INTERNATIONAL ACTION TOWARDS RELAXATION OF OBSTACLES TO TRADE.

Note by the President of the Board of Trade.

I circulate a memorandum prepared by the Board of Trade after interdepartmental discussion. M. Rueff, the French representative, will return to London in a few days to continue his exploratory talks.

It is necessary for us to decide whether the possible stimulus to action by France and other Powers outweighs the dangers of multilateral negotiations and of their possible failure. If we are to go further, we must also decide on the method and, in particular, on the suggestion that M. van Zeeland should be asked to take soundings.

W.R.

Board of Trade,
23rd October, 1936.
International Action towards relaxation of obstacles to trade.

Memorandum by the Board of Trade.

1. The Joint Anglo-French-American Declaration of September 26th stated that the three Governments "attach the greatest importance to action being taken without delay to relax progressively the present systems of quotas and exchange controls with a view to their abolition." The recent League of Nations Assembly adopted a resolution strongly endorsing the policy set out in the Three-Power Declaration and recommended "all States to organise, without any delay, determined and continuous action to ensure its application."

2. His Majesty's Government have purposely refrained from making suggestions as to the form which international co-operation for this purpose might take, feeling that the initiative should properly come from the 'devaluing' countries, particularly France, which has the most extensive system of quotas ever known. At the Assembly the French privately suggested that a conference should be held limited to those Powers which had adhered to the Three-Power Declaration with a view to developing trade among those countries. In view of the objections raised by the United Kingdom representatives, the French did not proceed with this proposal. Recently, however, M. Rueff, of the French Ministry of Finance has visited London, and in conversation with Sir F. Leith-Ross, has outlined a further idea, viz. that some agreement might be reached between the "free currency" countries to abolish their industrial quotas as between themselves.

3. M. Rueff did not appear to have gone at all deeply into his idea, and has now returned to Paris to explore certain aspects of it. He expressed his willingness to return to London towards the end of October for further consultations and it is desirable that before then H.M. Government's attitude in the matter should be settled as far as possible. Accordingly the matter has been discussed at a meeting under the Chairmanship of the Financial Secretary to the Treasury, at which Sir F. Leith-Ross and officials

*See telegrams Nos.123 and 129 to Geneva, annexed.
of the Treasury, Board of Trade and Foreign Office were present. The following points emerged in the discussions at the meeting.

4. There are three possible methods for relaxing quotas:
   (i) unilateral action by the countries concerned;
   (ii) bilateral agreements;
   (iii) a multilateral agreement or agreements.

Unilateral action by the devaluing countries is not likely to go far, at any rate in present conditions; such steps as they have already taken in this direction are insignificant. The present French Government appear genuinely anxious to secure some measure of liberation of international trade, but they are faced with strong opposition at home to any large scale relaxation of their quotas; this opposition they might be assisted to overcome if there were some appearance of effective and concerted international action for the alleviation of exceptional trade obstacles.

5. Of bilateral agreements it may be said that they are the only means by which it has been found possible in the past to make any impression on barriers to international trade. As a means of bringing about the relaxation of quotas, they are likely to be slow and piecemeal in their results, but the use of this method, as opportunity serves, is by no means to be excluded.

6. Such possibilities as there may be of bringing about some early and large-scale action seem to lie in the multilateral method. But the difficulties involved in this must not be overlooked. Previous attempts to reduce trade barriers by multilateral action, such as the League of Nations Convention for the Abolition of Import Prohibitions and Restrictions of 1927, and the 'Tariff Truce' negotiations of 1930-31, were complete failures owing to the diverse situations of the various countries and the impossibility of getting them to 'march in step'. In multilateral negotiations the pace is that of the slowest; the complexities tend to become unmanageable and the resultant
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and the impossibility of getting them to 'march in step'. In
multilateral negotiations the pace is that of the slowest; the
complexities tend to become unmanageable and the resultant
agreements almost always founder in a sea of reservations and conditional ratifications.

7. This country has a number of quotas which need to be considered from the point of H.M. Government's possible participation in any multilateral negotiations. These are (1) the agricultural quotas, (2) the duty-quotas on iron and steel, introduced in connection with the international cartel and aimed at restricting imports from the non-cartel countries, and (3) the textile quotas introduced in the Colonies to deal with Japanese competition. Particular justifications can, of course, be adduced for each of these, but they would be open to attack in any international discussions and would need to be excluded from the scope of any international agreement.

8. Further difficulties will arise in any international discussions as regards the position of Germany and Italy. Germany is quite unlikely to withdraw her exchange control in present conditions, and the same is true of the Italian exchange and import restrictions, notwithstanding the devaluation of the lira. Politically the Foreign Office regard it as most important to avoid any appearance of an economic front directed against German; and there would also be danger from the economic point of view in H.M. Government's being drawn as a consenting party into a discriminatory 'club'. On the other hand, the French Government are known to be unwilling to remove their quotas in favour of countries which retain exchange controls, and some other Governments will probably take the same line. It has been suggested that the difficulty might be overcome if any agreement between the 'free currency' countries were open to the adherence of Germany and Italy, but this would presuppose the willingness of the latter countries to drop their restrictions, which in fact they are quite unlikely to do at present.

