

which are withheld from other countries, the strong tendency is for each country to put itself into a favorable bargaining position by multiplying discriminations and trade restrictions. Under such a policy, therefore, there is danger that the force of the trade bargaining program will be spent in merely reducing the padded rates and discriminations created for the sake of bargaining advantage. As a result the net effect of our trade bargaining efforts would be the heightening rather than the lowering of trade barriers.

V. A policy of individual preferences and general discriminations would increase the area in which American Government officials would be called upon to determine which industries to favor at the expense of others. This would greatly intensify administrative difficulties, and would subject United States Government officials to special pressures and influences from which they should be free. A policy which substantially increases the burden cast upon Government officials of selecting which American industries to foster and which to discourage in place of a policy of generalization which leaves commerce free to seek its own economic levels is open to grave question.

The

The policy of most-favored-nation treatment and equalization of commercial privileges to all has been the established policy of the United States through successive Administrations. Upon those who advocate a change in this policy should rest the burden of proving that a contrary one would better promote the interests of the United States. Those who favor a departure from this well established policy argue the impossibility of the United States being able to grant concessions and hence to secure advantageous trading agreements if every rate must be generalized. The answer to this view is that those in charge of the trade agreement program are most carefully confining the concessions accorded to each country to those commodities of which each country is the chief or at least an important source of supply. In their view the generalization of concessions will not affect adversely American trade nor deprive the United States of bargaining leverage as it proceeds further along in its trade agreement program.

The policy of generalization of commercial treatment rather than special privilege and discrimination would seem to promise the largest return for the protection of American interests. It is foundationed upon enduring principles of justice and fairness to all. No one proposes, however,

to

to follow this policy blindly or stubbornly. Exceptions due to peculiar conditions or unusual circumstances must be made when necessity compels. Unforeseen world developments may possibly make necessary a future reconsideration of program. But so far as one can evaluate the present world situation the reasons seem strong for basing our general trade agreement program upon the established American policy of unconditional most-favored-nation treatment and generalization of commercial privileges. This is the view reached by those responsible for the promotion of our trade agreement program, including representatives of the State Department, the Department of Agriculture, the Department of Commerce, the Tariff Commission and the National Recovery Administration.

Francis B. Sayre

A-8 FBS:ABN
EA:HF:LEW

Memorandum on Generalization of Concessions

I.

There are four procedures with respect to generalization of concessions in trade agreements, as follows:

(1) Strict preferential treatment under which the concessions made are limited to the country in question and a margin of preference guaranteed such country over all other countries. Our trade agreement with Cuba is an illustration. (2) The maintenance of a strictly bargaining position under which in each trade agreement the concessions made to other countries are accorded to the particular country in question only with respect to such commodities as are especially enumerated. This is the general position of France. (3) The policy under which concessions are generalized to all countries with which one has already concluded trade agreements. (4) Concessions are generalized to all countries freely except concessions may be withheld from countries which definitely discriminate against us. It is the latter policy which is incorporated in the Trade Agreements Act of June 12, 1934.

II.

negotiations are likely to be centered on the problem of getting the discriminations cleared away rather than the

II.

First, with respect to the general arguments in favor of generalization of concessions. Countries to whom generalizations are withheld are immediately confronted with discriminatory tariff treatment by the United States. Unfortunately, however, the game of discrimination is one that can be played by other countries as well. They in turn are likely to set up discriminatory treatment if they have not already done so. In the case of countries that have a two-column tariff, this may take the form of withdrawal, so far as the United States is concerned, of concessions made to other countries. In the case of countries that have not engaged in a tariff bargaining program and that have only a one-column tariff, penalty duties may be imposed against the United States. Thus, the general tendency would be to increase tariff barriers, a result which would be quite contrary to the general purpose of our trade agreements act.

