

THE BRITISH COMMONWEALTH OF NATIONS

UNITED KINGDOM

CONCERN OF THE UNITED STATES OVER THE FOREIGN EX- CHANGE POSITION OF THE UNITED KINGDOM¹

841.50/1-1847

The Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, January 18, 1947.

No. 714

The Secretary of State refers to the Embassy's report No. 1449, the *Commercial and Economic Weekly* for December 2, 1946.²

The Department has taken special note of the section in the foregoing report entitled "Export Drive and Dollar Parsimony," in which the Embassy refers to recent pronouncements on the part of British Government officials dealing with the allegedly unsatisfactory dollar exchange position of the United Kingdom. In general, the Department is inclined to agree with the Embassy's belief that this series of statements has been undertaken with an eye to the future rather than the present. The possible motives for such action advanced by the Embassy appear to be plausible. Another motive that had been suggested in the Department before receipt of the Embassy's report was a possible desire on the part of the British to utilize the sterling balances as a means of strengthening the United Kingdom's export position after the present seller's market will have run its course. According to this view, the British may not object to the passage of some time before they reach settlements on the sterling balances. In the meantime, they will use those balances to maintain or extend the United Kingdom's trade position in the creditor countries. It was also suggested that the recent emphasis on balance-of-payments difficulties might be a first step in an attempt by the British to obtain a concession with regard to Section 10 of the Financial Agreement,³ such concession to consist of the privilege of paying the funded part of the sterling settlements in inconvertible sterling, that is with British exports.

¹ For previous documentation, see *Foreign Relations*, 1945, vol. VI, pp. 1 ff.

² Not found in Department of State files.

³ For text, see Department of State Treaties and Other International Acts Series (TIAS) No. 1545, or 60 Stat. (pt. 2) 1841.

For the confidential information of the Embassy two British officials, in conversation with officers of the Department, have already intimated that the United Kingdom may wish to postpone implementation of some of the provisions of the Financial Agreement.

Sir David Waley ⁴ and Mr. Gordon Munro (the latter attached to the United Kingdom Treasury Delegation in Washington) met with Mr. Ness, Director of OFD, on November 21.⁵ Sir David reported the following area-by-area estimates of the gold and dollar deficits (-) and surpluses (+) anticipated in calendar 1947:

	<i>Billions of \$</i>
1. United States and Canada-----	\$-1.9
2. Argentina and other "hard currency" areas-----	-0.4
3. Sterling-area dollar requirements-----	-0.2
4. Gold from sterling area-----	+0.4
5. Total (net)-----	\$-2.1

He stated that because of political uncertainty in India, it was not deemed possible to approach that country for settlement before April, and that Egypt and other countries must be approached later. When Mr. Ness observed that this schedule left but little time before July 15, 1947, when the most important convertibility provisions of the Agreement go into effect, Sir David agreed and said that the United States might have to be prepared to consider postponement of these provisions under the "mutual agreement" clause. He alluded several times to the possibility that this Government might be asked to explain to the American people the difficulty under which the British are laboring. Mr. Ness observed that postponement would have grave political consequences here.

About a week before the foregoing conversation took place, Mr. Thompson-McCausland of the Bank of England spoke to Mr. W. G. Brown, Chief of CP, on the same general subject. Mr. Thompson-McCausland referred briefly to the sterling settlement negotiations and asked whether it would cause great concern in the United States if these negotiations were not concluded within one year from the date of the loan. He also asked what this Government's reaction would be if the British Government should say that it would be of help to them in getting satisfactory results in their negotiations if they could use the convertibility of exchange arising from current transactions as an additional bargaining weapon. In other words, would the United States be willing to waive this provision of the Agreement for a while in order to assist the British in working out a more satisfactory over-

⁴ Third Secretary, British Treasury.

⁵ A memorandum of conversation, not printed, is in file 611.4131/11-2146.

all solution of their financial problems. Mr. Brown stated that his immediate personal reaction was that this Government would find it almost impossible to agree to a modification of the Financial Agreement requirement that exchange from current transactions be made convertible within a year. Mr. Thompson-McCausland further said that he regretted that Lord Keynes, during the loan negotiations, had always talked in terms of sterling balances as a debt and in terms of funding a portion of them. Actually, they were not a debt; London was really holding the balances as banker. The balances were not blocked, but the British would want to control the rate at which they were expended in order to stop too great a drain on their production.

The Embassy's further comments from time to time on this subject will be welcomed.

Editorial Note

The Departments of State and Treasury viewed with concern certain provisions of the Anglo-Argentine Agreement of September 17, 1946, which appeared to have been inconsistent with the U.S.-U.K. Financial Agreement. Excerpts of correspondence exchanged between Secretary of the Treasury John W. Snyder and the British Chancellor of the Exchequer, Hugh Dalton, October 31, 1946-February 4, 1947, are in Department of State Wireless Bulletin 30, February 5, 1947.

841.51/2-647 : Telegram

The Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, February 6, 1947—6 p.m.

620. For Embassy and Gunter from State and Treasury. 1. Munro, UK Treasury Delegation, has informed Treas that British Govt (presumably President of the Board of Trade) intends to invite Emb representation to British interdepartmental meetings at which implementation of Section 9 of Financial Agreement is being discussed. Dept and Treas recommend that Peterson attend for Emb and Gunter for Treas¹ since they are fully acquainted with Dept's and Treasury's views concerning matter.

2. No statements should be made committing US Govt beyond restating general assumption that British will fully and completely implement Section 9. However, Peterson and Gunter should feel free to discuss problems fully, in order to obtain fullest possible delineation of British attitudes and plans. Dept and Treas particularly interested in British attitude toward use of provisions under Section 9 which

¹ Avery F. Peterson, First Secretary at the U.S. Embassy in the United Kingdom; John W. Gunter, U.S. Treasury Representative in the United Kingdom.

release Britain from full implementation of non-discrimination in exceptional cases. This includes prospective census of inconvertible currencies accumulated before Dec 31, 1946 (which, confidentially, Munro indicates will be made available to us) and British attitude on relation of these accumulations to implementation. Peterson and Gunter should also attempt to obtain explicit commitment with respect to application of Section 9 to colonial possessions, together with statement of British plans for insuring implementation in those possessions where control may not be exerted by British Govt through legislative channels. In this connection refer Dept instructions to London 596, Nov 29 and 618, Dec 9;² Dept instruction to Nairobi Dec 26;³ secret despatch 301, Dec 9 from Nairobi to Dept (copy to London);⁴ and Dept telegram 372, Jan 22.⁵

MARSHALL

² Instruction 596 not printed. Instruction 618 dealt with British alleged discrimination against the United States in Palestine, and requested that this situation be discussed with British authorities. (667N.1112/11-1346)

³ Not printed.

⁴ Despatch 301 was a response to telegram 92 of December 4, 1946, which said: "Since London discussions likely please prepare documented report types and instances violations U.S. treaty rights in Tanganyika, Kenya, Uganda and Zanzibar for possible use." The despatch was a memorandum commenting on the East African system of economic controls and the apparent importance of the violation of the treaty rights of American nationals. (648T.0031/11-2646, 12-946)

⁵ Not printed.

841.51/2-1747: Circular Instruction

The Secretary of State to Consular Officers in British Colonial Dependencies

RESTRICTED

WASHINGTON, February 17, 1947.

The Secretary of State refers to the Anglo-American Financial Agreement of December 6, 1945, and invites attention to the bearing of this Agreement on the import and exchange control policies of the British colonial dependencies.

The Agreement as such obligates only the signatories thereto, namely the United States and the United Kingdom. However, a supplementary note from the British Government, a copy of which is enclosed,¹ made most of the British colonial dependencies subject to the provisions of Sections 8 and 9 of the Agreement. The British Government undertook to enforce the principles of these sections in those colonial dependencies in which it has the required authority through normal legislative or administrative channels to do so. In the case of the more

¹ The supplementary note of December 15, 1945, is not printed here, but see the U.S. reply of January 11, 1946, which is printed in *Foreign Relations*, 1945, vol. VI, p. 199.

autonomous dependencies, it undertook to use every endeavor to persuade the local authorities to comply with the principles in question.

Section 8 of the Financial Agreement provides that after July 15, 1946 the United Kingdom "will not apply exchange controls in such a manner as to restrict . . . payments or transfers in respect of . . .² current transactions" with the United States. It also provides (with certain exceptions) that after July 15, 1947 the United Kingdom will not impose any restrictions on payments or transfers for current transactions with any country.

Section 9 provides that, beginning January 1, 1947, any quantitative import restrictions imposed or maintained by either country will not discriminate against imports from the other country in respect of any product. This section specifies three types of exceptions to the general rule of non-discriminatory quantitative import restrictions.

Clause (a) permits discrimination where necessary in order to use up inconvertible currencies accumulated up to December 31, 1946. By "inconvertible currencies" in this context is meant currencies which are not readily convertible into dollars or other "hard" currencies. It should be noted that, so far as the colonial dependencies are concerned, this clause is not regarded as permitting discrimination in favor of the United Kingdom. However, if a colonial dependency were to be in possession of French francs or Polish zloty, for example, and could not use up such currencies otherwise, it would be permitted to discriminate in favor of France or Poland under this clause.

Clause (b) of Section 9 permits discrimination where necessary to assist countries "whose economy has been disrupted by war." The Department, however, invites particular attention to the restrictive phraseology of this clause. Discrimination is allowed only when there is "special necessity" for the type of assistance mentioned. Moreover, the discriminatory measures should be circumscribed and should not involve "a substantial departure from the general rule of non-discrimination." Thus while a colonial dependency might have the privilege of imposing on some product a quota which would discriminate in favor of, say, Holland or Belgium, it should not use this clause as a means of substantially avoiding its obligation under Section 9 to give the United States most-favored-nation treatment with respect to quantitative import controls. In other words, clause (b) should be given a strict and narrow construction.

Clause (c) of Section 9 refers to the "scarce currency" provisions of the Monetary Fund Agreement. This clause merely permits colonial dependencies to impose discriminatory quantitative restrictions which would have equivalent effect to any exchange restrictions which they

² Omissions indicated in the source text.

would be authorized to impose on some currency declared to be scarce under Article VII of the Fund Agreement.

The officer in charge is requested to keep the Department informed regarding developments in local import and exchange controls with particular reference to their conformity with Sections 8 and 9 of the Anglo-American Financial Agreement. He is authorized to discuss with the local authorities any case involving an apparent departure from the provisions of these sections; and is requested to report such discussions in full to the Department, which will issue further instructions when warranted.

A list of the British colonial dependencies is attached hereto.³ It is to be noted that the present instruction does not apply to any territory not named on this list.

³ Not printed.

Lot 60 D 137, Box 1

Minutes of the Sixtieth Meeting of the National Advisory Council on International Monetary and Financial Problems, Washington, D.C., April 17, 1947

TOP SECRET

[Here follows a list of the 25 persons present, and a discussion of other subjects.]

4. *Settlement of Sterling Balances.* Mr. Schmidt¹ recalled that it had been reported to the Council several meetings earlier that the Staff Committee had set up a working group to follow the implementation of the U.S.-U.K. Financial Agreement in view of the fact that the Secretary of the Treasury in consultation with the Council was responsible for the implementation of the Agreement. The Staff Committee had considered the following three aspects of the Agreement:

(1) The requirement that as of July 15, 1947 newly acquired sterling and sterling released from accumulated balances be made generally convertible.

While there had been an informal suggestion that the United States might have to consider the possibility of postponing the convertibility requirement, the Staff Committee did not feel there was indication at present that such postponement would be requested.

(2) The possibility that accumulated balances will not be funded by the British Government.

At the time of the negotiation of the Anglo-American Agreement it was expected by the United States that the sterling held by third countries would fall into three categories and that balances in the first two would be free, while balances in the third category (sterling accumulated in the past and not yet available for current expenditure,

¹ Orvis A. Schmidt, Acting Secretary to the National Advisory Council.

in the U.K. or elsewhere) would either be deposited in a separate, fully blocked account, or funded. It appears that it is the present intention of the British Government not to set up separate accounts for sterling not available for current expenditure, but rather to work out with each creditor country the over-all rate of use of the global balance held by such country. If the balances are not funded or segregated it will be of great importance that this Government be regularly informed as to the rate and manner of release.

(3) The possibility that temporary rather than permanent settlements will be reached.

Section 10(i) obligates the United Kingdom to "make every endeavor to secure the early completion" of settlements of the sterling balances. Section 10(ii) obligates the British Government in effect to grant full convertibility to all sums made available for current transactions out of the accumulated balances. It has been learned that British officials are considering 4 or 5-year settlements with the understanding that the agreements will be renegotiated at the end of that period. While the plan for temporary settlements raises the question as to whether the United Kingdom has carried out its obligations, it would seem that we could not object if we are assured the British have made every endeavor to secure complete settlements and were unable to do so. This Government, however, would be concerned that the temporary settlements do not result in the use of sterling in a discriminatory manner. In any event the British are required by the Agreement to make every endeavor to secure the early completion of final settlements.

The recommendations of the Staff Committee with respect to these several points were contained in NAC Document No. 399.²

Mr. Acheson³ stated that he agreed with the recommendations. Mr. Eccles⁴ also agreed but commented upon the impressions he had gained during the course of the negotiations. The United States had expected so far as possible that the British would obtain permanent settlements and that temporary settlements would be a very secondary choice. We could not obligate the British to make permanent settlements but it was the impression that they intended to try to do so. There would be great advantage to the British if they could make permanent settlements and in turn there would be an advantage to us so far as the British loan was concerned. In view of their present straitened circumstances, the British as a great debtor nation are in a position to dictate terms. Within five years the British could be expected to be in a stronger financial position and hence less likely to obtain favorable terms. The United States would be very desirous of having settlements favorable to the British because many of the obligations were created on the basis of inflated prices and in a sense the obligations were comparable to those under lend-lease. However,

² Not printed.

³ Under Secretary of State Dean G. Acheson.

⁴ Marriner S. Eccles, Board of Governors, Federal Reserve System.

the further the war recedes into the background the less likelihood there is that these obligations will be related to the sacrifices the British made during the war. There will be more of a feeling that these are obligations that should be paid. The experience of the United States after the first World War could be cited as a parallel. Mr. Eccles felt strongly that everything possible should be done to get permanent settlements, including every encouragement this country could give.

The Chairman ⁵ agreed that this was a sound argument but pointed out that some countries were taking an adamant position. Mr. Blaisdell ⁶ commented upon the political difficulties that stood in the way of permanent settlements with certain areas at this time but suggested that it might be desirable to brief the new Ambassador to India on this matter.

Action. The following action was taken:

The Secretary of the Treasury should at the earliest possible date explore fully with the appropriate officials of the British Government the nature and progress of British plans for implementation of Sections 8 and 10 of the Financial Agreement. In particular, he should:

(a) express his appreciation of the efforts on the part of the British negotiators to keep this Government informed of the sterling settlement negotiations;

(b) obtain additional detailed information as to the nature and progress of the negotiations, and plans for further negotiations;

(c) inform the British of the importance to the United States of being regularly informed as to the rate and manner of releases from accumulated sterling balances after July 15; especially in the event the British propose not to segregate sterling which is not available for current expenditure;

(d) in the event the British propose to make temporary settlements of the sterling balances

(i) express, if it appears appropriate, his confidence that the decision to reach temporary settlements will be made only after every possible effort has been exerted to reach satisfactory permanent settlements;

(ii) express his confidence that, should temporary settlements prove necessary, the U.K. will at the earliest favorable opportunity endeavor to obtain the completion of final settlements consistent with the principle of non-discriminatory use of accumulated sterling balances.

[Here follows discussion of other subjects.]

⁵ Secretary of the Treasury John W. Snyder.

⁶ Thomas C. Blaisdell, Jr., Department of Commerce.

841.51/5-947

*Memorandum by the United States Treasury Representative in the
United Kingdom (Blaser)*¹

SECRET

LONDON, May 5, 1947.

THE PROBLEM OF THE STERLING BALANCES

ORIGIN AND GROWTH OF THE BALANCES

Prior to the war sterling balances held in London by various foreign countries ranged between one-half and one billion pounds. These were kept largely as working balances due to the importance of London as a commercial and financial center and also as a monetary reserve for certain countries which operated a sterling exchange standard.

During and after the war these balances increased each year, though at various rates, to a peak of £3,480 million at the end of 1946. This large increase represents an important method by which the United Kingdom financed its participation in the war and its postwar deficit in its international balance of payments. The following types of transactions were important in building up the balances: United Kingdom military expenditures abroad; United Kingdom purchases abroad; and the proceeds of United States dollar expenditures abroad which were acquired by the dollar pool and paid for by the United Kingdom in sterling. The rapid increase in prices due to inflationary pressure generated by these activities in the countries concerned contributed substantially to the amount of the balances. No important exchange rate adjustments were made between sterling and the other currencies which would have offset these price increases.

RELATION OF THESE BALANCES TO UNITED STATES-UNITED KINGDOM
FINANCIAL AGREEMENT

Section 10 of the Financial Agreement provides that after July 15, 1947, any sterling balances released or otherwise available for current payments will be freely available for current transactions in any currency area without restriction. This means that if any country is permitted to use any portion of its accumulated sterling holdings for payments (even in the sterling area) the entire portion so released may be spent in any currency area. The correspondence between Secretary Snyder and Chancellor Dalton with reference to this point in the United Kingdom-Argentine Agreement is well known.²

What Britain must do, therefore, is to come to some agreement with each of the holders of the balances as to what portion is to be con-

¹ This memorandum was submitted to the Department as enclosure No. 1 to despatch 945, from London, May 9, 1947. (841.51/5-947)

² See editorial note, p. 3.

sidered available for current payments and what portion not so available. The British must then be prepared to furnish gold, dollars, or other foreign exchange for that portion which has been released for current payments.

BRITISH POSITION ON THE STERLING BALANCES QUESTION

It has been suggested in many British quarters that the problem of the sterling balances might not exist at all, and certainly not in its present magnitude if lend-lease principles had been uniformly applied, and supplies furnished by each of the allies were regarded as a contribution to the common cause. Now that the war is over the British find around their neck this financial "mill stone" which was acquired as a result of their magnificent effort in resisting the forces of aggression throughout the world.

Since these obligations do now exist, in the British view the best solution would be the cancellation of a substantial portion of the balances and the funding of the remainder over a long period of time so that the yearly burden of repayment would be as small as possible.

The conditions and methods under which these balances were built up vary considerably from country to country. These differences among the countries include their financial contributions to the war in relation to their resources, the degree of inflation experienced, and certain technical differences in the way in which the balances are held, i.e., privately or on government account. Thus, the negotiated settlements will presumably vary somewhat from country to country.

The British feel strongly that in their present difficult economic position they cannot go very far in the direction of "unrequited exports." This was forcefully pointed out by Chancellor Dalton in his budget speech. Current British exports must be devoted to the procurement of essential imports and not applied to any appreciable extent to the settlement of past debts.

Various schemes and rates of repayment have been suggested by way of a formula to work out this problem. It is not yet clear what will be the yearly total of the obligations which will be undertaken by the British in their efforts to settle these debts. This will depend upon the individual settlements which are reached country by country. Some general indication as to the possible magnitude of the problem and its impact on the British financial position is given by the following figures. A rate of release of 2 percent per annum on the total of reported balances of £3,480 million would represent a potential annual burden of £70 million in "unrequited exports" or a corresponding loss in foreign exchange. This is a little less than 5 percent of a total import program of £1,450. The prospective balance of payments deficit for

1947 has been variously estimated at £350 to £400 million. It should be less in succeeding years. Gold and dollar reserves amounted to £642 at the end of 1946. In addition, considerable foreign exchange will be still available after July 15, 1947, from the unused portions of the United States and Canadian lines of credit.

BRITISH PROGRESS IN NEGOTIATING SETTLEMENTS OF ACCUMULATED STERLING BALANCES

Settlements have already been reached with Portugal, Argentina, Iran, the Netherlands, Belgium, and Italy about the treatment of all sterling balances held by each of these countries. In addition, suitable arrangements have been made with the United States and Canada, although neither of these countries emerged from the war with a sterling balance problem of the type with which this review is concerned.

Preliminary negotiations have been completed or are under way with a number of other countries which hold important amounts of accumulated sterling balances. Such countries are India, Egypt, Iraq, Brazil, Uruguay, Sweden, Switzerland, and possibly others. Negotiations are contemplated prior to July 15, 1947, with all countries holding accumulated sterling balances with which suitable arrangements have not already been made. The prospect of successfully reaching agreement with all countries concerned in the time remaining is not bright.

POSITION TAKEN BY HOLDERS OF BALANCES

Preliminary negotiations with India (balances about £1,250 million) and Egypt (balances about £450 million), the largest creditors, have not given promise of final agreement. The political situation in both these countries is such that any settlement with Britain will be most difficult. On the economic side these countries have maintained that these balances were built up by the sale of goods and services taken from people who have a very slender margin above the base subsistence level. Military expenditures disrupted the economy of each country. The balances represent honest debts, which upon repayment will be used to buy much needed capital equipment.

Negotiations with Brazil have been protracted and their outcome is still uncertain. The Brazilians are understood to be insisting on the right to spend a larger portion of the balances which they hold than the British feel they can afford to release.

Satisfactory arrangements have been reached with Argentina and Portugal both of which hold substantial amounts of sterling.

No difficulty is anticipated in reaching agreement with Australia and New Zealand. These countries have demonstrated their good-will

by agreeing to cancel £20 million and £10 million, respectively, of the balances which they hold.

The settlement with Italy is interesting in that it is the first agreement by a country to hold a certain minimum balance below which it will not draw down its sterling. The Argentine accepted an agreement which provided for the release of £5 million per annum for four years, but this arrangement will probably be superseded by the repatriation of the railroad securities which will wipe out all the balances.

From this brief review it is evident that the position taken by holders of the balances varies widely. Some have accepted the British proposals and others have found them completely unacceptable.

THE SITUATION ON JULY 15, 1947

As noted above suitable arrangements have been completed or are in prospect with many of the countries holding the balances. It is probable that agreement will not be reached with other countries before Section 10 of the Financial Agreement becomes operative on July 15. The British will then be required either to take unilateral action in these latter cases or to request a postponement of the effective date of Section 10. Both of these alternatives are extremely distasteful to the British and the choice is an unpleasant one. On the one hand, unilateral action, whatever it is called, will have to be tantamount to blocking some portion of the balances. The whole concept of "blocked sterling" is something which the British are very anxious to avoid so far as possible because of the harmful effect it will have upon sterling as an international means of payment. A currency which has tendency to get itself "blocked" is not a very useful medium of exchange or a safe repository for foreign exchange reserves. These are important considerations for many reasons, not the least of which is that any increase in sterling balances represents essentially a credit to Britain which contributes to its ability to finance its deficit in current payments. British officials in discussing this problem usually object to the use of the word "blocked" in reference to the balances. They point out that they may now be used freely anywhere in the sterling area. After July 15 this will no longer be possible except for whatever portion of the balances is freed for payments anywhere.

Presumably unilateral action by the British would take the form of a statement to each country not voluntarily consenting, that from July 15 a specified portion of its balance is at its free disposition, possibly over a four year period, and that the remainder cannot be used for any purpose (blocked). Considerable administrative and mechanical difficulties will arise for the British if this unilateral

action is taken, particularly since they probably cannot expect to have the friendly cooperation of the exchange control authorities of the other country which is so vital to effective control. Otherwise there seems to be a very fine line to be drawn between the effect of such unilateral action and a similar state of affairs set up by mutual agreement.

Perhaps one further explanation of the British reluctance to admit the use of the expression "blocked" and to "block" by unilateral action is that this definitely suggests frozen and long term. On this basis a suitable investment for the funds would be long dated, high yield, United Kingdom Government or other securities rather than the one-half percent short dated Government issues which are deemed suitable for "liquid" reserves. It is a little difficult to see how funds which may not be used until after four years, and even then probably not in their entirety, can still be considered liquid and their investment restricted to one-half percent issues. The one-half percent interest provision was, of course, agreed to by Argentina in the original settlement of balances with that country.

The other alternative facing the British, namely postponement of the effective date of Section 10, would engender strong opposition in the United States where it would be widely construed as the first in a series of moves by the British to recoil from fulfilling commitments which they made in the Financial Agreement and which were accepted by the United States in good faith.

There is no clear indication at this time as to how this dilemma will be resolved. Unilateral action in difficult cases seems more probable than an appeal to the United States for postponement of the obligation accepted under Article 10.

ARTHUR F. BLASER, JR.

841.51/5-1647: Telegram

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

SECRET

LONDON, May 16, 1947—4 p. m.

2772. On May 12, I lunched with Dalton, Chancellor of the Exchequer. He discussed in general terms and at considerable length the British dollar position and the problem of sterling balances.

In regard to the dollar position he said that he was drawing down dollars against the line of credit more rapidly than was anticipated. This was due to a rise in our price level and the unanticipated slowness of European recovery and the winter crises. I told him that our calculations of British dollar position, based upon the assumptions on which the calculations were made, did not indicate a serious situa-

tion but that I would appreciate it if he would submit for my confidential information the Treasury estimate. This he agreed to do.

As to the settlement of the sterling balances, particularly Egypt and India, he asked for my informal opinion as to the application of the following principle; namely, that the difference between the sterling balances as they stood on V-J Day and as they stand now should represent the amount that should be recognized as a liability. Informally, I replied that in principle this might appear to be a valid approach but that before expressing a view it would be necessary to see the figures.

Yesterday I received a personal note from him in which he stated that at the present rate of drawing the dollar line of credit would be exhausted in the early part of next year but that he did not intend to refrain from taking every possible step to make the line of credit last for a much longer period. I suggested that Gunter discuss with the appropriate UK Treasury officials their estimates, together with ours to determine wherein the discrepancies lay, solely for the purpose of determining the facts and without discussing policy. This he thought a good idea. Clayton,¹ with whom I talked on the telephone, approves the suggestion. Accordingly, Gunter will review the facts with Sir Wilfrid Eady.² This is of interest to our Treasury Department and the Department of Commerce and possibly others.

DOUGLAS

¹ William L. Clayton, Under Secretary of State for Economic Affairs.

² Second Secretary of the British Treasury.

841.51/5-2047: Telegram

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

SECRET

LONDON, May 20, 1947—6 p. m.

2834. For State and Treasury. In general discussion of British financial position with Sir Wilfrid Eady and R.W.B. Clarke at British Treasury the following statements were made:

1. British position has deteriorated beyond the estimates given by Dalton in his budget speech. UK deficit on current account for 1947 may reach pounds 600 million.

2. Britain not stock-piling dollars as result of recent heavy drawings on credits. In fact, Treasury dollar balance was recently insufficient to take care of purchase of ships negotiated by another Ministry without due notice to Treasury. No figure volunteered for present gold and dollar holdings.

3. Canadian credit now half used. Eady stated that one purpose of recent visit to Canada was to explain to Canadians reasons for recent large drawings on Canadian credit representing more rapid use than previously contemplated.

4. Greatly increased prices of imported goods an important factor. Due to forward contracts marked rise in US prices has just begun to be felt in recent weeks. During 1946 stocks of consumers goods at local distributing points reduced to dangerous point. While no extensive stock-piling is contemplated, UK Government feels that some additional stocks must be built up in order to protect the public against shortages due to possible local strikes in distribution and transport.

5. February fuel crisis will affect export drive for nine months. It is now anticipated that 1947 target of 140 per cent of pre-war exports by volume will not be reached until second quarter of 1948. Estimate of level at close of 1947 is 125 percent. Apparently British do not count on total export value in 1947 to appreciably exceed 1946. Fuel and other dislocations so serious that at conclusion of crisis, production could not rapidly return to level reached before breakdown. Eady stated crisis had broken pattern of economic revival and it proved difficult to get things back into gear.

6. In addition to above, timetable envisioned during Washington negotiations for British transitional period has been upset by disappointingly slow economic and political recovery of Europe and Asia. Dutch East Indies cited as outstanding example.

7. British recognize that test of their competitive position in exports is impending but test cannot be made in present sellers market.

8. British equilibrium contemplated during 1945 negotiations was equilibrium at a satisfactory level including exports at 175 per cent of pre-war by volume, and British imports at corresponding high levels based on full employment. It may be necessary to postpone the attainment of this sort of equilibrium but British hope that it will not have to be entirely abandoned. Eady pointed out that it will be necessary to feed the people better since they cannot be expected to reach the high level of productivity required for Britain's needs on the basis of 1946 level of consumption, 70 per cent of pre-war.

DOUGLAS

FW 841.51/7-2547

The Chancellor of the Exchequer (Dalton) to the Secretary of the Treasury (Snyder)

[LONDON] 23rd May, 1947.

MY DEAR JOHN: Thank you for your letter of the 7th May¹ on the Sterling Balances negotiations. We are pressing forward, and Gordon

¹ Not printed.

Munro will be keeping you informed of what we are doing and what we have in mind.

The broad picture is as follows. The two largest of our problems—India and Egypt—will come to a head in June. The Egyptians should be arriving at the beginning of the month, and the Indians in the second half. We shall be able to handle Iraq, either over here or at Baghdad, towards the end of the month.

In the meantime, we are continuing with other negotiations. We have completed arrangements with some European countries—Portugal, Belgium, Holland and Italy—and are proceeding with others, including Czecho-Slovakia, Norway, Denmark, Spain, Sweden and Switzerland. The Argentine problem is settled, and we have carried discussions with Brazil some distance, possibly within sight of a conclusion. The Uruguayan Delegation arrives in a few days. Australia and New Zealand have been very helpful with their willing cancellations, and we expect to complete arrangements—less formal than would be appropriate to other holders of balances—in due course. All our various arrangements will be within the framework of the Loan Agreement.

As regards the “segregation” of that part of the Sterling Balances of each creditor which is not to be released for current transactions, I think the technique must vary according to the capacity of the other party to control its financial affairs. With some countries, an informal agreement that they will maintain their balances at such and such a level should suffice; with others—and these, I fear, include the largest holders of sterling—something more stringent may prove to be inevitable. But, whatever the exact arrangements, they will have the same effect: that what we agree to release for current purposes will be for use in any currency area, while what is not released cannot be drawn upon for current transactions at all. It is against our own interests to allow drawings on the accumulated balances, for, in the end, this means using up current productive effort in unrequited exports. If we fail to reach agreement with any creditor, we shall probably have no alternative but to take the steps necessary to segregate past accumulations while leaving future accumulations free.

Like you, I should have liked to make permanent settlements between us and each of our creditors, but it is not easy to see how we could commit ourselves at this time to details of the rate of release after 1951. The rise in prices in the United States, coupled with slow recovery in other parts of the world, has left the future obscure. Given the tremendous demand for dollars in the world at large, we can offer much less than we would have hoped in the way of releases in the short run. On the other hand, the countries with whom we are negotiating will insist, in these circumstances, on waiting for several years in the

hope of securing better terms in any final arrangements. I am sure that, in these conditions, it is wiser to make provisional settlements for five years. Before the end of the period we shall, of course, discuss further arrangements, which will be either for another period of five years, or, if things go well, for longer.

The inescapable fact is that all releases are, in the end, an added charge either on our current production or on our dollar credit. The first is as yet inadequate to our current needs, and the second is exhausting itself fast. We shall have to be modest in what we attempt accordingly.

With my warm personal regards,

Yours very sincerely,

HUGH DALTON

Editorial Note

For an analysis of June 11 by Douglas of the interrelation of economic and strategic factors affecting British policy, see the compilation in volume I on United States national security policies.

841.51/6-1847

*The British Embassy to the Department of State*¹

MEMORANDUM

UNITED KINGDOM FINANCIAL POSITION AND THE WORLD DOLLAR SHORTAGE

1. This is an account of how the United Kingdom Foreign exchange position has developed since the Anglo-American Financial Agreement was signed in December, 1945; of the situation which now faces us, and of the relation of this to the world dollar shortage.

[I.] THE EXHAUSTION OF THE CREDIT

2. In the loan negotiations we estimated our 1946 balance of payments deficit at pounds 750 millions, to be followed by a further deficit of pounds 500 millions in 1947 & 1948 and some deficit in 1949 & 1950 before stable equilibrium could be reached. Thus we expected a cumulative deficit of some dollars five billion (pounds 1250 millions) by the

¹ This memorandum was delivered under cover of a note from the British Ambassador, Lord Inverchapel, to the Secretary of State, dated June 18th, 1947. In this note Lord Inverchapel said: "His Majesty's Government hope that there will be time for this memorandum to be studied by the United States Administration before Mr. Clayton leaves for London." An accompanying chit bears the following handwritten notation by Mr. Edward Thompson Wailes, Chief of the Division of British Commonwealth Affairs: "After discussion it was decided that no reply was necessary in light of the Clayton talks etc."

end of 1948 and a further deficit in the following period. Against this, we had gold and dollar reserves at end of 1945 of nearly dollars two and a quarter billion (after allowing for payment of subscription to International Monetary Fund), plus the United States credit of dollars three and three quarter billions plus the subsequent Canadian credit of dollars one and one quarter billion—dollars seven and a quarter billion in all. The margins were already narrow, and it was likely that we should be dependent upon our reserves by the end of 1948. But the underlying assumption was that the world would then be well on the way to recovery and that our own resources (together with International Monetary Fund etc.) would cover us until we reached a stable equilibrium.

3. The results of the year 1946 were, in fact, much better than expected. The deficit was only pounds 400 millions, instead of pounds 750 millions. This was because:—

(1) Exports recovered very fast, and in 1946 averaged nearly 100 percent of 1938 volume.

(2) Imports were restricted by world supply shortages to 65–70 percent of 1938 volume; this gain was illusory, for we had to draw heavily on our stocks of food and raw materials, which we must later replace at higher prices.

4. The position in 1946 seemed to develop even more favourably than the total deficit implies, for the net drain upon our ultimate resources—our gold and dollar reserves and the United States and Canadian credits—was only pounds 227 millions. The remainder of the pounds 400 millions deficit was financed by growth in sterling area and other countries sterling balances, etc.

5. The drain upon our ultimate resources, however, was tending sharply upwards towards the end of 1946 and this year has accelerated rapidly:—

Net drain upon reserves and credits (\$Millions a month)

1946	1st quarter	31
	2nd quarter	82
	3rd quarter	70
	4th quarter	123
1947	January	137
	February	224
	March	323
	April	307
	May	334

Net monthly outgoings of gold, United States dollars and Canadian dollars.

The result is that we have now used over one-half of the United States and Canadian credits. At the end of June, we shall have gold

and dollar resources of about \$2.4 billion, undrawn United States credit of \$1.7 billion, and undrawn Canadian credit of \$0.57 billion—total resources of some \$4.7 billion.

6. If the present drain of over \$300 millions a month continues, not only will the United States and Canadian credits be gone in a few months time, but also our reserves will be down to \$1 billion by the middle of 1948. If we were unable to draw upon the Canadian credit and the Canadians' difficulties are such that they cannot afford to allow us to draw on the credit as we please—our effective reserves would be exhausted even earlier.

7. Our reserves are those of the whole Commonwealth (except Canada), the financial strength of which is essential to world stability. We regard pounds 250,000,000 (\$1 billion) as a final reserve to be used as a war chest against international political crises and the like. Our effective reserves are the excess above this figure, and in order to have sufficient financial strength to meet the uncertainties of the next few years, we regard a further \$1 billion as essential.

8. We are, of course, taking measures to deal with this critical situation—cutting imports, devoting more of our production to exports, etc. but our reserves at the middle of 1948 will certainly not exceed \$2.5 billion (compared with the present \$4.7 billions) and they may be substantially below this figure. Even the higher figure, however, leaves us little margin for 1948–49—a year in which the world will still be very far from recovery.

9. These are the facts. There has been a real change for the worse in the last six months.

II. THE CAUSES OF THE DRAIN

10. This worsening of our position results partly from our fuel and raw materials crises and partly from the unfavourable development of the world economy. We attach the greater weight to the latter, for in a favourable world background we should have much more time in which to solve our internal problems; in an unfavourable world background, on the other hand, even the best possible development of our own industry would leave us very badly placed.

The fuel crisis

11. Six months ago, we were well satisfied with our reconversion. We had reached a level of business activity which compared favourably with that of a good pre-war year. The ordinary indicators—steel consumption, railroad traffics, power output and the like—all pointed the same way. There were bad spots—in particular the industries which had been disrupted by the war, such as coal and cotton textiles. It was becoming apparent that the real losses caused by war-time deferment

of maintenance were greater than had previously been believed. But nevertheless progress was good and compared favourably with that of any other country which had been in the front line. In particular, the record of industrial peace which had been achieved was second to none, and the system of rationing and other internal controls, while preventing the superficial appearance of prosperity which was apparent in many other countries, was ensuring a much fairer distribution of the available goods and was, in fact, providing a higher standard of living than ever before for the poorest sections of the community.

12. As shown above, the recovery was particularly marked in exports. We were working to a target of 150 percent of 1938 volume by the second half of 1947, and this looked wholly practicable, for a level of 110–115 percent was established in the latter part of 1946, and the labour force engaged on work for export was rising at the appropriate rate.

13. The February coal and power crisis—the result of unprecedented weather conditions impinging upon a critically low stock position—has set this process of recovery back. It has left in its wake a continuing shortage of coal and steel, which will continue to hamper output for the rest of this year, despite the encouraging coal output figures for the first weeks working of the 5-day week, and the continuous efforts which are being made to save coal.

14. These are grave difficulties. But there is no reason to suppose that they are permanent. The crisis has set back the export drive by nine months in a period in which time is of the utmost importance. But, as far as exports are concerned, its effects can be and are being offset to some extent by a further diversion of supplies from the home market to export, which primarily means a postponement of increases in civil consumption. The loss of exports resulting from the fuel crisis—and particularly from its delayed effects over a period of several months—is an important factor in the dollar drain, but it is not a decisive one. Indeed, our exports have already recovered to the level reached before the fuel crisis.

The rise in prices

15. The rise in world prices is of more far-reaching importance. We are now feeling the full impact of the price increases in world markets which begin to develop seriously in the second half of 1946. These increases are now costing us \$60–70 millions a month—a large item in the figures in paragraph 5 above. Indeed, the 40 percent increase in the United States wholesale price index since the loan negotiations really means that the buying power of the credit is about \$1 billion less than it was at the time of the negotiation.

16. This element in the situation can completely distort all forecasts. The loan negotiation forecasts of our balance of payments assumed sterling prices double pre-war. The prices which we are now paying, over our whole import programme, are over 250 percent of 1938. The prices of exports have not improved to nearly the same extent—they are about 220 percent of 1938. This deterioration in the terms of trade is crucial to us. It reduces our purchasing power by the last 10–15 percent of our import programme which makes all the difference between getting along quite comfortably and drastic restriction.

Slow world recovery

17. Our expectations at the time of the loan negotiations have been even more seriously falsified by the disappointing speed of world recovery. Two years have elapsed since VE-Day, and Europe's recovery has hardly begun. Nearly two years have passed since VJ-Day, and no significant supplies have yet come forward (except of rubber) from the whole South East Asia Command Area. The world food situation has hardly eased at all; the raw material situation has become worse rather than better.

18. Our interests in world recovery are probably greater than those of any other country. We have made available huge resources to foster it. We have contributed to relief and rehabilitation, in loans and gifts, some pounds 750 millions—equivalent, in proportion of national income, to a contribution of some dollars 15 billions by United States. But this has done little more than shore up the disrupted economies of Europe and Asia.

19. The importance to us of world recovery is threefold:—

(1) The failure of recovery of primary production is a basic cause of world price inflation. Moreover it is keeping us short of food and raw materials; the cereals crisis of the last two years has prevented us from restoring our own livestock, and forces us to choose between doing without bacon, eggs and meat or importing them at high prices.

(2) We are unable to get enough supplies from our traditional suppliers and are therefore compelled to depend to a far greater extent upon Western Hemisphere supplies than we can afford.

(3) We have difficulty in getting acceptable payment for our exports to European and Asiatic countries. Our economy is the bridge between the Western and Eastern Hemisphere. Traditionally we have deficits with the West which are financed by surpluses with the East. The effect of the world supply crisis is that our deficit with the West is inflated to quite unmanageable proportions, while we are unable to get full benefit, in goods or in gold, from our surplus with the East.

20. We are seeking to right this, as far as we can, by developing sources of supply in the Eastern Hemisphere, and by increasing our exports to the Western Hemisphere. But the scope of the former is very limited in a short period of time and we cannot, in fact give more

than indirect stimulus to our exports to the Western Hemisphere. A system of comprehensive export licensing control is clearly out of the question on administrative grounds and we can, therefore, seek to influence exporters' choice of markets only by exhortation and by such indirect means as are open to the Government.

21. There is no manipulation, indeed, which can solve this problem for us. The only solution to our problem is in the recovery of these disrupted territories to bring the world supply structure back into balance again. We cannot afford to contribute more to the financing of this recovery ourselves.

22. In financial terms, the situation described in the previous paragraphs is that we have rapidly growing deficits with the Western Hemisphere—which require to be settled in dollars or the equivalent—while we are unable to secure dollars in settlement of our surpluses with the Eastern Hemisphere (because these countries have no dollars to provide). This is the central explanation of the growing drain upon our gold and dollar resources, and it is intimately related to the world supply of dollars.

III. THE WORLD DOLLAR SHORTAGE

23. This is the crux of our problem. The increase in our dollar drain from less than dollars 100 million a month in the second half of 1946 to over dollars 300 million a month in April and May 1947, corresponds with the rapid growth in the United States surplus of exports over imports from less than dollars 400 million a month in the second half of 1946 to over 700 million dollars a month in the first quarter of 1947 and nearly dollars 800 million in April.

24. The facts of the developing shortage of United States dollars are, of course well known to the United States administration; we are only concerned here to explain the impact upon us. The dominating consideration for us is the appearance of a world dollar shortage. This is critical for United Kingdom for the following reasons:—

(1) It hampers the growth of production in Europe and the East and thus prevents us from reducing our huge import bill with the American continent.

(2) It prevents us from securing enough dollars from the rest of the world to finance our deficit with the American continent.

(3) It threatens to make convertibility a serious drain upon our resources. If countries are short of dollars they will conduct their affairs so that they can earn sterling from us and convert it into dollars and so pass their dollar difficulties on to us.

(4) Our interests lie in the expansion of multilateral world trade which is impossible if the world is short of dollars.

25. In fact the shortage of dollars affects us wherever it occurs.

Europe

26. We explained earlier the difficulties created for us by the slowness of European recovery, which prevents us from getting urgently needed supplies from Europe and also prevents us from securing effective payment for our exports to Europe. In addition to this is the increasing drain which Germany makes upon our dollars.

27. We would emphasise that if the European countries are so short of dollars that they must use them exclusively for buying the basic essentials of life, they are unable to buy the supplies they need for reconstruction, thus prolonging the crisis and preventing any effective solution.

28. Furthermore, their shortage of dollars involves us in grave risks that convertibility will be a heavy drain upon us, for this is one source of dollars for them. This difficulty arises in the stronger countries of Europe such as Sweden as well as in the weaker, for Sweden's lack of dollars compels her to seek to earn more convertible sterling by cutting down her imports from us, and in this way we are caught up in a declining spiral of trade.

Asia

29. A similar problem arises for us in the belt of countries stretching from the Middle East to Indonesia. Supplies from this area are of paramount importance fats, sugar, fibres, etc. To set these supplies moving again involves large work on rehabilitation which is proceeding only very slowly. These countries are all faced to a greater or lesser extent with acute economic difficulties.

At present their economies are under-pinned by their ability to draw upon their sterling balances. It is only by this means for example that India can buy cereals and materials which she must have to avert calamity. We cannot afford to continue to provide this substantial assistance. It not only represents a direct drain upon our dollars (e.g. for United States wheat for India and Japanese textiles for our Far Eastern colonies), but it also means that we are supplying exports without securing effective payment. The supply of financial resources to the countries in this belt is as important to us as the reconstruction of Europe.

Western Hemisphere

30. The shortages of United States dollars in Canada and Latin America also affect us severely. Our deficit with them is as large as our deficit with the United States. The effect of Canada's shortage of United States dollars is that we are unable to draw as much as we need from our Canadian credit and in effect have to pay Canada United States dollars for our supplies from her. Latin America is also running short of dollars very fast and this means that these countries will have

to take full advantage of our convertibility obligations to convert their earnings from us into dollars. Their balance of payments difficulties indeed are forcing them to cut down their imports from us in order to secure as large a surplus of sterling as they can for conversion into dollars to meet their deficits with the United States.

31. The Western European countries will be confronted with similar difficulties in financing their payments to Canada and Latin America.

Multilateral Trade

32. These are illustrations of the difficulties which the world dollar shortage creates for us. Our whole economy depends upon multilateral trade—that is on being able to earn dollars from the rest of the world in order to finance our trade with the American continent. If there are not enough dollars in the world to enable us to do this, our position becomes critical. Either we are forced into import restrictions on a scale which would make it impossible for us to provide for our people even their present threadbare standards, or we are compelled to abandon the whole concept of multilateral trading and seek to eke out a painful existence on the best terms of bilateral trade which we can secure. Neither of these prospects is tolerable to us. But unless sufficient steps can be taken to fill the gap in the world's dollar supply we shall be confronted with the choice as a hard fact which has to be faced.

841.51/6-1847 : Telegram

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

SECRET

LONDON, June 18, 1947—4 p. m.

3347. Embtel 2772, May 16; Embtel 3116, June 6.¹ On Bevin's² instructions, Roger Makins³ today handed me document entitled "UK Position and the World Dollar Shortage"⁴ which I am informed, was delivered to the Secretary of State by the British Ambassador in Washington either late yesterday or early this morning.

In response to the question as to whether any further information was desired by us I repeated the request which I had made to Mr. Bevin some ten days ago and to the Chancellor of the Exchequer almost exactly a month ago, that we be given the following information:

1. The way in which dollars drawn down against the line of credit over the past four months have been expended; and

2. The purposes for which the estimated draw down of dollars in the future will be expended.

¹ Not printed.

² Ernest Bevin, British Secretary of State for Foreign Affairs.

³ Roger Makins, British Assistant Under Secretary of State for Foreign Affairs.

⁴ *Supra*.

This information, I believe, is essential if we are to have a clear understanding of the present British dollar position and her estimated dollar position in the future.

I hope this information will be made available to us prior to Mr. Clayton's arrival. Without it, it is difficult to make an intelligent comment and to have a considered appraisal.

DOUGLAS

841.51/6-2047 : Telegram

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

SECRET

LONDON, June 20, 1947—4 p. m.

3393. For State and Treasury. Reembtel 3347, June 18. Peterson and Gunter discussed with Clarke and Grant¹ of British [Treasury] factors leading to drain British dollar resources. Following summary:

1. We presented analysis indicating at least one-third 1947 dollar drain attributable to factors other than current deficit. British agreed this roughly correct. Our figures put current deficit at pounds 215 million for 5 months, leaving pounds 116 million to be accounted for.

2. We discussed possible causes of this drain, including use of accumulated sterling balances, British exports against inconvertible sterling and against proceeds of sales of sterling securities, and accumulation of monetary reserves in gold and dollars by other countries in British Commonwealth. British stated that inconvertible currency factor negligible, that sales of sterling securities important only in French case, and that any increase in gold and dollar holding of Commonwealth outside UK was very small.

