M. COULONDRE (France) did not question the force of the Canadian delegate’s arguments, but, to use a French proverbial expression, “le mieux est l’ennemi du bien”. The object to be attained as quickly as possible was to deprive the country in question of its normal supplies for the manufacture of war material or the prosecution of its military expedition. The Sub-Committee had been obliged to recognise that it could not deprive that country of all those products, because the League did not control them all. The list which it proposed comprised only products controlled by States Members. He thought Mr. Riddell’s remarks might usefully be studied by the committee which was to succeed the Committee of Eighteen for the purpose of establishing the conditions for the application and co-ordination of such measures as might be taken.

The CHAIRMAN observed that the Committee had not as yet to proceed to a vote. In order to preserve unanimity, he proposed that the Committee should adopt the list, leaving out of account for the moment the question of iron ore and scrap-iron, on which an endeavour would be made to find a basis for agreement in a small sub-committee consisting of the representatives of Spain, the United Kingdom and France.

M. EDEN (United Kingdom) wished to make his own position quite clear. The list contained two raw materials which were the principal production of certain British colonies: rubber, tin and tin ore. He was quite willing to agree to their appearing in the list, though exactly the same argument applied to those raw materials as that put forward by the Spanish representative in respect of iron ore. He was prepared to let them stay in that list if it remained as it stood, but he was not prepared to agree that only British colonies should be subjected to loss in respect of an embargo on their raw materials if other raw materials were removed from the list.

M. DE MADARIAGA (Spain) did not think there was any necessity to take a vote. The Committee might adopt the list unanimously, but it must be clearly understood that he could not give any guarantee as to his Government’s reception of it.

The CHAIRMAN proposed that a vote should be taken, and that the Spanish delegate’s statement should be recorded in the Minutes.

Mr. EDEN (United Kingdom) said that, if reservations were to be made in regard to the list, all delegations would be obliged to make them.

The CHAIRMAN pointed out that the Spanish delegate had not made a reservation.

M. DE MADARIAGA (Spain) imagined that nobody would be surprised if the Spanish Government found itself in considerable doubt as to why the Italian market was being closed to countries which, like Spain, exported iron ore, while it was left wide open to European countries which had extensive iron and steel industries.

Mr. EDEN (United Kingdom) observed that the position was exactly the same for all materials in the list. The whole question had been discussed in Sub-Committee and the conclusion now submitted had been reached. He sincerely hoped that the Committee would not go back on it.

M. LITVINOFF (Union of Soviet Socialist Republics) thought that the reasons put forward by the Spanish representative were irrefutable. The position could be remedied by including derivatives of rubber as well as rubber.

Mr. EDEN (United Kingdom) said that the Soviet representative seemed to forget the basis on which the whole of the list rested — namely, to include materials controlled by Members of the League. Iron ore and raw rubber were controlled and had therefore been included, but the products of rubber had not been included for the reason that they were not so controlled.

M. COULONDRE (France) pointed out that France was one of the biggest suppliers of iron ore and scrap-iron to Italy, but she was nevertheless prepared to submit to a measure of embargo if the Committee so decided.

M. VAN RAPPARD (Netherlands) stated that the Netherlands Indies produced rubber in large quantities and that the Netherlands were prepared to agree to an export embargo being placed on that commodity. It would, however, be very regrettable if at every moment exceptions were brought forward seeing that Lists I and II had already been discussed at length in the Sub-Committee on Economic Measures. It had been agreed that the products in List II should be examined later. It would be a great pity to go back on that decision.

M. DE MADARIAGA (Spain) regretted that he could not endorse the views put forward. He pointed out that the Spanish expert on the Sub-Committee on Economic Measures had reserved his delegation’s right to submit objections in the Committee of Eighteen. The point was this: if iron imports were permitted to Italy — because it was impossible to control that commodity — iron ore was not controlled either, at all events not the ore used to supply the iron imported into Italy. The consequence would be that a monopoly would be created for the supply of iron and steel to Italy for the benefit of certain countries and to the detriment of those countries which produced ore rather than iron. Consequently, he felt that the proposed measure was not equitable and that it was not in keeping with the spirit of solidarity which should prevail in the League.
Mr. Eden (United Kingdom) said that, if the Committee were to adopt the rule that products manufactured from a raw material cut out the raw material, the whole of the list would disappear. So far as comparative figures were concerned, Italy imported £20,000 of iron ore from Spain and £750,000 of rubber from Britain and her colonies.

The Chairman thought that, every effort having been made to reach unanimity, a vote should now be taken. He asked whether the Committee wished to vote first on the Spanish delegate’s proposal.

M. de Madariaga (Spain) proposed that the Committee should vote the list as it stood, though he could not guarantee what his Government would do.

Paragraph (1) and the list contained in it were adopted by fourteen votes to none.

Paragraph (2).

The Chairman drew attention to the fact that two alternative paragraphs were proposed.

M. Coulondre (France) said that the first formula, which was reproduced from that used in Proposal I, was open to misunderstanding in the present connection. In Proposal I it recommended Governments to take “such steps as may be necessary to secure that the articles mentioned” (i.e., arms) “will not be re-exported directly or indirectly to Italy.” That formula would be taken to mean that it was the articles themselves — arms in that particular case — that must not be re-exported; that was to say, that the actual consignment to a third country must not be reconsigned to Italy. In the case of raw materials, the position was somewhat different. What was wanted was to make sure, not only that the article itself which had been exported would not be re-exported, but also that no substitute article would be exported from a third country to Italy.

He was in favour of the second formula, which would avoid that ambiguous situation. It would be necessary in the first sentence to add the words “with these articles.” The second sentence was meant to indicate that, failing more effective measures, it was desirable to adopt a quasi system in order to avoid that danger. It was an indication to Governments, which were free to take appropriate steps.

Mr. Eden (United Kingdom) suggested to the French representative that perhaps the second sentence of the alternative paragraph might be left over until the result was known of the invitation which was to be made to the non-member States at the end of the proceedings. The Committee might then consider the position at the end of the month when it had received replies from the non-member States. He was a little nervous lest, by putting that sentence in at the present stage, the Committee might create an impression which no one wanted to create.

The omission of the second sentence of the second alternative would necessitate a choice between the first alternative and the first sentence of the second alternative. Personally, he would prefer the first alternative, because, if the first sentence of the second alternative were adopted, the only way in which effect could be given to it was by the second sentence in that alternative, which referred to action that did not seem to him to be the kind that ought to be proposed at the present stage. If there was any other way of dealing with this matter, he would be glad to hear of it.

M. Coulondre (France) was afraid that, with the first formula, the measures of embargo might cease to be effective. If the first part of the second formula were kept, States would be free to express an opinion. They could do so, with all the facts before them, on October 31st.

In order to secure a minimum degree of efficacy for the measures contemplated, it appeared essential to adopt at all events the first part of the second formula; otherwise, the Committee would create the ambiguous situation to which he had referred. There would still be the possibility of exporting certain goods to third-party States and of enabling those countries to send similar products to the belligerent country. The embargo would thus cease to be effective. The French delegation would accordingly have no difficulty in adopting only the first part of the second formula, which did not prescribe any means of execution but avoided the ambiguity referred to.

Mr. te Water (Union of South Africa) understood that Mr. Eden suggested that the second alternative contained measures directed against neutral States which it would not be wise to include in the document at the present moment. For the same reason that paragraph (2) (a) had been deleted from the proposal concerning the decrease of imports from non-member States, Mr. Eden wished to delete the reference in the present document in order that, when non-member States were approached with the full co-ordinated plan, they might not find anything in the document directed against their interest. That was sound policy, and Mr. te Water strongly supported it.

At the end of the month the matter would come before the Committee again, and it would know by that time the attitude of non-member States towards the plan of sanctions.

M. Coulondre (France) would not insist on his point of view if it was understood that the Committee would deal with the matter again when it met at the end of October.

Mr. te Water (Union of South Africa) personally preferred the second alternative, but it did not matter very much at the present juncture. He did not wish to pronounce on the two alternatives at this stage, and the whole point of his remarks was that neither of the alternatives should be included in the document until October 31st.
Mr. EDEN (United Kingdom) pointed out that the first alternative appeared in the arms embargo, and he did not see why it could not be used again.

M. COULONDRE (France) thought that the Committee could hardly suppress both of the proposals contained in the alternatives. States would not understand why no formula was inserted for key-products when there was a formula for arms.

He was in favour of the second part of the alternative, in which the second sentence could, if necessary, be deleted. In that form, the text would not cause any anxiety to third party States. He was prepared, however, to support the first formula if unanimity could be reached on the subject.

Mr. te WATER (Union of South Africa) had no objection as to which alternative was adopted, although he had expressed a preference.

The CHAIRMAN thought that, as Mr. te Water was ready to accept the first text and the French delegate acquiesced, it would be better to regard the first text as adopted, subject to the observations made by the French delegate.

Agreed.

Paragraph (3).

The CHAIRMAN reminded the Committee that it had been decided that the opinions of the Legal Sub-Committee of the Co-ordination Committee should be attached to the questions to which they referred. It was therefore unnecessary to make any mention thereof in paragraph (3), which would thus be cut down to its first sentence.

Paragraph (3) was adopted, with the omission of the sentence beginning: “The attention of Governments is drawn . . .”.

Paragraph (4).

Adopted.

Penultimate paragraph (unnumbered).

Adopted, in the following form:

“Having regard to the importance of collective and, so far as possible, simultaneous action in regard to the measures recommended, each Government is requested to inform the Co-ordination Committee, through the Secretary-General, as soon as possible, and not later than October 28th, of the date on which it could be ready to bring these measures into operation. The Committee of Co-ordination will meet on October 31st for the purpose of fixing, in the light of the replies received, the date of the coming into force of the said measures.”

M. COULONDRE (France) pointed out that the text made no reference to transit. He did not wish the problem to be raised at that stage, but hoped it was clearly understood that the Committee would return to it when it met again.

Agreed.

Final paragraph (unnumbered).

Proposal IV was adopted with the amendments noted above.

(For final text, see Minutes of the fifth meeting of the Co-ordination Committee, page 24).


M. LITVINOFF (Union of Soviet Socialist Republics) was not clear as to the functions of the permanent committee and of the Committee of Eighteen which it was proposed should continue to exist.

M. KOMARNICKI (Poland) asked which committee was meant by the word “it” at the beginning of the second paragraph.

The CHAIRMAN said that the reference was to the Committee of Eighteen.

M. Motta (Switzerland) said that his impression was that, in the view of the French delegation, if the Committee of Eighteen became a permanent body, it would be, in fact, the committee of application, and, as such, could decide what sub-committees should be set up, and, when necessary, call upon members of the Co-ordination Committee to take part.

On the proposal of M. COULONDRE (France), it was decided that the second paragraph should begin with the words: “To this end, the Committee of Eighteen . . .”

It was also decided that in all documents the title “Committee of Eighteen” should be substituted for the title “Committee of Application”.


M. de Madariaga (Spain) asked whether the committee responsible for application would have discretionary powers to invite any given State to send a representative, or to accept or refuse a request from a State not represented on it which might wish to put forward a particular point.

The Chairman replied that that was the usual League practice, and nobody would object to it.

The French delegation's proposal was adopted with the amendment noted above.

29. Communication by the Chairman to Non-Member States.

The draft of a communication to be made by the Chairman to non-member States was drawn up for submission to the Co-ordination Committee.
SUB-COMMITTEE ON ECONOMIC MEASURES.

LIST OF MEMBERS.

Belgium: M. M. Bourquin; M. J. Suetens.

United Kingdom: The Right Hon. Anthony Eden, M.C., M.P.; Mr. J. J. Wills.

Canada: Mr. W. A. Riddell; Mr. P. E. Renaud; Mr. A. Rive.

France: M. R. Coulondre.

Mexico: His Excellency M. R. Gómez.


Poland: His Excellency M. I. Komarnicky; M. J. Wszelaki.

Roumania: His Excellency M. N. Titulesco; His Excellency M. C. Antoniaide.

Spain: M. R. Cantos y Saiz de Carlos.

Sweden: His Excellency M. R. J. Sandler.

Switzerland: His Excellency M. W. Stucki.

Turkey: His Excellency Dr Tevfik Rüstü Aras; His Excellency M. Cemal Hüsnu.

Union of Soviet Socialist Republics: M. M. Litvinoff.

FIRST MEETING.

Held on Tuesday, October 15th, 1935, at 3.30 p.m.

Chairman: M. de Vasconcellos (Portugal).

1. Programme of Work of the Sub-Committee.

The Chairman said that the Sub-Committee on Economic Measures had been appointed by the Committee of Eighteen to study certain questions in regard to which there were two proposals. ¹ The first proposal, which came from the French delegation, was to prohibit the export of certain products, especially key products, to Italy. The French delegation had, indeed, suggested that each member of the Committee should send a list of the articles which he proposed should be prohibited, and that a general list of articles to be prohibited should be compiled from those individual lists. The other proposal concerned the embargo on Italian exports to all countries. Besides those two main questions, a considerable number of subsidiary questions would have to be studied. He would like to know the Sub-Committee’s views as to which proposal should be discussed first.

M. Rüstü Aras (Turkey) asked whether the two proposals the Chairman had mentioned were mutually exclusive, or mutually independent, or could be combined. Would it perhaps be possible to contemplate a procedure whereby the two would be amalgamated?

Mr. Eden (United Kingdom) said that the proposals were not exclusive; but he must point out that the proposal he had made to refuse to take Italian exports could quite easily

¹ See page 56.
be put into force without the other proposal. Therefore, he could not agree that difficulties in the way of placing an embargo on certain primary products going to Italy could hold up the application of his own proposal.

M. COULONGDRE (France) entirely agreed with Mr. Eden. In his view, the proposal of the United Kingdom delegation and that of the French delegation were not mutually exclusive, but rather it was necessary to consider them jointly. The Sub-Committee on Economic Measures must first study in turn as rapidly as possible, each of the two categories of measures and determine how far each of them was likely to be effective; it must see whether one or the other could be applied in its entirety, or whether, on the other hand, it might be desirable to combine them.

He would indicate the main reasons for which he thought that the Sub-Committee should make an immediate study of measures of embargo. In the first place, what was most urgently required, in the present case, was to prevent the belligerent country as far as possible from continuing to receive products which were essential to it in the pursuit of hostilities. No immediate repercussions could ensue from the cessation of trade, whatever the importance attached to it, and the degree of importance attaching to it would appear from the Sub-Committee's studies. The effects of that measure would be felt as and when it deprived the belligerent country of the foreign currency which it had derived from its exports. If sufficient time were allowed to lapse before such measures of embargo as might seem capable of effective application were taken, there was the risk that the belligerent country might constitute stocks which would enable it to prolong the hostilities. The purpose of endeavouring to deprive that country of financial resources was essentially to prevent it from obtaining raw materials, the key products necessary for the continuance of its military expedition.

The second reason was that, in connection with the embargo, it was hoped that certain non-participating countries would assist, and that they would take similar measures of embargo. The sooner an embargo system was established, the sooner it would be possible to consult those countries, and possibly to obtain their assistance in applying such measures.

When the Sub-Committee came to study measures of embargo, it would soon be found that a number of the most important products were not entirely controlled by the States Members of the League, and that, consequently, the latter would at first only be able to impose an embargo on a limited number of articles, the others being reserved until it was known whether the countries not members of the League, which were also producers, would consent to join the States Members. A genuine control of exports of these articles could then be instituted.

M. LITVINOFF (Union of Soviet Socialist Republics) thought the question whether there was an interdependence between an embargo on exports and an embargo on imports must depend upon the Sub-Committee's decision.

If it were decided to place an embargo on exports to Italy, that would not necessarily influence exports from Italy. On the other hand, if it were decided to put an embargo on purchases from Italy, that would ipso facto, affect exports to Italy, since it would deprive Italy of the foreign currencies with which to pay for them.

The latter system had the advantage that it could be applied without the collaboration of States non-members of the League, since the few countries which did not join in the common action could not absorb all the goods which the other countries would normally take from Italy.

M. Litvinoff did not wish to recommend either system. He merely wished to be quite clear as to the meaning of the Sub-Committee's decision. He was prepared to accept either system — an embargo on exports or an embargo on imports.

M. RÜSTÜ ARAS (Turkey) had already gained the impression from the general debate that the measures taken to stop Italian exports would be immediately effective. Furthermore, an embargo on certain key products would eventually have an effect on the manufacture of arms and implements of war. He also understood that the members of the Committee were more or less agreed that the stoppage of Italian exports would have an influence on exports to Italy, even taking into account the reserve of means of payment which the Italians had constituted.

He wondered whether, in these circumstances, the two proposals could not be mutually amended. Certain Italian exports, such as fruit, cheese, etc., were absorbed in any case by countries not members of the League. These exports gave Italy certain facilities, and hence diminished the influence which the measures taken to prevent imports to Italy might have. In any case, it would appear that a combination of the two types of measure would secure a less irritating system, as was desired by, among others, the French delegate.

Reverting to key products, M. Rüstü Aras pointed out that there were at least two — oil and coal — which depended as much on countries not members of the League as on the Member countries. He understood that the French delegation's idea was that those products should be reserved until after the negotiations which were to take place with the non-member States.

