Chairman of the Ways and Means Committee, had told Mr. Weeks that he was unwilling to ask the Committee to report the ratification instrument out unless a majority of Republican members of the Committee were willing to vote for it. A count taken by Mr. Weeks indicated that not more than four Republicans would be willing to vote in favor and that there was some doubt in the minds of one or two of these four.

Mr. Weeks went on to explain that antagonism to the OTC in itself was not the major consideration. The real question involved was whether or not next year the Congress would renew HR-1, the Reciprocal Trade Agreement Act. Mr. Weeks said that he had talked to Congressman Simpson of Pennsylvania who seemed to be the key Republican on the Committee with regard to the Reciprocal Trade

Agreements and Simpson had explained to him that the unpopularity was due to two causes: (1) the feeling that in the administration of the Act the Department of State had too large a voice and that consequently the plight of some industries in the U.S. when weighed against international considerations were not given sufficient importance; and (2) in the fifteen times when the Tariff Commission had recommended protective action for American industry, the President had approved only four times and rejected the recommendations on eleven occasions.

Mr. Weeks then explained that he felt that only some advance agreement with Mr. Simpson and his colleagues in regard to the set up of the Reciprocal Trade Agreements Act for next year could save the OTC as well as the Act itself. Such a trade might include changes in the administration of the Act which would give the Department of Commerce a larger voice in the recommendations, a stricter adherence by the President of the Tariff Commission’s recommendations, and a more precise definition with respect to the determining of “injury” to U.S. business interests.

Secretary Weeks then asked if Secretary Dulles cared to comment on this situation. The Secretary stated that he was deeply disappointed that the exporters from the U.S. whose total volume of exports reached four times the proportion of dutiable imports were not more vocal in supporting the Reciprocal Trade Agreements Act. The figures on the trend of our whole foreign trade position favored the continuing increase in foreign trade with very important export markets, but that generally speaking little support had been received from this source. He also stated that generally speaking foreign nations preferred a fixed quota rather than tariff increases because the former allowed them at least to count on a definite proportion of our market whereas the latter, in order to be really effective, was likely to shut them out entirely. Before the end of the discussion, the Secretary had to leave the conference and Deputy Under Secretary Dillon had joined the group. Secretary Weeks and Assistant Secretary McClellan were asked to reduce their suggestions for a possible trade into very specific terms so that we might have an opportunity of examining them.

Addendum

Since this meeting, Clarence Randall called Under Secretary Herter and stated that he had heard of the discussion. He likewise said that he had discussed this same matter with Secretary Weeks and had made the same recommendation, namely, that the suggested agreement with Congressman Simpson should be outlined in detail before further discussion. Mr. Randall did, however, indicate that he
thought perhaps some trade would be necessary if both the OTC this year and the Reciprocal Trade Agreements Act next year were to be saved.

93. Editorial Note

In a letter to President Eisenhower, dated June 12, covering several topics, Prime Minister Macmillan wrote:

"I must tell you very frankly that I was terribly disappointed at the decision reached on the wool textile tariff. Of course, I realise the pressures of some of your industrial interests. But we have to fight very hard for our exports, because we cannot live without them, and when one of our trades really makes a good show it is pretty disheartening to be cut down in this rough way. I do not know whether this decision is perpetual or whether it could be reversed in due course. It makes me feel very pessimistic about the growth of liberal concepts in the world. If countries with enormous surpluses and vast wealth resort to protection how can we expect countries in difficulties like Britain and France to move towards the freeing of trade." (Department of State, Presidential Correspondence: Lot 66 D 204, Macmillan to Eisenhower, 1957–1958, vol. II)

94. Memorandum From the Special Assistant in the Office of the Deputy Under Secretary of State for Economic Affairs (Leddy) to the Deputy Under Secretary of State (Dillon) ¹

Washington, June 14, 1957.

SUBJECT

Escape clause route for tariff increases on lead and zinc

If we were to be forced to use the escape clause provisions of GATT as justification for the proposed increases in the lead and zinc tariffs, we would run into some fairly serious difficulties:

1. The proposal has already been made public without a prior finding of serious injury. It is being put forward as a permanent

¹ Source: Department of State, Central Files, 394.41/6–1457. Confidential.
measure of tariff policy rather than as an emergency step to prevent serious injury in immediate circumstances.

2. It would be difficult to tie the present action to the escape clause findings of the Tariff Commission of three years ago, which were rejected by the President.

3. Presumably some sort of finding of injury (if the facts warrant it, which we don’t yet know) could be presented to the Congress by the Executive branch. But the failure in this single instance to use the Tariff Commission, which is assigned the responsibility for serious injury recommendations, would raise questions in Congress and elsewhere.

For these reasons, the use of the escape clause route (1) would make our presentation in GATT much more difficult than if we were to use Article XXVIII, and (2) might open the door to pressures on the Administration to handle other products in the same way. There would also be criticism that the Executive is circumventing the Tariff Commission, so far as the finding of serious injury is concerned, contrary to the intent of Congress as expressed in the Trade Agreement Act.

As you will see, the problem here is created not by the language of our international obligations under GATT—which is in fairly general terms—but by the consistent administrative practice which we have built up in attempting to fulfill those obligations in good faith. If the administrative practice is suddenly breached in an important case, the question of good faith will inevitably arise.

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95. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State


SUBJECT

Public Law 480

Since the enactment of Public Law 480 on July 10, 1954, surplus agricultural commodities have been disposed of in the following amounts: under Title I (sale for foreign currencies), some $2 billion ($3 billion at CCC cost); under Title II (primarily for relief purposes),

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1 Source: Department of State, Central Files, 411.0041/6-1557. Official Use Only.
$320 million; and under Title III (for numerous relief purposes and barter), $279 million.

From the standpoint of foreign relations P.L. 480 has its good and bad sides. On the favorable side it is to be noted that shipments for relief have gained good will in recipient countries without arousing resentment on the part of other exporting countries. Not only are agricultural commodities supplied recipient countries, but the local currencies generated are put to many uses serving U.S. foreign policy objectives.

Title I transactions have contributed to the basic food supply of numerous countries permitting them to use their own currencies for the purchases. This has enabled them to combat inflation and temporarily to balance their international accounts. Local currencies have been used with a few exceptions on a loan basis to promote economic development, and on a grant basis to bolster the defense capabilities of our allies. These currencies have also been used to pay U.S. obligations and to finance various U.S. programs. Good will has been gained in many recipient countries and the commercial market for U.S. agricultural products may possibly have been broadened.

On the unfavorable side the following points should be noted.

1. Some countries such as Pakistan, Spain, and Turkey have used Title I programs to escape from the consequences of poor economic policies. Thus they have avoided taking measures they otherwise would have had to undertake in order to set their economies in order.

2. There is a danger that programs can be developed beyond the capacity of recipient countries to carry forward with their own resources, especially over any protracted period of time. After the commodities are consumed the debt remains. The burden should not be beyond the capacity of a country to repay, or to make it dependent on U.S. charity due to a temporary program.

3. The program involves state trading, dumping and export subsidies on a large scale and violates the principles of trade we urge on other countries.