In the second place, it should be pointed out that such a policy is likely to endanger the success of a trade agreements program. This is true because counter-discriminations, which the policy of non-generalization is likely to occasion, will have to be cleared away before any sound basis for a trade agreement can be undertaken. In other words, the

negotiations

negotiations are likely to be centered on the problem of getting the discriminations cleared away rather than the essential problem of getting genuine concessions. Moreover, it precludes the United States from taking the strong position that discriminations must be cleared away before negotiations for a trade agreement begin, for the reason that under the policy of non-generalization this country does not come to the negotiation with clean hands, but has itself been guilty of discrimination. Such a situation necessarily throws the problem of discriminations into the whole bargaining program and makes it difficult to get directly to the essential problem of securing genuine concessions.

In the third place, it should be noted that the policy of granting special advantages to certain countries tends to divert trade from its economic channels and makes it impossible to obtain the goods in the best markets. It tends, therefore, in the direction of destroying triangular trade. This policy is particularly disastrous to American agriculture, the foreign markets of which depend peculiarly upon the continued maintenance of a large volume of triangular trade. We are able to sell an excess of goods to Europe, in a large measure farm products, only because of the fact that we in turn buy an excess of products notably from the tropical countries.

June 12, 1934, which lays down the general principle of generalization, but provides that the President may suspend

III.

In addition to the general arguments indicated above, it should be noted that there are special objections to the policy of granting concessions only to countries with whom we have already entered into trade agreements. A serious difficulty is encountered in the time element. Were it possible to negotiate all foreign trade agreements simultaneously, the matter would be quite different. But if a considerable period, as must necessarily be the case, of months and even years intervenes between the first trade agreement concluded and the last one, it is clear that the countries with whom we last negotiate are peculiarly discriminated against through no fault of their own. In the meantime, other countries have a favored position in our markets from which they will not easily be dislodged even after belated trade agreements have been made with the last countries. Of necessity, there is an essential element of arbitrary unfairness in the discriminations thus set up.

IV.

Attention should be called to the fact that should we adopt the policy of refusing to generalize the concessions made, it would become necessary to amend the Act of

June 12,

June 12, 1934, which lays down the general principle of generalization, but provides that the President may suspend this section with respect to countries that discriminate against the United States. In addition, it should be noted that it would very likely become necessary to denounce some of the unconditional most-favored-nation treaties and executive agreements which we now have with some thirty countries. To do so would lose us the great advantages which now flow to us from these agreements.

In addition to the countries covered by unconditional most-favored-nation treatment, the United States is in point of fact accorded, with the exception of a very few countries, the benefits of concessions made by other foreign countries in their trade agreements. Only relatively few countries such as France, Canada, and Spain refuse to generalize to us the tariff concessions which they make to other countries. Thus, in the recent trade agreements between the United Kingdom and some ten foreign countries, the concessions made have been generalized to the United States. Examples of commodities of some importance upon which concessions have been made either by the United Kingdom or by the countries with which she negotiated, including Sweden, Norway, Finland, Denmark, Iceland, Latvia, Estonia, Argentina, Russia, and Germany, are the following commodities:

Lumber

Lumber and lumber manufactures, motor cycles, cotton fabrics, cotton yarns, silk products and silk manufactures, hosiery, varnishes, oils and polishes, automobiles and parts, copper, gunpowder and dynamite, musical instruments, and certain iron and steel products. To be sure, the particular items covered in these various broad classifications are generally supplied mainly by other sources and the benefits gained by the United States are therefore relatively minor. The same, however, would also be the case for the most part with respect to the generalizations which other countries would gain from the trade agreements which we make.

True, a tendency to discriminate against American trade in measures lying outside of the tariff field (such as exchange control policy, quota policy, government monopoly purchasing, etc.) has spread throughout many of the countries of the European continent, and is also being practiced by two South American countries, Argentina and Uruguay, whose commercial dependence on Great Britain is marked. In virtually all these countries, however, the discriminatory action is based on the argument that this country has closed its doors unreasonably to their goods; hence if we are able in the course of our negotiating program to make concessions to these countries on a most-favored-nation basis these discriminations would be largely eliminated.