To sum up, he considered that, rather than adopt a rigid method, it would be better to amalgamate the two systems, so that the measures adopted would be as little irritating and as effective as possible.
The Chairman proposed, in view of the interdependence between the categories of measure suggested by the United Kingdom delegation on the one hand and the French delegation on the other, that the Sub-Committee should consider immediately measures of embargo on products proceeding to Italy, leaving it until the next day to study prohibitions of Italian exports to the participating States in the event of the first of these two investigations not being completed during the present meeting.

M. Rüstü Aras (Turkey) agreed that the combined discussion of the two proposals, which, as had been pointed out, were interdependent, should be left until the last. He suggested that the authors of the proposals should come to an agreement as to which of them should be considered first.

The Chairman replied that he would willingly take the responsibility for making the choice. M. Coulondre (France) approved the Chairman’s proposal.

Mr. Riddell (Canada) said that the Committee of Thirteen had studied those two questions with considerable care. But, whereas the Committee of Thirteen had had little or no difficulty in dealing with the question of refusal to accept exports from a country, so that its report was fairly complete in that connection, it had been unable to take any definite decision with regard to key products, and had, in fact, proposed to set up a Technological Committee to go into the matter.

He did not consider the two questions very interdependent. There were two methods of trying to achieve definite results; and, had he been given the decision as to which should have priority of discussion, he would unhesitatingly have chosen the question of refusal to take Italian exports, for the simple reason that it was a much easier matter, technically, on which to reach a decision. After all, the world had had an abundance of experience in the last few years in shutting out the products of other countries, and did not need any instructions in the matter.

He did not wish to imply that one was a better sanction than the other. Both were good; but, under the circumstances, it seemed highly desirable that the Sub-Committee should consider the first the one most likely to achieve results quickly. That was the most effective way of complying with paragraphs 3 and 4 of the Sub-Committee’s terms of reference.

Mr. Eden (United Kingdom) accepted the Chairman’s suggestion that M. Coulondre’s proposal should be taken first, on the express understanding that his own proposal was taken on the following day.

2. Study of the Application of Measures concerning the Embargo on Raw Materials and Products essential to Italy for the Continuance of Hostilities: Preparation and Adoption at a First Reading of a List of such Raw Materials and Products.

A. GENERAL DISCUSSION.

M. Coulondre (France) stated that, with the object of facilitating the Sub-Committee’s work and arriving at really practical and effective solutions as quickly as possible, he was prepared to submit a list of the products of which, according to the French experts, it was particularly important to deprive the belligerent country. The Sub-Committee might consider which of those products were actually controlled by Members of the League. The list, drawn up mainly in the light of the work of an English authority, Sir Thomas Holland, included the following products, in alphabetical order: aluminium, antimony, chromium, coal, copper, iron and steel, lead, magnesite, magnesia, manganese, mercury, nickel, petroleum, sulphur, tin, tungsten, zinc. Tungsten, he explained, was used, with molybdenum and vanadium, in the manufacture of fine resisting steels.

To the above, which were mineral products, might be added another category — namely, essential means of transport: ships, certain types of lorries and caterpillar motor-vehicles, transport animals, such as camels, asses and mules.

In the first list of products, a double system of assessment was required. It was necessary, first, to consider the products which the belligerent country found in its own territory in quantities sufficient for its requirements; in regard to these, no measure of embargo would serve any useful purpose. Secondly, there were the products that were not wholly or mainly controlled by the countries Members of the League. He would mention the products to which that double system of assessment applied.

Of the products which Italy found in her territory, the following might be noted: bauxite (aluminium), antimony, lead, mercury, sulphur and zinc. A reservation should, however, be made in regard to aluminium. Until quite recently, Italy had been self-supporting in the matter of aluminium. But, according to certain information, fairly large amounts of aluminium had recently been imported into Italy. It would seem, therefore, that aluminium should not be included in the list to which he had referred.

The second category of products which should not be excluded, but in regard to which the embargo should be postponed until the non-participating producing countries had joined in the collective action, consisted principally of three commodities — coal, petroleum and copper.

Consequently, the products which might usefully be considered, and which, it would seem, subject to certain reservations that he would mention later, might form the object of
effective measures of embargo, were: bauxite and aluminium (for the reason just indicated), iron ore, manganese, chromium, tin, molybdenum, tungsten and vanadium.

Two products which raised rather more difficult problems were cast-iron, iron and steel, on the one hand, and nickel on the other. It was true that the production of nickel was almost entirely controlled by countries Members of the League. He understood, however, that part of the nickel ore produced by Canada was refined in the United States and exported thence to Europe. That was a situation with which might be somewhat difficult to cope. As for iron, cast-iron and steel, the United States of America and Germany were the biggest producers of that category of metals. Germany, a non-participating country, was thus in a position to supply Italy, to a greater or less extent. It should be noted, however, that Germany did not possess sufficient iron ore; consequently, the countries Members of the League controlling iron ore might perhaps take the measures necessary to make their exports of iron ore to Germany conditional on the non-export to Italy by Germany of the products just mentioned.

How were the measures of embargo affecting those various products to be enforced? In the first place, by a measure prohibiting export to the belligerent country on the part of all the countries Members of the League. But there another question arose: How were the exports to be prevented from reaching Italy by a roundabout way — that was to say, through non-participating countries? That question had been examined very fully by the Committee which had met at Geneva in July 1935 to discuss the organisation of collective security. Members of the Sub-Committee would be acquainted with the information given in the report on the subject. That aspect of the report had been very exhaustively examined — a fact which might no doubt have given the impression to anyone reading the report that the measures contemplated were somewhat complicated. True, if it were attempted to apply that system in an ideal form so as to prevent any possibility of leakage, the system would be somewhat complex, and would take some time to establish. But, in accordance with the method which had hitherto been employed in the work of the different Committees, and in view of the desire expressed by the Co-ordination Committee that no time should be lost, similar action might be taken in this case as in the case of those measures which had formed the subject of a decision — that was to say, the essential measures might be taken, on the understanding that the method would be perfected later as far as might be possible.

As regarded non-participating States, in order to prevent indirect imports into Italy through those countries, quite simple measures might be taken on the following lines: the most effective measure was obviously to make the consignment of those different products to non-participating countries conditional on an undertaking by the latter not to export them to Italy. But it was likely that resistance would be encountered from such countries. In that case, it would be necessary to insist that they should undertake, at all events, to impose quotas on exports to Italy within the limits of their average exports to Italy during the last few years, and, in any event — that would depend upon the participating Members — to impose quotas on exports of raw materials to non-participating countries, based on the average of their imports of such products during the last few years.

Those were simple measures, which were not perfect and did not exclude all risk of fraud. He doubted, however, whatever system was adopted, whether it was possible to apply measures which would be simple and at the same time exclude all risk of leakage.

M. Litvinoff (Union of Soviet Socialist Republics) thought it might be useful, and even necessary, for the Sub-Committee to have the list of raw materials necessary for war production, which was being prepared by the Sub-Committee of Military Experts. The Sub-Committee on economic measures would then know whether the list was exhaustive or not. In the French delegate's proposal, he did not find, for instance, such raw materials necessary for war production as cotton, rubber, nitrates, etc.

The Chairman thought that the list in question referred only to raw materials.

M. Titulesco (Roumania) observed that the French proposal was presumably not exhaustive.

M. Coulondre (France) said that the French proposal was merely a working basis, and the French delegation would be only too glad to receive any additional suggestions. He had not mentioned the products of which M. Litvinoff had just spoken because, according to the French delegation's military experts, Italy possessed the means of procuring them, or could use substitutes, particularly in the case of explosives.

He agreed that the question of rubber ought to be examined.

He had also omitted to mention machine-tools, which were essential for the manufacture of war material.

M. Litvinoff (Union of Soviet Socialist Republics) also mentioned wool.

The Chairman said that the Committee should ask the military experts to consider raw materials also, and to indicate those which they considered it necessary to include in the list.

1 Document O.S.C. 7 (1).
Mr. Eden (United Kingdom) doubted whether the military experts were in a position to advise on such commodities as wool, rubber and the like. That was rather a matter for trade experts.

M. Rusto Aras (Turkey) thought that it would be useful for the Sub-Committee to have statistics of Italy's imports of the materials included in the list drawn up by the French delegate, and also of those added by M. Litvinoff. It would, indeed, be as well to have statistics of all Italian imports.

Mr. Loveday (Secretariat) observed that document C.O.S.C./S.C.E. and F. 2 gave all the commodities mentioned, with the production and importation by the main importing countries, but did not give the exports.

Mr. Eden (United Kingdom) said that the document in question did not give figures for the materials under discussion. The figures in any case related to the position as it had been two years earlier.

The Chairman said that it would be possible to have a complete list in about an hour and a-half.

M. Coulondre (France) said that, if the Committee wished, he could give indications as to Italian imports. He would confine himself to products controlled by the Members of the League.

M. Litvinoff (Union of Soviet Socialist Republics) said it was necessary to have for each product, not only the percentage of imports, but also the percentage of home production.

B. Mineral Products.

M. Coulondre (France) began with bauxite and aluminium. The Italian bauxite deposits had hitherto been found sufficient to meet home requirements. Italy, moreover, produced from 13,000 to 15,000 tons of aluminium annually. Her total imports in 1934 amounted to only about 200 tons. It was possible, however, that the output capacity of the Italian foundries was now insufficient to cover increased requirements, and imports seemed to have increased in 1935. In that connection, he mentioned recent purchases said to have been made in Switzerland.

M. Coulondre then quoted the following figures:

Iron Ore.

The Italian production was about 700,000 tons per annum.

<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>Italian imports in 1932</th>
<th>1933</th>
<th>1934</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union of Soviet Socialist Republic</td>
<td>192,000</td>
<td>360,000</td>
<td>415,000</td>
</tr>
<tr>
<td>Algeria</td>
<td>124,000</td>
<td>89,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Cyprus</td>
<td>45,000</td>
<td>45,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

He also gave output figures of iron ore for the main producing countries (1934 statistics):

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>32,000,000</td>
</tr>
<tr>
<td>United States of America</td>
<td>22,000,000</td>
</tr>
<tr>
<td>Union of Soviet Socialist Republic</td>
<td>22,000,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Sweden</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Germany</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Algeria</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Tunisia</td>
<td>546,000</td>
</tr>
</tbody>
</table>

Next came Luxemburg, Czechoslovakia, Norway and Japan.

Manganese.

The Italian production was about 10,000 tons. Italy's imports of manganese ore in 1934 were 65,000 tons, coming chiefly from:

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union of Soviet Socialist Republic</td>
<td>40,000</td>
</tr>
<tr>
<td>Palestine</td>
<td>17,000</td>
</tr>
</tbody>
</table>

A marked increase in these imports had been observed in 1935. In the first five months of the year, they had amounted to 42,000 tons. Manganese was essential for the manufacture of nearly every kind of steel.
The main producing countries were (1932 statistics):

Union of Soviet Socialist Republics, 737,000 tons.
India, 380,000 tons.
Netherlands Indies.
British West Africa.
Greece.
France.
United States of America.
China.
Gold Coast.
Czechoslovakia.

These last countries were small producers. The big producers were Members of the League.

Scrap-iron.

To the figures given for iron ore should be added those for what was known as scrap-iron, a basic product which was used to manufacture fine steel in Martin furnaces.

The greater part of the scrap-iron imported by Italy, where Martin furnaces were used a great deal, came from France. The French ore was a phosphoric ore, which was utilised for Thomas steel, much used in France and Germany, but much less in Italy.

Nickel.

Italy produced no nickel.

Her chief suppliers of nickel in 1934 were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>550</td>
</tr>
<tr>
<td>United States of America</td>
<td>470</td>
</tr>
<tr>
<td>Out of a total of</td>
<td>1,700</td>
</tr>
</tbody>
</table>

There was an appreciable increase in imports in 1935.

As M. Coulondre had already observed, most, if not all, of the nickel coming from the United States was only refined in that country, the ore being of Canadian origin.

The chief producers of nickel were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Belgian Congo</td>
</tr>
<tr>
<td>Greece</td>
<td>Norway</td>
</tr>
<tr>
<td>British India</td>
<td>Brazil</td>
</tr>
<tr>
<td>New Caledonia (French colony)</td>
<td></td>
</tr>
</tbody>
</table>

Chromium.

Italy produced no chromium.

Imports of chromium in the state of ore were practically nil. Imports took place in the form of ferro-chromium containing from 10 % to 90 % of chromium.

Particulars concerning the countries of importation were lacking.

The chief countries producing chromium were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Union of South Africa</td>
<td>British India</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>Greece</td>
</tr>
<tr>
<td>Turkey</td>
<td>Indo-China</td>
</tr>
<tr>
<td>Union of Soviet Socialist Republics</td>
<td>Japan</td>
</tr>
<tr>
<td>Australia</td>
<td>New Caledonia</td>
</tr>
</tbody>
</table>

(It should be noted that Germany re-exported chromium).

The main sources of alloys of iron and these various metals, particularly chromium, ferro-tungsten, ferro-molybdenum and various other iron alloys used in the manufacture of steel, were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Norway</td>
</tr>
<tr>
<td></td>
<td>Sweden</td>
</tr>
</tbody>
</table>

Tin.

Italy produced no tin.

She imported 2,200 tons of tin during the first five months of 1935, of which 1,900 tons came from the Malay States (British Empire).

The main tin-producing countries were:

<table>
<thead>
<tr>
<th>Country</th>
<th>Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Malaya</td>
<td>38,000</td>
</tr>
<tr>
<td>Bolivia</td>
<td>24,000</td>
</tr>
<tr>
<td>Netherlands Indies</td>
<td>20,000</td>
</tr>
<tr>
<td>Siam</td>
<td>10,000</td>
</tr>
<tr>
<td>China</td>
<td>6,000</td>
</tr>
<tr>
<td>Australia</td>
<td>3,000</td>
</tr>
</tbody>
</table>
Finally, the three special metals used in manufacturing fine steel, and particularly hard steel — molybdenum, tungsten and vanadium — were mainly imported by Italy, like chromium, in the condition of ferro-molybdenum, ferro-tungsten and ferro-vanadium. The amount of these iron alloys imported was, however, very small — 475, 95.8 and 48 tons respectively for ferro-chromium, ferro-molybdenum and ferro-tungsten in 1934. Those metals were used in very small quantities in the make-up of fine steel. The main producers were:

**Tungsten:**
- Portugal
- South Africa
- China
- Spain
- Czechoslovakia

**Molybdenum:**
- Norway
- United States of America
- Korea

**Vanadium:**
- Mandated territory of South West Africa
- South Africa
- France
- Peru

M. Coulondre observed that it did not seem necessary to take into consideration the following products, since, according to information received, they were produced in sufficient quantities by Italy: Antimony, lead, mercury, sulphur, zinc.

There should be added to this list another product that had not yet been mentioned — magnesia, used for the lining of blast-furnaces and converters. Italy imported comparatively small quantities of this product from Austria.

The Chairman thanked M. Coulondre for his statement, and proposed that the Sub-Committee should now discuss the first of the three following questions to be examined:

- Was an embargo to be placed on those products?
- Were there any other products to be added to the list?
- Should any products be struck off the list?

M. Coulondre (France) reverted to the list which he had already read. The commodities in regard to which the situation was clearest were the following: iron ore, manganese, chromium, tin and iron alloys — that was to say, alloys of iron and metals, such as manganese, tungsten, etc.

Next came bauxite and aluminium, cast-iron, iron and steel and nickel. As to the last two commodities, he referred to the information he had just given. As regarded bauxite and aluminium, Italy had until quite recently been self-supporting; but, according to the latest information received, she was now importing aluminium from Switzerland.

The Chairman enquired whether the Sub-Committee intended to propose an embargo on exports to Italy of the products included in the first list. He noted that the embargo would apply to the following products: chromium, iron ore, manganese, tin, iron alloys.

M. Coulondre (France) thought that, to be quite in order, the embargo on the products in question might be decided on subject to the investigation which the Secretariat was to make, on which it would report as soon as possible, so as to be quite certain that the information supplied by the French delegation tallied with that in the possession of the Secretariat.

Mr. Loveday (Secretariat) observed that Italy produced a considerable quantity of manganese.

Mr. Eden (United Kingdom) observed that the production was only 10,000 tons, which was nothing in comparison with the imports of manganese.

M. Coulondre (France) repeated the information he had given for manganese, which had been taken from the official Italian statistics for 1934 and the provisional statistics for 1935.

The Chairman proposed that the Committee should adopt, as it were on first reading, the list that had been supplied. After the Secretariat had checked the data, there would be a second reading and a definite decision would be taken.

The Chairman’s proposals were adopted.

The Chairman said that the second list would include aluminium, cast-iron and nickel.

Mr. Eden (United Kingdom) asked whether pig-iron did not come in large quantities from the United States of America and Germany.
M. COULONDRE (France) said that Italy also received cast-iron and cast-steel from Switzerland, the United Kingdom and the Belgo-Luxemburg Union.

The CHAIRMAN proposed that a provisional decision should be taken in regard to those products also.

Mr. Eden (United Kingdom) imagined that the United States of America, in any case, would have little difficulty, if they wished to do so, in replacing the French exports to Italy.

What of aluminium? Where did that come from?

M. COULONDRE (France) replied that the only information he had about aluminium was that the bauxite coming from the South of France was worked in Switzerland and exported, in the form of aluminium, from Switzerland to Italy.