4. Sales under Title I and barter under Title III have displaced commercial sales of the U.S. and of friendly competing countries and have placed a serious strain on our relations with some of our best friends and staunchest supporters such as Canada. Most other nations which export agricultural products are dependent upon such exports for the bulk of their foreign exchange earnings and cannot compete with concessional sales from the U.S. They have, however, been patient because they regard P.L. 480 as a temporary expedient.

5. The Soviet Union has made political capital of our rice disposal program by buying rice in Asia where we have competed with Asian suppliers.

From the standpoint of foreign relations the disadvantages of P.L. 480 substantially outweigh the advantages. That is why we have opposed all efforts at making it a permanent institution. Over the
long-run concessional sales of this type are bound to generate retaliation. Our disposal program was one of the election issues in the recent Canadian political upset.  

2 On June 10, Conservative Party leader John Diefenbaker defeated Prime Minister St. Laurent, ending a 22-year period of Liberal Party government in Canada.

96. Letter From President Eisenhower to Prime Minister Macmillan


DEAR HAROLD: [Here follows brief discussion of the disarmament negotiations currently in progress.]

Of course I can understand your disappointment about the restrictions that we finally had to put on the import of wool textiles. I must explain, however, one phase of the problem that our friends should clearly understand.

This Administration stands firmly and squarely for liberalized and greater flow of trade among the nations of the free world. We have fought long and earnestly for acceptance of this doctrine in this country and, in executing the law, have time and again declined to listen to the special pleas of specialized industries in this country in order to promote the general concept of reciprocity and freer trade.

But while doing this we can never forget that the Congress has granted authority to the Executive for making reciprocal trade treaties only on a temporary basis. Once in a while there arises a case that has such great popular appeal that to decline flatly to give any of the relief contemplated by the law could easily result in a return of this country to its former high protection policy.

It is the task of deciding between these immediate and long-term damages to our friends—and to ourselves—that is difficult. I and some of my trusted associates spend many hours of hard study on such questions. If I should approve every recommendation made to me by the Federal Tariff Commission—a body whose responsibility it is to see that justice is done to American industry—the total effect over the past four and a half years would have been almost

1 Source: Department of State, Presidential Correspondence: Lot 66 D 204, Eisenhower to Macmillan, Correspondence 1957–1958, vol. II. Secret.
catastrophic, and we would be totally defeated in the effort to promote trade.

So I beg of you that you try to understand the situation. I shall continue to fight as hard as I know how for the concept of freer and greater trade. But sometimes I am impelled, on such a wide front as that on which I operate, to beat a local and—I hope—temporary retreat.

[Here follows discussion of the German decision to purchase an American instead of a British tank for the German army.]

I thoroughly enjoy and appreciate your letters.
With warm regard,
As ever
Minutes of a Cabinet Meeting, The White House, Washington, June 17, 1957, 9–10:20 a.m.¹

THE FOLLOWING WERE PRESENT

President Eisenhower

Sec. Dulles
Under Sec. Randolph Burgess
(for Sec. Humphrey)
Deputy Sec. Quarles
(for Sec. Wilson)
Deputy Attorney General Rogers
(for Mr. Brownell)
Mr. Summerfield
Sec. Seaton
Sec. Benson
Under Sec. Walter Williams
(for Sec. Weeks)
Sec. Mitchell
Sec. Folsom
Director Brundage and
Mr. Arnold Jones
Mr. Gordon Gray
Chrm. Ellsworth
Dr. Saulnier
Amb. Lodge

Asst. Sec. of Agriculture Earl Butz
(in part)
Mr. Don Paarlberg (in part)
Mr. Milan Smith (in part)
Acting Adm. of FCDA
Lewis E. Berry
Mr. Allen Dulles, CIA
Adm. Strauss, AEC
Mr. Arthur Larson, USIA
Lt. Gen. M. H. Silverthorn, ODM
(in part)
Mr. Robert West, ODM (in part)
Gen. Oliver Plicher, JCS (in part)
Gov. Adams
Gen. Persons
Mr. Rabb
Mr. Hagerty
Mr. Shanley
Gen. Cutler
Mr. Morgan
Dr. Hauge
Gov. Pyle
Mr. Martin
Mr. Jack Anderson
Capt. Aurand
Mrs. Wheaton
Mr. Patterson
Mr. Minnich

[Here follows discussion of Operation Alert 1957 and the national debt.]

Current Agricultural Problems—Sec. Benson, prior to a detailed presentation on agricultural surpluses, noted that farm prices and income are slightly better than a year ago, that markets continue to expand, that much of the improvement resulted from costly new Federal programs, and that Agriculture is anxious to secure further legislation making price support formulas more flexible. He thought that Agriculture might next January urge a special message by the President on this matter.

Mr. Butz presented a series of charts concerning surpluses in particular crops, CCC disposal programs, exports generally and specifically under P.L. 480, and use of foreign currencies. He noted the favorable situation regarding upland cotton where the world price still exceeds the US price after a large volume of US sales—all of this contrary to the fears expressed, when the United States first went into the world market, that the world price would fall drastically.

Mr. Butz reported the definite impression he secured during a recent world trip that foreign officials have a growing tendency to regard P.L. 480 as a permanent source of food supplies. He urged that efforts be made to clarify the temporary nature of P.L. 480 programs.

Mr. Butz also made a detailed presentation on the rigidity of the law governing price supports for cotton and the requirement for taking action that will not be in the best interests of cotton producers.

Sec. Dulles reported the difficulty experienced by the State Department in judging whether the advantages of P.L. 480 outweighed the disadvantages. He reported also the concern of the Canadians who hope that P.L. 480 does not become permanent.

Mr. Gray took note of the Senate subcommittee hearings on P.L. 480 and the probability that Sen. Humphrey will attempt to charge negligence in fulfilling Title III concerning stockpiling. He stated the question as being one of whether the United States had to acquire stockpile items regardless of foreseeable needs or lack of needs. He saw hearings as an effort to drive wedges between ODM and Agriculture. The President commented that the supplementary stockpile was established primarily as a convenience for Agriculture.

Sec. Seaton commented on letters received by him and Sec. Weeks from President Hoover urging study of possible expansion of the barter program. The President commented on his long standing belief that it was desirable to trade surpluses subject to spoilage for materials, especially minerals, not subject to spoilage. He recognized the difficulty of carrying on such a program at a time when Treasury is having difficulty raising funds. Sec. Benson noted also that barter arrangements frequently served only to replace cash sales.
98. Telegram From the Embassy in Canada to the Department of State

Ottawa, July 10, 1957—noon.

20. For State and Agriculture.

... today informed Embassy that attitude of present government toward US wheat disposal policies more bitter than that of previous government and that some form high-level representation to US is contemplated.

Under circumstances increased volume of official statements and press items critical of US disposal policies can be expected. Such statements and items undoubtedly will continue to give unfair and biased picture of US position.

