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War Cabinet Agendum - No 88/1942 - Lease lend agreement with United States of America

SECRET

31/301

CONFIDENTIAL

WAR CABINET AGENDUM
No. 88 / 1942

DEPARTMENT OF DEFENCE CO-ORDINATION.

Subject:

LEASE LEND AGREEMENT WITH UNITED STATES

OF AMERICA.

SECRET



CANBERRA. A.C.T.
13 FEB 1942

MEMORANDUM FOR:

The Secretary,
Department of the Navy

* for necessary action

LEASE LEND AGREEMENT WITH UNITED STATES OF AMERICA
(AGENDUM NO. 88/1942)

Herewith is forwarded ^{*} copy of Minute No. (1878) recording the decision of War Cabinet in relation to the above subject.

Copy No. 25 of the Agendum is also enclosed.

df
for Secretary

- | | | |
|------------|-----------------------------|--------------------------------------|
| Copies to: | Secretary | * Secy, Dept. of Treasury - |
| | Colonel Wilson | * Treasurer |
| | Mr. Perry | * Treasury L.O. (23) |
| | Mr. Port | * Ass. Sec., Def. Co. Div. (27) |
| | Sec., Dept. of Navy (25) | * Com. Gen. Dept. of T. & C. (39,40) |
| | Min. for Navy | (Div. of Import Procurement) |
| | Navy L.O. (26) | * Min. for T. & C. |
| | Sec., Dept. of Army (12) | Secy, Dept. of Commerce (32) |
| | Min. for Army | Min. for Commerce |
| | Army L.O. (13) | Secy, Dept. of Ext. Affs. (33) |
| | Sec., Dept. of Air (14) | Min. for Ext. Affs. |
| | Min. for Air | Secy, Dept. of Home Sec. (34,35) |
| | Air L.O. (17) | Min. for Home Sec. (36) |
| | Sec., Dept. of S. & D. (28) | Secy, Admin. Plng. Cttee (37) |
| | Min. for S. & D. | Chairman, Admin. Plng. Cttee. (38) |
| | Sec., Dept. of Muns. (29) | Auditor-General (24) |
| | Min. for Munitions | (under separate letter) |
| | Sec., Att. Gen. Dept (30) | |
| | Att. Gen. | |
| | Att. Gen. L.O. (31) | |

WCS. 19/2/42

After copies of Agendum

SECRET

WAR CABINET MINUTE



CANBERRA - 10TH FEBRUARY 1942

(1878) AGENDUM NO. 88/1942 - LEASE-LEND AGREEMENT
WITH UNITED STATES OF AMERICA

It was decided that:-

- (a) an agreement should be reached with the United States Government on lease-lend as early as possible;
- (b) Article VII as expressed in the revised draft of the United States Government should not stand in the way of an agreement and might be accepted as a working basis;
- (c) subject to a clear understanding that the contributions to be made by the United States and other countries must be adequate and commensurate, Australia would be prepared to accept the commitments involved in Article VII and endeavour to give effect to them even if this required a modification of Imperial preference;
- (d) the intentions of the United States Government might be more adequately expressed by an amendment to the wording of Article VII or clarified by an exchange of notes, and the Australian Government would be prepared to agree with an amendment of the Article or the acceptance of a principle established by the exchange of notes, clarifying the point at issue and mutually acceptable to the United Kingdom and United States Governments;
- (e) it would be preferable and would probably more nearly express the intention if the phrase "the elimination of all forms of discriminatory treatment" included in Article VII was amended to read "the progressive elimination of all forms of discriminatory treatment";
- (f) the amendment mentioned in (e) should be suggested to the United States Government, but if the amendment proves unacceptable to that Government, its inclusion should not be pressed.

It was directed that the above views of the Government be conveyed to the Secretary of State for Dominion Affairs and that a copy of the cable despatched be also transmitted to the Australian Minister in Washington.

A handwritten signature in cursive script, appearing to read "J. H. Madden".

Secretary, War Cabinet.



CANBERRA,

9th February, 1942.

The Secretary,
Department of Defence Co-ordination/

- - -

The Department of the Treasury have suggested that the Minister for Commerce should also attend the next meeting of the War Cabinet in connection with the consideration of the War Cabinet Agendum regarding the Lease-Lend Agreement with U.S.A.

The Prime Minister agrees and desires that Mr. Scully be requested to attend.

Arthur Cohen
AC

J.M. Laughlin
PRIVATE SECRETARY (DEPTL)



CANBERRA,

6th February, 1942.

MEMORANDUM for -

Mr. Shedden/
- - -

The Prime Minister desires that Senator Keane be requested to attend the War Cabinet Meeting to be held in Canberra on Tuesday next, 10th February.