The CHAIRMAN suggested that aluminium should be included in the earlier list.

M. STUCKI (Switzerland) doubted whether the method the Sub-Committee was following was a wise one. He did not really think that decisions on questions of such importance could be taken by experts before every delegation had checked the extremely useful information that had been supplied, not by the Secretariat, but by a delegation, to which, indeed, the Sub-Committee was very much indebted. The interests involved were considerable, and each delegation should have time to think matters over and get into touch with its Government before signifying its agreement.

There had been repeated references to Switzerland, and the information just supplied by M. Coulondre might give the impression that there had been a considerable increase of late in exports of aluminium from Switzerland to Italy. Up to the present time, of course, Switzerland had been entitled to export as much aluminium as she liked to Italy. But Swiss statistics showed that the total exports of aluminium for the first nine months of the current year amounted to 375 quintals, valued at 64,000 Swiss francs. For a country like Italy, those figures were insignificant. It was possible for him to clear the point up very quickly, because he was in his own country, but for other delegations, such verifications might be infinitely more complicated. He therefore thought that many delegations would have to reserve their decision until they had all the necessary information.

The CHAIRMAN did not think that the method employed was open to objection, since no final decision was to be taken until the second reading. Each delegation would therefore have time to examine thoroughly such questions as might concern it.

M. COULONDRE (France) apologised for having given the Sub-Committee such long and tedious explanations, but he had only responded to the wish which had been expressed. Not only had he no objection to M. Stucki's suggestion, but he warmly supported it. The Sub-Committee would readily understand that the French delegate's task had been somewhat painful in the present circumstances, and that he was too conscious of his responsibilities to have laid any bias on the particulars in his possession; on the contrary, he had always endeavoured to remain as objective as possible.

With regard to bauxite and aluminium, M. Stucki seemed to have placed a wrong construction on the particulars M. Coulondre had given. Repeating them, he observed that he had merely mentioned that recent purchases of aluminium had been made in Switzerland, the amount of which he did not know.

M. GOMEZ (Mexico) said that, according to the statistics of his country for the last few months of 1934 and the early months of 1935, Mexico had exported considerable quantities of zinc to Italy.

Mr. Eden (United Kingdom) proposed that zinc should be added to the list which the Secretariat was going to examine.

M. COULONDRE (France) asked whether he was correct in thinking that the second list included iron and steel, aluminium and bauxite and nickel, and that zinc was to be added.

The CHAIRMAN said that the Sub-Committee had decided that the second list should be studied at the same time as the first.

C. MEANS OF TRANSPORT.

The CHAIRMAN opened the discussion on the list of essential means of transport, beginning with the first item on the list — namely, ships.

M. STUCKI (Switzerland) wished to ask a question. The Sub-Committee was going to draw up a list of products the export of which it was desired to prohibit. The whole object of a ship, however, was to leave the Customs territory of the country of origin. Was that what the Sub-Committee wanted to prohibit? How did it think such a measure could be applied?

The CHAIRMAN replied that that was precisely what had to be discussed.

M. EDEN (United Kingdom) observed that ships were bought and sold in the same way as steam engines.

M. STUCKI (Switzerland) said he had foreseen that reply, but would point out that, from a legal point of view, the measure would then assume quite another form. What had so far been
contemplated was the prohibition of the export of certain products. Now the Sub-Committee was adopting quite another conception—not the prohibition of exports, but the prohibition of sale. For his part, he did not take up any particular standpoint, and raised no particular objection; he had merely desired to elicit an explanation. Did the Sub-Committee realise that it was entering upon a new form of sanctions?

Mr. Eden (United Kingdom) said it was a complicated subject; and it would perhaps be as well for the members to defer their observations on it until the following day.

The question of ships was adjourned until the next meeting.

The Chairman opened the discussion on the next item on the list—namely, certain types of lorries and cars.

M. Coulondre (France) by way of indication, gave details of this category as follows: vehicles able to negotiate any sort of country (caterpillar or wheeled), lorries, large and small, having a useful load of more than, say, one ton; and, thirdly, narrow-gauge field-railway material.

M. Stucki (Switzerland) apologised for being almost the only member to take part in so important a discussion, but would be glad if his colleagues would state their views on certain points which, in trade negotiations, were often discussed by experts for months, even with the aid of samples.

With regard to means of transport, he wished to make a general observation, which also applied to machine-tools. So long as it was only a question of raw materials, the application of measures of prohibition was a fairly simple matter; but, as soon as manufactured products came into consideration, supervision became an extremely difficult matter for Customs and administrative authorities. All who had to deal with those questions knew that. Such objects might be imported or exported in the form of detached parts, and it was often impossible for Customs officials to decide whether a part of a machine was intended for one purpose or another, or even whether the finished piece of machinery was intended for a given use. All who had had experience of those questions knew, for instance, that machine-tools might be used to make both munitions and perfectly harmless articles, or that a machine exported for the alleged purpose of manufacturing a harmless article might, with a slight modification made in the country of importation, be used for quite another purpose.

For these reasons, he made the most express reservations in respect of all matters connected with finished products that could be exported or imported in detached parts, and the ultimate purpose of which could not be recognised with any certainty.

With regard to field-railway material, he thought it was absolutely necessary to obtain further information before a detailed discussion could be of any use. In particular, it would be necessary to define what was meant by field-railway material. From a Customs point of view, there were certainly thousands of separate parts that might be described as such. Consequently, the same difficulty arose in that case as in the case of machinery. He therefore asked for explanations, and was not, indeed, sure that the Sub-Committee was serving any very useful purpose by discussing the question of finished products instead of confining itself to raw materials.

M. Litvinoff (Union of Soviet Socialist Republics) shared the Swiss delegate’s doubts about manufactured articles.

It was not a question of stopping the delivery of goods normally imported into Italy. The important point was whether Italy could herself produce the same goods. For instance, Italy had a well-developed industry for the manufacture of motor-cars, lorries, etc. Although in time of peace Italy’s output of such goods did not cover her needs and she had to import, she could increase her production and do without imports in time of war, if she had the raw material.

That being the case, they would, if they were not careful, only cause unnecessary economic inconvenience to those countries which exported goods to Italy, and at the same time set free some of Italy’s gold for the purchase of other products more necessary to her than the manufactured goods in question. It was useless to prohibit goods which, in case of necessity, Italy could produce herself and would not need to import.

M. Coulondre (France) felt that there was a great deal of truth in the observations of Mr. Stucki and M. Litvinoff. He thought that, in order to ensure the efficacy of the measures taken, a judicious selection should be made within the categories of means of transport and machine-tools. With regard to the former, in most cases the material could be sent in the form of separate parts, and the Customs authorities would hardly be able to tell for what purpose those parts were to be used. But certain means of transport, such as transport animals, could obviously only be exported as units.

Certain machines, such as machines for rifling and boring, were used almost exclusively for the manufacture of artillery material. They might therefore be included in the list, provided, as M. Litvinoff had said, that Italy was not able easily to produce them herself. As these were often very special and complicated articles, it would perhaps be difficult for Italian industry to produce them immediately. The problem ought to be referred to the military experts.

Mr. Riddell (Canada) thought the questions raised by M. Stucki and M. Litvinoff had helped to clarify the ideas of the members. But, in putting an embargo on raw materials, great
care must be taken not to offer a premium to countries that did not happen to possess such raw materials. An embargo might be put on a very important raw material, and another country might buy that raw material, make it into tools, and sell them to the country against which the embargo on the raw materials had been placed. The greatest care must be taken to prevent such materials being taken by a third State, worked up and sold to the belligerent country. Otherwise, a sense of injustice would be created, and the system might break down.

The Sub-Committee decided that the questions of means of transport and machine-tools should be referred to the military experts.

D. Various Products.

The Sub-Committee decided to include rubber in the list of prohibited products.

The CHAIRMAN then raised the question of wool, mentioned by M. Litvinoff.

M. COULONDRE (France) said that, obviously, the exportation of wool might be prohibited, but that would be to adopt a much wider category of measures of embargo. Perhaps after wool the Sub-Committee might find itself being led into including in the list leather, cotton, fats, etc. He agreed to the inclusion of wool in the list, but desired to point out that that might lead them far.

It was necessary to consider whether an embargo should be placed on nitric acid and other chemical products, as the delegate of the Union of Soviet Socialist Republics had proposed.

M. LITVINOFF (Union of Soviet Socialist Republics) said it had not been his intention to propose the inclusion of wool in the list; he had merely put it forward for discussion. Wool was not, of course, used for the production of war material, but to clothe the army. If it were prohibited, it would be necessary to prohibit woollen goods as well, and that would be a very large question.

The CHAIRMAN said that the question would be examined. There remained the question of nitric acid.

M. LITVINOFF (Union of Soviet Socialist Republics) was not thinking of nitric acid only, but of nitrates generally, which were used in the manufacture of explosives.

The CHAIRMAN suggested: "nitric acid and nitrates". These products would be included in the list approved at the first reading.

The Chairman's proposals were adopted.

SECOND MEETING.

Held on Wednesday, October 16th, 1935, at 10.30 a.m.

Chairman: M. DE VASCONCELLOS (Portugal).

3. Question of the Prohibition of Importation of Italian Goods into the Territories of the States Members of the League of Nations: General Discussion.

Mr. EDEN (United Kingdom) made the following statement: As I have already indicated when we discussed this matter in the Committee of Eighteen, it is our view that, now we have dealt with the arms embargo and the question of financial pressure, of all the remaining forms of economic pressure which have been suggested, the one which can most conveniently and expeditiously be applied is the refusal to allow goods to be imported from the belligerent. We have already decided to apply direct financial pressure, and the measure which we are now discussing is necessary to supplement that pressure by indirect means. By reducing the foreign trade of the belligerent, we reduce her power to purchase abroad the materials which she requires for the prosecution of the war.

Since the object of what we are doing here is to stop the war as rapidly as possible, it must, I think, be clear that that is the purpose which we are seeking to fulfil.

As this Sub-Committee has been appointed to study the application of measures concerning this proposal, it is unnecessary, and I think it would be out of order, for me to argue the case

1 See page 65.
for this particular proposal or to indulge in any discussion based on economic theory in regard to the various possibilities that might arise. All I propose to do this morning is to set out the facts and to deal with the practical questions that may arise.

Some figures which I had compiled for my own use from the Italian statistics for 1934 indicate that roughly 70% of the value of Italy's export trade in that year was destined for countries within the League. On the basis of the 1933 figures, which were circulated yesterday by the Secretariat, the proportion is 70.2% (approximately the same) or, if Albania, Austria and Hungary are excluded, 66 2/3%. These figures are a rough indication of the intensity of this form of economic pressure.

Omitting Albania, Austria, Germany and Hungary, the European countries took, in 1933, on the basis of the data supplied by the Secretariat half of Italy's exports (the largest percentages being 11.5% for the United Kingdom, 8.1% for Switzerland and 7.7% for France). The League countries outside Europe took 17%, the largest percentage being 6.3% for the Argentine Republic. The chief customers of Italy outside the League were Germany, with 12.1%, and the United States of America, with 9%. It will be noticed that no other country, inside or outside the League, reached 3%.

I think it useful to call the Sub-Committee's attention to the percentages, as they indicate the countries which would have to refuse the greater proportion of Italian goods. The figures which I have for 1934 show slightly different percentages to the Secretariat's figures for 1933, but they bring out the same list of countries. On the basis of either year's figures, my own country takes a somewhat larger share of Italian goods than any other Member of the League.

What are the points which we have to consider in the practical application of this measure? They appear to me to involve nothing novel. The Customs authorities in practically every country are now, as was admirably said by the Canadian delegate yesterday, very proficient in excluding foreign goods. Very well; the proposed measure is, in effect, the fixing of a nil quota for Italy. The operation of this should be an easy task for most Customs authorities.

As far as direct trade between our countries is concerned, we must prohibit all goods consigned from Italy, whatever their origin, as our object is to deprive Italy of the financial benefit derived from the sale of goods, whether produced in Italy or elsewhere.

We must also prohibit the import of goods of Italian origin, no matter from what country they arrive, as we do not want the measure evaded by the expedient of sending Italian goods to our countries through other countries by devious routes. In this connection it may be necessary for the Customs authorities to demand proof that goods are not of Italian origin. This again is nothing new, as Customs authorities are quite familiar with the problem of ascertaining the country of origin of goods in order to decide what rate of duty should be levied upon them. We must, I think, leave it to each Government to decide what measures it considers necessary to secure that Italian goods will not be imported, disguised as goods of another origin.

The next point I would mention is this, and again it is not a new problem, but one with which Customs authorities are always confronted. Goods may be grown or produced in Italy, be sent to another country to undergo some process and then be exported to a third country. Or goods may be manufactured partly in Italy and partly in another country; the raw material may be Italian and this may be worked up in another country, or goods may be finished in Italy which have been semi-manufactured elsewhere. Obviously, the financial benefit which Italy derives from foreign countries in these different cases varies enormously; it may be insignificant or it may be almost as great as if the goods were 100% Italian. We must have some criterion in these cases to enable us to determine whether the importation of the goods should be prohibited or not. What His Majesty's Government propose is that the goods should be regarded as Italian unless at least 25% of their value is due to work done on the goods since they last left Italian territory. This, in our view, is the minimum proportion due to non-Italian sources which can be allowed.

These are the main features of the plan, and there only remain one or two minor points to which I will refer. There is no reason, in our view, to apply the prohibition to gold or silver bullion or coin. Nor need it be rigorously applied to the personal belongings of travellers from Italy. These would be permanent exceptions. Another exception, which will be a temporary one, will be in favour of goods en route at the time the prohibition is announced. The probability is that such goods are the property of persons outside Italy, in which case nothing could be gained by stopping their importation.

Lastly, we do not suggest that any attempt should be made to apply this prohibition to goods in transit. To attempt to deal with goods in transit would be extremely difficult, because such goods may be stowed or packed with goods of other origin to which the prohibition does
not apply. They might have to be searched for, thus involving unpacking that would otherwise
not take place, and the documents relating to the goods would not be available in the country
through which they were passing, so that proof of origin or ownership would be difficult.

The Sub-Committee will no doubt wish to have a general discussion on the subject of
this proposal and it may be too soon to draft a recommendation to the main Committee. But
I think it might make my proposition clearer and perhaps facilitate the discussion if I laid
before the Sub-Committee my own idea of the substance of what might be included ultimately
in a proposition to be laid before the Co-ordination Committee, and I will therefore circulate
a draft now.

"Proposal regarding Prohibition of Importation of Italian Goods.

"The Governments of the Members of the League of Nations will prohibit the importa-
tion into their territories of all goods (other than gold or silver bullion and coin) consigned
from or grown, produced or manufactured in Italy or Italian possessions, from whatever
place arriving.

"Goods grown or produced in Italy or Italian possessions which have been subjected
to some process in another country, and goods manufactured partly in Italy or Italian
possessions and partly in another country, will be considered as falling within the scope
of the prohibition unless 25 % or more of the value of the goods at the time when they
left the place from which they were last consigned is attributable to processes undergone
since the goods last left Italy or Italian possessions.

"Goods the subject of existing contracts will not be excepted from the prohibition.

"Goods en route at the time of imposition of the prohibition will be excepted from
its operation. In giving effect to this provision, Governments may, for convenience
of administration, fix an appropriate date, having regard to the normal time necessary
for transport from Italy, after which goods will become subject to the prohibition.

"Personal belongings of travellers from Italy or Italian possessions may also be
excepted from its operation."

M. Komarnicki (Poland) expressed the hope that the full text of Mr. Eden’s statement
would be circulated, since it was a statement of facts. Personally, M. Komarnicki could not
state his views on that proposal at present, for he must first consult the experts of his delegation
and perhaps even the administrations concerned in his country. That consultation would
not, however, take much time, since everyone was generally prepared as to the attitude to be
adopted. In any case, the Polish delegate reserved the right to revert to the details of the
proposal.

Jonkheer De Graeff (Netherlands) warmly supported the United Kingdom proposal.
The Netherlands Government considered that the total prohibition of all Italian imports was
one of the only measures which could be effective and which could be carried out without
delay. Indeed, in Jonkheer de Graeff’s opinion, that measure did not call for any previous
examination by experts. Moreover, it would certainly have a rapid effect.

Consequently, he recommended that the Sub-Committee should submit the proposal
without delay to the Committee of Eighteen in order that a practical result might rapidly be
attained. He stressed that point more especially since public opinion in various countries
— and particularly in the Netherlands — was beginning to display impatience, which he personally
shared.

M. Bourquin (Belgium) was convinced that, as regards its practical application, the
proposal would require certain adjustments in the details of execution. In saying that,
M. Bourquin had in mind particularly the case of Switzerland, which had been put before the
Committee of Eighteen by M. Motta.1 But apart from that, M. Bourquin entirely endorsed
the statement of the Netherlands delegate.

The Sub-Committee had before it a proposal which seemed likely to give practical results
at a comparatively early date, and that was the essential purpose in view. M. Bourquin added
that, in his opinion, the proposal was by no means incompatible with that examined on the
previous day concerning an embargo on certain raw materials and perhaps even on certain manu-
factured products. Those two proposals could very usefully supplement one another, but they
were not interdependent, in the sense that it would not be necessary to wait until one was ready
before applying the other.