I believe there is need for authoritative US statement designed put our wheat disposal policies in perspective and correct unfair and biased press presentations such as lead editorial in July 9 Montreal Gazette (Embell 17) and editorial today’s Toronto Globe and Mail (Embell 19). There is risk of course that such statement might harm our future relations with new Canadian Government. Certainly we cannot afford establish pattern of conducting Canadian-US relations by press release, particularly in absence passage sufficient time for establishment informal personal relationships between new cabinet members and their opposite US numbers.

Notwithstanding foregoing risk, occasion of signature bill extending PL 480 provides unique opportunity for President to make objective statement regarding surplus wheat disposal policies stressing humanitarian and long-term developmental aspects of PL 480. Such statement might invite other nations, including Canada, who are in position to do so to join US in work. Such statement I believe should admit that some damage has been done to export markets of free countries, although possibly not to extent that some countries feel. It would need to be drafted with utmost care to avoid starting new barrage of Canadian criticism.

Wheat situation has, in my opinion, considerable potential for damage to overall US-Canadian relations. I would appreciate your reaction to this suggested countermeasure. Embassy recognizes it may not be practicable for reasons of timing final congressional

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1 Source: Department of State, Central Files, 411.0041/7-1057. Confidential; Priority.
2 Not printed. (Ibid., 411.0041/7-957)
3 Not printed. (Ibid., 411.0041/7-1057)
action on bill. If approved, statement would I presume be drafted in Washington but Embassy would appreciate opportunity see and comment on draft prior its final form.

Merchant

99. Report Prepared by Herbert N. Blackman of the International Resources Staff, Department of Commerce

Washington, July 12, 1957.

STATUS OF JAPANESE VOLUNTARY LIMITATIONS ON COTTON TEXTILE EXPORTS TO THE UNITED STATES

1. Background

On January 16, 1957, the Japanese Government announced a five year program for the control of cotton textile exports to the United States. This program was developed after months of discussions between United States and Japanese officials. The Japanese set an over-all annual ceiling of 235 million square yards for cotton fabrics and cotton manufactured goods. Ceilings were established for 5 major groups of cotton manufactures and for a number of specific items, such as gingham, velveteens, blouses, shirts, brassieres, pillowcases, dish towels, etc. Provision was also made for consultation between the two Governments, should new areas of concentration of imports develop in the cotton textile field.

The voluntary action by the Japanese Government was the culmination of a series of efforts by the Administration to meet the growing problem of the adverse impact of low-cost imports on our domestic textile industry, in a manner consistent with the basic foreign trade policy of the United States and with the maintenance of friendly relations with Japan. As a result of the program and the discussions leading to it, escape clause actions on blouses and gingham were withdrawn, and the recommendation by the Tariff Commission for a sharp increase in velveteen duties was not accepted.

2. Industry Attitude

The domestic textile industry, as a whole, has welcomed the program as a stabilizing influence on the textile market, but always with the caveat that its success would depend on effective implementation. The one important exception to the favorable industry response has been the attitude of the Southern Garment Manufacturers Association. This group sponsored the anti-Japanese textile laws in Alabama, and South Carolina, and sought similar laws in other states. They have continued to withhold any indications of support although they have generally refrained from overt public attack on the program. Secretary Weeks and Assistant Secretary McClellan made special efforts this spring, including a meeting with the Board of Directors in Atlanta, to convey to the Southern Garment Manufacturers Association a better understanding of the situation. In these efforts they were assisted by leaders of the American Cotton Manufacturers Institute and the National Cotton Council.

Though the textile industry has responded favorably to the Government's efforts with respect to Japanese cotton textile imports, it has continued to oppose OTC, GATT and the Trade Agreements Program as it is presently administered and operated. Industry leaders, however, are giving careful thought to specific recommendations for what they would consider to be improvements in the legislation.

3. Implementation—United States

Both the Japanese and the United States Governments have adopted new measures to help the control program work. The United States (Commerce and Treasury) has revised completely its statistical classification of cotton textile imports. With this new classification and the import procedures agreed upon between Commerce and Treasury, a more precise identification of cotton textile imports will be possible. More detailed and useful data on imports of cotton textiles from all countries will be published monthly. These will show, among other things, United States imports of the items for which the Japanese have assigned specific quotas. A procedure has been arranged under which Customs Appraisers will verify the accuracy of importers' classification of cotton textiles. This should reduce the differences between Japanese export statistics and United States import statistics. The examination process by the Appraisers will cover all cotton textile imports for the first three months of the program (July—September 1957). After that the examination will be on a 10 percent sample basis.

Customs will also endeavor to identify all cases in which unauthorized transshipment is suspected. Information about certain
of these cases will be passed on to the Japanese Government for appropriate remedial action. The Census Bureau will also undertake a comparison and reconciliation of Japanese export and United States import statistics. This should provide further indication of the degree of success of the program and may also reveal possible flaws in enforcement.

4. Implementation—Japan

For their part the Japanese have instituted a comprehensive export licensing system which operates and is enforced both on the governmental level and also on the trade association level. A principal purpose of the licensing system is to prevent unauthorized transshipment to the United States. For the type of goods which are likely to be consumed in the United States, the sailing route of the vessel, the financial arrangements, and import policy of reported country of destination are checked. Also, in some cases a delivery verification certificate is required to be filed with the Government. Violators of the regulations may be refused further export allocations.

The Japanese Government is preparing special reports on shipments to the United States under the control program. However, the regular statistical export classifications have not been revised. This may lead to some confusion.

The Japanese statement of control procedures has been submitted only recently and is still being studied by the United States Government agencies.

5. Trends of Shipments under the Program

1957 statistics from United States and Japanese sources are available to date only for the first four months of the year. The United States import classification revision became effective as of July 1, so that data for the earlier months of the year are not entirely adequate. However, it is clear from the available data that imports of cotton products from Japan from January through April 1957 were well below the comparable period of 1956. In part this may be due to the complications in Japan involved in setting up control procedures.

On an over-all basis, United States imports of cotton textiles from Japan are reported at $23 million in the first four months of 1957 compared with $33 million in the same period of 1956, a drop of 30 percent. The biggest drop has occurred in the cloth group for which imports during January-April were more than 50 percent below the first four months of 1956. In the apparel field, shipments
from Japan of sport shirts, dress shirts and knit T shirts in the first
four months are well below the annual rate which the quotas permit.

On the basis of present trends and of reports from Japan, it is
probable that the cloth quota may not be taken up in full, but the
quotas for made-up goods probably will be.

6. Changes in Quotas

On July 9, 1957, the Japanese Embassy advised that the Japanese
Government had decided to take advantage of the provision in the
program which states, "within the over-all annual total, the limit for
any Group may be exceeded by not more than 10 percent." The
Japanese propose to reduce Group I, cloth, by 6.2 percent, to increase
Group II, certain made-up goods, and Group III, woven apparel, by 6
percent each and increase Group V, miscellaneous, by 10 percent.
These shifts are consistent with the program.

7. Special Problems

In the process of preparing and putting into effect the revised
United States import procedures a number of problems have come to
light.

