CHAPTER X

At the end of 1943 a Board of Trade estimate put the annual burden of Germany's transfer problem so far as debts and property were concerned at £170 mn. made up as follows:-

Debts (In principle due on demand)	£ mns.
Standstill	29
Dividends and Interest	20
Advances	11
Trade Debts	6
Bank Balances	3
	69 (Say, 70)

Property (Long-term)	
State Bonds	52
Municipal Bonds	15
Shares	20
Immovable	6
	93 (Say, 100)

On the 8th March 1944 a meeting of the Committee of British Long-term and Middle-term Credits to Germany was held - the first since 1939 -

(1) to revive the Committee and reinforce its personnel;

(2) to make it clear to H.M.G. that the Committee is active and ready to function and to consider what representations it would be suitable to make now to H.M.G.

Of the original members of the Committee (formed in June 1933*) only Mr.E.H.Lever (now Chairman) and Mr.Guinness remained. In addition the membership now consisted of Lord Bessborough (C.F.B.) the Hon.A.O.Crichton (Chairman of the A.I.T.), Sir William Elderton, Mr.Thomas Frazer (Chairman, Investment Protection Committee of the B.I.A.), Mr.R.S.Guinness and Sir Otto Niemeyer. The C.F.B. continued to provide the Committee with its Secretariat.

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*The original Committee was formed on the initiative of the British Insurance Association and the Association of Investment Trusts to safeguard "all the various forms of long and medium term investment in Germany in which their members were interested".

After World War I German assets in the United Kingdom were taken over, liquidated, and the proceeds used to pay off claims by residents. This time German liabilities in the United Kingdom were far smaller than her assets. Claims against Germany on reparation and other accounts far exceeded her capacity to pay. How far could reasonable satisfaction be got for British creditors in respect of contractual obligations of all kinds? It had to be decided -

(1) whether each of the United Nations should retain German assets within its own territories and

(2) what was to be done with them?

It suited us that our allies should earmark, as public opinion would certainly expect them to do, the assets against owners of pre-war loans.

Sir David Waley (in a letter 7.10.44) to the Board of Trade, referring to discussions in the previous March ("a good deal had happened since then") advocated that all debts should remain blocked during a reparations period of perhaps as much as ten years. Nevertheless, in a meeting (12.10.44) at the Treasury he did defend strongly the policy of giving pre-war claims priority over reparations.

Sir Otto Niemeyer was convinced that the Germans, given time, could meet at least their pre-war liabilities to the United Kingdom, of say, £170/£200 million. If the Germans were let off their accounts it would not be long before ,..... "a large number of other countries (Quislings and Allies) might think that they are entitled to the same treatment."

In December 1943 the Malkin Report (a secret document) was issued, for one reason because "Pre-war claims (were) to rank between reparation and occupation costs". The Malkin proposals were quite unacceptable to the Bank; the Bank also considered discussion between the Treasury, and the Board of Trade on financial matters out of place and that the Board of Trade attitude towards Standstill creditors was quite unsatisfactory. As late as 1st May 1944 they thought that the formation of a formal Committee would be inappropriate (letter C.F.C. to Sir D.Waley).

A meeting at the Treasury (31.3.1944) had already decided that the general ideas of the Board of Trade's proposal for dealing with Germany's pre-war debt were preferable to those of the Malkin Report ....."it would be difficult to defend to Parliament and the public any settlement which did not follow the Treaty of Versailles in using German property in this country to satisfy political claims by British creditors in Germany. The more so this time as these assets would only satisfy our claims in part."

Writing on 26.4.44 Sir Otto Niemeyer said that Whitehall with very little resistance from the Treasury ....."have always taken the line (without any regard for history) that there is something almost immoral about the Standstill claims and that neither they nor the bondholders have any particular claim to support from H.M.G."

The Bank continued to press the claims of Standstill creditors. Lord Wardington and Mr.Lever were also active in this direction and had discussions with H.M.T. which the latter found constructive.

Mr.Siepmann (note to C.F.C. 19.4.44) wondered whether the Malkin Report was "more than a bad joke", continuing "I do not think we can carefully enlist the rather scattered and partial interests of the various offices ..... until we have got the subject into focus between yourself, Sir Otto Niemeyer, Mr.Bolton and myself."