V.

While it is true that the generalization of concessions presents certain difficulties to a trade agreements program, the very exhaustive studies which our country committees have thus far made of a considerable number of countries show conclusively that the various countries are in point of fact preponderant suppliers of such a large list of commodities that it is quite feasible to enter into trade agreements under the condition of limiting concessions to commodities of which the country in question is a leading supplier. Moreover, future negotiations are constantly held in mind so that desirable bargaining material is withheld when necessary for future negotiations. The Inter-departmental Trade Agreements Committee, the various Country Committees that have been established, and the commodity specialists in the Tariff Commission, in the Department of Commerce and the Department of Agriculture, are in agreement on the proposition that it is quite feasible to make thoroughgoing and substantial trade agreements with all the important countries of the world under a policy of generalization of concessions. In view of the advantages both direct and indirect that would result if a most-favored-nation policy can be sustained and made the basis of successful treaty negotiations, it would appear to be advisable that this Government continue to maintain this policy during the first period of development of its trade agreement program.

UNITED STATES BALANCE OF TRADE

Exports of Merchandise from the United States were greater than imports into the United States by the following amounts:

1928.....	\$1,037,000,000
1929.....	841,000,000
1930.....	782,000,000
1931.....	334,000,000
1932.....	289,000,000

These balances were more than offset by net tourist expenditures, net immigrant remittances, and net freight payments. However, the inclusion of net receipts on foreign investments left the United States with a favorable balance on current account (gold movements excluded from current transactions), this balance ranging from \$725,000,000 in 1928 to approximately \$130,000,000 (preliminary figure) in 1932. In general, the annual decline in the current balance was paralleled by a corresponding decline in the net outflow of long-term capital, the latter, however, being somewhat more erratic than the former.

United States. Trade with Canada, France, Germany,
Italy and United Kingdom for years 1928, 1929,
1931, 1932

(In millions of dollars)	Imports From				Exports to			
	1928	1929	1931	1932	1928	1929	1931	1932
Country								
Canada	489.3	503.4	266.2	174.1	914.7	948.4	396.3	241.3
France	158.7	171.4	79.1	44.7	240.6	265.5	121.8	111.5
Germany	222.1	254.6	127.0	73.5	467.2	410.4	166.0	133.4
Italy	101.6	117.0	62.6	42.4	162.1	153.9	54.8	49.1
United Kingdom	348.5	329.7	135.4	74.6	847.3	848.0	455.9	288.3
Total	4091.4	4399.3	2090.6	1332.7	5128.3	5240.9	2424.2	1611.0

FRENCH BALANCE OF PAYMENTS

The merchandise import balances of France during the period 1928-1932 were as follows:

1928.....	\$60,000,000
1929.....	317,000,000
1930.....	379,000,000
1931.....	461,000,000
1932.....	397,000,000

During this period France was also a heavy importer of gold; also, in 1929 and 1930 a net exporter of capital. (In 1928 France was a net importer of capital and for 1931 and 1932 data are not available.)

The principal items offsetting the import balance have been net tourist receipts, reparations receipts (which exceeded payments to the United States and the United Kingdom on war-debt account), and net interest and dividend receipts on investments abroad.