First, it has been found that the definition of "gingham" used
by the Japanese for the control program excludes "gingham stripes".
This is at variance with generally accepted commercial practice in
Japan, the United States and other countries as well. The Japanese
contend that their definition was submitted in their original proposal
during the 1956 discussions. Such a definition was included in their
submission but no special note was made of it, nor was it accepted
by the United States side. There is no definition of gingham in the
final program. All during the discussions the Japanese stressed the
importance of adhering to accepted commercial standards.

Preliminary discussions have been started with the Japanese on
this matter. They have been informed that the United States takes a
serious view of the matter because "gingham" is one of the sensitive
items on which the success of the entire program will depend.

A second problem, which has come to light in the course of a
series of discussions with Customs personnel at New York early in
July, relates to transshipments. A number of cases have been found
in which significant quantities of blouses and ginghams have
reached the United States even though licensed by the Japanese for
other destinations (Panama, Switzerland, United Kingdom). These
cases are indicative of some of the devices which may be resorted to
by certain traders. They also cast some doubt on the effectiveness of
the Japanese transshipment controls. The Japanese Embassy has
already been advised of these cases. It is of interest to note that one
series of these cases was called to our attention by the Japanese who asked us to determine whether the shipments in question had actually been landed in the United States.

A few other relatively minor developments, such as an upsurge of corduroy apparel imports early in the year, were also informally brought to the attention of the Japanese. The Japanese expressed appreciation at receiving this information.

8. Discriminatory State Textile Laws

At the time of the establishment of the program the Japanese Government in a note indicated that it expected that the United States would take all feasible steps to eliminate discriminatory state textile legislation, such as that in Alabama and South Carolina. The Justice Department still has under consideration a proposal to take legal action against the States in question. Various efforts by textile industry leaders to obtain repeal have not thus far been successful. On the other hand, however, efforts to enact such laws in Georgia and Connecticut were defeated.

The seriousness with which the Japanese view these State laws is indicated by the fact that Prime Minister Kishi* raised the issue during his recent Washington visit.

9. Side Effects of the Program

The Japanese voluntary control program for cotton textiles has led to demands from other domestic industries and from Congressmen that similar procedures be followed for other commodities affected by import competition. In the case of wool fabrics and other wool products, the New England Congressional delegation in both Houses has been particularly active to this end. Considerable pressure has also been exerted for quotas or voluntary agreements with respect to plywood and stainless steel flatware. Thus far the Administration response has been that the cotton textile situation was "exceptional", in that the usual remedies, such as escape clause procedure, were not feasible and that other problems must be examined and resolved on the basis of the particular circumstances.

Except for Hong Kong, there is no indication thus far that other nations have sought to take advantage of the existence of Japanese controls by increasing their shipments to the United States. With respect to Hong Kong, there has been a very sharp increase in shipments of low cost shirts, largely flannel, to the United States. These appear to be shirts manufactured in Hong Kong from locally produced or Japanese fabrics. The Japanese have been very much

concerned about the increase of Hong Kong shirt shipments to the United States because they feel that Hong Kong is capitalizing on their controls. They are also concerned lest it be interpreted in the United States as an evasion of the Japanese control system. As a consequence, the Japanese are reported to be screening carefully and limiting shipments to Hong Kong of fabrics which might be used in production of shirts for the American market.

The increase in Hong Kong shipments has been sharp enough in recent months so that a demand from United States industry for limitations of Hong Kong shipments would not be surprising. This situation is being watched carefully.

100. Memorandum From the Under Secretary of State (Herter) to the Secretary of State


In recent weeks I have become more and more disturbed with regard to the implementation of the present P.L. 480 program.

In the Cabinet meeting when Secretary Benson outlined the program for Agriculture, he made the statement that, in his opinion, agricultural surpluses were being drawn down quite rapidly and that he had no further plans for asking Congress to extend the P.L. 480 program beyond fiscal 1958 or beyond the new $1,000,000,000 already requested of the Congress.

Last week I tried to get this statement checked with Under Secretary of Agriculture True Morse, and it was his impression that P.L. 480 would probably be continued, although in smaller amounts.

This program for the disposal of surplus agricultural commodities was instituted not primarily as an instrument of foreign policy but as a method of getting rid of unwieldy surpluses. However, the Department of Agriculture has felt obliged to push the disposal of these surpluses and, through its Agricultural Attachés abroad as well as through representations directly to embassies in Washington, has

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1 Source: Department of State, Central Files, 411.0041/7–2357. Confidential.
2 Presumably the Cabinet meeting of June 17; see Document 97.
3 Herter and Dillon discussed the issue of further Public Law 480 authorizations with Morse on July 15. (Memorandum of conversation, July 15; Department of State, Central Files, 411.0041/7–1557)
tried to increase the disposal of these surpluses through the medium of P.L. 480.

In the Executive Order allocating responsibility for making agreements with regard to the disposal, the State Department is given that task. In addition, we are given over-all responsibility for allocations. However, other responsibilities under the Act, such as the holding and disposal of local currencies, are allocated to other Departments and administration given to ICA. In addition, an inter-departmental committee chaired by Agriculture makes the actual allocations.

The new law should become effective any day. There have now accumulated requests for these surplus agricultural commodities totaling $3,600,000,000. We have made commitments to Poland and Pakistan totaling approximately $150,000,000. I have suggested that no further commitments be made until we know just where we are with regard to future policy.

The disposal of surplus agricultural commodities is now a tool of foreign policy of almost equal importance with the Mutual Security Act. For the underdeveloped countries, it is much the most effective medium whereby local capital formation for economic development can be obtained.

Recommendations:

I feel that, before further allocations are made, firm decisions, probably at Cabinet level, should be made on the following points:

1. Does the Administration plan to continue the program after July 1, 1958?

2. Since the demand now far exceeds the supply, should not primary responsibility for allocation be placed in the State Department by Executive Order?

3. Should not our talks with Canada, Australia, etc., with regard to disposals remain somewhat indefinite until No. 1, above, has been decided?

Christian A. Herter

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4 Reference is to Section 3(a) of Executive Order 10560, promulgated September 9, 1954; for text, see Department of State Bulletin, October 4, 1954, p. 501.

5 Printed from a copy which bears this typed signature.
101. Memorandum of a Conversation, Department of State, Washington, August 2, 1957

SUBJECT

Alabama and South Carolina State Textile Laws

PARTICIPANTS

Mr. Christian A. Herter, Acting Secretary of State
Mr. Henry Kearns, Assistant Secretary for International Affairs, Department of Commerce
Mr. William S. Kilborne, Special Assistant to the Secretary of Commerce
Mr. Leonard S. Tyson, Acting Deputy Assistant Secretary for Far Eastern Economic Affairs
Mr. Stanley D. Metzger, Assistant Legal Adviser for Economic Affairs (L/E)
Mr. Thomas C.M. Robinson, Assistant Chief, Commodities Division (CSD)
Miss Thelma E. Vettel, Assistant Officer in Charge, Economic Affairs

Assistant Secretary Kearns reviewed briefly the efforts which have been made by the Department of Commerce to obtain voluntary repeal of the laws in those two States which require the posting of signs by establishments which sell Japanese textiles. These efforts have been made by Secretary Weeks, former Assistant Secretary McClellan and Mr. Kilborne, working through representatives of the textile and other industries in Alabama and South Carolina. Mr. Kearns said that these efforts had not been successful. He said that although the interested people in those States were willing to permit the laws to remain unenforced, it would be impossible to get the proponents of the laws to reverse themselves so soon after their enactment (1956). It was his and Mr. Kilborne's opinion that repeal would probably be unobtainable for two or three years. Mr. Kilborne believed that if we were patient the laws would be repealed in time. He added that it was the opinion of Mr. Jackson of the American Cotton Manufacturers Institute that it would be a matter of several years before repeal could be obtained. Mr. Kearns said he believed legal action by the Federal Government at this time would have unfortunate effects domestically and might adversely affect current negotiations on Federal-State relations. He wondered if the Japanese Ambassador understood that these laws were, in fact, not enforced.