The Chancellor, in a memorandum (January 1945) written for the guidance of United Kingdom representatives (U.S.A. Russia and the United Kingdom), in discussions said that if it was clearly in our interest to press for absolute priority for pre-war debts over reparations, it was equally clearly against those of our Allies (e.g., Russia's moral claim for reparations was manifest).

A letter from the Chairman (26.6.45) of the Long and Middle-term Credits Committee informed the Secretary of the Treasury that the Committee felt strongly that "morally and logically pre-war debt should not be subordinate to reparation claims .....

whose magnitude there was a tendency to exaggerate." They also considered that there was no reason to envisage a settlement as being limited to the amount of German assets in this country.

On the 1st November both the Chairman of the Committee and Lord Bessborough reported to the Chancellor the great increase in enquiries received by the C.F.B. resulting from the announcement in the Press of discussions in Paris and Berlin on reparations; and the Chancellor authorised him to indicate to the creditors the Government's policy. The Chancellor's replies (14.11.45) stated that there was little that he could say at the present stage of the matter. The Treasury, however, confirmed that the replies might be quoted in replies to enquiries.

In June 1945 a note was prepared on the Bank of England credit to the Reischbank in 1934. In view of various current references in the Press the following notes (in red) were appended:-

"If there is any talk about this the important points are -

(i) it was agreed that the money should only be used for the payment of British trade creditors;

(ii) the credit was used for that purpose and was repaid at the dates (?);

(iii) the operation was approved and welcomed as 'in the national interest' by H.M.G. (Bank of England Governor 1.11.34 and 3.12.34) C.F.C. 16.6.45."

On the main issue there was inevitably much confusion of thought. Memoranda passed to the Bank from various quarters for examination and comment betrayed many signs of misunderstanding, e.g., possibilities of equity among human individuals as distinct from collective State responsibility, in the probable post-war conditions. Discussion was continuous and led nowhere in particular. The foregoing account of Bank of England views against the general background might help to illustrate the course of events.

The termination of the War brought no material compensation for enemy damage to this country, as the 1941 draft referred to above intended that it should not. The Commission appointed to administer the British Zone of Germany in conjunction with French, U.S. and Russian representatives appointed to their Zones, incurred further commitments, both in sterling and other

currencies, which hindered rather than aided her recovery. That is post-war history, but it would make the War history less complete to ignore the fact here.

The London Discount Market was principally interested in the Standstill Bills; and the Bank's part in the chain of discussions naturally accented the justness of Standstill creditors' claims, e.g., Sir Otto Niemeyer 29.4.44 ..... "I should have said that prima facie the Long debts should get interest in full (not perhaps sinking fund) and the Standstill a handsome dividend (say, 33%) first, before Trade Debts rank at all." A considerable section of Chapter (1) in Part I is devoted to arrangements made for advances for acceptors and their eventual repayment by January 1946.

THE ANGLO-BELGIAN MONETARY AGREEMENT OF 5TH OCTOBER 1944

The Bank drafted this Agreement and assisted the Treasury in its negotiation, which took place prior to the Belgian Government's return to liberated ter itory. It was the first of the Agreements negotiated with the needs of the early post-war years in mind. As such it is of special interest.

For some time before the Bretton Woods discussions the Belgian Government had been pressing H.M.G. to conclude a Monetary Agreement. They were anxious to secure a link with sterling on wnich to depend during the period of reconstruction and they had a political motive for wishing to take back such an Agreement with them to Belgium. A Mutual Aid Agreement to cover military requirements had already been concluded between the two Governments and an Anglo-Belgian Property Agreement (to regulate the release of Belgian property subject to the British Custodians of Enemy Property and the settlement of the U.K.'s pre-war claims on Belgium) was on the point of signature.

