

BRITISH EMBASSY,

WASHINGTON, D.C.

May 10th, 1940

No. 443

My Lord,

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I have the honour to acknowledge the receipt of Your Lordship's despatch No. 138 (A 822/561/45) of February 8th, regarding the effects of the United States Neutrality Act on the position of British Shipping.

2. In this despatch you enclosed a copy of a letter dated February 1st from the Ministry of Shipping asking for "a full report on the present situation in general". The most striking and perhaps the most important result of the Neutrality Act from the point of view of its effect on British shipping policy as a whole has been the compulsory withdrawal of all United States ships from trade with those European countries within the "combat area". The immediate result of this has been considerably to reduce the number of ships available for the transport of cargoes from this country to Great Britain and France, to aggravate the difficulties caused by other factors such as the loss of tonnage from enemy action, the delays due to the convoy system etc. and to render it increasingly difficult to make a sufficient number of ships available for the transport to the Allied countries of their purchases in this country. To meet this problem the Ministry of Shipping are

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The Right Honourable

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The Viscount Halifax, K.O.

etc. etc. etc.

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among other things, as Your Lordship will be aware, endeavouring to purchase American merchant ships. Some thirty such ships have already been bought from different American firms and the Ministry of Shipping are now in negotiation for several more. The United States Maritime Commission whose approval for the transfer to British flag of such ships has to be obtained, is however under considerable pressure from various American vested interests to withhold their sanction and of late on several occasions it has only been after considerable delay and with some difficulty that the necessary approval has been secured for the completion of the purchases. The importance of these purchases to His Majesty's Government has been emphasised more than once to the State Department and their intervention with the Maritime Commission has been informally requested, on each occasion with satisfactory results. It seemed however some weeks ago that before long and especially if it were desired to purchase some of the Government-owned laid up fleet, it might be necessary to make a more formal approach to the State Department and officially ask for their active assistance in the matter, of this and other shipping difficulties which confront the Allies, by pointing out that unless His Majesty's Government could purchase some more American ships it might become increasingly difficult for them to maintain or increase the level of their purchases in this country. Hints to this effect had already been conveyed/

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conveyed to the State Department during Mr. Ashton-Gwatkin's conversations and were sympathetically received and I have been considering in consultation with Sir Ashley Sparks how best to present our case.

3. The position has however been altered quite recently by events in Scandinavia and the plans made for the use of the Norwegian merchant fleet and the arrangements which it is hoped to make for the employment of the Danish ships may render the purchase of American ships no longer so important, and obviate the necessity of any approach to the State Department on this particular question.

4. As the Ministry of Shipping are of course in close touch with Sir Ashley Sparks on this matter, I hardly think that I need say more on this aspect of the consequences of the Neutrality Act.

5. The particular point to which Your Lordship's despatch refers is the effect on British shipping of the provisions of Section 8 (C), (g) and (l) of the Neutrality Act which permit United States and other neutral ships to carry cargoes to certain "safe" belligerent areas without transfer of title, while insisting on transfer of title when cargoes are carried to the same areas in belligerent ships. It was clear from the moment that this clause was inserted in the Bill

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during the last stages of the debate in Congress that it would impose a severe handicap on British shipping and although it was generally agreed, especially in view of the terms of the Secretary of State's note of December 1st, that it would be a mistake to make further official representations to the United States Government on the subject, I have been much concerned ever since over the unsatisfactory state of affairs.

6. The effect on British lines trading to these "safe" areas has indeed been serious and the position has of course been made worse by the entry into such trades of the American ships thrown out of the North Atlantic route by the operation of the Neutrality Act - a state of affairs which is likely to be made still worse by the recent extension of the combat area, which will compel the Moore McCormack Line to employ elsewhere the vessels which were hitherto on the Bergen run. On the other hand as Norway has been declared a belligerent, Norwegian ships will cease to enjoy their former advantage over British vessels.

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7. I enclose herein a chart drawn up at the end of last March in Sir Ashley Sparks' office giving comparative figures for British, United States and other sailings from this country to Australia, New Zealand, India, the Persian Gulf, South Africa, West Africa, South America, China and the Straits Settlements. It will be seen from this that the

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British ships sailing to these destinations from North Atlantic ports have been halved, while United States and other sailings have greatly increased. I also enclose 3 statements to show how different British lines have been individually affected - the first communicated to a member of my staff in London last December by Mr. Tallents of the New Zealand Shipping Company, the other two prepared in Sir Ashley Sparks' office in February and at the end of March. These leave no doubt of the great falling off in British shipping on these routes.