F.A. McLaughlin
(F.A. McLaughlin)
Private Secretary (Deptl)

88/1942.

Subjed.: Lease-Lend Agreement with U. S. A., particularly Clause 7. Agenda is being prepared by Treasury.

JML

(Dr. Coombes)

631.

(rang for 12-15 more copies)

11.2.42
with



CANBERRA. 6th February, 1942.

Dear Senator Keane,

In confirmation of telephoned advice to your Private Secretary today, the Prime Minister desires me to ask that you make it convenient to attend the meeting of War Cabinet, which is to be held in Canberra at 10.30 a.m. on Tuesday, 10th February, for consideration of an agendum which is being prepared by the Treasury on Article 7 of the Lease-Lend Agreement with U.S.A.

Yours sincerely,

BS

S e c r e t a r y .

- 1. Mr Perry
- 2. Mr Perry
- 3. Mr Williams

Senator the Hon. R.V. Keane,
Minister for Trade and Customs,
Commonwealth Offices,

MELBOURNE. C.2.

SECRET

DEFENCE CO-ORDINATION SECRET		
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WAR CABINET AGENDUM.

PROPOSED UNITED KINGDOM - UNITED STATES OF AMERICA
AGREEMENT IN CONSIDERATION FOR LEASE-LEND.

A. OUTLINE OF DEVELOPMENTS.

Under Section 3(b) of the United States Lease-Lend Act, it is laid down that the conditions on which any Government receives lease-lend aid "shall be those which the President deems satisfactory, and the benefits to the United States may be payment or repayment in kind or property or any other direct or indirect benefit which the President deems satisfactory".

2. The United States Government does not interpret these conditions as involving return for lease-lend aid in terms of money or goods. Instead it asks that the consideration the United States receives in return for lease-lend aid should be in the form of an undertaking by the Governments concerned to collaborate in a post-war trade policy directed towards the objectives desired by the United States.

3. In conformity with this intention a draft agreement in consideration of lease-lend aid was communicated to the United Kingdom Government by the American State Department at the end of September last. (Annex 1).

4. The significant clause in the draft agreement is Article 7. In telegram D.591 of 30th September, the United Kingdom Government stated that it regarded the preamble and the first six articles as acceptable. On Article 7, however, it was felt that it was not possible to enter into a commitment which was ambiguous in its phraseology and which could be held to pre-judge the right of the British Commonwealth to maintain an imperial protection system.

5. Subsequently, to meet the difficulties raised by United Kingdom, the United States submitted a revised draft which placed greater emphasis upon the positive aims of promoting employment, production, consumption and exchange and on the fact that the agreed action provided for in the redraft would follow conversations and be governed by economic conditions of the time. The redraft read -

"In final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of 11th March, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and betterment of world wide economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom open to participation by all other countries of like mind, directed to the expansion by appropriate International and domestic measures of production, employment and exchange

and consumption of goods which are the material foundation of liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers; and in general to the attainment of all economic objectives set forth in the joint declaration made on 12th August, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

"At an early convenient date, conversations shall be begun between the two Governments with a view to determining in the light of governing economic conditions, the best means of attaining the above stated objectives by their own agreed action and of seeking agreed action of other like minded Governments. (D.O. D.754, 29/12/1941)."

6. The principal objections seen by the United Kingdom Government to this redraft were (Telegram D.753, 20th December):-

(i) The words "elimination of all forms of discriminatory treatment in international commerce" were not qualified and therefore committed the United Kingdom to a policy involving the ultimate elimination of imperial preference and other bi-lateral trade arrangements.

(ii) The wording of Article 7 was capable of varying interpretations which might prove embarrassing to both Governments unless an agreed interpretation could be secured.

7. In ensuing exchanges between the United Kingdom Government and the British Ambassador at Washington, the latter emphasised -

(i) That great importance was attached to the agreement by the United States Administration and by the President in particular;

(ii) That there was no chance of the United States Government revising its main decision on Article 7; and

(iii) That the agreement involved the United Kingdom in no more than an undertaking to work towards certain objectives on lines to be agreed upon and provided that the United States also worked towards them.

8. In reference to the question in a telegram of 2nd February, the Australian Minister at Washington also pointed out that the Americans admit that they have in mind the removal of imperial preference, although they say it is an objective and not a specific undertaking. Mr. Casey's impression is that the Americans do not hope to secure the entire removal of imperial preference, but to make material progress towards that end as one of several measures designed to make and keep international trade fluid.