FRANCE. Trade with Canada, Germany, Italy, United Kingdom
and the United States for the years 1928, 1929,
1931 and 1932

(In Millions of Dollars)	Imports From				Exports To			
Country	1928	1929	1931	1932	1928	1929	1931	1932
Canada	23.6	33.0	32.5	20.8	26.8	22.9	12.4	6.2
Germany	196.1	259.2	240.7	141.8	220.4	185.9	107.7	66.2
Italy	59.7	59.4	56.3	24.8	83.4	86.6	38.9	23.3
United Kingdom	207.6	228.4	145.9	96.3	308.9	296.8	197.7	76.8
United States	242.1	280.6	148.9	114.4	118.8	130.7	60.4	37.5
Total	2102.8	2282.2	1654.4	1169.1	2042.4	1965.4	1193.0	771.9

1928 24.2
1929 18.9
1930 33.2
1931 60.8
1932 8.3
1933 18.2

CANADIAN BALANCE OF PAYMENTS

Canada's commodity trade balance (including adjustments for non-commercial imports and imports of ships) during the period, 1928-1932, was as follows (in millions of Canadian dollars):

1928 - 143	{ export balance }
1929 - 97	{ import balance }
1930 - 97	{ import balance }
1931 - 1	{ export balance }
1932 - 82	{ export balance }

On tourist account Canada received a net balance estimated as follows (in millions of dollars):

1928 - 188
1929 - 188
1930 - 186
1931 - 176
1932 - 127

The net tourist receipts of Canada were roughly offset by net interest and dividend payments to foreign bond and equity holders, which were as follows (in millions of dollars):

1928 - 166
1929 - 170
1930 - 184
1931 - 181
1932 - 160

Including minor items Canada has been a net creditor on current account (including gold exports and imports), the average net credit being \$88,000,000 during the three-year period, 1927-1929; \$28,000,000 in 1931 and \$61,000,000 in 1932.

CANADA. Trade with France, Germany, Italy, the United
Kingdom and the United States, for Years
1928, 1929, 1931, 1932

(In Millions of Dollars)	Imports From				Exports To			
Country	1928	1929	1931	1932	1928	1929	1931	1932
France	26.4	26.2	19.0		9.9	16.1	13.2	
Germany	17.0	20.7	16.1		42.2	46.7	12.9	
Italy	4.2	4.2	5.0		18.7	23.0	14.5	
United Kingdom	185.8	194.0	149.4		410.6	429.7	219.2	
United States	719.4	868.0	584.4		478.0	499.6	349.5	
Total	1108.9	1265.6	906.6		1228.2	1363.7	799.6	

GERMAN BALANCE OF PAYMENTS

In 1928 Germany had a merchandise import balance of approximately \$412,000,000. Since that year she has had export surpluses as follows:

1929	\$9,000,000
1930	391,000,000
1931	884,000,000
1932	256,000,000

The recorded export figures include reparations in kind during the period up to June, 1932.

Germany also had a favorable balance from services in all the years from 1928 to 1932, inclusive.

In 1932, the principal offsetting item was the charge for interest, amortization and repayments of principal on German foreign debts (other than inter-governmental debts). Reparation payments, which constituted a heavy charge in the period from 1928 to 1931, inclusive, amounted only to about \$12,000,000 in 1932.

GERMANY, Trade with Canada, France, Italy, United
Kingdom and the United States for the Years
1928, 1929, 1931 and 1932

(In Millions of Dollars)	Imports From				Exports To			
	1928	1929	1931	1932	1928	1929	1931	1932
Canada	89.5	72.1	31.5	23.6	16.2	20.2	11.2	7.9
France	176.7	152.9	81.3	45.2	165.5	222.6	198.6	114.9
Italy	111.4	105.5	63.9	43.1	130.5	143.4	81.1	53.1
United Kingdom	213.2	206.1	107.9	61.5	282.1	310.9	270.0	106.2
United States	483.4	426.4	188.5	140.9	189.9	236.0	116.1	66.9
Total	3340.7	3203.0	1602.3	1111.5	2928.9	3211.5	2286.3	1367.0

ITALY - BALANCE OF PAYMENTS

Import merchandise balances of Italy during the period 1928-1931, were as follows:

1928.....	\$398,000,000
1929.....	338,000,000
1930.....	275,000,000
1931.....	83,000,000
1932.....	74,000,000

Unlike France, Italy does not include reparations in kind in the recorded merchandise import statistics.