3. British agreed only possible explanation seemed to be drawing down of sterling balances. They claimed not to know just what is happening, since sterling balance figures for end first quarter 1947 do not indicate drain from this source. Balances held by sterling area declined by only about pounds 12 million, while non-sterling-area balances increased by about pounds 47 million. (Transfer relative to sale of Argentine railroads has not taken place.²) Bank of England is working on study apparently designed to clarify what is happening which is expected to be ready soon. We will be informed. Later figures on sterling balances will be included.

4. We asked if capital transactions could obscure drawing down balances for current transaction. British stated capital outpayments

¹ A. T. K. Grant, British Treasury official.

² The British were in the process of disposing of their Argentine railroad security holdings in return for a reduction in British sterling obligations to Argentina.

by UK residents to rest of sterling area could occur without knowledge of British Treasury, since no control of these transactions.

5. Estimates of size of 1947 deficit in current payments also discussed briefly. British stated their estimate of pounds 650-700 million did not contemplate price increases in imports above 250% of 1938 and in exports above 220%. They now place cost of import program contemplated in economic survey³ at pounds 1600-1650 million. We pointed out this seemed high on their price assumptions and questioned possibility of importing volume of goods planned, since even at high level of imports in April and May they probably hadn't reached annual rate contemplated in economic survey. We pointed out also that they apparently hadn't allowed for any effect of price increases on income from exports. They did not dispute any of these statements.

6. Additional information will be cabled as it becomes available. This will be of interest to Harriman personally.

DOUGLAS

³ British Cmd. 7046, *Economic Survey of 1947*, February, 1947.

841.5151/6-2347 : Telegram

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

SECRET

LONDON, June 23, 1947—8 p. m.

US URGENT

3443. From Clayton¹ and Ambassador for State and Treasury.

1. For our information only, it would be helpful to know:

(a) Whether as a matter of policy, it would be feasible to grant extension of time for any British obligations relating to sterling convertibility in exceptional cases under Sections 7, 8, and 10 of financial agreement;

(b) Whether it is feasible to take up at this session of Congress under Section 12, relaxation of British obligations under Section 9 relating to nondiscrimination in imports or a general relaxation of UK convertibility obligations.

2. What action has been taken on British proposal for discrimination in imports between UK and colonies having common quota in IMF?

3. None of these questions have been raised with us by British.

[Clayton and Douglas]

DOUGLAS

¹ Under Secretary Clayton was in London to meet with leading British officials. These discussions, held June 24-26, covered a wide range of subjects related to economic and financial affairs; the major focus was on matters related to European recovery and the role that the United Kingdom might play therein. Aspects of the British financial crisis and the sterling convertibility obligation were discussed. Substantially complete records of these conversations are printed in the compilation dealing with the creation of a European recovery program (the Marshall Plan), pp. 197 ff.

841.51/6-2547 : Telegram

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

TOP SECRET

LONDON, June 25, 1947—2 p. m.

3475. For Eyes Only of the Secretary, Acheson, Lovett¹ and Snyder from Clayton and Ambassador. Beginning last Friday, British Treasury began to supply promised data relative British international financial position. Please guard this information with extreme secrecy and take every possible precaution to insure against leaks. Four tables covering period ending June 30, 1947 have been presented and further tables relating future prospects will be forthcoming soon. They are not final but they reflect critical dollar exchange position. Copies of tables are being sent airmail.² Following is summary of information received.

Table 1 analyzes British operations in US dollars in considerable detail. Not only have UK direct dollar expenditures gone up considerably in first half 1947 as compared with second half 1946 but also allocations of dollars to sterling area for transactions in US and western hemisphere have considerably increased. In second half 1946 net dollar outgoings were 510 million dollars compared to drawings on US credit of 600. In first half of 1947 net outgoings were 1510 million dollars compared to drawings on credit of 1450. While there are certain non-recurring items in first half of 1947 British expect they will be offset by other adverse factors and that therefore the rate of draw down of dollar credits will not change in next six months.

Table 2 analyzes drawings upon resources of US and Canadian dollars and gold. It is estimated that gold and dollar reserves on June 30 will amount to 2400 million dollars while undrawn portion of credits will be 2250 million dollars giving total ultimate reserves of 4650 million dollars. The decrease in ultimate reserves from 7040 million dollars on June 30, 1946 is analyzed in terms of transactions with US, with Canada and Latin America, with sterling area, and with other countries. Important feature is fact that sterling area has changed from net contributor of 135 million dollars in the last half of 1946 to net drawer of 100 million dollars so far in 1947.

Table 3 presents UK balance of payments by six months periods for 1946 and first half 1947. Deficit on current account in first half 1947 estimated at 375 million pounds compared to total deficit in 1946 of 400 million pounds. In first half of 1947 imports (fob) estimated at 792 million pounds while net government expenditure placed at 141

¹ Robert A. Lovett, Special Assistant to the Secretary of State, who was to become the Under Secretary of State on July 1.

² Ambassador Douglas' letter of June 25 and the tables prepared by the British, not printed here, are in Department of State file 841.5151.

million pounds giving total payments of 933 million pounds. Exports and re-exports expected to yield 515 million pounds while net income from other sources placed at 43 million pounds giving total of 558 million pounds. British admit that actual deficit may well be less than 375 million pounds since import target may not be reached by as much as 40 million pounds. They, however, point to uncertainties in estimates of net income from invisibles.

Table 4 attempts to reconcile dollar drain and UK balance of payments. It is pointed out that dollar drain exceeds balance of payments deficit by 20 million pounds. Sterling balance picture shows that in first quarter 1947, sterling balances of sterling area countries decreased by 12 million pounds while balances of non-sterling countries increased by 58 million pounds. At the same time, RFC loan and Canadian interest free loan were reduced by 11 million pounds. Thus net change in current liabilities of UK in first quarter was increase of 35 million pounds. British state that further fall in sterling area balances likely in second quarter, that there will be further decline in obligations under RFC loan and Canadian loan but that no net decline in non-sterling area balances is expected. Figures for second quarter will not be available for some weeks after end of second quarter. British estimate that over half year period net current liabilities as a whole are likely to have increased by about 15 million pounds. This increase, plus 20 million excess of dollar outpayments over current deficit, is accounted for primarily in terms of British overseas investment. British state that net investment outside sterling area is not likely to have been significant. However, there is no control over capital transactions between UK and sterling area and overseas investment in sterling area likely to have been of magnitude of 35 million pounds. One big element is purchase of South African securities which is estimated at about 10 million pounds in 1946 and has probably been at substantially higher rate so far this year.

[Clayton and Douglas]
DOUGLAS

841.51/6-2647 : Telegram

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

TOP SECRET

LONDON, June 26, 1947—noon.

3499. For Eyes Only of Secretary, Acheson, Lovett and Snyder from Clayton and Ambassador. Reference Embtel 3475, June 25. 1. British have now presented us with two additional preliminary tables relating to their international financial position. Copies of tables are

being sent air mail. One table sets forth estimates of dollar drain for last half 1947 and first half 1948 while other table gives various data relative to course of British trade in recent periods as compared with 1938.

2. Estimates for 1947-48 based on imports at 80% of 1938 volume. This import program designed to maintain present level of food consumption and provide essential raw materials, machinery, etc., for industry and agriculture. Estimates also rely upon expansion of exports to 140% of 1938 volume by second quarter of 1948. On production and commercial grounds this level of exports considered by British possible of achievement but would not be achieved if world shortage of foreign exchange intensifies causing other countries to restrict imports from UK.

3. On this basis balance of payments deficit of pounds 325 million expected in second half of 1947 and deficit of pounds 125 million in first half 1948 giving total deficit of pounds 450 million in coming year.

4. In second half 1947 total payments deficit with western hemisphere which can be met in US dollars or equivalent expected to reach \$1,350,000,000. Moreover, dollar drain of transactions with eastern hemisphere estimated to involve additional dollar drain of \$150,000,000 giving total dollar drain of \$1,500,000,000. British indicate this is optimistic estimate involving average dollar drain of \$60,000,000 per week compared to present rate of \$80,000,000. When asked about this discrepancy, British indicated primary reliance on estimate rather than present rate of drain. British estimate that \$1,500,000,000 drain may be met as follows: \$150,000,000 from Canadian credit, \$150,000,000 from sale of public utilities to Argentina and \$1,200,000,000 from US credit. This would leave \$500,000,000 of US credit for 1948. At present rate of drain, however, US credit would be exhausted by end of 1947.

5. In first half 1948 payments deficit with western hemisphere placed at \$1,050,000,000. No attempt is made to estimate effect of transactions with eastern hemisphere on dollar position but is pointed out that if there is no net dollar income from this area, remaining part of US credit and significant part of reserves will be exhausted by middle of 1948. In this period British expect to be able from production standpoint to export enough to achieve near balance of current payments. Thus, British consider that their position depends primarily on their ability to earn gold and dollars from trade with eastern hemisphere.

[Clayton and Douglas]
DOUGLAS

841.5151/6-2347: Telegram

The Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, June 26, 1947—6 p. m.

2759. For Clayton and Ambassador from State and Treasury. Urtel 3443 June 23. When subject matter was discussed today's meeting NAC Staff question was raised in which of two following ways phrase "in exceptional cases" appearing in para one (a) of reftel should be interpreted: (1) in the case of sterling owned by particular countries only (2) in exceptional circumstances applying to Britain's financial position as whole.

Please inform Dept which interpretation is correct. If interpretation (1) is correct please inform Dept which countries you have in mind.

In meantime State and Treas are assuming that second interpretation is correct one. Your inquiry is being submitted to NAC for its opinion. However definitive answer will await clarification of question raised herein. [State and Treasury.]

MARSHALL

841.5151/6-2747: Telegram

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

SECRET

LONDON, June 27, 1947—6 p. m.

3552. From Clayton and Ambassador for State and Treasury. Reference urtel 2759, June 26. 1. In paragraph 1 (a) of Embtel 3443 we had in mind only cases of sterling owned by particular countries. This based on our interpretation of language of financial agreement. "In exceptional cases" would appear to refer to particular countries in context used. In fact, we have expressed this view to British, stating that broad relief from obligations would involve congressional action. Paragraph 1 (b) in our cable 3443 intended to refer to problem of general relief from obligations.

2. British appear quite definite in their intention to meet obligations under financial agreement. As indicated in Embtel 3512, June 26, they will probably request postponement of convertibility obligations in cases of small number of countries to give them additional time to reach agreements.¹ No indication of request for general relaxation of any obligations has been given us by British.

3. We consider it desirable, however, for NAC to determine if financial agreement can be interpreted to provide for general relaxation

¹ In telegram 3512, Ambassador Douglas also noted that "Countries involved will be those with whom negotiations will not have been completed by July 15. Presumably request will be for short extension." (102.1/6-2647)

without congressional action in exceptional circumstances applying to Britain's financial position as whole. In this connection Clayton's testimony before Congress should be examined. British may find themselves later in such a difficult financial position that only alternative is to request postponement of obligations, and we should be prepared for this possibility. It is not our intention to suggest to British possibility of proceeding along these lines.

4. Please inform us fully of action by NAC. [Clayton and Douglas.]

DOUGLAS

841.5151/6-2747

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

TOP SECRET

LONDON, June 27, 1947.

DEAR MR. SECRETARY: We have now received from the British Treasury two additional tables primarily concerned with estimating the future British international financial position, to which I referred in my letter of June 25.¹ The contents of these tables are summarized in cable No. 3499 of June 26, and copies are attached.²

These tables are preliminary, as were the tables which I sent you the other day. One of the tables presents estimates of the British balance of payments and the dollar drain over the coming year, while the other table gives certain relevant statistics concerning the volume and distribution of U.K. trade. It is important to note with regard to the estimates that they are probably cast in a pessimistic light, and the table presenting the estimates should be read with this reservation in mind.

The tables do, however, indicate quite clearly the very significant point that the British economy is greatly dependent on the recovery of the rest of the world. The British have always experienced a deficit in their balance of payments with the Western Hemisphere which they have traditionally covered by achieving a surplus in their transactions with the Eastern Hemisphere. The failure of the Eastern Hemisphere to recover as had been hoped has resulted in a situation in which the British payments deficit with the Western Hemisphere has been intensified and in which the British have been unable to earn sufficient foreign exchange in their trade with the Eastern Hemisphere to meet this deficit. The economic recovery of the Eastern Hemisphere would enable the British to reduce their dependence on the Western Hemis-

¹ Not printed.

² Not printed. The Embassy sent an additional table "Estimated Overseas Expenditure" in despatch 1549, June 30, 1947, not printed. (841.51/6-3047)

phere and to earn foreign exchange from the Eastern Hemisphere with which to settle their debts with the Western Hemisphere.

In the light of this basic dependence of the United Kingdom on trade with the Eastern Hemisphere, I believe that we can count on British leadership in an overall approach to solving Europe's economic problems.

Sincerely yours,

L. W. DOUGLAS

841.5151/6-2347 : Telegram

The Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, July 7, 1947—8 p. m.

2906. From Marshall and Snyder to Clayton and Douglas. Re urtel 3443, June 23. Following are replies to your questions:

1 (a). We are informed that British Treasury Representative in Washington will shortly present a memorandum outlining arrangements which have been made or are contemplated by the UK Govt in this connection and specifically requesting extension of time in certain cases.¹

1 (b). It is not feasible to take up with Congress modification of Financial Agreement.

2. No decision has been reached on British proposal for discrimination in imports. NAC consideration of problem is being expedited.

[Marshall and Snyder]

MARSHALL

¹ Allan Cristelow, the United Kingdom Treasury Representative, in a letter of July 3 (received by Secretary of the Treasury Snyder on July 7) discussed in detail the negotiations which the British had had or were having with respect to making sterling convertible. The text comprises NAC Document 470, July 7, 1947, not printed.

841.51/7-947 : Telegram

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

CONFIDENTIAL

LONDON, July 9, 1947—5 p.m.

3758. For Marshall from Douglas. Reference urtel 2901, July 7, 1947.¹ 1. Statement in British Treasury representative's letter to Secretary Snyder that I was kept informed through course of negotiations with Egypt is not correct. Following completion of Egyptian negotia-

¹ Not printed.

tions, Sir Wilfrid Eady informed Gunter of various aspects of Egyptian negotiations and substance of this conversation was reported by cable No. 3655, July 3.²

2. We assume that reference cable was sent prior to receipt by Secretary Snyder from British in Washington of long British memorandum concerning their negotiations with various countries relative to sterling convertibility. Copy of this memorandum received by Embassy on July 7.³

3. We have always followed policy of reporting promptly to State and Treasury either by cable or airmail any information received by Embassy relative to British financial negotiations with third countries and her general financial position. We will continue this practice. It would be helpful to us to receive information supplied to State and Treasury by British in Washington. In this way Department, Treasury and Embassy will be fully informed at all times of information supplied by British. It would be helpful also to know what information you have requested from British. It may be embarrassing to us here to find that communications of which we have no knowledge have passed in either direction between Washington and London.

4. British Treasury usually supplies information requested by Embassy relative to their financial negotiations, although this information not always supplied promptly. Recently because of large number of negotiations underway, it has been impossible to follow in detail the course of each negotiation. However, memorandum referred to in Paragraph 2 presumably brings us up to date. With reference to Secretary Snyder's letter of May 7 to Dalton,⁴ Gunter has learned from British Treasury that they consider Dalton's letter of May 23 to Secretary Snyder⁵ at least partial reply.⁶ We do not know contents this letter.

5. Have previously reported that request made soon after arrival and repeated on several occasions for detailed information on British exchange position was not finally given us until late June.

DOUGLAS

² Not printed.

³ Not printed, but see footnote 1 to telegram 2906, p. 32. The Department informed Ambassador Douglas in telegram 3466 on August 13 that "your assumption correct that Deptel 2901 July 7 was prepared prior to receipt by Secretary Snyder of UK Treasury Delegation's letter." (841.51/7-947)

⁴ Not printed.

⁵ *Ante*, p. 15.

⁶ The Department, in telegram 3466, August 13, agreed that "Dalton's letter to Secretary Snyder of May 23 is regarded as having been only partial and rather general response to Secretary Snyder's letter May 7." (841.51/7-947)

Lot 60 D 137, Box 1

*Minutes of the Sixty-Eighth Meeting of the National Advisory Council
on International Monetary and Financial Problems, Washington,
D.C., July 10, 1947*

TOP SECRET

[Here follows consideration of unrelated material.]

2. *British Plan for Colonial Implementation of Section 9 of the
Financial Agreement*

(a) *Statement of the Problem*

Mr. Schmidt said that the basic question was whether or not either Section 9 of the Financial Agreement or a letter of Lord Halifax, dated December 15, 1945,¹ prevents the U.K., its colonial dependencies or its mandated areas from discriminating in favor of each other's products in the administration of their quantitative import controls. In no case is there any question of discrimination against the U.S. in favor of any other area. Section 9 of the Agreement provides that, with certain exceptions, the United Kingdom will after December 31, 1946 administer its quantitative import restrictions in such a manner as not to discriminate against imports from the United States. On April 28, 1947, copies were informally made available by a British official of a draft telegram² outlining the procedures by which the dependencies should implement Section 9. An essential feature of the plan is that any member within the group composed of the U.K. and the colonial dependencies may discriminate in favor of any other member of the group in administering its quantitative import controls.

The text of the Financial Agreement does not specifically mention the application of Section 9 to the British colonial dependencies, but Lord Halifax subsequently wrote a letter to Secretary Byrnes which stated that the United Kingdom Government would, so far as possible, seek "to use every endeavor to see that the practice of the Colonial dependencies accords in these matters with that of the United Kingdom."³ American exports to the colonies have more than doubled

¹ Not printed, but see Under Secretary Acheson's reply to Halifax, January 11, 1946, *Foreign Relations*, 1945, vol. vi, p. 199.

² Not printed. Texts of the British memorandum of April 28, 1947, and the proposed circular telegram were included as attachments to NAC Document 467, July 7, 1947, which was circulated to Council members. (Lot 60 D 137, Box 7)

³ An NAC staff study had pointed out that: "Although the Halifax letter was not made public, it provided the basis for certain statements which have tended to lead American exporters to think that when Section 9 came into force the United States would receive equal treatment with the United Kingdom in colonial markets, and with the colonies in the United Kingdom market." (NAC Document 467, July 7, 1947)

since 1938, and exporters have indicated an expectation of further increase as a consequence of the termination of restrictions favoring the United Kingdom. However, it is probable that certain quota restrictions will be imposed which will cause exports to fall.

There is some justification for discrimination since the colonies are, for the most part, included in the United Kingdom quota in the International Monetary Fund. Britain must be prepared to supply the dollars necessary to maintain the par value of the currency of any part of such area which incurs a dollar deficit. It was the opinion of some Staff Committee representatives of member agencies that discriminations of this type were understood to be permitted under the terms of Section 9 of the Financial Agreement.

The situation is complicated with respect to mandated territories by the existence of agreements giving the United States equal access to the markets of the territories.

Section 9 does not contain any provision for relaxing the British commitment after consultation between the two governments. If the British proposal were deemed to include discrimination within the meaning of Section 9, the proposal could only be accepted after reference to the Congress and the Parliament under the provisions of Section 12 of the Financial Agreement.

It was the opinion of the Staff Committee that the British proposal did not involve discrimination but that without admitting such the United States should attempt to obtain as favorable conditions as possible in the administration of quotas or restrictions. The formal action recommended that representatives of the United States need not take the position that Section 9 of the Financial Agreement or the Halifax letter prohibit the United Kingdom, its colonial dependencies or its mandated areas from discriminating in favor of one another's products in the administration of their quantitative import controls (NAC Document No. 467⁴).

The recommendation was accepted without objection.

(b) *Action.* The following action was taken:

The National Advisory Council is of the opinion that in their discussions with respect to the British plan of April 28, 1947, representatives of the United States need not take the position that Section 9 of the US-UK Financial Agreement or the Halifax letter of December 15, 1945, prohibit the United Kingdom, its colonial dependencies or its mandated areas from discriminating in favor of one another's products in the administration of their quantitative import controls.

⁴ Not printed.

3. *British Request for Postponement of Date on Which Sections 8 and 10 of the U.S.-U.K. Financial Agreement Must be Implemented in Certain Cases*

(a) *Statement of the Problem*

Mr. Schmidt pointed out that under the Financial Agreement the United Kingdom is required to arrange by July 15, 1947 that sterling accruing to third countries after that date or released from sterling balances accruing before that date shall be freely convertible for current transactions. The date can be postponed in exceptional cases after consultation with the two countries. On July 7, 1947 the Secretary of the Treasury received a letter requesting postponement in certain cases and had requested the advice of the Council with respect to this communication.

British Requests.—The British letter concludes with the request for an indefinite extension of the date with respect to China and short extension in the case of nine other countries. In addition, it states that before July 15 a request may be made for an indefinite extension with respect to Switzerland and shorter extensions with respect to six other countries.

The British indicate that they would not request extension under Section 7 which requires that after July 15, 1947 "the sterling receipts from current transactions of all sterling area countries will be freely available for current transactions in any currency area without discrimination."

Section 8 (ii) requires that the British "impose no restrictions on payments and transfers for current transactions" after July 15 for sterling acquired after that date. The British propose accomplishing this through the Transferable Accounts System which is an arrangement permitting countries having transferable accounts to approve all transfers for current transactions and placing the responsibility on the particular country to insure that the conditions are lived up to. The British say it would be impossible to make the technical arrangements with all countries before July 15 and ask for a brief extension with respect to Austria, Bulgaria, Greece, Hungary, Poland, Roumania, Siam, Turkey and Yugoslavia. They may be forced to ask for similar extensions with respect to Ethiopia, France, Paraguay, Sweden, Uruguay and the USSR.

Secondly, the British indicate certain areas, particularly Switzerland, may not be willing to accept sterling freely from all countries and they may, therefore, ask the United States to agree to an indefinite extension for Switzerland until that country agrees to set up a Transferable Accounts System.

Thirdly, the British do not feel that the authorities in China can guarantee that payments from Chinese sterling accounts will be for current transactions only or that the matter can be handled through London and they may ask for an indefinite postponement. For smaller areas they are willing to assume the administrative burden of control.

Analysis and Recommendations.—Mr. Schmidt said that the Staff Committee felt that some weight should be given to the British argument and that extension of time could be permitted without sacrificing the principles of the Financial Agreement by providing that all sterling after July 15 become freely available for current payment from the date when the agreement is signed. With respect to China the Staff Committee felt that the situation was not likely to improve in the near future and that it would be impossible to grant an indefinite extension. The British should be held to the Agreement and should be informed that the United States trusts that the British will make every effort to insure that applications to transfer sterling will be freely granted for current transactions. The Staff Committee also felt that the British should give assurances that applications will be granted for current transactions involving such non-sterling area countries as Afghanistan, Albania, Korea, Liberia, Nepal, Saudi Arabia and Tangier.

The Staff Committee was concerned with the Swiss case. The British state that "we cannot, of course, ask that a country should accept sterling freely from countries which will not accept sterling from it." It was felt that this argument could not be accepted. So long, for example, as Belgium could use sterling for payments to the United States it would not matter whether the sterling came from Switzerland or from some other country. Secondly, the British say that the Swiss "may not be willing to accept sterling from all sources, in which case they cannot expect . . .⁵ to be entitled to transfer sterling in all directions." The British, therefore, propose postponement until the Swiss change their minds. The Financial Agreement imposes a unilateral obligation on the United Kingdom to make current sterling available and it does not contain any provision that fulfillment of the obligations may be made contingent upon reciprocal undertakings.

With respect to certain countries that are heavily indebted to Britain (Czechoslovakia, Denmark and France) the British say that limitations might be placed on the transfer of sterling to assure that receipts are used for payment to the sterling area on current transactions or on accumulated debts. The Staff Committee felt that the British could accomplish this objective without imposing restrictions on the transferability of sterling for current transactions.

⁵ Omission indicated in original minutes.

With respect to the Bizonal Agency and SCAP the British do not think the Transferable Accounts System need be extended since the obligations under the Financial Agreement will be lived up to in agreements they are negotiating with those agencies. It was not clear whether any further action should be taken until clarification is obtained of the provisions of the proposed agreements and assurances are received that there will be no deviation from the Financial Agreement.

The Staff Committee felt that the British letter left unanswered several questions concerning future sterling area arrangements and the settlement of accumulated sterling balances.

The Staff Committee recommended for consideration the action indicated in NAC Document No. 473,⁶ the substance of which had already been indicated.

(b) Discussion

Mr. Thorp⁷ thought that recognition should be taken of the extraordinary job the Staff Committee had done in preparing analyses and recommendations on such short notice. The Chairman commented that the British letter had not been received until July 7 but that fortunately the Staff Committee had been working on the problem so it was prepared to act promptly. He agreed that the Staff Committee had done an excellent job in presenting recommendations on a most difficult and involved problem. He felt that the United States should take a firm position vis-à-vis the British on future requests for action. The Council could not be expected to provide an answer with the rapidity which had been required in the present instance.

Mr. Thorp said that he did not disagree with the position taken by the Staff Committee with respect to China but thought that it left the matter rather completely in the hands of the British without indicating our concern as to how they proceeded. He thought we should indicate to the British that at some later time, a few months hence, we should like to review with them the operations and procedures in the Chinese case. He thought it was too lenient merely to urge them to take a particular action without requiring them to report back and consult with us. The Chairman⁸ agreed that the matter should be followed through. Mr. Overby⁹ commented that reviewing the steps taken was inherent in the whole Agreement. Any letter would indicate that the United States would want to be informed on what the British worked out in China. The Chairman added that the United States had indi-

⁶ Not printed.

⁷ Willard Thorp, Assistant Secretary of State for Economic Affairs.

⁸ John W. Snyder, Secretary of the Treasury.

⁹ Andrew N. Overby, Special Assistant to the Secretary of the Treasury.

cated that it was not at all satisfied with the information so far furnished.

Mr. Martin ¹⁰ said that he assumed that the Staff Committee's recommendation constituted a general approach and was not intended to bind any postponement to two months. The Chairman observed that the two months' period applied only to certain items. Mr. Martin thought the British should have some latitude in their discussions with respect to Switzerland. Mr. Eccles commented that the Agreement does not give the United States latitude to extend an indefinite extension.

Mr. Overby pointed out that the British in their letter had asked for an extension of "a month or two" and suggested that the matter might be worked out administratively. An extension of two months could be granted and a further extension proffered if necessary. Mr. Knapp pointed out that the two months' period would lapse on September 15 and that there would be an opportunity to review the matter in London. The Chairman suggested, and it was agreed, to strike out the reference in paragraph (d) of the recommendation to "paragraph (a) above" so that the recommendation with respect to Switzerland would be that favorable consideration should be given to a request for a postponement of short duration without defining the latter term.¹¹

Mr. Eccles stated that the Staff Committee had done an excellent job but as a member of the Council he was left rather unprepared. He had not had time to consider the problem adequately and he liked to have confidence in his own judgment. However, he was willing to vote his confidence in the Staff Committee by accepting the recommendation.

The Chairman said that his Staff had consulted frequently with him and he assumed that the Staff members had kept their principals informed. However, he did not wish to exert pressure on the Council and he inquired whether any member of the Council would like to postpone action. It was pointed out that very little postponement was possible and Mr. Thorp commented that the worst that could happen was to postpone some of the issues two months.

The recommendations were adopted unanimously with the one modification that with respect to Switzerland postponement of "short duration" should not be defined in terms of a maximum of two months.

The Chairman requested that a firm letter on the matter be prepared immediately for transmittal to the British. Mr. O'Connell ¹² in

¹⁰ William M. Martin, Jr., Chairman and President, Export-Import Bank of Washington.

¹¹ The recommendation of the NAC Staff in NAC Document 473, paragraph (d) read: "but favorable consideration should be given to a request for a postponement of short duration as in paragraph (a) above, which would allow the British time to complete whatever arrangements may be necessary."

¹² Joseph J. O'Connell, Jr., General Counsel, Treasury Department.

quired whether there would be any publicity with respect to the July 15 date, and possible postponements thereunder. Mr. Overby commented that questions had already been raised with him on this matter by the press. The Chairman suggested that a press release be prepared jointly with the British on this matter.

(c) *Action.* The following action was taken :

The National Advisory Council advises the Secretary of the Treasury in reference to the British communication of July 3, 1947, as follows:

(a) Favorable consideration should be given to granting the British request of a maximum of two months' postponement of the July 15, 1947, deadline in those cases where it is impossible for the British to complete technical arrangements with the particular countries before July 15. In these cases, the Secretary of the Treasury should attempt to secure an agreement that all sterling accruing to these countries after July 15, 1947, shall become freely available for current payments retroactively upon the date of completion of the necessary arrangements.

(b) The British request for an indefinite postponement with respect to China should be denied. The British should be informed that, while the U.S. Government is conscious of the difficulties which will be faced in administering Chinese accounts, it trusts that the British Government will make every effort to ensure that applications to transfer sterling will be freely granted whenever the current nature of the transaction is established.

(c) The British should be advised that, in the case of other non-sterling area countries with which no formal transferability agreements are contemplated, the British will be expected to administer their foreign exchange control in such a way as to permit transfers freely for all current transactions.

(d) The British request for an indefinite extension for Switzerland until that country agrees to accept sterling and set up a Transferable Accounts System should be denied, but favorable consideration should be given to a request for a postponement of short duration which would allow the British time to complete whatever arrangements may be necessary.

(e) The British should be informed that arrangements relating to the debts of those countries which are indebted to the United Kingdom should be effected by means which do not limit the transferability of sterling for current transactions.

(f) In the event that additional requests are made by the British in the immediate future, the Secretary of the Treasury should, in con-

sidering his reply, take account of the general approach set forth above.¹³

[Here follows discussion of other subjects.]

¹³ Under Secretary Clayton was informed of the actions taken by the NAC on July 10 in telegram 784 to Geneva, July 11, 1947, and the same information was repeated to London in telegram 2985. (841.51/7-1147)

Editorial Note

Secretary of the Treasury Snyder conveyed the substance of the National Advisory Council's July 10 actions in a letter of the same date to British Chancellor of the Exchequer Hugh Dalton. The British were asked to clarify certain points raised in their July 3 letter, and for their assurances along the lines suggested by the NAC actions. Mr. Gordon Munro of the British Treasury Delegation in a letter of July 12 thanked Secretary Snyder for agreeing to the postponement of the convertibility obligation in the case of the named countries, and asked that these provisions be extended to cover France, the U.S.S.R., Denmark, and Paraguay. Confirming the understanding that sterling accruing to those countries would be made convertible retroactively after agreements had been reached, Mr. Munro asked that a postponement until December 31, 1947, be granted in the case of China. He added that: "In the case of Switzerland I am now happy to confirm that full convertibility will be in effect as of July 15, 1947."

Secretary Snyder, on July 14, agreed to Mr. Munro's request, except that in the case of China, a two months' delay was granted "in the hope that you may be able to complete the necessary arrangements within that period of time."

841.51/7-2447

The Department of State to the British Embassy

AIDE-MÉMOIRE

1. The Government of the United States has given very careful consideration to the British Embassy's memorandum of April 28, 1947 and to the attached directive which the Government of the United Kingdom proposes to send to the colonial dependencies and trust territories, outlining the procedure by which the latter are to implement Section 9 of the Anglo-American Financial Agreement.¹ The Government of the United States regrets that the Government of the United Kingdom considers it necessary for the colonial dependencies and trust territories to institute quantitative import controls which, while not

¹ Not printed, but see footnote 2, p. 34.

discriminatory against the United States in favor of imports from the Dominions, India and many other countries, would result in discrimination against American products with respect to similar products from the other dependencies and trust territories and from the United Kingdom. Nevertheless, the Government of the United States recognizes that so long as it is necessary for the United Kingdom rigidly to control imports for balance of payments reasons it is not unreasonable to expect the colonial dependencies to spend scarce currencies with equal care.

2. The Government of the United States is concerned, however, with the possible effects of the proposed import control regime on commercial relations between the United States, the United Kingdom and the colonial dependencies. The Government of the United States therefore suggests that a small number of technicians selected by each government meet together as soon as convenient to discuss the various problems which may arise in the implementation of the plan suggested, with a view to possible modifications which would be in the joint interest of the two countries. These discussions would be limited to a review of the effects of the system proposed and to an exchange of views with respect to various alternatives, and would be conducted wholly at the technical level.

3. If the Government of the United Kingdom considers it essential to establish a discriminatory import control regime, the Government of the United States also hopes that in any directive issued to the colonial dependencies and in the initial colonial announcements of the new import control regime, it will be emphasized that the discrimination is a temporary measure to be continued only so long as necessary on balance-of-payment grounds.

4. In addition to the consultations suggested above, the Government of the United States assumes that the Government of the United Kingdom will be prepared to consider at any time such representations as the Government of the United States may find it necessary to make regarding the application of the discriminatory import regimes.

5. In the territories in which the United States is entitled to equality of treatment under mandate and trusteeship agreements at present in force, the Government of the United States assumes that there will be no discrimination against the United States in favor of any other country including the United Kingdom. Such territories include Palestine (under the Mandate Convention of December 3, 1924) ; and Cameroons, Togoland, and Tanganyika (under the Trusteeship Agreements approved by the General Assembly of the United Nations on December 13, 1946). The Government of the United States also assumes that there will be no discrimination in the territories of the Congo Basin (covered by the Convention of St. Germain-en-Laye of 1919).

6. In the case of the former Italian Colonies, to which the Government of the United Kingdom also proposes to extend the discriminatory import control regime (according to information received by the American Embassy at London from the Board of Trade), the Government of the United States requests that in view of the temporary and special nature of the British administration of these territories as envisaged by Article 23 of the treaty of peace with Italy, there be no discrimination against the United States in these territories.

WASHINGTON, July 24, 1947.

841.51/7-2547 : Telegram

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

SECRET

LONDON, July 25, 1947—4 p. m.

US URGENT

4071. For the Secretary and Lovett. Bevin informed me this morning that he was sending you today an urgent cable describing the critical British financial position.¹ A copy of this will be delivered to me as soon as it has been prepared.

Convertibility of sterling on the 15th of July has caused a heavy drain on dollars. (The extent to which the British situation has been aggravated by convertibility, I do not at the moment know, but I have feared that it would be more than they or we anticipated.

He says that we are pressing too hard and too fast in the discussions at Geneva² on the matter of non-discrimination, which, although he agrees to it as a long run policy, is not adapted or suitable to the present emergency conditions. By the year 1951 he thinks that they would be applicable but for the year 1948 he believes they are not applicable.

Before Parliament rises on the 8th of August, there will be a two days debate on the state of the nation. Prior to this debate, the government will have to decide whether:

- a. To cut imports "violently";
- b. To cut multi-lateral trade;
- c. To "withdraw from Germany"; and
- d. Possibly to declare a state of emergency.

Bevin says he is trying to provide the leadership, so far with considerable success, in the organization of an integrated economic pro-

¹ This message presumably was incorporated in the *aide-mémoire* which Sir John Balfour, the British Chargé, left with Secretary Marshall on July 28, p. 45.

² Reference here is to the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment. Documentation concerning this subject is found in volume 1.

gram for Western Europe; and there are other things approaching—such as the General Assembly of the United Nations—in which it is important that Britain play a significant part.

He doubts, in the face of the present British crisis, that their prestige will be such as to provide the leadership and to play a significant role.

If some temporary relief for Britain can be found, the moral position of Britain will be greatly strengthened among other countries. She will be able to provide the direction and leadership, and she will be able to play the role which only Britain can play in integrating the economic program for Europe. Without relief, he doubts that Britain will be able to play this part, and thinks that the consequences on France and Italy and elsewhere may be disastrous.

He suggests personally and informally the possibility that the International Bank might be able to provide this relief to the tune of a billion dollars which, he believes, will be sufficient to carry them over the hump by the middle of next year, and which, he believes, will place Britain in a position where she can provide assistance to France and play her role in Germany.

From my knowledge, I can say that the British position is critical. This has been reported to you by me before.

As to whether Bevin's personal suggestion is a feasible one or not, I have no judgment, but it is my view that we run the serious risk of losing most of Western Europe if the crisis here develops as it now seems almost certain to develop.

That the British have not come to grips with their coal problem and other issues, I am certain.

I would not suggest temporary relief, if it is feasible, to UK on straight economic grounds, but I think that if we are to be successful in Western Europe, we cannot afford to permit the British position so to deteriorate that her moral stature will be reduced to a low level.

If some relief is feasible, it should not, I think, be of a nature or an amount which will permit Britain to avoid grappling in earnest with some of her problems.

DOUGLAS

841.10/7-2847

Memorandum of Conversation, by the Secretary of State

TOP SECRET

[WASHINGTON,] July 28, 1947.

Participants: The Secretary

Sir John Balfour, British Chargé d'Affaires

Sir John Magowan, Minister, British Embassy

Mr. Matthews¹

¹ H. Freeman Matthews, Director, Office of European Affairs, until July 21, 1947.

Sir John Balfour called this morning at his request and left with me the attached *aide-mémoire*² and annexes concerning the British financial position. He emphasized the importance which his Government attaches to the subject and proceeded to read aloud most of the *aide-mémoire*.

He then said that he had been instructed to tell me orally that his Government considered this as an informal approach and not the formal notification envisaged in Article 12 of the Anglo-American Financial Agreement. Under that article either the British or American Government reserves the right to initiate formal consultation if it finds itself unable to comply with the provisions of the Agreement. He had also been instructed to say that should this Government consider such an approach desirable the British Government would consider taking the formal step called for by Article 12. Sir John Magowan then read the text of Article 12.

Mr. Balfour asked if there was any word which I would like him to communicate to Mr. Bevin. I said that I would wish to study his *aide-mémoire* first and that there was nothing which I wished to say at this time.

[Enclosure]

The British Embassy to the Department of State

AIDE-MÉMOIRE³

British Ministers have recently had a valuable exchange of views with Mr. Clayton on the United Kingdom financial position, on some of the implications of Mr. Marshall's Harvard speech,⁴ and other matters.⁵ After preliminary discussion with the United States Ambassador and Mr. Clayton, a memorandum was drawn up on the subject of action to implement Mr. Marshall's speech. A copy of this memorandum, which was accepted by Mr. Clayton is attached at Annexe A.⁶

The United Kingdom Government has also drawn up a note on the results of the second Paris Conference which shows the extent to which they have been able to carry out Mr. Clayton's informal advice. A copy of this note is attached at Annexe B.⁶

His Majesty's Chargé d'Affaires has been instructed to assure the United States Government that the United Kingdom Government will

² On the previous evening, Sir John Balfour gave to Charles E. Bohlen, Special Assistant to the Secretary of State, an advance copy of the message which Foreign Secretary Bevin wished delivered to Secretary Marshall. The message is substantially the same as the *aide-mémoire*. (841.51/7-2847)

³ This *aide-mémoire* and its enclosures are in Lot 56 D 510, Box 17.

⁴ For text of speech, see p. 237.

⁵ Memoranda of conversations covering these meetings held June 24-26 in London are printed on pages 268 to 294.

⁶ Not printed.

do their utmost to see that a European scheme is produced by the beginning of September which, they hope, will afford the basis of further governmental action by the United States. It is, however, a matter of doubt to the United Kingdom Government whether any assistance to Europe which may flow from Mr. Marshall's proposals will come early enough or be large enough to meet the special difficulties and position of the United Kingdom as a world-wide trading nation.

The United Kingdom Government have gone ahead unhesitatingly in an attempt to fulfil by July 15th their obligations under the Anglo-American Financial Agreement. They assumed this heavy burden in the hope that by doing so they were taking the first steps in the construction of a healthy world economy and in the faith that by measures taken on a large scale to assist Europe on the one hand and to relieve the world dollar shortage on the other, the United States would ensure that these first steps were not taken in vain. It has been common knowledge between the United States and United Kingdom Governments that, without further measures either through the International Monetary Fund and the International Bank for Reconstruction and Development or by direct United States Government action, these first steps were doomed to failure.

Mr. Marshall has had the figure of drawings on the United States credit and a full statement of the position by the United Kingdom Government.⁶ At the present rate of drawings, and there is no reason to expect any significant change in them in the immediate future, they will by the fall have exhausted the credit and shall be left only with their final reserves. These comprise not only their own working reserves but those of other sterling countries. With all the uncertainties before them they could not contemplate serious depletion of these already inadequate reserves.

In the face of this situation the United Kingdom Government will be compelled in any case early in the fall to take corrective measures affecting not only their own internal economy, but their trading relations with other countries. They are urgently studying these measures already. They will have to cut their imports from the Western Hemisphere to a point where their productive capacity is damaged because of deficiency of food and also of raw materials. This means at once that any contribution from the United Kingdom to restore European economy will be drastically lessened. They will have to explore all possible alternative sources of supply. They will have to curtail the supply of dollars for India, for the Middle East and for other coun-

⁶ Reference here is to the tables mentioned in Ambassador Douglas' letter to Secretary Marshall of June 25 (see footnote 2, p. 27) and to other financial information supplied to the American Embassy.

tries, and will not be able to find the dollars necessary to finance the Canadian deficit with the United States. They will be able to provide no further dollars for Germany. Their difficulties will spread to other countries and they will no longer be able to act as the differential gear between the United States economy and much of the rest of the world. Mr. Marshall will realize also that their dollar shortage is bound to react on their military commitments abroad.

Moreover, unless assistance is forthcoming, the United Kingdom Government will be forced by circumstances beyond their control to retreat from one position to another, and further and further from the concept of a multilateral world economy. They will not be able to progress towards multilateral trade and non-discrimination over a large part of the world. Instead they will have to manage their affairs on the basis of a series of bargains by which they can get what they can, where they can and on the best terms they can arrange.

The United Kingdom Government wish to make it clear to Mr. Marshall that these are not groundless fears. They are the stark facts of the situation. It is because they are aware of these facts that they are bending every effort to secure an early and satisfactory response to Mr. Marshall's Harvard speech. But at the same time they feel they must leave Mr. Marshall in no doubt of what kind of policy, both at home and abroad, will be forced upon them when they have no dollar resources available. They recognise that the first result of this policy will be a general restriction of international trade. They will suffer from that and they are aware of this fact. But they see no alternative line of policy open to them.

As regards Germany, the United Kingdom Government, on the facts given above, could not possibly go to Parliament for a supplementary estimate above their existing appropriation knowing that much of any appropriation for Germany means dollars. Indeed, they are very doubtful whether they can afford to provide the dollars due under their existing appropriation. This will certainly be the case if there is a crisis in the autumn. Further, they cannot ask Parliament for an appropriation largely in dollars for next year unless there is a radical transformation of the whole situation. While they believe, as the United States Government do, that it is vitally necessary to raise and maintain at a higher level the present low standard of German economy, they themselves shall be unable to play any part in providing the dollar funds which will be required for this purpose.

The United Kingdom Government are most anxious that Mr. Marshall should be left in no doubt of the urgency and gravity of the situation as they see it and as they have explained it to Mr. Clayton. They think it necessary to place on record the full implications of the situation with which the United Kingdom Government are now faced.

It is their intention to keep in very close touch with the United States Government on the development of the situation.

WASHINGTON, 28th July, 1947.

841.51/7-3047

Memorandum by the Secretary of State to President Truman

SECRET

[WASHINGTON,] August 1, 1947.

Subject: Reported Impending British Dollar Crisis

The British Chargé d'Affaires has left with me an *Aide-Mémoire* expressing his government's concern at the rapid depletion of its dollar resources. The *Aide-Mémoire* stated that at the present rate of depletion the balance remaining from the \$3-¾ billion U.S. loan will be exhausted by fall. There will then be left only basic monetary reserves, which at the current rate of loss would not last beyond April or May of 1948.

The British question whether in these straitened circumstances they could contribute leadership for a European recovery program. Moreover, they feel compelled to consider: (a) reducing their financial commitments in Germany and elsewhere, (b) further curtailing imports and (c) withdrawing from multilateralism in international trade.

Background. The British have now drawn \$2-¾ billion, leaving a balance of only \$1 billion. This situation has arisen in part because British purchases abroad have been made at prices higher than when the loan was made. The rate of world recovery has been slower than anticipated, with the result that Britain has been forced to buy largely in the western hemisphere. A contributing factor has been the recent undertaking by the United Kingdom to make sterling convertible as required by the Anglo-American Financial Agreement. Britain's own failure to muster the full force of its productive resources has retarded the expansion of exports.

Comment: Ambassador Douglas comments that the British position is critical. He believes that "we run the serious risk of losing most of Western Europe if the crisis here develops as it now seems almost certain to develop."¹ I agree that the possible developments are most disturbing.

¹ Evidence of mounting economic anxiety was reported by the Embassy in London in telegram 4142, July 30: "Daily headlines, articles, editorials, speeches, announcements, and meetings on Britain's economic crisis during past two weeks are driving home the realities which face British when loan is exhausted and is producing a state of mounting anxiety and tension here, which will likely reach crescendo middle next week when economic situation is to be debated in Commons." (841.50/7-3047)

We have talked to Treasury on this matter. They will confer with the British to determine more precisely what the situation is and what the British themselves can do. We will keep you advised of developments.

G. C. MARSHALL

841.50/8-247

The British Chargé (Balfour) to the Secretary of State

WASHINGTON, 2nd August, 1947.

(Ref.G. 190/ /47)

DEAR MR. SECRETARY: I have just received instructions from Mr. Bevin to inform you that in the last few days British Ministers have had under consideration the steps that they should take forthwith to increase the nation's productivity and to relieve the strain on the balance of payments of the United Kingdom. Measures to this end will be announced in a two-day debate in Parliament on Wednesday the 6th and Thursday the 7th August.

2. In this connexion His Majesty's Government in the United Kingdom wish to suggest that, as a first step, a discussion with the United States Government should take place forthwith on a high official level about our position and its immediate implications. His Majesty's Government propose to announce in Parliament that they have made this approach to the United States Government. They hope that it will prove acceptable and it would be a great help to Ministers if they could inform Parliament that it had been accepted.

3. I am instructed to emphasize that this approach is not intended to settle matters which are proper for discussion at the Paris Conference,¹ or subsequent developments in response to your initiative. But His Majesty's Government feel strongly that it might be embarrassing to both our Governments if we were to attempt too close a definition at this stage as to the matters to be discussed.

4. I am asked to add that the United States Government may prefer that His Majesty's Government should now invoke consultation under Clause 12 of the Anglo-American Financial Agreement, to which I referred in the course of my conversation with you on the 28th July. In that event, His Majesty's Government would be ready to do so.

5. His Majesty's Government would greatly appreciate your early comments on the foregoing proposals.

Yours sincerely,

JOHN BALFOUR

¹ Reference here is to the Committee of European Economic Cooperation, which began its deliberations on July 12, 1947, in Paris. For documentation see pp. 249 ff.

841.51/8-447

The Secretary of State to the British Chargé (Balfour)

TOP SECRET

[WASHINGTON,] August 4, 1947.

MY DEAR MR. CHARGÉ D'AFFAIRES: In reply to your communication to me of August 2 I wish to inform you that the United States Government is prepared to accept the suggestion of His Majesty's Government that a discussion should take place forthwith between us, on a high official level, concerning your position and its immediate implications. I assume from your communication that you contemplate sending an official of high rank to Washington for any such discussions.

My Government is in entire agreement with the view expressed in your communication that such discussions should not be regarded as affecting the matters under consideration at the Paris Conference. In order to avoid any misunderstanding on this point my Government feels that any reference to or announcement of such discussions make it clear that they are to deal with problems arising out of the Anglo-American Financial Agreement.