M. Stucki (Switzerland) did not wish to speak for the moment of his country’s exceptional
situation. He had nothing to add to what M. Motta had said on the previous Saturday.
Switzerland’s final attitude would depend to a large extent on the solution adopted for two
problems which had several times been raised by the Swiss delegation — namely, the attitude
of certain European States Members of the League of Nations on the one hand, and the
question of compensation, or, rather, mutual support, on the other.

1 See page 65.
M. Stucki wished, however, to raise a question of principle which had no connection with
Switzerland's attitude. If he had understood the United Kingdom delegate's argument
aright, the intention was to prohibit the import of Italian products, not in order to affect
the situation of the workers, but to prevent Italy from procuring in that way the foreign currency she
needed for the purchase of munitions, implements of war and raw materials. If such a measure
were applied to a country which had an active commercial balance as a whole, the purpose
could certainly be attained; but M. Stucki had doubts as to the application of a measure of
that kind to a country whose total commercial balance was strongly passive - that was to say,
to a country which, in 1933, 1934 and 1935, had imported much more than it had exported.

From the theoretical and general point of view, it would seem that, if such a country's exports
were cut off, it was given the right to cut off its imports. If, hitherto, a country had exported 100
and imported 200, and both its exports and imports were cut off, the result would seem to be
— in theory of course, for in practice it might work out rather differently — not a weakening
in the position from the point of view of its surplus of foreign currency, but the contrary; for,
previously, that country had been obliged to procure the necessary foreign exchange to make
the good deficit in its commercial balance, and it procured that foreign exchange by means of financial receipts, and particularly by means of tourist traffic. But Italy had a big deficit on her
commercial balance, and that deficit was estimated, according to the figures supplied by the
Secretariat, on October 14th, at 1,400 million lire for 1933, the deficit in regard to European
countries alone being as much as approximately 500 million lire.

M. Stucki was sure that the United Kingdom delegation had thought of that circumstance,
but he would like to know the reasons why the arguments he had put forward, which, at any rate
in theory, seemed to him sound, did not apply in that particular case. If M. Stucki could be given
conclusive reasons in favour of that procedure, he would then ask whether the same purpose
— that was to say, the cutting off of foreign exchange surpluses derived from foreign trade— could
not be achieved by other means. There were now clearing arrangements and all kinds of compensations. What was desired was not so much to stop exchanges of commodities as to attack surpluses of foreign exchange derived from foreign trade.

M. Stucki apologised for having raised the question, but he nevertheless thought it to be a
relevant and important one. He was sure that the problem had been thought out, and he would be
glad to know the arguments in favour of the proposal as submitted to the Sub-Committee.

Mr. Eden (United Kingdom) did not feel in any sense competent to argue on the theoretical
ground with the Swiss delegate, but on the practical ground the position seemed fairly clear.
If by collective action the exports of a belligerent were reduced, surely that belligerent's capacity to import — and to that extent to carry on a war — was pro tanto made more difficult. There was clearly an exception to that statement. The belligerent could carry on by use of gold, so long as the gold lasted.

The Swiss delegate had referred to alternative methods. With all due respect, Mr. Eden hoped the Sub-Committee would not engage upon a discussion of alternative methods at present. There might be alternative methods: but, before turning to them, he would much prefer to complete the examination of the method under discussion, otherwise the Sub-Committee might get lost in a forest of alternatives.

M. Antoniade (Roumania) said that the United Kingdom proposal followed the general
lines of the Sub-Committee's work and was fully in accordance with all the measures already contemplated in the matter of sanctions. The Roumanian delegation agreed with the principle underlying that proposal and thought that the action suggested would give fairly satisfactory results. There remained, however, the question of the points of detail raised by that resolution. Certain adjustments might have to be made. He would therefore await the distribution of the French text of the resolution and the discussion of the details of the United Kingdom proposal before taking a final decision.

M. Litvinoff (Union of Soviet Socialist Republics) wished to say a few words on the technical
side of the questions raised by the Swiss delegate. He was not an expert in economic matters; but it seemed to him quite obvious that, if a country imported commodities and merchandise, it was because it had need of them. No country could go on importing goods as a luxury. That being so, it seemed to him that, if all the exports of a country were cut off, that must deprive her of foreign currency. Obviously, the only source from which she could then derive money to buy goods was her stock of gold, and stocks of gold were not inexhaustible in any country. It was possible that, if all imports from the belligerent country were stopped, she might continue buying from her gold resources; but she could only do so for two or three months, and the time must come when she would have to stop all purchases, whether of necessary commodities or of luxury goods.

The measure proposed by the United Kingdom seemed likely therefore to prove effective, if not immediately effective.

In the special case before the Committee, M. Litvinoff had declared many times that his
country was prepared to go to any lengths in the measures aimed at shortening or stopping the
war, provided all other Members of the League did the same.

M. Sandler (Sweden), after hearing the explanations just given, did not think it would be
very difficult to give effect to the United Kingdom resolution. He therefore associated himself
with the Netherlands and Belgian delegations, which had already signified their agreement, and
he thought that it would be useful immediately to frame a definite text for submission to the
Committee of Eighteen on the basis of the general proposal made by the United Kingdom delegate.
Mr. Stucki (Switzerland) was not at all surprised that the delegate of the Union of Soviet Socialist Republics had not followed his arguments very well. M. Litvinoff had given the reason himself; his basic idea was that in these days no country imported anything which it did not need. That was certainly true of the Union of Soviet Socialist Republics; but it was not of many other countries, and especially of Italy. Those countries had concluded treaties of commerce, and imported many commodities which they did not absolutely need and which even competed with national manufactures; those imports were forced on them by the operation of trade and of commercial treaties. Italy was still a party to several existing commercial treaties. It would seem certain, therefore, that, if Italy were prevented from importing goods which, up to the present, she had had to import, because of the commercial treaties she had signed, but which she did not really require and which would include the manufactured articles supplied by France, Belgium, Czechoslovakia, Switzerland, the United States of America and the United Kingdom, such an import embargo would enable Italy to retain the foreign exchange hitherto required for buying those articles.

The question of goods which Italy really needed was quite a different matter; they were mainly raw materials. The French proposal, however, already covered that point by the embargo laid on raw materials, and it would seem more logical to continue on those lines.

M. Stucki had no illusions as to the effect of his arguments on the Sub-Committee's work. Opinions seemed to be more or less formed. He had, however, felt bound to draw the Sub-Committee's attention to the fact that it would be a mistake to think that such a step could give a satisfactory result when Italy could prohibit the entry into her territory of manufactured articles and even to some extent of agricultural produce which she did not absolutely need and which represented hundreds of millions of lire. He, even, questioned whether such action would not ultimately operate to Italy's advantage.

M. Stucki hoped that he had made his reasoning a little clearer and left it to each member to think the matter over. He did not intend to submit any proposal.

M. Litvinoff (Union of Soviet Socialist Republics) thanked the delegate of Switzerland for the additional information he had given. If it could be proved that the measures proposed would not attain their object, the Sub-Committee should certainly not adopt them. Every sanction affected two parties — first, the aggressor and, secondly, the countries imposing it. He had not studied the structure of the Italian export trade; but it might be useful to obtain some information in that connection, as a means of ascertaining the percentage of necessities, of so-called luxuries or of goods that Italy could manufacture herself. That might help the final decision.

M. Cemal Hesen (Turkey) said that Turkey's balance of trade with Italy left the former a surplus which enabled her to discharge certain obligations. Being conscious of her international duties, however, and realising that the proposed measure would give rise to the fewest difficulties, Turkey could, in principle, support the United Kingdom proposal, on the assumption that the Sub-Committee on Mutual Support would arrive at a solution.

Mr. Eden (United Kingdom) had one or two brief observations to make on the remarks of the Swiss delegate. He appreciated the theoretical value of the latter's argument, but suggested that the practical position was not quite as stated. Any country which engaged in war thereby steadily reduced its purchasing power. If other nations collectively refused to take the belligerent's exports, they were contributing to reduce the belligerent's purchasing power and continuing cumulatively the process which the war itself inevitably set on foot. Nor was that all. In the particular case now under consideration, the country concerned had been losing gold and the value of its currency had been falling. Mr. Eden thought it quite clear that, in this particular case the refusal to take the belligerent's exports must further the purpose in view of bringing the war to an end.

The Chairman asked whether he might take it that the general discussion on the proposal was closed.

M. Wszelaki (Poland) reserved his delegation's right to make a statement on the substance of the United Kingdom proposal at the next meeting.

Mr. Eden (United Kingdom) raised a point of procedure in order to see what was the position at the moment. To-day, he said, was Wednesday. Many delegates, himself among them, were anxious to try to produce some results during the present week. He agreed with the delegate of the Netherlands that the effect on world opinion would not be good if no results in the economic sphere were attained by next week. He wondered whether the Sub-Committee could proceed on the understanding that to-morrow, or whenever the subject was again discussed, delegates would be in a position to express at any rate a preliminary opinion on the document he had submitted. In that case the Sub-Committee could perhaps transmit it to the Committee of Eighteen on Friday, when a decision might be taken as to its acceptance.

M. Stucki (Switzerland) observed that, anxious though the Swiss delegation was that the work of the Sub-Committee on Economic Measures should be carried on with all speed, the
Sub-Committee on Mutual Support, to which many delegations attached the greatest importance, had not been able to do any useful work at its last meeting because it had had no basis for discussion. He therefore proposed that the Sub-Committee on Economic Measures should suggest to the Sub-Committee on Mutual Support, merely as a working hypothesis, that it should assume that the United Kingdom proposal had been accepted.

M. CANTOS (Spain), Chairman of the Sub-Committee on Mutual Support, agreed that that Sub-Committee had had no basis for discussion on the previous day, because it did not know what would be the outcome of the work of the Sub-Committee on Economic Measures. It had assumed the most serious case — that of the complete, absolute and instantaneous prohibition of all exports to Italy. That was not the case that would arise if the United Kingdom proposal were adopted, which was, indeed, he thought, one of the advantages of that proposal.

According to that proposal, the first step would be to prohibit the importation of goods coming from Italy, and that would naturally bring about the result to be achieved — namely, a diminution of exports from other countries to Italy. There was one difference, however, which was that that diminution would be effected voluntarily by the Governments, and would be gradual instead of instantaneous. That would greatly facilitate matters. In some countries the decrease would be effected very rapidly, but it would come about more slowly in others, because Italy would require certain products over a longer period. Thus, the facilities would be greater for studying the means of organising mutual support. To be suddenly faced with large quantities of products that had lost their markets, and to have a gradual fall of exports one or two months hence, were two quite different situations. In the latter situation, which would presumably be that brought about by the adoption of the United Kingdom proposal, mutual support would be easier to organise. It would therefore be of great importance to the Sub-Committee on Mutual Support to known which of these two situations it would have to study:

The decrease would be most likely to be studied would be that of the adoption of the United Kingdom proposal, mutual support would be easier to organise. It would therefore be of great importance to the Sub-Committee on Mutual Support to known which of these two situations it would have to study: the extreme situation — that was to say, the immediate stoppage of all exports — or a progressively decreasing volume of exports to Italy. There was a considerable difference between those two cases, and the measures to be taken would differ according to the course adopted.

The CHAIRMAN noted that it was not possible at present to give a final reply to the question. Nevertheless, to judge by the general tenor of the discussion, he also thought that the hypothesis that was most likely to be studied would be that of the adoption of the United Kingdom proposal, since most of the speakers seemed to favour it. Consequently, he thought that the Sub-Committee on Mutual Support should study that hypothesis first, and consider other possibilities later.

Jonkheer de Graeff (Netherlands) agreed with the remarks made by the delegate of Sweden, and asked the United Kingdom delegate whether he could not have a draft resolution, to be used as a basis for discussion, distributed at the earliest possible moment.

Mr Eden (United Kingdom) said the draft already circulated was all that was required. He would have it put into the form of a resolution.

M. Litvinoff (Union of Soviet Socialist Republics) suggested that, as another meeting was to be held on the question, the members might profit by the interval to obtain some additional figures with a view to allaying the doubts expressed by the delegate of Switzerland. He would like particulars of the commodities imported by Italy, the percentage of necessities and of luxuries, the amount of the gold reserve in Italy and the amount of other resources, such as Devisen, transfers, postal cheques and so on. That information would throw light on the probable efficacy of the measures.

Mr. Loveday (Secretariat) was prepared to provide the figures for which M. Litvinoff asked; but they would be in the nature of a guess. When he was asked to estimate what was or was not necessary, he had to estimate the extent to which the importing country was prepared to pull in its belt. Might he perhaps ask for the assistance of some members of the Sub-Committee in forming a judgment in this matter?

Further, if Italian exports were cut off, that resulted, pro tanto, in a diminution in the demand of Italy for those raw materials which would have been used in manufactured goods. He did not know whether that aspect of the question also needed to be taken into consideration, or whether he was merely asked to give figures for what appeared to be luxury imports.

M. Coulondre (France) desired, in the sense of the request submitted by the delegate of the Union of Soviet Socialist Republics, to make a practical suggestion which might, he thought, facilitate the Sub-Committee’s work. The Secretariat had been asked what were the products which Italy had hitherto imported but might be able to manufacture herself. It would also be of value if the Secretariat could give the Sub-Committee some indication of the new possibilities of purchase and export which Italy might find in non-participating countries, and, in particular, in European non-participating countries. He thought a study might speedily be made that would help the members of the Committee to form an opinion on that subject.

Mr. Eden (United Kingdom) agreed with M. Litvinoff that the figures asked for would be useful; but there was this difficulty — that, to be really useful, they would have to be very recent, and it would be difficult to give very recent figures, because in the course of the past year the nature of Italy’s imports had been greatly modified, particularly during the current year. Conclusions based on the 1933 figures would be erroneous for present purposes.
Mr. LOVEDAY (Secretariat) said that the request put forward by the French delegate very strongly reinforced his desire to have the assistance of certain members of the Sub-Committee. If he understood the position aright, in order to answer M. Coulondre's question, he would be called upon to make a guess as to the probable commercial policy of (say) Germany in the next twelve months. That really was very difficult; and he would be glad if he might be allowed to consult, perhaps, M. Coulondre and M. Stucki on the matter.

The CHAIRMAN said he was sure all the members of the Sub-Committee would willingly help the Secretariat and place at its disposal all the information in their possession.

Mr. EDEN (United Kingdom) agreed that all this supplementary information might be of some value; but it really did not affect the main basis of his proposal. He sincerely trusted his colleagues would not be led away into a forest of comparative figures, and lose sight of the main issue, on which they were called upon to take a decision at an early date.

The CHAIRMAN said that the Secretariat would endeavour, by the next day, to supply the members of the Sub-Committee with all the data it could collect.

THIRD MEETING.

Held on Thursday, October 17th, 1935, at 10.30 a.m.

Chairman: M. de Vasconcellos (Portugal).

4. Declaration by the Swiss Delegation concerning a Press Report in regard to Alleged Economic Negotiations between Switzerland and Italy.

M. STUCKI (Switzerland) said that he had just read with great surprise in the Journal de Genève that he had taken advantage of his stay at Geneva to conduct bilateral negotiations with Italy. He denied this report in the most categorical and explicit manner. If true, it would indeed throw a somewhat singular light on his country's attitude, and he did not want any ambiguity to exist in this connection. M. Stucki had had no conversation with any Italian as regards bilateral negotiations or the state of trade between the two countries. He asked the Committee to note this declaration.

The CHAIRMAN thanked the Swiss delegate for his declaration, which would be recorded in the Minutes.

5. Study of the Application of Measures concerning the Embargo on Raw Materials and Products essential to Italy for the Continuation of Hostilities: Examination at a Second Reading of a List of such Raw Materials and Products.

M. STUCKI (Switzerland) wished to make two reservations as regards the new list of means of transport and machine-tools submitted to the Sub-Committee (document Committee of Eighteen/12). He had already made a general reservation, which had been supported by the delegate of the Soviet Union, as regards manufactured products. He did not wish to maintain this reservation in an entirely general manner, but he wished to maintain it as regards parts of motor-cars, because there was a quite innocent and normal export trade in motor-cars. He also wished to maintain his reservations as regards railway material, because the only definition given in this connection was "railway material for a gauge of 1 metre or less".

The CHAIRMAN thought it would be advisable to discuss first of all Lists I, II and III contained in document Committee of Eighteen/10.

Mr. EDEN (United Kingdom) asked how an embargo was to be placed on "non-specified metallic ores" mentioned in List I.

Mr. LOVEDAY (Secretariat) replied that the other items did not give the whole picture, as there was a certain amount of importation, under the general rubric "non-specified metallic ores", of mixtures of the metals enumerated in the list. In considering Italian imports, non-specified metallic ores could not be ignored. During the first seven months of 1934, Italian imports of unspecified crude metals were 47,000 tons, whereas in 1935 they were 606,000 tons. The matter was therefore extremely important.

M. COULONDRE (France) proposed that the different products in the list drawn up by the Secretariat should be discussed item by item, it being understood that, if any omissions were found, the members of the Sub-Committee would draw attention to them. The Sub-
Committee, having come to an agreement as to the products in regard to which measures of embargo might be taken, would rapidly examine in what way those measures of embargo should be applied in regard to the country of destination, and, further, what steps should be taken to prevent traffic by roundabout routes. Lastly, it would study conditions of application, time-limits, etc. When it had reached an agreement on these different points, it would appoint a Drafting Committee consisting of two or three members, and would ask it to draw up as quickly as possible a text for submission to the Sub-Committee.