9. The State Department originally asked for a reply from the United Kingdom Government by mid-January, but no decision had been come to in London by that time, partly because Mr. Churchill, while in Washington, had gained the impression that the whole question of the agreement could now be deferred in view of the new situation arising from the entry of the United States into the war. This impression, however, has not been confirmed by recent communications from Lord Halifax who reports

that, on the contrary, the United States Administration, including the President, are anxious to obtain signature of the agreement at the earliest possible date, including Article 7 in its existing form. One reason for this concern is the fear that if a settlement is not reached Congress might take the matter into its own hand with unfortunate results.

10. In these circumstances, the United Kingdom Government has now decided to accept the American redraft of Article 7 and to conclude the agreement, subject to an exchange of interpretative notes with the United States Government which will, among other things, make it clear that the United Kingdom Government does not regard the word "discrimination" in Article 7 as applying to special arrangements between the members of the British Commonwealth, and that before accepting any definite commitments involving modification of the existing system of imperial preference, the United Kingdom Government would require to consult the Dominions. Lord Halifax has already been instructed to approach the State Department in this sense. (Telegrams D.66 and D.67 of 6th February). This proposal does not include acceptance of the draft agreement as it stands without exchange of interpretative notes, and thus obviously indicates that the United Kingdom Government still maintains the objections referred to in paragraph 6 above.

11. Although the Dominions have been kept informed of developments by the United Kingdom, their views have not yet been specifically requested. In view of all that is involved in the question, it is considered that the opinion of the Commonwealth Government should be brought before the United Kingdom at the earliest possible moment. Mr. Casey has reported that Canada has already notified its agreement with the whole of the proposed agreement, including Article 7. Meanwhile, the United Kingdom Government has been informed that we are communicating our views in the immediate future, and that we hope, therefore, that it will be possible to defer Lord Halifax's approach until these are received.

B. THE PROBLEM.

12. A decision must be made as to whether, in return for lease-land aid received by the Empire, and which it is hoped to receive, the Commonwealth Government will recommend to the United Kingdom a course implicitly committing the British Commonwealth to collaborate with the U.S.A. in a post-war trade policy, the stated objective of which is to reduce restraints on trade. We need to recognise that this may involve the modification and ultimately the elimination of imperial preference and will limit our freedom to continue import and exchange control and other war time measures for trade purposes in the post-war period. In effect this decision involves a choice as to whether we work with the U.S.A. towards the stated objective of freer multi-lateral international trade or whether by refusing we accept the prospect of a probable drift into the system of restrictive bi-lateral agreements and exchange control. A first step in the application of this collaboration would be to reach agreement on the trade negotiations now in progress with the U.S.A.

13. This is a major decision and imposes definite obligations on the Governments of the British Commonwealth. Accordingly, an inter-departmental committee representing Commerce, Customs, Treasury and External Affairs, was asked to

report upon the effect of these obligations on our own economy, and to draft a telegram to the Dominions Office. Because of the importance of the issues concerned we urge that their report which is attached should be closely examined.

C. CONCLUSIONS OF THE COMMITTEE.

14. The Committee's conclusions may be summarised as follows:-

(1) If we accept Article VII we undertake to work step by step with U.S.A. to expand international trade and to relax trade barriers; if we reject we must face an almost certain drift into world trade governed by restrictive agreements in which countries would exploit economic, political and military advantages to secure favourable trade terms.

(2) Acceptance of Article VII would involve being prepared to modify imperial preference, with possibly adverse effects on certain export industries and would limit our freedom to impose prohibitively high tariffs. Nevertheless, on balance Australia would probably gain from a relaxation of trade barriers even if imperial preference were modified or ultimately eliminated.

(3) A general return to restrictive national trade policies would lead to contracting world trade offering little future for Australia.

(4) We should at the same time sympathise with the United Kingdom in her fear of incurring a definite commitment without seeing clearly either the circumstances in which she will be called upon to honour it or the precise compensating advantages. Therefore, we should support any attempt to emphasise the reciprocal character of the agreement and the importance of expanding production and trade in making relaxation of trade barriers acceptable.

(5) If the reciprocal character of the agreement is recognised and the positive aims of expanding production etc. can be achieved, the kind of post-war collaboration implied in Article VII is in the long-term interest of the British Commonwealth and provides a basis for peaceful international relations.

D. IMMEDIATE POLITICAL FACTORS.

15. There can be no doubt that the United States administration and the President attach great importance to the early acceptance of the Lease-Lend Agreement. This urgency apparently arises from two factors -

(a) A conviction that unless the United States and United Kingdom bind themselves now to collaborate economically after the war, world economic conditions will become chaotic and collaboration will become practically impossible.