We feel the decision whether or not to invoke Clause 12 of the Anglo-American Financial Agreement is one which, at this juncture, would appear to rest with the British Government. You will understand, however, that this Government could agree to no action under this clause without prior authorization by the Congress.

I agree that it is not necessary at this stage to attempt to define too closely the matters which are to be discussed.¹

Faithfully yours,

G. C. MARSHALL

¹The texts of this reply and of the British letter of August 2 were sent to London in telegram 3374 on August 6 (841.51/8-647).

841.51/8-647: Telegram

The Secretary of State to the Embassy in the United Kingdom

TOP SECRET

WASHINGTON, August 6, 1947—3 a. m.

NIACT

3364. From Wood. Following Top Secret letter received Sect [*Secretary*] from Balfour 7:25 p. m., EDT, August 5:

"I have been instructed to notify you that in the debate in the House of Commons on the 6th August, His Majesty's Government in the United Kingdom will announce that they have decided that they must make an immediate and substantial reduction in their purchases of foodstuffs from hard currency areas. They are, therefore, making a reduction in the rate of these purchases of the order of £12,000,000.

(twelve million pounds sterling) a month. Such a reduced rate of buying from hard currency sources will mean that they will completely stop the buying from those sources of luxury foods. Bulk long term contracts for staple foodstuffs from these areas will not be interfered with.

The effect of this decision on the level of distribution of foodstuffs in the immediate future will depend upon a number of factors. The first is the degree to which His Majesty's Government are able to buy their foodstuffs from soft currency sources. So far as these soft currency sources are, all things considered, more favorable from the commercial point of view, the question of discrimination under Article 9 of the Loan Agreement will not, of course, arise. Where, however, such purchases cannot be justified under the Loan Agreement, His Majesty's Government will be exploring the situation with the United States Government to see what steps can be taken to enable them to obtain supplies from soft currency areas. A second factor will be the length of time for which this policy must be continued.

In asking me to inform you of the above-mentioned statement, which will give an account of the effect of this policy on rationing in the immediate future, His Majesty's Government are confident that the United States Government are fully aware of the reasons that have led them to take these steps. They emphasize that the application of this policy will involve no unilateral breach by His Majesty's Government of Article 9 of the Loan Agreement. Such questions as involve Article 9 will, of course, come within the scope of the forthcoming official talks."

Following draft of reply which intended give them formally August 6 handed informally to Magowan and Hutton¹ midnight EDT August 5 with request they transmit urgently British Government:

"I refer to your letter to me of August 5th in which you inform me of your government's decision to announce in Parliament on August 6th the reduction by £12,000,000 monthly of purchases of foodstuffs in hard currency areas.

I am happy to note your statement that the application of the policy which the British Government proposes to announce will involve no breach of Article 9 of the Anglo-American Financial Agreement.

I shall, of course, be questioned by the press and public as to the effect of this announcement on the Loan Agreement. Until we have a fuller understanding as to the specific measures your government proposes to adopt, it seems appropriate to limit my replies to a general statement to the effect that your government has advised me that no breach of the agreement will be involved.

It is my understanding, of course, that all matters of interpretation relative to the Loan Agreement will continue to be the subject of discussion and mutual agreement between our two governments."

¹ Maurice I. Hutton, head of the British Mission in the United States.

When we handed draft reply ² to Magowan and Hutton, we advised them in following sense:

1. That it was a draft of letter we proposed sending on August 6 and that it represented the only official statement we felt we could make at this time.

2. That there were certain points raised by British letter which gave us some concern and that we believed it desirable to indicate them in most unofficial manner. We stressed that our unofficial comments should not be considered as US position nor as a suggestion to British as to manner in which they should handle this matter under difficult circumstances confronting them at home.

3. British letter seemed to contradict itself. Although it stated that policy to be announced would not involve a breach of loan agreement, this was hard to reconcile with statement that reduction in buying from hard currency sources of luxury foods would completely stop. We suggested that if purchases from hard currency sources of these items was completely stopped, it would result in breach of Article 9 of agreement. British pointed out that ways and means might be found to avoid this, particularly if intended cut imports and consumption in these items was drastic enough. We repeated here that we were accepting their statement that there would be no breach, despite our qualms.

4. We expressed view that if Attlee ³ states or implies publicly that there will be a 12 million pound monthly reduction in purchases of "luxury foods", the public reaction in this country might be bad. The implications involved in this might leave British open to charge that they have been frittering away large parts of loan on luxury items. British agreed on this point and are apparently suggesting to London that terminology "less essential" be substituted for "luxury".

5. In response to direct inquiry British assured us that existence of soft currency was not among commercial considerations although it was mutually agreed that no meeting of minds had been reached on elements involved commercial considerations and hence matter for further consultation.

6. British on most confidential basis listed hard currency countries as Canada, U.S., Argentina, Brazil, Paraguay, Uruguay, possibly Cuba with Switzerland special case.

² The telegraphed text of Secretary Marshall's proposed reply to the British Charge, Sir John Balfour, is substantially that which was made on August 6. The final paragraph of the latter follows: "It must be understood that I can make no commitment at this time other than to explore the situation with your government at the forthcoming official talks which you have requested and that all matters of interpretation relative to the Anglo-American Financial Agreement will continue to be subject to mutual agreement between our two governments." (841.51/8-647)

³ Clement Richard Attlee, British Prime Minister.

British emphasized throughout that they were speaking unofficially and without complete information.

Repeated to Paris for Clayton and Douglas 2912; repeated to Geneva for Wilcox 957.

MARSHALL

841.51/8-747: Circular Instruction

*The Secretary of State to Certain Diplomatic and Consular Officers*¹

SECRET

WASHINGTON, August 7, 1947.

The Secretary of State refers to that portion dealing with Section 9 in a circular instruction dated February 17, 1947 sent to certain American Consular Officers under the title "Relation of Sections 8 and 9 of Anglo-American Financial Agreement to British Colonial Dependencies."

For the information of the Officers in Charge, a copy of each of the following documents is attached:

1) Memorandum handed to Assistant Secretary of State for Economic Affairs by Sir John Magowan of the British Embassy, Washington, on April 28, 1947.²

2) Proposed directive to be sent to British dependencies by the British Colonial Office.²

3) Statement read by the Secretary of State at his press conference on July 23, 1947.³

4) *Aide-Mémoire* sent to Sir John Magowan of the British Embassy, Washington, by Assistant Secretary of State for Economic Affairs on July 24, 1947.

The Officers in Charge will note that the Government of the United Kingdom proposes to implement Section 9 of the Financial Agreement in those colonial dependencies in which it has the authority to do so. However, as will be noted from the proposed British directive, the dependencies in question as well as Burma and Southern Rhodesia which share with the United Kingdom a common membership and quota in the International Monetary Fund would be free mutually to discriminate in favor of one another in the administration of their quantitative import restrictions.

The National Advisory Council on International Monetary and Financial Problems carefully considered this proposal of a variation from nondiscrimination. The Council decided that the proposal was not inconsistent with the Financial Agreement.

¹ Sent to 36 posts, primarily consular offices in British colonial dependencies.

² Not printed, but see footnote 2, p. 34.

³ Printed in Department of State *Bulletin*, August 3, 1947, pp. 228-229.

In considering this question, the Council gave considerable weight to the fact that the original *Proposals for Expansion of World Trade and Employment*⁵ and the Financial Agreement were negotiated at the same time and as parts of the same series of negotiations. The text of the Financial Agreement and of a Joint Statement on Commercial Policy by the United States and the United Kingdom, announcing agreement in principle of the two countries on the Proposals, was issued by this Government in a single document in December 1945.⁶ Section C(5) of the Proposals states that Members (of the proposed International Trade Organization) should not be prohibited from applying quantitative restrictions in a manner designed to maintain the par value of the currencies of the territories having a common quota in the Monetary Fund. A similar provision was included in the proposed Charter for an International Trade Organization published by the United States in September 1946,⁷ and in the London and New York redrafts of the proposed Charter. It is also included in the Draft General Agreement on Tariffs and Trade which it is proposed to conclude at the meeting now in progress at Geneva⁸ with the object of bringing into force certain parts of the Charter prior to the time it will be possible for the entire Charter to be approved and implemented. Moreover it was the understanding of the American negotiators at the time of negotiation of Section 9 that if balance-of-payments requirements made it necessary the United Kingdom and those dependencies sharing with it a common quota and membership in the International Monetary Fund could discriminate in favor of imports from one another. The current balance-of-payments position of the United Kingdom and the fact that unrestricted colonial expenditures would be a serious drain on the dollar availabilities of the United Kingdom appear to make the common quota exception fully applicable at the present time.

It will be noted that in its *Aide-Mémoire* to the British Embassy of July 24, 1947 the Department has proposed discussions at the technical level with respect to the form of quantitative import controls to be adopted in the dependencies. The Officers in Charge will be informed of further developments.

In view of recent constitutional changes in Burma and the omission of Burma from the list of colonial dependencies in the Halifax letter,⁹ the Department is studying the question whether common quota discrimination applies to Burma.

⁵ Department of State publication 2411.

⁶ Department of State publication 2439, Commercial Policy Series 80.

⁷ For documentation regarding this subject, see the index entry in *Foreign Relations*, 1946, volume I.

⁸ For documentation on the negotiations at Geneva, see volume I.

⁹ See footnotes 1 and 3, p. 34.

FW 841.51/8-647

Memorandum by the Assistant Secretary of State for Economic Affairs (Thorp) to the Under Secretary of State (Lovett)

[WASHINGTON,] August 8, 1947.

The British Chargé d'Affaires has asked the Secretary whether the first stages of the conversations to which we have agreed might be held in London. I have recommended to the Secretary that he indicate his firm belief that all conversations be held here in Washington. One reason for this is our conviction that the interests of the British themselves would be prejudiced with American opinion were we put in the position (to use Secretary Snyder's words) of "a banker running to the convenience of his debtor." The British, anticipating that we might be of this opinion, have indicated that they will, if we so desire, make arrangements for meetings here.

We may assume, I think, that the conversations will commence within the next ten days or two weeks. It is planned that the American side be the National Advisory Council. As you know, it was the Council which conducted the original negotiations with the British; moreover, "the Secretary, in consultation with the National Advisory Council" is authorized by the British Loan Act, "to carry out the (Financial) Agreement." In this way, too, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Export-Import Bank will be drawn officially into the negotiations along with State and Treasury.

Conversations with Treasury indicate that negotiations are likely to be divided into two parts, one concerning convertibility, the other involving discrimination. The former will probably be directed by Treasury, whereas the latter involves us primarily. Mr. Ness has advanced to Treasury the suggestion that Agriculture should be represented on the latter group, and has met with favorable response from his opposite numbers.

We are undertaking to keep Mr. Clayton advised by cable.

FW 841.51/8-1247

The Acting Secretary of State to the British Chargé (Balfour)

[WASHINGTON,] August 14, 1947.

MY DEAR MR. CHARGÉ D'AFFAIRES: I have received your letter of August 12¹ advising me that your government's delegation for the forthcoming talks on financial matters will arrive in Washington this weekend in anticipation of discussions beginning Monday.

¹ Not printed.

On our side these discussions will be conducted by the National Advisory Council on International Monetary and Financial Problems, of which, as you know, the Secretary of Treasury is Chairman. I have informed Mr. Snyder of the contents of your letter.

Sincerely yours,

ROBERT A. LOVETT

841.51/8-1947

*Memorandum by the Sub-Committee on Commercial Policy of the NAC Staff Committee*¹

SECRET

[WASHINGTON,] August 16, 1947.

Subject: Relaxation of the Provisions of Section 9

Before any decision is taken to relax the provisions of Section 9, it must be conclusively proved that such action will materially alleviate the British dollar position. If this is proved, it will be necessary to determine the procedure by which this relaxation can best be effected. This paper attempts to indicate in general terms the possible significance of a relaxation of Section 9 and to outline the possible procedures for effecting it.

POSSIBLE BRITISH REQUEST

There has been no indication of the specific proposals the British intend to make, and it will be necessary to ascertain these in the forthcoming discussions before any conclusive evaluation of the significance of the proposals can be made. The general nature of the probable British proposals is apparent from official statements, however. They want to be free to discriminate in favor of the Dominions* and other countries (Argentina, for example), and possibly to use such discrimination as one means of requiring other countries to discriminate in their favor. There are also indications that recent events and pressure from other countries may be causing the British to move away from acceptance of the general principle of nondiscrimination.

BENEFITS TO THE BRITISH FROM DISCRIMINATORY MEASURES

It is difficult to see how any significant benefits will be obtained by the British solely from a relaxation of Section 9. It should be noted first of all that unless there is some relaxation of the sterling convertibility requirement, the benefits in the form of dollar savings which the British will obtain will be negligible. As long as such convertibility obligations remain in force, countries short of dollars would convert

¹ This memorandum was addressed to the NAC Staff Committee and is Anglo-American Financial Discussion Staff document No. 6.

*The NAC has already decided that Section 9 does not apply to the British colonial dependencies. [Footnote in the source text.]

the sterling proceeds of their sales to the United Kingdom into dollars. It may also be noted that in the present situation of a seller's market, many countries would refuse to sell to the United Kingdom unless they could be assured of payment in free or convertible sterling. It therefore follows that a relaxation of Section 9 would help the United Kingdom to save dollars only to the extent that countries like Australia, New Zealand and South Africa would voluntarily refrain from converting their net sterling proceeds.

It is not possible to make, in the short time available, an adequate statistical analysis of the situation to indicate how trade might be diverted by discriminatory measures, but the following considerations indicate some of the limitations which apply:

1. During the period July 1946-March 1947, 36 per cent of U.K. imports from the U.S. consisted of food. Most of this was bought on bulk-purchase arrangements and was presumably obtained from the U.S. because it could not be obtained elsewhere, or could not be obtained as cheaply elsewhere. There are certain types of fruits, however, which might be obtained from other sources at a dollar saving.

2. Another 20 per cent of U.K. imports from the U.S. consisted of tobacco. An increased amount of tobacco might be obtained from Southern Rhodesia if production can be expanded, but this source could not begin to supply the U.K. demand. Moreover, discrimination in favor of Southern Rhodesia is already permitted under the "common quota" principle. Increased amounts of Greek and Turkish tobacco might also substitute for a small part of the U.K. consumption, but this possibility is limited by British "taste" which prefers Virginia leaf. Incidentally, the present supply of American tobacco does not depend on the size of the requirements (which have been reduced somewhat by recent duty increases), but on the fact that British tobacco purchases are limited by a procedure under which the British Government makes dollars available only for the purchase of less than the present British requirements of the U.S. tobacco.

3. Another 6 per cent consisted of raw cotton, all bought through a central government buying agency, and presumably purchased from the U.S. because it could not be obtained elsewhere.

4. Petroleum products accounted for about 10 per cent of U.K. imports from the U.S. Possibly some of these purchases might be diverted by discriminatory arrangements, but in view of the petroleum supply situation such diversion is unlikely to amount to much.

5. The remaining 28 per cent consisted of a wide range of products including wood and timber, metals, machinery and chemicals, which were probably obtainable for the most part only in the U.S. or Canada.

As long as the United Kingdom abides by the convertibility provisions of the Financial Agreement, and as long as the nondiscrimination provisions of the ITO Charter remain the basis of international trade policy, it is not possible to foresee how there will be any really significant benefits to the British from a setting aside of the provisions of Section 9. The privilege of discriminating in favor of non-dollar

countries would be important to the United Kingdom only to the extent that (a) the United Kingdom could pay such countries in convertible sterling or enter into firm commitments for future deliveries of goods; and (b) it aided the United Kingdom in compelling other countries to discriminate in its favor, through bilateral trade arrangements or otherwise.

Nevertheless, we should be prepared to consider sympathetically whatever specific proposals the British may make. We should insist, however, on conclusive proof that the specific measures which the British would take would in fact result in a substantial saving of dollars. We should therefore request full details of all arrangements or transactions which the British contemplate taking, including the following information.

- (a) Goods involved
- (b) Countries involved
- (c) Types and general terms of arrangements contemplated
- (d) Estimated dollar savings or other benefits

It is understood, of course, that in determining this Government's position, consideration would also be given to the effects of the British proposals on American export interests.

POSSIBLE METHOD OF MEETING THE BRITISH REQUEST

Proceeding on the assumption that in the course of the discussions we are convinced by the facts presented by the British that some relaxation of the nondiscrimination commitment is necessary, there are a number of methods which might accomplish this result in varying degrees.

1. *Liberal Interpretation of Section 9(b)*. One possible method is the liberal interpretation of the exception for discrimination in favor of countries having war-disrupted economies (Section 9(b)). Indications are, however, that this method would not go as far as the British desire. It would be difficult to extend the definition of countries having war-disrupted economies much beyond that suggested by the NAC Working Committee, that is, countries of Europe, North Africa and the Far East which were under enemy occupation. Furthermore, there is a proviso which limits its application to cases where there is special necessity for the U.K. to assist the other country.

2. *"Liberal Attitude" Toward Bulk-Purchase Arrangements*. Although the Section 9 commitment does not refer specifically to state trading, the British Government has indicated that it recognizes that bulk-purchasing arrangements are subject to the nondiscrimination rule, and that such arrangements would not conform to the rule unless they involve purchases which are "all things considered, more favor-

able from the commercial point of view"[†] than purchases from the U.S.

There is considerable scope for interpretation in such cases, however, and it might be possible to give the British some leeway without contravening Section 9. At any rate any specific proposals for contracts of a short-term nature which the British may make could be considered with this possibility in mind.

3. *Modification of Section 9.* The most direct method for making discrimination permissible would be by the formal modification of Section 9. The most logical modification would be to replace the existing commitment with one conforming in general to the new article on discrimination agreed for inclusion in the ITO Charter. Such modification would, however, require the consent of Congress and hence would involve considerable delay. However, it has been suggested by the U.S. Delegation at the Geneva Conference that this Government could agree to offer not to invoke the rule against discrimination in Section 9 pending action by the Congress on the Charter, with the understanding that, upon coming into effect, the more flexible provisions of the Charter supersede the provisions of Section 9. (These provisions, incidentally, already represent a substantial concession to the British point of view. One argument in justification for such action would be that the Financial Agreement itself (Section 8 (iii)) contemplates that the provisions of Section 9 are "in anticipation of more comprehensive arrangements by multilateral agreement". Before such an offer could be made, it would however be necessary to consult and obtain the agreement of Congressional leaders.

There are precedents for this procedure and it is believed that the much-publicized British crisis and its international political implications would justify, in the public mind, this emergency action. It should also be emphasized that this procedure (assuming, of course, we are convinced of its necessity) is probably the only one by which we can give the British the relief they desire in time to afford them any significant assistance in the present crisis.

CONDITIONS OF SUCH A CONCESSION

In view of the political difficulties and dangers which may be involved in making such a concession, however, it will be necessary that this Government be able to demonstrate to Congress and the public that it has agreed to this course of action only as a temporary, emergency measure, and that in return for the concession we have obtained from the British long-run commitments which hold forth a firm promise to return to nondiscrimination and multilateral trading as soon as

[†]Statement by the British Prime Minister in the House of Commons, August 6, 1947. [Footnote in the source text.]

conditions permit. These commitments can best be obtained by the successful conclusion of the Geneva negotiations. The U.S. Delegation at Geneva considers that satisfactory British action on the following points must be the *quid pro quo* for any such concession on our part and as evidence of their good faith and good intentions.

(1) Fulfillment of the previous British commitment to eliminate preferences of material importance to the U.S. in the U.K., the Dominions and the Colonies;

(2) Support for the U.S. position with respect to outstanding points in the Charter;

(3) Signature of the General Agreement on Trade and Tariffs at the close of the Geneva negotiations and its provisional entry into force during November 1947.

Any action along these lines will of course be subject to reconsideration in the light of Mr. Clayton's current discussions with top British officials in London.

841.51/8-1847: Telegram

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

SECRET

LONDON, August 18, 1947—3 p.m.

NIAC

4459. For Lovett and Snyder. Bevin asked me to call on him at his office this morning. He explained to me the crisis that had developed during the last week and the decision in principle which the Cabinet had made at its extraordinary meeting yesterday.

1. During the five days, August 10-15, there had occurred a drain on British dollar resources in the amount of \$175,900,000. This figure compares with an average weekly drain during the proceeding six weeks of \$115,000,000 and with an average weekly drain during the second quarter of this year of \$77,000,000.

2. The Bank of England and the Treasury estimate the very minimum future drain at \$175,000,000 each week and a probable maximum drain of about \$300,000,000 each week.

3. The British calculate that on this basis, the remaining \$700,000,000 of the American loan may last about two weeks.

4. The run on sterling that commenced prior to July 15 has therefore now assumed huge proportions. Much of the drain is on current account, a substantial part is on capital account, but, whatever the cause, the drain is very heavy.

5. If, Bevin said, the issue were purely a monetary and financial one, he would oppose taking any steps. He felt, however, that it was not purely a financial and monetary one, that a break in sterling would necessarily lead to bilateral arrangements, shrinking of trade at the very time they were attempting to expand trade. That it would have

profound effect, adversely, on the attitude of both France and Italy, with the possibility of political crisis there. A break in sterling probably would, he felt, impair if not destroy all the efforts that had been made over the course of the last two years in the political field and would create so much confusion that even the present position might never be recovered. Certainly he felt that it would aggravate aggressive action throughout Europe and particularly in the danger spots by the Soviet.

6. Because of this broad political question which Bevin felt is of such significance to US and to Britain, the Cabinet had decided to take unilateral action (Embtel 4382, August 13¹) to protect sterling. He was particularly anxious that this be not construed in the US as a repudiation of any commitment made or of the terms of the loan agreement and he pressed the view that this sort of action was taken purely as a stop-gap to hold the status quo while we with the UK could survey all the facts and review the whole situation. I am confident that he was expressing an honest and sincere view of the British Government when he made this statement.

7. Bevin was not able to give me officially the precise measures which the British Government would take. They were still in the formulation period. He hoped, however, to be able to get a communication to Sir Wilfred Eady for the meeting with John Snyder this afternoon in Washington at 3 o'clock.² This statement would include precise measures which Britain proposed to take.

8. At the risk of reiteration, Bevin expresses the deep hope that you will not construe this action as a violation or repudiation of the commitments but rather as a purely stop-gap measure which he believed absolutely essential be taken within the next 48 hours to prevent the sort of catastrophe which he outlined.

DOUGLAS

¹ Not printed.

² Reference here is to the Anglo-American financial discussions which began on August 13.

841.51/8-1947: Telegram

*The Acting Secretary of State to the Secretary of State at Petropolis*¹

TOP SECRET

WASHINGTON, August 19, 1947—11 a. m.

US URGENT

30. Humelsine to Carter.² Eyes Only Secretary Marshall from Lovett. We were notified by British yesterday afternoon through

¹ Secretary Marshall was head of the U.S. Delegation to the Inter-American Conference for the Maintenance of Continental Peace and Security at Quintandinha, near Petropolis, Brazil, between August 15 and September 2, 1947.

² Carlisle H. Humelsine was Director of the Executive Secretariat, Office of the Secretary of State; Marshall S. Carter was Special Assistant to the Secretary of State.

Deputy Governor, Bank of England, flown in for purpose, that special British Cabinet meeting Sunday night reached decision to impose through Bank of England dollar exchange rationing in desperate effort halt what amounts to full scale flight from pound sterling. This reached rate of 237 million dollars in six days. All but 550 million dollars of loan has been notified for withdrawal. British proposed to make announcement their action at four o'clock Washington time today.

Obviously this announcement and action will be tremendous shock and will have widest repercussions, notably on economies non-sterling areas, including particularly certain South American countries. We pointed out that notice given us was completely inadequate permit any attempt to soften impact of this unilateral action and in late night session at Treasury which I attended at Snyder's request we urged British postpone announcement and effective date for at least another twenty-four hour period. Answer on this due this morning.

While British claim their action is within broad intent of loan agreement and possibly covered by Section 8 Subdivision 2, we feel this may constitute breach of loan agreement and therefore suggested last night arrangement under which we in effect freeze the loan, preventing withdrawals beyond those presently notified for a period of one week's grace during which lawyers can consider fundamental problems involved. In absence of such temporary arrangement which only postpones day of reckoning, contemplated British action represents desperate attempt Britain to go it alone regardless of consequences to herself and Europe.

Britain gives positive assurances that under exchange rationing there will be no defaults by her on existing dollar contracts with U.S. exporters. She admits however that it may require action approaching breach of bilateral trade agreements with sixteen other countries.

It begins to appear that Churchill's³ charge that loan was largely "frittered away" is not far off mark. In interest of over-all recovery, we are and will continue to do utmost to keep Britain afloat but it is clear she must stop biting our hand.

Answers from London on controlling questions due this morning. Will report later on day's developments. All above information is top secret.

Postscript: flash message received before dispatch British Treasury agrees further postponement twenty-four hours.

LOVETT

³ Winston S. Churchill, former Prime Minister.

841.5151/8-1947 : Telegram

The Acting Secretary of State to the Consulate at Geneva

TOP SECRET

WASHINGTON, August 19, 1947—5 p. m.

1028. For Clayton's Eyes Only from Lovett. Eady informed Snyder yesterday morning of his government's intention to suspend as of close of business today transfer of sterling to dollar accounts, in effect terminating convertibility. Cited rapid increase rate of weekly drawing from 77 million in second quarter, 115 million in July to 237 million last six days. Eady gave assurance however that this action would not effect transactions between UK and US. Specifically proposed that following this action UK would ration dollars against sterling.

Eady asserted restriction would extend beyond elimination capital transfers to limitation current items. In these circumstances we are confronted with question whether breach agreement involved. At present seems clear only escapes must be found in Section eight-two, especially para B. Also seems equally clear that phrase "exceptional cases" refers individual countries. Br insist cannot at this time apply restrictions basis individual countries.

In this situation informed Br last night that unless they could limit action within agreement if confronted by unilateral action we would have to assert breach agreement and freeze unnotified balance credit (550 million). Suggested as alternative (a) that Br advise us by letter of (1) proposed act (2) continued Br stake in securing convertibility of sterling, (3) consistency of action with purpose and intent agreement, (4) desire to consult reference section 8 and (b) that we reply (1) expressing sympathy gravity British problem, (2) indicating uncertainty re consistency terms agreement (3) agreeing week consultation during which unnotified portion credit frozen. Br demurred especially re implications last two items. Br suggested asking London twenty-four hour postponement action during which explore alternatives. Br have now informed us London agrees this postponement.

LOVETT

841.51/8-1947

Minutes of the Combined United States-United Kingdom Technical Committee, Anglo-American Financial Discussions, August 19, 1947, Washington, D.C.

SECRET

Participants:

U.K. MEMBERS:

Sir John Magowan, U.K. Embassy, Washington

Mr. Edgar Jones, Treasury Delegation, Washington
Mr. H. J. Lintott, Board of Trade
Mr. P. S. Beale, Bank of England
Mr. L. P. Thompson-McCausland, Bank of England
Mr. Marcus Fleming, Cabinet Offices
Miss G. M. Jennings, U.K. Treasury
Mr. G. Parker, Board of Trade

U.S. MEMBERS :

Mr. Harold Glasser, Treasury Department [Chairman]
Mr. Paul H. Nitze, State Department
Mr. Emilio G. Collado, State Department
Mr. J. J. Stenger, State Department
Mr. Clarence I. Blau, Commerce Department
Mr. John M. Cassels, Commerce Department
Mr. J. Burke Knapp, Board of Governors, Federal Reserve System
Mr. Frank M. Tamagna, Board of Governors, Federal Reserve System
Mr. Charles R. Harley, Board of Governors, Federal Reserve System
Mr. Hal Lary, Export-Import Bank
Mr. Orvis A. Schmidt, Treasury Department
Mr. John S. Richards, Treasury Department
Mr. John Gunter, Treasury Department
Mr. George H. Willis, Treasury Department
Mr. Joseph B. Friedman, Treasury Department
Mr. Charles R. McNeill, Treasury Department
Mr. Fred B. Smith, Treasury Department
Mr. Philip P. Schaffner, Treasury Department

RÉSUMÉ OF COMBINED TOP COMMITTEE MEETING ¹

Prior to the arrival of the British delegation at the meeting, Mr. Knapp gave a résumé of the combined U.S.-U.K. Top Committee meeting of August 18. Sir Wilfrid Eady had pointed out that the relatively favorable appearance of the 1946 U.K. balance of payments on current account was superficial. Exports were made in a sellers market and imports were supplemented by the drawing down of stocks. He had also stated that the required minimum level of imports for the U.K. was 85 percent of the prewar volume. The domestic situation during 1946 demonstrated a straining of the U.K. economy resulting from (a) inadequate stocks of materials, (b) accumulated under-maintenance of equipment and (c) excessive demands on production facilities for reconstruction, increase of living standards and exports. Due to the inadequacy of stocks, the fuel and transportation crisis cost the British an estimated \$800 million of exports.

¹ No other record of this meeting found in Department of State files.

Sir Wilfrid had also stated that convertibility and non-discrimination formed the underlying basis of the Financial Agreement and had emphasized that sterling had to be an international currency or nothing. The basic assumptions of the Financial Agreement, however, had been nullified by subsequent events—mainly the world scarcity of dollars. This situation had increased the burden of convertibility since many countries were unwilling to accumulate sterling balances. He had not mentioned the subject of additional U.S. financial aid but implied that certain terms of the Financial Agreement should be waived. He had described the difficult task of recruiting labor for coal production and said the situation in textiles was weak.

Mr. Knapp concluded his résumé by suggesting that the British be asked to furnish a statement of sterling balances by countries, at semi-annual intervals beginning with June 30, 1945.

WORKING GROUP AND AGENDAS

The setting up of working groups and agendas was discussed. It was agreed that a Commercial Policy Group and a Financial Group should be established and that a small combined group should work on the statistics required by the Financial Group. Mr. Jones pointed out the difficulties of preparing estimates for 1948 and 1949 in the absence of agreed-upon assumptions concerning such factors as convertibility and the Marshall Plan. He added that the British delegation planned to return to London on Monday, August 25.

It was agreed that the possibilities for relaxation of Section 9 of the Financial Agreement should constitute the agenda of the Commercial Policy Group. In this connection, a British representative mentioned the difficulties of forecasting the benefits that might result to the U.K. from a relaxation of Section 9.

It was agreed that the Financial Group should concern itself with the convertibility problem. The Chairman asked if the U.S. side could be furnished estimates of the U.K. dollar drain in 1948 and 1949 on the assumption that there would be no modification of convertibility. The British representatives indicated that no precise estimates of the drain could be given. They promised, however, to elaborate the statistical data for the period since June 30, 1947, particularly with reference to changes in the U.K. monetary reserves and the uses to which dollars had been put.

The Chairman inquired about the form in which the Committee's conclusions should be presented. The head of the British delegation expressed the hope that a substantial degree of agreement could be reached by the Committee before presenting conclusions for consideration by the National Advisory Council. He thought, however,

that a few matters, such as the German problem, would have to be presented to the Council directly.

The Committee then divided into the Commercial Policy and Financial Groups for further discussion.²

² Minutes of these meetings are in Department of State file 841.51/8-1947.

841.5151/8-1947 : Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, August 19, 1947—9 p. m.

NIACT

3572. For Clayton. This message covers only technical discussions with U.K. subdelegation on commercial policy which began today with presentation of types of discrimination permitted by Art. 28¹ but not by Section 9 which British desire to undertake. The examples given did not indicate that any large savings in dollar exchange or increase in imports could be expected. However Lintott emphasized the public relations importance in U.K. of even limited benefits. Lintott further repeated Cripps statement that complete freedom to use full economic pressures to secure favorable bilateral compensation agreements might be needed if U.K. had back to wall and that they might not even be able to agree to an amendment to Section 9 which would bind them to provisions of Art. 28. Meeting terminated with no position being taken our side other than to point out the implications of the U.K. position and the difficulty of significant relaxation Section 9 without Congressional approval.

LOVETT

¹ Reference is to Article 28, "Exceptions to the Rule of Non-Discrimination", of the draft charter of the International Trade Organization.

841.51/8-2047 : Telegram

The Acting Secretary of State to the Secretary of State at Petropolis

TOP SECRET

WASHINGTON, August 20, 1947—2 p. m.

NIACT

46. Humelsine to Carter Eyes Only Secretary Marshall from Lovett. Meetings with Treas yesterday on Brit financial agreement and proposed Brit action to impose through Bank of Eng dollar exchange rationing as of 4 p.m. Wash time today, highlighted by fol:

(1) Treas disposition to strain interpretation financial agreement in order permit Brit to stop convertibility pounds to dollars for countries other than those in sterling area and United States. While specific

proposal advanced by Treas and acceptable to Sec of Treas was ingenious, it nevertheless opened us to serious Congressional charge that our action would be in effect a modification of agreement which under terms agreement can only be done after consultation between govts and submission modifications to respective legislatures.

(2) Our basic position was that we cannot risk approving any Brit action as falling within terms of agreement which would, however, in effect really constitute breach of agreement. While agreement does not provide for any penalties for breach, nevertheless it is clear that a substantial breach by Brit would require us to stop performance on our part contract by prohibiting the Brit from making any further withdrawals from balance of fund remaining under loan. While agreement does provide for Brit suspending convertibility in exceptional cases, it is clear from legislative history and particularly from Clayton's testimony that such proviso was intended to be applied only on a case-by-case basis and on proof by Brit to our satisfaction that financial relations between Britain and particular country for which exception requested require suspension convertibility. However, to permit an across-the-board suspension of convertibility on basis of exceptional cases, would require us to misinterpret agreement and to ignore legislative history.

(3) Proposal finally worked out which met our objections and which was approved by Sec of Treas and me last evening for submission to Brit was as fol :

(a) Brit to address letter to us advising that they find it necessary to take stringent measures to counter recent excessive drains on dollar resources which drains, if permitted to continue, would defeat objectives of financial agreement. Accordingly Brit advise that control of transferability to be imposed at close business today. Action is taken as an emergency and temporary measure which Brit consider to be within intention and purposes of agreement and which they hope will enable them to take appropriate action to assure limited dollar resources of UK available for purposes contemplated by agreement. Brit confirm that payments between UK and US will not be affected by this action and that restrictions now contemplated should not be interpreted as indicating modification of Brit view of desirability maintaining full and free convertibility of sterling which, as long-run objective, is indispensable to Brit financial policy. Brit state that under circumstances, financial agreement provides for consultation prior to agreement if exceptions are to be made to the principle of convertibility. Brit would not propose to notify any further withdrawals from remaining balance of loan until consultation has been carried out.

(b) US reply takes sympathetic note of grave drains on Brit dollar resources in excess of normal flow of current transactions with consequent peril to re-creation multilateral payment system which is major objective financial agreement. Letter advises that we understand action Brit taking today is of emergency and temporary nature deemed es-

sential to afford Brit opportunity to take measures to protect system of convertibility from abuses endangering its survival. US notes with satisfaction assurances of UK that it will be possible to work out proposed action within terms and purposes of agreement. Also notes statement in last sentence in (a) above.

(4) At meeting last night Brit agreed to transmit to UK for its approval exchange of letters outlined (3) above. We have just been advised that Brit Government has approved and announcement is being made at 4 p. m. this afternoon.¹

LOVETT

¹ The texts of the letters exchanged by Secretary of the Treasury Snyder and Chancellor Dalton are printed in "Report of Activities of the National Advisory Council on International Monetary and Financial Problems, April 1, 1947 to September 30, 1947", Appendix "C", House Document No. 501, 80th Cong., 2nd sess., pp. 22-23. The letters were released simultaneously in Washington and London and were printed in the *New York Times*, August 21, 1947.

841.5151/8-2047: Telegram

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

US URGENT

LONDON, August 20, 1947.

4529. British Treasury announced at 9:20 British Standard Time that a Treasury order (SRO 1947 No. 1785) has been issued effective August 21 with regard to suspension of sterling convertibility. The order repeats the substance of the existing payments orders with the following amendments:

(1) Sterling can no longer be freely transferred from transferable account (of nonresidents of the sterling area) to American accounts or Canadian accounts but remains otherwise transferable as hitherto.

(2) Sterling on Canadian account may only be used in Canada or the sterling area. Canadian transferable accounts disappear. Instructions to banks are being issued by the Bank of England.

Text of Dalton's broadcast follows.¹

DOUGLAS

¹ Telegram 4530, not printed. In a BBC broadcast Mr. Dalton had announced the suspension of convertibility.

841.50/8-2247: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

CONFIDENTIAL

WASHINGTON, August 22, 1947—8 p. m.

3648. For Douglas. NAC meeting this afternoon confined to presentation by Eady of problem presented to UK by Section 9 in view of in-

creased dollar shortage and potential increased availability of goods in areas in which other payment possibilities might be available to UK. He went on to say that discussions at the technical level had indicated UK may have been interpreting Section 9 too strictly but that a solution of the UK problem would probably require some form of agreed modification of Section 9. No decision taken by NAC other than work at the technical level should continue. Eady returning London tomorrow.

LOVETT

841.51/8-2347: Telegram

The Acting Secretary of State to the Secretary of State at Petropolis

TOP SECRET

WASHINGTON, August 23, 1947.

78. Humelsine for Carter. For Secretary Marshall from Lovett. British financial talks at top level terminating today with leaders British Delegation returning to London to report progress of conference to their Government and discuss policy requirements. Other members Delegation are remaining to continue technical discussions next week. Conferences have been divided into two broad categories, one dealing with the convertibility and foreign exchange problem, and the other with the non-discriminatory clauses relating to US-UK trade.

As indicated in previous cables, temporary procedures for dealing with financial aspects have been worked out under Section 8, Subsection 2, and trade aspects to be covered in general by adjustments coming within terms of section[s] 8 and 9.¹

In my opinion British must show far more managerial competence and more flexibility in their control measures than heretofore exhibited if they are to operate within the broad terms and purposes of the loan agreement. Even with improved operations and elastic policy I feel that the measures taken here in these conferences are temporary and that a renewal of the crisis is likely in about two months. This time is important since it gives opportunity to obtain proposals from the Paris conference and try to work out integrated program.

LOVETT

¹ In a Cabinet meeting on August 29, "the Secretary of the Treasury reported on the concluding stages of the British loan agreement talks and indicated that it was expected that the British would continue to operate within the terms and conditions of the Act, using such latitude as was permitted in Sections 8 and 9." (811.5043/8-2947)

841.51/9-447: Telegram

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

SECRET

LONDON, September 4, 1947—7 p. m.

4809. For Lovett from the Ambassador. Public statements by British officials interpret Article 9 of financial agreement as preventing purchases by Britain of needed imports because this would also require purchases in dollar area and expenditure of dollar resources urgently needed for other purposes.

I have been considering desirability of suggesting to Bevin that steps be taken to avoid erroneous and provocative interpretations of this character but clearly the only way of allaying completely criticism and misunderstanding on this point would be relaxing Article 9 by exchange of letters possibly along line of State Department draft brought back by Hawkins from Washington.¹

Understand that Treasury had doubts about this draft but that effort was to be made to reach agreement with Treasury by beginning of this week. Not advised whether any decision reached. I feel that if we are going to relax the obligations of Article 9 it is desirable from the standpoint of British public opinion that this action should not be too long delayed.

DOUGLAS

¹ Draft not found in Department of State files.

641.006/9-547

Memorandum of Conversation, by the Acting Assistant Chief of the Division of Commercial Policy (Lewis)

CONFIDENTIAL

[WASHINGTON,] September 5, 1947.

Participants: Mr. Anthony E. Percival, Commercial Counselor,
British Embassy
Mr. Corse, Acting Chief, Division of Commercial
Policy
Mr. Lewis, Acting Assistant Chief, Division of Com-
mercial Policy

Mr. Percival said he had instructions to give the Department copies of the attached directive¹ which was being sent out on September 5 from London to the Colonial dependencies explaining how colonial import licensing policy should be implemented, particularly with regard to the nondiscrimination provisions of the Anglo-American

¹ Not printed.

Financial Agreement. He said a copy was also being handed to our Embassy in London.

Mr. Percival explained that the directive differed in a number of respects from the draft directive which had been submitted to the Department on April 28, 1947² and which was the subject of the Department's *aide-mémoire* of July 24. In the first place, the present crisis in the United Kingdom had made it necessary to stiffen the part of the directive which called on the colonies to curtail purchases from the United Kingdom.³ In the second place the new directive did not include the "token import" control regimes which had been previously contemplated (whereby imports up to 150 percent of prewar were to be permitted in the West Indian colonies and 50 percent in the other colonies). Instead the colonies were merely being instructed to keep imports from outside the United Kingdom plus Colonies group lower than imports from countries within the group, so far as practicable having regard to supply availabilities. The reason for this was that it was not certain that the token-import plan in the United Kingdom could be continued, and it would not be desirable to have such a system operating in the colonies and not in the United Kingdom.

With regard to the mandates, trust territories and Congo Basin area, Mr. Percival said his Government had not been able to accept the United States position as set forth in the *aide-mémoire* of April 28 [July 24] (in which we requested that there be no discrimination against us in these areas in favor of any other country including the United Kingdom). He said he had thought it unfortunate that in the Department's press release of July 23, 1947 reference had been made to this problem, although he realized the release had merely stated that the Department was studying the pertinent international commitments. Mr. Lewis asked whether the new directive was being sent out to the mandates and trust territories. Mr. Percival said it was. Mr. Lewis expressed surprise that this action had been taken without at least discussing the problem with us further, and asked whether Mr. Percival could say upon what reasoning the British Government had rejected our request for non-discrimination in these areas. Mr. Percival said he had not been given any detailed explanation to present to us. He said he presumed the argument was that these territories were a part of the common quota area and hence did not differ from the other colonies. He said the Colonial Office must have considered it important to include them in the scope of the directive. Mr. Lewis said he thought the importance to the United Kingdom of discrimination in these

² Not printed, but see footnote 2, p. 34.

³ The directive pointed out that by decreasing intra-Empire trade it would be possible to maximize exports to hard currency areas and to narrow the foreign exchange gap.

areas was not very great. He pointed out that the United States had been willing to concede discrimination in the United Kingdom in favor of the mandates, (so that the United Kingdom could buy Palestine oranges, for example), but he had felt that the principle of equality of treatment ought to be maintained in the mandates themselves. Mr. Corse emphasized the special nature of these territories, referring to the fact that they had been given to the United Kingdom to administer in trust, and to the probability that there would be criticism in this country that the United Kingdom was now attempting to build up its long-term position at the expense of other countries. Mr. Percival suggested it was unlikely that occasion for any public reaction would arise. Mr. Lewis expressed the opinion that on the contrary there would probably be considerable criticism, particularly in the case of Palestine. He referred to the special importance of Palestine because of its large net dollar receipts and possibility that such receipts might not all be used by Palestine directly.

Mr. Lewis also referred to the former Italian colonies and said it seemed to the Department it would be very difficult to explain why there should be discrimination in favor of the United Kingdom in these areas. Here again the adverse reaction might be out of all proportion to any slight benefit which the United Kingdom might obtain.

Mr. Percival mentioned the temporary nature of the arrangement and repeated that he had not been instructed to present any detailed explanation. He said, however, that he had already asked London to provide him with a fuller explanation, and suggested that the Department make a formal request for such an explanation if it desired one. Mr. Corse said it would be helpful if Mr. Percival could let us have informally anything further he received from London on the subject.

Mr. Percival then referred to the proposal in the Department's *aide-mémoire* for discussions at the technical level. He said his Government preferred that these take place in Washington. Mr. Lewis said this was acceptable to us. Mr. Percival said he presumed we would want to wait until specific problems arose in particular colonies and then to discuss them. Mr. Lewis replied that on the contrary we desired some discussion in advance, since the Department of Commerce in particular wanted to point out certain aspects of the import control system which might cause trouble and to make certain suggestions which might be advantageous to both countries. Mr. Percival suggested that Mr. Heatherington of Commerce might talk with him immediately and let him know some of the problems Commerce had in mind so that he could inform London. Mr. Lewis said he would suggest this to Mr. Heatherington.

Mr. Percival was informed that the Department would study the new directive and would consult the other interested agencies, before deciding what further action we might wish to take.

841.51/9-1047 : Telegram

The Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, September 10, 1947—7 p. m.

3944. To Gunter from State and Treas. Postponement of obligation of UK under Financial Agreement granted Jul 14 and 15 with respect to fourteen countries expires Sept 15. The August 20 action relates to modification of transferable account system and apparently not applicable to countries for which postponement granted. In any event it appears desirable to clarify situation by specific extension of postponement for those countries with which the UK has not yet been able to complete arrangements and for which a postponement was previously granted. The following exchange of letters between Dalton and Snyder which has been approved by NAC Staff Committee is suggested as a basis for discussions with the Treas Delegation, other members of the NAC, and the British :

"DEAR MR. SECRETARY : I refer to your letter of Jul 14, 1947¹ relating to the postponement of certain obligations of the United Kingdom under the Anglo-American Financial Agreement. In accordance with the request of H.M. Government, the United States Government thereby agreed to the postponement until Sept 15, 1947, if necessary, of the obligations under Sections 8(ii) and 10 of the Financial Agreement in the case of Austria, Bulgaria, China, Denmark, France, Greece, Hungary, Paraguay, Poland, Rumania, Siam, Turkey, the U.S.S.R., and Yugoslavia.

Because of the modification of the system of transferable accounts on Aug. 20, 1947 and the necessity of revising agreements with countries formerly operating under the transferable accounts system, H.M. Government have been unable to complete the necessary arrangements with the countries referred to above. Accordingly, I should be most grateful if the postponement of the obligations of Sections 8(ii) and 10 of the Financial Agreement with respect to those countries were extended until Nov 15, 1947.

MY DEAR CHANCELLOR: I have received your letter of Sept 15, 1947, requesting a further postponement of the obligations of the United Kingdom under Sections 8(ii) and 10 of the Anglo-American Financial Agreement.

In accordance with your request the United States Government agrees to the postponement until Nov 15, 1947, if necessary, of the obligations of your Government under the Anglo-American Financial

¹ See the editorial note, p. 41.

Agreement in the case of Austria, Bulgaria, China, Denmark, France, Greece, Hungary, Paraguay, Poland, Rumania, Siam, Turkey, the U.S.S.R. and Yugoslavia."

Under the July postponement arrangement the UK agreed to make all sterling accruing after July 15 convertible when the necessary arrangements were completed with the countries for which a postponement was granted. The British may suggest that this retroactive feature be eliminated in connection with further postponement. We see no objection to a waiver to retroactivity if requested as it appears to be of relatively little practical importance. It should be noted however that the Treas press release of Jul 15 stated that Sec Snyder emphasized that the two months postponement does not involve any modification of the obligation of the British Government to permit these countries to dispose freely of sterling accruing between Jul 15 and the date the arrangements are agreed to but involves only the postponement of such disposition.

If it is agreed to dispense with retroactivity, the following paragraph might be added to Mr. Dalton's letter:

In view of recent developments and the reduced amount of dollars available to the United Kingdom, H.M. Government believe it is no longer appropriate that all sterling accruing to those countries between Jul 15, 1947 and the date of completion of the necessary arrangements be made available for payments on current account. I should appreciate being advised whether you agree with this proposal.