Mr. Kearns was informed that the Ambassador, as well as the Prime Minister and other Japanese officials and members of the Japanese textile industry had been informed of this fact.

1 Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199, August 1957. Confidential. Drafted by Vettel.
The Acting Secretary said that he believed the existence of these laws was disturbing to the Japanese regardless of their enforcement. He pointed out that foreign governments consider the mere existence of such laws to be a threat since they can be enforced at any time. He anticipated that we would hear more from the Japanese early next year if no progress had been made toward securing elimination of the laws. The Acting Secretary noted that the legislatures of some of the States meet only biennially and asked whether the legislatures of Alabama and South Carolina would meet in 1958. It was agreed that this information should be promptly ascertained.

The Acting Secretary requested that the Department of Commerce further explore the possibility of obtaining repeal of these laws and that the matter be reviewed again by the two Departments in the Fall. If efforts to obtain voluntary repeal of these laws are unsuccessful the Acting Secretary believed that it would be necessary to request the Attorney General to take legal action seeking their invalidation, but he agreed with Mr. Kearns that it would be desirable if this could be avoided. He emphasized the serious problem presented by the continued existence of these laws, regardless of their enforcement, pointing out that permitting these laws to remain on the books in violation of our Treaty of Friendship, Commerce and Navigation with Japan constituted an invitation to other States to pass laws of any sort without regard to our treaty obligations generally. He believed that the U.S. textile industry had a great responsibility in this matter.

Mr. Kilborne said that, with the exception of the Southern Garment Manufacturers Association, the textile industry was anxious to have these laws removed. Their efforts had been successful in preventing the passage of a similar law in Georgia, but Mr. Kilborne doubted that they had been instrumental in the defeat of the proposed legislation in Connecticut. He pointed out, however, that in the case of Alabama and South Carolina the problem was now in an area over which the textile industry had no control.

In reply to the Acting Secretary's question Mr. Metzger said that although in other respects the two laws were identical, the penalty in one case included imprisonment as well as a fine, while in the other the only penalty was a fine. He added that in his opinion the two laws were unconstitutional on two scores: they represented State regulation of interstate and foreign commerce, a field reserved to Congress under the Constitution, and which Congress occupied by the enactment of marking legislation under the Tariff Act of 1930, and they are in violation of the Treaty of Friendship, Commerce and

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2 See footnote 3, Document 60.

3 Public Law 361, enacted June 17, 1930; for text, see 46 Stat. (pt. 1) 590.
Navigation with Japan, and consequently invalid under the supremacy clause.

Mr. Tyson pointed out that the continued existence of these laws raised serious problems for the U.S. since it casts doubt on the ability and willingness of the U.S. to enforce its treaty obligations generally, it weakens the U.S. position in seeking corrective action when treaty commitments are violated by the Japanese and it gives the Japanese an excuse for imposing discriminatory restrictions against American products. It was pointed out that in this context Ambassador MacArthur had expressed concern over the existence of these laws.

With respect to South Carolina, the Acting Secretary wondered if an approach had been made to former Governor Byrnes. He believed that in view of his previous experience as Secretary of State, this was a problem which Governor Byrnes would fully understand, and that his influence might be more effective than that of the textile industry.

Assistant Secretary Kearns agreed to explore further the possibility of obtaining repeal and to be prepared to review the matter in the Fall. He expressed the hope that the Department of State would consider approaching Governor Byrnes.


102. Telegram From the Embassy in Peru to the Department of State

Lima, August 17, 1957—1 p.m.

149. For last three months Embassy has endeavored to keep Department accurately informed of effects on Peru of tariff increases on lead and zinc and Peruvian reaction, nevertheless Dillon was both surprised during his visit here by vehemence of that reaction (which took strong upsurge at that time due to House Committee’s hear-

1 Source: Department of State, Central Files, 411.004/8–1757. Confidential. Repeated to Buenos Aires for the U.S. Delegation at the Economic Conference.
ings) and impressed by particular hardships tariff increases will cause Peru (Embtel 115, August 8).

Adverse reaction continues to grow daily, with increasing anti-US emphasis. What is hardest for well-disposed Peruvians to understand is fact that Department and President support increases. Fact that final Congressional action may be worse does not impress them, nor does need for exceptions in interest of whole trade agreements program. Most unfortunate aspect is that Peruvians are increasingly convinced that both our good neighbor and commercial policies are fair weather ones which we are prepared to abandon when they come into conflict with material interest of any powerful US element. This is doing us serious damage on political plane and may well have long-term adverse political effects as well as bringing about retaliatory commercial action against US products.

I realize both extent of pressure in US and complexities of political picture but do wish to point out again real damage to US national interest here which any tariff increases on these metals will have Congressional passage of tariff increases and failure to act on bills authorizing sale of commercial vessels and loan of naval vessels will be badly received. Tariff increases by administrative action if Congress does not act will be worse unless some formula can be found such as that suggested by Dillon (Embtel 115) which will cause less injury to Peruvian mining industry and economy.

Achilles

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2 The House Ways and Means Committee held hearings on the Administration's lead and zinc proposals on August 1 and 2, 1957.
3 Not printed. (Department of State, Central Files, 411.006/8-857)
Memorandum From the Director of the Office of International Resources (Armstrong) to the Secretary of State

Washington, August 18, 1957.

SUBJECT

Lead and Zinc

Problem:

To determine the position of the Department with respect to a revised proposal for increasing import taxes on lead and zinc, as approved by the Senate Finance Committee on August 16.

Background:

On August 16 the Senate Finance Committee, by a vote of 11 to 2, amended a bill dealing with the tariff on mica by adding to it an important legislative proposal for increased duties on lead and zinc, at considerable variance with the Administration lead and zinc proposal. Senator Byrd was quoted as having said that the new legislation would not be reported out for Senate action until he obtained the views of the Departments of State and Interior. The mica bill, H.R. 6894, had already passed the House of Representatives, and action by the Senate to amend it by adding legislation on lead and zinc would throw the two proposals into conference. (The mica bill is not controversial.)