(b) A desire to present to Congress an agreement sufficiently precise to represent an acceptable return for lease-lend aid. (Recent cables have emphasised that

if the United States administration does not soon announce an agreement Congress itself may wish to lay down terms which would almost certainly be less favourable to the United Kingdom than those now suggested).

16. Experience in the last war indicates that it is dangerous to wait until the war is over before laying the foundations of the post-war order. Furthermore, after general agreement has been reached close study will be necessary to determine the scope and character of the collaboration.

17. The British Commonwealth, and Australia in particular, are vitally dependent upon United States material and military assistance. It is in our interests to show a sympathetic understanding of the American viewpoint.

18. Furthermore, it should be remembered that Article VII is only an expansion of undertakings to which both the United Kingdom and Australia have given adherence in the Atlantic Charter. (Annex 2). We cannot with consistency avoid giving precise definition to these undertakings when invited to do so.

E. RECOMMENDATIONS.

19. We are in broad agreement with the conclusions of the Committee and feel that political considerations make it imperative that an agreement acceptable to the United States should be reached promptly. We recommend therefore -

1. That a cable be despatched to the United Kingdom outlining our views and stating -

- (a) that provided contributions by United States and other countries are adequate and commensurate we are prepared to accept and do our best to give effect to the obligations imposed by Article VII even if this involves the modification of imperial preference.
- (b) that we consider that the intentions of the United States administration could be more adequately expressed either by an amendment to the wording of Article VII or by an exchange of notes in the terms suggested (excluding Clause 4 which seeks to exclude imperial preference from the scope of the agreement); but
- (c) that we consider the meaning both of the proposed amendment and the remaining clauses of the draft note already implicit in Article VII and that therefore these matters should not be pressed if they prove unacceptable to the United States of America. (A draft telegram is attached).

2. That the Reconstruction Committee on International Relations be instructed to consider the principles on which United States and British collaboration should operate in order to achieve in particular the positive aims of that collaboration.

H.V. EVATT,
Minister for External Affairs.

J.B. CHIPLEY,
Treasurer.

10 FEB 1942

Telegram to Dominions Office, London.

Your telegram D.67 and earlier telegrams Lease-Lend Agreement.

On the basis of your earlier advices the Commonwealth Government has for some time been giving close consideration to this question. In the light of this consideration and your latest advices we offer the following outline of our views.

It is evident from your advices of Halifax's views that the U.S. Government and the President in particular attach considerable importance to the agreement and that they would be unwilling completely to exclude Imperial preference and similar arrangements from the scope of "agreed action" as contemplated in Article VII. The Empire's immediate need of U.S. aid is so urgent that we feel every effort should be made to come to agreement with U.S. in this matter.

In our view a general relaxation of trade barriers would be possible if the positive aims of collaboration referred to in Article VII are achieved, i.e. "the expansion of production, employment and the exchange and consumption of goods which are the material foundation of liberty and welfare of all people". Australia would be willing to share in agreed action to achieve these aims.

We note your desire to establish by an exchange of notes an understanding that Imperial preference and similar arrangements would not be regarded as discriminatory for the purposes of agreed action under Article VII. Australia's experience in the last ten years has been that the commitments in respect of our own tariff which Imperial preference has involved, coupled with the adoption by many foreign countries of exchange control and bilateralism, have greatly limited our capacity to make satisfactory trade agreements, and have operated adversely against our economic interests. Furthermore we are conscious that Imperial preference is regarded as discriminatory by foreign countries and its exclusion from the scope of agreed action would prejudice their willingness to collaborate. We feel that the avoidance of discriminatory bilateral agreements and exchange control, and even the moderation and in some cases removal of Imperial preference would produce economic benefits if other countries made concurrent adequate reductions of tariffs and removed other barriers to international trade.

For our part, subject to a clear understanding that the contributions to be made by United States and other countries must be adequate and commensurate we would be prepared to accept the commitments involved in Article VII and do our best to give effect to them even if this required modification of Imperial preference.

We fully recognise that bilateral treaties and exchange control for trade purposes may be very important to United Kingdom in the immediate post-war period, and may afford protection to your export income not immediately available by other means. We also believe that Imperial preference may materially help the export trade of all Empire countries during the period when efforts are being made towards freer international trade. Furthermore we perceive that an undertaking to avoid bilateralism and exchange control, and to reduce or remove Imperial preference is far more precise than any undertaking by United States under the proposed Article VII. However despite these difficulties we believe that subject to the understanding referred to in previous paragraph the kind of post-war British-American collaboration implied in Article VII would be in the best interests of the British Commonwealth. We consider it desirable however that the collaboration of other countries should be sought as quickly as possible.