In answer the following paragraph might be added to Mr. Snyder's letter:

For the reasons advanced in your letter, the United States agrees that all sterling accruing to those countries before completion of arrangements with them need not be made available for current transactions retroactively to Jul 15, 1947.

MARSHALL

Lot 60 D 137 Box 6

Minutes of the Eighty-Seventh Meeting of the National Advisory Council Staff Committee, Washington, D.C., September 10, 1947

SECRET

Participants:

Mr. Harold Glasser (Chairman), Treasury Department
Mr. Walter M. Day, War Assets Administration, Visitor
Mr. Norman T. Ness, State Department
Mr. Paul H. Nitze, State Department
Mr. Walter S. Surrey, State Department
Mr. James Lewis, State Department
Mr. Clarence I. Blau, Commerce Department

Mr. John M. Cassels, Commerce Department
Mr. Lewis Dembitz, Board of Governors, Federal Reserve System
Mr. Frank M. Tamagna, Board of Governors, Federal Reserve System
Mr. Charles R. Harley, Board of Governors, Federal Reserve System
Mr. Hal Lary, Export-Import Bank
Mr. Walter C. Louchheim, Jr., Securities and Exchange Commission
Mr. John S. Hooker, International Bank
Mr. Frank A. Southard, Jr., Treasury Department
Mr. John S. Richards, Treasury Department
Mr. Andrew M. Kamarck, Treasury Department
Mr. Elting Arnold, Treasury Department
Mr. M. E. Locker, Treasury Department
Mr. George Bronz, Treasury Department
Mr. William L. Hebbard, Treasury Department
Mr. Allan J. Fisher, (Secretary), NAC Secretariat

[Here follows discussion of an unrelated topic.]

2. *Prospective Problems Concerning the U.S.-U.K. Financial Agreement*

The Chairman pointed out that both State Department and Treasury representatives in London had requested guidance from Washington on this matter and said that it was proposed that the Staff Committee send a paper along the lines of Staff Draft No. 152 to London.¹

The discussion brought out the following points among others:

(1) The British are apparently not considering consultations under Section 12, but an interpretation under Section 9 which would permit them to increase their purchases from third countries.

(2) Unilateral action by a creditor country to limit drawings on sterling accounts would be unobjectionable, whereas a formal agreement to such effect would probably constitute a violation of the Financial Agreement.

(3) If an arrangement is worked out whereby credit is extended to the British, there would be no objection under the terms of the Financial Agreement, but if an agreement is entered into to accumulate sterling, the question of violation of the Financial Agreement might be raised. In this connection, it was agreed that the Staff Committee should give further consideration to the Spanish and Portuguese cases which had previously been reviewed.

(4) The British may consider agreements for acquiring commodities now against the delivery of British goods several years hence. Such a proposal was made to Brazil but was finally rejected by the latter country. The credit aspect of such an arrangement would presumably be unobjectionable but question might be raised as to the attempts to provide an assured market for foreign goods in the United Kingdom and for British goods in the foreign country.

¹ Not printed.

(5) The several discriminations which might be permissible within the framework of the Financial Agreement might result in permitting Britain to import a maximum of some \$200 million worth of additional goods. While the magnitude of this addition appears relatively small, the political repercussions of failure to secure these imports would be serious.

(6) The evidence is inconclusive as to whether the British are more concerned about the future prospects of their trade than they are about the present emergency. A recent cable indicates that the British have presented schedules on preferences and, apparently, have gone far in meeting the United States position. Since the discussions between Mr. Clayton and Sir Stafford Cripps, the British Government has reviewed its position and is making concessions.²

(7) The legislative history of the language "exceptional cases" in Section 8 (ii) of the Financial Agreement indicates that a country-to-country basis was contemplated rather than exceptional circumstances in terms of time. However, it was felt that no position should be taken on this point at the present time.

(8) It would appear that under Article VIII of the Articles of Agreement, the British could request the International Monetary Fund's permission to impose exchange controls. The British have not suggested such action and they may be reluctant to be the first to make such a request of the Fund. There are doubts as to whether Article VIII was intended to permit action of this character in view of Articles VII and XIV, and the Fund would probably be reluctant to grant permission. It was agreed that further consideration should be given to this point although it would not be included in the paper.

The SEC representative commented that the paper did not mention British assets in this country, which include excess collateral pledged with the Reconstruction Finance Corporation, unpledged securities, and substantial direct investments. The total of that type of potential relief would far exceed what might be made available under the conditions outlined in the paper. The Chairman pointed out that the paper had to do only with the United States policy with respect to the Financial Agreement and that there were various possibilities of relief outside of convertibility and trade which were not covered. It was agreed that the paper should indicate that no attempt was being made to reassess the financial position of the British at this time.

With respect to the conclusions to be presented in the paper, the Treasury Department representatives pointed out that so far as the

² On July 31, in Paris, Under Secretary Clayton and Sir Stafford Cripps, British Minister of Economic Affairs, discussed the British critical dollar situation with regard to the ITO negotiations then in progress in Geneva. For documentation concerning U.S.-U.K. discussions and matters related to the proposed establishment of an International Trade Organization, see volume I.

convertibility section of the Agreement was concerned, no breach of the Financial Agreement was involved, since the British had agreed to try to work out a solution within the terms of the Agreement. Only if they were unsuccessful in such attempts would there be need for consultation under Section 12, say by November. The Treasury Department felt, however, that the proposed exchange of letters, with respect to Section 9, saying that because of changed circumstances it was necessary to interpret Section 9 in terms of the Financial Agreement as a whole, would be admitting a breach of the Agreement. The Treasury Department felt the Financial Agreement was unique and tightly drawn, and that it was dangerous to accede to an interpretation which might appear to have the effect of bringing about a modification of the Agreement in a way contrary to the procedure specifically provided for in Section 12. The Treasury Department therefore felt that the British should also try to live within the Agreement with respect to Section 9 and only if that proved to be impossible, should there be consultation under Section 12.

The State Department representatives felt that it was necessary to interpret the Agreement as a whole and that it was logical to interpret it in the light of the present situation, which would mean that the British could import commodities into Britain where they have means of payment in soft currencies, whereas if they were to apply Section 9 strictly, they would not be able to import because they have no dollars. They felt that a unilateral breach of the Agreement by the British would undermine the U.K.'s contractual stature internationally. State Department lawyers had pointed out that the Executive Branch has greater latitude in the interpretation of international treaties than it has with respect to domestic matters, but had gone on to say that in the present instance the question was political rather than legal. The State Department representatives further said that in view of the fact that Congress, or important Congressional committees, might be in session earlier than was previously anticipated, the State Department might wish to re-examine its position and might be inclined to go along with the Treasury position in the meantime, if Section 12 were in any case to be involved.

It was agreed that the State Department would either redraft the conclusions of the paper, or would state their position as an alternative for inclusion in the paper.³

³ In reporting on this meeting the Department informed the Embassy in London in telegram 3995, September 15, that "no agreement reached and alternative State and Treasury recommendations along above lines have been circulated today for indication of other agencies' views. Alternatives with such indication will then be forwarded NAC London for decision." (841.51/9-447)

3. *Further Postponement of United Kingdom July 15 Obligations with Respect to Certain Countries*

The Chairman referred to Staff Document No. 179⁴ which contained a proposed exchange of letters extending the postponement of the obligations of the United Kingdom under Sections 8(ii) and 10 of the Anglo-American Financial Agreement from September 15 to November 15, 1947, for the fourteen countries which had been covered by the exchange of letters of July 14 and July 15, 1947. It was pointed out that the action taken on August 20, 1947, which related specifically to modification of the transferable account system, was not applicable to these fourteen countries.

The Staff Committee agreed to the proposal that the draft letters be communicated to Secretary Snyder for his consideration.

⁴ Not printed, but see telegram 3944, *supra*.

841.51/9-1247 : Telegram

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

SECRET

LONDON, September 12, 1947—7 p. m.

URGENT

4943. For State and Treasury from Gunter. Reurtel 3944, September 10. 1. Exchange of letters between Secretary Snyder and Chancellor Dalton without additional paragraphs concerning retroactive feature has been approved by Secretary Snyder, Clayton, Martin and Knapp.¹

2. Question has been discussed also with Playfair of British Treasury who has agreed tentatively to exchange of letters with minor changes in text of letter from Chancellor to Secretary. He agreed that mention of retroactive feature introduced unnecessary complications at this time. He will clear matter with Dalton and inform us Monday, September 15. It is now proposed that letters both be dated September 15 and released to public Wednesday, September 17 simultaneously in Washington and London.

3. Following is revised text of letter from Chancellor to Secretary :

"Dear Mr. Secretary: I refer to your letter of July 14, 1947 relating to the postponement of certain obligations of the United Kingdom under the Anglo-American financial agreement. In accordance with the request of H. M. Government, the United States Government thereby agreed to the postponement until September 15, 1947 if

¹ Secretary of the Treasury Snyder, Under Secretary of State Clayton, William McC. Martin (Chairman and President, Export-Import Bank), and J. Burke Knapp (a representative of the Federal Reserve Board) were in London for the annual meetings of the Boards of Governors of the International Bank for Reconstruction and Development and of the International Monetary Fund.

necessary, of the obligations under Sections 8 (ii) and 10 of the financial agreement in the case of Austria, Bulgaria, China, Denmark, France, Greece, Hungary, Paraguay, Poland, Rumania, Siam, Turkey, the USSR and Yugoslavia.

Because of the modification of the system of transferable accounts on August 20, 1947 and the need to revise arrangements with the countries operating under that system, H. M. Government have been unable to complete the necessary arrangements with the countries referred to above. Accordingly, I should be grateful if the postponement of the obligations of Sections 8 (ii) and 10 of the financial agreement with respect to those countries could be extended until November 15, 1947."

DOUGLAS

841.51/9-1847

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

SECRET

LONDON, September 18, 1947.

No. 2110

SIR: I have the honor to refer to the Department's cable No. 3944, dated September 10, 1947, concerning further postponement of certain obligations of the U.K. under the Anglo-American Financial Agreement.

Upon receipt of this cable the recommendation of the NAC staff committee outlined in the cable was taken up with the NAC who were present in London, including Secretary Snyder and Messrs. Clayton, Martin and Knapp. The letters recommended by NAC staff committee were approved without inclusion of the paragraphs dealing with retroactive convertibility.

On the basis of this NAC action, Messrs. Friedman, Pumphrey and Gunter of the U.S. Treasury discussed the proposed exchange of letters with Messrs. Playfair and Grant of the British Treasury. In the course of these discussions the British Treasury representatives (after first tentatively accepting the U.S. drafts as reported in Embassy's cable No. 4943, dated September 12, 1947) suggested a revision of the letters, which instead of granting a further postponement of the convertibility obligations in relation to the 14 countries concerned, would have the effect of extending the August 20 action of suspending convertibility to these countries. The British also suggested that the letters should not be published, and that the exchange should take place between Mr. Grant and the Treasury Representative in London, rather than between Secretary Snyder and Chancellor Dalton.

These proposed alterations were taken up with the members of the NAC and were approved. Accordingly, the attached letters¹ were exchanged between Mr. Grant and the Treasury Representative.

¹ Not printed.

Copies of this despatch with attachments should be sent to the Treasury Department for appropriate action by the NAC Secretariat.

Respectfully yours,

For the Ambassador

JOHN W. GUNTER

U.S. Treasury Representative

841.51/9-447 : Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, September 18, 1947—6 p. m.

4057. Deptel 3995, Sep 15, rptd Geneva for Wilcox as 1193, Paris for Clayton as 3483. After further discussions between Dept and Treasury on Section nine financial agreement it was decided not to submit alternative recommendations to NAC but merely to agree on position paper¹ outlining problems involved and listing possible courses of action open to British consistent with strict interpretation Financial Agreement. Paper then refers to data to be supplied by British and states that same may reveal there is reasonable prospect they can work out import program within such possible courses of action. If so no difficult question would arise under Section 9 and appropriate public announcements could be released in both countries. If British program and prospects reveal there is clear necessity for import programs which could not be carried out under possibilities outlined in position paper "further analysis of alternative possible courses of action will be necessary".

Dept presumes Embassy will telegraph at least summary of British data and that Embassy will keep Dept informed of any developments in connection with statements made at Secretary Snyder's press conference on Sept. 15.²

LOVETT

¹ National Advisory Council document 511, September 18, 1947, not printed.

² Excerpts from Secretary of the Treasury Snyder's comments to the press are printed in the *New York Times*, September 16, 1947. Snyder agreed that a press release would be made through the U.S. Embassy concerning section 9. The text transmitted to the Department in telegram 5049, September 18, and released the same day follows: "In his statement to the press on September 15 last Mr. John W. Snyder, the US Secretary of the Treasury, pointed out that when any two governments work out an agreement, it must be kept flexible. This was the spirit of the original loan negotiations, and it is the purpose and intention of the officials of the two governments who are presently dealing with this problem. The framers of the Anglo-American financial agreement specifically recognized the existence of unusual aspects of the UK position requiring certain deviations from the inflexible rule of non-discrimination. It is basic to an understanding of section nine of the agreement to appreciate that it was never intended to constitute a strait jacket on British trade." (FW841.51/10-1047)

841.51/10-1047

Memorandum by the Deputy Director of the Office of International Trade Policy (Nitze)¹ to the Under Secretary of State (Lovett)

SECRET

[WASHINGTON,] October 10, 1947.

Subject: Treasury Department proposal with respect to the release of the remaining \$400 million of British credit and institution of negotiations for modification of loan agreement

DISCUSSION

The Treasury Department has proposed that the Chancellor of the Exchequer advise Secretary Snyder that, since the number of countries with which it has been impossible for the United Kingdom to complete satisfactory arrangements consistent with the terms of the Anglo-American Financial Agreement is too large to consider as exception cases under a reasonable interpretation of Section 8(ii) (b), consultations between the two governments should be held under Section 12 for modification of Sections 7 and 8. The Chancellor's communication would also advise that while Section 9 (trade discrimination section) has not heretofore constituted a hindrance to the British import program, it is foreseen that discriminations will arise in a small area, and the British would therefore also propose a modification of this Section under Section 12. The British would also re-state their adherence to the general principles of the loan agreement, and would propose a resumption of drawing of the \$400 million remaining under the line of credit. The United States reply would accept the proposal for discussions for modification of the Agreement under Section 12 and acquiesce in the British request for resumption of withdrawals.

As a matter of law, the Executive of the Government can adopt the policy of full compliance by the United States with its obligations under the Agreement, even though the British do not comply. However, it is clear that such a course of conduct by the Executive would raise serious problems with respect to its relationship to the Congress which may prejudice Congressional action on (a) the eventual modification of the British agreement and (b) the Marshall Plan. Congress may take the position that it was its intention that continued withdrawals after British failure to comply completely with the agreement should be subject to prior Congressional approval of the modifications. It is, however, most urgent from an economic and political point of

¹ This memorandum was also prepared by Walter S. Surrey, Deputy Assistant Legal Adviser for Economic Affairs.

view that the British be in a position to know that they can definitely count on the \$400 million during the coming months. In the event that the British cannot definitely rely upon the availability of the \$400 million, they may have to institute controls which would not only retard their recovery program, but which would probably lead them into larger violations of the loan agreement and may force them into complete bilateralism.

RECOMMENDATIONS

It is recommended that the State Department member of the NAC propose to the NAC that Secretary Snyder immediately approach the available Congressional leaders along the following lines:

1. A presentation of the serious situation in which Britain now stands and the undesirable effects which would result were the \$400 million credit not to be made available without delay.

2. To the extent that the British are permitted to withdraw the \$400 million credit now and their situation is correspondingly ameliorated, the necessity on the part of the British to resort to restrictive trade practices will be less urgent than otherwise. Conversely, failure to authorize withdrawals may prejudice continued British adherence to basic principles of the agreement.

3. In the event that the Congressional leaders personally approve the release of the remainder of the credit, and state that they will support before Congress an executive decision to release the \$400 million, but also advise that they cannot commit the Committees or the Congress as a whole, it is recommended that withdrawals be permitted.

4. In the event that the Congressional leaders advise that they oppose withdrawals from the credit prior to consideration by Congress of the proposed modifications, it is recommended that no withdrawals will be permitted prior to Congressional action.

5. In the event that the Congressional leaders state that they are not in a position either to approve or disapprove current withdrawals during the period of the modification negotiations, it is recommended that the matter be brought back to the NAC in order to determine whether there is anything in the attitude of the Congressional leaders which would permit the Executive on its own responsibility to authorize withdrawals.²

² At the seventy-first meeting of the National Advisory Council on October 13, the following action was taken: "The National Advisory Council is of the opinion that the Chairman of the Council should discuss with appropriate Congressional leaders the question of whether the United Kingdom shall be permitted to draw the \$400 million balance remaining to its credit under the terms of the Anglo-American Financial Agreement. If Congressional approval is obtained the Council agrees that the Chairman should proceed with the program of reopening drawings under this credit. If Congressional reaction is unfavorable the Council requests that the matter be referred to it for reconsideration." (60 D 137 Box 1)

CONCURRENCES

This memorandum was concurred in by OFD, ITP, and Ambassador Douglas.

841.51/10-1447 : Circular Instruction

*The Secretary of State to Certain Diplomatic and Consular Officers*¹

SECRET

WASHINGTON, October 14, 1947.

DISCRIMINATION IN FAVOR OF IMPORTS FROM ONE ANOTHER AND FROM
THE UNITED KINGDOM BY DEPENDENCIES SHARING COMMON MEMBERSHIP
AND QUOTA IN INTERNATIONAL MONETARY FUND

The Secretary of State refers to the circular instruction dated August 7, 1947 sent to certain American Consular Officers under the above title.

For the information of the Officers in Charge a copy of each of the following documents is attached :

1) Directive sent to British Dependencies by the British Colonial Office, handed to Officers of the Department by Mr. Anthony Percival, Commercial Counselor, British Embassy, Washington, on September 5, 1947; ²

2) Memorandum of Conversation between Mr. Percival and Officers of the Division of Commercial Policy on September 5, 1947.

The Officers in Charge will note that the directive which has been sent to the British Colonial Dependencies differs in a number of respects from the draft directive submitted to the Department April 28, 1947, a copy of which was enclosed with the instruction under reference.

Of particular interest is the fact that the directive does not include the "token import" control schemes which had previously been contemplated. It has been transmitted moreover, to the trust territories, former Italian colonies, Palestine, and those dependencies located in the Congo Basin area, notwithstanding the fact that the Department in its *aide-mémoire* of July 24 assumed that there would be no discrimination against the United States in those areas in favor of any third country including the United Kingdom. As stated in the instruction under reference this Government recognizes the right of mutual discrimination in the administration of import controls among the metropole and its dependent areas which share a common quota and membership in the International Monetary Fund. The Department is however studying the British action in including among this group those territories covered by international acts guaranteeing

¹ Sent to 36 posts, primarily consular offices in British colonial dependencies.

² Not printed.

equality of treatment, and the Officers in Charge will be informed of any further developments concerning this matter.

With the exception of this latter point this Government feels that the British directive is both reasonable and necessary as a temporary measure in view of the current dollar shortage on the part of the British Empire as a whole. Problems, however, will doubtlessly arise in the various areas through the interpretation and implementation of the Colonial Office directive. Any discriminatory action on the part of the colonial governments will have to be examined not only on the basis of the facts of any specific case but also in light of the general British situation.

The Consular Officers are therefore requested to study carefully the methods used by the local colonial authorities in implementing the new directive. Cases of undue discrimination should be examined for the facts, which then should be reported to the Department. No action, other than that arising from investigation of a complaint or the settling of minor problems, should be taken by the Consular Officers concerning the general policy until the Department's approval has been obtained, so that a uniform policy may be followed throughout all of the British dependent areas.

The majority of American exporters, understanding the seriousness of the present shortage in the British dollar availabilities, appreciates the inevitability of import restrictions during this emergency period. It must be remembered, however, that for some time American exporters have been expecting a nondiscriminatory import control regime to be effected in the colonial areas. Consequently, they may be inclined to be critical of this new and more severe import control program, especially if it is felt that the United Kingdom is using the present financial crisis to secure long-term advantages for goods from the United Kingdom as opposed to those from the United States.

The British are being informed unofficially of certain practical steps that could be taken in the administration of the directive to assure American exporters that they are not being placed in a permanently disadvantageous position in the colonial markets. The Consular Officers, bearing in mind that the British have not committed themselves with respect to these steps, are requested to observe and report, without disclosure to either importers or exporters, whether the following suggestions made by the United States are being carried out by the local authorities:

- (1) Import samples of goods and advertising literature having no commercial value should generally be admitted;

- (2) Imports needed for the maintenance and repair of goods already in the colonies, such as auto and radio parts, should in any event be considered as in the category of essential goods and imports of these permitted from the original sources.

(3) A reasonable interpretation of the section of the directive relating to the honoring of orders already placed and for which licenses have been granted so long as a confirmed letter of credit in the seller's country has been opened should be given. In certain instances where payment has been arranged other than by letter of credit, inequities may result from cancellation of orders. Each case will have to be considered on its individual merits.

(4) Orders for goods connected with long-term development projects should not unduly discriminate against United States goods, recognizing, of course, the limitations of the dollar supply.

(5) So far as it is possible, American exporters should be given an advance estimate of the dollar allocations anticipated by individual colonial importers, in order to facilitate reasonable future planning by producers and exporters.

It is realized that considerable leeway is granted to local colonial authorities in so far as implementation of the new import control regime is concerned. Reliance will be placed on the Consular Officers in the various dependent areas to evaluate the implementation of the directive in light of local conditions. As already noted it is expected that lesser cases may be settled by discussions between the Consular Officers and the local colonial authorities. Cases involving general policy and repeated infringements of the directive should be reported to the Department so that appropriate action may be taken through the British Embassy in Washington or the Colonial Office in London. Special treatment accorded imports from the war disrupted countries under Section 9(b) of the Financial Agreement should also be reported to the Department for consideration.

The Consular Officers should take positive action to encourage colonial exports to the United States in order to increase the supply of dollars by:

1) Watching for and reporting export opportunities to the Department of Commerce, which will notify interested individuals and groups in this country;

2) Continued reporting on export controls which are restricting colonial exports to the United States. This Government is endeavoring to secure the elimination of such restrictions in cases where it would appear to be to the mutual advantage of the United States and those areas sharing the common quota to do so.

641.006/9-547

The Secretary of State to the British Ambassador (Inverchapel)

CONFIDENTIAL

The Secretary of State presents his compliments to His Excellency the British Ambassador and has the honor to refer to the directive on import licensing policy in the British colonial dependencies, which

the Commercial Counselor of the British Embassy handed to officers of the Department of State on September 5, 1947.¹

In the Department's *aide-mémoire* of July 24, 1947 on this subject, it was stated that in the territories in which the United States is entitled to equality of treatment under mandate and trusteeship agreements at present in force, the Government of the United States assumed there would be no discrimination against the United States in favor of any other country including the United Kingdom. It was also assumed that there would be no discrimination in the territories of the Congo Basin and in the former Italian colonies. The Secretary of State notes that, nevertheless, the British Government has sent the present directive, calling for the establishment of import control regimes which discriminate against the United States in favor of the United Kingdom, to the mandates, trust territories, the Congo Basin area and the former Italian colonies.

The principle of equality of treatment is one to which this Government attaches importance both in general and in its application to these territories. In so far as the trust territories are concerned, the British action may involve questions of general policy which must be considered in the light of their relation to trust territories administered by other states and of their interest to the Trusteeship Council of the United Nations. Furthermore, this Government is not aware how discrimination in any of these territories will be of significant benefit to the United Kingdom in its present difficulties.

The Secretary of State would therefore appreciate receiving a statement setting forth the reasons why the British Government considers it necessary to pursue this policy with respect to the territories in question, and indicating its views as to how this action is reconciled with the pertinent international agreements which were cited in the Department of State's *aide-mémoire* of July 24, 1947.²

WASHINGTON, October 16, 1947.

¹ Not printed.

² On December 17 Mr. Anthony Percival, Commercial Counselor, British Embassy, informed Mr. Wilson Beale, Assistant Chief of the Division of Commercial Policy, that he had had no further response from London regarding the Department's note of October 16. (641.006/12-1747)

841.51/10-1047: Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, October 17, 1947—7 p. m.

4491. From State and Treasury. Urtel 5482, Oct 10.¹ We believe interpretation of Section 9 in Emb press release of Sep 18 as reported

¹ Not printed.

in Embtel 5049, Sep 18² provides sufficiently broad basis for answer to possible parliamentary inquiries on relation of that Section to Brit imports. It is not believed necessary to have formally agreed statement but Emb should indicate to appropriate Brit officials this Govt's hope that if foregoing interpretation of Sec 9 is used in Parliament it will be accompanied by strong reaffirmation of adherence to principles of Sec 9.

For urinfo NAC has decided that before reaching final decision to release remaining \$400 million circumstances should be discussed with foreign relations committees House and Senate scheduled to meet about Nov 10. Accordingly you should do all you can to impress Brit that it would be most helpful if parliamentary discussion respecting any aspect of financial agreement could be kept to minimum during this period. NAC has further decided there should be no exchange of letters between the two governments at this time concerning any phase of financial agreement. We are proposing to Brit here that official but unannounced exploratory discussions be initiated immediately in Washington. Discussions can begin with Brit officials already at Emb and UK Treas Del, leaving to later determination need additional officials from London.

LOVETT

² For text, see footnote 2, p. 80.

841.51/10-1847 : Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

SECRET

LONDON, October 18, 1947—4 p. m.

5589. For State and Treasury. Prior receipt your 4491, October 17, BOT had indicated desire discuss with us today draft statement to be made in Parliament reference Section Nine financial agreement. Substance your telegram communicated to them. Following draft not yet considered by Ministers but being sent British Embassy Washington for comment and with instructions to communicate to you.

"During the visit of the Eady mission to Washington in August, discussions took place between the mission and officials of the US administration about the present position as regards the non-discrimination provisions of the American loan agreement. During these talks the officials of the two governments were able to discuss and explore together in detail the practical interpretation of the provisions of Section Nine of the loan agreement against the background of the overseas financial position of the United Kingdom. These discussions revealed that there existed very substantial agreement between the two governments about the meaning of these provisions relating to non-discrimination. When Mr. Snyder came to this country in September

for the I. M. F. meetings, these discussions continued on the official plane. At the conclusion of Mr. Snyder's visit to this country, the following statement was issued by the US Embassy in London. (Here follows Snyder statement quoted Embtel 5049.) In the light of the discussions which have taken place between the two governments and of the above statement, His Majesty's Government are satisfied that, for the present, and in the light of the existing supply and availabilities position throughout the [apparent garble] the provisions of Section Nine of the loan agreement are not operating to prevent the United Kingdom from importing any goods, including foodstuffs, which we are anxious to take and which we can afford to buy. As regards the future position, discussions with the US Government are continuing."¹

Regarding reaffirmation adherence to principles of Section Nine, BOT pointed out difficulty and inadvisability doing this in text of above statement but promised to recommend to Ministers that reaffirmation of principle be worked in at some point in discussion in Parliament.

GALLMAN

¹ Marginal notation: "Statement cleared in Treasury, OFD and ITP, and British Emb. notified 10/20/47 11:30 a. m. AMR[osenson]". London telegram 5764, October 29, reported that the statement was issued on October 28 "with only minor changes in wording from text quoted in reference telegram." (841.51/10-2947)

841.5151/11-547 : Telegram

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

TOP SECRET

LONDON, November 5, 1947—6 p. m.

US URGENT

5894. For the Secretary and Lovett from the Ambassador. 1. Purely personal and informal discussions have been had with Bevin, and on one occasion with Attlee, Bevin, Cripps and Dalton, on the British financial position and the ways of supplementing British dollar resources during the interim period before Congress shall have approved, if it does approve, a program for European recovery. Following these discussions, a personal memorandum summarizing the present British position and suggested methods of reinforcing the British dollar resources during the period in question, was submitted to me. I should emphasize that the British Cabinet, as a whole, has no knowledge neither of these discussions, nor of the memorandum [*sic*]. The British officials referred to are extremely anxious that the suggestions be guarded with the greatest discretion.

2. This memorandum suggests loan by Export-Import Bank of \$700 million against collaterals now held for RFC loan, which would provide new money. I informed the British that even though the suggestion, in principle, were acceptable to us, I had grave doubts that the

collateral would justify a loan of this size, and that the principal amount of the loan would necessarily have to be less. It is my further thought that if such a loan were made by the Export-Import Bank, the terms of the RFC loan should be altered so that the present principal amount secured by the collateral would remain in the RFC, and so that the Export-Import Bank would advance only the new funds, taking a secondary position to the loan remaining in the RFC. This would conserve bank funds, which I realize are short. The income from the collateral could be used first to pay interest on the two loans and secondly to repay principal on RFC loan until it is repaid.

3. British memorandum assumes interest at 2 per cent. Interest rate in excess of 2 per cent not desirable since this is rate on unsecured \$3,750 million credit. British indicate that loan of \$700 million would be extinguished in 22 years.

4. Memorandum also suggests loan should be untied, but, if not, should be available for purchases by rest of sterling area as well as UK.

5. I plan no further discussions as to the practicability of the suggestion put forward until I hear from you. I feel, however, that it has merit and should be explored with Secretary Snyder and Martin of Export-Import Bank. The suggestion seems to provide a method by which the British reserves can be substantially protected, thus avoiding imposition of greater restriction on imports, and the danger of change or modification of foreign policy which a shrinkage of reserves to a dangerous level would, I believe, probably entail. At the same time it avoids the necessity of going to Congress for an outright interim appropriation as is necessary in the case of both France and Italy.

6. Memorandum states British gold and dollar reserves for sterling area amounted to pounds 574 million on October 25, and that continued decline is expected because of dollar needs of UK and sterling area. Argument made that if reserves fall below pounds 500 million stability of UK and sterling area economies will be endangered.

7. On basis present British calculation reserves will fall to pounds 310 million by June 30, 1948. This estimate allows for:

(a) Drastic cuts in food imports recently announced which will reduce food consumption to or below lowest level reached in the war.

(b) Maximum development of exports to dollar destinations involving further cuts in home consumption and severe cuts in investment process including housing.

(c) Big reduction in dollar deficit of rest of sterling area.

(d) No dollar expenditure for Germany.

(e) Net dollar expenditure by UK and sterling area in first half 1948 at only half present rate.

Estimate does not include pounds 80 million South Africa loan, which for purpose of estimate is set aside as cushion for excess expenditure

over estimates. Further drawings on IMF in first half 1948 also excluded.

8. On basis these estimates British calculate reserves can be prevented from falling below pounds 500 million, if (a) remaining \$400 million of financial agreement credit is released, (b) Export-Import Bank loan proposed this cable is made.

9. British have agreed to supply US with monthly statistics on their financial position. First figures in this series will be cabled soonest.

10. The British Embassy in Washington is being informed of the personal discussions that have been had here, but is being advised toward the matter with great secrecy and to take no action.

11. Will appreciate your comments on the proposal in principle.¹

12. Dalton is writing a personal letter to Snyder.

DOUGLAS

¹ Marginal notation: "No action required. Problem discussed with Douglas 11-15 N[orman] T. N[ess]".

841.51/11-1947

Memorandum from the Acting Director of the Office of European Affairs (Reber) to the Under Secretary of State (Lovett)

[WASHINGTON,] November 19, 1947.

You are scheduled to appear soon before Congressional Committees with Secretary Snyder and Secretary Forrestal to discuss the release of the \$400,000,000 balance of the line of credit to the United Kingdom established under the Financial Agreement. The basic approach to the Congressional Committees was outlined in a memorandum to you, dated November 7, 1947, from Mr. Gross¹ and Mr. Ness (copy attached). In your exposition of the foreign policy aspects of the availability of the undrawn balance to the British, you may wish to make the following points:

1. Our basic objectives in the Financial Agreement have been two-fold. First, we desire British recovery, in our own economic interest, in order to make possible a high level of world trade, and to enable Britain to participate ultimately in multilateral and non-discriminatory trade. Secondly, a strong and healthy Britain is essential to our basic foreign political objectives. She is our most important friend in supporting the United Nations, in dealing with the Soviet Union, and in preserving peace.

2. Britain is now drawing on her basic gold and dollar reserves (which serve the entire Sterling area) to meet her balance of payments deficit. The \$400,000,000 balance of the loan, given British dollar losses during the financial crisis, is an important bridge to carry

¹ Ernest A. Gross, Legal Adviser of the Department of State.

Britain through the difficult interim period before the Congress takes action on the European Recovery Program. (Secretary Snyder will take the lead in developing this line.)

3. If the balance of the loan were not available to alleviate Britain's present dollar shortage, it would be more difficult for the United Kingdom to implement the undertakings it has accepted in the ITO Charter and would delay the United Kingdom's return to a multilateral and freer trading system.

4. The political results within Britain of withholding the balance of the loan cannot be gauged with precision. However, some political consequences which we wish to avoid would undoubtedly follow, even though these would not include changes in fundamental British foreign policies.

The British regard our present attitude with respect to the convertibility and non-discrimination clauses of the Financial Agreement as demonstrations of sympathy for their economic situation. A freezing of the balance would offset this favorable British reaction. It would give ammunition to the Left Wing critics of Bevin who have charged him with "subservience" to, and "dependence" upon, the United States. The anti-Americanism of these critics within the Labor Party has been their principal common denominator and Bevin has at times had to be responsive to their views.

Withholding the balance of the loan might also have some political consequences in our general relations with Britain and Russia, although they would not be of major significance. The Russians and the Communists would say that our action is additional proof that the United States is in fact not interested in British recovery, and that the freezing of the balance is simply another example of Anglo-American economic rivalry which will eventually destroy the friendship between the two countries. On the other hand, making the \$400,000,000 available would be a demonstration of the continuing solidarity of the United States and the United Kingdom, and of our vital interest in British recovery and welfare.

S. REBER

[Enclosure]

*Memorandum from the Legal Adviser (Gross) and the Director of the Office of Financial Development Policy (Ness) to the Under Secretary of State (Lovett)*²

The basic approach to the Congressional committees with respect to the release of the balance of the line of credit established under the Loan Agreement should be substantially as follows:

1. As an introductory statement, the Secretary of the Treasury would comment briefly on the action taken on August 20. This would

² The file copy is undated.

involve a brief statement to the effect that the situation in Great Britain became so serious that it was necessary for the British Government to suspend convertibility.

In this connection the British voluntarily proposed that no further withdrawals be made against the line of credit. Accordingly, withdrawals were discontinued by mutual consent of both Governments.

2. A brief statement should be made dealing with the results of the efforts made by the British Government to reach bilateral agreements with respect to convertibility. It should be indicated further that continuing balance of payments pressure upon the British has compelled them to resort to rigid measures to restrict imports from dollar areas.

3. An explanation should be made concerning the situation existing at the present time. The elements which should be stressed include the continued rate of decline of the gold and dollar resources left to the U.K., the importance of the unnotified 400,000,000 dollars for the British to enable them to continue with the policies of multilateralism and convertibility which constituted the basic purposes of the Anglo-American Financial Agreement from the viewpoint of the United States. In this exposition Under Secretary Lovett would emphasize the important foreign policy aspects of making available the undrawn balance to the British. Secretary Forrestal would outline the security aspects of the problem.

4. The next step in the presentation of the problem to Congressional committees should be with reference to Section 12. This discussion should center on the fact that in the opinion of the Executive Branch of the Government it is impossible at this time for the U.S. and U.K. Governments jointly to reconsider the Agreement with a view to presenting to their respective legislatures specific recommendations for modification. In outlining the reasons why such consultations are not feasible at the present time, particular attention should be given to the facts that world conditions are at the moment so uncertain as to make it impossible for the U.K. accurately to determine in what degree she can safely undertake to abide by the commitments to which she dedicated herself in the Loan Agreement and to which she continues to wish to abide as fully as possible. Particularly is this true because of the uncertainty both of the British and U.S. Governments of the extent to which the implementation of the Marshall Plan will enable the British to continue multilateralism and convertibility. If an attempt were made now to specify modifications, it is almost certain that the extent of modification would be greater than would subsequently prove necessary.

5. Having demonstrated that action under Section 12 is neither practical nor in the best interests of U.S. long-range policy favoring multilateralism and convertibility, it should next be pointed out to the

Congressional committees that the unblocking of the balance of the loan is an act which in itself would be in furtherance of our basic objectives. The distinction should be drawn between substantive modifications of the Agreement pursuant to Section 12 based upon reconsideration designed to take account of prevailing conditions of international exchange, and the effects of refusing to permit further withdrawals. It should be made clear that in the view of the Executive Branch of the Government, the continued freezing of the balance would intensify the difficulties which have compelled the U.K. Government to take the steps which have been described. The Executive Branch considers it appropriate to discuss informally with Congressional representatives the effects which continued freezing of the balance of the loan would have upon our national interest in order that Congressional representatives will have been informed concerning the basis of future action by the Executive Branch.

6. The definitive action by the Executive Branch should be taken in the light of Congressional reaction to the foregoing exposition.

841.51/12-347 : Telegram

The Acting Secretary of State to the Embassy in the United Kingdom

SECRET

WASHINGTON, December 3, 1947—5 p. m.

5072. Secretary Snyder, accompanied by Ness and Gross of Department, appeared this morning before Senate Banking and Currency Committee and discussed U.S. interest in release of \$400 million balance U.K. loan. Statement generally followed lines discussed with Douglas when he was in Washington.

Committee members asked numerous questions but attitude was friendly throughout and it was indicated by Chairman Tobey at end of meeting that there was no objection to the proposed action.

Snyder and State representatives also called on Congressman Wolcott, Chairman House Committee on Banking and Currency. Wolcott personally favorable but wishes explore matter further. Snyder expressed hope he might obtain definite clearance from Wolcott within next few days.

Will report further developments.

LOVETT

Editorial Note

At the seventy-sixth meeting of the NAC, December 3, Secretary of the Treasury Snyder reported that he had consulted with both the Senate and the House Banking and Currency Committees, and that

they had agreed that the British should be permitted to resume drawings against the \$400 million credit still undrawn. The Committees "felt, however, that approval should likewise be obtained from Senator Taft as Chairman of the Joint Economic Committee." On December 4, the Department in telegram 5093 to London reported that Snyder had obtained the approval of Wolcott and Taft for release of the funds.

A press statement reviewing the events leading to the resumption of British drawings and an exchange of letters between Secretary Snyder and Chancellor of the Exchequer Cripps are printed in Department of State *Bulletin*, December 21, 1947, pages 1222-1223.

**EFFORTS TO NEGOTIATE AN AGREEMENT WITH NEWFOUNDLAND
RESPECTING USE OF LEASED BASES BY CIVIL AIRCRAFT;
CONCERN OF THE UNITED STATES OVER RESULTANT DELAY OF
SIMILAR NEGOTIATIONS WITH THE UNITED KINGDOM¹**

843.7962/3-2047

*Memorandum by the Assistant Secretary of State for Transportation
and Communications (Norton) to the Under Secretary of State
(Acheson)*

[WASHINGTON,] March 20, 1947.

Under the Bases Agreement of March 27, 1941,² the United States has established naval and air bases for military purposes on leased areas in Newfoundland, Bermuda, Jamaica, St. Lucia, Antigua, Trinidad and British Guiana.

At the Bermuda Conference in February 1946, the United States and the United Kingdom drafted an agreement for opening the bases airfields to use by civil aircraft. The bases airfields in Newfoundland were not included because Newfoundland was not represented at the Conference. The United States reserved the right not to sign the agreement until a satisfactory agreement had also been reached with Newfoundland regarding the civil use of the fields in Newfoundland.

A US-Newfoundland agreement was drafted in July 1946. At your direction I have been insisting on the inclusion therein of a provision that American flag carriers may transfer their operations from Newfoundland's international airport (Gander) to Harmon Field (a bases airfield) if and when they consider the fees at Gander to be unreasonable. Newfoundland has steadfastly refused to include the provision as irrelevant to the agreement and as incompatible with its concept of sovereignty.

¹ For previous documentation on this subject, see *Foreign Relations*, 1946, vol. I, pp. 1450-1481.

² For text of the agreement and exchange of notes, see Department of State Executive Agreement Series No. 235, or 55 Stat. (pt. 2) 1560.

The stalemate is preventing the conclusion of the US-UK agreement drafted at Bermuda as well as the Newfoundland agreement. Kindley Field in Bermuda therefore remains closed to the civil aircraft of third nations. Venezuela is refusing to conclude a bilateral air transport agreement with the United Kingdom until Kindley Field is open to her flag carrier. British bilaterals with a number of other Latin American countries are also in suspense owing to the inability of the British to guarantee the availability of the bases airfields. The United States will also be faced with the necessity of making these fields available before bilaterals can be concluded with Venezuela, Cuba and possibly other Latin American countries.

Because of the foregoing developments, I recommend that we insist no longer on the inclusion of the controversial provision in the Newfoundland agreement and that a compromise be developed in collaboration with the interested American flag carriers. In the past the carriers have opposed any compromise in this regard, but their position was taken without reference to more recent developments. They have considered the controversial provision as a necessary restraining influence over Newfoundland in the setting of fees at Gander Airport. It should be pointed out, however, that the United States has demanded no such control over the setting of fees at international airports in other foreign countries. The poor financial status of Newfoundland and the probable high cost of airport maintenance there does not justify the assumption that Newfoundland will charge unreasonable fees if not restrained. A right in the American carriers to remove their operations from Gander would place an undue burden on Newfoundland which has already incurred considerable expense at Gander on the theory that it would be the international airport.

GARRISON NORTON

843.7962/9-647

The Consul at St. John's, Newfoundland (Millet) to the Assistant Chief of the Division of British Commonwealth Affairs (Foster)

CONFIDENTIAL

ST. JOHN'S, September 6, 1947.

DEAR MR. FOSTER: Here is a copy for you of my despatch No. 459 of yesterday's date.¹ You will note that we get no further as to mandatory rather than permissive coverage on Newfoundland's designating a substitute base for Gander. I found it impossible to get anything helpful out of Mr. Neill,² although he seemed well disposed and received me very pleasantly.

¹ Not printed.

² James Neill, Newfoundland Commissioner for Public Utilities.

It seems to me that the Commissioners' insistence on "may" arises out of their wish to avoid yielding to us in something that they fear might be used by political opponents in the accusation that the Commissioners had again failed in their duty of guarding the interests of the country in having further extended what many people consider the lamentably foolish generosity of concessions granted to the United States without any *quid pro quo*. This is probably the important reason for the stubbornness of the Government on this point, while the fear of running into the costly maintenance of an uneconomic airport is surely not the whole reason for their stubbornness.

Note also that Neill couldn't or wouldn't give me any idea of the effect of London's pressure on the Government here.

I should like to know what you think of all this, and what suggestions you may have for me in the premises.

Do you think we could undertake to back strongly any request that Newfoundland might make for ICAO aid to maintain Gander? If so, could we promise to enlist similar support of the other several nations whose civil aircraft operate through Gander?

Possibly Neill will attempt to work out some other wording which might be accepted as a compromise. You can be sure that I shall report promptly on anything of the sort.

One more possibility, but rather a dim one: are there no earlier commitments obliging this Government to maintain Gander or some other airfield? If so, it might be possible to fall back on such an undertaking by Newfoundland, perhaps even insert reference to it in Article I(d). By this I mean such things as treaties covering American and other civil aircraft flying through the Island, commitments in the American civil airlines' franchises (if any) with Newfoundland, or even the undertakings embodied in the ICAO and Chicago Conference. You will appreciate that I have not sufficient time to go deeply into this. Could the Department's Aviation Division and Treaty Division people be asked to use their own files to work out a swift answer to this question?

Please send what comments you can on the whole thing. I seem to have run into an impasse at present, but hope that something will work out as time goes on.³

Yours sincerely,

CHARLES S. MILLET

³ In answer to the questions raised in this letter, Foster wrote to Millett on October 16 saying: "We consider very reasonable your suggestion that strong backing be given Newfoundland in any request she might make for ICAO aid for the maintenance of Gander and feel reasonably sure that the other nations whose civil aircraft operate through Gander would support such a move. Since your negotiations with Newfoundland are now at a standstill, it seems unnecessary and unwise at this time to promise to enlist the support of other nations. According to the Aviation Division, there seems to be no earlier commitment on which the maintenance of Gander or other airfields might be based. The only such agreement along those lines is that embodied in general ICAO principles." (843.7962/9-647)

843.7962/9-2547

The Ambassador in Canada (Atherton) to the Secretary of State

RESTRICTED

OTTAWA, September 25, 1947.

No. 5519

SIR: I have the honor to refer to the Department's Restricted telegram No. 161 of September 22, 1947, 5 p.m., and to the Embassy's reply No. 141 of September 24, 2 p.m.,¹ both on the subject of the Newfoundland Air Bases Agreement.

In accordance with the promise made by the Department of External Affairs, as mentioned in the Embassy's telegram, there is enclosed herewith copy of an *Aide-Mémoire* dated September 25, 1947, which is entitled "Newfoundland-United States Base Fields Agreement", which the Department of External Affairs has transmitted to the Canadian High Commissioner in St. John's, Newfoundland, for delivery to the Newfoundland Commission of Government. The Embassy believes that this *Aide-Mémoire* goes as far as it is possible for the Canadian Government to go, particularly in view of the present very delicate relationships which exist between the Dominion and Newfoundland over confederation.

Respectfully yours,

For the Ambassador
JULIAN F. HARRINGTON
American Minister

[Enclosure]

*The Canadian Department of External Affairs to the Newfoundland
Commission of Government*

AIDE-MÉMOIRE

NEWFOUNDLAND-UNITED STATES BASE FIELDS AGREEMENT

The use of Kindley Field, Bermuda which is essential to the operation of any Canadian commercial air service to the West Indies is at present contingent on the exchange of notes between the United States and the United Kingdom in relation to the United States-United Kingdom Agreement on Leased Air Bases. A wording acceptable to both the Canadian and the United States Governments has been reached in respect to this exchange of notes, but the United States as they had previously made clear at Bermuda in 1946, would only approve this Agreement conditional to a satisfactory agreement being

¹ Neither printed.

reached with Newfoundland regarding the use by the United States Civil Aircraft of Newfoundland air fields.

In June of this year negotiations appeared to be progressing favourably on the United States-Newfoundland Agreement when the Commission of Government of the latter announced that they had reconsidered the wording of Article 1 (*d*) to the draft agreement, which provided that, "in the event of Gander Air Field being closed temporarily or permanently, or otherwise unavailable as a regular civil international airport, the Government of Newfoundland will designate (subject in the case of Argentia and Stephenville to the concurrence of the United States Military Authorities) another suitable airport in Newfoundland, either temporarily or permanently, as the case may be, as a regular civil international airport;" The Commission of Government said they preferred to amend the Article to read "the Government of Newfoundland may designate etc. etc.," insofar as they feel, in view of the nature of the present Government, that they should not bind their successors to the automatic designation of an alternative air field in the event of Gander being closed. It is understood that this week the United States agreed to accept the latter wording, provided that in the event of Gander being closed, the United States should be allowed to automatically use Argentia and Stephenville as temporary fields (subject to the concurrence of the military officials) during the interim period whilst Newfoundland considered the designation of a new airport.

The delay in the signing of this agreement affects the future civil aviation programme of both Canada and the United Kingdom. It is understood that the latter Government have already forwarded a memorandum to the Newfoundland Commission of Government explaining their own position and their urgent desire to discover a way out of the present impasse.

