

Treasury Department
Office of International Finance

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To: Assistant Secretary Martin

From: Mr. Fields



I understand the attached will be Secretary Acheson's written statement to be presented to the House Foreign Affairs Committee. It is transmitted for your information.

cc: Messrs. Willis and Arnold

DEPARTMENT OF STATE

FOR THE PRESS

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**CAUTION
FUTURE RELEASE
NOTE DATE**

HOLD FOR RELEASE AT THE SAME TIME OF RELEASE OF THE PRESIDENT'S
MESSAGE ON THE CHARTER FOR AN INTERNATIONAL TRADE
ORGANIZATION, WHICH IS FOR RELEASE WHEN READING
BEGINS IN THE SENATE.

TEXT OF MEMORANDUM FOR THE PRESIDENT FROM THE SECRETARY
OF STATE ON THE CHARTER FOR AN INTERNATIONAL TRADE
ORGANIZATION

On March 24, 1948, after more than two years of public discussion and international negotiation, the representatives of fifty-four nations, assembled at Havana, completed a Charter for an International Trade Organization for submission to their respective governments. This Charter establishes a code of principles to be accepted in the conduct of international trade and an organization to help make them work. The Organization would take its place with the International Bank and the International Monetary Fund and the Food and Agriculture Organization as a specialized agency of the United Nations.

The Economic World Today

The world economy is still seriously out of joint. The aftermath of six years of struggle, with its depletion of financial and material resources and its distortion of the apparatus for the production and distribution of goods, is still with us. There are pronounced imbalances of trade not only between the United States and most of the rest of the world but between other countries.

Despite constructive efforts to cope with these problems, there is still a widespread feeling in the world of economic and political insecurity. Nations face the problems of increasing production and distribution of goods, of finding ways and means to bring the industrialized nations of the world back into full productivity and stability and of developing and bringing into the area of productive trade the underdeveloped nations of the world.

In such a situation there is a clear need for a body in which policies in the field of trade can be continually discussed, questioned, explained, adjusted, and harmonious agreement reached. The ITO Charter provides such a body.

Origins of the Charter

Even while hostilities were still going on, many persons in the United States began to think of how we could reach international agreement after the war which would avoid the mistakes and economic conflict of the inter-war period and set the course of international trade along expanding and liberal

liberal lines. The Atlantic Charter enunciated the principle of equal access for all to the markets and the raw materials of the world. Article VII of the Mutual Aid Agreements laid down the principle of negotiation for the reduction of tariffs, for the elimination of preferences, and for the removal of discriminatory practices in international trade. As early as 1943, consultation began with representatives of the British and Canadian Governments to develop agreement on principles which ultimately emerged refined and sharpened in the ITO Charter.

When the Bretton Woods Conference completed its labors in establishing the charters of the International Bank and the International Monetary Fund, the delegates recognized that their work was not complete. They realized that action by nations in the field of the international exchanges and in the field of international investment required complementary action in the field of trade. In the Final Act of that conference, therefore, they called upon the member nations to continue to work to:

"(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

"(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;

"(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes; and

"(4) facilitate by cooperative effort the harmonization of national policies of Member States designed to promote and maintain high levels of employment and progressively rising standards of living."

When the Congress accepted membership for the United States in the Bretton Woods organizations, it said:

"In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations."

Further agreement has now been reached in the ITO Charter.

The basic ideas of the Charter were set forth in the United States Proposals for the Expansion of World Trade and Employment, placed before the peoples of the world for their consideration in December 1945. It was at the suggestion of the United States that the Economic and Social

Council

Council of the United Nations at its first meeting in February 1946 appointed a committee to prepare the agenda for an international conference on trade and employment, the conference which took place at Havana in 1948 and produced the ITO Charter. When that Preparatory Committee met for the first time in London in October 1946 it had before it and adopted as its basic working document a Suggested Charter for an International Trade Organization proposed and prepared by the United States. A second meeting of the Committee was held in Geneva in 1947.

After the London meeting, the resulting draft Charter was published. Public hearings were held upon it in seven cities in the United States. Extensive hearings were also conducted by the Finance Committee of the United States Senate. Most of the suggestions which were developed at those hearings ultimately found their way into the Charter.

Scope of the Charter

The Charter is comprehensive and detailed. It is a code of principles designed to guide action. It contains commitments covering a wide range of trade relations. It stands in contrast to the resolutions and recommendations of international economic conferences between the two World Wars, which were uniformly in such general terms and so lacking in substantive content as to have little or no practical effect upon the activities of nations. The Charter leaves the world of pious generalities and addresses itself to the more thorny task of providing a guide for action in dealing with specific problems in international trade.