The procedure proposed by the French delegate was adopted.

List I.

Materials which could be controlled by the Participating States alone.

Chromium and Chromium Ore.

The Sub-Committee decided to maintain chromium and chromium ore in List I.

Iron Ore.

M. Cantos (Spain) pointed out that all the documents communicated by the Secretariat drew a distinction between what were generally called iron ores proper (magnesite, hematite, etc.) — that was to say, ores which contained a high proportion of iron — and the sulphurated ores (pyrites), which contained a very low percentage of iron and over 50 % of sulphur, copper, and other elements. He supposed that, when iron ore was mentioned, the reference was to the typical iron ore.

The Chairman asked whether M. Cantos proposed that a distinction should be drawn for the purposes of the embargo.

M. Cantos (Spain) thought that the distinction already existed, and that in actual fact the embargo applied only to the typical iron ores, and not to the sulphurated ores containing a lower percentage of iron.

Mr. Eden (United Kingdom) wondered what would be the effect of putting an embargo on iron ore as such, if it were allowed to enter when it contained some other substance as well.

M. Coulondre (France) supported Mr. Eden’s view. He was afraid that, if ores containing only a certain percentage of iron were excepted from the embargo, a breach would be made which would render the whole system practically useless.

M. Cantos (Spain) observed that the breach already existed, and was a wide one, since the embargo was not to be imposed on iron and steel. That being so, he did not think that products such as pyrites should be included in the embargo, since copper and other metals were not included. That kind of iron ore was one of the most difficult to treat metallurgically and one of the least useful for making iron articles; in any case, Italy could obtain iron and steel, there being no embargo on those products.

M. Coulondre (France) felt that there was an important question to be settled; he did not think the position had been very accurately put by M. Cantos. The Sub-Committee had not yet come to any decision on iron, pig-iron and steel — that was to say the derivatives of iron ore — and might think it unnecessary, for the moment, to place an embargo on those products, since they were not wholly under the control of countries that were Members of the League. That did not mean, however, that the Sub-Committee might not decide to take that step if and when those non-participating countries which were large producers joined the Member States in applying the embargo. Everybody was, of course, anxious to act with moderation and to move step by step along this path, in view of the important consequences involved; but it was essential that the system should be solidly constructed. He therefore urged that all iron ores should be included in the embargo.

M. Cantos (Spain) said that he had confined himself to expressing his opinion. He did wish to press the point.

The Sub-Committee decided to maintain iron ore in List I.

Scrap-iron.

M. Coulondre (France) said that this term should be understood to include every kind of scrap-iron and scrap-steel used in the manufacture of steel. The point was one which the Drafting Committee might bear in mind.

Mr. Eden (United Kingdom) had no objection in principle to his procedure; but he had thought the first list was going to contain material controlled by Members of the League, and the second list materials not entirely so controlled.

Scrap-iron was quite clearly something that Members of the League did not control. The United States of America was an enormous producer of scrap-iron. So was Germany.
M. COULONDRE (France) said that, to his knowledge, Germany was a big consumer of scrap-iron and steel, of which she imported considerable quantities, more particularly from France and Belgium. It was, of course, possible that the United States of America might be in a position to export scrap-iron. Nevertheless, he thought it very desirable to keep scrap-iron of all kinds in the list. France would be particularly affected by this measure, because she exported large quantities of scrap-iron to Italy. Belgium would also be affected to some extent.

The Sub-Committee decided to maintain scrap-iron in List I.

Ferro-manganese Ore, Manganese Ore, Manganese.

The Sub-Committee decided to maintain these products in List I.

Ferro-alloys, Other Alloys, Metals for Ferro-alloys of more than 90% Metal Content.

Mr. LOVEDAY said this was another complementary "waste paper-basket" item similar to the "non-specified metallic ores". It was not this time a question of ores but of metals. The item was simply inserted to show that, in addition to the specified Italian exports there were these rather small quantities grouped together in a miscellaneous item at the bottom of the Italian trade statistics. It would not be a complete picture of the ferro-alloys if this miscellaneous item were omitted.

The Sub-Committee decided to maintain these products in List I.

Tin Ore, Tin, Tungsten, Vanadium, Molybdenum.

The Sub-Committee decided to maintain these products in List I.

Non-specified Metallic Ores.

M. COULONDRE (France) did not think that the embargo could be applied to "non-specified" products, as there was no indication as to what they were or from whence they came.

The CHAIRMAN appreciated the difficulty. The Secretariat had drawn his attention to the fact that exports to Italy of the articles concerned has increased to a very considerable extent. M. COULONDRE (France) thought this was a practical question. Would the Customs services of the various countries know what these "non-specified metallic ores" were? Was there any such item in the Customs nomenclatures? If pig-iron and steel were omitted, would not certain Customs services reinclude them under this very item?

M. BOURQUIN (Belgium) also thought it would be difficult to ask States Members to prohibit the export of "non-specified metallic ores". Moreover, even though these ores could not be specified for the purpose of administrative classification, they had no doubt certain characteristics which could be ascertained.

Mr. LOVEDAY (Secretariat) said there was no question of adding unspecified metallic ores to the list. In every country's statistics there was always a group of "unspecified" items in a very large number of categories.

The figures indicated that some of the gaps in the commodities specified (chrome-ore, for instance) were not due to the fact that there was no import by Italy of, for example, chrome-ore, but simply to the fact that Italy has put chrome-ore with other ores in the miscellaneous group ("non-specified metallic ores"). That being so, the figures were important as enabling the Sub-Committee to get a picture of the whole situation; but the item in no way constituted an addition to the list.

The CHAIRMAN proposed that the Drafting Committee should be asked to frame a more precise definition.

M. CANTOS (Spain) thought that the first thing to ascertain was whether the figures under this item referred to metallic ores not specified in the list drawn up by the Secretariat, or whether they had been taken from the Italian statistics. In the first case, these figures would probably include metallic ores which the Sub-Committee had not desired to include in the list because, in so far as these products were concerned, Italy was self-sufficing and only imported them for the purpose of processing and re-export. If that were so, no useful purpose could be served by placing an embargo on such ores. For his own part, he was convinced that the data produced by the French delegate to demonstrate that Italy was self-sufficing as regards these products were absolutely correct.

The question of "non-specified metallic ores" was referred to the Drafting Committee.

LIST II.

Materials which could not be controlled by the Participating States alone.

Aluminium, Alumina (Aluminium Oxide), Bauxite.

Mr. LOVEDAY (Secretariat) said that Italy was the second largest producer of bauxite in Europe (see page 16 of document Committee of Eighteen/10) and that Germany produced about 37%, or one-
third of the total aluminium produced in Europe. He did not see, therefore, how these three items could possibly fall within List I as just defined.

M. COULONDRE (France) stated that, though Italy has been self-sufficing until recently in respect of those products, Mr. Loveday’s observation was not entirely to the point in the case of Germany, since Germany produced aluminium, but had no bauxite. The ore from which aluminium was made was not obtained in Germany. It was therefore easy to see that an embargo on bauxite would have some effect, as exports to Germany could be restricted to what she required for home consumption. But he admitted that it was only in the past few weeks or months that Italy had imported this product, and, as M. Stucki had pointed out at the previous meeting, her imports had, up to the present, been very small.

Mr. EDEN (United Kingdom) said that the answer to the query put by the Secretariat was that a belligerent might be a considerable producer of a given raw material, but that, if it wanted more than it could produce, collective action could in that case be effective. As that appeared to be the position with regard to these materials, he would have thought they might be maintained in the list.

The Sub-Committee decided to transfer aluminium, alumina (aluminium oxide) and bauxite to List I.

Pig-iron, Crude Steel, Iron and Steel Rolling-mills Products.

Mr. LOVEDAY (Secretariat) observed that the third item, “iron and steel rolling-mills products” had been added to the list originally drafted by the Sub-Committee.

M. BOURQUIN (Belgium) thought that these products should be placed in List II, as the United States of America and Germany were big producers.

M. CANTOS (Spain) returning to the question of iron ore, asked how the Sub-Committee could decide to place an embargo on this product, as Italy was not only an importer but also an exporter — a growing exporter — of iron ore. The difference between imports and exports was not very great; in 1934, imports had amounted to 414,000 tons and exports to 320,000 tons, whereas Italy was definitely an importer of the articles which the Sub-Committee was at present considering. This also applied to crude steel, of which Italy had no exports. For the others, the export figure was very low as compared with the import figure. He wondered, accordingly, what was to be gained by placing an embargo on iron ore if Italy were to be allowed to obtain all the iron and steel she might need. He was therefore of opinion that, if iron and steel were placed in List II, iron ore should also appear in the same list, as there was nothing to be gained by prohibiting the importation of iron ore into Italy.

M. COULONDRE (France) pointed out that these were very difficult questions and appearances should not be trusted. Italy did, of course, export a considerable amount of iron ore, but the imports of iron ore were, after all, higher than the exports. What was the meaning of this movement in both directions? The truth was that the iron ores exported by Italy were those which she was unable to utilise herself for the manufacture of the steels she wanted. It was obvious that, if these ores were of the kind she wanted for her own manufacture, she would use them rather than import ores from abroad. According to the information he had been given, the ores exported by Italy were ores which she could not use industrially and commercially for the manufacture of her steels. Italy manufactured mainly quality steels, and these steels could not be obtained from every kind of ore. That was why he thought that to prohibit the export of ore to Italy might be very effective, particularly the export of scrap iron and steel, since they were essential for the manufacture of steel in Martin furnaces, which was one of the principal methods of manufacturing steel in Italy.

The CHAIRMAN understood that M. Cantos wanted to revert to List I, but presumed he did not insist.

M. CANTOS (Spain) said that he must reserve his position, as he was not very clear how the slight difference between Italian exports and imports of iron ore could be of sufficient importance to warrant an embargo. On the other hand, he pointed out that Italy imported considerable amounts of iron and steel on which products there would be no embargo. It therefore seemed to him that the products concerned should be either in List I or in List II, though he was not sure which.

Mr. EDEN (United Kingdom) thought the position was perfectly clear. If the participating countries could control both these materials, both should go into List I. The difference between Lists I and II was that the materials which the participating nations could control were put in List I, and those they could not control were put in List II for the time being until such time as they could be put in List I.

The CHAIRMAN thought the point must be settled one way or the other, and asked the Spanish delegate whether he pressed his proposal.
M. Cantos (Spain) said that he did not wish to press his proposal but must reserve his position. He thought that other delegates might also have observations to make on the subject.

At the suggestion of M. Coulondre, the Sub-Committee decided to maintain pig-iron, crude steel and iron and steel rolling-mills products in List II.

Magnesium, Magnesite.

Mr. Loveday (Secretariat) was not in a position to furnish any figures as to the sources of production of magnesium.

M. Coulondre (France) proposed that the two articles should be examined.

The Chairman asked whether the members of the Sub-Committee possessed any information as to these articles. If not, Mr. Loveday suggested that the study should be entrusted to the Drafting Committee, although that would mean enlarging the latter's rôle to some extent. For the time being, the two articles might be left in List II.

The Sub-Committee decided to maintain magnesium and magnesite in List II.

Nickel.

M. Coulondre (France) said that nickel was mainly controlled by two countries — the United Kingdom and Canada. The latter, however, was in a special position and the Canadian delegate might possibly be able to furnish useful information on the matter. The production of nickel was, in fact, controlled by Members of the League, but part of the nickel extracted in Canada was processed in the United States of America and the latter exported the resultant product to certain countries, chiefly to Italy. It might be advisable to place an embargo on nickel. The Canadian delegate might draw his Government's attention to that point, and ask it to see what measures could be taken in regard to nickel exports from Canada to the United States of America, since nickel, being an expensive product, was exported in small quantities only.

Attention should be paid in the case of this metal, not only to the ore and the metal itself, but also to all nickel derivatives. Nickel could be obtained, not only in its original form, but likewise in the form of derivatives. There were certain instruments made of nickel, and it was to be feared that Italy might be able to obtain part of the nickel she required in that form.

Mr. Riddell (Canada) thanked the French delegate for his explanations with regard to nickel. Canada controlled the greater part of the production of raw nickel, but a very considerable part was exported for processing to the United States of America and other countries. The whole question would no doubt be carefully examined by the Canadian Government, and he would draw its attention to the suggestions that had been made.

The question whether this substance might go in List I, and the question of how it might be controlled on leaving the country, were much the same as in the case of certain other raw materials which were produced in one country and worked up in other countries, and the methods adopted in the case of the latter might also be considered with regard to nickel.

It was of the first importance to exercise care in the matter of derivatives. In the case of a number of substances, he thought it essential to have some kind of qualifying statement. He would not put forward any definite motion, but thought the list drawn up should be held to include:

(a) All forms of these materials, whether ores, scrap, alloys, products or derivatives, from which any of these materials may readily be extracted or derived;

(b) Such products or derivatives of these materials as represent a stage in the manufacture of war materials or implements of war or any forbidden article or product;

(c) Such products or derivatives of these materials as may be utilised in the manufacture of war materials, implements of war or any forbidden article or material.

The Canadian delegation felt strongly that some such qualifying proposal should be inserted with regard to these materials. A country having certain raw materials might do everything to stop such materials being supplied direct to a belligerent; but it might quite well be unable to prevent third countries from working up the materials to a certain point and then exporting them to the belligerent. It would be unfair and unjust for a country possessing such materials to place an embargo on their export to a belligerent, only to find that its efforts were of little or no avail, because it had no means of controlling the materials once they reached third countries non-members of the League.

The Chairman noted that the Canadian delegate proposed the insertion of a general clause which would not apply to nickel in particular and which might be discussed later, but had no objection to the inclusion of nickel in List I.

The Sub-Committee decided to include nickel in List I.
M. STUCKI (Switzerland) asked why cotton, coal, oil and copper had not been included in List II. As M. Coulondre had already stated, the Members of the League as a whole did not control the entire production of those articles; but it was only logical to include such essential products in List II. He did not wish to make any proposal, but was simply asking for information.

M. COULONDRE (France) thought that a certain confusion had arisen because what had been called List II would not finally be List II. It was intended that the latter should include products on which an embargo had to be postponed; those were, in the main, the products mentioned at the previous meeting — coal, copper and oil. On the other hand, the list now under discussion consisted of doubtful products which would receive special consideration in view of the conditions under which they were exported, so as to ascertain whether they should be included in List I or List II. Consequently, the products to which M. Stucki had just referred (cotton, oil, copper and coal) should be added to the products already included in List II. It would then be possible to draw up the real List II in the form originally proposed.

Mr. EDEN (United Kingdom) agreed with M. Coulondre's proposal, but he had a suggestion to make concerning procedure. The Sub-Committee was now agreed on List I — that was to say, on the list likely to come immediately into operation — and approximately agreed on List II, which would require the co-operation of others before it could be put into operation. Was it not possible at this stage to leave the lists and take the first reading of the draft resolution regarding the prohibition of the import of Italian goods? He understood some delegates desired to make preliminary observations, and it might be useful to hear them at once.

Mr. Eden's proposal was adopted.


The CHAIRMAN opened the discussion on the following draft resolution, proposed by the United Kingdom delegation:

"With a view to facilitating for the Governments of the Members of the League of Nations the execution of their obligations under Article 16 of the Covenant, the following measures should be taken forthwith:

1. The Governments of the Members of the League of Nations will prohibit the importation into their territories of all goods (other than gold or silver bullion and coin) consigned from or grown, produced or manufactured in Italy or Italian possessions, from whatever place arriving.

2. Goods grown or produced in Italy or Italian possessions which have been subjected to some process in another country, and goods manufactured partly in Italy or Italian possessions and partly in another country, will be considered as falling within the scope of the prohibition unless 25% or more of the value of the goods at the time when they left the place from which they were last consigned is attributable to processes undergone since the goods last left Italy or Italian possessions.

3. Goods the subject of existing contracts will not be excepted from the prohibition.

4. Goods en route at the time of imposition of the prohibition will be excepted from its operation. In giving effect to this provision Governments may, for convenience of administration, fix an appropriate date, having regard to the normal time necessary for transport from Italy, after which goods will become subject to the prohibition.

5. Personal belongings of travellers from Italy or Italian possessions may also be excepted from its operation.

The Governments are invited to put in operation at once such of the measures recommended as can be enforced without fresh legislation, and to take all practicable steps to secure that the measures recommended are completely put into operation by October 31st, 1935. Any Governments which find it impossible to secure the requisite legislation by that date are requested to inform the Committee, through the Secretary-General, of the date by which they expect to be able to do so.

Each Government is requested to inform the Committee, through the Secretary-General of the League, within the shortest possible time, of the measures which it has taken in conformity with the above provisions."

M. WSZELAKI (Poland) made the following declaration:

We have before us a proposal of exceptional gravity from the point of view of its direct or indirect effects on international economic life. The time has not yet come to express a
definite opinion on this proposal. My Government would, however, like to have full particulars before reaching any decision. It has informed the League Council in unambiguous terms of its resolve scrupulously to carry out the obligations arising from Article 16 of the Covenant. I take it that it is our Sub-Committee's task to supply the Governments of States Members of the League with the necessary data to enable them to take their decision. Obviously, the United Kingdom proposal merely constitutes a basis of discussion, and I am sure its authors do not regard it as an indivisible whole, in which no changes can be made, from which nothing can be deleted and to which nothing can be added.