In this respect the position of Canada is similar to that of the United Kingdom. Failure of the United States and Newfoundland to reach an agreement has resulted in the denial to Canadian aircraft of the only air field in Bermuda suitable for commercial operations. Such a result would be out of keeping with the discussions at Bermuda in December 1945 in which Newfoundland participated.

The Canadian Government appreciates the spirit of co-operation which has at all times been evidenced by Newfoundland in respect to the development of civil aviation and it is hoped that a satisfactory agreement can be reached in the near future between the Government of Newfoundland and the United States which will allow the implementation of the decisions reached at Bermuda in 1945.

September 25, 1947.

843.7962/10-947: Telegram

*The Acting Secretary of State to the Consulate General in
Newfoundland*

CONFIDENTIAL

WASHINGTON, October 15, 1947.

60. Pls suspend further Newf negotiations in view Newf rejection US proposal re Art I (d) Reurtels 68 Oct 7 and 73 Oct 9.¹ Dept has decided proceed with US-UK Agreement² re Kindley and Caribbean Bases and conclusion thereof will no longer be contingent on reaching satisfactory agreement with Newf.³

Sent St. John's; rptd London as 4445; Ottawa as 175.

LOVETT

¹ Neither printed.

² For text of agreement and exchange of notes, signed at Washington, February 24, 1948, see Department of State Treaties and Other International Acts Series (TIAS) No. 1717, or 62 Stat. (pt. 2) 1860.

³ As a result of the Union of Newfoundland with Canada in April 1949, this agreement was effected by an exchange of notes between the United States and Canada signed at Ottawa June 4, 1949. For text of this agreement respecting the use by civil aircraft of Stephenville and Argentia military air bases in Newfoundland, see Department of State Treaties and Other International Acts Series (TIAS) No. 1933, or 63 Stat. (pt. 3) 2486.

**AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED
KINGDOM RESPECTING AIR TRANSPORT SERVICES CONCERNING
GANDER AIRPORT, NEWFOUNDLAND**

[For text of this Agreement, effected by exchange of notes signed at London, May 21 and 23, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1641, or 61 Stat. (pt. 3) 3092.]

**AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED
KINGDOM RESPECTING THE UNITED STATES LEASED BASE AT
ARGENTIA, NEWFOUNDLAND**

[For text of Agreement, delimiting the area within Newfoundland territorial waters, effected by exchange of notes signed at London, August 13 and October 23, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1809.]

**AGREEMENTS AND ARRANGEMENTS BETWEEN THE UNITED
STATES AND THE UNITED KINGDOM CONCERNING MEASURES
TO IMPROVE ECONOMIC COOPERATION AND COORDINATION IN
THE UNITED STATES-UNITED KINGDOM BIZONAL AREA OF
GERMANY**

[For documentation and text of agreements and arrangements, see volume II, pages 909 ff.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING CLAIMS FOR DAMAGES RESULTING FROM ACTS OF MEMBERS OR CIVILIAN EMPLOYEES OF ARMED FORCES

[For text of Agreement, effected by exchange of notes signed at Washington, October 23, 1946 and January 23, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1622, or 61 Stat. (pt. 3) 2876.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING INTERGOVERNMENTAL CLAIMS

[For text of Agreement, effected by exchange of notes signed at Washington, February 19 and 28, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1635, or 61 Stat. (pt. 3) 3012.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING MARINE TRANSPORTATION AND LITIGATION

[For text of Agreement, effected by exchange of notes signed at Washington, June 17 and 27, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1636, or 61 Stat. (pt. 3) 3014.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING AIR TRANSPORT SERVICES ROUTES TO AND FROM FIJI ISLAND

[For text of Agreement, effected by exchange of notes signed at Washington, December 20, 1946 and January 27, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1640, or 61 Stat. (pt. 3) 3089.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING STANDARDIZATION OF DISTANCE MEASURING EQUIPMENT FOR TELECOMMUNICATIONS

[For text of Agreement, signed at Washington, October 13, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1652, or 61 Stat. (pt. 3) 3131.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM SUPPLEMENTING THE GENERAL AGREEMENT ON TARIFFS AND TRADE OF OCTOBER 30, 1947

[For text of Agreement, signed at Geneva, October 30, 1947, see Department of State Treaties and Other International Acts Series

(TIAS) No. 1706, or 61 Stat. (pt. 4) 3725. For documentation concerning United States participation in the formulation of the GATT agreements, see volume I.]

ARRANGEMENT BETWEEN THE UNITED STATES AND THE UNITED KINGDOM RESPECTING MILITARY AID TO GREECE

[For text of Arrangement, effected by exchange of notes signed at Washington, July 25 and October 9, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1718, or 61 Stat. (pt. 4) 3763.]

TERMINATION OF THE ANGLO-AMERICAN AGREEMENT FOR THE TRANSFER OF AMERICAN CARGO VESSELS TO THE BRITISH FLAG FOR TEMPORARY WARTIME DUTY (THE LAND-LEATHERS AGREEMENT OF 1944)

Editorial Note

Documentation on this Agreement, which was entered into on December 9, 1944, is printed in *Foreign Relations*, 1944, volume II, pages 740 ff. For a statement on legal aspects of the Agreement by Under Secretary of State Clayton on February 6, 1947, before the Subcommittee on Ships Sales, Charters, and Lay-ups of the Committee on Merchant Marine and Fisheries, House of Representatives, see Department of State *Bulletin*, February 23, 1947, pages 347-348.

On November 1, 1946, Sir Cyril Hurcomb submitted to the United States Maritime Commission on behalf of the United Kingdom certain detailed proposals "for winding up the arrangements for bareboat chartering of ships covered by the agreements recorded in the exchange of letters between Lord Leathers and Admiral Land dated November 24, 1944, and in exchange of letters between the Acting Administrator, War Shipping Administration, and the Secretary of the British Merchant Shipping Mission of the 15th February, 1946." These proposals were later amended by the British Embassy's note of February 3, 1947. In a reply dated March 13 the United States Government submitted certain "proposals for the disposal or redelivery of the vessels presently under the Land-Leathers Agreement," and these proposals were accepted by the United Kingdom on March 25. On May 13 the Department of State, taking note of these exchanges and various specific points mentioned in the British note of March 25, informed the British Embassy that the United States Maritime Commission had instructed its staff to do everything necessary to carry out the arrangements. Documentation on the termination of the Agreement, not printed, is in Department of State file No. 800.85.

AUSTRALIA

DISCUSSIONS OF THE AMERICAN COMMANDER-IN-CHIEF IN THE PACIFIC WITH AUSTRALIAN OFFICIALS

Editorial Note

The following joint press statement by Herbert V. Evatt, Australian Minister for External Affairs, and Robert Butler, the American Ambassador, was released at Canberra on June 11, 1947:

"Admiral Denfeld, Commander-in-Chief of United States Navy, Army and Air Forces in Pacific area is leaving today for his headquarters at Pearl Harbour after discussions with Australian Government and service authorities on matters of mutual interest in Pacific.

"Purpose of the Admiral's visit was to ensure continuance of close cooperation between United States and Australian services which existed all through war period and which contributed so much to victory in Pacific.

"There is practical identity of Pacific interest and most excellent relationships existing between United States and Australia. Discussions Admiral Denfeld has had with Prime Minister, Minister External Affairs, Minister Navy and service authorities have covered mutual interests of our two countries in Pacific and it is natural that such discussions should be repeated from time to time. They are natural outcome of close association between two governments which characterized war period and being purely defensive in character are completely in accord with principles and purposes of UN.

"Discussions Admiral has had during last few days in Australia have been entirely successful from all points of view." (Text transmitted in telegram 185 from Canberra, June 12, 1947; 811.2347/6-1247)

In despatch 241 of June 20, Ambassador Butler reported that in the conversations Dr. Evatt had expressed great disappointment that the United States would not take part in maintenance of the naval base on Manus Island and had stated that Australia and the United States should have a broad regional agreement such as was provided for in the United Nations Charter and such as the United States already had with Canada and the American Republics. (811.2347/6-2047)

AGREEMENT BETWEEN THE UNITED STATES AND AUSTRALIA RESPECTING AIR SERVICE FACILITIES AT EAGLE FARM AND AMBERLEY IN AUSTRALIA

[For text of Agreement, signed at Canberra, March 10, 1947, see Department of State Treaties and Other International Acts Series. (TIAS) No. 1732, or 61 Stat. (pt. 4) 3843.]

EFFORTS OF THE UNITED STATES TO RESOLVE CERTAIN DIFFERENCES WITH AUSTRALIA CONCERNING DISPOSAL OF WAR SURPLUS MATERIALS AND FIXED MILITARY INSTALLATIONS IN THE SOUTHWEST PACIFIC

[For documentation on this subject, involving unfulfilled pipeline shipments to Australia, unauthorized sales of U.S. war surplus at Milne Bay, Finschhafen, etc., disposal of U.S. fixed installations at New Guinea, maintenance of custodial services for Lend-Lease materials at Brisbane and Sydney, and continued operation of the military base at Manus Island, see Department of State files 847.24FLC and 841.24FLC.]

CANADA

MILITARY COOPERATION AND POLITICAL RELATIONS OF THE UNITED STATES AND CANADA¹

Press Release Issued by the Department of State, February 12, 1947

Announcement was made in Ottawa and Washington today of the results of discussions which have taken place in the Permanent Joint Board on Defense on the extent to which the wartime cooperation between the armed forces of the two countries should be maintained in this postwar period. In the interest of efficiency and economy, each Government has decided that its national defense establishment shall, to the extent authorized by law, continue to collaborate for peacetime joint security purposes. The collaboration will necessarily be limited and will be based on the following principles:

1. Interchange of selected individuals so as to increase the familiarity of each country's defense establishment with that of the other country.

2. General cooperation and exchange of observers in connection with exercises and with the development and tests of material of common interest.

3. Encouragement of common designs and standards in arms, equipment, organization, methods of training and new developments. As certain United Kingdom standards have long been in use in Canada, no radical change is contemplated or practicable and the application of this principle will be gradual.

4. Mutual and reciprocal availability of military, naval and air facilities in each country; this principle to be applied as may be agreed in specific instances. Reciprocally each country will continue to provide with a minimum of formality for the transit through its territory and its territorial waters of military aircraft and public vessels of the other country.

5. As an underlying principle all cooperative arrangements will be without impairment of the control of either country over all activities in its territory.

While in this, as in many other matters of mutual concern, there is an identity of view and interest between the two countries, the decision of each has been taken independently in continuation of the practice developed since the establishment of the Joint Defense Board in 1940. No treaty, executive agreement or contractual obligation has been entered into. Each country will determine the extent of its practical

¹ For previous documentation, see *Foreign Relations*, 1946, vol. v, pp. 53 ff.

collaboration in respect of each and all of the foregoing principles. Either country may at any time discontinue collaboration on any or all of them. Neither country will take any action inconsistent with the Charter of the United Nations. The Charter remains the cornerstone of the foreign policy of each.

An important element in the decision of each government to authorize continued collaboration was the conviction on the part of each that in this way their obligations under the Charter of the United Nations for the maintenance of international peace and security could be fulfilled more effectively. Both Governments believe that this decision is a contribution to the stability of the world and to the establishment through the United Nations of an effective system of world wide security. With this in mind, each Government has sent a copy of this statement to the Secretary-General of the United Nations for circulation to all its members.

In August 1940, when the creation of the Board was jointly announced by the late President Roosevelt and Prime Minister King, it was stated that the Board "shall commence immediate studies relating to sea, land and air problems, including personnel and material. It will consider in the broad sense the defense of the north half of the Western Hemisphere".² In discharging this continuing responsibility the Board's work led to the building up of a pattern of close defense cooperation. The principles announced today are in continuance of this cooperation. It has been the task of the governments to assure that the close security relationship between Canada and the United States in North America will in no way impair but on the contrary will strengthen the cooperation of each country within the broader framework of the United Nations.³

² For text of this statement of August 18, 1940, and related documentation concerning the establishment of the Permanent Joint Board on Defense, see *Foreign Relations*, 1940, vol. III, pp. 144-145.

³ For related information, see Stanley W. Dziuban, *Military Relations between the United States and Canada 1939-1945*, in the official Army history *United States Army in World War II: Special Studies* (Washington, Government Printing Office, 1959), pp. 334-339.

842.20 Defense/2-1447

The Canadian Minister in the United States (Stone) to the Chief of the Division of British Commonwealth Affairs (Hickerson)

WASHINGTON, February 14, 1947.

MY DEAR MR. HICKERSON: With reference to the public statement on joint defence which was released on February 12th by the United States and Canadian Governments,¹ I have been instructed by my government

¹ *Supra*.

to write to you in the matter of Principle No. 4 therein, which includes the following sentence:

"Reciprocally each country will continue to provide, with a minimum of formality, for the transit through its territory and its territorial waters of military aircraft and public vessels of the other country."

In the view of the Canadian Government, this Principle in no way infringes on the complete jurisdiction which each country maintains over its territorial and boundary waters. The Canadian Government would be glad to learn whether the United States Government agrees with this interpretation.²

Yours sincerely,

THOMAS A. STONE

² Hickerson replied, in a letter to Stone dated February 19, that the United States Government was in accord with the Canadian Government's interpretation of principle No. 4 of the February 12 statement (842.20 Defense/2-1447).

842.20 Defense/2-1747

*The Canadian Minister in the United States (Stone) to the Deputy Director of the Office of European Affairs (Hickerson)*¹

TOP SECRET

WASHINGTON, February 17, 1947.

MY DEAR MR. HICKERSON: As you know, the matter of standardization of military equipment as between the United Kingdom, the United States and Canada has been a cause of some concern because of the unauthorized reports and stories which have appeared in the press in recent months. Statements on this subject have had to be made by your Under-Secretary of State as well as in the United Kingdom House of Commons.

Except for the short paragraph included in our joint release² the other day, no specific statement on standardization has been made in Canada. The matter has, however, been considered by the Cabinet Defence Committee and in case it should prove necessary or advisable for the Canadian authorities to make some statement on the subject, a draft has been prepared which is, as you will see, in very general terms only. It is not intended that this draft would be used unless, as is not unlikely, the Government is questioned closely on the subject during discussions of defence questions in the House of Commons. It was thought wise, however, to have an agreed statement ready, and the Cabinet Defence Committee wished to have the text communicated to

¹ A marginal notation on this document indicates that copies of this letter and its enclosure were forwarded for comment on February 19 to General Lincoln (presumably Brigadier General George A. Lincoln, General Staff, War Department) and to Vice Admiral Forrest P. Sherman, Deputy Chief of Naval Operations.

² Department of State press release, February 12, p. 104.

the United States and United Kingdom authorities in advance. I am, therefore, instructed to pass on to you the enclosed text³ and to let the authorities in Ottawa know as soon as possible whether you have any observations to offer.

Yours sincerely,

THOMAS A. STONE

³ Not printed. For revised draft, altered after Hickerson transmitted to Stone the first comment from the War and Navy Departments, see *infra*.

842.20 Defense/4-1447

*Draft Statement on Standardization of Military Equipment Between the Armed Forces of the United Kingdom, United States and Canada*¹

TOP SECRET

[undated].

(For use only if it is found necessary to make a statement on this subject)

There have been many references in the Press to standardization of arms and equipment between the Armed Forces of the United Kingdom, Canada and the United States. It seems desirable to state the position of Canada in this matter.

The Canadian Armed Services have always been, and still are, organized and equipped along generally similar lines to the forces of the United Kingdom and other Commonwealth countries. During World War II they used equipment of United Kingdom, Canadian and United States origin.

Canadian industry produced a wide variety of military equipment, using both United Kingdom and United States designs, modified in some cases to suit Canadian production methods. Such articles were not used solely by Canadian Forces but formed a part of the common pool for distribution in accordance with operational requirements. This is shown by the fact that of all Canadian production, seventy per cent was made available by Canada for use by other allied forces. On the other hand, Canadian Forces used almost no equipment peculiar to themselves and much of the equipment was of other than Canadian manufacture.

This reciprocal exchange of weapons between the allies inevitably resulted in some standardization of equipment; aided in marked degree the efficient prosecution of the war, and resulted in substantial economies. In these circumstances it is natural that there should now be informal exchanges of views on the continuation and extension of these wartime practices.

¹ Transmitted to Hickerson by Stone in his letter dated April 14, not printed; point of origin is unspecified. Copies of this draft were transmitted by Hickerson on April 15 to Major General Lauris Norstad, Director, Plans and Operations Division, War Department, and to Admiral Sherman (842.20 Defense/4-1447).

It will be appreciated that manufacturing standards and processes differ as between the United Kingdom and the United States. Canadian industry is patterned generally along United States lines, yet a considerable part of Canadian equipment was of original British design. It therefore follows that the problem of equipping Canadian Forces, should the need arise, would be greatly simplified if, in fact, common standards were in use in the United Kingdom and the United States.

A typical example of the problem is the present variation in screw thread designs. The National Physical Laboratory of the United Kingdom, the American Bureau of Standards and the National Research Council of Canada have collaborated for several years in an effort to set suitable common standards for screw threads and have reached the stage where agreed designs are now being tested by the three countries. It is hoped that this will lead to the adoption of uniform designs in due course.

If collaboration in design is extended to include military equipment, production will be simplified and Canada will benefit accordingly. We welcome such collaboration and are prepared to support measures designed to achieve a greater degree of standardization with the United Kingdom and the United States.²

² General Norstad commented in a letter to Hickerson dated April 18 that he could discover nothing objectionable in this proposed statement and that he concurred with its use, if necessary, by the Canadian government (842.20 Defense/4-1847). Admiral Sherman, in a letter to Hickerson dated April 23, suggested substitution in paragraph 5 of the words "could be adopted" for the phrase "were in use in the United Kingdom and the United States". He further suggested deletion in paragraph 7 of the words "with the United Kingdom and the United States", and commented that the statement appeared quite innocuous and therefore unobjectionable for use if necessary by the Canadian authorities. (842.20 Defense/4-2347) There is no indication that this statement was ever issued.

842.00/4-2347

Memorandum of Conversation, by the Chief of Protocol (Woodward)

CONFIDENTIAL

[WASHINGTON,] April 23, 1947.

Participants: Mr. President
The Prime Minister of Canada
The Chief of Protocol

The Prime Minister of Canada, Mr. Mackenzie King, called on the President today at 12:00 Noon.

After an exchange of courtesies, the Prime Minister said that he looked forward with great pleasure to the President's visit to Canada in June, and that he was especially happy June 10th was to be the date of the President's arrival in Ottawa as that was his own twentieth anniversary as Prime Minister. The President said that he would make

every effort to be there on schedule, and that only the Congress could interfere with his plans. Against this eventuality he preferred to make no announcement concerning the date of his Canadian visit for another week or two.

The Prime Minister then congratulated the President on the result of the Greek-Turkish aid vote in the Senate and said that in stating his approval he expressed the sentiment of all Canadians. The President thanked the Prime Minister for his endorsement of the American position.¹

The Prime Minister then referred to the International Trade Conference now meeting at Geneva ² and said that he hoped for important results. The President agreed and said that we had a strong and well qualified delegation at Geneva and that he too hoped for the best. Mr. King said that Canada was very much interested in its trade relations with the world in general and with the United States in particular, and that there was a growing shortage of American dollars in Canada, which he hoped might be corrected. What he feared was restrictive action on the part of Canada with respect to imports from the United States.³ A subject not immediately urgent but one which was beginning to give him concern. He thought that the United States might like to increase its reserve supply of aluminum for example. The President said he knew we needed lead, zinc and copper and that he was sure the "financiers" of our two countries could sit down and work out a solution to this problem. The President added that we had in this country quite a stock of aluminum producing plants which had been greatly expanded during the war.

The Prime Minister then referred to Senator Vandenberg's recent speech advocating that Canada join the Pan American Union. Mr. King declared this to be a fine gesture on the part of the Senator but hoped that the subject would not be pressed at this time. He said that to do so would certainly give rise to misunderstanding in the rest of the British Commonwealth if nowhere else, and that the inference would be drawn that Canada was giving up its ties with the Commonwealth for the sake of its neighbors in the Western Hemisphere. The President agreed that Canada had an important role to play in both the British Commonwealth and the Americas and said that he understood the Prime Minister's position.

Before leaving the Prime Minister referred to the position taken by the United States with respect to the peace treaties and thanked the President for our insistence upon the participation of all cobelligerents in drafting the terms of the peace. He admired General Mar-

¹ For documentation on United States Economic and Military Aid to Greece and Turkey, see vol. v, pp. 1 ff.

² For documentation on this subject, see volume i.

³ See pp. 116 ff.

shall's firm stand at Moscow which he declared to be splendid.⁴ To this President Truman responded that we had tried everything else with the Russians and that we were left no choice but to be firm.

⁴ For documentation on the meeting of the Council of Foreign Ministers at Moscow, see vol. II, pp. 139 ff.

842.00/6-547

Memorandum by the Secretary of State to President Truman

[Extract]

SECRET

[WASHINGTON,] June 5, 1947.

The following background information concerning problems and personalities may be of possible usefulness during your visit to Ottawa on June 10-12: ¹

UNITED STATES-CANADIAN RELATIONS

United States-Canadian relations continue to be excellent. Economically, Canada is our best customer and our foremost supplier.

Joint military cooperation is proceeding very satisfactorily. In accordance with the recommendations of the Permanent Joint Board on Defense, United States-Canada, the two Governments are exchanging information, interchanging personnel, cooperating in the establishment of weather and Loran stations in the Far North, conducting joint experiments under Arctic conditions at Fort Churchill, and developing plans for the defense of the continent. United States troops are stationed at present at Fort Churchill (about 130), at the Army Airfield at Edmonton, and in comparatively small numbers at the weather and Loran stations. While joint military cooperation has the strong support of a majority of Canadians, there is an element in the country which declares that the arrangements threaten a violation of Canadian sovereignty and prejudice the chance of Canada maintaining peaceful relations with the Soviet Union.

The Hyde Park Agreement concluded by President Roosevelt and Prime Minister King in 1941 to mobilize the economic resources of the continent for defense and extended in May 1945 during the period of reconversion, continues in force although its effectiveness necessarily declines with the relaxation or abandonment of economic controls on both sides of the border.

The St. Lawrence Seaway project is the subject of special interest in Canada at the moment because of the hearings now being held by Senator Wiley's Sub-Committee of the Senate Foreign Relations

¹ No records of the President's discussions with Prime Minister Mackenzie King in Ottawa have been found in Department of State files.

Committee. The two aspects of the enterprise under particular consideration at present are the new principle of self-liquidation through tolls on shipping, championed by Senator Vandenberg, and the importance of the project to the defense of the continent. In response to our request in March 1947 the Canadian Government informed us that it "is prepared to agree to the principle of making the St. Lawrence Seaway self-liquidating by means of toll charges subject however to the conclusion of arrangements satisfactory to both governments for the implementation of this principle". In the event you may be interested in details concerning the tolls and national defense aspects of the project, I attach a copy of my statement before the Sub-Committee on May 28.² There are the same kinds of support for, and of opposition against, the project in Canada as in the United States. Generally speaking the Canadian railroads, power interests, and eastern seaports are opposed.

[Here follows information on Canada's government, politics and internal problems.]

² See Department of State Press Release No. 437, May 28, 1947. Documentation on the Seaway Project may be found in Department of State file 711.42157 SA 29. See also Canadian Department of External Affairs, *External Affairs*, vol. 1, No. 2 (February 1949), pp. 3-11, and *St. Lawrence Seaway Manual: A Compilation of Documents on the Great Lakes Seaway Project and Correlated Power Development*, Senate Document No. 165, 83d Cong., 2d sess.

811.203/6-747 : Airgram

The Ambassador in Canada (Atherton) to the Secretary of State

RESTRICTED

OTTAWA, June 7, 1947.

A-124. Reference Embassy's despatch 5271, May 23¹ and previous. House of Commons last night defeated by 104 votes to 26 CCF amendment to government bill providing for jurisdiction of US service courts over members of US armed forces in Canada. Amendment would have effectively killed measure by referring it to committee for "study".

Vote climaxed three days of unexpectedly sharp debate during which many CCF members objected to presence of any US armed forces in Canada and Progressive-Conservative members voiced miscellaneous objections to bill. Progressive-Conservatives however joined with Government in defeating CCF motion. Embassy now regards passage as certain.

In course of debate External Affairs Secretary St. Laurent stated that any American troops who operate in Canada do so under Canadian

¹ Not printed.

command and that there was no intention of establishing American bases on Canadian soil but that "no man can undertake to say that there may not unfortunately be some time when all Canadians will be glad to see posts established here".

Despite favorable outcome of vote, protracted debate on this bill has been unfortunate in that it may tend to create less favorable atmosphere for consideration of future joint defense requests and has supplied Canadian Government with excuse for cautious handling of such requests.

ATHERTON

842.20 Defense/6-947

Memorandum by the Secretary of State to President Truman

SECRET

[WASHINGTON,] June 9, 1947.

You may wish to consider mentioning to Prime Minister King at some time during your visit to Ottawa on June 10-12 your interest in the proposed "Inter-American Military Cooperation Act".¹ I attach a copy of House Document No. 271 containing your message of May 23, 1947, and the draft of the proposed Act.²

The proposed Act would considerably strengthen the basis of our joint defense arrangements with Canada. It is true that we are already interchanging personnel between the armed forces of each country and that we have already made transfers of arms, ammunition and implements of war to Canada by sale through the Foreign Liquidation Commissioner. The new Act would, however, facilitate the interchange of personnel and would make it possible to transfer arms and matériel directly and affirmatively rather than through the surplus property procedure. The provisions for the transfer of services and technical information would also be helpful.

If you decide to discuss the matter with the Prime Minister, it is my thought that you would wish to do so informally and privately. I have in mind that, as we mentioned in the general memorandum submitted to you on June 5, joint military cooperation has the strong support of a majority of Canadians but there is an element in the country which declares that the arrangements constitute a violation of Canadian sovereignty and prejudice the chance of Canada maintaining peaceful relations with the Soviet Union. As of possible interest I attach clippings from the *New York Times* of June 6 and 8 relating to the debate which took place late last week in the House of Commons on the subject of our joint military cooperation. These two articles are symptomatic

¹ For documentation concerning this proposed act, which failed to pass Congress in 1947, see vol. VIII, pp. 101 ff.

² Draft not found in Department of State files.

of the situation and constitute further evidence, if any were needed, that our joint defense relationship requires careful and tactful handling on both sides.

With further reference to my thought that the matter should be mentioned only informally and privately to the Prime Minister, I also have in mind the fact that the proposed bill has not yet been reported out of Committee in either the House or the Senate and we cannot be sure what its fate will be. In other words, it would be a mistake to leave with the Prime Minister an impression that we expected to be able to take action under the bill in the immediate future.

Finally, I suggest that if you do discuss the matter with the Prime Minister³ you might want to tell him that you would ask Ambassador Atherton to talk with him later in detail about the bill and our plans to implement it.

G. C. MARSHALL

³ No record has been found of such discussion in Ottawa between the President and Prime Minister Mackenzie King.

Editorial Note

For texts of an address by President Truman before the Canadian Parliament in Ottawa, June 11, and of a special news conference with Prime Minister Mackenzie King near Ottawa, June 12, see *Public Papers of the Presidents of the United States: Harry S. Truman, 1947* (Washington, Government Printing Office, 1963), pages 272-277.

842.20 Defense/11-1247

*Memorandum by the Chairman of the United States Section of the Permanent Joint Board on Defense, United States-Canada (Acheson) to President Truman*¹

SECRET

WASHINGTON, November 12, 1947.

At its meeting at New York on September 11-12, 1947, the Permanent Joint Board on Defense, U.S.-Canada, adopted the following Recommendation:

"Recommendation of September 11, 1947"

"That as a measure contributing directly to the efficiency of joint United States-Canadian defense arrangements, the service personnel (civil and military) of each country should be carried reciprocally in the military airplanes of the other country without charge for reimbursement."

¹ Marginal notation dated November 14: "Approved, Harry S. Truman."

The Departments of State, the Army, the Navy, and the Air Force have signified their agreement with the Board's Recommendation.

I recommend that you approve the Board's Recommendation of September 11, 1947.

DEAN ACHESON

Department of State Departmental Announcement No. 920

RESTRICTED

[WASHINGTON,] December 29, 1947.

DIRECTIVE CONCERNING PUBLICITY RELATING TO JOINT CANADIAN-UNITED STATES DEFENSE PLANS AND OPERATIONS

In order to inform personnel of the Department regarding the policy and procedure governing publicity relating to joint Canadian-United States defense plans and operations, and to provide the information necessary to insure conformity thereto, the covering directive is quoted herein.

The Secretaries of State and Defense have agreed that a uniform and clearly defined policy and procedure shall apply in connection with publicity relating to plans and operations jointly conducted by Canada and the United States or conducted by either country in the territory of the other. This directive will be followed by all personnel of the Department of State.

1. It is considered a fundamental principle that Canadian-United States defense arrangements should, within the limitations necessarily imposed by the requirements of military security and in the light of the international situation, be made known to the peoples of the two countries. Apart from the fact that secrecy is counter to the traditions of the United States and of Canada, the strength of the defense arrangements depends in the last analysis upon their general acceptance and support by the two peoples. Again undue secrecy has led occasionally to sensational stories in the press—stories embarrassing to the two Governments and harmful to the joint defense program.

2. It is therefore the policy of the United States and Canadian Governments that simple factual announcements should be issued at an early stage in the case of those projects which can be classified as "Unrestricted" from the point of view of military security and of the international political situation.

3. Such public announcements must always have the approval of both the United States and Canadian Governments.

4. The primary responsibility for such public announcements rests with the country whose territory is utilized in connection with the project in question.

5. Each project must be examined on its own merits in so far as possible publicity is concerned and must be reviewed in terms of military

security (which is for determination by the United States National Military Establishment and the Canadian Department of National Defense) and of the prevailing international political situation (which is the province of the Canadian Department of External Affairs and the United States Department of State).

6. To implement the foregoing policy and procedure the State Department and Military Service members of the U.S. section of the Permanent Joint Board on Defense, U.S.-Canada, are designated to consider each case that may arise concerning possible publicity relating to U.S.-Canadian plans and operations. The members will:

(a) review, along the lines indicated in paragraph No. 5 above, each U.S.-Canadian defense project;

(b) ascertain the views of the Canadian Government concerning possible publicity relating to the project;

(c) decide, in so far as the United States is concerned, whether such publicity would be in accord with the policy described in paragraphs Nos. 1 and 2 above; and

(d) if so, determine (in cooperation with the appropriate Canadian authorities) to what extent, at what time, and by whom the publicity should be issued.

7. The members of the U.S. section of the Board will normally deal with the representatives of the press through their respective public relations officers.

8. Officers of the several departments, including those in the press or public relations units, will submit to the senior Board member of their Department (the Canadian desk officer in BC is the State Department member of the Board) for review, as specified in paragraph No. 6 above, any draft publicity releases or announcements which it is desired to issue and any other matters relating to publicity on U.S.-Canadian defense arrangements (e.g. visits of newspapermen to the far north, furnishing of "background" information to the press, et cetera).

9. Officers of the several departments, including those in the press or public relations units, will not communicate with the Canadian Embassy at Washington or with officials of the Canadian Government at Ottawa concerning publicity matters but will address themselves only to the senior Board member of their Department.

10. It is the purpose of this directive to further the national security in general and to coordinate the joint responsibilities of the National Military Establishment, the Department of State, and the Canadian Government. Officers are therefore particularly cautioned against giving the press the impression that they would be willing to release information about a given project but that another Department or the Canadian Government has refused to agree.

11. This directive is effective immediately.

EFFORTS BY THE UNITED STATES TO RELIEVE THE CANADIAN SHORTAGE OF DOLLARS; COOPERATIVE STUDY OF CLOSER ECONOMIC TIES

842.5151/8-2247 : Airgram

The Ambassador in Canada (Atherton) to the Secretary of State

CONFIDENTIAL

OTTAWA, August 22, 1947.

A-189. The Embassy has learned from a responsible source that as one measure to prevent further deterioration of her United States dollars position Canada is considering the imposition of restrictions on imports from the United States and that studies of various commodities likely to be affected are now being made. Specifically suggested as likely items for restriction are fresh and canned fruits, fruit juices, and automobiles, as well as such key imports as steel, gasoline and other fuels. There will probably be many others.

Rather than restrict imports it is probable that Canada would prefer to receive a dollar loan as the lesser of the two evils. The Embassy understands, however, that feelers put out recently in Washington by Mr. Graham Towers, Governor of the Bank of Canada, did not give rise to much optimism for a loan of the size needed by Canada to tide her over the next six or eight months. Mr. Towers reportedly was talking in terms of a loan of \$750,000,000 but received encouragement only to the extent of \$250,000,000. The Canadians apparently regard \$500,000,000 as their minimum needs in the form of a United States Government loan, and this amount they would probably attempt to supplement by means of private loans in New York. It is more than likely that the initial list of imports proposed for restriction would be impressive in the hope that Washington would view a loan application in a more favorable light. Even if Canada should be successful in obtaining a loan this step would undoubtedly be coupled with a number of domestic "austerity" measures.

There seems to be little doubt that the Canadian dollar position vis-à-vis the United States is rapidly approaching a critical point, and evidence of this situation is the fact that high Canadian officials are considering the restriction of American imports and/or seeking an American loan, or loans, both of which steps are considered drastic. The present record high level of Canadian production and income is, of course, due in a large measure to exceptionally heavy imports from the United States, and the restriction of American imports, doubtless involving decreased Canadian production and lower incomes, as well as the virtual certainty of rationing many commodities, would be extremely unpopular. A loan is equally unpalatable in view of the excellent financial condition in which Canada emerged from the war and the creditor position which she has assumed with many

countries. Nevertheless, the Embassy believes that the Canadian Government will take some affirmative action in the near future to protect its dollar exchange position. Devaluation of the Canadian dollar is unlikely unless the United Kingdom should devalue the pound.

The press in recent weeks has given unusual prominence to the growing American dollar shortage. Official figures just released disclose an adverse balance of \$488,000,000 for the first six months of 1947, and since July 1 the rate of deficit has been reportedly higher. Although the Minister of Finance¹ announced yesterday that no change has yet been made in the United Kingdom-Canada Agreement under which the British since early this year have been paying half the purchase price of Canadian goods with United States dollars, giving the Dominion in the first six months of this year U.S. \$220,000,000, Canadian officials apparently feel that some modification will now have to be made in this agreement thus drying up an important source of American dollars.

Such measures as restrictions on imports and loans are temporary expedients at best. Canada's real hope is to increase her exports to the United States and thus offset her large volume of exports on credit to the United Kingdom and other areas. Food shipments which could be integrated in our relief problem [*program?*] might be one solution. There may be other commodities that present similar opportunities. In any event it seems to us that the broad considerations affecting our relations with Canada justify the most energetic efforts to assist her constructively at this time.

ATHERTON

¹ Douglas Abbott.

842.5151/9-847

*The Assistant Chief of the Division of British Commonwealth Affairs
(Foster) to the Ambassador in Canada (Atherton)*

SECRET

[WASHINGTON,] September 8, 1947.

DEAR MR. AMBASSADOR: This is an effort to give you the story of what has happened at this end concerning the Canadian dollar problem and of what the feeling is here about the future. I must remind you that I am not an economist, nor have I been present at all the meetings relating to the problem. I would like to recall, also, that I am writing about matters which it has been impossible to talk about on the telephone—in which connection you will have in hand by now my recent letter concerning the tip we had that the line may be tapped.

As you know, the discussions began in June when Graham Towers came to Washington and talked one evening with Messrs. Acheson,

Clayton, and Hickerson.¹ Mr. Wrong and Mr. Rasminsky² were also present. It was evidently the purpose at this first meeting to warn our people of the increasing gravity of the situation, which of course centered in the fact that the Canadians were selling on credit to "soft" currency countries and buying refrigerators, automobiles, et cetera, for dollars in the United States at a rate which was depleting their dollar balance by nearly \$100,000,000 per month.

There followed a meeting at the Department in late June between Mr. R. B. Bryce, Director of the Economic Division, Department of Finance; Mr. V. W. Scully, Deputy Minister of Reconstruction and Supply; Mr. J. R. Beatie, Chief of the Research Department of the Bank of Canada; and Mr. J. R. Murray of the Canadian Embassy; and Mr. Wayne Jackson of EUR; Mr. Harold Spiegel of FN; Mr. Morse of the Federal Reserve Board; myself and other officers of the Economic Offices and Divisions. I enclose a memorandum³ concerning this meeting from which you will see that it was devoted entirely to the question whether it would be possible for the U.S. to assist Canada by throwing some government procurement her way. We had in mind procurement for the relief programs in Europe and the Near East and also possibly procurement for the needs of the U.S. armed forces. It was generally agreed that the most we could possibly hope to provide for Canada by these means would be somewhere between \$25,000,000 and \$50,000,000. The Canadians were talking about \$500,000,000 or \$700,000,000. The meeting was adjourned on the understanding that the Canadians would explore further in Ottawa concerning items that might be offered under the relief and armed services procurement programs, while the Americans would explore in Washington concerning the requirements of the programs.

Early in July Mr. Bryce returned to Washington and we had the second meeting. I enclose a copy of a secret memorandum dated July 8³ concerning this meeting, which you will see was devoted to the same general subject, namely assistance through procurement for the relief programs and the needs of the armed forces.

Throughout these meetings in June and July the Canadians were emphatic in declaring that they would not under any circumstances devalue their dollar or impose import restrictions. They also said that they did not want to try to solve the problem by borrowing money. They felt that any of these three alternatives would be merely a stop-gap palliative and not a fundamental cure.

¹ Dean Acheson, then Under Secretary of State; William L. Clayton, Under Secretary of State for Economic Affairs; and John D. Hickerson, then Deputy Director of the Office of European Affairs.

² Hume Wrong, Canadian Ambassador in Washington, and Louis Rasminsky, Canadian representative on the International Monetary Fund.

³ Not printed.

There have been no further talks along the lines of procurement and evidently the Canadians have dropped this possible solution as inadequate.

The next chapter consists in a call made on August 13 by Graham Towers on the Acting Secretary, Mr. Lovett. Mr. Towers was accompanied by the Canadian Chargé, Tommy Stone. I enclose a copy of Mr. Lovett's own memorandum of conversation,⁴ which related to both the Canadian dollar problem and freight car embargo.

It now looks here, as it seems to look to you at Ottawa, as if the Canadians were now more intent upon getting a loan than upon seeking any other solution of their problem. Within the past several days I have begun to hear talk for the first time about the possibility of the Canadians imposing import restrictions—a possibility which they had previously denied. As far as I can gather at this end they are still as firm as ever against a devaluation of their dollar.

I have been unable to ascertain whether further visits from Graham Towers are expected in the near future. In fact, I can't seem to find out what the next move by the Canadians is likely to be. You are probably far better informed on this angle than I am. In fact, you mentioned on the phone today that Mr. Clifford Clark⁵ might come to town a week hence.

The Canadians themselves have of course repeatedly told us, and they have said the same thing publicly, that the permanent solution of their problem lies in the reconstruction of Western Europe. That brings me to the very important point that top side in Washington is so preoccupied with the crisis in the U.K. and Western Europe that I fear it is going to be difficult to get much of a hearing for Canada's problem at present. I have an impression that there is an increasing feeling in Washington that the capacity of the United States to assist the world is limited and that our resources ought to go first for the salvation of the U.K. and Western Europe. It is all very well to say that the United States cannot let Canada suffer an economic crisis. There is nobody in Washington who would disagree with that. The point is that most people in Washington will find it difficult to believe that Canada really is facing something grave. In every respect except the miserable problem of the dollar balance the Canadians seem to be just fine and dandy. The dollar problem seems to arise largely because of the spree of buying U.S. refrigerators, automobiles, et cetera. There seems on the surface to be nothing in the Canadian scene comparable to the truly desperate conditions of the U.K., France, and the rest.

If the Canadians are going to stake the solution on a loan or perhaps on a loan plus import restrictions, they will be up against the

⁴ Memorandum by Robert A. Lovett, Under Secretary of State, not printed.

⁵ William Clifford Clark, Canadian Deputy Minister of Finance.

difficulty that \$750,000,000 is not to be had for the asking in Washington these days. The loan would have to be authorized by Congress, and you know the job of persuasion which lay behind a loan to the U.K.* The worst of it is the Congress is probably going to be very skeptical about a big loan for Canada. I don't say this difficulty can't be got over but I do say that it must be faced as a very great difficulty.

Under these circumstances I feel sure you will agree that you and I and the others concerned will have to be careful not to do anything that might arouse false or premature hopes among the Canadians. It is going to be difficult, though it should not be impossible, to follow the problem closely and to present a sympathetic attitude toward the Canadians while at the same time avoiding any action that might cause them to think that we were able and willing to make them a large loan without more ado.

September 9.

I had my talk last night with Jack Hickerson. I told him that you and I were deeply concerned by the increasingly grave situation and that we both wondered whether we shouldn't be taking some sort of affirmative action rather than merely waiting about for Canadian proposals or requests. Jack said he fully appreciated that the Canadian situation is serious. He referred to the point which I made earlier in this letter: namely, that the situation in the U.K. and Western Europe is so much more serious that we have to put first things first. He added that of course we would never let Canada go down the drain. He felt, however, that for the present you and I should wait for approaches from the Canadians. "Under present circumstances", he said, "I don't see how you can do anything else". He said he was not aware of any approach from this end more recent than Mr. Towers' call on Mr. Lovett on August 13.

I shall of course be very much interested to read the despatch which you told me you were sending in towards the end of this week. I have no doubt it will throw a lot of light on the situation, particularly from the point of view of the present thinking and intentions of the Canadians.

I apologize for the hodgepodge nature of this letter, the dictation of which was interrupted at least thirty times between the beginning and the end. I shall not fail to let you know of any significant developments at this end.

With all best wishes,

Ever sincerely,

ANDREW B. FOSTER

* For documentation on the negotiation of this loan, see *Foreign Relations*, 1945, vol. vi, pp. 1 ff.

842.5151/9-1147

The Ambassador in Canada (Atherton) to the Secretary of State

RESTRICTED

OTTAWA, September 11, 1947.

No. 5487

SIR: Contributing further to the Embassy's previous reports on the Canadian financial and economic situation, I have the honor to emphasize the seriousness of the rapidly developing United States dollar crisis.

Although Canada currently enjoys a slightly favorable balance on her global trade—at the end of the first six months of 1947 \$88,500,000—she had an adverse balance with the United States of \$488,000,000 at the end of the same period. At the end of the calendar year Canada's adverse trade balance with the United States will exceed \$1,000,000,000 U.S.

Canada entered the present year with gold and United States dollar reserves of \$1,244,900,000. It is known that these reserves have been very heavily depleted. Making allowances for United States dollar funds which Canada may obtain from the United Kingdom and other sources, it is increasingly evident that when the balance is struck at the end of the present calendar year Canada's gold and United States dollar reserves will be approaching the vanishing point.

Canada does not have sufficient United States dollars to finance purchases from the United States at their present volume. There is no single avenue at present open through which she can obtain these dollars. Relief, which must come unless a major crisis is to be suffered, may well be furnished in part from various sources which in the aggregate may be sufficient to ease the burden. Canada can restrict purchases from the United States and buy more from sterling areas. This she can do, however, only to a limited extent without causing harm to the domestic economy and forcing a lower standard of living. Canada can increase her exports to the United States, although she cannot go too far in this direction over and above her present volume at a time when she is enjoying the peak of industrial and agricultural production. The main immediate hope lies in diverting to the United States and dollar areas agricultural, mineral and manufactured products which in the past and even now are going to sterling areas.

Although the average Canadian official and man on the street is critical of alleged high United States tariffs, it is only too evident that the United States tariff wall is not responsible for the failure of Canada to export even vaster quantities of materials to the United States. Since the war United States tariffs have remained constant, whereas commodity prices have soared. The element of duty in an imported product is consequently less than formerly. It is not unlikely

that in relation to price, United States tariffs have actually decreased by at least 50 percent. As a matter of fact, approximately 75 percent of all Canadian exports to the United States enter free of duty. The average rate, figured on an *ad valorem* basis, on those dutiable, taking into account present expanded prices, runs substantially less than 25 percent. Certainly on most agricultural products the disparity in price between Canada and the United States is such that they would find ready acceptance in the United States and other dollar areas were it not for the fact that exports have been subject to special restrictive license in order that Canada might be able to fulfill her commitments to the United Kingdom. It is not a valid argument that a further reduction of United States tariffs would be of material benefit to Canada or, conversely, that present tariffs are a serious detriment to her export position *vis-à-vis* the United States. The Embassy is completing a despatch going into detail on the subject of tariffs which will be forwarded within the next few days.¹ Although Canada cannot be regarded normally as a supplier of wheat to the United States, she could dispose of wheat in other areas in exchange for United States dollars if it were not for United Kingdom commitments. With the removal of export restrictions against poultry, large volumes are now moving into the United States in exchange for United States dollars. Canada's foreign fiscal policies rather than United States tariffs must bear the responsibility for the deepening dollar crisis.

As of the end of the fiscal year 1946-1947 (ended March 31, 1947) Canada had loan commitments to the United Kingdom of \$1,250,000,000 and to other countries, including Belgium, China, Czechoslovakia, France, the Netherlands and the U.S.S.R. of \$594,500,000, a total of \$1,844,500,000. Appreciation of the significance of these credits may be had by comparing the volume with Canada's total national income, which for 1946 was \$9,212,000,000. The simple fact is that Canada, through external credits, has diverted to debtor countries a large volume of available exports for which she will presumably one day be repaid but from which she is presently failing to receive the United States dollars of which she is in such dire need. The countries to whom Canada has extended this credit, prior to the war supplied her with sufficient dollars to balance her United States account. These areas are themselves today critically short of dollars and their ability to have supplied any substantial number of dollars over the past two years is open to question.

A United States dollar loan, if available, would protect the Canadian gold and dollar reserves by exactly that amount. It would

¹ Despatch No. 5490, September 12, 1947, not printed.

not go to the root of the question. At this point it is difficult to see how a loan could be extended to Canada at a time when it has been made clear to Latin American neighbors that they cannot expect help until the European situation is better.

Although the Embassy is fully conversant with the Department's desire to encourage multilateral trade as well as to discourage government-to-government trading, it is submitting to the Department under cover of a separate despatch² a list of agricultural, industrial and military items which can be had through the Canadian Government's Canadian Commercial Corporation, the purchase of which might be consummated under the Marshall Plan with resultant immediate benefit to the Canadian Government.

The Embassy wishes to point out that in the situation shaping up here there are elements of discord which might not only impair Canadian-American relations at a time when solidarity is essential but which might conceivably present us with an unpleasant economic situation immediately across the border rather than on the other side of the Atlantic. Unfortunately government circles appear unable or unwilling to face the situation and evolve some plan of action to correct it before it is out of control. The Honorable John Bracken, Leader of the Government's Opposition, referred in a radio address last night to this attitude of the Government as a "Micawber attitude" hoping that something would turn up.

The radio address of Mr. Bracken last evening is the first serious public examination into the mounting dollar crisis which has been made by any of the Canadian leaders. He attributes much of it to inept fiscal policy. Unfortunately he suggested no remedy other than the unpalatable one of a customs union with the United Kingdom, as suggested by Foreign Secretary Bevin, or the devaluation of the Canadian dollar.