Equally important, the Charter provides a mechanism for continuous consultation between nations on policies affecting world trade. It establishes the obligation and the mechanism of consultation and adjustment before action, rather than retaliation after it.

We are pledged to unfaltering support of the United Nations in the conviction that international differences of opinion can best be composed around the conference table. The International Trade Organization will provide the conference room for discussion of problems of international trade. Its rules for action, its means for consultation, will together provide a method of meeting world trade problems as they arise and of helping to maintain economic peace.

Objective of the Charter

The objective of the Charter can be simply stated. It is to contribute to higher standards of living, to greater production and wider distribution and consumption of goods and services, and thus to economic and political stability throughout the world. It seeks to do this, first, by reducing public and private barriers which restrict and divert trade; second, by establishing the objective of multilateralism and non-discrimination in international trade and by providing means and fostering conditions under which this objective can be achieved as rapidly as possible; third, by providing a means for dealing with problems arising out of surpluses of primary commodities; fourth, by promoting the economic stability and the maintenance of employment so essential to liberalization of trade policy; and, fifth, by advancing the economic development of underdeveloped areas, which have so great a contribution to make to their own welfare and that of the world.

The

The Substantive Commitments of the Charter

Many of the substantive commitments of the Charter are based on familiar principles of United States policy. Others are of a pioneering character.

(1)

In the first group are:

(a) The commitment that member nations will stand ready to negotiate for the reduction of tariffs and the elimination of tariff preferences. This is simply international acceptance of a policy long followed by the United States under the Hull reciprocal trade agreements program. So far as the United States is concerned, this commitment will be carried out under the authority and procedures of the Reciprocal Trade Agreements Act.

(b) Commitments designed to limit the use of indirect forms of protectionism, such as discriminatory internal taxes, mixing regulations, and arbitrary and concealed barriers in the guise of customs regulations. The principal effect of these commitments will be to concentrate charges upon imports at the customs frontier, to make it widely and definitely known exactly what these charges are, to simplify as much as possible the binding red tape of customs administration and to secure a wider degree of uniformity in such administration. The provisions of the Charter dealing with this subject represent the widest area of detailed agreement yet reached internationally in this complicated and highly important field.

(c) A condemnation in principle of the use of quantitative restrictions, a limitation of their use in practice to specified situations in which all nations are agreed that their use is permissible, and a commitment to keep their use subject to international scrutiny and control.

(d) Acceptance of the basic principle of nondiscrimination and equal opportunity in international trade; the principle of unconditional most-favored-nation treatment.

These principles are familiar in the United States. They have long been incorporated in our trade agreements and commercial treaties. In the Charter they are reaffirmed as objectives in all cases and as rules of immediate and present behavior in cases where that is now possible. Where deviation is required by the exigencies of particular situations, the degree of deviation from the principle, and the conditions under which such deviation will be recognized as legitimate, are specifically laid down.

Some changes in present United States law will be necessary for full compliance with the Charter. These changes, however, are relatively few in number and scope. They will be pointed out in detail to the Congress during the presentation of the Charter and necessary legislation will be presented later.

(2)

(2)

The Charter, however, recognizes that governmental trade barriers and discriminations represent only part of the obstacles to increased trade in today's economic world. It therefore goes on to attack problems not hitherto dealt with in broad-scale international agreement.

The Charter contains the first set of international commitments with respect to the restrictive practices of private and public international cartels. In many cases such practices can be as effective and as harmful to the development of international trade as the more familiar restrictions imposed by governments. The Charter defines these harmful practices, and contains commitments by the member nations to take necessary action according to their own constitutional and legal systems to secure the abandonment of practices found to be injurious.

The Charter contains the first set of commitments by governments to guide the operation of their state trading enterprises. The development of state trading has been a phenomenon of increasing importance in the field of international trade. The purpose of the Charter commitments is to subject the conduct of such enterprises, as much as possible, to the same criteria as those which normally govern the operation of private enterprises.

The Charter contains the first set of international rules with respect to the formulation and operation of intergovernmental commodity agreements. Many special problems arise in the field of primary commodities. These are often produced by large numbers of small producers, and surpluses cause widespread hardship. Price fluctuations can be and often are violent.

Intergovernmental action is frequently required to assist in dealing with such problems. In the past such action has normally been by agreement only of the producing countries. The Charter, among other things, would require that in any such agreement consuming countries will have an equal voice with producing countries, a new requirement for commodity agreements.

The Charter contains provisions for consultation between members with respect to their use of subsidies, with a view to limitation of such use when it proves to be harmful to other nations' interests.