On the same day, August 16, the Chairman of the House Ways and Means Committee, Congressman Jere Cooper, addressed a letter to the President in which he pointed out that the President has ample authority under existing trade agreements legislation to provide whatever relief he may deem necessary to the lead and zinc industries, and also that the President can act more expeditiously in this way than would be the case if the Administration’s proposal were adopted. Congressman Cooper urged the President personally to review the situation and the proposal submitted to Congress. He said he was sure that the President would be convinced that he does have ample authority, and that by-passing the existing provisions of the trade agreements law would undermine the program. In his penultimate paragraph, Mr. Cooper suggests that, if the President does not exercise his authority under the Trade Agreements Act, the Congress “will be forced to study again the delegation of authority

1 Source: Department of State, Central Files, 611.0041/8-1857. Confidential. Delivered to Under Secretary Herter on August 19.
made to you under the trade agreements legislation". Mr Cooper's last paragraph says that the other 14 Democrats on the committee concur with him in the letter. (Copy of letter attached as Tab A.)

On Saturday morning there was a White House conference of legislative experts from various departments, and one of the items considered was the lead and zinc legislation. Mr. Houghland was present, and has informed me that the understanding of the meeting was that the original Administration position on lead and zinc legislation would continue to be supported in any response made to Senator Byrd or to Congressman Cooper. After the meeting I had a phone call from Under Secretary of Interior Chilson, who asked for help from our people in drafting appropriate responses. Officers of E worked with Interior officers during the day, and gained the impression that there was strong sentiment in the Interior Department towards acceptance of some of the more important features of the legislation approved by the Senate Finance Committee. The Department of Interior had an extensive conference on Sunday, August 18, with the lead and zinc industry, and reported to us that it had succeeded in obtaining agreement from the industry to a number of improvements in the legislation as it was approved by the Senate Finance Committee. Significant and important differences between the original proposal and the Senate Finance Committee proposal, as it will be amended by industry consent, nevertheless remain.

The most important difference is in the rates of duty. The maximum rate in the original three-step proposal of the Administration was 1.8 cents for zinc ore and 2 cents for zinc metal. The new proposal would establish rates of 2.1 cents for zinc ore and 3 cents for zinc metal. The new proposed rate on lead ore is $\frac{3}{10}$ cents higher than the maximum rate in the Administration proposal, and the 3 cents per pound on lead metal is the same. Furthermore, the Administration proposal had the virtue of applying the maximum rates only when the price of lead was below 15 cents and the price of zinc below 12 1/2 cents, with lower rates applied at higher prices. The new proposal would immediately apply the full rate at the time the materials fell below the target prices of 17 cents for lead and 14 1/2 cents for zinc. Thus the sliding scale feature of the Administration bill has been completely lost in the new legislation.

There is a fairly large number of lead and zinc products, with separate rates for each, but nearly all of the business is done in lead and zinc ore and metal. The increase of the zinc rate above that proposed by the Administration, and the elimination of the three-step sliding scale principle would mean that several friendly

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2 Not printed. For text of Congressman Cooper's letter, see Department of State Bulletin, September 23, 1954, p. 491.
countries which are now profoundly dismayed at the Administration proposal would be still more seriously concerned. They would consider the proposal far more onerous in its impact on their economies. (A table showing the existing tariff, the Administration proposal, and the Senate Finance Committee proposal is attached as Tab B.)\textsuperscript{3}

It is likely that the Department of Interior will, on the morning of Monday, August 19, seek our agreement to the Senate Finance Committee proposal in a modified form. The modifications, however, do not affect the main points set forth above, and we believe that we should not concur with the Department of Interior, and should insist that the Administration stick to its original proposal.

The letter from Congressman Cooper to the President occupies a secondary position in the eyes of the Department of Interior which proposes that a reply go forward later in the week.\textsuperscript{4} This reply would presumably be a refutation of the points made by Cooper. (It must be remembered that the Cooper letter does not represent a formal action of the Ways and Means Committee, but a partisan action.)

Recommendation:

That the Department maintain its position of rejecting proposals for such significant modifications of the Administration bill as would be encompassed by an increase in rates on major items or by dropping the sliding scale principle.

\textsuperscript{3} Not printed.

\textsuperscript{4} For text of President Eisenhower’s reply, June 23, 1957, see Department of State Bulletin, September 23, 1957, p. 490.

104. Memorandum for the Record, by the Under Secretary of State (Herter)\textsuperscript{1}

Washington, August 20, 1957.

SUBJECT

Lead and Zinc

At the meeting with the Leadership this morning, and at a previous briefing session with the President, it was made very clear

\textsuperscript{1} Source: Department of State, Central Files, 611.0041/8–1857. Confidential.
by the President that he felt badly that he should ever have approved of the so-called Administration Bill on lead and zinc. He told the Leadership that he would, of course, stand by his previous decision but that he would not approve the so-called Industry Amendment to the Mica Bill which jacked up the excise rates on these two metals above the figure agreed to by the Administration. He also indicated that if no bill came to him he would see that action was taken promptly under the Escape Clause by the Tariff Commission and had been assured that the Tariff Commission could act quite promptly so that from an industry point of view there would be little to chose between the two actions since the Administration Bill if enacted into legislation could not be implemented until January. He did, however, indicate that under the Escape Clause relief given to the industry would not be quite as great as under the Administration Bill.

C.A.H.

P.S.—Since this meeting word has come that the Senate adopted the Administration Bill as an amendment to the Mica Bill. Word has likewise been received that when this was sent over to the House it is likely never to be referred to any committee by the Speaker or probably sent to Ways and Means where it will probably rest until after this session. ²

² On October 4, in response to an application by the Emergency Lead–Zinc Committee of Washington, D.C., a domestic industry group, the Tariff Commission instituted its second escape clause investigation of lead and zinc imports.

105. Current Economic Developments

Issue No. 530

Washington, October 15, 1957.

Report on Canadian Talks with US and Commonwealth

Canadian and US cabinet members have completed a two-day meeting (October 7–8) in Washington exchanging views on current economic relations between the two countries. ² The talks did not

¹ Source: Department of State, Current Economic Developments: Lot 70 D 467. Limited Official Use.

² Copies of minutes of the 2-day conference are ibid., Secretary’s Memoranda of Conversation: Lot 64 D 199.
lead to any new policy decisions or commitments, but they were valuable in clearing the air and dispelling certain misunderstandings which have arisen on economic matters of concern to both countries, and laying the groundwork for discussing individual problems through normal channels. A week earlier, Canada played host at Mont Tremblant to a Commonwealth Finance Ministers meeting. The most significant development at Mont Tremblant was the Commonwealth decision to hold a Commonwealth trade and economic conference next year. Also of interest was UK Chancellor Thorneycroft's proposal for a UK-Canadian free trade area.

*Background* The US-Canadian meeting in Washington, October 7–8, was the third in a series of meetings of the Joint US-Canadian Committee on Trade and Economic Affairs, which had met previously in March 1954 and September 1955. The meeting was conducted in an atmosphere of cordiality and frankness, and the US found it valuable to exchange views on economic problems of mutual interest. Canadian officials have also expressed the opinion that the session proved exceedingly useful.