It is the Embassy's earnest desire that on our part consideration be given the dollar situation on a high level in order that we may move promptly and effectively when called upon. It is most probable that Canada herself will take no action until the termination of present economic discussions³ at London and the results of the Geneva talks,⁴ both as to tariffs and the ITO charter, are made public.

Respectfully yours,

RAY ATHERTON

² Despatch No. 5498, September 18, 1947, not printed.

³ Reference here is to British-Canadian discussions attended by Canada's Minister of Finance, Douglas Abbott.

⁴ For documentation on the Geneva talks, see volume I.

842.5151/9-2747

Memorandum by the Assistant Chief of the Division of British Commonwealth Affairs (Foster) to the Director of the Office of European Affairs (Hickerson)

SECRET

[WASHINGTON,] September 27, 1947.

CANADIAN DOLLAR PROBLEM

The following is a summary of the developments of the past two weeks:

On September 18 Mr. Clifford Clark (Acting Minister of Finance in the absence of Abbott, who is still in London) visited Washington with the intention of talking with you, Thorp, and Southard of the Treasury.¹ He spent an hour or so with Southard in the morning, and in the afternoon he met with Messrs. Ty Wood, Nitze, Jackson, Rosenson,² and myself. We compared notes afterwards and found that the talks in State and Treasury were very similar.

I attach a copy of the memo relating to the State meeting,³ which you may wish to read. In brief, Clark (who was accompanied by Hume Wrong) emphasized the gravity of the Canadian problem and said that his Government was going to be compelled in the near future to apply import restrictions against the radios, refrigerators, etc., from the U. S. He scarcely mentioned the loan angle. He wanted to know whether we could give him any indication whether Canada was being included in our framing of the Marshall plan (not in terms of direct aid but as a partner in the reconstruction of the U. K. and western Europe). If Canada was included in our thinking, and he appreciated that we couldn't say what Congress may do, his Government would apply the least drastic remedies to the present emergency and would declare them to be temporary. But if Canada was not included and if we felt that a "multilateral" trading world of comparative free trade and comparatively interchangeable currencies was a thing of the past, Canada would be obliged to apply very drastic and long-term remedies.

¹ Willard L. Thorp, Assistant Secretary of State for Economic Affairs, and Frank A. Southard, Director of the Office of International Finance, Treasury Department.

² C. Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs; Paul H. Nitze, Deputy Director of the Office of International Trade Policy; Wayne G. Jackson, Special Assistant to the Director of the Office of European Affairs; and Alexander M. Rosenson, Assistant Chief of the Division of Financial Affairs.

³ Memorandum dated September 18, 1947, not printed.

Mr. Ty Wood underlined to Mr. Clark and Ambassador Wrong that we were deeply concerned by the Canadian problem and anxious to do what we could to assist; he added, however, that there was no magic cure available to us in Washington. He said that the ITO and the Marshall plan would simply have to be made to succeed but he said he thought it would be a mistake for Canada to rely on either for any immediate solution of her problem. Even under optimum conditions the effect of the ITO and the Marshall plan might not be felt for a long time, perhaps years.

We feel that the meeting served two useful purposes. It brought us up to date on details concerning the problem and Canadian thinking about its solution. Secondly, it acquainted the Canadians with the fact that there is no easy remedy available at present at this end. As to the loan, it would have to be appropriated by Congress (which I suspect will be somewhat astonished to be asked to lend \$500,000,000 to Canada); and as to the Marshall plan, it is in a very early stage. There isn't much sign that Congress will give us in the Marshall plan, even if it is adopted, any great degree of flexibility in placing procurement in Canada or making US dollars available to the U. K. and western Europe for purchases in Canada.

On September 25 I talked with Hume Wrong for an hour about the problem. I attach a copy of my memo of conversation,⁴ which I recommend you read if you have time. This meeting served chiefly to set the record straight concerning the word which Hume had sent us, after the Clark meeting on the 18th, that he and Clark understood that "the next move was up to the U. S."

Ray Atherton arrives in Washington on Monday morning, September 29, for a week's consultation. On Tuesday morning at 11.00 the following are meeting in Mr. Ty Wood's office to talk further about the problem: Wood, Atherton, Southard (of the Treasury), Wayne Jackson, Nitze, Rosenson, and myself. I think you should be there: you'd get the latest developments at first hand and I think the group needs your wisdom. (Incidentally, Hume Wrong said, after the Clark meeting, "I think we need to have Jack's imagination brought to bear on the problem".)

ANDREW B. FOSTER

P.S. As you will note in my memo of conversation with Hume, he told me that within a matter of weeks there will be a very high level approach, possibly by the P. M. to the President, about the Canadian

⁴ Memorandum dated September 25, 1947, not printed.

problem. No doubt the approach will relate to a loan and to inclusion in the Marshall plan.

842.5151/10-1447: Telegram

The Acting Secretary of State to the Consulate at Geneva

SECRET

WASHINGTON, October 14, 1947—2 p. m.

1321. Personal for Brown.¹ Deptel 1102, August 28.² Further recent discussions Canadian dollar position with Clark, Acting Minister Finance and Canadian Ambassador indicate likelihood imposition soon restrictions imports from US including some items specified Schedule I, 1938 agreement.³ Probable items already decided but Can feel they cannot discuss with us.

Canadians emphatically deny possibility devaluating Can dollar, which may or may not be true since this is line any Can official bound to take until and unless the moment for devaluation comes.

Believe impossible solve problem through 1) increased US procurement Can, 2) increased Can exports US, 3) loan or borrowing New York though all three would help. We are obviously unable at present give Can any assurance re Marshall Plan and effects on Can position. All foregoing under study by interdepartmental committee.

Believe here Can should not take unilateral action in announcing restrictions. Hope to persuade them advisability releasing simultaneously with list of restricted goods an exchange of memoranda similar to exchange between US and Sweden regarding restrictions imposed by latter.

Can memo, if they agree, would refer to present dollar difficulties, their causes and the need of measures now to prevent more drastic controls later, as well as to permit continued Can participation in European reconstruction, would emphasize intention administer controls in manner consistent Gen Agreement Trade and Tariffs,⁴ remove controls as soon as possible, allow imports in transit and, with appropriate cut-off dates, goods for which *bona fide* contracts made. Would agree discuss any individual cases with us. Would express hope US not invoke pertinent provisions 1938 trade agreement and would sug-

¹ Winthrop G. Brown, Chief of the Division of Commercial Policy and U.S. delegate to the Second Meeting of the United Nations Preparatory Committee, International Conference on Trade and Employment, at Geneva, 1947.

² Not printed.

³ For text of Reciprocal Trade Agreement between the United States and Canada, signed at Washington, November 17, 1938, see Department of State Executive Agreement Series No. 149, or 53 Stat. 2348. For documentation on the negotiation of the Agreement, see *Foreign Relations*, 1938, vol. II, pp. 164-177.

⁴ For documentation on the negotiation of this Agreement, see volume I.

gest early consultation re future under 1938 agreement if Gen Agreement did not come into effect early 1948.

US memo would note appreciation of Can difficulties and extent of Can contribution to European reconstruction. Would acknowledge Can intention to follow Gen Agreement, and their statement re temporary nature and transitional measures. Would comment particularly on desirability opportunity discuss individual cases as no opportunity given before announcement restrictions. Would agree not to invoke provisions 1938 agreement for duration of arrangement and to consult early in 1948 if 1938 agreement not superseded.

US press release issued same time would note foregoing stressing traditional cooperation, friendship US and Can. Action contemplated is predicated on need and desirability assisting Can whose action would be consistent Gen Agreement though not with 1938 TA. Since 1938 TA would presumably be in effect until Jan, TAC decision to waive rights under that agreement necessary. Does TAC agree course of action outlined above?

Proposed exchange of memoranda not yet submitted to Canadians but expect to submit possibly within one week.

Reply soonest.⁵

LOVETT

⁵ In telegram No. 1147, October 16, 4 p. m., Brown answered as follows: "TAC members feel they have no basis decision as to necessity proposed Canadian action reported Deptel 1321, October 14. If Department convinced Canadian action necessary, TAC members agree we must concur. Procedure outlined telegram 1321 satisfactory." (842.5151/10-1647)

611.4231/10-2947

The Ambassador in Canada (Atherton) to the Secretary of State

RESTRICTED

No. 5596

OTTAWA, October 29, 1947.

[Extracts]

SIR: I have the honor to report that Canadian public opinion, particularly as reflected in the press, has reached probably an all time high in favoring a closer integration of the economies of Canada and the United States. Economic union between the two countries is taken as a natural parallel development with intimate military ties existing since early in the late war and close political collaboration as now manifest at the UN. Sentiment favoring economic integration is

a logical outgrowth of the growing realization that Canada's pre-war international trade position founded on the triangular exchange of commodities with the United States and the United Kingdom is no longer valid, and there has been widespread acceptance of Finance Minister Abbott's doctrine that the solution of Canada's present external economic difficulties calls for "radical and wholesale changes" in the Dominion's position as a world economic power. The changes adumbrated clearly imply Canada's secession from the Empire trading unit in so far as Empire ties interfere with Canada's development as an independent North American nation.

It is well known that for some time Canadian Government departments have been studying as a long term solution to Canada's trade difficulties the expansion of the Dominion's economy along lines complementary to that of the United States. Such expansion is said to involve, first, the intensified development of natural resources, both for export to the United States and for supplanting raw material imports from the United States (such as Alberta coal and Labrador iron ore) and, second, a greater interchange of finished products between North American companies with emphasis on increased exports to the United States. While trade restrictions may prove to be necessary in the short term to conserve a dwindling United States dollar supply, the long term solution is founded on trade expansion, probably to be promoted in the first stages by Canadian participation in an American aid program for Europe under a kind of "peacetime Hyde Park Plan".¹

The new "national policy" for a "directed economy" is widely supported in the press and, with minor exceptions, apparently has the popular backing of the Canadian people.

[Here follows a summary of press comment on Canadian-American trade relationships.]

In brief, it may be said that Canada today more than ever before appears ready to accept virtual economic union with the United States as a necessary substitute for the multilateralism of the Atlantic triangle now believed to have disappeared for an indefinite time to come, if not permanently, and as a desirable corollary to American-Canadian cooperation in other fields. Such metamorphosis of thinking is a far cry from the pre-war Tory principle of "No truck or trade with the Yankees" and the French Canadian opposition to ties with the United States because of the latter's "godless imperialism".

Respectfully yours,

RAY ATHERTON

¹ Reference is to a statement made at Hyde Park, New York, by President Roosevelt and Prime Minister Mackenzie King on April 20, 1941, which announced agreement on plans for economic coordination during the war emergency. For text, see Department of State *Bulletin*, April 26, 1941, pp. 494-495.

611.4231/10-2947

*Memorandum of Conversation, by the Associate Chief of the Division
of Commercial Policy (Willoughby)*

SECRET

[WASHINGTON,] October 29, 1947.

Participants: Mr. Hector B. McKinnon, Chairman of the Canadian
Tariff Board
Mr. John D. Deutsch, Director of Economic Relations,
Canadian Department of Finance
Mr. Wilcox,¹ Mr. Nitze—ITP
Mr. Foster—BC
Mr. Willoughby—CP

UNITED STATES—CANADA TRADE RELATIONS

Mr. McKinnon and Mr. Deutsch prefaced their remarks with a brief review of the statement they had made the day before in Mr. Wood's office concerning the balance-of-payments situation of Canada. Mr. McKinnon then said that Program B (less drastic restriction of imports)² could be adopted if there were some likelihood of assistance under the Marshall Plan and of substantial further relaxation of trade barriers between the two countries. The Canadian Cabinet authorized him to explore with United States officials the possibility of concluding a comprehensive agreement involving, wherever possible, the complete elimination of duties. It would be necessary to obtain Congressional approval. Mr. McKinnon indicated that the Canadian Government would be willing to enter into an agreement even if it necessitated a major readjustment and reorientation of Canada's international economic relations. They feel that Canada must either integrate her economy more closely with that of the United States or be forced into discriminatory restrictive policies involving greater self sufficiency, bilateral trade bargaining and an orientation toward Europe with corresponding danger of friction with the United States, if not economic warfare.

Mr. Wilcox explained some of the difficulties of obtaining at the coming regular session of Congress approval for tariff cuts beyond those authorized by the Trade Agreements Act but said that he did not want to close the door to the possibility of negotiating a new comprehensive agreement. He said that he would take the matter up with the higher officers of the Department.

¹ Clair Wilcox, Acting Deputy to the Assistant Secretary of State for Economic Affairs, and Director of the Office of International Trade Policy.

² The alternative programs, A and B, are outlined in a memorandum of conversation dated October 29, 1947 by Constant Southworth of the Division of Commercial Policy (642.116/10-2947).

(Mr. McKinnon and Mr. Deutsch later discussed this proposal further with officers of the Department and representatives of the Departments of Commerce and Agriculture. CP will make a quick survey of the possibilities for further tariff negotiations.)

The Canadian representatives urged the utmost caution to avoid leaks, which would lead to heavy imports and probably necessitate quicker imposition of restrictions.

842.5151/11-1447

Memorandum by Mr. C. Tyler Wood, Deputy to the Assistant Secretary of State for Economic Affairs, to the Under Secretary of State (Lovett)

WASHINGTON, November 14, 1947.

Subject: Canadian Dollar Problem

The present status of the Canadian dollar problem may be summarized as follows:

Import restrictions will be imposed by the Canadian Government next Tuesday, November 18. The restrictions will be aimed chiefly against consumer goods and luxury items, many of which will be prohibited entirely. Capital goods will in general be subject to quotas of 200% to 300% of pre-war levels. There will be no legal or outright discrimination against the United States although by selection the restrictions will hit chiefly goods from the United States. The restrictions are intended to save a net of \$175 million per annum. Details are being closely guarded by the Canadians although they have told us about the general range and scope of the restrictions.

Loan from the Export-Import Bank to the Canadian Government in the amount of \$300 million has been agreed to,¹ subject to certain conditions including the provision that Canada will borrow (perhaps \$200 million) in the private market. (Copies of letters exchanged between the Canadians and the Bank are attached as tab A.²)

Exchange of notes will be completed tomorrow, November 15, we hope by you and Ambassador Wrong. (Attached as tab B is a suggested informal statement which you might wish to make to Ambassador Wrong at the time.²) The exchange is required chiefly because the U.S. has to agree not to invoke the 1938 Trade Agreement against the Canadian import restrictions, which would be a violation of the Agreement. (Copies of the proposed notes, the text of which has been widely cleared in the Department and by the Departments of the

¹ Mr. A. B. Foster, Assistant Chief of the Division of British Commonwealth Affairs, added the following marginal notation: "Mr. Ness of OFD states that the loan of \$300 million was specifically approved by the NAC on November 8, 1947."

² Not found in Department of State files.

Treasury, Commerce, and Agriculture, and by the Canadians at Ottawa, are attached as tab C.³)

Announcements relating to the Canadian import restrictions will be made at Ottawa and Washington on the evening of Monday, November 17, simultaneously with the announcement concerning the Geneva Agreement. Prime Minister King, who is in London for the Royal wedding, will broadcast concerning the achievements at Geneva and will be followed immediately on the air by Finance Minister Abbott at Ottawa, who will tell about the import restrictions. Needless to say, both sides have had the gravest misgivings about the timing but the Canadian decision has been taken and there is no help for it. (A copy of the announcement to be made by the Department is attached hereto as tab D.⁴) This announcement has been widely cleared in the Department, in the Departments of the Treasury, Agriculture, Commerce, and by the Canadians. It takes the line that we understand the difficulties of the Canadian situation and appreciate the necessity for the imposition of Canadian import controls; it expresses the hope that the controls will be lifted as soon as possible and touches upon our agreement not to invoke the 1938 Trade Agreement.

C. TYLER WOOD

³ Not found in Department of State files; presumably reference is to the *aide-mémoire* included in the Department's press release of November 17 and printed *infra*.

⁴ Not found in Department of State files. Presumably this announcement is the statement published in the Department's press release of November 17, the first paragraph of which is printed *infra*.

Press Release Issued by the Department of State, November 17, 1947

[Extract]

The Department of State has not yet had time to study in detail the restrictions which the Canadian Government has just imposed on Canadian imports from abroad. The Department has been aware for some months past, however, that Canada might be compelled to adopt temporary measures of this sort because of the increasing difficulty she has had in obtaining United States dollars to finance her imports from the United States. During recent weeks representatives of the two Governments have discussed the Canadian position in general terms. The discussions culminated in the exchange of memoranda released today.

The text of the exchange of memoranda follows:

"AIDE-MÉMOIRE

"The Government of Canada refer to the discussions which have taken place recently between its representatives and those of the Gov-

ernment of the United States of America regarding the problems confronting Canada because of the rapid and marked decline during 1947 of its gold and United States dollar reserves.

"It was noted in the course of the discussions that this condition was due 1) to an unprecedented increase in Canadian imports from the United States unmatched by an equivalent increase in Canadian exports to the United States, 2) to the disruption in consequence of the war of normal trade and currency relationships, which ordinarily would have allowed Canada to discharge its deficit with the United States with the receipts from Canadian exports to other countries and 3) to the necessity which Canada, in common concern with the United States, has felt for extending very substantial financial assistance to various European Nations in their urgent problems of postwar reconstruction.

"The deterioration of Canada's gold and United States dollar reserves has proceeded at such a rate and to such an extent that the Government of Canada are compelled to take immediate remedial measures. Failure to take effective action now could only mean, in the circumstances, that in the near future measures more drastic than contemplated at present would be necessary.

"The Government of Canada find it necessary as one part of a general programme to curtail imports immediately in order to conserve their limited supplies of gold and United States dollars. It is a matter of special concern that such an action is necessary at this time when Canada is working with the United States and other Nations of the world to provide a sound basis for the expansion of world trade on a multilateral basis.

"The Government of Canada wish to emphasize that it is their intention to administer their controls in a manner consistent with the General Agreement on Tariffs and Trade recently concluded at Geneva which will govern trade relations between the signatory countries in the near future.

"The Government of Canada propose to remove the controls which they now find necessary to impose at the earliest possible moment that circumstances permit. They will moreover allow imports of any items which are now in transit to Canada. At any time during the period when control of imports is necessary the Government of Canada will give sympathetic consideration to representations in regard to any matter connected therewith which because of unusual circumstances involving particular hardships to the principals concerned would seem to merit special attention.

"In order to effect the necessary savings of gold and United States dollars, it is necessary to limit, among other imports from the United States, some items specified in Schedule I of the 1938 Trade Agreement between the United States and Canada. The Government of Canada express the hope that the Government of the United States will not in the circumstances, consider it necessary to invoke the pertinent provisions of the Trade Agreement of 1938 during the brief interval before the provisional coming into force on January 1st next, of the General Agreement on Tariffs and Trade which will replace the provisions of the earlier agreement.

"WASHINGTON, November 14, 1947."

"AIDE-MÉMOIRE

"The Government of the United States of America refers to the *aide-mémoire* of the Government of Canada, dated November 14, 1947, concerning the problems confronting Canada because of the serious decline in its gold and United States dollar reserves, and concerning the limitation on imports from the United States which the Government of Canada therefore considers necessary.

"The Government of the United States takes note of the information presented by the representatives of the Government of Canada in support of its contention that temporary controls on imports are necessary in view of the current situation respecting Canada's gold and United States dollar reserves. It appreciates the repercussions on Canada's exchange position resulting from the economic and financial difficulties which various European Nations are now experiencing as a result of the war. It is aware of the extent to which Canada has been participating in European reconstruction and of the fact that this effort has contributed to Canada's present foreign exchange reserve position.

"Acknowledgment is made of the statement by the Government of Canada of its intention to administer its controls in a manner consistent with the General Agreement on Tariffs and Trade which was recently concluded at Geneva.

"The Government of the United States takes note also of the statement of the Government of Canada with respect to the duration and the administration of the controls. In view of the prolonged efforts our two countries have made to promote world trade and world recovery, the Government of the United States attaches the highest importance to this indication of the Canadian Government's intention. Having in mind, also, that the conditions of the controls contain elements which might become unduly prejudicial to the position of individual commodities, it is particularly concerned that an opportunity be given for discussion of the detailed effects where, in its opinion, the circumstances are sufficiently grave. In the circumstances the Government of the United States agrees for the duration of the present arrangement not to invoke the provisions of Articles II, III and X of the Trade Agreement of 1938 between the United States of America and Canada in respect of the measures to be taken by the Government of Canada as set forth in its *aide-mémoire*.

"It is recognized that the Trade Agreement between the United States of America and Canada remains in full force and effect during the present arrangement, save for those temporary modifications in its operation provided for in this exchange of *aides-mémoire*.

"WASHINGTON, November 15, 1947."

AGREEMENT BETWEEN THE UNITED STATES AND CANADA AMENDING THE AGREEMENT OF FEBRUARY 17, 1945, RESPECTING AIR TRANSPORT SERVICES

[For text of Agreement, effected by exchange of notes signed at Ottawa, April 10 and 12, 1947, see Department of State Treaties and

Other International Acts Series (TIAS) No. 1619, or 61 Stat. (pt. 3) 2869.]

AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING TERMINATION OF THE RECIPROCAL TRADE AGREEMENT SIGNED DECEMBER 13, 1940, RELATING TO FOX FURS AND SKINS

[For text of Agreement, effected by exchange of notes signed at Washington, March 18, 1947, and for proclamation by the President of the United States terminating proclamations of December 18, 1940 and August 21, 1941, relating to the reciprocal trade agreement signed December 13, 1940, see Department of State Treaties and Other International Acts Series (TIAS) No. 1638, or 61 Stat. (pt. 3) 3054.]

INTERIM ARRANGEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING MOBILE RADIO TRANSMITTING STATIONS

[For text of Agreement, effected by exchange of notes signed at Washington, June 25 and August 20, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1670, or 61 Stat. (pt. 4) 3349.]

AGREEMENT BETWEEN THE UNITED STATES AND CANADA AMENDING THE PROVISIONAL AGREEMENT OF DECEMBER 8 AND 19, 1942, RESPECTING FUR SEALS

[For text of Agreement, effected by exchange of notes signed at Washington, December 26, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1686, or 62 Stat. (pt. 2) 1821.]

AGREEMENT BETWEEN THE UNITED STATES AND CANADA RESPECTING ALLOCATION OF FM CHANNELS IN RADIO BROADCASTING

[For text of Agreement, effected by exchange of notes signed at Washington, January 8 and October 15, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1726, or 61 Stat. (pt. 4) 3800.]

AGREEMENT BETWEEN THE UNITED STATES AND CANADA RENDERING INOPERATIVE THE TRADE AGREEMENT OF NOVEMBER 17, 1938, AND SUPPLEMENTING THE GENERAL AGREEMENT ON TARIFFS AND TRADE OF OCTOBER 30, 1947

[For text of Agreement and accompanying letters, signed at Geneva, October 30, 1947, effective January 1, 1948, see Department of State

Treaties and Other International Acts Series (TIAS) No. 1702, 61 Stat. (pt. 4) 3695.]

**AGREEMENT BETWEEN THE UNITED STATES AND CANADA
RESPECTING SURPLUS PROPERTY DISPOSAL OPERATIONS**

[For text of Agreement, effected by exchange of notes signed at Ottawa, January 9, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1603, or 61 Stat. (pt. 3) 2738.]

**ARRANGEMENTS BETWEEN THE UNITED STATES AND CANADA
RESPECTING JOINT DEVELOPMENT AND OPERATION OF
WEATHER OBSERVATION STATIONS IN THE CANADIAN ARCTIC
REGION**

Editorial Note

These arrangements, initiated by the Department of State in early 1946, were postponed until 1947 by a decision of the Canadian Cabinet. The matter was reopened by Canadian note No. 16 of February 13, 1947, addressed to Ambassador Ray Atherton. Technical aspects of the operation were agreed upon at a conference held in Ottawa on February 25 and 26, and summarized in Canadian note No. 32 of March 18, 1947. United States confirmation of the agreement, which pertained to 1947 and 1948 operations only, was delayed by planning for 1949 developments in the weather station program. These plans were referred to in Canadian note No. 181 of December 22, 1947. A further attempt to formalize the 1947-1948 agreement was made in Canadian note No. 661 of October 4, 1948, to the Secretary of State from the Canadian Chargé d'Affaires at Washington. It was not followed up by the Department because of the lateness in the time period of the first agreement and the possibility of negotiating an altered arrangement for 1949.

Documentation on this subject, including the above-mentioned notes and a related memorandum dated June 11, 1946, from Acting Secretary of State Acheson to William L. Clayton, Chairman of the interdepartmental Air Coordinating Committee, concerning existing and potential territorial claims in the Arctic region, and United States policy regarding the so-called "sector" claims, is in Department of State file No. 842.9243.

INDIA AND PAKISTAN

INTEREST OF THE UNITED STATES IN THE EMERGENCE OF THE DOMINIONS OF INDIA AND PAKISTAN; ELEVATION OF THE STATUS OF DIPLOMATIC MISSIONS¹

845.00/1-447: Telegram

The Chargé in India (Merrell) to the Secretary of State

SECRET

NEW DELHI, January 4, 1947—11 a.m.

4. Deptel 953, December 31.² Since Jinnah³ expected remain Karachi till January 12, following sent Karachi today.

Embassy on December 26 conveyed to Liaquat Ali Khan⁴ Dept's view that it was doubtful Congress⁵ attitude re provincial groupings could be modified unless Muslim League made declaration or gave other tangible evidence of willingness cooperate within framework Indian Federal Union established accordance Cabinet mission plan.⁶ We stressed fact that we are fully aware as indicated in Acheson's statement December 3⁷ of need for providing in Federal Union ample scope for Muslim political and economic aspirations but that atmosphere for creating necessary safeguards can never be achieved unless concept of union itself is generally accepted by principal parties. Liaquat was also informed that Embassy had conveyed to Nehru,⁸ Patel⁹ and other Congress leaders Dept's view that it is in interest of all United Nations that early and amicable settlement Indian con-

¹ For previous documentation on the political situation in India and elevation of the status of the Missions in the United States and India, see *Foreign Relations*, 1946, vol. v, pp. 77 ff.

² Not printed. See *Foreign Relations*, 1946, vol. v, p. 112, footnote 68.

³ Mohammed Ali Jinnah, President of the Muslim League.

⁴ General Secretary of the Muslim League.

⁵ Indian National Congress.

⁶ For text of plan, see British Cmd. 6821, *Statements by the Cabinet Mission and H.E. the Viceroy, 16 May 1946*; or V.P. Menon, *The Transfer of Power in India* (Princeton University Press, 1957), pp. 466-475.

⁷ Statement by Acting Secretary of State Dean Acheson on "United States Interest in India," Department of State *Bulletin*, December 15, 1946, p. 1113, or *Foreign Relations*, 1946, vol. v, p. 99, telegram 7996 to London.

⁸ Pandit Jawaharlal Nehru, Vice-President of Governor-General's Executive Council and Leader of the National Interim Government.

⁹ Sardar Vallabhbhai Patel, Home and Information Minister of the Interim Government.

stitutional problem be reached and that it would be wise for Congress accept interpretation set forth in HMG's December 6 statement.¹⁰

Liaquat said he did not see how League could be expected give assurance re cooperation under Cabinet mission plan when Congress had not accepted plan as interpreted by HMG but that if Congress accepted December 6 statement, Jinnah would call meeting of League Council. When asked if he would convey Dept's views to Jinnah, Liaquat said he thought Jinnah would be unreceptive at this time but that if Congress accepted December 6 statement expression our views to Jinnah then might have its effect.

Unless AICC decision January 5 takes form of outright rejection of December 6 statement, you are requested to express to Jinnah on January 6, US Government's deep concern serious deterioration Indian political situation; to state it is our impression that in view Congress effort to accommodate itself to HMG and League's interpretation of plan, US public will be puzzled if League now declines enter Constituent Assembly; and to say Dept believes any halt in constitutional progress may well cause widespread chaos similar China with world-wide repercussions.

FYI when Gallman¹¹ talked with Jinnah in London December 12 Jinnah said he appreciated sympathetic interest shown by US Government and Acheson statement but much remained to be done to develop an informed world opinion and that this would take time.

MERRELL

¹⁰ Reference is to a statement by the British Government supporting the Muslim League's contention that decisions by simple majority vote should prevail in the inter-provincial groups of the regional areas. The Congress Party had contended that each province should be allowed to vote separately on whether or not to join groups.

¹¹ Waldemar J. Gallman, Counselor of Embassy at London.

845.00/1-647 : Telegram

The Vice Consul at Karachi (Sparks) to the Secretary of State

SECRET

KARACHI, January 6, 1947—11 p. m.

US URGENT

3. Jinnah stated during interview tonight League in complete agreement Acheson statement December 3rd and three points presented him taken from penultimate paragraph Delhi telegram.¹ After review Congress-League relations June 6² to present said "if Congress made genuine effort accommodate itself His Majesty's Government's and

¹ Telegram 4, *supra*.

² June 6, 1946, when the Council of the All-India Muslim League passed a resolution accepting the Cabinet Mission's plan, subject to certain reservations.

Muslim League's interpretation Cabinet plan, League would enter Constituent Assembly at once but resolution passed today³ can not be defined as such effort" (reference Delhi telegram January 4 re political situation). Called resolution "same Congress tactics; propaganda to fool world into believing Congress had accepted Cabinet December 6 statement and that only League was at fault for not entering Assembly when resolution is statement of contradictions that in fact says nothing".

Jinnah refused commit League's next action said "must consider in light new developments which are in fact not new". He welcomed expression Department's viewpoint with which he was "in complete agreement" said "tell your government we work toward same ends but for God's sake not to be chloroformed by meaningless Congress gestures made for purely propaganda effect. Congress had only to say we accept nothing more; that would have shown true faithful intent and League would have responded in same coin". Stressed confidential nature his statements.

My belief is Jinnah feels next move up to League even though under its interpretation Congress resolution is meaningless.

Sent Department No. 3; repeated Delhi No. 1.

SPARKS

³ For text of resolution, presented by Nehru at the All-India Congress Committee meeting January 5 and passed by a majority of 91 to 55 on January 6 after two days of debate, see Menon, *The Transfer of Power in India*, pp. 332-333.

845.00/1-2147 : Telegram

The Chargé in India (Merrell) to the Secretary of State

CONFIDENTIAL

NEW DELHI, January 21, 1947—11 a. m.

47. Following is official text of statement issued yesterday by Nehru with reference to Reuter report dated January 18 from New York stating John Foster Dulles addressing National Publishers Association dinner January 17 had declared: "India Soviet Communism exercises a strong influence through interim govt."

"I have read with surprise and regret a report of a speech made by Mr. John Foster Dulles in New York in which he criticizes policy of interim govt. I can hardly believe that report is a correct one. Mr. Dulles was one of representatives of US Govt in UN General Assembly and his words therefore carry weight. His reported description of interim govt and its policy shows lack of knowledge of facts and want of appreciation of policy we are pursuing. I do not wish to say more at this stage except to repeat that our policy is to cultivate friendly and cooperative relations with all countries, notably USA, and not to align

ourselves with any particular power grouping. Our policy is going to be an independent one based on furtherance of peace and freedom everywhere on lines laid down by UN Charter.

Mrs. Pandit² in press interview yesterday said she found it difficult to believe Dulles had made such a statement; suggested he might have based conclusion on cooperation of India and USSR at UN in efforts "to liberalize trusteeship agreements." "India", said Mrs. Pandit, "far from blindly following alien influences . . . will evolve her policy in accordance with her own interests and her own conception of right and wrong."

Embassy has observed no indication of Soviet influence on interim govt. Most individuals in govt which is primarily representative of propertied and conservative classes seem rather to fear Communist infiltration. As Dept is aware Congress has been making strenuous efforts during past year to counteract Communist activities in organizing labor and peasants and recent wide spread raids on Communist offices indicate anything but friendly attitude on part of Congress and Muslim League provincial authorities.

Please repeat London.

MERRELL

² Mrs. Vijayalakshmi Pandit, sister of Pandit Jawaharlal Nehru, was appointed in June 1947 to be the first Indian Ambassador to the Soviet Union.

845.00/1-2147

The Secretary of State to the Embassy in India

SECRET

WASHINGTON, January 22, 1947—6 p. m.

U.S. URGENT

43. Urtel 47 January 21. Re Dulles' speech suggest you discuss matter with Nehru along following lines first appropriate occasion.

Dulles' speech (full text being transmitted open air mail) completely unofficial and not seen before delivery by SecState or any Dept officials concerned with Indian affairs. Dulles spoke as a private citizen giving lengthy analysis Soviet ideological and territorial challenge.

Re the one sentence in speech re India ("In India, Soviet Communism exercises a strong influence through interim Hindu govt"), you may inform Nehru that we have followed with deep interest his various expressions of Indian foreign policy since inception interim govt and have been favorably impressed by India's avowed intention to pursue independent but cooperative policy based on UN Charter.

We are aware both Congress and Muslim League leaders in GOI recognize danger infiltration Indian political scene of outside totalitarian influences which would make even more difficult of solution complex constitutional problems now facing India.

We are confident US-India relations will continue on friendly and mutually advantageous basis.

Dulles may have obtained an impression Communist influence on GOI from attitude some members GOI delegation recent UN General Assembly session. It is undoubtedly true that activities of Indian reps abroad are being more closely observed than ever before and that many observers are inclined to believe that these activities reflect GOI policies.

For your confidential info we hope informally to let Dulles have more complete picture Indian situation.

MARSHALL

845.00/2-147: Telegram

The Vice Consul at Karachi (Sparks) to the Secretary of State

CONFIDENTIAL
PRIORITY

KARACHI, February 1, 1947—2 p. m.

5. Reference Dept's 5, January 30, 7 p. m.¹ Despite heavy pressure from all interested outside parties including Viceroy, Muslim League working committee today published 3,000 word resolution² accepting [attacking?] HMG statement December 6 as dishonest trick; described Consultative [Constituent] Assembly as truncated rump and called its proceedings *ultra vires* and illegal. Resolution demands Consultative [Constituent] Assembly dissolution forthwith and called upon HMG to declare constitutional plan has failed. It stated Congress' rejection HMG's final appeal December 6 to accept interpretation fundamental procedure has destroyed May 16 and every possibility of compromise, on basis Cabinet mission's constitutional plan. Resolution concluded that as Congress as a major contracting party had not accepted clarification of May 16 statement, no useful purpose would be served by summoning meeting Council of All India Muslim League to reconsider decision of July 29³ whereby it had withdrawn acceptance Cabinet Mission's plan May 16.

Repeated New Delhi 8.

SPARKS

¹ In telegram 5 to Karachi, the Department expressed interest in the outcome of the current Muslim League working committee meeting and requested cabled reports on any significant developments (845.00/1-3047).

² For discussion and partial text of the League's resolution, see Menon, *The Transfer of Power in India*, pp. 333-334.

³ Reference is to the League's resolution of July 29, 1946, which rejected the Cabinet Mission Plan.

845.00/2-1147 : Telegram

The Secretary of State to the Embassy in the United Kingdom

CONFIDENTIAL

WASHINGTON, February 11, 1947—7 p. m.

698. We have been following with concern recent developments in India¹ and would appreciate info re Brit thinking as to next steps. If you have opportunity we hope you will endeavor to ascertain whether or not Brit are disposed to instruct Viceroy dismiss Muslim League members from Council, whether they are planning to bring pressure on Princes to reach definitive agreement with Congress and whether they have been giving consideration to possibility of meeting problem Muslim League absence from Constituent Assembly by modifying Cabinet Mission plan to include provision for provincial ratification (either by popular plebiscite or legislative action) of constitutions drafted by Assembly.

Sent London 698 rptd New Delhi 77.

MARSHALL

¹ On February 5, the Congress and minority members of the Interim Government, reacting to the League's resolution of January 31 (see telegram 5, *supra*), had presented the Viceroy with a demand for the resignation of the Muslim League representatives.

845.00/2-1447 : Telegram

The Chargé in India (Merrell) to the Secretary of State

SECRET

NEW DELHI, February 14, 1947—4 p. m.

113.1. Factors which might suggest possibility of a split in League in event of forced withdrawal of League members from interim government and continuation opposition (reference Department's telegram 78 Feb 11¹) are (a) desire of Muslim business interests—particularly in Sind and Bengal—for settlement of political deadlock one way or another; (b) current feeling among some League supporters that Karachi resolution² went too far and amounted to League's burning bridges; (c) the super-desire of Sind and Bengal League politicians to avoid situation which might increase difficulties of League in Ministries.

On other hand (a) Jinnah's influence with Muslim masses is such that if he declared League participation in Cabinet Mission plan impossible, Embassy questions whether League politicians would dare court his wrath by attempting formation of new party; (b) Muslims who resigned from League to serve in Central Government would un-

¹ Not printed.² January 31 resolution of the Muslim League Working Committee.

doubtedly be branded by most Muslims as "traitors to Islam" and "Congress stooges"; (c) There is reason to believe, particularly in light of recent successes in Sind elections and remarkable discipline in provincial Muslim League civil disobedience campaign in Punjab, that League organization has never been stronger. Embassy attaches no importance to nationalist Muslims' efforts to organize non-League Muslims in united front; and feels Jinnah's apparent success in stigmatizing non-League Muslims would prevent such an organization from gathering effective numbers of followers.

No evidence that recent Muslim student demonstration against Bengal Premier signifies any abnormal discord in Bengal League.

2. Embassy believes strength and trouble making potentialities of League are such that His Majesty's Government will endeavor avoid if possible instructing Viceroy to dismiss League members. Scott³ told Embassy officer yesterday that while Viceroy had as yet received no clear indication of what His Majesty's Government's decision would be it seemed unlikely League members would be dismissed immediately. Scott thinks wisest approach would be to endeavor persuade Congress to alter January 6 AICC resolution sufficiently to enable Viceroy to tell League Congress had accepted December 6 statement unconditionally and League would have to join CA or withdraw from interim govt.

3. Embassy believes course favored by Scott would be worth trying but in view of Nehru's difficulty in obtaining support of AICC even for conditional acceptance December 6 statement questions whether suggested "concession" could be obtained. Further efforts to bring League into CA would then have to be based on argument that AICC resolution in effect constituted acceptance December 6 statement and that League in interest of welfare of India as whole should enter CA and thresh out differences of interpretation there. If Jinnah still refused in hope that he might obtain Pakistan by default Viceroy and His Majesty's Government would probably feel they had no choice but to allow Congress and Princes to proceed with constitution-making in which case League opposition whether "violent" or non-violent would almost certainly result in disorders.

4. Embassy believes that if British Congress and Princes agree on constitutional plan Congress dissidents might well find it more difficult to promote civil strife since such agreement might represent a concrete step toward Indian independence and rob of some of its weight dissidents' argument that there must be a "final struggle" against Britain.

Until such time as tangible constitutional progress is made, however, Narain's⁴ anti-British propaganda will undoubtedly continue to be effective among substantial numbers of Indians.

³ Ian Scott, Assistant Private Secretary to the Viceroy.

⁴ Jayprakash Narain, also known as Narayan.

5. Scott informed Embassy officer yesterday that on or about February 18 a critical situation will probably develop as a result of Viceroy's intention to use his special powers to prevent release of 15 INA officers convicted last year of "gross brutality". Scott says Viceroy has already overruled decision of Council in which both League and Congress members favored release of prisoners. Central Assembly is expected to vote for their release on February 18 but Viceroy with agreement of C-in-C and His Majesty's Government intends to use his veto power. This will give both League and Congress politicians new stick with which to beat British.

Please repeat London.

845.00/2-2047

Memorandum of Conversation, by the Secretary of State

TOP SECRET

[WASHINGTON,] February 20, 1947.

Participants: The Secretary
The British Ambassador ¹
Mr. John Hickerson ²

The British Ambassador came in to see me at 9:45 this morning by an appointment made at his request. He summarized briefly and then handed me the following papers:

1. Text of a statement to be made by Prime Minister Attlee on India in the House of Commons at 10:30 Eastern Standard Time this morning, announcing the British intention to transfer complete power to the Indians not later than June 1948.³

2. A Top Secret memorandum ⁴ giving a background analysis of the present Indian situation and stating that the only alternative to the British Government's transferring complete authority to the Indians would be for the British Government to use the necessary force to govern India indefinitely, a course which the British Government must reject.

3. A copy of an announcement to be made by Prime Minister Attlee in the House of Commons, following his statement on India, to the effect that Lord Wavell is being recalled and is being replaced by Lord Mountbatten.⁵

I thanked the British Ambassador for bringing me these papers and told him that they would receive my study. I stated that the U.S. Government is thoroughly convinced of the sincerity of the British

¹ Lord Inverchapel.

² Deputy Director, Office of European Affairs.

³ For text, see *Parliamentary Debates*, House of Commons, 5th series, vol. 433, cols. 1395-1399, or S. L. Poplai, *Select Documents on Asian Affairs: India 1947-50*, (Oxford University Press, Bombay, 1959), vol. 1, pp. 10-13.

⁴ *Infra*.

⁵ For text, see Menon, *The Transfer of Power in India*, pp. 508-509.

Government in its efforts to bring about a satisfactory solution of the Indian problem. I stated that, as the Ambassador knows, the Department of State has during the past several months issued several statements in this general sense and in support of the British constitutional plan for India. I added that after a study of the above mentioned documents I would consider whether I could make any additional statement which might be helpful.⁶ I went on to say that I would be glad to have the Ambassador let me know later on whether he feels that a further statement from the U.S. Government would be helpful. The Ambassador expressed his appreciation.

The Ambassador commented that I probably knew Lord Mountbatten. I replied that I did know him well and had a very high regard for him. I discussed briefly some of my war-time associations with Lord Mountbatten.

⁶ On February 25, the Department released to the press a statement entitled "United States Interest in Self-Government for India." For text, see Department of State *Bulletin*, March 9, 1947, p. 450.

845.00/2-2047

*The British Embassy to the Department of State*¹

TOP SECRET

1. The objective of United Kingdom policy in India has for many years past been, through a process of gradually developing the transfer of authority, ultimately to hand over power to a Federal system of Government commanding at least the assent of all the important elements in the Indian population and in which the Indian States would be co-operating parties. The unity of India which is the greatest single achievement of our rule would thus be preserved.

2. The policy of the present British Government has been in line with this tradition. Its main principles were stated in the Prime Minister's speech in Parliament on the 15th March² and developed in detail in the proposals of the Cabinet Mission. If operated wholeheartedly in a spirit of co-operation these proposals should make it possible for Indians to frame a Constitution which would both preserve the unity of India and meet the real and legitimate fears of the Muslim community and of other minorities. The intention was that formal and final transfer of authority would not take place until a Constitution framed in accordance with the Mission's proposals, or otherwise

¹ This memorandum, attachment No. 2 to the memorandum of conversation, *supra*, was handed to the Secretary of State by the British Ambassador, Lord Inverchapel, on February 20.

² March 15, 1946. For substance of Mr. Attlee's words, as he intervened in a House of Commons debate on the Cabinet Mission's imminent visit to India, see Menon, *The Transfer of Power in India*, pp. 234-235.

by agreement between the major communities, could be brought into operation. In this way the broad objective referred to in paragraph (1) above would have been realized, and United Kingdom responsibility in India have been terminated by an orderly and peaceful transition. In the meantime it was hoped that an interim government representative of all parties would operate harmoniously under the existing Constitution. Although the broad responsibility of the United Kingdom Government and Parliament for Indian affairs would continue, this Government would in practice have a wide measure of autonomy. Obviously great difficulties were to be expected in this interim period, which it was hoped would be not more than two years, unless there were mutual forbearance between ourselves and Congress Party, and a real spirit of compromise and co-operation between the Congress Party and the Muslim League.

3. Unfortunately these conditions have not been realized. The following is a broad assessment of events since the mission. After the mission left India the Congress Party interpreted the provisions of the mission's proposals regarding the procedure in sections in a way contrary to the mission's intention, as clearly explained to them. An essential element of the mission's proposals was that sections of the Constituent Assembly should decide by majority vote the constitutions of the provinces and whether groups of provinces should be formed subject to the right of provinces to opt out of a group by decision of the legislature under the new Constitution. The Congress Party argued that decisions on these questions should require a majority of representatives of each province within the section. This would almost certainly result in no group constitution being framed by sections B and C. Thus the Congress Party interpretation removed the basis of the compromise which is the whole basis of the proposals. The League reacted by withdrawing their acceptance of the mission's proposals, by reverting to the advocacy of the full Pakistan claim in provocative form, and by threatening direct action. Six months have passed without any substantial progress in drawing up the constitution and the Constituent Assembly is meeting without Muslim League representatives. Although the recent Congress Party resolution modified their position, there are still certain ambiguities in the acceptance by the Congress Party of our statement of December 6th. Certain rules of procedure have been framed by the Constituent Assembly which can hardly be reconciled with the principle of our statement that provincial constitutions and the decision whether there shall be a group shall be taken by sections of the Constituent Assembly by a majority vote. This has led the Muslim League again to refuse co-operation in the Constituent Assembly by their resolution of January 31st. These events have rendered the relations of the two parties in the Cabinet increasingly difficult and the Congress Party have now demanded that the

Muslim League members should resign from the government. We are being pressed to wind up the Secretary of State's services and to withdraw British troops from India. Although, in individual cases the Congress Party are putting strong pressure on Indian States whom we are bound by our existing relationship to protect from external interference from British India, recent conversations between the States' representatives and representatives of the Constituent Assembly were amicable and there seems a reasonable prospect that the States will enter the Constituent Assembly.

4. The communal situation deteriorated seriously between August and November and over 10,000 persons have been killed and many more injured. Since the London Conference³ the situation has improved but the tension is still high. Any open and irrevocable breach between the parties might lead to a widespread recrudescence amounting almost to unorganised and spontaneous civil war. In this event the Indian army might disintegrate and take sides.

5. We have made every effort to bring the Indian parties together by negotiations and there is not much more that we can do without some move from them. The alternatives therefore are to place the responsibility for finding a solution, or for the consequences of failure to do so, finally and solely upon Indian leaders; or to reassert British authority and govern India for a substantial period. The latter course could only be feasible if we resorted to widespread and extreme measures of repression and publicly declared an intention to retain our authority in India for a substantial period of years. We do not consider that this course would be likely to lead to any solution of the Indian problem. In the long run it would lead rather to a spread of revolutionary extremism, probably in a communist form.

6. We have therefore come to the conclusion set out in the statement announcing our intention to hand over authority in India not later than June 1948. We are hopeful that the prospects of a settlement between the Congress Party and the Muslim League will be increased if it is clearly stated that we shall withdraw at a definite date and definite steps are taken to implement this decision. At present both sides hope to produce a situation in which we shall be forced to assist them in securing their own political objective and this fact impedes a settlement between them.

7. We, therefore, think that the statement provides the best prospect of being able to hand over the functions of the existing central government to a single government having the support of both major parties. But if, when the date for withdrawal is reached, this is not possible we shall have to hand over to whatever constituted authorities seem most representative of the different parts of the country when the

³ December 3-6, 1946; attended by Nehru, Jinnah, Sardar Baldev Singh and Liaquat Ali Khan. Singh and Khan held the portfolios of Defense and Finance, respectively, in the Indian Interim Government.

time comes. Paragraph 10 of the statement is designed to avoid, on the one hand, a commitment to create Pakistan (which would encourage the League to be obstructive), and on the other, any indication that we should, whatever happens, hand over to one authority only (which would encourage the Congress Party to be uncompromising).