/If Article VII

If Article VII is approved, we consider the conversations referred to in sub-paragraph 2 of major importance. Accordingly we are giving preparatory consideration to the principles upon which collaboration must be based in order to achieve the positive aims set out in Article VII and so to produce conditions in which restrictive national trade policies can be relaxed. It is desirable that other countries particularly those receiving Lease-Lend aid should participate in these discussions.

We consider that the present wording of Article VII could usefully be varied so as more nearly to express what we understand to be the intentions of the U.S. by emphasising that the elimination of discriminatory trade policies is dependent on success in achieving the positive aims of the collaboration. Accordingly we suggest that U.S. might be asked to consider the following variation of Article VII -

to follow on from "welfare of all peoples" - "and together with such expansion the progressive elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers; and in general to the attainment of all economic objectives set forth in the joint declaration made on 12th August, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom".

While we believe this amendment expresses the purpose of the article more clearly we consider its meaning is already implicit in the present wording and accordingly we do not consider that it should be pressed if it proves unacceptable to U.S.A. or appears likely to be interpreted as an attempt to delay agreement.

With specific reference to the draft notes referred to in your D.67 we consider it unwise to seek the inclusion of Clause 4. We believe that benefit would be derived from an exchange of notes in the terms of the remaining clauses. However, we believe their meaning is already implicit in Article VII and from our point of view we would not consider it necessary to press for the exchange of notes.

While we recognise that the U.K. must give the fullest consideration to the nature of the commitments this agreement would place upon her, the Commonwealth Government after full consideration is of the opinion that Article VII should be accepted, if possible in the amended form suggested above or with the exchange of notes (excluding Clause 4 of the draft note from U.S. Secretary of State). If these prove unacceptable the American draft as given in your D.O. 154 should, in our opinion, be accepted.

ARTICLE VII OF LEASE-LEND AGREEMENT.

Report of Inter-departmental Committee -

The collaboration between U.S.A., the British Commonwealth and other like minded nations proposed in Article VII represents an attempt by U.S.A. to build up in the post-war world a system of freer and expanding international trade. Since acceptance imposes definite obligations on the Governments of the British Commonwealth it is desirable that the implications of a decision to accept Article VII should be fully explored. Three main questions arise -

- (a) what are the alternatives open to us.
- (b) what will be the effect on Australia of the policy foreshadowed in Article VII -both directly and through its effect on U.K.
- (c) in what conditions will the collaboration prove successful.

A. THE ALTERNATIVES -

1. Freer multi-lateral trade -

It must be recognised that almost every attempt in recent years to bring about general relaxation of trade barriers by agreement has failed. This has been due to many reasons the most important of which are the national desire for military self sufficiency and the fact that the internal adjustments required by such relaxations have been judged impracticable in a world of generally contracting trade. Something more than proposals for relaxation of trade barriers is required. It is necessary to create conditions in which such a relaxation would be acceptable.

The United States proposals recognise this and Article VII states positive objectives including "the expansion of production, employment, exchange and consumption of goods which are the material foundation of liberty and welfare of all peoples". Success in achieving these objectives might create conditions in which the relaxation of trade barriers would once more become possible.

2. Bi-lateral Trade -

Failing the successful outcome of the U.S. plan Governments may be forced to exercise great control over their external trade in order to impose discriminating measures which they will feel necessary. The main lines of this alternative were evident in the pre-war world. Countries sought increasing self-sufficiency frequently at the expense of their own living standards and the prosperity of the producers of other nations. The declining volume of trade flowed through channels established by discriminatory bi-lateral agreements in which each country exploited the bargaining powers it derived from its economic, political, geographic or military advantages.

Economically the great expansion in production and trade and consequently in living standards envisaged by the U.S. plan could not occur if this position were allowed to develop. Politically this form of trade leads to increasing national antagonisms and offers little hope of peaceful international relations in the future.

B. THE UNITED KINGDOM POSITION -

United Kingdom's position in the post war world will be difficult. Her income from international investments, shipping, financial services, etc. will be greatly reduced. If she is to have the means to purchase the larger flow of imports which will be required to reconstruct her industry and repair the damages of war, her exports will need to be relatively much greater than in the pre-war period.

Influential opinion in United Kingdom holds that United Kingdom can only meet this situation by a deliberate policy of bi-lateral trade backed by exchange control. Under this policy United Kingdom would oblige countries with sterling balances to spend them on U.K. exports and would direct import purchases to those markets giving preference to United Kingdom exports. This opinion which possibly lies behind the United Kingdom unwillingness to commit herself to Article VII in its present form may arise from -

- (a) a judgment that the prospects of freer multi-lateral trade are remote and that the only realistic policy is to prepare for bi-lateralism; or
- (b) a judgment that in a world of bi-lateral trade United Kingdom will be in relatively strong position because of her bargaining strength and that in view of the uncertain success of United States plans it would be unwise to sacrifice this certain if limited advantage for hypothetical benefits; or
- (c) a recognition that United Kingdom has an active balance of payments with Empire countries owing largely to the influence of the preferential system. The retention of this favourable position is obviously desired by the United Kingdom.