The Charter recognizes the importance to international trade of a high and stable level of demand in the member countries. The reduction of barriers to international trade will be of little avail if there is no demand for the products of international trade. The full realization of demand for the products of international trade cannot be achieved if there are unnecessary barriers to the exchange of such products. These are two sides of the same coin. In the Charter member countries would commit themselves to use their best efforts according to their own constitutional procedures, such as our Employment Act of 1946, to achieve and maintain within their borders full and productive employment.

Finally,

Finally, the Charter recognizes the fundamental importance of the economic development of underdeveloped countries. Vast areas of the world are in very early stages of economic and industrial development, resources are not fully utilized, poverty is widespread, starvation and disease are ever present. Such conditions provide no basis for economic progress or political stability. They are fertile breeding grounds for discontent and unrest.

It is to the common interest of all nations to see such areas brought to a higher stage of economic development. This can be done by the efforts of the people and governments of the areas themselves, by the efforts of private industry, agriculture, and labor in other countries, by the help of other governments, and by the help of international agencies. Therefore, the Charter contains provisions designed to facilitate the flow of technological information and private capital into areas which need and can use them and, at the same time, to safeguard those areas against abuses of foreign investment which have unhappily taken place in the past.

These provisions of the Charter were of deep and primary concern to a large number of the countries represented at Havana. They are of concern to the United States also. For it is in this area that the United States and other highly industrialized and developed countries can make a great contribution to the sound development of other nations and, at the same time, to our own prosperity.

The Exceptions in the Charter

The Charter is designed as a set of principles to be observed in action. It is not just a set of temporary rules to meet the present abnormal and emergency economic situation. It is designed also for the longer term. It will represent agreement as to future objectives as well as to the rules for today's action.

Many of the commitments, such as those dealing with negotiations for the reduction of tariffs and elimination of preferences, the abolition of discriminatory internal taxes and regulations, the simplification and publication of customs regulations, the negotiation and operation of commodity agreements, the limitation of the restrictive practices of cartels, and others, can be, and must be, immediately and fully lived up to.

Other commitments cannot, in the post-war economic world, be fully lived up to by all countries immediately.

For example, the members of the ITO will commit themselves to abandon the use of quantitative restrictions. But during the post-war transition period it is inescapably necessary for many, if not most, countries to budget their foreign purchases. Therefore, the Charter provides that when countries are in real balance-of-payments difficulties they may use quantitative restrictions to limit their expenditures of foreign exchange. When the circumstances which the Charter recognizes as justifying the use of such restrictions have been corrected, members are committed to abandon them.

Under

Under certain circumstances, countries in the process of economic development may have legitimate need to use restrictive measures, which would otherwise be prevented by the Charter, for the development of new industry. Hence, the Charter provides certain cases in which this may be done, provided the Organization is satisfied that carefully specified conditions, agreed to by all the members, have been met.

Under certain circumstances, a tariff rate, negotiated under the commitment of members to negotiate for the reduction of their tariffs, may cause or threaten unexpected injury to a domestic industry. The Charter provides that under such circumstances the country granting that concession may withdraw or modify it to the extent necessary to prevent such injury. This provision is patterned on the escape clause which the United States includes in trade agreements negotiated under the Reciprocal Trade Agreements Act.

Under certain circumstances, it has been necessary for governments to intervene to prevent the disastrous effects of surpluses of agricultural products by programs restricting domestic production or marketing. In such cases it would be unfair for imports to be exempt from control and they could be limited.

Considerations of national security at times require measures which would not conform to the general principles which would normally be applied under the Charter. An exception is, therefore, provided to permit action to be taken by member countries necessary for their national security.

Without exceptions of this kind, members of the Organization, ourselves included, could not accept the commitments of the Charter. The exceptions are carefully defined and are agreed to by all. Their use is subject to scrutiny by the Organization. Their abuse is subject to complaint by the members.

Structure and Functions of the Organization

The International Trade Organization would be a specialized agency of the United Nations. As such, it would enter into relationship with the Economic and Social Council of the United Nations and with the other specialized agencies in order to insure coordinated action and to avoid duplication of activities and functions.

The structure of the Organization itself is simple. It will have a Conference composed of all the member nations which will be its fundamental governing body. The Conference will meet periodically, but at least once a year.

The executive functions of the Organization will be vested in an Executive Board of eighteen countries, of which eight must be nations of chief economic importance as determined by the Conference. This provision insures a permanent seat for the United States on the Executive Board. Other nations likely to have permanent seats under this test will be the United Kingdom, France, the Benelux Customs Union, and Canada.