8. We realize, of course, that we are running the risk that no settlement will be arrived at and that as the date for our withdrawal draws near, the communal situation will deteriorate seriously. But this is just as likely to happen if we make no statement because both sides will hope that we shall assist them against the other. We believe, therefore, that the right course is for us to be definite as to our intentions.

9. It may be felt that a definite partition of India before our departure would, if there is no agreement, be preferable, in the last resort, to withdrawal in the way we propose. Cogent reasons were given in the opening paragraphs of the Cabinet mission's statement of the 16th May against any form of Pakistan because the area claimed by the Muslim League would contain far too great a minority of non-Muslim population while a smaller area having a substantial Muslim majority could not be capable economically of survival as an independent State. Partition would be violently resented by a large part of the Indian population including substantial elements in the areas affected. The equitable demarcation of the areas to be separated would be a matter of extreme difficulty but it is not totally excluded by Paragraph 10 of the statement if it is found to be inevitable at the latest stage.

WASHINGTON, February 19, 1947.

701.4511/2-2647

Memorandum of Conversation, by the Secretary of State

RESTRICTED

[WASHINGTON,] February 26, 1947.

Participants: The Secretary of State, General Marshall
The Appointed Ambassador of India, Mr. Asaf Ali ¹
The Minister of the Indian Embassy, Mr. Binay Ran-
jan Sen
The Chief of Protocol, Mr. Woodward

The Appointed Ambassador of India called upon me today to present a copy of his Letter of Credence, and a copy of his remarks to be made to the President.²

¹ M. Asaf Ali, former Congress member of the 1946 (September-October) Indian Interim Government.

² The text of the Ambassador's remarks and the President's reply was issued to the press by the Department of State as press release 155 of February 28, 1947.

After I had read his remarks, I told the Ambassador that I was pleased it had fallen among my early duties to receive him as the Representative of India; that my knowledge of India was not very great, although I had probably read as much as most people on the subject; that during the war I had known India as the supply center for the China-Burma-India theatre; and that my relations with India were now of course entirely different from what they had been during the war.

The Ambassador replied to the effect that this was a momentous time in India's history and that he was pleased with his opportunity to represent his country in the United States on this historic occasion in Indian development. He referred to India's role in the war as the arsenal of the CBI theatre, and deplored that his country had been so ill prepared to serve the allied cause. He stated that he wished to repeat what he had told Mr. Bevin,³ that had India been adequately prepared, the war would have been shortened by at least two years. He continued that he hoped to see the political and economic development of his country flourish, and that if India became strong it would be a bastion for the world against the great northern neighbor which now cast its shadow over two continents, Asia and Europe. To the left and right flanks of India the countries were weak but India might serve as a strong center between weaker neighbors.

I told the Ambassador that I was greatly interested in what he had said and inquired concerning his knowledge of the United States. Upon his reply that this was his first visit, I said that I hoped he would not be confused by our politics, that sometimes in the discussion of domestic issues, like the budget, international relations seemed to become involved, but of one thing he could be sure, the integrity of American foreign policy. I mentioned my experience in China where the situation was very confused and told the Ambassador that despite the confusion, there was never any doubt concerning our aim which was for only two things, first, unity in China and second, a reasonably democratic system of government, and that despite propaganda to the contrary and the allegation of ulterior motives to the United States in its dealings with China, it became clearer and clearer to all concerned that it was only unity and an orderly, democratic form of government that we wanted in that country.

In his final remarks to me, the Ambassador made no reference to unity, on which his predecessor, Bajpai,⁴ had laid so much store, or an orderly, democratic system, but referred to my mention of propaganda and his own unhappy experiences in that field as Indian Minister of Transportation. Asaf Ali concluded his remarks with the statement

³ Ernest Bevin, British Secretary of State for Foreign Affairs.

⁴ Sir Girja Shankar Bajpai.

that politically India had nothing to fear, that it was greatly indebted to the British and to the stand the British had taken on Indian Independence, that India politically would get along all right but that economically the potential of four hundred million people had yet to be developed. A number of "Tennessee Valley Authorities" were projected for India and it was especially with respect to these that the Ambassador would call upon me for assistance.

G. C. M[ARSHALL]

845.00/3-847

The Consul General in India (Macdonald) to the Secretary of State

RESTRICTED

BOMBAY, March 8, 1947.

No. 24

SIR: I have the honor to report that, accompanied by Vice Consul J. Jefferson Jones, III, I called on Mr. M. A. Jinnah, President of the Muslim League, on March 5, 1947. Mr. Jinnah, who received us at his residence, was most affable and showed considerable enthusiasm at times during our forty-five minute conversation. Although Mr. Jinnah said nothing which he has not said numerous times before, the more pertinent parts of his conversation are reported herewith as of possible interest.

Referring to the British Government's statement regarding the transfer of power to responsible Indian hands not later than June, 1948, Mr. Jinnah said he is anxious to hear what the American reaction is to the proposal. He said that he could understand the American public's surprise as well as impatience with India for not finding a solution to its political problems following Britain's offer of independence. Mr. Jinnah then made the statement that news regarding Indian problems in the American press is influenced by false propaganda. He did not accuse the British of influencing the American press, but was very out-spoken in placing all the blame for the so-called false propaganda on the Congress party which, according to him, has a highly efficient propaganda organization that is on the alert for all foreign correspondents and journalists. I remarked that prior to my departure from the United States it was not my impression that news relating to India was affected by propaganda and also mentioned the fact that a number of American correspondents are assigned to India at present and it is their job to report facts free from all propaganda or prejudice. Mr. Jinnah admitted that some journalists who spend sufficient time in India obtain a correct view of the situation and mentioned several whom he had met and considers to be top rate reporters. He reiterated, however, his concern regarding the danger of

new correspondents falling into the hands of the Congress party propaganda machine.

On his return from London in January, Mr. Jinnah said that at a reception given him in Cairo he was told by a group of prominent Egyptians that they had a warm heart for him as a brother Muslim, but found his policy annoying as they felt he was in league with the British instead of working for Indian independence. To this accusation he replied that he would be only too happy to prove his innocence if given an opportunity. He told the accusing group that if Congress really wanted to test his sincerity regarding his desire for Indian independence, they should agree to Pakistan. In the event, he said, that the Congress did come to such an agreement, he would immediately accept the responsibility placed upon him for taking the necessary steps to establish a constitutional government and he added "I would be the first to go down to the Gateway of India to wave farewell to the British".

The Muslims, according to Mr. Jinnah, cannot accept the idea of a united India because in so doing they would merely be substituting a Hindu Raj for the British Raj. He said that it is foolish to talk about a compromise because one cannot have compromise unless there is a basis for it. He added that the difference in culture, religion, and way of life between the Muslims and Hindus precludes any possibility of a compromise. He asked why a hundred million Muslims should become a minority in a Hindu dominated Government. Vice Consul Jones made reference to safeguards such as those contained in the Cabinet Mission's proposals, to which Mr. Jinnah replied that safeguards for the minority in a united India were worthless because in the event of an appeal by the minority the accused would sit as the judges of the accusers. The only recourse left to the Muslims in such eventuality would be an appeal to the United Nations.

Mr. Jinnah talked at some length on what he regards as the utter folly of compromise. He said "we have made sacrifices, we are willing to make more sacrifices, and even die for Pakistan, so why should people talk of compromise when there is no basis for compromise".

Despite several leading questions which I asked him during the course of our conversation, Mr. Jinnah did not touch upon the present political situation or shed any light upon the probable reaction of the League to the United Kingdom Government's statement of February 20. His emphatic reiteration that there could be no compromise regarding the basic principles of Pakistan does not lead to optimism that the attitude of the League will be any more conciliatory in the future than that which it exhibited at the time of the last meeting of the Working Committee of the League on January 28, 1947.

Respectfully yours,

JOHN J. MACDONALD

845.00/3-2747 : Airgram

The Acting Secretary of State to the Embassy in the United Kingdom

CONFIDENTIAL

[WASHINGTON,] April 4, 1947.

A-391. We are disturbed by the implications of New Delhi's telegram No. 208 [203] March 27,¹ repeated to London, regarding purported plans of Hyderabad State to establish "direct relations with the British Crown" and presumably to maintain a status completely separate from that of the rest of India.

As is well known to the Embassy, we have during the past year given full support to the efforts of the British Government to effect a peaceful transfer of power to Indian hands on the basis of a federally unified India. This support has taken the form of several statements to the press by high American officials and of many informal conversations between our diplomatic representatives and important Indian leaders.

In following this course we have been fully aware of the serious obstacles in the path of Indian unity but for the excellent reasons against the division of India set forth in the British Cabinet Mission plan have inclined to the view that our political and economic interest in that part of the world would best be served by the continued integrity of India.

We have accordingly assumed that the British Government would not lend encouragement to plans such as those reported in New Delhi's telegram No. 208 [203]. We feel that a separatist move by Hyderabad may be a prelude to a fragmentation process which might have far reaching effects on any plan for ultimate Indian unity.

In the light of the foregoing please make informal inquiries of appropriate British officials to ascertain whether the British policy on the establishment of an Indian federal union, including the princely states, remains substantially as outlined in the Cabinet Mission Plan of May 16, 1946.² If there has been a change in British policy, we may have to reconsider our own position with regard to India. It is possible that the British may allude in this connection to our recent moves to establish diplomatic relations with Nepal. As pointed out in the Department's telegram No. 104 of February 25 to New Delhi,³

¹ Not printed.

² Ambassador Douglas in London informed the Department in telegram 2335, April 21, that Sir Paul Patrick, Assistant Under-Secretary of State, India Office, had stated informally but categorically that his Office shared the Department's view that in present circumstances neither Hyderabad nor any other Indian state should be allowed to establish a direct relationship with the British Crown. (845.00/4-2147)

³ In telegram 104, the Embassy was directed to seek an early opportunity to discuss with Nehru and other high officials reasons why a special diplomatic mission was being sent to Nepal (611.45e31/2-2547).

repeated to London by airgram, these steps do not have any special significance vis-à-vis the political situation in India. The status of Nepal has long been sharply differentiated from that of the Indian princely states, and we do not feel that Nepal's position is in any way analogous to that of Hyderabad.

ACHESON

845.00/4-2247

The Chargé in India (Merrell) to the Secretary of State

SECRET

NEW DELHI, April 22, 1947.

No. 1061

[Extract]

SIR:

SIGNIFICANCE

The foregoing paragraphs leave no doubt as to Mr. Jinnah's official League policy. The demand for Pakistan or nothing, and the allegation that there is not the slightest possibility of the League's entering the Constituent Assembly are bargaining points which are a logical outcome of events of the past year. While in the light of Mr. Jinnah's past performance it would be rash to predict that there is now no possibility of compromise on the question of the League's associating itself with a Union Center, the League's declared fears of Congress domination are, unfortunately, not without a rational basis.

It is difficult to condone provocative, if not frenzied, outbursts in which League leaders, including Mr. Jinnah, have indulged during the past twelve months, and it may be argued that Congress has made certain concessions to the League. Perhaps the most important of these concessions was acceptance of the principle of "equal representation" of Muslims and caste Hindus in the Interim Government, though Congress knew that in practice it would control the majority of votes through its Sikh, Christian, Parsi, and Scheduled Castes appointees. So far as acceptance of the Cabinet Mission plan is concerned, however, the League is on logical ground when it maintains that Congress has never agreed unconditionally to the plan as interpreted by the British Government.

It will be recalled that in June 1946 the Muslim League Working Committee went on record as accepting the May 16 statement without reservations, while the Congress Working Committee accepted only the long-term portion of the statement. It will also be recalled that in July Mr. Nehru and other Congressmen made statements indicating

quite clearly that Congress had no intention of adhering strictly to the provisions of the Cabinet Mission plan affecting the Constituent Assembly. As a result the League withdrew its acceptance of the Cabinet Mission plan. There followed the acceptance by the Congress Working Committee with reservations of the short-term provisions of the Plan and the formation late in August of the Interim Government which the League decided to join in October.

As has been indicated in previous reports, I am willing to believe that if the All-India Congress Committee, meeting January 6, 1947 had accepted unconditionally the British Government's statement of December 6 regarding the Cabinet Mission plan, Mr. Jinnah would have agreed to enter the Constituent Assembly. In any case, if Mr. Jinnah had then refused to enter the Constituent Assembly, Congress could have said with a clear conscience that they had done everything in their power to make it possible for the League to participate. Congress, however, fearful of losing its hold on Assam and its position among the Sikhs and the Pathans, and frightened by Jai Prakash Narain's efforts to wreck the Cabinet Mission plan, released a resolution which made it clear they were unwilling to commit themselves to the interpretation of the provincial grouping clause which had been accepted by both the British Government and the League.

Even though the British Government took the stand that Congress had, in effect, accepted the Cabinet Mission plan, the League was in a position to justify its claim that the January 6 resolution did not constitute unconditional acceptance, and in its meeting at the end of January the League Working Committee called for the dissolution of the Constituent Assembly. Annoying as Mr. Jinnah and his followers have been in many of their statements and declarations, I feel the Congress leaders have not only failed to show the magnanimity which so many observers have felt would have led to a peaceful settlement, but have demonstrated remarkable ineptitude as politicians. I question seriously whether their fear of a Muslim majority of two (36 Muslims, 34 non-Muslims) in the proposed Bengal-Assam Constituent Assembly, can be justified in the light of the larger issues involved. Had they been willing to agree to the British Government's interpretation of the grouping clause the League's civil disobedience campaigns in the Punjab, the Northwest Frontier Province, and Assam might never have materialized. As it is, the provincial League organizations concerned have demonstrated sufficient strength to encourage Mr. Jinnah in his demand for Pakistan, and the likelihood of his obtaining it in one form or another seems to be growing daily.

Most Congressmen with whom officers of the Embassy have talked during the past three months appear to have resigned themselves to

the prospect of the League's staying out of the Constituent Assembly, and recently more and more Congress supporters have indicated that they feel some sort of Pakistan is inevitable. In their effort to make Pakistan as unattractive as possible—by demanding partition of the Punjab and Bengal—Congress leaders have in effect abandoned the tenets which they have supported for so many years in their campaign for a united India. They have also agreed by implication with Mr. Jinnah's allegation that Hindus and Muslims cannot live together, a charge which in the past Congress has—quite rightly I believe—denied.

I cannot help feeling, therefore, that the present unhappy situation is as much a result of Congress leaders' political ineptitude and lack of vision as of Mr. Jinnah's intransigence. Had Congress leaders put aside their fears regarding the effect of the Cabinet Mission plan on their party's position in Assam, the Punjab and the Northwest Frontier Province, Mr. Jinnah would not have been provided with a logical basis for the Muslim League's current stand, and India might today be laying the ground-work for a united country instead of facing the prospect of Balkanization.

Respectfully yours,

GEORGE R. MERRELL

845.00/5-247 : Telegram

The Chargé in India (Merrell) to the Secretary of State

SECRET

NEW DELHI, May 2, 1947—10 a. m.

299. In hour and half conversation with Hare and Weil¹ yesterday, Jinnah said Congress demand for partition Bengal and Punjab would not "frighten" him into joining union center; that even if "driven into Sind desert" he would refuse to join union. He said establishment Pakistan essential to prevent "Hindu imperialism" spreading into Middle East; Muslim countries would stand together against possible Russian aggression and would look to US for assistance. Reminded of *Dawn's*² frequent jibes re US economic imperialism and dollar diplomacy, he said *Dawn* editors simply reflected attitude of Indian Muslims in general towards US and added jokingly "they had to make a living". He said while he realized US Govt probably open-minded re Pakistan, most Indian Muslims felt Americans were against them (a) because most Americans seemed opposed to Pakistan and (b) US Govt and people backed Jews against Arabs in Palestine.

¹ Raymond A. Hare of the Division of Middle Eastern and Indian Affairs, and Thomas E. Weil, Second Secretary of Embassy at New Delhi.

² Daily newspaper published in New Delhi; official organ of the Muslim League.

Jinnah said he thought if Calcutta area were included in Pakistan, Hindus would adjust selves to situation but if they didn't they would have to be brought under control and he thought this would "not take very long". Apropos Punjab, he said Sikhs would be fairly treated and would have as many representatives in Pakistan Parliament as Sind or NWFP. Said he thought announcement HMG's decision on Pakistan would clear atmosphere and reduce communal tension.

Jinnah's manner was calm and gracious and he showed none of nervousness or effects of illness noted by Jones of *New York Times* on April 19 (mitel 280, April 21^s).

Difficult to believe eventual announcement HMG's decision on Pakistan with or without partition of Bengal or Punjab will clear communal atmosphere. Force will undoubtedly have to be employed to control rebellious elements in Bengal and Punjab no matter who receives power from HMG in those areas.

Please repeat London.

MERRELL

^s Not printed.

845.00/6-247 : Telegram

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

TOP SECRET

LONDON, June 2, 1947—7 p. m.

US URGENT

3001.1. When I called on Prime Minister Attlee this afternoon at his request he said he desired to extend to US the courtesy of advance information regarding the announcement¹ which, with brief introduction by Prime Minister, the Viceroy will broadcast to the Indian people and to UK tomorrow, and which he himself will lay before Parliament tomorrow afternoon (Embassy's 2979, May 29, paragraph 3).²

2. In sober mood, at times tinged with sorrow, because in his own words he has been working on the Indian problem "for 21 years", Attlee explained that Viceroy is to make one last attempt to secure

¹ For text of the Prime Minister's statement, see *Parliamentary Debates*, House of Commons, 5th series, vol. 438, pp. 35-40, or Menon, *The Transfer of Power in India*, pp. 510-515. For text of the Viceroy's broadcast, see Lord Louis Mountbatten, *Time Only to Look Forward* (London, 1949), pp. 10-13, or Poplai, *Select Documents on Asian Affairs: India 1947-50*, vol. I, pp. 18-21.

² In telegram 2979 from Ambassador Douglas at London, May 29, it was explained that only the American representative, among the several whose countries had missions in India, would receive the courtesy of advance briefing on the proposed statement. This, he was told, was because only the United States had closely followed the situation and had expressed its interest by helpful statements. (845.00/5-2947)

acceptance of Cabinet mission's plan. Failing such acceptance, which Attlee believed most unlikely, Viceroy would lay before Indian leaders a procedure for the partition of India into a Hindustan dominion and a Pakistan dominion. Power might be transferred to Hindustan sometime in August. Pakistan being without administrative machinery, power transfer to it might be delayed until this is available. As regards Punjab and Bengal, plan envisages a decision by their own elected representatives as to which of the two major dominions these provinces will adhere and failing agreement, the partition of these provinces between the two. Attlee himself thought a division of Punjab likely, but said that there was a distinct possibility that Bengal might decide against partition and against joining either Hindustan or Pakistan. In this event Bengal might form a separate dominion (Embassy's 2979, May 29, paragraph 9) an alternative also open to Punjab which he thought it improbable that it would elect to do.

3. In event India is divided, Attlee indicated that such problems as the partition of gold holdings, army, etc. would be carried out by joint commissions of Indians representing the several Indian dominions.

4. Attlee was hopeful that there would be no bloodshed but feared that there would be. In its efforts to restore order Indian Army would be acting under orders of Defense Minister of interim Government of India.

5. Prime Minister thought opposition in Parliament would not object to appropriate legislation and that it would therefore go through promptly. (Embassy's 2979 May 29, paragraph 11).

6. I thanked the Prime Minister warmly for his courtesy in providing the US with this advance information, courtesy which so far as I know has not been extended to any other power.

Sent Department 3001, repeated New Delhi 46.

DOUGLAS

845.00/6-2047 : Telegram

The Secretary of State to the Embassy in India

CONFIDENTIAL

WASHINGTON, June 20, 1947—5 p. m.

337. June 19 Reuter despatch reports selection Karachi as capital Pakistan and quotes Minnigerode¹ as stating that "question of establishing an American Embassy here was engaging the attention of US authorities".

¹ Holdsworth G. Minnigerode, Consul at Karachi.

Dept appreciates fact Minnigerode may have been misquoted² but wishes stress need avoid premature indication any US intentions re establishment additional dip missions in India or that question is engaging question [*attention?*] US authorities this time.

Sent New Delhi, repeated Karachi and London. Delhi to inform other consulates.

MARSHALL

²Minnigerode informed the Department, in telegram 39, June 23, from Karachi, that the Reuters dispatch allegedly quoting him was "utterly false," and that he had limited his June 17 remarks before a delegation of eight newspapermen to the comment that he had no information on the subject of establishing an American Embassy at Karachi and was unable and unauthorized to make any statement (845.00/6-2347).

845.00/6-2747: Telegram

The Ambassador in India (Grady)¹ to the Secretary of State

SECRET

NEW DELHI, June 27, 1947—5 p. m.

459. I called on Nehru at EAD today. Chief points his remarks to me were:

1. The present government will continue in office except for those members who are Muslim Leaguers and will resign to join Pakistan. He emphasized continuity of government in "India" re Pakistan as having seceded with the approval of India because India does not wish to force it to remain.

2. His government has asked British to retain Mountbatten as Governor General for both India and Pakistan. Nehru said there was of course no assurance Pakistan would be agreeable though he seemed not without hope.

3. Nehru said he hoped India would receive expert assistance from USA but was not specific re projects. He stated government was [*has?*] a number of projects which he will later take up with me. He feels and I agree that little can be done for six weeks or two months.

4. Only comment re Mrs. Pandit was that her mission was a "difficult one".²

5. Nehru was very cordial throughout conversation.

GRADY

¹Henry F. Grady assumed charge of the Embassy at the close of business June 25.

²Reference here is presumably to the appointment of Mrs. Vijayalakshmi Pandit as Indian Ambassador to the Soviet Union.

845.00/7-247 : Telegram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, July 2, 1947—2 p. m.

475. In private conversation after lunch yesterday, Viceroy told me that during morning he had been going over draft of new India Act with Congress and League leaders (meeting separately) and that "things had been going very well." He said draft would be based on conception of continuing GOI and establishment Pakistan as a secession govt and indicated clearly he would like remain after August 15 as Governor General—at least of India, preferably of both Dominions. He seemed to feel it was important that he continue head of [*sic*] even after separation of Pakistan area from rest of India. (mytel 459, June 27, re Nehru's request that Mountbatten remain as Governor General both Dominions.)

In this connection Viceroy expressed hope I could talk with Jinnah in near future since he felt it would help matters if Jinnah had some indication US intended establish diplomatic relations with Pakistan. He said it might be possible for US set up a diplomatic mission in Pakistan under a Chargé responsible to AMA [*Amb?*] in Delhi. On other hand he said he had told UK High Commissioner Shone that UK should send High Commissioner to Pakistan (mytel 454, June 27¹). I gathered Viceroy would like US to make an early commitment to Jinnah re some kind of diplomatic representation to Karachi as an aid to him in his negotiations with Jinnah. I hope the opportunity will come soon to talk informally with Jinnah. I shall get his views without, of course, making any commitment so far as our Govt is concerned.

Please repeat to London.

GRADY

¹ Not printed.

845.00/7-547 : Telegram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, July 5, 1947—1 p. m.

488. In conversation with Hare, Jai Prakash Narain stated that Communist Party of India had circulated written instructions to members to refrain from attacking interim government following acceptance June 3 partition plan. This ties in with reports from other Indian sources. It seems safe to assume these orders originated outside India. Possible reasons for adoption this policy: Russian leaders may wish avoid at this time any appearance of unfriendliness toward new

dominion government and may not wish discourage fissiparous tendencies in India which might facilitate future infiltration.

Please repeat to London.

GRADY

845.00/7-747 : Telegram

The Ambassador in India (Grady) to the Secretary of State

CONFIDENTIAL

NEW DELHI, July 7, 1947—9 a. m.

491. I shall issue following statement at press conference today:

"I have no instructions from my Government but speaking for myself I can see no reason why, on the establishment of the two Dominions, there should not be prompt recognition of the fact by Washington. As to diplomatic representation, I would point out that all the Dominions are represented in Washington and, similarly, we have representation in all the Dominions."

Any attempt to evade or escape this issue would only arouse ill-feeling and give rise to distorted reports re diplomatic recognition Pakistan.

It would be helpful to our future relations with Pakistan if the Secretary would at a press conference confirm and possibly elaborate my statement. I have avoided use of word Pakistan.

Trevelyan¹ had told Donovan² Pakistan plan have Embassy Washington but no indication who will fill post.

Sysons, Deputy High Commissioner, says quarters for five Embassies reserved Karachi: Great Britain, USA, France and "Malaya" and "Arab States."

GRADY

¹ Humphrey Trevelyan, predecessor of Major M. O. Ali Baig as First Secretary to the Agent General for India.

² Howard Donovan, Counselor of Embassy at New Delhi.

845.00/7-747 : Telegram

The Secretary of State to the Embassy in India

CONFIDENTIAL

WASHINGTON, July 7, 1947—7 p. m.

381. We fully approve press statement urtel 491 Jul 7. Our attitude toward emerging Pakistan state was clearly foreshadowed in Dept press release No. 466 Jun 10 which states in part "Future constitutional pattern is matter to be determined by Indian people themselves and whatever that pattern may be US Govt looks forward to con-

tinuance of friendliest relations with Indians of all communities and creeds." ¹

We hope to have friendliest relations with new Pakistan state when it is established and as token that prospect I plan send message of good wishes to Pakistan constituent assembly when it convenes along same lines as recent messages to constituent assemblies New Delhi and Rangoon.² Please cable soon as known chairman this Assembly and expected date first meeting.

You will appreciate that until actual establishment Pakistan Govt and official intimation from that Govt that it wishes exchange dip reps with US it would be inappropriate issue formal press statement here on subject recognition. If reference made to your statement in my next press conference I shall of course confirm it and mention Depts press release No. 466 as background. It is obvious from your recent reports that only satisfactory form for US representation Pakistan would be independent Emb at Karachi with separate Amb accredited to Pakistan. Without making any official commitments suggest you discuss details informally with Jinnah and at same time ask him for any suggestions he may care to make on subject dip representation US and Pakistan.

Sent to New Delhi, repeated London.

MARSHALL

¹ For complete text, see Department of State *Bulletin*, June 22, 1947, pp. 1249-1250.

² Messages not found in Department of State files.

845.00/7-947 : Airgram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, July 9, 1947.

A-146. *Section I* Reference mytel No. 500, July 7,¹ re Nehru's expression of opinion that Afghanistan's agitation re NWFP probably represented effort to divert attention from domestic difficulties; and his criticism of India Bill ²—particularly with regard to provisions affecting position of States.

In course of same conversation Nehru made following additional points:

1. India's foreign policy based on desire avoid involvement with any particular bloc, to refrain from meddling, and to avoid war. India desired friendly relations with U.S.

¹ Not found in Department of State files.

² For text of Indian Independence Bill, introduced in the House of Commons by the Prime Minister on July 4 and passed without amendment by the House of Commons and the House of Lords on July 15 and 16 respectively, see *British and Foreign State Papers*, vol. 147, pt. 1, p. 158, or Menon, *The Transfer of Power in India*, pp. 516-532.

While there was some fear in India of U.S. economic penetration, India would want U.S. exports—particularly capital goods. In fact U.S. was only country from which quantities needed could be obtained. Need to conserve dollars to import food necessitated cutting down imports of consumer goods. India would probably apply to International Bank for loan.

2. While USSR had in past held considerable attraction for Indians internal troubles of India now such that interest in USSR had declined. Present interest more in Asiatic Russia than in European since conditions in former furnished Indians better clue to progress. International ideological conflicts currently less important to Indians than domestic problems.

3. Indian economy would probably tend to follow trend of British economy under Socialist government. Certain large industries would probably be nationalized; large proportion of business and industrial activity would remain in private hands.

Section II While in recent weeks Nehru has shown strain imposed by official duties and remarkably large number of receptions, etc., he seemed on this occasion unusually calm and rational, and did not talk, as on some occasions, in somewhat superficial or detached manner.

Re Afghanistan, mentioned in connection with Hare's itinerary, Nehru did not elaborate, but remarks reflected his support of policy indicated mytels No. 465, July 1 and No. 505, July 9³—namely to make it clear to Afghans GOI strongly opposed to separation of NWFP, whether from Hindustan or Pakistan.

References to USSR seemed indicate a wary attitude—no whole-hearted admiration. Remarks re U.S. seemed genuinely friendly.

GRADY

³ Neither printed.

845.00/7-1147 : Telegram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, July 11, 1947—1 p. m.

514. Deptel 381, July 7. I saw Jinnah last evening who said Pakistan CA would meet Karachi August 10 to elect chairman and organize government to take over power August 15; CA would continue in session August 10-15.

2. Election CA chairman will be first order business, I agree as soon as Embassy cables name a message of good wishes should be despatched and feel it should be over President's signature.

3. Jinnah said Mountbatten would go to Karachi August 14, turn over power in simple and brief ceremony morning of 15th, and fly back to Delhi to transfer power late afternoon (this is confirmed by Bajpai).

Jinnah pointed out reason Mountbatten must transfer power to Pakistan first is that this must be done while he is still Viceroy, since when he transfers power to what Jinnah insists on calling Hindustan, he will automatically become Governor General that dominion. It is significant Mountbatten will be chairman Joint Defense Council which will undoubtedly continue well into next year.

4. Jinnah said he expected Pakistan Government take up promptly question exchange Ambassador with US. I told him we would act with expedition. He was most cordial, expressed great admiration for US and said he was hopeful US would aid Pakistan in its many problems. I gave him warm assurances.

5. When I asked Jinnah if he had any matters to take up with me he said "not at this time".

6. Highly placed GOI official says Pakistan will probably send Ambassador to the Middle East with headquarters at Cairo, high commissioners to London and Delhi, a minister to Kabul and a representative of some sort to Rangoon.

Sent Department, repeated Kabul, Calcutta.

Department please repeat to London.

GRADY

845.6359/5-1447 : Telegram

The Secretary of State to the Consulate at Madras

CONFIDENTIAL

WASHINGTON, July 16, 1947—4 p.m.

40. Consideration being given to Travancore proposals (urdesp 786 Apr 15 and 808 May 14)¹ from viewpoint US Govt program acquisition strategic minerals. While we appreciate desirability informal and personal contact between US consular officials India and officials Indian princely states, direct and formal correspondence should be avoided since it definitely encourages assumption US Govt giving support to moves by certain Indian states to assert their independence from rest of India. Such correspondence inconsistent with standing instructions re handling matters affecting Indian states through Delhi which remain in effect at least until Aug 15 when Brit paramountcy lapses.

We are favorably impressed with present Brit policy of endeavoring bring states into one or another of two new Dominions and do not wish to take any action that might interfere with the sound objective of avoiding further Balkanization of India.

If some states eventually fail join Dominions, question direct US relations with states may arise, but we wish to avoid any premature

¹ Neither printed.

developments this regard. When answering informal inquiries, line to be taken is that US believes future of Indian states is up to Indians themselves to decide by peaceful negotiations between states and new Dominions and that we hope they will reach mutually satisfactory arrangements.

Sent to Madras, repeated to London and New Delhi.

Delhi to inform Consulates India.

MARSHALL

701.45F11/8-947 : Telegram

The Consul General at Karachi (Lewis) to the Secretary of State

RESTRICTED

KARACHI, August 9, 1947—4 p.m.

57. Reference Department's telegram 478, August 6 to Delhi.¹ I presented Secretary's message² this morning to Mr. Jinnah as President Constituent Assembly of Pakistan, which convenes tenth. Jinnah received me cordially and upon reading the message he asked that his warm thanks be conveyed to the Secretary. He stated that he would read the message to the Assembly upon its opening and was sure that the members would be pleased.

Mr. Jinnah stated that he was desirous of establishing diplomatic relations with United States as soon as possible and that he had already selected an Ambassador but did not mention his name.³ I referred to the informal conversations between him and Ambassador Grady and between other officers of Embassy and officials of Pakistan Government on this subject and stated United States Government was prepared establish diplomatic relations as soon as officially advised of Pakistan Government's wishes. I inquired of Mr. Jinnah whether he wished his present conversation be regarded as an official intimation in that sense. He suggested, after moment's reflection, that upon formation of Cabinet prior to 15th he would present the matter to the Cabinet for approval and would then, after 15th, advise me formally of his government's desire that there be an exchange of Am-

¹ Not printed.

² For text, see Department of State *Bulletin*, August 17, p. 336.

³ Presumably Mirza Abol Hassan Ispahani, who presented his credentials to Acting Secretary of State Lovett on October 3. For texts of Department announcements on 1) the agreement of the United States and Pakistan to exchange ambassadors, 2) the raising of the American Consulate at Karachi to the rank of Embassy effective August 15, with the concurrent raising of the Consulate at Madras to the rank of Consulate General, and 3) the presentation of credentials on August 28 of Mr. M.O.A. Baig as Chargé of the newly-established Embassy of Pakistan at Washington pending the arrival of an Ambassador, see respectively Department of State *Bulletin*, August 24, 1947, p. 396, August 31, 1947, p. 438, and September 7, 1947, p. 480.

bassadors.⁴ He added, however, that as he is the one who has already made the decision all else was mere formality.

I told Mr. Jinnah that of course we would need working and living accommodations as present Consulate wholly unsuitable for Embassy. I said that from conversations in New Delhi I was aware that Pakistan Government was setting aside quarters for Embassy and Embassy residence and that this gesture was deeply appreciated. Mr. Jinnah confirmed that such facilities are being made available and he added that if any further facilities were needed I should inform him. Reference Department's telegram No. 67 to me at Casablanca,⁵ subject quarters, I am looking into this matter and will inform Department. Upon solution working and living quarters problem depends question added staff. Therefore urge Department wait my further report before sending additional personnel as housing problem here desperate. At that time will also discuss question naval and military attachés on which Embassy New Delhi has made provisional report.

Sent Department as 57; repeated Delhi as 65.

LEWIS

⁴ The request for an exchange of Ambassadors was formalized by a letter dated August 6 from Mohammed Ikramullah, Secretary of External Affairs and Commonwealth Relations, Government of Pakistan, to Ambassador Grady. The request was relayed to the Department (701.45F11/8-847) and answered affirmatively on August 9 by telegram No. 62 to Karachi, repeated No. 494 to New Delhi (701.45F11/8-847), neither printed.

⁵ Not printed.

Editorial Note

For texts of messages from President Truman to Governors-General Mohammed Ali Jinnah and Lord Louis Mountbatten on the occasion of the coming into being of the new Dominions of Pakistan and India on August 15, see Department of State *Bulletin*, August 24, 1947, page 396.

102.78/9-247 : Telegram

The Ambassador in India (Grady) to the Secretary of State

RESTRICTED

NEW DELHI, September 2, 1947—6 p. m.

782. For Anderson¹ Agriculture. At request of Secretary General Bajpai, I called on him today where I met Secretary Food Department GOI. Secretary General stated GOI already faced with serious danger due short crops and partition disturbances. Failure on food

¹ Clinton P. Anderson, Secretary of Agriculture.

front would endanger foundation new formed state struggling maintain law and order.

Food Secretary stated food grain stocks in deficit areas first November estimated sufficient few days only and no internal surplus sources available due late autumn harvest result late monsoon. He requested (1) that everything possible be done to expedite delivery 270,000 tons USA allocation last quarter '47 emphasizing that shipments direly needed arrive India between October 15 and December 15; (2) that allocation be increased by 100,000 tons which would be great help maintaining "controlled hunger" at present low rationing scale which will have to be cut further.

Food Secretary stated GOI unable obtain further food shipments Australia or Middle East—have just obtained agreement Argentina but procurement and shipments too uncertain depend upon help from there.

I informed Indian officials I would transmit facts of situation to my government with recommendation that as much as possible be done to relieve crisis. It is particularly important that shipments be expedited to reach India between October 15 and December 15. Food will contribute a great deal in maintaining law and order especially in refugee settlements which are becoming quite a problem Delhi vicinity. GOI would not be inclined to overstage [*overstate*] food import requirements at this time when dollars are needed for other essential imports.

I urge and would greatly appreciate personally your earnest effort in this matter.

GOI also making representations through Indian Embassy Washington.

GRADY

845.01/9-347: Airgram

The Ambassador in India (Grady) to the Secretary of State

CONFIDENTIAL

NEW DELHI, September 3, 1947.

A-207. I discussed with Bajpai¹ yesterday the difficulties we were experiencing in getting favorable consideration, in fact any consideration, on a number of matters which I have taken up with the various departments of Government since my arrival here. Apparently the Office of External Affairs has as yet little influence on other departments. When the Government is in a position to have regular meetings of the Ministers, it is expected that there will be improvement. Bajpai stressed the great weakness of administration and properly observed

¹ Girja Shankar Bajpai, Secretary-General, Ministry of External Affairs and Commonwealth Relations.

that good and adequate administration is basic to the success of government. He pointed out in this connection that the Government of India should have at this time, based on conservative estimates of requirements, 1,200 ICS personnel, whereas it has actually 410.

He queried me quite unofficially on the matter of loans to India. I stated that I felt that if the Dominion Governments solve their initial problems of organization and the economic and political situation reverses the present downward trends so that the outlook is promising, I saw no reason why application for private credits on the part of industries from American banks would not be in order, and that the Government of India might for its large public works approach the International Bank and/or The Export-Import Bank.

I told him quite frankly that I could not at this time favor any loans for India. I hoped that in six months or a year the situation would warrant my cooperation if the Government of India wished to approach either of the above mentioned agencies.

GRADY

102.78/10-347 : Telegram

The Acting Secretary of State to the Embassy in India

RESTRICTED

WASHINGTON, October 3, 1947—5 p. m.

649. From Agriculture. Your 782, Sept. 2 and 909 Oct. 1.¹ Indian food situation constantly reviewed here along with that of other countries. In view of current grain situation growing out of our decreased production total grains, developing plans for Marshall-plan countries, and rapidly rising prices, impossible for us to assure all countries that even IEFC July-Dec proposed program from U.S.A. will be met. Not possible to add to July-Nov programs to India totaling 408,500 tons, and currently it appears that Dec program cannot be more than fraction of Nov. Advisable India maximize efforts to procure much larger share of imports from other areas. Indian Mission and Embassy fully acquainted with our position over past several months.² [Agriculture.]

LOVETT

¹ Telegram 909 not printed; in it Ambassador Grady reasserted the gravity of the food situation and pressed for an answer to telegram 782 (102.78/10-147).

² Documentation on the Ambassador's further unsuccessful effort to effect an increase in United States grain exports to the new Dominion is in Department of State file No. 102.78.

845.00/10-547 : Telegram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, October 5, 1947—11 a. m.

922. For the Secretary. Bajpai told me last night that a non-Muslim caravan of 500 moving on October 3 under guard from NWFP toward

East Punjab was attacked by Muslims and that about 400 killed and remainder including women and children wounded. These 500 were part of the concentration of about 50,000 non-Muslims who have during recent weeks fled from West Punjab into NWFP for safety.

Prime Minister through Bajpai makes formal request that US make available ten army transport planes to fly these 50,000 refugees from a concentration point, say at Peshawar, to Armtisar [*Amritsar*]. These refugees are in bad shape, are starving, and in immediate peril. They cannot be sent by caravan because of the physical weakness of so many and certainty of attack. GOI will pay full cost of operation and believes removal can be effected one week. GOI has available sixteen BOAC Dakotas only a few of which in condition to fly.

Attack on caravan has not been reported Delhi. When news gets out a new outburst against Muslims in Delhi is almost certain and if the 50,000 perish from hunger and/or attack communal war will reach proportions beyond anything yet seen. GOI is now under attack for not evacuating non-Muslims from NWFP and present government may fall if it cannot evacuate them. Could not MacArthur quickly send ten transport planes? It means much not only from humane standpoint but from standpoint of the whole future of India.

I ask that this appeal be taken up directly with Secretary of War and if necessary with the President.

Sent Department 922, repeated Calcutta 101; Karachi informed.

GRADY

845.00/10-747

Memorandum of Conversation, by the Acting Secretary of State

CONFIDENTIAL

[WASHINGTON,] October 7, 1947.

Participants: The Acting Secretary, Mr. Lovett
The Indian Ambassador, Mr. Asaf Ali

Present: Mr. Mathews,¹ SOA

The Indian Ambassador called informally at 5:15 to express his appreciation of my statement to the press on September 24² and to give me his impressions of the Indian situation gained during his recent period of consultation in New Delhi.

STATEMENT OF SEPTEMBER 24

The Ambassador said that he and his Government were very grateful for the sympathy and understanding of India's problems shown in

¹ Elbert G. Mathews, Assistant Chief, Division of South Asian Affairs.

² For text, see Department of State *Bulletin*, October 12, 1947, pp. 748-749. This statement was the outcome of a request by Secretary-General Bajpai, in telephone conversation with Ambassador Grady September 13, that the Secretary of State make some form of statement supporting the Government of India in this difficult period when press despatches in American papers were showing an unfriendly tone (845.00/9-1447).

the statement of September 24, and that he believed that it had a salutary effect on the tone of American press reports and comments concerning conditions in India. I thanked him for his kind remarks.

THE RECENT DISTURBANCES

The Ambassador sketched the history of communal disturbances during the past several years, and said that although localized and involving only some one and one-half percent of India's (and Pakistan's) peoples, the troubles in the Punjab since August 15 had been on a much larger scale than the leaders of the new Dominions had expected, and that the displacement of population which has resulted was not anticipated. These developments originated spontaneously among the people and have created very serious problems for the two newly-formed Governments.

In Delhi by the end of August, the Ambassador said, a potentially dangerous situation existed as some 250,000 refugees from the Punjab had assembled in the city. However, serious disturbances were avoided until the arrival in early September of a second influx of refugees. The Ambassador's own investigations and those of his Government had convinced him that these refugees came prepared to make trouble. The instigators were the Sikhs, the militant Hindu organization Rashtriya Swayam Sewak Sangh, and "counter-revolutionary" elements. The last were certain rulers of princely states in the Punjab, notably Patiala and Faridkot who had stores of arms and ammunition. These rulers presumably hoped to discredit the new Government in New Delhi.

The Government of India has appointed a Minister of Refugees to handle the short-term aspects of the displaced persons problem and a Minister of Resettlement to develop long-term solutions. The Ambassador was not aware of the steps being taken by the Government of Pakistan, but he felt sure that it had a similar program.

INTERNATIONAL REPERCUSSIONS OF RECENT DISTURBANCES

The Ambassador referred to India's strategic position in Asia and expressed the view that disturbed conditions in the subcontinent encouraged aggressive powers, citing the explosive Indian situation in 1941 and 1942 as having enticed the Japanese into ever-expanding adventures in the belief that India would fall to them without a struggle. He saw certain similarities in the present situation and suggested that the USSR had decided to open a diplomatic offensive against the US [*sic*] on the assumption that India was in chaos. He pointed out that India's northernmost boundary lay only fifteen miles from Soviet territory (actually, this is a boundary of the domains of the Maharaja

of Kashmir who has not yet acceded to India or Pakistan) and that the USSR had shown great interest in Indian developments. It was therefore unfortunate, the Ambassador felt, that press reports should emphasize the troubles of India. He implied that he was telling me this under instructions from his Government, and said that he had made his views known to Lord Mountbatten and to British officials in London. He added that he hoped to discuss these matters with the President when the latter was less occupied than at present.

I said that I found his analysis of the current position very interesting. I commented that the preoccupation of the press with dramatic events was an ever-present problem, and added that as long as Sikhs attacked Muslims and Muslims retaliated, the press would feature this news.

INDIA'S FOOD REQUIREMENTS

The Ambassador stated that India's need for grain imports was still very great and had been increased by the disturbances in the Punjab (an important grain producing area). His country had spent one billion rupees (\$300,000,000) for foreign food grains and must continue these large and burdensome disbursements. He hoped that the US would be able to increase its allocation to India, which would be a concrete evidence of the American desire to aid the Dominion. His Government had approached the USSR for grain, but had been refused.

I pointed out that the US grain position was very difficult owing to the failure of the corn crop, and that we were faced with the necessity of reducing rather than increasing export allocations.

I told the Ambassador that we were very glad to have him with us again, and I appreciated his frank and helpful review of conditions in his country. Some of us in the Department had found it difficult to understand certain of the aspects and ramifications of the partition of India, but clarifications such as he had just given were of great assistance to us.

The Ambassador departed at 5:45.

845.00/10-547 : Telegram

The Acting Secretary of State to the Embassy in India

SECRET

WASHINGTON, October 9, 1947—6 p. m.

US URGENT NIACT

667. Convey substance following to Nehru (urtel 922 Oct 5) : President and Acting Secy have considered GOI request and Air Dept studying technical problems involved. President and Acting Secy

sympathetic but of opinion US could act only if request made jointly by GOI and GOP. Joint request should be accompanied by indication size and location refugee groups both Dominions in imminent danger and movable only by air, it being assumed two Govts will make every effort resume adequately protected rail and road movement refugees whose resettlement absolutely essential. However, this Govt would hesitate venture into undertaking this kind unless assured by two Govts that they would immediately establish intensive overall joint inter-Dominion program provide adequate protection minorities, prevent inflammatory statements, demonstrations and other incitements communal violence, and reduce displacement population.

If Nehru accepts suggestion GOI-GOP approach, inform him US Emb Karachi will apprise GOP of US position. Cable GOI decision urgently Dept, Karachi and London.

For your info, preliminary informal discussions with Air Dept indicate provision US planes technically feasible. Planes obviously could not be placed disposal two Dominions but would have remain under operational control US commanding officer. We would make no charge for planes but would expect two Dominions supply gasoline, oil and maintenance facilities, and quarters, food and adequate protection for crews. Thinking here is that transport refugees from both Dominions would almost certainly be involved, and that situation affords opportunity not only render humanitarian service but also press two Govts to closer cooperation in solving mutual problems.

Following for Karachi Action

If Emb Delhi reports GOI agreeable joint request, you should inform Liaquat Ali Khan GOI has requested US military planes assist movement refugees, that US Govt could act on joint GOP-GOI request only, and that if GOP wishes associate itself with GOI, this Govt will give resulting joint request sympathetic consideration, provided it is part overall inter-Dominion effort as indicated first para this tel.

For your background but not for disclosure GOP, GOI request related specifically movement some 50,000 non-Muslim refugees NWFP to Amritsar.

Following for London Action

Delhi's 922 already repeated to you for info. Inform HMG of US position as outlined herein and state US Govt would welcome HMG views and comments and appreciate being informed whether HMG has been similarly approached. If so, ample scope parallel assistance probably exists.

Sent New Delhi; repeated Karachi 134 and London 4360.

LOVETT

845.00/11-1047: Telegram

The Ambassador in India (Grady) to the Secretary of State

SECRET

NEW DELHI, November 10, 1947—5 p. m.

1036. ReDeptel 707 to Delhi October 29.¹ Bajpai yesterday again requested on behalf of Prime Minister use American planes to expedite transfer non-Muslims from vicinity of Peshawar to Arerroj Amritsar. There are still about 40,000 vicinity Peshawar. According to press about 20,000 non-Muslims have up to date been moved into India by air. Our aid most important to hasten completion migrations and reduce tension. GOI has done all in its power to comply US Government's conditions. It cannot control attitude or actions GOP. ReEmbtel 940 October 11 and my recommendations next to last paragraph which Denning concurred in.² Department's conception interdominion program excellent idea but unrealistic. The roots of the conflict which brought about the division of India too deep to be healed or particularly ameliorated by loan of ten planes. I am convinced it is fundamental for US Government to support Nehru in every way possible. If he should fall disintegration in India could easily follow. We do not want, I am sure, India to become another Greece. Russia would in my opinion rather control India than several Greeces.