Four cabinet members from each country composed the Joint Committee. Representing the US were: Secretary of State Dulles (Chairman), Treasury Secretary Anderson, Agriculture Secretary Benson, and Commerce Secretary Weeks. Representing Canada were: Finance Minister Fleming, External Affairs Secretary Smith, Agriculture Minister Harkness, and Trade and Commerce Secretary Churchill.

The Joint Committee was established to provide an opportunity for the cabinet members primarily concerned with economic relations to meet informally from time to time to exchange views and to examine developments of mutual interest. This third meeting was especially valuable as it was the first occasion since the Canadian election in June for a group of cabinet members from the two countries to meet together. Some statements and actions during the past few months on the part of the new Canadian officials have occasioned us some concern—such as their criticism of US private investment policies in Canada, an apparent advocacy of a shift of 15% in trade away from the US, and new import restrictions. On their side the new Canadian officials were not familiar with the background underlying some US policies, particularly those relating to surplus agricultural disposals. These things combined to create misunderstanding and concern. It is hoped that the presentation of the US position has helped the Canadian visitors to view our mutual problems with an improved perspective.

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3 Reference is to the meeting of September 26, 1955, described in Document 47.
Washington Discussions At the meeting a wide range of subjects were examined, including domestic economic developments in both countries, certain trade restrictions, US surplus disposal policies, US investment in Canada, the possibility of US restrictions on lead and zinc imports, and a number of other specific questions of special interest to both sides. In the course of the review of current economic conditions, it was recognized that the two countries have a deep and continuing interest in each other’s economic stability and strength. In particular, representatives of the two governments expressed their full accord on the importance of a high level of business activity being maintained in their economies, and on the need for growth that does not endanger either internal or external economic stability.

Canadian Finance Minister Fleming, in his opening speech, dwelt on the unsatisfactory situation of Canada’s trade balance, particularly with the US. He expressed concern at the very high proportion of Canada’s external trade which is taking place with the US and at the fact that Canada has been importing much more from the US than it exported to the US. Secretary Dulles pointed out that all international transactions, invisible as well as visible, have to be taken into account in considering a balance of payments. He drew attention to the over-all strong balance-of-payments position of Canada and pointed out that Canada’s trading deficit with the US had been accompanied by an inflow of capital from the US, and that the rest of the deficit had been covered by Canada’s trade surplus and investment inflows from other parts of the world. In addition, Secretary Dulles pointed out that US leadership since World War II has been directly related to our trade imbalance which was financed by our aid programs and other special expenditures overseas. Canada as a close friend and ally certainly recognized the importance of the US maintaining its position of leadership. The US also stressed the dependability of the US economy both as a market and as a supply source for Canada.

While the Canadian ministers maintained that US surplus disposal operations have adversely affected Canadian wheat sales, the Canadians on the whole were unexpectedly mild in their statements and made no specific proposals. They emphasized particularly the harmful effects barter transactions have had on commercial marketings of all exporting countries, including Canada and the US. The US members affirmed to the Canadian ministers their intention in all surplus disposal activities to avoid, insofar as possible, interfering with normal commercial marketings. They gave assurance that under the present revised barter program, each barter contract must result in a net increase in exports of the agricultural commodity involved, and that interest must be paid until the strategic materials are
delivered or payment is otherwise effected for the agricultural commodities.

The Canadians made clear that they want to sell 300 million bushels of wheat abroad and indicated that they were considering a PL-480 type program of their own for India, Pakistan and Ceylon which would be in addition to their aid through the Colombo Plan. They did not, however, reveal any details or figures. The US stated that it would welcome such a program and would be glad to consult with the Canadians regarding it. The Canadians expressed some dissatisfaction with our previous consultations with them on US wheat disposals, which they felt had not affected major US disposal policies. However, they indicated their desire that such consultations be continued and it was agreed to do so.

The Canadian ministers expressed concern over the effect on Canadian producers which would result from any future action by the US to raise duties on imported lead and zinc. Secretary Dulles explained the background of the problem to the Canadians in considerable detail, making clear the possibility of Congressional action of a more restrictive character if the Administration does not take action. He put it in terms of an attempt to redress the imbalance which had developed between imports and domestic production. The US emphasized that any US action would be in accordance with the General Agreement on Tariffs and Trade and stressed the continuing need for imports of certain metals and minerals.

Regarding US investment in Canada, Minister Fleming said that he thought Americans had misunderstood statements of concern in this regard by Canadian leaders. He made it clear that Canada welcomed the inflow of capital and recognized its important contribution to Canadian economic development. The Canadian Government, he said, had no intention of promulgating any restrictive or discriminatory legislation, but expressed hope that American companies operating in Canada would develop and maintain closer relationships with the people of Canada. Note was taken of the recent supplementary tax convention between the US and Canada which was designed to facilitate greater Canadian participation in American-owned corporations operating in Canada.

On the matter of trade restrictions imposed by either country, and the lack of consultation thereon, it was fully agreed that these matters should be pursued in official channels. Among other things, the US mentioned the Canadian magazine tax problem, and Minister Fleming indicated that the Canadian Government would examine the problem carefully, but he made no commitment that action would be taken. The Canadians stressed particularly the marketing problems faced by their fruit and vegetable producers, and suggested the
possibility of restrictive action on imports of these commodities. Both governments were in accord on the need for continued support of the GATT.

There was very little discussion of the British proposal made the preceding week at Mont Tremblant for a UK-Canadian free trade area. The Canadians referred to this in passing, and Fleming said that the Canadians do not plan to establish any new preference scheme. He explained that Prime Minister Diefenbaker’s published statement about a 15% shift of imports from the US to the UK was not a proposal. Rather, Diefenbaker had said that if such a shift could take place it would solve Canada’s trade “imbalance” problem.

[Here follow sections on unrelated topics.]

106. Memorandum From the Chairman of the Interagency Committee on Agricultural Surplus Disposal (Francis) to the Chairman of the Council on Foreign Economic Policy (Randall) ¹

Washington, November 6, 1957.

SUBJECT

Extension of Public Law 480

At the meeting of the ICASD ² November 5, 1957 the following opinions were expressed:

a) that there is no basis currently in sight for anticipating overall reduction in surpluses—that unless and until there is a substantial change in our domestic policy, surpluses will continue. In these circumstances there is a risk amounting to a certainty that this “temporary” operation will become permanent.

Agriculture’s estimate of surplus:

June 1958—$7.2 billion (with present P. L. 480 authorization)
June 1959—$7.2 billion (with 2 billion P. L. 480 authorization for fiscal 1959)

¹ Source: Department of State, E-CFEP Files: Lot 61 D 282A, Extension of P.L. 480 for FY 1959-CFEP 558. Official Use Only. A copy of this memorandum was forwarded to the Council on Foreign Economic Policy under cover of a memorandum from CFEP Secretary Cullen on November 7.

² All members present: Agriculture, Budget, Commerce, ICA, State, Treasury.

[Footnote in the source text.]
Because of the current status of surplus there was unanimous agreement that the law should be extended through FY 1959.

b) A review (excluding financial authorization) of the several titles of the law indicated satisfaction with its basic provisions, with the following two exceptions:

Commerce would limit Title I sales to countries now unable and unlikely in the future to be able to pay dollars for additional agricultural commodities. They would in addition provide for sales for dollars on liberal credit terms to countries now lacking dollars but with prospects of having the ability to pay in the future. Commerce reserved the right to discuss this proposal before the CFEP.