Each member country will have one vote in the Conference and on the Executive Board. Decisions of the Conference and of the Executive Board will, except in certain cases where a two-thirds vote is required, be by majority vote.

The Organization will have a Director General, to be appointed by the Conference on recommendation of the Executive Board;

Board, who will be responsible for its day-to-day activities under the direction and supervision of the Executive Board.

With one exception, relating to the discriminatory application of restrictions for balance-of-payments reasons, the Organization will have no power to require any member to take any specific action. It will have the power to decide whether a member has lived up to its commitments under the Charter. If it finds that the member has not lived up to a given commitment, it may release other members from certain of their Charter obligations to that member, which, if not satisfied with this decision, may in most cases withdraw from the Organization on sixty days' notice.

Decisions of the Conference of the Organization may be referred to the International Court of Justice for legal opinion.

The Organization will provide a forum where problems may be discussed and conflicting interests reconciled. It provides a means of bringing to bear upon a given problem the force of international public opinion. It provides a means of developing, on a case-by-case basis, international precedents in the field of economic and commercial relations.

The Organization will provide a means for the accumulation and dissemination of trade statistics and information about trade practices of government, e.g., customs regulations, etc., which can be of great service to businessmen.

The Organization will be empowered to make studies in various fields, for example, standardization, uniformity, and simplification of customs regulations. It can be a means for the collection and dissemination of technological information.

The expenditures of the Organization are to be met by contributions from the members. These contributions are to be apportioned among the members in accordance with a scale fixed by the Conference following such principles as may be applied by the United Nations. Should the United Nations place a maximum limit on the proportionate contribution to its budget by any one member, the same limit is to be applied to contributions to the Organization.

Place of the ITO in the Structure of International Cooperation

It is apparent that the economic problems facing us today cannot be solved by any one nation, or any few nations, but must be tackled by many nations working together.

We are committed to unfaltering support of the United Nations. We have participated in the building and establishment of the International Monetary Fund to deal with the problems of international exchange. The purpose of the Fund is to promote by international action reasonable stability and convertibility of currencies. Clearly, trade must be brought into balance if currencies are ever to be and remain stable. Regulation of exchange controls is futile if nations are free to use quantitative restrictions instead. To solve the problems of international trade, international cooperation with respect to exchange controls and currency valuation must go hand in hand with international cooperation with respect to other forms of trade barriers and the expansion of demand in international trade.

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We have participated in the building and operation of the International Bank for Reconstruction and Development. We are interested in foreign private investment. Clearly, loans cannot be repaid or earnings on investments received if international trade is not fostered and freed. International cooperation in provision of capital must go hand in hand with international cooperation in the development of the kind of conditions in which capital can exercise its catalytic and constructive influence.

We are playing a tremendous part in the great work of European recovery. In the development of the European Recovery Program there has been consistent recognition of the vital importance of increased trade. The participating countries have pledged themselves to cooperate to reduce trade barriers and expand trade in accord with the principles of the draft Charter for an International Trade Organization. Similar pledges are repeated in the Convention for European Economic Cooperation.

Section 115(b)(3) of the Economic Cooperation Act requires the inclusion in the bilateral aid agreements between each of the participating countries and the United States a general undertaking to cooperate in facilitating and stimulating an increasing interchange of goods and services and in reducing barriers to trade. In accord with this Congressional mandate a provision to this effect was included in the bilateral aid agreements with the participating countries.

The European Recovery Program is designed to help put the European countries on their feet. The ITO Charter provides principles and rules of trade which if followed over the long term will give them the best chance of staying on their feet. The problem is one of markets as much as it is one of production. Our investment in the European Recovery Program can be fully realized only if the participating countries are able and willing to adopt trade policies which will foster multilateral, non-discriminatory, and expanding international trade, rather than policies of bilateralism, discrimination, limitation, and control. Wide acceptance of the Charter throughout the world would mean that many other nations besides those in Western Europe would be marching in the same direction and with the same purpose.

We are deeply interested in assisting in the development of underdeveloped areas of the world. We hope to see these areas develop under political and economic institutions in which human dignity and freedom can be preserved. In particular, we hope to increase the international flow of technical knowledge. This is not something which we can, or would wish, to do alone. Other nations have great reservoirs of knowledge and experience which they too can, and will be glad to, share. The International Trade Organization will be one means whereby resources of knowledge may be pooled and directed to the areas and projects where they can be most constructive.

Conclusion

Thus, the International Trade Organization, like the other specialized agencies of the United Nations, is part of a pattern -- the pattern of the great majority of a community of nations cooperating together in various fields of the community's life to provide the services which the community needs.

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