9. However, notwithstanding these various difficulties, the present seems the 'psychological moment' for attempting some
action in the international sphere, and it is felt that the possibility of a multilateral agreement ought to be explored. H.M. Government's participation in any such agreement should be subject to the conditions that (a) broadly speaking, they should not be called on to do more than maintain their present "non-exclusive" import policy: (b) that their agricultural quotas, iron and steel duty quotas and Colonial textile quotas must be preserved and (c) that any agreement should not be exclusive or discriminatory but should at least be open to the accession of Germany and other countries which have not free exchanges. The object to be aimed at should, in general, be the enlargement of quotas rather than their complete abolition, which, particularly in the case of coal, would be likely to injure United Kingdom interests.

10. In view of the risk that a 'multilateral' attempt may fail, and since a public failure would mean a serious set-back, the ground should be carefully prepared beforehand by means of private soundings before any international meeting, however informal, is called together. A large international conference is clearly ruled out, and association with the League of Nations must also be avoided if there is to be any chance of German participation. It might be appropriate that, as suggested by M. Rueff, the Belgian Prime Minister, M. van Zeeland, should be asked to undertake soundings. He urged, at the July Assembly of the League of Nations, the importance of reviving international trade as a means of appeasement and should be well-placed to undertake the task of approaching other Powers, especially Germany and Italy, should it be decided that such an approach should be made - a question which will need further consideration in view of the present political state of Europe. Subject to the results of this further consideration, it is suggested that M. van Zeeland might be asked to sound (a) the 'free currency' countries and (b) Germany, Italy and perhaps a few other countries still
possessing exchange restrictions. The object of his soundings would be to ascertain whether there was a sufficient probability of the countries concerned participating in an agreement for the progressive abolition of quotas and exchange controls to make it worthwhile to summon an international committee of experts to work out a draft agreement in detail. The United States Government would need to be kept informed at all stages and given the opportunity of participating should they desire to do so.

Board of Trade,
23rd October, 1936.
Cypher telegram to British Delegation (Geneva).

Foreign Office, 4th October, 1936. 5.0 p.m.

No. 123.

IMMEDIATE.

Geneva telegrams Nos. 146 L.N and 79 and 80 Saving.

Following from the Chancellor of the Exchequer for Mr. Morrison.

You can assure French Delegation that we entirely approve and that you will be prepared publicly to support the objective which they have in view, namely the progressive relaxation of the present system of quotas and exchange control with a view to their abolition.

But I am seriously concerned about proposals for a conference outlined in 146 L.N. which appear to present some very dangerous possibilities and I regret to see that statements have appeared in the telegraphic news to the effect that agreement has already been reached on most points with the British Delegation which will second the French project. The French must understand that we cannot be rushed into decisions which might have far-reaching results without full consideration and consultation beforehand.

I sincerely hope, therefore, that in the interests of the co-operation which we both desire, they will refrain from proposing a conference or making other proposals for international action until we have had time to communicate our views. These will be forwarded as soon as possible after discussion with President of the Board of Trade, but I cannot promise anything for Monday.

Meanwhile, for your own information, it seems to me that much harm may be done by a conference unless preceded by full and careful consideration not only of the matters for discussion, but of the parties to be summoned. The proposal to include Russia
and the United States while excluding Germany and Italy appears to me likely to produce the worst impression in the two latter countries, already resentful and suspicious of the Three Power Declaration on currency. I should fear that any hasty statement might finally destroy all chance of the proposed Five Power Conference as well as any efforts which may be made (and to which, we understand, the French Government attach much importance) to restore the cordiality of Anglo-Italian relations.

This telegram has been seen by President of the Board of Trade who entirely agrees.

Repeated to Washington No.322 and en clair to Paris (Saving) No.32.
Cypher telegram to British Delegation (Geneva)

Foreign Office, 5th October 1936, 6.00 p.m.

No.129.

IMMEDIATE.

Following from Chancellor of Exchequer and President, Board of Trade, for Mr. Morrison.

Your telegram No.153.

1. We fully agree with the line taken. The question of a Conference, involving inter alia the whole position of Germany, cannot be decided without full consideration and consultations between the three Powers and for the present we are not prepared to commit ourselves to any Conference.

2. You will bear in mind the distinction between the countries which have devalued and therefore have ground for reducing tariffs and removing restrictions and those countries like ours who are liable to feel the effect of increased competition from the devalued states. You appreciate also and should emphasise the essential difference between our quotas and those of continental states.

3. You might emphasise to the French that we have already made our contribution to general recovery in undertaking to refrain from monetary or commercial retaliation and at the outset we wish to know whether the French and other governments which have now devalued would be ready (as the result, in M. Bastide's words of the disappearance of control over commerce and foreign exchange) to make further reductions of tariffs and enlarge or abolish further quotas without asking us for any change in our policy.

4. We think that any public reference to a Conference would be disastrous unless and until definite agreements have been reached between states which the Conference could ratify. The real burden...
of action lies with those states which have hitherto felt themselves obliged to protect their currencies by the existing restrictions on trade.

5. If it appears that any basis for a successful Conference is likely to exist we think Anglo-French preliminary discussions could best take place in London. We accept French suggestion of sending a preparatory message to United States Government provided we see the draft and approve it before despatch.

Repeated to Washington No. 329 and to Paris No. 86 Saving (by Bag).