Budget would prefer a reduction in Title I authorization and an increase in Title II. The Bureau’s argument is: (1) that the reduction in Title I (under last year) would maintain the Administration position that the Title is temporary and should be phased out; (2) that the increase would enable the disposal for aid purposes presently carried out under Title I. Title I would be reserved under this recommendation for currency sales motivated solely by domestic consideration of surplus disposal.

c) The mechanics for administering the law received unanimous endorsement.

d) Size of Authorization. State, ICA and Agriculture agreed on $1.5 billion (Title I). Commerce, Treasury and Budget advocated $1 billion primarily because they felt any larger amount represented a change in direction of the downward trend adopted as a policy matter last year by the CFEP. To counter this, Agriculture adduced the argument that regardless of the Title I authorization the Congress approves—whether 1, 1.5 or 2 billion—the total exports of agricultural commodities by the CCC will be less in FY 1959 than in FY 1958 and that this trend will be evident in 1960.

Budget recommended $1 billion with $500,000,000 for Title I and a similar amount for Title II. State strongly and specifically opposes Budget on the following grounds: such a proposal puts foreign aid in Title II of P.L. 480, would lead Congress to reduce aid funds for mutual security, would thus greatly diminish the flexibility of the Mutual Security program by prescribing aid only in agricultural surpluses. Agriculture also opposes on ground that the argument would not be well received by Congress.

e) Should legislation be enacted early enough in the fiscal year, Agriculture would desire to use funds this fiscal year. Budget objected to any expenditures over current basis.

f) There was unanimous agreement that including P.L. 480 transactions in calculations affecting price support was wrong in principle.
There was disagreement on the inclusion of such a correcting measure in the law as contrasted with its inclusion elsewhere as is now contemplated by Agriculture. While all would like to see correction, Budget was the primary exponent of “Do It Here and Now” and Commerce predicated its approval of any extension on the exclusion of this provision although it would not argue the tactical question. There was unanimous agreement that there is not now sufficient evidence of the effectiveness of the Cooley Amendment to warrant a judgment about it.

There was agreement that no recommendations pertaining to the Battle Act\(^3\) be included in this Bill.

Speaking personally I am continually disturbed by our supply and demand position. It is not improving noticeably despite many palliatives. Throughout the world our current customers are endeavoring to become self sufficient on food and fibre needs. As they succeed in increasing supply at home, demand for our products will lessen and while that is proceeding we provide an incentive support at home at such a level as to guarantee a profit even to the inefficient producer.

Public Law 480 fails to strike at the root of our trouble and may even create greater problems.

However, until something more basic is in sight, I conclude that a continuance of P.L. 480 is advisable. I am led to believe that the Secretary of Agriculture proposes to recommend some fundamental changes in the price-support and other domestic programs, but we are understandably not privy to these plans and must therefore make judgments on the basis of the present.

I concur in the majority opinions above expressed.

As regards the financial authorization on where there is divided opinion, I prefer the higher figure. With that amount shipments might well be maintained at current levels. The choice seems to lie between increased authorization and increased surpluses. I prefer the former and experience indicates we can maintain that rate without ill effects—State and ICA seemingly would join me in that statement. I am not impressed with the sentiment expressed that an authorization larger next year than this would create misunderstanding. By authorizing a smaller amount, I think we would be fooling ourselves more than our neighbors.

In conclusion, I recommend an extension of P.L. 480 for one year (through June, 1959) with an additional authorization of $1.5

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\(^3\) Reference is to the Mutual Defense Assistance Control Act of 1951 (P.L. 213) sponsored by Congressman Laurie C. Battle of Alabama and enacted on October 26, 1951. It provided for the suspension of U.S. economic aid to nations supplying strategic materials to Communist nations. For text, see 65 Stat. 644.
billion for Title I, no change in Titles II and III. I further recommend that the Administration assure itself that P.L. 480 disposals are excluded from the escalator provision of price-support calculations. I am not prepared to argue tactics, but the present situation is wrong in principle, and unless we are assured of accomplishing the change by other means, then I recommend it be included in the P.L. 480 legislation.  

4 On November 12, the Council on Foreign Economic Policy agreed to a 1-year extension of Public Law 480 and an additional $1½ billion authorization for Title I foreign currency sales. The Council further agreed that the legislation should be considered temporary and that the current U.S. policy of exercising restraint in barter transactions and foreign currency sales should be continued. (Eisenhower Library, CFEP Records, Significant Actions in the Field of Foreign Economic Policy)

107. Editorial Note

Documentation on the Twelfth Session of the Contracting Parties to the General Agreement on Tariffs and Trade is in Department of State Central File 394.41 and *ibid.*, GATT Files: Lot 59 D 563, Boxes 448–450; Lot 63 D 181, Box 271; and Lot 63 D 208, Boxes 272–273. The texts of the decisions, resolutions, and reports of the Twelfth Session are printed in *Basic Instruments and Selected Documents*, Sixth Supplement, March 1958. A list of the United States Delegation to the Twelfth Session and an informal summary of the session results are printed in Department of State *Bulletin*, November 11, 1957, page 768, and *ibid.*, December 23, 1957, page 1004. A classified summary is in *Current Economic Developments*, No. 534, December 10, 1957, pages 7–16. (Department of State, *Current Economic Developments*: Lot 70 D 467)
108. Letter From the Assistant Secretary of State for Economic Affairs (Waugh) to the Special Assistant in the Department of the Treasury in Charge of Tax Policy (Smith)  


DEAR MR. SMITH: On December 9, 1954, you were kind enough to forward for our information and comment a revised version of the proposal for tax legislation dealing with foreign corporate income.  

It is clear, I believe, that the revision is a great improvement over the corresponding sections of last year’s House Bill (H.R. 8300), although I was not sufficiently close to the controversy which developed on these sections last year to judge whether the revised proposal will meet the problem presented by the foreign wholesaling activities of United States enterprises. However, the revision would appear to exclude some kinds of enterprises having substantial interests abroad whose activities are significant in terms of our foreign economic policy objectives.

In this connection, I think there has been some misunderstanding of the position of this Department. We are not opposed to extending the benefit of a reduced income tax rate to an American firm operating abroad solely because part of its income is derived from the sale of commodities or products of United States origin. Where such an enterprise has a permanent establishment abroad involving a substantial investment, its eligibility for a reduced rate designed to facilitate foreign investment would seem to be justifiable. Clearly, as the Randall Commission stated, “the reduced rate should not apply to income from exports which do not involve the risks of investment abroad”. I quite understand the difficulties of

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2 Source: Department of State, Central Files, 811.112/2-755. Drafted by Robinson, and concurred in by Jack C. Corbett, Director of the Office of International Financial and Development Affairs, and Isaiah Frank, Deputy Director of the Office of International Trade and Resources.
3 Not printed. (Ibid., 811.112/12–954)