C. EFFECT ON AUSTRALIA -

Australia's interests in international trade policy arise from -

- (a) her position as an exporter of foodstuffs and raw materials;
- (b) her desire to build up a balanced economy by industrialisation.

The benefits which Australia has secured from Imperial preference are commonly exaggerated. It is true that we have come to regard the sugar, wine, dried fruits and canned fruits industries, and to a less obvious extent the meat and dairying industries, as depending for their existence on a continuance of Imperial preference. In responsible quarters, however, the view has been held for a number of years that Australia has more to gain from an expansion of international trade than from a continuance of preference on the present basis and scale. Such important commodities as wool, wheat and metals are dependent on world trade and cannot benefit from preferences, and the meat and dairying industries stand to gain much by greater freedom in international trade. In addition Australia has a definite interest in expanding trade in other foodstuffs (e.g. wheat) and in raw materials (e.g. wool, metals) which must follow the industrial development of under-developed countries such as China. Furthermore there are possibilities for Australian exports (e.g. metals, wool, dairy produce and certain classes of meat) in the American market itself.

/It has been

It has been found, moreover, that our commitments to the United Kingdom and other Empire countries in respect of preferences made it difficult in the four or five years prior to the outbreak of the present war to reach satisfactory trade agreements with such countries as Germany, France, Italy, Belgium, Poland and Japan. This had serious effects because we depended upon our active trade balances with those countries to meet our adverse balance of payments with other countries including United Kingdom and United States.

In other words it can conclude that while preference may have been desirable as a protective measure in a world of nationalistic policies it should not be allowed to prejudice the hope of an expanding world trade which would make such measures unnecessary. It would be unwise therefore for Australia to insist that Imperial preference should be placed outside the scope of agreements envisaged in Article VII.

From the point of view of industrialisation Article VII limits our complete freedom to impose prohibitive or highly protective duties. Rational development of Australian industry if necessary by tariff protection need not, however, be held back by the collaboration with U.S. Indeed collaboration may, by the provision of capital, speed such development. However, we must be prepared to consider modifications in our present tariff structure as part of general agreements to be concluded.

The general alternative of bi-lateral trade holds little hope for Australia. Imperial preference itself offered no hope of expanding markets and the privileged position it gave us in the probably declining markets of United Kingdom must be progressively encroached on as United Kingdom concludes other bi-lateral agreements. This encroachment was evident even in the pre-war period (e.g. United Kingdom agreement with Argentine). In negotiating other bi-lateral agreements our bargaining position would be weak as many of our major exports are in excess supply or threatened by substitutes and our freedom restricted by our obligations under preference.

Nevertheless the United Kingdom market is by far our most important market and it is important to us that the United Kingdom should retain, after the war, the greatest possible importing capacity. We are, therefore, vitally interested in the study of United Kingdom's post-war problems which will have direct influence on our own economic position. But, provided the United Kingdom economy can be adjusted to it, a post war policy which frowns on exchange control and restrictive bi-lateral agreements should be good for Australia, even if (and to some extent especially if) it is accompanied by a reduction of Imperial preference in exchange for freer international trade.

In coming to our decision, we must recognise that the industries which have been referred to as partly dependent on imperial preference may be dismayed at the prospect of losing this protection, which they have come to regard as one of the essential conditions of their existence. This is true in particular of the sugar industry and the wine, canned fruits and dried fruits industries. However, the problems created would be much less serious than those now facing export industries. The war has shown that these problems can be solved if boldly handled.

However, if Article VII is adopted some careful publicity in Australia will be called for and it will be necessary to ensure that necessary adjustments are planned in advance.

/D. POSITIVE

D. POSITIVE ASPECTS OF ARTICLE VII -

A practical weakness of the whole plan proposed by U.S. is that its sponsors may not carry it far enough. A major consideration is whether the collaboration proposed can achieve the positive aims of Article VII. This depends upon the scope and character of the action to be taken. Certain principles suggest themselves as essential if this action is to be effective -

- (a) United States must have an import surplus which will enable her creditor and other foreign income to be paid in goods; this may involve not only a liberal tariff policy but an internal policy of increasing consumption and possibly direct governmental purchases abroad.
- (b) International control of production and trade will be necessary in basic export products.
- (c) Collaboration must provide for planned development of underdeveloped parts of the world to ensure greater productivity and rising living standards.
- (d) There must be participation by the largest number of countries possible.