This Embassy has received no information re communications this subject between Karachi and Washington since Karachi wire October 28 No. 105.³ Since Liaquat Ali Khan said (Lahore's 26 October 12³) he had no objection in principle to landing planes in Pakistan Department could state willingness to go ahead with India, notify Pakistan, request their clearance for planes to land and invite their participation on return trip. If they refuse clearance, responsibility for our inability to comply this request will be only on Pakistan and goodwill US Government will have been demonstrated.

Sent Department 1036, repeated Karachi as 91, Lahore informed.

GRADY

¹ Not printed.

² Grady recommended in telegram No. 940 that the United States Government proceed with the airlift if technically feasible and not objectionable to the Government of Pakistan, regardless of whether the latter specifically requested such facilities (845.00/10-1147).

³ Not printed.

845.00/11-1047: Telegram

The Secretary of State to the Embassy in India

SECRET

WASHINGTON, November 14, 1947—7 p. m.

751. Convey substance following Bajpai (urtel 1036 Nov 10): When original GOI request planes referred President he expressed sympathy

but stipulated planes could only be provided in response joint GOI-GOP request. Considerations which led President make this stipulation still exist, and US Govt regrets it cannot act on request one Dominion for planes to be used interdominion flights. Moreover, while US Govt recognizes protection and movement refugees still present great problems both Dominions, GOI and GOP efforts protect refugees have largely eliminated imminent mortal danger refugees which prevailed early Oct and which was then primary factor in leading US Govt give sympathetic consideration provision its planes.

Following for your info only. In view President's stipulation, Dept would have to refer matter White House again to obtain authority act on request from GOI only. Dept does not feel justified do this or press Air Force provide planes now for following reasons. (1) Improvement refugee situation noted above. Dept fully aware continuing potential danger but doubts that US aid on practicable scale would remove danger. (2) Karachi tel 158 Oct 30¹ reported GOP had moved 8000 non-Muslim refugees from NWFP by rail. Hence, refugee group of primary concern GOI apparently can be moved without planes. (3) GOP obviously not enthusiastic about US planes as Lewis never approached, and GOP made special effort move NWFP group by rail. (4) GOI has obtained more than ten planes originally requested US from other sources including BOAC and internal airlines, although planes from latter source appear have been used for movement troops and military supplies to Kashmir and not for refugees. (5) Provision US planes at present obviously would not contribute improvement GOI-GOP relations which as you point out have so deteriorated that relatively small US gesture would be ineffective. As you are aware, Dept from outset emphasized view that primary justification for and objective of provision US planes was closer GOI-GOP cooperation.

Dept appreciates and has carefully considered Emb point of view this matter but feels factors enumerated foregoing paragraph impel negative response GOI request.

Sent Delhi 751 Rptd London 4852 and Karachi 179 Karachi pass to Lahore.

MARSHALL

¹ Not printed.

*The Acting Secretary of State to the Pakistani Ambassador
(Ispahani)*

The Acting Secretary of State presents his compliments to His Excellency the Ambassador of Pakistan and has the honor to refer to

the Embassy's note of November 28, 1947¹ asking whether this Government would be prepared to receive a financial mission from the Government of Pakistan to continue negotiations on the subject of a dollar loan; and to a note of the same date¹ addressed by the Chargé d'Affaires *ad interim* of Pakistan to the Acting Secretary of State with specific regard to a loan for the relief and rehabilitation of refugees who have entered Pakistan in a destitute condition from India.

As Mr. Laik Ali² was verbally informed by officers of the Department some weeks ago, the memoranda submitted by him in connection with proposed economic reconstruction and development projects in Pakistan appear to reflect a program which will require implementation over a period of years as foreign capital and technical assistance can be obtained, technical and managerial personnel can be trained, and adequate credits can be secured. He was also informed that this Government is not authorized to extend foreign credits for a comprehensive program of this magnitude without prior Congressional approval and appropriation. Since the Department is not prepared, at this time, to recommend such Congressional action, it was suggested to Mr. Laik Ali that the Government of Pakistan break down the comprehensive program envisaged in his memoranda into selected projects which might qualify for financing by the Export-Import Bank or ultimately by the International Bank. To assist in reviewing the projects eligible for such financing and to make clear the procedures to be followed, there is attached hereto a statement of principles governing the operations of the Export-Import Bank.¹

In view of the limited availability of public funds, the possibility of drawing upon private funds to meet a part of Pakistan's capital needs should not be overlooked. It is the understanding of the Department that representatives of the Government of Pakistan have already taken preliminary steps in this direction. The growing restoration of order in Pakistan, and the continued improvement of economic and political relations between Pakistan and neighboring countries will, no doubt, encourage such private investment.

The Department would, of course, welcome a visit to this country at any time by the Finance Minister of Pakistan, but it would appear that the most advantageous step that could be taken now would be the submission of a fully documented application by the Government of Pakistan for credits to finance one or more specific projects by the Export-Import Bank in terms of the statement of principles transmitted herewith. Such an application should be sent directly to the Bank

¹ Not printed.

² Representative of Pakistan in Washington doing preliminary investigation on procurement of a short term \$45 million loan for his country.

through the Embassy of Pakistan at Washington. An opportune time for high officials of your Government to be present in Washington would be during the period when the Bank has such an application under consideration.

With respect to the problem of relief and rehabilitation of refugees in Pakistan, it is noted that the Embassy of Pakistan has already taken steps to obtain some assistance from the War Assets Administration. This Government is fully aware of the grievous hardships that have been imposed upon millions of persons as a result of recent disturbances in Pakistan and India and is deeply sympathetic with the efforts that are being made for the relief and rehabilitation of these destitute groups. The full support of the Department will be given to the efforts which the Embassy of Pakistan is making to obtain assistance from the War Assets Administration. There is, however, no other channel through which additional relief supplies may be obtained except through volunteer American relief agencies. In this connection the attention of the Embassy is called to the efforts now being made by the Committee for Emergency Aid to Pakistan and India, which has its headquarters in care of Church World Service, Inc., 37 E. 36th Street, New York, New York. The Department is in close touch with this organization and has given it all possible moral support and appropriate information concerning the refugee situation. It is understood that the Committee for Emergency Aid to Pakistan and India has already shipped considerable quantities of relief supplies to the two countries and that one hundred volunteer workers are now engaged under its auspices in relief work on both sides of the Pakistan-India frontier.

Some weeks ago it was suggested in a communication addressed to the Government of Pakistan through the Embassy of the United States at Karachi, that the Government of Pakistan establish a fund in the rupee equivalent of \$2,000,000 to enable the American Relief Committee to utilize such personnel and relief supplies as may be available locally. Thus far no response has been received to this suggestion.³

WASHINGTON, December 17, 1947.

³ In a follow-up memorandum of December 29 the Department corrected this last paragraph by the following statement: "Subsequent investigation reveals that the Government of Pakistan's consideration of the establishment of a fund for the utilization of the American Relief Committee was not invited in the form of a communication from the Embassy of the United States at Karachi, but that the Government of Pakistan was approached through its Consulate at New York City directly by the Committee for Emergency Aid to India and Pakistan, with a suggestion that the volunteer agencies effecting shipments to Pakistan be reimbursed in rupees by the Government of Pakistan in the amount of the overseas freight charges incurred. The funds thus received by the agencies would be employed in Pakistan for the distribution of supplies and the maintenance of relief personnel." (845F.51/12-2947)

845.00/12-2647

*Memorandum of Conversation, by Mr. Joseph S. Sparks of the
Division of South Asian Affairs*

[Extracts]

SECRET

[WASHINGTON,] December 26, 1947.

The following notes compose an abstract in abbreviated form of the discussion on Tuesday morning, December 16, between the three Ambassadors¹ currently on consultation in SOA, and the appropriate Department officers:²

MR. HARE: Should we be thinking still in terms of an eventual return to a united India, and are there certain realms of cooperation between India and Pakistan on which we should concentrate our attentions?

AMBASSADOR GRADY: There is a chance for overall cooperation without disturbing the institutional independence of either country. The possibility of a Joint Parliamentary Committee is an example. This would not represent an about face on the question of the division of the country, but would be an attempt to cooperate along economic and defense lines. Real progress in this direction was made in the recent Lahore meetings with only Kashmir left unsettled.³ Nehru is pessimistic about this one problem, but I do not feel that solution is hopeless. Even if Kashmir is not satisfactorily solved, the countries may well go ahead on other cooperative lines. For example, a Customs Union is possible and would serve to solve the jute problem. On the whole, a loose federal system is the maximum we could hope for. Earl Mountbatten hopes for concrete advances in this direction before his departure in April.

AMBASSADOR ALLING: You agree that it is unlikely that the two nations could get together?

AMBASSADOR GRADY: They could not on the pre-August 15 status. However, feelings at top level are not as antagonistic as the public utterances of the leaders suggest. Communal feelings will last a long time with sporadic uprisings, but this will not interfere with high level cooperation. At the top level, the troubles which have been experienced have taught a lesson and some humility. Chances are better than fifty-fifty there will be no more serious uprisings.

¹ Henry F. Grady, Paul H. Alling, appointed Ambassador to Pakistan September 25, 1947, and Jerome Klahr Huddle, appointed Ambassador to Burma October 17, 1947.

² Henry L. Deimel, NEA, Raymond A. Hare, Ray L. Thurston, E. G. Mathews, Ernest F. Fox, Edward Dahl and Joseph S. Sparks, SOA, and Hooker A. Doolittle, Consul General at Lahore. Mr. Hare was Chief of the Division of South Asian Affairs.

³ For documentation on the Kashmir dispute, see pp. 179 ff.

MR. HARE: What should our tactics be in political, economic, and defense fields?

AMBASSADOR GRADY: The economic field is the easiest to answer—defense is now being worked on in the two countries.

MR. THURSTON: The Joint Defense Council is being retained.

MR. MATHEWS: Are possibilities of cooperation stronger if the two Dominions remain in the Commonwealth?

AMBASSADOR GRADY: We should encourage a loose federation, but I question our interfering in the Commonwealth problem. We are already accused of pulling British chestnuts out of the fire. I don't think the possibility of cooperation would be affected, although the countries might work together better if they were independent. It would be difficult if one country left the Commonwealth and the other stayed in, but, in my opinion, cooperation between the two does not depend on their Commonwealth status.

AMBASSADOR HUDDLE: Are there any indications as to whether India will remain in the British Commonwealth?

AMBASSADOR GRADY: Not yet, although the Draft Constitution provides for a republic.

AMBASSADOR ALLING: If India withdrew, would that affect the status of the Princely States?

MR. THURSTON: That is possible.

MR. HARE: Are you convinced of the sincerity of Patel's⁴ change of approach to the communal problem?

AMBASSADOR GRADY: I am inclined to think Patel is sincere. He is confident of the future of India, but not so confident of the future of Pakistan. Patel may be counting on Pakistan falling back automatically to India as a result of the working of economic forces. He told me he expects East Bengal to want to go back to India within a year. Communal troubles have occurred in Calcutta, but were brought under control.

MR. THURSTON: Has there been any further talk about a united Bengal?

AMBASSADOR GRADY: No. There is a strong anti-British feeling among top Indians. They want the British out and the sooner the better. I think India will carry through on the question of separation.

MR. DOOLITTLE: Does resentment extend to British businessmen?

AMBASSADOR GRADY: Yes, but officials and major industrialists are the leaders among the Indians who wish to eliminate the British.

AMBASSADOR ALLING: Pakistan has not even considered going back to India.

⁴Sardar Vallabhbhai Patel, Minister for Home, Information, Broadcasting and States, Indian Dominion Government.

MR. HARE: What should our attitude be?

AMBASSADOR GRADY: Encourage cooperation—stay out of Commonwealth questions. There is no anti-American feeling in India (the newspapers do not really carry enough influence to count in this), but there would be, if we identified ourselves with the Commonwealth cause.

MR. THURSTON: We have taken on certain commitments in supporting Pakistan internationally which we could not now go back on.

AMBASSADOR GRADY: I agree we must be very careful. Indians are very jealous of everything we do for Pakistan. I am constantly questioned on this point in India. If we made a loan to Pakistan, India would resent it unless we gave the same to India. This applies to all matters right down the line.

MR. HARE: Would you agree that our key note now should be good neighborliness rather than unity?

AMBASSADOR GRADY: I would.

AMBASSADOR ALLING: There are international problems bringing the countries together, i.e., South Africa, Palestine, et cetera.

AMBASSADOR GRADY: Yes—and the number will increase as time goes on.

AMBASSADOR ALLING: What are the possibilities of a Customs Union?

AMBASSADOR GRADY: Very good. They are working toward it. Rajagopalachari⁵ deploras reference by Indian leaders to unity as he feels it accomplishes nothing, and offends Pakistan leaders.

MR. THURSTON: Pakistan needs revenue. Can they afford a Customs Union?

AMBASSADOR GRADY: If they could jointly raise tariffs against the world, they could increase revenues, and I believe they will do just that.

MR. HARE: Shall we agree then, that we will never question independence of either country in our policy, but will encourage cooperation wherever possible?

AMBASSADOR GRADY: Yes—particularly economic.

UNITED STATES-BRITISH COOPERATION

AMBASSADOR GRADY: The British have been friendly, but have made no attempt to consult with us on common problems or to ask our advice. Neither Shone nor Mountbatten thinks of us in any way as partners. They have over three hundred people working on trade relations. I have expressed more sympathy for British trade than the British have for American trade. On more than one occasion, Mountbatten has warned Nehru against dollar imperialism.

⁵ H. E. Rajagopalachari, Governor of West Bengal.

MR. HARE: Can we do anything about that attitude?

AMBASSADOR GRADY: I have waited patiently for a hand of cooperation from the British, but it has never come. Any change in this attitude would have to come on orders from London.

MR. HARE: There is no reason why British-United States interests should clash in India?

AMBASSADOR GRADY: None whatever. The British are not happy about the strong position which we have in India, or about the weak position which they have. They are trying to salvage everything they can from the separation. Shone thinks only in terms of immediate British interests.

MR. THURSTON: How do you feel about the Department's point of view as outlined in the Consultation Memoranda?

AMBASSADOR GRADY: I think it is all right—quite sound. I think top level conversations in London at this time a good idea.

MR. HARE: Could such general cooperation be sold to the British?

AMBASSADOR GRADY: There are many fields in which we should be cooperating, but are not. There are only minor relations between Shone's office and ours. The Deputy High Commissioner is more helpful. Shone is not a heavyweight and is the key to the problem. Certain British generals, however, have been very cooperative. I think Shone's attitude is personal rather than official.

GENERAL ECONOMIC SPECIFIC AIMS

Aviation

AMBASSADOR GRADY: I don't believe American civil air lines are doing us much good in India because of their service (or lack of it). The situation is moving along rather satisfactorily, however, competition will be stronger, particularly from Indian lines which may look to the Government of India for help vis-à-vis United States lines.

Princely States

AMBASSADOR GRADY: I was asked if the United States Government would help in obtaining office space in Washington for Hyderabad. They talk in terms of tremendous business development, but are concerned about demands of material to carry out the Marshall plan, and its effect of [on?] India's needs. I think it a great mistake for our Government to overlook India in concentrating on Europe. There should be a real fight on the part of all of us here to see to it India isn't overlooked.

MR. HARE: If Hyderabad sets up an independent office in Washington, would they deal separately with us? Mustn't we always think in terms of India as a whole?

AMBASSADOR GRADY: The emphasis will have to be placed on working through the Indian Embassy.

MR. MATHEWS: Particularly on any diplomatic point.

AMBASSADOR GRADY: There is danger of Hyderabad trying to use its trade representation as an entering wedge. It will have to be watched constantly. Mountbatten has really appreciated our attitude of not encouraging the ambitions of Hyderabad. This attitude has strengthened GOI's hand. I think their mission should be regarded strictly as any other purchasing office.

Food

MR. DEIMEL: There has been some feeling among United States allocation authorities that India was too large and remote to help. We have fought that and have been reasonably successful in keeping India from being cut down too much.

AMBASSADOR GRADY: GOI is anxious to reduce food purchases as soon as possible from the dollar area to their absolute minimum needs.

MR. THURSTON: What effect will abandonment of rationing controls have on food consumption in India?

AMBASSADOR GRADY: It was a spirited fight and results are not yet clear.

I think prices will advance which will cut consumption at the wrong level of the economy.

[Omitted here are final paragraphs concerning Ambassador Grady's request for increased administrative funds and a second plane for Embassy use at New Delhi.]

UNITED STATES CONCERN OVER DEVELOPMENT OF THE KASHMIR DISPUTE

845.00/10-2847: Telegram

The Chargé in Pakistan (Lewis) to the Secretary of State

RESTRICTED

KARACHI, October 28, 1947—11 a. m.

153. Alleging that GOP has been trying coerce Kashmir join Pakistan by economic strangulation and be [by] sending soldiers in plain clothes and tribesmen from northwest frontier into Kashmir to destroy life and property the Maharaja has appealed to GOI for assistance ¹

¹ For text of a letter dated October 26 from the Maharaja of the State of Jammu and Kashmir, Sir Hari Singh, to the Governor-General of India, Lord Louis Mountbatten, requesting acceptance of an instrument of accession and immediate military assistance, see Government of India, *White Paper on Jammu and Kashmir*, place and date of publication not indicated, pp. 46-47.

and signed on October 27 instrument of accession ² which was accepted same day by Mountbatten. However, latter stated in letter acceptance that "as soon as law and order have been restored in Kashmir and her soil cleared of the invader the question of the state's accession should be settled by reference to the people." ³ Meanwhile, Mountbatten added in response Maharaja's appeal for military aid, troops of Indian army are being sent Kashmir. Maharaja has set up interim govt under Sheikh Abdullah and this accepted by GOI.

These developments have created sensation here and will certainly be taken seriously by GOP.

Developments this point summarized Embassy's despatch 196 October 27 mailed yesterday.⁴

LEWIS

² For text of Instrument of Accession signed by Hari Singh on October 26 and for statement by Lord Mountbatten on its acceptance dated October 27, see P. L. Lakhanpal, *Essential Documents and Notes on Kashmir Dispute* (New Delhi, 1958), pp. 57-58.

³ For text of Mountbatten's letter of acceptance dated October 27, see Government of India, *White Paper on Jammu and Kashmir*, pp. 47-48.

⁴ Not printed.

845.00/11-347 : Telegram

The Ambassador in India (Grady) to the Secretary of State

CONFIDENTIAL

NEW DELHI, November 3, 1947—noon.

1009. Bajpai ¹ yesterday advised me as follows regarding Kashmir: some things he said were later covered in Nehru's radio address reported mytel 1004, November 3.²

In attempting arrange conference between two Governors General and Prime Ministers ³ at Lahore Mountbatten found Jinnah very difficult. Jinnah said he had no confidence in Government of India. Perhaps Mountbatten should not have communicated this to GOI but he stated it to GOI Defense Commission. Despite this Nehru was prepared to go to Lahore until he read Jinnah's statement accusing GOI of "fraud" in connection with accession of Kashmir.⁴ Mountbatten is

¹ Sir Girja Shankar Bajpai, Secretary-General, Ministry of External Affairs and Commonwealth Relations.

² Not printed. Reference is to a broadcast on the night of November 2. For text, see Government of India, *White Paper on Jammu and Kashmir*, pp. 52-55.

³ Governors-General Lord Mountbatten and Mohammed Ali Jinnah, Prime Ministers Pandit Jawaharlal Nehru and Liaquat Ali Khan.

⁴ Reference here is presumably to the meeting of the Governors-General and Prime Ministers originally scheduled for October 29, and to a Pakistan Government press release of October 30 stating that the accession of Kashmir to India was based on fraud and violence and as such could not be recognized. For text, see S. L. Poplai, *Select Documents on Asian Affairs: India 1947-50*, Bombay, (Oxford University Press, 1959), pp. 374-377.

continuing negotiations with Jinnah. Jinnah first proposed that if Indian troops withdrawn from Kashmir, invaders would withdraw. This in opinion of GOI indicated control by Pakistan over invaders who Bajpai said have looted and destroyed at least 100 villages on border. GOI countered this proposal by promising to withdraw troops if invaders first withdrew and proposed plebiscite or referendum under UN auspices.⁵ They had in mind observation similar to that which British, French and Americans conducted last year in Greece.⁶ They are awaiting Jinnah's reply to this proposal.

Bajpai stated military situation as far as GOI forces are concerned seemed "under control".

He mentioned deep concern GOI naturally has for Kashmir and referred to three neighbors on north—China, Afghanistan and USSR. GOI not concerned about first two but definitely concerned about last if Kashmir becomes center of real conflict and chaos gets deeper. He observed specifically that Prime Minister concerned with regard to USSR.

When invasion first began Nehru wired Attlee urging him request Pakistan exert its influence on tribesmen to withdraw. Attlee's reply in form of general admonition that two Dominions should preserve peace. GOI felt his message patronizing and failed to appreciate position of GOI and necessity it was under to respond to appeal of a friendly neighbor for assistance when it was under attack. Nehru replied to Attlee at great length outlining whole situation as GOI sees it. GOI does not like what it regards as lecturing from London and feels HMG is taking its friendliness and good will for granted while it woos Pakistan. Bajpai promised keep me fully informed particularly with respect Jinnah's response to GOI's latest proposal.

Sent Department 1009, repeated Karachi 84.

Please repeat London.

GRADY

⁵ See telegram dated November 8, 1947, from Pandit Nehru to Liaquat Ali Khan, Government of India, *White Paper on Jammu and Kashmir*, pp. 61-62.

⁶ For documentation on this subject, see *Foreign Relations*, 1946, vol. VII, pp. 88 ff.

501.BB/12-247 : Telegram

The Acting Secretary of State to the Embassy in India

CONFIDENTIAL

[WASHINGTON,] December 2, 1947.

55. The Acting Secretary of State transmits herewith for the information of the Embassy a copy of the position paper on the India-

Pakistan dispute over Kashmir prepared for the United States Delegation to the General Assembly of the United Nations.¹

[LOVETT]

[Enclosure]

INDIA-PAKISTAN DISPUTE OVER KASHMIR

THE PROBLEM

Indications recently received from official sources in India and Pakistan and from unofficial sources, including Prime Minister Jawaharlal Nehru's speech of November 1, 1947,² are that the current dispute between India and Pakistan over Kashmir may be referred to the United Nations for settlement. Pandit Nehru stated in his speech when discussing the provisional accession of Kashmir to India that "as soon as Kashmir is free from the invaders our troops will have no further necessity to remain there and the fate of Kashmir will be left in the hands of the people of Kashmir". Nehru then suggested a referendum in Kashmir "under international auspices like the United Nations".

RECOMMENDATIONS

We would much prefer that the Kashmir question be settled by direct negotiation between India and Pakistan. However, in the event that a resolution requesting the intervention of the United Nations, and in particular requesting the United Nations to supervise a referendum in Kashmir, is introduced by India or Pakistan and supported by the United Kingdom, the United States Delegation should also support the resolution. Such a resolution should define the electoral body in terms of universal adult suffrage.

In the event that a resolution requesting the intervention of the United Nations should be introduced by a third power (including any other member of the British Commonwealth) or introduced by India or Pakistan and opposed by the United Kingdom, the United States position must be further studied.

COMMENT

It is increasingly apparent that this major difficulty between India and Pakistan probably cannot be removed without external assistance, or without resort to further armed conflict which may eventually involve some or all of the Afghan border tribes. Despite their vested interests in this area, because of the peculiarities of their position and the recentness of their withdrawal, the British are apparently not

¹ Copy of position paper also sent to the Embassy in Pakistan in Department instruction No. 12 to Karachi, December 2, 1947 (501.BB/12-247).

² Presumably Nehru's radio address on the night of November 2.

in a position to render this outside assistance, and rather than have the role fall either to the United States or to any other single third party, assumption by the United Nations of the problem would be preferred.

If a resolution of the nature suggested above is introduced, it will probably be by one of the interested parties. The Dominion of India may attempt to establish the extant electoral rolls as the basis for the referendum. As these rolls are said to contain less than 7% of the population and were compiled on a basis which served to weight the numbers of the wealthier educated Hindu minority who would obviously vote for accession to India, it is important that the electoral body should in fact be composed on a basis of complete adult suffrage in order that the result of the referendum may be representative of the actual wishes of the people of Kashmir.

The practical difficulties of supervising a general referendum in Kashmir should not be overlooked by the United Nations. No comprehensive electoral machinery is known to exist for conducting a general referendum. The population of Kashmir is scattered, and many sections will soon be isolated by winter. Few persons other than British political agents and missionaries have first hand knowledge of the people of Kashmir and finally, the people of Kashmir are largely illiterate and without political consciousness.

745.45F/12-2447 : Telegram

The Chargé in India (Donovan) to the Secretary of State

SECRET

NEW DELHI, December 24, 1947—1 p. m.

1151. I saw Bajpai today at his request. He showed me copy of note from GOI to GOP delivered December 22.¹ After listing various forms of assistance GOI alleges GOP is giving raiders, GOI requested GOP "to deny to invaders all access to and use of Pakistan territory for operation against Kashmir, all military and other supplies, and all other kinds of aid which might tend to prolong the present struggle".

GOI stresses its desire to live on terms of friendship with Pakistan and expresses hope that GOP will "accede promptly and without reserve" to foregoing request.

Note ends by saying that "failing such response, GOI will be compelled to take such action, with due regard to its rights and obligations as a member of UN, as it may consider necessary to protect its own interests, and those of the people of Jammu and Kashmir".

Bajpai said he saw very little hope of agreement between GOI and GOP on Kashmir question and that unless favorable reply to note was

¹ For text, see Government of India, *White Paper on Jammu and Kashmir*, pp. 74-75.

received within a week, GOI would present matter to Security Council. He feels question is practically certain to go to UN and said GOI will not permit adjudication by UK or member British Commonwealth.

He has given similar information to French Ambassador and UK High Commissioner but has not decided whether to inform Australian High Commissioner.

Bajpai admitted GOP might not be able to stop all assistance to raiders but stressed that GOP had done absolutely nothing to check activities of raiders.

Sent Department 1151; repeated Karachi as 99. Department please repeat London.

DONOVAN

745.45F/12-2447 : Telegram

The Acting Secretary of State to the Embassy in India

SECRET

WASHINGTON, December 26, 1947—8 p. m.

814. Dept seriously concerned turn Kashmir situation has taken as indicated urtel 1151 Dec 24.

Nov 12 Mrs. Pandit¹ approached Dept officials New York re Kashmir situation stating she was doing so at instance Nehru. She expressed India's desire for Kashmir plebiscite on basis adult suffrage to be held next spring under UN supervision. She mentioned plan under which India and Pakistan would agree beforehand take case SC with joint request that commission of small and disinterested countries be sent supervise and observe Kashmir elections and definitely indicated desire that Great Powers including USSR not participate in plebiscite commission.

Question UN plebiscite also discussed informally with GOP Amb Ispahani² New York who stated that although he was without instructions, he seemed³ favorably disposed toward such solution Kashmir problem.

Subsequently Dept noted that although London reported (6270 Dec 1⁴) UN approach unlikely, Mountbatten was endeavoring (Delhi's 1119 Dec 12⁴) persuade GOI and GOP agree appointment UN intermediaries including US.

¹ Vijaya Lakshmi Pandit, sister of the Indian Prime Minister and delegate to the 1947 second session of the United Nations General Assembly.

² M.A.H. Ispahani, Pakistan Ambassador to the United States and delegate to the 1947 second session of the General Assembly.

³ The word "was" which originally appeared here, was changed to "seemed" before telegram was sent.

⁴ Not printed.

Obviously best solution Kashmir problem would be amicable agreement among Kashmir authorities GOI and GOP. Failing that, it would be hoped parties to dispute would follow letter and spirit Art 33 UN Charter which enjoins recourse negotiation, inquiry, mediation, conciliation, etc., before reference UN. Dept not informed reasons why recent Lahore talks on Kashmir failed, but it appears from your 1147 Dec 23⁵ and particularly your 1151 Dec 24 direct settlement among parties concerned highly doubtful.

If Bajpai envisages recourse UN along lines Mrs Pandit indicated Nov 12, one possible procedure would be that GOI and GOP should each choose one or two UN Govts, not necessarily member SC, the two or four Govts chosen to select an additional Govt to comprise plebiscite commission. Obviously, this type approach to SC would be more effective if made jointly by GOI and GOP as suggested by Mrs Pandit, but conceivable that GOI could unilaterally make such proposal to SC. Dept believes SC technically competent authorize establishment such plebiscite commission under its auspices.

View foregoing Delhi requested informally convey GOI US regret breakdown Lahore talks, ascertain reasons for breakdown and present GOI plans for future Kashmir status; and inquire whether, in event recourse UN, plan along above lines for plebiscite SC auspices would be followed. US concerned lest recourse by India to UN without some such prearranged plan might lead to unnecessary complications and crystallize pattern GOI-GOP hostility.

Karachi requested likewise discuss Kashmir situation with GOP informally without divulging contents Delhi's 1151 and primarily with view ascertaining GOP reaction to plebiscite plan outlined above.

London should report Brit views which will be taken into account in final determination US position.

Sent New Delhi repeated Karachi 218 and London 5368.

LOVETT

⁵ Not printed.

745.45F/12-2947: Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

SECRET

LONDON, December 29, 1947—8 p. m.

6647. 1. Patrick¹ CRO described December 22 GOI note to GOP (Delhi's 1151, December 24 to Department, repeated Karachi 99) as "ultimatum" seriousness which can hardly be exaggerated. There is

¹ Sir Paul J. Patrick, British Commonwealth Relations Office.

ample reason in his view to fear GOI attack on Pakistan simultaneously with filing GOI complaint with SC. Attlee and ministers are now formulating HMG policy re various eventualities.

2. Patrick said CRO is without full account two meetings re Kashmir but he understands first talk failed because GOP while denying GOI charges, claimed it could not stop transit raiders. December 22 talk failed because in GOI note GOP was faced with ultimatum. Patrick understands GOP was willing to make joint approach to UN re broader problem long-term settlements Kashmir and Junagadh. GOP could not accept approach to UN on narrow question Pakistan complicity raiders. When GOI announced its intention to approach UN, GOP announced that it would file rejoinder with UN. This may be done December 30 because ultimatum expires today.

3. Patrick sees problem GOI-GOP relations as falling into two phases: First is finding UN means to stop conflict which may begin within next few days by GOI attack towards Lahore; second is finding way to decide long-term fate Kashmir by plebiscite or some other means (Department's 5368, December 26²). Latter may take time because plebiscite could not begin until May and if carried out on basis adult suffrage, would require about eight months to complete. Preparatory to plebiscite, peaceful conditions would have to be established in Kashmir under UN auspices. This might mean, since British troops would not be available, and since SC has no force at its disposal, decision whereby both GOI and GOP troops would be supplied for pacification Kashmir under commander appointed by SC. If and when conditions favorable for plebiscite are established, Patrick thought some arrangement comparable to that suggested Paragraph 6, Department's reference telegram might be worked out. As minor point, he doubted that GOI which considers itself in possession Kashmir would unilaterally propose plebiscite to SC.

4. Some concession by GOP to GOI might relieve tension but Liaquat has made it plain that tribesmen regard Kashmir operations as Jihad³ and are largely beyond GOP control. GOI on other hand is driven to its rash course by Nehru's "Brahmin logic" which argues that now Kashmir has adhered to GOI it is part India and consequently GOP is interfering with steps by GOI to put down rebels in GOI territory. As further factor Sikhs might get out of control and force GOI-GOP struggle.

5. If fight starts, Nehru will demand immediately and obtain withdrawal British officers from Pakistan Army thus crippling it. Patrick said "we will withdraw British officers as quickly as possible from both sides."

² Telegram 814 to New Delhi, *supra*.

³ Holy war.

6. Although Pakistan Army is much smaller than Indian Army, latter is so extended Kashmir that initially Pakistan would not be overwhelmed. In event conflict Patrick believes Afghanistan would make deal with GOP and become GOP ally. "Because more trouble would be created that way" Patrick thinks USSR would probably take Pakistan side.

7. Patrick said he could not advise Embassy re course HMG plans to take in present crisis because thinking Prime Minister and Cabinet is unknown. However, this is clearly situation in which it is highly desirable USG and HMG should keep in close touch everywhere, i.e. New York, Washington, New Delhi, Karachi, London. Re reaction world public opinion to GOI-GOP conflict Patrick considers it likely that GOI will be considered aggressor. Asked whether warning to this effect by members SC might deter Nehru, Patrick said he did not know but it was an idea. Embassy will see Patrick tomorrow.

Sent Department 6647; repeat New Delhi 149; repeat Karachi 53; Moscow by pouch.

GALLMAN

745.45F/12-2947 : Telegram

The Chargé in India (Donovan) to the Secretary of State

SECRET

NEW DELHI, December 29, 1947—4 p. m.

1162. Deptel 814 December 29. 1. I saw Bajpai noon today and communicated to him Department's regret breakdown Lahore talks. I outlined Department's suggestions regarding settlement Kashmir problem under terms UN charter. Bajpai said he felt GOI had taken all possible steps as provided by Article 33 UN charter. He pointed out GOI had endeavored negotiate Kashmir question with GOP and it felt other means settlement outlined Article 33 not feasible since tribesmen were in fact stateless persons as GOP refused accept responsibility their entry Kashmir.

2. He said joint approach by GOI and GOP was impracticable since GOP had consistently adopted attitude it had nothing to do with raiders' activities.

3. GOI feels question plebiscite must not be confused with problem cessation hostilities and withdrawal of raiders. Therefore GOI believes Department's suggestion of requesting Security Council arrange impartial commission hold plebiscite Kashmir would only lead to confusion issues involved.

4. Embassy certain GOI feels only course practicable under circumstances is appeal SC and request SC instruct Pakistan prevent entry

raiders Kashmir from Pakistan territory. Note to UN already prepared and Bajpai thinks will be sent today or tomorrow. He indicated note to UN would state unless Pakistan took measures restrain entry raiders Kashmir and prevent use Pakistan territory as base for raiders GOI troops might be compelled enter Pakistan. Entry Indian troops Pakistan in Embassy's opinion could only result open hostilities between GOI and GOP. Cabinet meets 3 p.m. today when final decision regarding appeal UN will be taken. Bajpai will let me know immediately result Cabinet meeting.

5. Reasons breakdown Lahore talks was question administration of Kashmir until holding of plebiscite. Pakistan felt if Sheikh Abdullah continued as head of emergency administration he would be able after imprisoning opposition raiders to obtain majority in favor of the administration and in favor of approval of accession of Kashmir to India. GOI demanded raiders withdraw and that state remain under Abdullah's administration and then plebiscite be held.

6. Embassy advised by UK High Commissioner's office that it has been informed HMG believes feeling so strong between GOI and GOP regarding Kashmir issue that recourse UN only feasible solution.

7. Embassy's appraisal situation is as follows:

(a) GOP is in very difficult military position Kashmir with little hope success under present conditions supply and communications between India and Kashmir. GOI is deeply committed to support of Sheikh Abdullah and withdrawal from present position impossible from view prestige. GOP realizes difficulties GOI and will be correspondingly unyielding.

(b) Embassy views situation with grave concern and can see no solution other than appeal to UN by GOI.

(c) Only hopeful indication is Bajpai's statement to me that after withdrawal raiders GOI will abide by its previous statement agreeing to plebiscite Kashmir under international auspices.

Sent Department 1162, repeated Karachi 104. Department please repeat London.

DONOVAN

745.45F/12-3047: Telegram

The Chargé in the United Kingdom (Gallman) to the Secretary of State

SECRET

LONDON, December 30, 1947—8 p. m.

US URGENT

6668. 1. Sir Archibald Carter permanent Under-Secretary CRO and Patrick showed Embassy officer today three documents regarding GOI-GOP dispute. (Embassy's 6647 December 29).

2. First document is text December 28 message from Nehru to Attlee in which Nehru refers to fact talks with Liaquat December 22 and 23 "yielded no result". He writes that to bring home Liaquat gravity situation he personally handed Liaquat letter briefly specifying aid which Kashmir invaders were deriving from Pakistan and re-stating GOI request such aid should be stopped. So far despite telegraphic reminder GOP has not replied. Meanwhile pressure invaders all along frontier Jammu Province has greatly intensified. GOI troops are under heavy attack at Jhangar where 6000 invaders attacked and GOI troops were outnumbered 30 to 1. Naushera has been scene severe fighting during last few days. 19,000 invaders are massed Uri area and GOI intelligence indicates approximately 100,000 tribesmen and Pakistan nationals located different districts West Punjab. Many are receiving military training preparatory joining battle against GOI.

3. Nehru writes that these developments have created military situation full of peril not only to Jammu and Kashmir state but to GOI. Unless Pakistan takes immediate steps stop all forms aid to attackers, operating from bases in Pakistan, and therefore strategically enjoying great advantage over GOI troops whose only hope of dealing with them effectively lies in striking at them at their Pakistan bases. This would involve GOI entering Pakistan territory. Such a step would be justified in international law as GOI is entitled to take this action in self-defence. What is now happening is definitely an act of aggression against GOI by GOP.

4. However, since GOI is most anxious to act in conformity with letter and spirit of UN Charter GOI is asking SC to repeat to GOP the request in Nehru's December 23 [22] letter,¹ i.e., that GOP should take immediate and effective action to deny to raiders:

(a) Access to and use of Pakistan territory for operations against Jammu and Kashmir states;

(b) Military and other supplies;

(c) All other kinds of aid that might tend to prolong present struggle.

5. This request, Nehru writes, was without prejudice to freedom of GOI to take, at any time, such military action as it might consider necessary in exercise of GOI right of self-defence.

6. Nehru expresses hope GOP will respond favorably to this request since it is still earnest desire GOI to live on terms peace and friendship with GOP. However this relationship cannot be one-sided and Pakistan must reciprocate. Letter states text of GOI reference to SC will

¹ The reference here is presumably to Nehru's letter of December 22 to the Prime Minister of Pakistan, which is summarized in telegram 1151 from New Delhi, p. 183, and printed in Government of India, *White Paper on Jammu and Kashmir*, pp. 74-75.

be telegraphed SC December 30 and is being communicated UK High Commissioner Delhi.² *End summary Nehru message.*

7. Second document is text GOI draft reference to SC which at some length gives account political developments and military operations in Kashmir since September 1947. It sets forth steps taken by GOI to reach amicable solution with GOP and failure of these efforts and then under Article 35 of UN Charter brings situation before SC as danger to international peace and security. Communication concludes with specific request that SC ask GOP:

(a) To prevent GOP personnel military and civil participating in or assisting invasion of Jammu and Kashmir state;

(b) To call upon other Pakistan nationals to desist from taking any part in fighting;

(c) To deny invaders access to and use of its territories for operations; military and other supplies; and all other kinds of aid that might tend to prolong present struggle.

8. Urgency of matter is stressed in communication because military operations in invaded area have in past few days been developing so rapidly that GOI must in self-defence reserve to itself freedom to take at any time when it may become necessary such military action as GOI may consider situation requires.

9. In body communication GOI cites as evidence it has not sought to take advantage Kashmir situation fact GOI has made it plain that once Kashmir has been cleared of invaders and normal conditions restored Kashmiri people would be free to decide their future by recognized democratic method of plebiscite or referendum which, in order to ensure complete impartiality, might be held under international auspices. *End summary GOI communication SC.*

10. Third document is message from Attlee to Nehru sent late December 30 [29] in reply Nehru message (Paragraph 2 above). In it Prime Minister makes following points:

11. Much as situation is regretted Attlee agrees "that it now seems that it is only under authority of UN that settlement can be achieved".

12. It is important there should be no delay in handling matter by SC and HMG will do its best through Cadogan³ to assure very early consideration. "In meantime", Attlee writes, "I beg you as a friend that whatever the provocation and whatever the immediate difficulties you should do nothing that might lead to war and its incalculable consequences on the two dominions".

13. Reverting to Nehru's point in Paragraph 3 above Prime Minister states that he is disturbed by GOI assumption GOI will be within its

² Sir Terence Allen Shone.

³ Sir Alexander George Montagu Cadogan, United Kingdom Permanent Representative to the United Nations.

rights in international law if GOI were to move forces into Pakistan in self-defence. Prime Minister doubts whether it is in fact correct juridically and is "afraid that it would be fatal from every other point of view" because in his opinion it would place GOI "definitely in the wrong in eyes of world and I can assure you from our experience on international bodies that it would gravely prejudice India's case before UN if after appealing to SC she were to take unilateral action of this kind".

14. Prime Minister makes point that GOI is being "very optimistic" in concluding that military action would bring about speedy solution because all military history shows how difficult it is to deal with NWF tribes even when operating from secure bases.

15. If peaceful settlement is brought about through SC it will rebound greatly to credit GOI which laid matter before SC and will enhance international reputation already achieved by GOI.

16. HMG will do its best on SC to support any measures likely achieve peaceful settlement and if Nehru considers there is anything helpful which UK as sister member of Commonwealth can do to assist in ameliorating situation, Nehru can count on HMG.

17. Message ends with statement that GOP is not being advised of contents of Attlee message summarized above.

18. Carter and Patrick inquired whether, in view serious character GOI-GOP relations USG would be willing to instruct Am Embassy Delhi to approach Nehru immediately and without reference to Nehru-Attlee correspondence tell Nehru that USG is concerned by state GOI-GOP relations as outlined by Bajpai December 24 and that USG hopes GOI will rely upon UN to produce solution and not by any rash action such as invading Pakistan territory not only make UN aid more difficult but also prejudice irretrievably world public opinion against GOI case. In other words would USG at this juncture be willing to counsel Nehru generally along lines of Paragraphs 12, 13 and 15 of Attlee's message? If so, earliest possible action is desirable. Emb officer undertook to put question to Department. Sources also expressed hope USG would, if and when question goes before SC, urge in concert with Cadogan expeditious SC action (see Paragraph 12).

19. Embassy was advised that similar approach with regard to comparable advice to Nehru may be made in near future to Dominions having representation Delhi and possibly to other friendly foreign governments. Which governments is still undecided but Canada was advised by Carter this afternoon.

20. Queried as to what sources thought SC might do about problem, sources said they visualized that first gain would be that GOI-GOP dispute would be placed *sub-judice* SC. This in itself might restrain GOI

to some extent and at early SC meeting SC might formally freeze existing situation thus adding another deterrent. More long range might be steps by SC to investigate GOI complaint simultaneously with making arrangement for eventual Kashmir plebiscite when conditions make this possible. In view sources it is essential that SC couple these two aspects problem because "one hope is that both GOI and GOP have not abandoned plebiscite idea" (see Paragraph 9).

21. Queried regarding attitude GOP since December 23, sources said they understood GOP has been working since that date on draft reply Nehru's letter (see Paragraph 2). Consequently if GOI files complaint with SC today GOP rejoinder should follow soon.

22. Asked whether there was any ground to hope for eleventh hour resolution difficulties without recourse SC sources said they were afraid not. On December 28 Bajpai told Stone [*Shone?*] terms and date of SC reference were "immutable". GOI feels it may be on verge military disaster in Kashmir which would cause collapse Nehru government. Consequently GOI is desperate. HMG plans no *démarche* other than Attlee message (begins Paragraph 10).

23. Full brief situation is being telegraphed today to Cadogan. CRO is sending Curson next few days to assist Cadogan and other and higher officials may follow.

24. CRO is instructing UK High Commissioners Delhi and Karachi to make available to US missions full information as this question develops. It is suggested missions should keep in touch with High Commissioners.

Sent Department 6668, repeated New Delhi 151, Karachi 54, Moscow by pouch.

GALLMAN

745.45F/12-2947 : Telegram

The Acting Secretary of State to the Embassy in India

SECRET

WASHINGTON, December 31, 1947—6 p. m.

US URGENT NIACT

817. Reference Bajpai's statement urtel 1162 Dec 29 that "GOI troops might be compelled enter Pakistan" notwithstanding expected reference Kashmir problem by India to UN, please convey urgently in person to FonMin Nehru by formal note following views US Gov't (London's 6668 Dec 30) :

"The US as a firm friend of both India and Pakistan regrets that they have been unable by direct negotiation to solve the Kashmir problem. It now appears that the UNSC will soon be seized of this

issue. USG will respond fully to its obligations as a member of SC to assist in the attainment of an early and peaceful settlement. We are certain that such a settlement can be achieved only if, during the critical period when this question is under SC consideration, the GOI and GOP will not only refrain from taking any provocative action but will also restrain those irresponsible elements on both sides who are not alive to the grave consequences of their actions. We fear that precipitate action by either Gov't at this stage would seriously jeopardize the international good-will and prestige which it now enjoys.

For your information an identic message is being delivered to the (GOP) (GOI)."

Karachi to present identic Note to GOP FonMin and cable urgently all available info GOP this subject.

Karachi and Delhi requested inform Brit colleagues in confidence of action taken.¹

LOVETT

¹Telegram 817 was repeated to New York as 624, Karachi as 221, and London as 5405. On January 1, 1948, in telegram 1 from London, Gallman informed the Department that the note to the GOI and GOP was characterized by Denning, Superintending Under-Secretary of the South-East Asia Department of the British Foreign Office, as "admirable and likely to be great help". Gallman added that Carter and Patrick were equally pleased with the Department's prompt and "very helpful" action, Carter remarking that the "US note coming at this critical moment may very possibly save situation" (745.45F/1-148).

AGREEMENT BETWEEN THE UNITED STATES AND INDIA RESPECTING FLIGHTS ACROSS INDIA BY MILITARY AIRCRAFT OF THE UNITED STATES, AND FACILITIES ACCORDED SUCH AIRCRAFT

[For text of Agreement, effected by exchange of notes signed at New Delhi, July 1 and 5, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 2416, United States Treaties and Other International Agreements (UST), volume 3, (pt. 1), page 568.]

IRELAND

AGREEMENT BETWEEN THE UNITED STATES AND IRELAND RESPECTING AIR TRANSPORT SERVICES

[For text of Agreement amending the agreement of February 3, 1945, effected by exchange of notes signed at Washington, June 2 and 3, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1620, or 61 Stat. (pt. 3) 2872.]

UNION OF SOUTH AFRICA

AGREEMENT BETWEEN THE UNITED STATES AND THE UNION OF SOUTH AFRICA RESPECTING A MUTUAL AID SETTLEMENT

[For text of Agreement, effected by exchange of notes signed at Washington, March 21, 1947, see Department of State Treaties and Other International Acts Series (TIAS) No. 1593, or 61 Stat. (pt. 3) 2640. Related documents are in Department of State file 848A.24.]

AGREEMENT BETWEEN THE UNITED STATES AND THE UNION OF SOUTH AFRICA RELATING TO AIR SERVICES BETWEEN THEIR RESPECTIVE TERRITORIES

[For text of Agreement, signed at Cape Town, May 23, 1947, and related Agreement effected by exchange of notes on the same date, see Department of State Treaties and Other International Acts Series (TIAS) No. 1639, or 61 Stat. (pt. 3) 3057.]

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