At this stage of the discussion, I merely wish to ask the United Kingdom delegate for certain explanations. My observations will, I feel sure, show him the complexity of certain situations in regard to which too rigid or too simple formulas would be likely to lead to different results from those intended or might even run counter to the object in view.

It is true that the main ideas of the United Kingdom proposal were communicated to us some days ago; but the text distributed to us yesterday contains an entirely new idea — namely, the non-execution of existing contracts. In the case of my country, the introduction of this idea makes the problem much more complicated. The application of this clause to certain Italian imports into Poland would be bound to have a disastrous effect on my country's economy, without contributing in any way to the efficacy of the proposed measures. Those repercussions were no doubt not foreseen by the authors of the proposal.

I will give you an example which will make the bearing of my observations clearer. The Italian dockyards of Monfalcone are carrying out an order for a transatlantic liner for the shipping line of the Polish State. This vessel, which was launched some time ago, is to be completed during the winter and to make her maiden voyage from Gdynia to New York early next spring. A considerable part of the cost of this vessel, which is to be paid for in coal, has already been delivered. According to the United Kingdom proposal, Poland would be obliged to break this contract, to lose the vessel and the sums she has already paid, and to upset her sea communications programme which was drawn up a long time ago. That is, however, only one aspect of the question. There has been distributed to us a draft proposal to prohibit the sale to Italy of means of transport, including means of water transport. We are all agreed that this proposal would be of undeniable efficacy; but, in this particular case, the only effect of the strict application of the United Kingdom proposal, apart from causing serious loss to Poland, would be to provide Italian shipping, at my country's expense, with an up-to-date and first-class vessel of which it has not over many.

I could give you other similar examples, some of which are not without importance from the point of view of the safety of the State. I have merely raised the question of contracts of limited financial importance entered into by the State. I will not lay stress on the problem of the possible responsibility of the State towards its nationals for the losses they might sustain on account of the non-execution of private contracts.

The doubts which this matter has raised in my mind should, in my opinion, be considered here from the angle of a principle laid down by the Assembly on October 4th, 1921 — namely, the desirability "of reducing to a minimum the losses and embarrassments which may be entailed in the case of certain Members of the League by the application of the sanctions".

M. LITVINOFF (Union of Soviet Socialist Republics) said that the inconveniences referred to were not peculiar to Poland. Other States would find themselves in the same position. The Union of Soviet Socialist Republics, for instance, had placed certain contracts in Italy. Articles were under construction for the Soviet Union account which Italy could take over with great benefit to herself instead of making delivery. He did not suggest exceptions for these cases, and was prepared to accept any decision that might be taken by the Committee.

There was, however, another aspect of the problem, and that was the responsibility of Governments, not to their own nationals for contracts voided, but for possible claims on the part of Italian nationals and/or the Italian Government for the voidance of contracts. That concerned, not only imports from Italy, but exports to Italy. He hoped the Sub-Committee would not lose sight of this aspect of the case. The Legal Committee might perhaps be asked to find a solution. Possibly, a public decision might be taken on the point, or the question might be referred to the Permanent Court at The Hague, with a view to establishing the doctrine that non-execution of contracts as a result of the enforcement of sanctions was to be regarded as due to force majeure.

Mr. EDEN (United Kingdom), replying to the question of the Polish delegate whether he regarded the text as sacrosanct and incapable of amendment, said that he most certainly did not. It was for the League collectively to decide what it wished to do in the circumstances, and the text of his resolution must be amended as and how the League saw fit. He did not even take any pride of authorship for the text. It was not a British text but a League text. It owed its inspiration to the work of the Committee of Thirteen, on which most of the members of the Sub-Committee were, he thought, represented.
As regards the general point raised by the delegate of Poland, it would not in his view be possible to exempt current contracts as a whole. To do so would make too large a gap in the structure of the proposed sanctions.

There remained the question whether or not there should be special cases. It was clear that there must be. In any scheme, there must be special cases. It had been decided to leave it to a permanent Financial Committee to decide on special problems; and Mr. Eden imagined that, if his resolution were accepted, it would be necessary to leave an Economic Committee in permanent session to answer conundrums similar to those that would be put to the Financial Committee.

M. Wszelaki (Poland) said that, in his first remarks, he had confined himself to mentioning, by way of example, two or three private contracts, concluded by the Polish State, of limited financial importance, and that he had no desire to make a breach in the system suggested in the United Kingdom proposal.

M. Litvinoff (Union of Soviet Socialist Republics) said that the suggestion of the United Kingdom delegate that special cases should be considered by a Committee, or by some organ of the League, seemed to him quite satisfactory as a means of meeting the difficulties to which reference had been made.

M. Sandler (Sweden) considered that, if the Committee were to examine the question of the losses which would be suffered by different countries in consequence of the application of the United Kingdom proposal, it should also consider other cases such as that of countries with clearing agreements with Italy. Clearing agreements were entirely based on the trade balances for a complete year. The consequences arising for a country from the prohibition of Italian imports would depend fundamentally on the date on which the prohibition was put into force. Without wishing to come to any conclusion on this point for the moment, he thought it would be desirable to submit a case of this nature to the Financial Committee which Mr. Eden had proposed.

M. Coulondre (France) supported the proposal to set up a Committee to examine and pronounce upon individual cases. It might, he suggested, be the same as that which it had been proposed to set up to study financial questions.

M. Stucki (Switzerland) said that the Swiss delegation greatly regretted that, at any rate for the moment, it could not express an opinion in favour of the United Kingdom proposal. It was disturbed not so much by the individual cases just mentioned as by the general situation in which Switzerland would be placed as a consequence of the League's action. Personally, he thought the Federal Government's powers were sufficient to put sanctions into force, at least temporarily. Nevertheless, under Swiss law, Parliament would have to state its views in December and say whether it desired certain of the measures taken to be maintained, and he felt very anxious about the explanations which would have to be given to Parliament.

In the first place, he had already expressed doubts as to the effectiveness of the measures proposed. The more details were examined, the clearer those doubts became; and he would be the first to desire a thorough discussion of the question of the effectiveness of the measures proposed, were he not aware that time pressed and that it was desired to act speedily. He wished, however, that the Minutes of the present meeting should record a warning; for he feared, as a true friend of the League, that, if the measures taken were not definitely and clearly effective, there might be very serious consequences to-day and to-morrow.

M. Stucki did not for the moment propose to go further into details; he simply wished to say that, since yesterday, he had examined very carefully the structure of trade between Italy and Switzerland, and had come to the very definite conclusion that Italy could dispense with all imports from Switzerland without any serious difficulty. He was well-nigh convinced that, if this question were examined with regard to other countries, the conclusion would be the same — with the exception always of raw materials, which constituted the decisive issue. It must not be forgotten that, as regards foodstuffs, Italy exported more than she imported. Consequently, the measures taken in this sphere would certainly not be effective. M. Stucki was ready to quote figures if the Sub-Committee wished. In these circumstances, the first question which would be asked by a Parliament conscious of its responsibilities would be whether the considerable sacrifices the country was called upon to make were at any rate offset by the absolute efficacy of the measures taken. For Switzerland, the sacrifice was a considerable one, since, as a result of these measures, about 10,000 workmen would be deprived of work. So far, M. Stucki had doubts as to the effectiveness of these measures.

He had ventured, on the previous day, to make certain references to other possibilities of depriving Italy of her foreign exchange surplus. In this connection, he had read with great interest in the United Kingdom delegate's speech that the purpose in view was, indeed, to deprive Italy of her foreign exchange surplus in order to prevent her from buying raw materials or other products. In these circumstances, M. Stucki wondered whether the Sub-Committee was wise in omitting to examine other possibilities by which the same purpose might be achieved. On the previous day he had been asked not to embark upon a discussion of that sort, and he would therefore not press the point. Possibly, the Swiss Government would be able later to put forward certain definite proposals as regards its ability to co-operate in joint action, for which it was as anxious as any other member of the Sub-Committee.

He also wished to raise the question of the situation created by the fact that certain States Members had taken up an independent position by means of a simple declaration. It was possible that the Swiss Parliament would point out to the Government that the country was
asked to make considerable sacrifices although the solidarity postulated in Article 16 of the Covenant was far from existing, and that it seemed unfair to ask Switzerland for such sacrifices if certain States did not participate in the joint action. The Swiss delegation would be unable to make any reply to the Swiss Government or Parliament upon that point.

Lastly, no definite solution had been found for the problem of mutual support, which had been studied by the appropriate Sub-Committee. The Roumanian delegate had said that he accepted the United Kingdom proposal and would submit his bill later.

The Swiss delegation, true to Article 16 of the Covenant, which set out from the idea that account must be taken of certain special situations and that burdens must be shared as much as possible, wished to state that it would act somewhat differently: before assuming any obligations, it wished to know all the factors and the possibilities of compensation or mutual support.

He deeply regretted that he was perhaps giving the false impression that Switzerland was not observing in toto the obligations imposed on her by the Covenant. The declarations made by the Swiss Foreign Minister at the Assembly left no doubt, however, on that point. If the Swiss delegation examined very carefully all that it was asked to do, and if it showed great caution before definitely committing itself, it was because its situation was really a special one. He would beg his colleagues to try to understand it. In the present case, was their any country, apart from Austria and Albania, which was a very small nation adjacent to a great Power? Was there any country part of whose population spoke Italian? Was there any country which had to promulgate decrees for the application of sanctions in Italian? He would not dwell further on this plea. He had put forward these considerations to show that Switzerland was obliged to examine very closely all the factors of this far-reaching question of sanctions. His country did not, as yet, possess all the necessary elements for judgment. That was the reason for which he could not give his approval to the United Kingdom proposal.

The CHAIRMAN desired to consult his colleagues on the Sub-Committee's immediate programme of work.

Jonkheer DE GRAEFF (Netherlands) recalled that it had been decided not to discuss any solutions other than those proposed by the United Kingdom and French delegations and to conclude the discussion of the United Kingdom proposal. Should not this decision be reconsidered after the Swiss delegate's very clear statement, and should not that delegate be asked to submit on the following day an alternative solution such as his Government appeared to have the intention of presenting?

M. STUCKI (Switzerland) said that he was at the Sub-Committee's disposal.

Jonkheer de Graeff's suggestion was adopted and the discussion was adjourned to the next meeting.

7. Appointment of a Drafting Committee.

The CHAIRMAN proposed to constitute a Drafting Committee consisting of the delegates of Belgium, the United Kingdom, France and Switzerland.

M. LITVINOFF (Union of Soviet Socialist Republics) proposed the addition of the Spanish delegate, who had put forward a reservation on the question of iron ores, on which point the Soviet delegation itself had certain doubts.

These proposals were adopted.

M. COULONDRE (France) pointed out that there were still two or three questions regarding which the Drafting Committee needed guidance from the Sub-Committee. Among these were the questions of the conditions of application and of the attitude to be taken towards the non-participating countries. This last matter was very important if it was desired to avoid diversion of traffic. He therefore proposed that the Sub-Committee should reserve sufficient time for the examination of these questions at the beginning of its next meeting.

The procedure proposed by M. Coulondre was adopted.

8. Responsibility for Claims for the Non-execution of Contracts: Reference of this Question to the Legal Sub-Committee.

M. LITVINOFF (Union of Soviet Socialist Republics) recalled his proposal to ask the Legal Sub-Committee to give its views on the steps to be taken in connection with responsibility for claims for the non-execution of contracts.

M. Litvinoff's proposal was adopted.

1 See page 124.
FOURTH MEETING.

Held on Friday, October 18th, 1935, at 10.30 a.m.

Chairman: M. de Vasconcellos (Portugal).


Jonkheer de Graeff (Netherlands) drew attention to a telephone message from The Hague, published in that morning's Journal de Genève, to the following effect:

"The Netherlands Government has introduced a Bill in Parliament for the purpose of obtaining powers to apply supplementary sanctions within the framework of the League of Nations, should this prove necessary. It is to be clearly understood that the Government has no intention whatever of taking the measures which the Bill will empower it to take, still less of submitting them to the Co-ordination Committee at Geneva.

"The sole object of the new Bill is to bring the domestic law of the Netherlands into line with Article 16 of the League Covenant, so as to enable the Netherlands to act if occasion arises.

"Needless to say, the Netherlands has no intention of applying any sanctions other than those approved by the Co-ordination Committee."

This very confused statement might give rise to misunderstanding. He therefore wished to confirm the fact that his Government—as firmly resolved to apply with the utmost rigour the measures that had been or might be adopted by the Co-ordination Committee.

The CHAIRMAN thanked Jonkheer de Graeff for his statement, which would be duly noted.

10. Methods of applying the Embargo on Certain Exports to Italy: Questions of Non-participating States and Diversion of Traffic.

The CHAIRMAN remarked that the Sub-Committee had to study the conditions for the application of the embargo, the attitude to be adopted towards non-participating countries, and the decisions to be taken for the purpose of preventing diversion of traffic.

M. Coulondre (France) thought that, owing to the urgency of the embargo measures, inasmuch as their object was to prevent supplies from being received and stocks from being formed, the recommendations on the subject might be the same as those concerning the financial measures. Those recommendations were the following:

"The Governments are invited to put in operation at once such of the measures recommended as can be enforced without fresh legislation, and to take all practical steps to secure that the measures recommended are completely put into operation by October 31st, 1935. Any Governments which find it impossible to secure the requisite legislation by that date are requested to inform the Committee, through the Secretary-General, of the date by which they expect to be able to do so.

"Each Government is requested to inform the Committee, through the Secretary-General of the League, within the shortest possible time, of the measures which it has taken in conformity with the above provisions."

The Committee would think it natural that the measures of embargo should be taken at the same time by the countries concerned—for instance, by the United Kingdom and the Union of Soviet Socialist Republics in the case of manganese. He therefore suggested that it should be understood that the countries concerned with the same classes of measure should make informal arrangements to put those measures into effect simultaneously. The Drafting Committee might give indications regarding the countries directly concerned in the production of the various products.

As regarded the measures to be taken to prevent diversion of traffic, any arrangements made must be not only as effective as possible but also as simple as possible. Measures of secondary importance, like some of those mentioned in the July report of the Sub-Committee of the Committee of Thirteen, should be disregarded for the time being. It would be sufficient to recommend States to make the despatch of those raw materials to non-participating countries as far as possible conditional on a pledge by the latter not to export similar products to Italy.
and, in the absence of such pledges, to ration those countries — that was to say, to restrict exports from participating to non-participating countries to a quota which might be equal to the annual average for, say, the last three years.

Such were his suggestions, but he would, of course, be ready to accept any proposal which might be considered more convenient and more effective.

Mr. Eden (United Kingdom) said that the question of co-ordination naturally became much more important in any question connected with economic sanctions than it was in respect of either the arms embargo or of financial sanctions, because a restriction of trade would affect a large number of people and might cause a considerable dislocation. A little time would therefore be necessary to put the measures into operation, and probably no delegate present could definitely say exactly how long their Ministries would require to make their preparations. He was referring to both the proposals under consideration by the Sub-Committee.

Clearly, much dissatisfaction would be caused among traders if trade were allowed to go on in one country while in another it was stopped. The effect or public opinion would be bad if the situation were different in different countries and if it were not realised that this was due, not to disloyalty, but only to practical difficulties in bringing the measures into operation at the same time.

For this reason, the United Kingdom delegation thought that the simultaneous application of all trade prohibitions by Members of the League was the ideal to be aimed at. It might not be possible to attain that end entirely, but simultaneous application ought to be the aim in view.

Therefore, to make a practical suggestion, he would propose a redraft of the first and last paragraphs of Proposal No. II, that dealing with financial measures. 1 His suggestion, which was purely tentative, was that the first paragraph of both the proposals now under consideration should be the same and should read:

"With a view to facilitating for the Governments of the Members of the League of Nations the execution of their obligations under Article 16 of the Covenant, the following measures should be taken:"

The last paragraph would read:

"Having regard to the importance of collective and, so far as possible, simultaneous action in regard to the measures recommended, each Government is requested to inform the Committee, through the Secretary-General, as soon as possible, and not later than October 28th, of the date on which it would be prepared to bring these measures into operation. The Committee will meet on October 29th for the purpose of fixing, in the light of the replies received, the date on which the said measures should be put into operation."

With regard to the French delegate’s second proposal, Mr. Eden agreed that there, also, something was required, but he was not quite sure whether it should take the form M. Coulondre had suggested, or whether the Sub-Committee might not adopt point 3 of Proposal No. I in regard to the arms embargo, 2 which read:

"The Governments of the Members of the League of Nations will take such steps as may be necessary to secure that arms, munitions and implements of war, enumerated in the attached list, exported to countries other than Italy, will not be re-exported directly or indirectly to Italy or to Italian possessions."

That might be a simple method of obtaining the result required.

M. Coulondre (France) supported Mr. Eden’s proposal the more readily as he had himself intended to make an almost identical proposal in regard to the second category of measures — those relating to Italian trade. All that remained was to agree on the dates.

He understood that Mr. Eden proposed the same procedure and the same time-table for the embargo measures as for measures concerning trade. He had thought that it might perhaps have been possible to consider a piecemeal application of those measures by enforcing the embargo measures first; but he had no objection to the time-table and procedure suggested being applied to the measures as a whole.