Italy has comparatively few data available on her annual balance of international payments. Presumably she is a substantial creditor on immigrant remittance account as well as on tourist expenditure account.

ITALY. Trade with Canada, France, Germany, United
Kingdom and the United States for the
Years 1928, 1929, 1931 and 1932

(In Millions of Dollars)	Imports From				Exports To			
	1928	1929	1931	1932	1928	1929	1931	1932
Canada	51.0	36.6	10.7		2.5	3.3	2.9	
France	108.3	107.5	42.9		71.6	68.5	58.2	
Germany	116.1	140.7	80.1		97.5	93.4	56.7	
United Kingdom	94.3	107.3	57.1		74.9	76.8	62.5	
United States	210.9	187.3	69.1		80.9	90.3	54.4	
Total	1153.0	1120.5	606.3		756.8	782.9	522.9	

UNITED KINGDOM BALANCE OF PAYMENTS

The United Kingdom's import balances on merchandise account since 1928 have been as follows:

1928	\$2,297,000,000
1929	2,391,000,000
1930	2,303,000,000
1931	2,117,000,000
1932	1,185,000,000

The United Kingdom had net shipping earnings of £130,000,000 in 1928; £130,000,000 in 1929; £105,000,000 in 1930, and £80,000,000 in 1931. Its income from overseas investments was £250,000,000 in 1928; £250,000,000 in 1929; £220,000,000 in 1930, and £185,000,000 in 1931. The balance of all other items left available for foreign investment, £125,000,000 in 1928; £111,000,000 in 1929; and £27,000,000 in 1930. In 1931 there was a reduction of £80,000,000 in net investments overseas.

UNITED KINGDOM. Trade with Canada, France, Germany, Italy,
and the United States for the Years 1928, 1929,
1931 and 1932

(In Millions of Dollars)	Imports From				Exports to			
	1928	1929	1931	1932	1928	1929	1931	1932
Country	:	:	:	:	:	:	:	:
Canada	278.0	225.8	148.7	151.2	167.7	170.3	93.8	57.5
France	295.0	275.1	185.3	66.6	122.4	154.0	102.9	64.7
Germany	310.1	334.9	290.6	106.6	199.2	179.8	84.0	51.1
Italy	76.7	81.7	68.6	37.9	69.8	77.8	45.2	30.2
United States	917.0	954.4	472.6	293.7	227.0	222.0	83.7	53.3
Total	5818.3	5940.8	3901.1	2465.2	3521.2	3549.3	1783.8	1280.2

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DEPARTMENT OF STATE
WASHINGTON

December 22, 1934

My dear Mr. President:

I have received your letter of December 14, 1934, transmitted by Mr. L. C. Marshall, Executive Secretary of the National Industrial Recovery Board, covering the subject of the complaint under Section 3(e) of the National Industrial Recovery Act with respect to imports of rice from the Philippine Islands.

I have proceeded in conformity with your instructions, set forth as follows:

"I, therefore, request that you undertake to secure, through the Governor General of the Philippine Islands and in consultation with the Agricultural Adjustment Administration and the National Recovery Administration, an informal arrangement which will have the effect of preventing imports of rice from the Philippine Islands from rendering ineffective or seriously endangering the maintenance of the Code of Fair Competition for the Southern Rice Milling Industry approved by me November 21, 1933."

Officials of this Department have been in conference with officials of the Agricultural Adjustment Administration

The President,
The White House.

- 2 -

istration and of the National Recovery Administration regarding this matter, and these officials in turn have discussed the matter with General Cox, Chief of the Bureau of Insular Affairs of the War Department. A communication is being prepared for transmission to the Governor General in the premises.

The matter is being held in strict confidence by all Departments and agencies dealing with it, and unless you direct otherwise it will be so held until such time as a definite arrangement may be made.

Faithfully yours,

Cordell Hull