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DIVISION OF EUROPEAN AFFAIRS

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February 15, 1946

SECRET

S: Mr. Secretary

Subject: Sanctions and the Forthcoming Safehaven Negotiations with the European Neutrals

One of the major political aspects of the forthcoming Safehaven negotiations with the neutrals is that of the proposed use of economic sanctions. As you were absent during the preliminary discussions here, I feel that you will wish to know the views thereon of the Office of European Affairs, and I have therefore requested the preparation, in as concise a form as possible, of a memorandum on this complex subject. The views set out below on the use of sanctions do not in any way detract from the importance which EUR attaches to the achievement of the general Safehaven objectives. These objectives can, we believe, be attained in harmony with our general policy toward Western Europe.

General Considerations

Economic sanctions are a drastic and unfriendly means of pressure against a state. The books on International Law generally list economic sanctions among "Non amicable means of redress short of war". Perhaps because of their drastic nature, they have been used sparingly, and never wholly successfully.

a. Psychological Effect

Like all near-hostile acts, the effect on the nations against whom sanctions are applied is one of general popular resentment. As in an old fashioned siege, the entire population is affected. Internal differences tend to be forgotten, nationalism is intensified and the people are united against the economic "aggressors". Whether or not they are

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ultimately successful, sanctions destroy friendly relations between the states that apply them and the states against whom they are applied. It follows that there is reluctance to apply sanctions against states whose friendship for economic, ideological or merely geographical reasons will be useful in the immediate future, and that the use of sanctions is only justified where really vital issues are at stake.

b. Effectiveness

The serious deterioration of relations between states which results from application of economic sanctions is not worth incurring unless the sanctions will bring about the desired results. To be effective they must be participated in by all the states controlling the supplies, facilities, credits or assets which are to be denied the state or states against whom the sanctions are directed. Sanctions have failed in the past largely because this condition was not met.

c. Economic

The Governments of the sanctions-applying states must create or maintain a rigid and effective system of supply, financial and other controls within their own borders as well as international machinery to correlate these controls.

Depending on the extent of the program, economic sanctions will disrupt normal and traditional channels of trade and finance, not only for the states against whom they are applied, but also throughout the immediately surrounding economic area and, to a lesser degree, the entire world.

The Present Case

The present case is the application of sanctions against Western European powers who remained neutral in the last war: Sweden, Switzerland, Spain, Portugal and possibly Ireland. Ideologically, we have no quarrel with any of these powers except Spain. These lying furthest to the East, Sweden and Switzerland, resemble the United States in their political and economic institutions as closely as any nations on the continent. They are firmly wedded to the Democratic way of life, and political

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parties with totalitarian conceptions are in the minority. They look toward the West and have deep general admiration for the United States. Because their industrial and financial structures are relatively intact, they can contribute and are contributing to European post-war rehabilitation including that of our former Allies. It is against these countries that the weight of the sanctions program will fall, and it is their resentment which we shall incur. Spain is expected to be substantially compliant with our Safehaven demands, and it is most unlikely that the Joint Chiefs of Staff will approve a sanctions program against Portugal in view of our desire to obtain Portugese-controlled bases. We should find ourselves in the curious ideological position of applying sanctions against Democratic powers while resisting, because of Spanish compliance, the popular demand for similar action against Franco Spain.

The total amount of German assets involved for the states - Sweden and Switzerland - against whom sanctions may thus ultimately be applied is small: Less than \$75,000,000 for the former and amounts variously estimated between \$250,000,000 and \$500,000,000 for the latter.

Although the question of the actual machinery necessary for the application of sanctions is an economic rather than a political problem, we have had very grave doubts as to the willingness of this Government to retain or reimpose many of the wartime controls necessary to implement the sanctions program. With the exception of financial sanctions, largely in the hands of Treasury, we do not believe that sufficient thought has been given to the mechanics involved and to possible public reaction to the continuance or reimposition of certain restrictions.

EUR was brought face to face with the question of sanctions not as a proposal to be objectively considered and adopted or rejected on its merits, but rather as a full blown program vigorously endorsed by Treasury, and to which certain of our own economic divisions were partially committed.

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Since objective consideration was no longer possible, and in view of our doubts as to the necessity of sanctions to achieve the substantial accomplishment of the safehaven program or the desirability of their use even if it were, we limited our efforts:

(a) to assuring that the program be a joint one with the British and the French;

(b) to placing the sanctions program before the British and French as a basis for objective discussion rather than urging its adoption in toto.

We were successful in having it understood within the Department and vis-à-vis Treasury that no sanctions would be undertaken without full agreement with and full participation of our French and British partners. We were convinced that no sanctions program could be successful without a united front and we were unwilling to have the United States bear alone the onus of coercing the Governments and peoples of democratic Western European states.

We were not successful in having our thesis adopted that British and French consideration of our sanctions proposals should be free of pressure on our part. We felt that as the nations nearest geographically to the neutrals and those having the most at stake in both the reparations and security features of the Safehaven program, they should be made at least equal judges of the disciplinary measures to be taken against their neighbors. Despite EUR's convictions in this matter, our missions in Paris and London were instructed strongly to urge unqualified adoption of our sanctions program.

As you know, Great Britain has completely rejected our proposals. France, while accepting the weakest of the proposed sanctions, has expressed general reservations as to entering an economic war with the neutrals and specific reservations as to measures affecting her trade with them. The Department has now sent a sharp note to the British urging reconsideration of their rejection. As we understand it, this Government is now committed to coercing the British - and to a lesser degree the French - into a program of coercing their neighbors into accepting Safehaven in its entirety. We feel impelled to point out the dangers - both for the success of the forthcoming negotiations and our relations with Britain and France - to which this course of action is committing us. The

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differences in Allied ranks is already known to the neutrals. The substance of British rejection of our sanctions proposals has appeared in sarcastic dress in the London "Daily Worker". The British and French, if pressed too hard to accept sanctions against their better judgment, cannot be expected to refrain from exculpating themselves privately to the Swedes and Swiss. This will result not only in stiffening the neutral attitude in the negotiations but in having the United States bear the full onus for the sponsorship of such sanctions as we may find ourselves committed to apply.

EUR proposes that the question of how far we are to go in attempting to force the British and French into unwilling compliance with the sanctions proposal be reconsidered. EUR recommends that, in the preliminary talks before negotiations with the neutrals start, the U.S. negotiators be instructed to refrain from pressing the French and British too far. If they show a disposition to go along willingly, well and good. If they do not, we should accept that fact and undertake with them a further consideration of the means available for obtaining neutral compliance with Safehaven objectives, with a view to agreeing to a line of procedure vis-à-vis the neutrals, to which we and the British and the French could all give our full support. There are increasing indications that the neutrals are aware of the necessity of settling the question of German assets to the substantial satisfaction of the victorious powers, and that the success of the program will be endangered more by our intransigence vis-à-vis our negotiating partners than by a failure to reach agreement in the use of sanctions.

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H. Freeman Matthews

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