As regards diversion of traffic, he feared that Mr. Eden’s proposal was not sufficient to prevent the possibility of fraud. Under the terms of point 3 of Proposal No. I, it would be seen that, in that case, it was the product itself that must not be re-exported. That precaution might be sufficient in the case of arms, because it was those very arms that were not to be re-exported. But in the present case, something more was needed. What was required was to prevent the re-exportation, not necessarily of the actual product which had been sent to a third country, but of a similar product; otherwise, it would be too easy for a third country to send its own products to Italy and to replace its own products, which it had hitherto utilised for its own

1 Document No.: Co-ordination Committee /40.
2 Document No.: Co-ordination Committee /40.
consumption, by products from abroad. Those were the minimum measures that could be considered in order to make sure that the embargo was effective to a certain degree and would not be circumvented.

He therefore pressed the Sub-Committee to adopt his proposal that a pledge should, if possible, be obtained from the non-participating countries not to export products to Italy, and that, in the absence of such a pledge, exports to those countries should be restricted to a quota equal to the annual average of exports to the said countries during the past three years. In that way, no injury would be inflicted on them. They would still be supplied with what was necessary for their consumption, but there would be no danger of an increase in exports, which might lead to re-exports to Italy.

The CHAIRMAN said that the text of the United Kingdom proposal would be circulated, and requested the French delegate to submit a draft.

Jonkheer de Graeff (Netherlands) had an observation to make with regard to the French delegate’s proposal. As he understood it, the underlying idea was that, in order to prevent diversion of traffic, States should undertake not to export certain products to specified third countries unless the latter undertook not to re-export the same or similar products to Italy.

M. Coulondre (France) replied that, wherever possible, such an undertaking would be requested, if it was understood that, in the absence of any such pledge by the third countries, quotas would be imposed.

Jonkheer de Graeff (Netherlands) observed that the Netherlands had a commercial treaty with Germany under which they were bound to furnish Germany with certain Dutch products. There were no reservations in the treaty, so that it would be difficult for the Netherlands to accept the French proposal without the co-operation of Germany herself. The Netherlands, for example, were under obligation to supply a certain amount of coal to Germany, and there was nothing in the treaty which would entitle them to make those deliveries of coal conditional on Germany’s undertaking not to re-export some of it to Italy. It was very doubtful, he added, whether Germany would agree to co-operate in the matter.

M. Coulondre (France) said that it was because he had foreseen difficulties on the part of the non-participating countries — whose collaboration in the matter of not re-exporting to Italy must obviously be obtained — that he had proposed that, in default of a pledge, the countries establishing an embargo should limit their exports to non-participating countries to a quota equivalent to the average exports in recent years.

He did not think there would be any difficulty for the countries concerned in putting the question to the German Government — since reference had been made to the German Government — in the light of a recommendation from the Co-ordination Committee. On the other hand, it would probably be less easy to obtain the collaboration of the country approached; but in such case there was nothing to prevent the imposition of a quota. He doubted whether the agreements which different countries had concluded with Germany involved obligations to export quantities larger than the exports of recent years; if they did, the question would arise whether the provisions of the Covenant or the obligations derived therefrom should not prevail over the obligations of the commercial treaties in question. That was a point on which the jurists should be consulted.

The CHAIRMAN said the question was already before the Legal Sub-Committee.

M. Stucki (Switzerland) entirely agreed with M. Coulondre. Without such precautions, the embargo, as an effective and valuable weapon, would not have the anticipated results.

Regarding the apprehensions of the Netherlands delegate, he might refer to a practical experience of his own country. Switzerland had taken the line, in relation to Germany, that existing treaties did not involve any obligation to deliver larger quantities than those delivered in normal circumstances. Switzerland had already been compelled to impose quotas on a large part of her exports (mainly on scrap-iron, wool waste and cotton waste, the orders for which had notably increased by reason of the war and all the accompanying requirements).

In short, the measures which M. Coulondre proposed had already been taken in the case of a number of products. Should a third country refuse to undertake the obligations to which M. Coulondre had referred, it was perfectly possible, he thought, to impose a quota on the exports concerned without any violation of existing bilateral obligations.

He added that he did not agree with the legal view that the Covenant could be invoked in such a case in relation to a third country like Germany. That argument did not appear to him to hold water. It was better in such a case to base one’s attitude solely on the bilateral relations with the third country.

The CHAIRMAN noted that no observations had been made against the measures proposed by the United Kingdom delegate and the French delegate.

Mr. Eden (United Kingdom) wished to reserve his opinion for the moment on the arguments put forward by the French delegate, for political as well as for commercial reasons. The question of non-member States was a very delicate one, which needed to be approached with great care. He did not think that the best way to obtain the co-operation of non-member States was to suggest that the Member States might have to ration them in supplies of certain commodities.
and it was partly the consciousness of that difficulty that had made him all along prefer the proposal of refusing to take imports to the embargo proposal. The political aspect of the question ought to be very carefully considered before a final decision was taken.

On the proposal of the CHAIRMAN, amended by Mr. EDEN, the question was reserved for discussion at an early meeting of the Committee of Eighteen.

11. Study of the Application of Measures concerning the Embargo on Raw Materials and Products essential to Italy for the Continuation of Hostilities: Examination at a Second Reading of a List of Such Raw Materials and Products (continuation).

MEANS OF TRANSPORT AND MACHINE TOOLS UTILISED MORE PARTICULARLY IN PREPARATION FOR AND ORGANISATION OF WAR.

The CHAIRMAN opened the discussion on the following list prepared by the Sub-Committee of Experts:

"Means of Transport.

I. Automobiles.
   "1. Lorries and trailers of a useful load of 1 ton and above, complete or in parts, and their chassis, wheels and tyres.
   "2. Tractors, complete or in parts, and their chassis, wheels and tyres.
   "3. Cross-country vehicles (voitures tous terrains) of all types, complete or in parts, and their caterpillar tracks.

II. Railway Material.
   "Railway material for a gauge of 1 metre (3 feet 3.4 inches) or less.

III. Animals.
   "Horses, mules, donkeys, camels and all other pack animals.

IV. Military Horse-drawn Vehicles.
   "All military horse-drawn vehicles.

V. Means of Water Transport.
   "All surface vessels.

Machine-tools.

"Machines for boring guns, and all kinds of rifling machines (for artillery and small arms);
"Lathes of great length and high centres utilised for the manufacture of artillery material;
"Presses for ammunition of large calibre and for heavy artillery;
"Special machines for cartridges and cartridge cases for small arms and artillery."

M. COULONDRE (France) enquired whether the Sub-Committee wished to consider the question whether means of transport, or certain means of transport, and machine-tools, or certain machine-tools, were to be included in the list of objects under embargo, or whether it was desired to leave the matter to the Drafting Committee.

M. STUCKI (Switzerland) gathered that the list in question, in which means of transport figured, was legally on the same footing as List II— in other words, it was a list of embargoes which were intended, not for immediate application, but for subsequent consideration. That procedure was necessary for the same reasons which had led to the inclusion of certain products in List II. It was obvious that the Members of the League did not control all means of transport. There were non-member States which produced large quantities of ships, lorries and aeroplanes. He would have no objection, therefore, to putting the above list on the same footing as List II, if that was what the French delegation proposed.

M. COULONDRE (France) agreed with M. Stucki that it was desirable to get the point clear.

Up to the present, the test which the Committee had used to distinguish between products for immediate embargo and others was whether such products were entirely controlled by the League. It would seem only logical to keep the same test for transport.

1 In addition to these machine-tools, used exclusively for military purposes, there are other machines necessary for the manufacture of armaments which have at the same time civil uses, such as the following:

Lathes of all descriptions; Planing-machines;
Hydraulic presses; Milling and grinding machines;
Power presses (i.e., mechanical); All types of precision-machine tools;
Milling-machines; Automatic-machine tools.
He realised that the Members of the League did not control all motor-cars, railway material and means of water transport; but, on the other hand, they had complete control in the case of animals. The latter, therefore, should be included in List I.

As for machine-tools, a certain number should be retained—namely, those specified in the list with the exception of those in the footnote. These were, in general, very complicated instruments of great precision, and it was not possible to arrange for their manufacture overnight in a country other than that in which they were normally produced. Even, therefore, if a belligerent country could place orders with non-participating countries from which it was not hitherto in the habit of obtaining them, a fairly considerable time would elapse before they could be delivered.

He proposed, therefore, to include in List I only pack-animals and the machine-tools specified in the body of the list, leaving all other means of transport in List II.

M. Stucki (Switzerland) accepted the French proposal to put animals in List I, though he had some doubts as to whether the production of mules, a very important factor in a war in Ethiopia, was entirely controlled by Members of the League.

He could not, however, agree with the French proposal in regard to machine-tools. One of the largest producers of machine-tools was Germany, and she had very large supplies of them in stock. It was common knowledge that, in recent years, Germany had done a great deal in that field. There was a very real danger that those German machine-tools, which might perhaps have already been used in other countries, might be sold to Italy. It was useless, therefore, to include machine-tools in List I.

M. Coulondre (France) admitted the force of M. Stucki's observations, and agreed to leaving machine-tools, including special machines, in List II.

The Sub-Committee decided that only animals should be transferred to List I, and that all the other means of transport mentioned in the list (motor vehicles, railway material, horse-drawn military vehicles, means of water transport, and machine-tools) should remain in List II.

ADDITIONAL PARAGRAPH PROPOSED BY THE FRENCH DELEGATION REGARDING PRODUCTS NOT INCLUDED IN LIST I.

M. Coulondre (France) proposed to add the following paragraph to the proposal with regard to List I:

"The Co-ordination Committee has considered the extension of the above provisions to a certain number of other articles. It entrusts the Permanent Committee of Application with the task of making any suitable proposals to Governments on this subject." 

The idea of this proposal with regard to List II would be to show that the Committee had considered products other than those already specified by it, which was most important, even if they were not specified.

M. Stucki (Switzerland) had no objection to the proposed paragraph, but wondered whether the proposal was a wise one. He did not think the paragraph had much practical or legal significance. To state that the list was not closed was to risk giving an incentive to certain contractors in non-member countries to deliver as rapidly as possible an abundance of products to Italy on the chance of their being prohibited later; and there was little difficulty in guessing what those products might be. He did not think it desirable to place the issue before public opinion, particularly in the non-member countries.

M. Coulondre (France) did not think that the unfortunate results suggested by M. Stucki were likely to follow from the wording of the paragraph, but wondered whether the proposal was a wise one. He did not think the paragraph had much practical or legal significance. To state that the list was not closed was to risk giving an incentive to certain contractors in non-member countries to deliver as rapidly as possible an abundance of products to Italy on the chance of their being prohibited later; and there was little difficulty in guessing what those products might be. He did not think it desirable to place the issue before public opinion, particularly in the non-member countries.

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M. Litvinoff (Union of Soviet Socialist Republics) asked whether the list of materials on which an embargo was to be placed had been definitely adopted, or whether there would
be additions. The Sub-Committee had yesterday had before it List III prepared by the Secretariat (rubber, nitrates, wool, etc.). While he did not insist on the inclusion of those materials, he wished to be clear as to the reason for their non-inclusion. It was quite obvious that, without rubber, there could be no effective means of transport, and rubber was under the exclusive control of Members of the League.

M. COULONDRE (France) agreed with M. Litvinoff.

The CHAIRMAN said that the omission of rubber and nitrates from the list was unintentional.

M. SUETENS (Belgium) understood that rubber was controlled by the Members of the League, but that was not the case with nitrates, large quantities of which were produced by Germany and the United States of America.

M. COULONDRE (France) said that, according to the statistics, rubber appeared to be controlled entirely by the Member States. He thought, therefore, that it should be included in List I.

The Sub-Committee decided to add rubber to List I.

M. COULONDRE (France), referring to the information given by M. Suetens, added that, if he had been correctly informed, the Italian productions of nitrates was sufficient for Italy's military requirements.

The Sub-Committee decided not to transfer nitrates to List I.

QUESTION OF TRANSIT.

M. SUETENS (Belgium) asked whether it was clearly understood that the embargo which it had been decided to place on the products included in List I was to apply, not only to export, but also to transit. Unless similar measures were taken in the case of transit to those to be taken in the case of exports, the Committee's decisions would have no effect whatever.

M. COULONDRE (France) agreed that transit should be included in the prohibitions. Indeed, that had already been done for arms and implements of war, and the same formula could be employed.

M. STUCKI (Switzerland) thought that the problem of transit was an extremely thorny one, and not at all easy to solve. It required careful examination. He was not sure whether it was also necessary to prohibit transit in order to make the embargo effective. After all, List I included only products controlled by the Members of the League. If the producer prohibited their export, and if, in accordance with the French proposal, precautions were taken to prevent possible abuses, he did not see why it should be absolutely necessary to prohibit transit as well. That might be advisable in the case of products included in List II, failing the participation of non-member States.

As regards the participation of those States, he would like to know who was going to approach them with a view to obtaining their consent and co-operation — the League, the Chairman of the Co-ordination Committee or certain Powers? That question was a matter of public interest in various countries.

The CHAIRMAN said that the question of non-member States would be specially discussed by the Committee of Eighteen.

M. SUETENS (Belgium) would like to show by means of a concrete example how easy it would be to evade the embargo unless transit were prohibited or controlled. Manganese was exported from India. Suppose a shipment of manganese arrived at Antwerp and no one had been able to stop it. It was declared as being in transit and not for consumption in Belgium. It must be allowed to pass. It reached Thionville, where it must be allowed to pass for the same reasons. It arrived at Basle, and the same story was repeated, since transit through Switzerland was free. The shipment of manganese would thus naturally reach Italy.

M. STUCKI (Switzerland) said that, when the question of transit was discussed, he would be obliged to make a fairly long statement. He did not wish to take up the Sub-Committee's time at the moment, but would simply assure M. Suetens that he fully realised the importance of the problem. He had only two observations to make in view of what the Belgian delegate had said: (1) If the manganese arrived at Antwerp, was it possible to prevent the transport of that product by boat from Antwerp to Genoa? (2) What were the chances of preventing the transport of the manganese by land over the Brenner — that was to say, through Austria — instead of via the Gothard — that was to say, through Switzerland? According to his information, the chances were nil, at all events for the moment.

Without going into the details of the problem, he would point out that the Swiss delegate had asked for a special discussion on transit, as he was greatly concerned by that question. However, the present discussion might continue.

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Without going into the details of the problem, he would point out that there was an International Convention of 1869 in force which guaranteed freedom of transit through the Gothard. The tunnel had actually been built by three countries — Germany, Switzerland and
Italy. Switzerland's hands were free as regarded Italy on account of the Covenant, because Italy was a Member of the League. In the case of Germany, which was not a Member of the League, such a possibility did not exist.

Jonkheer De Graeff (Netherlands) agreed with the Swiss delegate. He would prefer the question of transit to be left on one side for the moment. The International Convention on Rhine Navigation would give rise to the same difficulties as those to which M Stucki had drawn attention in regard to the Gothard.

The Chairman proposed that the question of transit should be provisionally left on one side, and that the discussion on the embargo should be completed.

M. Coulondre (France) would accept the suggestion if it had the support of the majority of the Sub-Committee. He would, however, like to make a reservation, and would ask the Sub-Committee to agree that it should be understood that the special attention of the Permanent Committee of Application should be drawn to the question of transit. If it were found that trade was being diverted owing to the existence of freedom of transit, the Committee should at once propose the necessary measures to the Governments with a view to a stoppage of transit.

The Chairman said that M. Coulondre's observation was not so much in the nature of a reservation as of a proposal, which he would submit to the Sub-Committee for its approval.

M. Coulondre's proposal was adopted.

The Chairman said that a clause would be added on the lines proposed by the French delegate. The Permanent Committee of Application would consider whether there was reason to believe, at any given moment, that goods were being diverted by means of transit for the benefit of some particular country.

M. Litvinoff (Union of Soviet Socialist Republics) thought it might be wise to obtain the opinion of the Legal Sub-Committee on the question raised by the Swiss delegate as to the bearing of the Sub-Committee's decisions upon existing international conventions. The Legal Sub-Committee might perhaps consider the question from the point of view of the extent to which the Sub-Committee's decisions on sanctions could be regarded as force majeure within the meaning of international conventions.

M. Stucki (Switzerland) made reservations regarding the validity of an opinion given by League jurists on the legal relations between a Member and a non-member State.

In reply to M. Coulondre (France), the Chairman said that the question of transit would be discussed after the jurists had given their opinion.

He noted that the Swiss delegate had made reservations, but had not objected to the jurists' being consulted. As there was no opposition, he regarded that proposal as adopted.

M. Litvinoff's proposal was adopted.

Proposal by the Canadian Delegation for a General Clause to Cover All Forms of the Materials Placed on the Embargo List.

Dr. Riddell (Canada) said that, on the previous day, he had raised the question of derivatives in connection with the list of key materials. He asked whether that subject was to be considered further. His suggestion, which was purely tentative, was that the list should be held to include:

- (a) All forms of these materials, whether ores, scrap, alloys, products or derivatives, from which any of these materials may readily be extracted or derived;
- (b) Such products or derivatives of these materials as represent a stage in the manufacture of war materials or implements of war or any forbidden article or product;
- (c) Such products or derivatives of these materials as may be utilised in the manufacture of war materials, implements of war or any forbidden article or material.