Further examination of these problems is necessary but if the United States is prepared to ensure such action the positive aims of Article VII can be achieved. It should be noted that in signing the agreement U.S. becomes politically committed to action along these lines. If Article VII is accepted we should fully examine the nature of action to be agreed upon before the conversations referred to in subparagraph 2.

Interpretation -

Exchanges between U.S. and U.K. have centred round the negative aims of Article VII, i.e. the relaxing of trade barriers particularly as affecting Imperial preference.

It may be desirable therefore in agreeing to Article VII to re-emphasise what has tended to be obscured in these discussions, that the positive aims of expanding production, trade and living standards are in Article VII given equal if not prior importance and that uni-lateral action is not called for from either party.

This could be done either by an amendment to the wording to give greater emphasis to these aspects or by preparing an agreed interpretative document. Because Lord Halifax considered that any attempt to secure an agreed interpretation would be regarded as evasion, we recommended asking U.S. to consider the following amendment (additions underlined) -

"..... agreed action directed to the expansion
..... of production, employment and exchange
and consumption of goods which are the material
foundation of liberty and welfare of all people;
and together with such expansion the progressive
elimination of all forms of discriminatory treat-
ment in international commerce and to the reduction
of tariffs and trade barriers;"

The U.K. has however recommended an exchange of notes. Clause 4 of the draft note (which states that Imperial preference is not to be regarded as "discriminatory" in the sense intended in Article VII) must be regarded as an attempt to change the meaning of Article VII in a way which we believe would be unacceptable to U.S. and inconsistent with the basic purposes of the Article itself.

The remainder however merely make more precise the

/meaning

5.
Meaning of Article VII. The significant clauses state -

- Clause 2 - In considering agreed action the parties will take into account the other's post-war difficulties.
- " 3 - The special balance of payments problem of U.K. is recognised by U.S.
- " 5 - The problem of internal adjustment necessary in U.S. if she is to take her appropriate place in international trade is recognised by U.K.
- " 6 - Attainment of aims must be gradual and unilateral action not required of either country.

There would appear to be some advantage in an exchange of notes to clarify these points and it should be acceptable to Australia provided U.S. does not regard the negotiations for such notes as an attempt to evade the issue.

Conclusions -

1. If we accept Article VII we undertake to work step by step with U.S.A. to expand international trade and to relax trade barriers; if we reject we must face an almost certain drift into world trade governed by restrictive agreements in which countries would exploit economic, political and military advantages to secure favourable trade terms.
2. Acceptance of Article VII may well involve modifying Imperial preference, with possibly adverse effects on certain export industries and would limit our freedom to impose prohibitively high tariffs. Nevertheless on balance Australia would probably gain from a relaxation of trade barriers even if Imperial preference is modified or ultimately eliminated.
3. A general return to restrictive national trade policies would lead to contracting world trade offering little future for Australia.
4. We should at the same time sympathise with the U.K. in her fear of incurring a definite commitment without seeing clearly the circumstances in which she will be called upon to honour it or the precise compensating advantages. Therefore we should support any attempt to emphasise the reciprocal character of the agreement and the positive aims of Article VII.
5. If the reciprocal character of the agreement is recognised and the positive aims can be achieved the kind of post-war collaboration implied in Article VII is in the long-term interest of the British Commonwealth and provides a basis for peaceful international relations.

Recommendations -

1. that a cable be despatched to the U.K. in terms of the attached draft.
2. that the Reconstruction Committee on International relations be instructed to consider the principles on which U.S. and British collaboration should operate in order to achieve in particular the positive aims of that collaboration.

Note - Mr. Moore suggested that acceptance of Article VII should be accompanied by a statement that our adherence and support would be forthcoming while its purposes were being achieved or offered reasonable prospects of being achieved. The majority of the Committee considered that such a statement was unnecessary and likely to be interpreted as an attempt to deprive adherence of real significance.

Articles of Draft Agreement.Article I.

The United States of America will continue to supply the United Kingdom with such defence articles, defence services, and defence information as the President shall authorize to be transferred or provided.

Article II.

The United Kingdom will continue to contribute to the defence of the United States of America and the strengthening thereof and, should circumstances arise in which the United States of America in its own defence or defence of Americas may require Articles, services or information, will provide such Articles, services or information as it may be in a position to supply.

Article III.

The Government of the United Kingdom will not without approval of the President transfer the title to, or possession of, any defence article or defence information transferred to it under the Act or permit the use thereof by anyone not an officer, employee or agent of the Government of the United Kingdom.

Article IV.