8. But though Section 2 (g) and (l) of the Neutrality Act have as indicated above had a serious effect on the different British lines trading to the various "safe" belligerent areas, the real difficulty arises not so much from the actual discrimination against British ships as from the fact that apart from the question of transfer of title, American shippers prefer whenever there is an American or a neutral ship available to ship their goods by it rather than take the risk of shipping them on a belligerent vessel. This situation is quite natural and would no doubt have arisen even had there been no Neutrality Act. But the position is aggravated by the fact that as American ships have been driven out of the North Atlantic trade, there are more of them available for service on the other routes than would normally be the case. The shortage of British tonnage makes matters/

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matters still worse. The position is well illustrated by the enclosed extract from a letter from Sir Ashley Sparks, dated February 14th, stating that it was the considered opinion of British shipping representatives in New York that of the difficulties being experienced by their companies, only 25% were due to the "discriminatory" provisions of the Neutrality Act. The remaining 75% were due to "the greater safety of the cargo on American or neutral ships and the fact that shippers and consignees would rather have the cargo than collect the insurance".

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9. When I originally expressed the view in my telegram No. 873 of December 7th that it would be undesirable for His Majesty's Embassy to make official representations to the State Department with a view to securing the amendment of the "discriminatory" clauses in the Neutrality Act it was hoped that the American interests concerned might, in view of the inconvenience to which they would be put by having to transfer title of goods which they wished to ship to "safe" belligerent ports on British ships, be prepared themselves to take the matter up with the United States authorities. At that time, as reported in my telegram No. 873 and in Sir Ashley Sparks' telegram to the Ministry of Shipping Mast No.82, these American interests were understood to be contemplating suggesting the amendment of the Neutrality Act, so as to delete all references to transfer of title from the Act and to provide in some way that

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even though the title to goods consigned to belligerent countries did not pass out of American hands, yet no losses incurred by the American owners in respect of these goods whilst in transit should be made the basis of any claim by the United States Government. Such a provision already exists in the Act in respect to the export of copyright articles - see the last sentence of Section 2 (c). Had such a suggestion been acted on, the amendment would presumably have applied to goods carried on ships of all nationalities. But for the reasons given in a further extract (enclosed herein) from Sir Ashley Sparks' letter of February 14th, the American shippers found easier methods of over-coming their difficulties and lost interest in endeavouring to obtain the amendment of the Act.

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10. When it became apparent early in the year that American interests were unlikely to pursue the matter I contemplated handing an official aide memoire to the State Department setting out the handicap inflicted on British shipping companies by the operation of Section 2 (c), (g) and (1) of the Neutrality Act. My object would have been not so much to press for the immediate amendment of the Act as to bring home to the State Department the definite injuries caused to the British shipowners and to impress on them the fact that just as certain of the war measures adopted by His Majesty's

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Government bore hardly on American interests, so British commercial interests were adversely affected by the operation of the American Neutrality Act. But in view of Sir Ashley Sparks' letter of February 14th referred to above, which implied that the discriminatory clauses of the Act were not themselves the main cause of the trouble and that the position of the British companies might not be greatly improved even if these clauses were amended, I thought it best to make no representations to the State Department. Indeed I fear - and I know that Sir Ashley Sparks agrees with me - that in the present circumstances no useful purpose would be served by making official representations to the State Department on the subject, though all suitable opportunities will be taken of reminding them of our feelings on the subject. Recent developments in connexion with Norwegian and Danish shipping may reduce the handicaps under which British shipping to these "safe" belligerent ports are suffering, but as long as there is a fair number of American or neutral ships available on these routes as compared with British vessels, the situation would seem to be bound to remain unsatisfactory from our point of view.

11. Sir Ashley Sparks has however suggested one direction in which some action might perhaps be taken to improve matters. The American firm of Socbny Vacuum who used to ship their products to their branches in British India by British ships

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are now unable to do so because their branches being regarded as American firms, they are unable to transfer title of the goods to a non-American interest before shipment. If their branches were incorporated in India and ceased to be treated as American, transfer of title would then be possible. Socony Vacuum are apparently quite ready to revert to British ships but are reluctant to alter their organisation in India. Sir Ashley Sparks suggests that possibly some pressure on them in the desired direction might be taken in India.

12. Finally, I would refer to the question raised in the Ministry of Shipping's letter concerning the affidavits required to be filed under the Neutrality Act by shippers. It is true that during the first few weeks after the passage of the Act considerable confusion existed in this respect owing to conflicting rulings issued by different United States authorities. Now however these authorities have agreed on the form of affidavit required, the shippers have learned exactly what is needed and the delays originally complained of no longer occur. Sir Ashley Sparks assures me that the whole procedure is now working quite smoothly, that British shipowners have no longer any grounds of complaint and that no representations from this Embassy are called for.

I have the honour to be,  
 with the highest respect,  
 My Lord,  
 Your Lordship's most obedient,  
 humble servant,

(SGD) LOTHIAN