The Chairman recalled that the Sub-Committee had already adopted this proposal, which would be distributed and transmitted for consideration to the Drafting Committee and the Committee of Eighteen.

He observed that the Sub-Committee's discussion on the question of the embargo, with the exception of the questions referred to the Drafting Committee and those which would be discussed by the Committee of Eighteen, might be regarded as closed.

12. Question of the Prohibition of Importation of Italian Goods into the Territories of the States Members of the League of Nations: Examination of the Draft Resolution proposed by the United Kingdom Delegation (continuation).

M. Stucki (Switzerland) reminded the Sub-Committee that, on the previous day, he had said that the Swiss Government might a little later make proposals regarding its own co-operation or that of certain other countries which were in a special position, with a view

See page 107.
to achieving the object aimed at in the United Kingdom proposal. The statement he was now about to make was not to be regarded as a definite proposal, but as an idea which was not yet absolutely mature, and which had occurred to him only a few days previously, during the Sub-Committee's discussions.

The aim of the United Kingdom proposal was to deprive Italy of the surplus foreign exchange which might help her to obtain the raw materials needed for war.

He had expressed certain doubts as to the effectiveness of those measures, and had drawn the Sub-Committee's attention to the fact that Italy's aggregate trade balance, and her trade balance with most other countries, showed a deficit. If a ban were laid on imports of Italian products into the countries participating in sanctions, Italy would be entitled to prohibit the entry of the products of those countries into her territory. Consequently, as Italy's imports were larger than her exports, there was a risk of improving her position in the matter of surplus supplies of foreign currency.

It had been objected that Italy could not forgo certain imports, and that she was already ordering only what she needed and no more. He had challenged the truth of that statement, and had added that, for instance, in the case of trade between Switzerland and Italy, the latter could very easily dispense with imports of Swiss goods without any inconvenience. Many other countries might be in the same position. He had entered an express reservation in regard to war material and raw materials, in which respect the situation was different.

It should not be forgotten that a country, dominated by a single will, highly disciplined, and in an excited mood, could much more easily dispense with articles not absolutely essential to its existence than another country. Even now, Italy was exporting more foodstuffs than she imported, and it should not be imagined that, apart from some small exceptions, she could not easily do without imports of foodstuffs.

The moment a ban was placed on exports of Italian manufactures, Italy's requirements of raw materials would diminish. The ultimate result, therefore, was unknown; it might even spell failure.

M. Stucki had also drawn the Sub-Committee's attention to the question of accumulated stocks, and to the fact that such stocks might be more important to a highly organised and highly disciplined country than to a country less well disciplined.

In studying document Committee of Eighteen/3, of October 14th, 1935, showing the debtor and creditor aspects of Italy's trade balance with the various countries, it was striking to note that the deficit in the case of Germany was 378 million lire and even more striking that the credit balance with Switzerland was 212 million lire. In the case of no other country was the surplus so large, even approximately. The 1933 figures, of course, were not quite the same as the 1935 figures. The deficit on the Swiss side and the surplus on the side of Italy were now smaller, but the principle remained the same. If the United Kingdom proposal were accepted, the result might be to deprive Italy of the surplus foreign currency hitherto used for making purchases. The effect would be to reduce to zero a trade which had existed for centuries, to throw 10,000 Swiss workmen and an unknown number of Italians out of employment and to break off extremely important connections, not merely between Switzerland and Italy, but between Italian Switzerland and Italy, which was almost an impossibility.

Could not the same result — namely, to deprive Italy of this surplus foreign currency — be achieved if Switzerland undertook to make no further direct payments to Italy? that was to say, to reduce her trade to compensation transactions, to pay not a single Swiss franc or pound sterling, etc., for Italian goods exported to Switzerland? In his opinion, the desired result might be achieved without the formidable objections he had referred to, which, in the case of a country like Switzerland, were, he thought, almost intolerable.

M. Stucki repudiated in advance the idea that Switzerland was seeking to take advantage of the collective action of the League under Article 16 of the Covenant for its own little ends. Clearly, if certain precautions were not taken, the following results might ensue: Italy, finding herself deprived of her markets throughout most of the world, would have every incentive to increase her import and export trade with, say, Switzerland, and the latter could do very good business; but collective action had its obligations, and his plan contemplated guarantees not to increase trade, particularly imports from Italy, as compared, say, with the figures given by M. Coulondre, or any other figures. His plan guaranteed that Switzerland had no intention of doing business to the detriment of those who were making sacrifices to carry out the Covenant.

The solution he suggested would have two other great advantages. The first was that paragraph 3 of Article 16, which provided for mutual support and compensation, would lose virtually all its significance for a country like Switzerland. Secondly, he had been impressed by the Canadian delegate's remarks, which he thought were fully justified. He could understand that a country that exported raw materials should want certain guarantees that it was not the only sufferer, and that no exports of more or less finished raw materials were made by other countries at a time when countries producing raw materials were forbidden to export. Under a system which guaranteed that trade would not be increased, that problem could easily be solved.

M. Stucki was putting forward an idea, not making a proposal. Even if it had been a proposal, it was not intended to combat the United Kingdom proposal or to replace it. His idea was far more modest. He thought that the same result could be achieved — namely, to deprive Italy of her foreign currency surplus in the case of certain countries which were in a quite special position, and which had contractual rights under Article 16, paragraph 3, of the Covenant. After following the discussion in the Sub-Committee on the Organisation of Mutual

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1 Extract from the official trade statistics of Italy, showing special trade by countries.
Support, he thought that such a solution, regarded as an exception tolerated for certain particular cases, while the United Kingdom proposal would be applied to the rest, might, for instance, be taken into consideration for countries like Switzerland, Yugoslavia or Roumania — countries which had produced figures to prove that, in the absence of such a provision, they would either be unable to participate or have to ask for compensation, which would greatly handicap their relations with the States Members co-operating in collective action.

M. Stucki was expounding an idea of his own, of which even the Swiss Government was not aware. Perhaps it was not yet absolutely mature, but, as the members of the Sub-Committee had asked him to give his views, he had felt unable to decline the invitation.

He added that he apprehended a certain misunderstanding. His system, if he might use the expression, was based on the assumption that the French proposal was accepted — that there was an undertaking not to supply raw materials needed by Italy; there would be no question whatsoever of Italy's importing via Switzerland or Yugoslavia the raw materials referred to in the French proposal.

Another point — he had referred to Yugoslavia and Roumania. Between Italy and those two countries clearing agreements had been concluded which resulted in a balance favourable to Roumania and Yugoslavia. So long as the relations between Italy and those two countries did not give rise to any foreign-exchange surplus for Italy, but, on the contrary, compelled her to make extra payments to other countries, the object was clearly achieved. It would be sufficient if those countries undertook not to allow the situation to be reversed — that was to say, not to supply Italy with a surplus of foreign currency.

The Chairman thanked the Swiss delegate for his interesting statement. As he had said, those were special cases which would have to be considered by the Committee of Application. Those special cases would not affect the general rule embodied in the proposal of the United Kingdom delegation.

Jonkheer de Graeff (Netherlands) thought that it would be better not to prolong the discussion on the Swiss delegate's suggestion. M. Stucki himself had admitted that his idea was not yet ripe, and he did not contemplate substituting a new proposal for that made by the United Kingdom delegation. It would therefore be better to revert to the latter, and he moved that the Sub-Committee should refer it to the Committee of Eighteen without further discussion.

M. Rüştü Aras (Turkey), without expressing any opinion on the Swiss delegate's suggestion, wished to state, seeing that certain countries had been named, that Turkey had a clearing convention with Italy which left a credit balance in Turkey's favour.

He supported the Netherlands delegate's motion.

*The* Sub-Committee *decided to refer to the Committee of Eighteen the draft resolution proposed by the United Kingdom delegation.*
SUB-COMMITTEE ON FINANCIAL MEASURES.

LIST OF MEMBERS.

Union of South Africa: Mr. H. T. Andrews; Mr. W. E. Naude.
United Kingdom: Mr. R. G. Hawtrey.
France: M. J. Rueff.
Greece: His Excellency M. D. Maximos; His Excellency M. N. Politis.
Netherlands: M. J. P. A. Francois.
Poland: M. J. Wszelaki.
Roumania: His Excellency M. N. Titulesco.

FIRST MEETING.

Held on Saturday, October 12th, 1935, at 10.30 a.m.

1. Election of the Chairman.

M. Maximos (Greece) was elected Chairman.

2. Examination of the Bases for Proposals with a View to the Application of Financial Sanctions.

The Chairman asked the members of the Sub-Committee to state their views regarding the manner in which financial sanctions should be applied. He thought the first question which arose in this connection was that of capital issues.

Mr. Hawtrey (United Kingdom) thought that it was possible to enact a general prohibition of public issues. This prohibition might refer: (1) to the issue of Italian State loans; (2) to all issues of shares and bonds by Italian undertakings of all kinds; (3) to subscriptions, in the countries applying sanctions, to Italian securities issued either in Italy or in countries not participating in sanctions. Although it seemed difficult to devise for this third category of transactions a system precluding the possibility of any leakage, Mr. Hawtrey thought that some degree of effectiveness could be achieved by preventing financial publicity and the utilisation of the stock exchanges.

M. Rueff (France) wondered whether it would not be preferable, before dealing with individual points, to consider as a whole the measures to be taken.

Mr. Hawtrey (United Kingdom) agreed that it would be useful to examine as a whole what financial sanctions could be applied, in order to determine their scope and define the limits within which they should be kept.

The general principle on which sanctions should be based was to prevent financial resources being placed at Italy's disposal.

While it was comparatively easy to prevent the granting of long-term loans to Italy by the prohibition of public issues, it was more difficult to prohibit effectively the granting of short-term credits. The prohibition of all banking credits in favour of Italy, other than commercial credits, was, however, conceivable.

As regards commercial credits, a distinction should be made between normal credit transactions and those going beyond normal commercial requirements and placing at Italy's disposal financial resources in excess of those requirements.

For the moment, there seemed to be no intention on the part of the Committee of Eighteen to prohibit ordinary sales of goods to Italy. In these circumstances, Mr. Hawtrey hardly thought...
it possible to prohibit any sale on credit for a normal term, varying according to the branch of trade, but usually not exceeding a few weeks. Such a prohibition would place exporters of countries applying sanctions at a disadvantage as compared with their competitors in other countries.

In this connection, a distinction should be made between credits normally granted by sellers to purchasers without the intervention of a bank, and banking credits of a commercial character. The majority of countries would probably call in the assistance of the banks for the application of financial sanctions; but this assistance would clearly be of no use as regards the first category of transactions.

On the other hand, the help of the banks would be effective as regards the prohibition of bank advances, overdrafts and open credits granted to Italian firms.

As regards commercial bills, Mr. Hawtrey considered that there was no occasion to intervene in the case of bills accepted by Italian firms and discounted, as was the usual custom, by Italian banks in Italy. These operations only gave rise to international debts during the very brief space of time which elapsed between the issue of the bills and their acceptance. If, on the other hand, bills accepted by Italian firms were discounted by banks situated outside Italy, this was equivalent to placing fresh financial resources at Italy's disposal. Such transactions should therefore be forbidden, even if they related to normal commercial transactions in respect of goods the sale of which to Italy was not prohibited.

Mr. Hawtrey concluded that, for the moment, the application of financial sanctions should be confined to transactions having the effect of placing financial resources at Italy's disposal.

M. Rueff (France) noted that the points touched upon by Mr. Hawtrey were all connected with the seven heads adopted as material for discussion by the Economic and Financial Sub-Committee of the Committee of Thirteen set up for the purpose of proposing measures to render the League Covenant more effective (document C. O. S. C. /Sub-Ctte. E & F/8, dated July 8th, 1935). He proposed to take these headings one by one and examine them in the light of the present situation.

The Chairman agreed that the Sub-Committee's task would be facilitated by the examination of the proposals put forward in July.

M. Coulondre (France) was also of opinion that it would be useful to consider whether it was not possible to draw up, on the bases laid down in July with the concurrence of the United Kingdom and French delegations, more precise proposals to be submitted to the Committee of Eighteen.

Mr. Hawtrey (United Kingdom) said that he did not question the importance of such an examination. He desired, however, to point out that there was one fundamental difference between the measures to be taken at the present time and those contemplated in July last. At that time, the starting-point was that the sanctions to be applied should not be such as to disturb the economic life of the country concerned, and this condition had been interpreted fairly strictly. In July, there was a much wider conception of the trade which should continue to be allowed with the country against which the sanctions were to be applied.

With this reservation, Mr. Hawtrey saw no reason why the Sub-Committee, in deciding what kind of proposals to make at the present time, should not take account of the work done in July.

On the proposal of M. Titulesco (Roumania), the Sub-Committee decided to consider one after the other the seven points mentioned in the document prepared by the Economic and Financial Sub-Committee of the Committee of Thirteen instructed to devise measures for making the Covenant more effective.

(a) Opening of a Credit in favour of the State concerned by one of the Participating States.

Mr. Hawtrey (United Kingdom) was of opinion that it was hardly necessary to provide specifically for the case of credits granted directly by Governments. That case came under the general prohibition.

(b) Authorisation of a Public Issue by the State concerned in one of the Participating States.

The Chairman drew attention to the necessity of providing the case of instalments still to be issued under previous contracts.

M. Titulesco (Roumania) endorsed this suggestion.

Mr. Hawtrey (United Kingdom) was also of opinion that the prohibition should be extended to the instalments still to be issued. The prohibition ordered by the Government would constitute, for the parties, a reason for breaking contracts.

M. Coulondre (France) said that he agreed, in principle, with the Chairman.

(c) Authorisation of a Public Issue by an Individual or Legal Entity who is a National of the State concerned, or is acting as an Intermediary in one of the Participating States.

Mr. Hawtrey (United Kingdom) observed that the resolutions adopted in 1921 provided that Article 16 of the Covenant should be applied taking account, not of nationality, but of
place of residence. The main idea should therefore be to prevent financial resources from being furnished to persons residing in Italy, leaving on one side the idea of Italian nationality.

M. COULONDRE (France) agreed with Mr. Hawtrey.

(d) Opening of Credits in favour of the State concerned in one of the Participating States.

No observations.

(e) Opening of Bank Credits without any Commercial Character in favour of an Individual or Legal Entity who is a National of the State concerned or is acting as an Intermediary in one of the Participating States.

Mr. HAWTREY (United Kingdom) said that this point called for the same remarks as Point (c).

(f) Opening of Similar Credits to those in Point (e) but having the Appearance of Commercial Credits.

Mr. HAWTREY (United Kingdom) saw no reason for maintaining the distinction between Points (e) and (f) which had been made in July last on the basis of a more liberal interpretation of the scope of the sanctions.

(g) Opening of Normal Commercial Credits.

Mr. HAWTREY (United Kingdom) drew attention to the explanations he had given at the beginning of the discussion.

The CHAIRMAN thought that, if Mr. Hawtrey's point of view were shared by the Sub-Committee, a new text should be adopted.

M. COULONDRE (France) was of opinion that the distinction Mr. Hawtrey had drawn between normal commercial credits and credits not covered by this conception should be maintained. He felt that credits normally granted by sellers to purchasers for the goods which could still be sold to Italy should be allowed in order not to weaken the exporters of the countries applying the sanctions in their struggle against competition. He thought it necessary, however, to lay down the limits within which credits regarded as normal should be kept.

On the other hand, he approved Mr. Hawtrey's suggestion with regard to the prohibition, in countries applying sanctions, of the discounting of bills accepted by Italian firms. Discount allowed in these circumstances would, in fact, supply Italy with further foreign currency.

The CHAIRMAN drew attention to the possibility of prohibiting bills from being renewed. Furthermore, he felt bound to point out that, as a result of the United States Government's decision not to grant diplomatic protection to American nationals trading with belligerents, exporters in the United States were said to have decided in their turn only to sell goods to Italy for cash.

Mr. HAWTREY (United Kingdom) considered that the fact to which attention had just been drawn would, if confirmed, considerably weaken the arguments advanced by him in favour of an exception for commercial credits. As the United States was the principal exporting country in a position to grant appreciable credits, the objections raised from the point of view of competition by a prohibition pure and simple of commercial credits would be considerably weakened if American exporters only sold to Italy for cash.

The question of a complete prohibition of commercial credits should therefore be reconsidered.

M. COULONDRE (France) was also of opinion that, if the United States only sold to Italy for cash, the countries participating in sanctions should adopt the same attitude. As a matter of fact, the latter could not do less than a country which was not a Member of the League, the more so since the necessity might arise one day of asking the United States to co-ordinate its action in other fields with the action taken by States Members of the League.

M. TITULESKO (Roumania) also felt that States Members of the League could not do less than the United States of America. If that country's attitude was as described, there was no need to make an exception of commercial credits.

Mr. HAWTREY (United Kingdom) thought that the Sub-Committee should perhaps submit to the Committee of Eighteen two alternative solutions: either complete prohibition or prohibition with an exception in favour of normal commercial credits, the limits of which would have to be clearly defined. The Committee of Eighteen expected the Sub-Committee to supply it with an expert opinion.

M. COULONDRE (France) took a different view. He pointed out that the members of the Sub-Committee sat, not as experts, but as the representatives of their respective Governments. It was the Sub-Committee's duty to submit explicit texts containing clear-cut