If, as a result of the transfer to the Government of the United Kingdom of any defence articles or defence information, it becomes necessary for that Government to take any action or make any payment in order fully to protect any of the rights of citizens of the United States of America who have patent rights in and to any such defence articles or information, the Government of the United Kingdom will take such action or make such payment when requested to do so by the President.

Article V.

The Government of the United Kingdom will return to the United States of America at the end of the present emergency, as determined by the President, such defence articles transferred under this agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defence of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

Article VI.

In the final determination of the benefits to be provided to the United States of America full cognizance shall be taken of all property, services, information, facilities, or other benefits or consideration provided by the Government of the United Kingdom subsequent to 11th March, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

Article VII.

The terms and conditions upon which the United Kingdom receives defence aid from the United States of America and the benefits to be received by the United States of America in return therefor, as finally determined, shall be such as not to burden commerce between the two countries but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations; they shall provide against discrimination in either the United States of America or the United Kingdom against importation of any produce originating in the other country; and they shall provide for formulation of measures for achievement of these ends.

Article VIII.

This agreement shall continue in force from the date on which it is signed until a date agreed upon by the two Governments.

ANNEX 2.

ATLANTIC CHARTER.

Meeting between Mr. Churchill and President
Roosevelt.

JOINT DECLARATION.

"The President of the United States and the Prime Minister (Mr. Churchill) representing His Majesty's Government in the United Kingdom, being met together, wish to make known certain common principles in the national policies of their respective countries on which they base their hopes for a better future for the world. They are -

1. Their countries seek no aggrandisement, territorial or other.
2. They desire to see no territorial changes that do not accord with the desire and freely expressed wishes of the peoples concerned.
3. They respect the right of all peoples to choose the form of government under which they will live and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them.
4. They will endeavour, with due respect to their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access on equal terms to trade and raw materials of the world which are needed for their economic prosperity.
5. They desire to bring about a full collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement, and social security.
6. After the final destruction of Nazi tyranny, they hope to establish a peace which will confer on all nations the means of dwelling in safety within their own boundaries and which will afford assurance that all may live their lives in freedom from fear and want.
7. Such peace should enable all men to traverse the high seas and oceans without hindrance.
8. They believe that all nations of the world, for realistic, as well as spiritual reasons, must come to the abandonment of the use of force. Since no future peace can be maintained if land, sea or air armaments continue to be employed by nations which threaten or may threaten aggression outside their frontiers, they believe, pending the establishment of a wider and permanent system of general security, that the disarmament of such nations is essential. They will likewise aid and encourage all other practicable measures which will lighten for peace-loving people the crushing burden of armament that is upon them.

88/42

DEPARTMENT OF EXTERNAL AFFAIRS.

SECRET

CABLEGRAM.

577 MS

IMMEDIATE.

DECYPHER FROM
AUS. LEGATION, WASHINGTON.

Date sent 4th Feb. 1942.

12.29 a.m.

Rcvd. 5th Feb. 1942.

No. 205.

I saw Acheson unofficially today on the subject matter of your telegram No. 133. State Department and Treasury are just about to discuss this general subject. Acheson takes sympathetic and sensible view. He explains however that United States administration want to be able to say to their potential domestic political critics that every country was doing everything it possibly could by way of military and financial effort on its own account and in the common interest. He says United States administration want to be able to avoid criticism that it is lend leasing everything it possibly can and that at the same time American forces abroad have to pay cash for all their requirements. He realizes our difficulty in meeting our own constantly increasing war expenditure at home and abroad, and of meeting American requirements in Australia as well. He wants to be able to find a way round this obvious and easy criticism. He would like to have some rough analysis of the "works" (first line of your telegram) and also some quantitative description of our sterling and dollar commitments overseas, in order to see if it is not possible to work out some indirect means whereby Australia can meet the cost of American requirements in Australia and United States can reimburse us by helping us to meet some of our other overseas financial obligations to roughly an equivalent amount. He suggests (quite unofficially) that we tell them what our dollar obligations are, outside of what we expect to get under lend-lease arrangements, so that they can see what dollar payments they might be able to relieve us of. He even suggested that we say what our sterling obligations are with the idea that something might possibly be worked out between United States, Britain and Australia, by which an offset would be arranged to meet the approximate equivalent of the cost of American requirements in Australia. He realizes that there is a limit to taxation and borrowing to meet our out go beyond which we cannot go with safety, and that when this limit is reached some sensible means must be devised of coping with the situation. It would be helpful if you could reply on above within 48 hours. CASEY.

As received.

Copies to - P.M.
Min. E.A.
Treasury (for attention)
Commerce
Defence Co-ordination

War Cab Desk.

*Mr. Weston
Keep this*