Both sides wanted an Agreement which would facilitate payments between the whole Sterling Area and an area to consist of Belgium, the Belgian Congo, Ruanda Urundi and Luxemburg. (The Belgian Luxemburg Customs Union precluded the Luxemburg Government from entering into financial agreements with foreign countries except through the Belgian Government.) But H.M.G. while negotiating with the needs of the whole Sterling Area in mind, wished to avoid a text which might be construed as committing the self-governing territories. During the war, under pressure of circumstances, a number of agreements had been signed containing provisions which somewhat exaggerated H.M.G.'s powers in this respect: with the end of the war approaching it was thought more than ever necessary not to assume consent on the part of the autonomous members of the Area.

From the outset it was clear that a Payments Agreement between the two countries, providing for settlements in sterling on the lines of the Portuguese or Argentine Agreement, would be unlikely to meet either the Belgian Government's wishes or the post-war needs of Anglo-Belgian trade. The Belgian franc was an international currency before the war and an Agreement providing for all settle-

ments to be made in sterling would have been damaging to the prospects of rehabilitating the Belgian franc.

H.M.G. were in any case aware that their post-war arrangements with Belgium must conform in broad outline to the pattern of their ultimate arrangements with the Western Allies generally; that such Allies, including Belgium, would seek to operate monetary systems and exchange controls; and that it must be in the interests of the U.K. to encourage and support them in this endeavour.

In view of the fact that the fundamentals of any Monetary Agreement to facilitate dealings in two currencies between countries having exchange controls and objectives similar to the U.K.'s must be

(a) to determine a rate of exchange and provide for its enforcement in the territories of both parties;

(b) to ensure to the parties an uninterrupted supply of each other's currency to satisfy day-to-day legitimate transactions;

(c) to define the territories to which the terms of the Agreement apply and if possible protect the parties from arbitrary and unpredictable losses on their holdings of each other's currencies;

it might have been expected that the Anglo-Belgian Agreement would follow the broad outlines of the Anglo-French Agreement concluded in North Africa in February 1944. The latter Agreement not only fixed the rates of exchange between sterling and the currencies of the French Overseas Empire but permitted either party to the Agreement to acquire the other's currency against payment of its own without limit of amount but with a guarantee against losses due to depreciation.

Since the signing of this Agreement, however, enquiries into post-war exchange prospects had suggested that the provision for unlimited reciprocal holdings of currency could not in general be entered into without prejudice to the U.K.'s position. The fact that the U.K. might have to export on a considerable scale in repayment of past indebtedness was already recognised, as was the need to abstain from exporting on credit terms goods which in post-war conditions could be sold for cash. It was also realised that with heavy purchases of raw materials from the U.K. for reconstruction, the Western Allies in particular would be likely to be in deficit in

their early post-war balance of payments with the U.K.

Agreements on the lines of the French North African Agreement could easily lead to substantial accumulations of Allied currencies by the U.K. Exchange Account; and these accumulations would have the same effect as credits granted to the Allies who, having in the main conserved their foreign assets throughout the war, could afford to pay in gold at least to some extent.

Moreover, H.M.G. were now determined to avoid giving guarantees against a depreciation of sterling. Such guarantees, whether in terms of gold or not, could only cast doubt on sterling's respectability. During the war they had had to give many such guarantees in Payments Agreements, but only as a wartime expedient. In view of the heavy sterling balances owned by India, Egypt and other members of the Sterling Area, an offer of an exchange guarantee might have serious repercussions in the Area - the guarantee would be reciprocal.

The formula submitted to the Belgians and ultimately accepted by them was one which restricted to a sum of £5 million and its Belgian franc equivalent the amount of each other's currency which the parties could be required to hold; these sums were to be treated as being in the nature of working balances and held without guarantee against depreciation. All sums in excess of the agreed working balances were to be settled in gold.

This formula was, however, by no means comprehensive. H.M.G. could not indeed afford to commit themselves to any formula providing for automatic settlement in gold of funds in excess of an agreed figure unless the pre-existing sterling balances of the other party were reserved for separate treatment. The Belgian Government had noted at Bretton Woods the British Delegation's reservations in respect of pre-zero balances in the "transition period" and were certainly not expecting to be offered gold for the sterling belonging to residents in Belgium which the British Custodians of Enemy Property had taken steps to conserve when the Germans overran Belgium: nor did they expect to obtain gold for sterling accumulated by themselves and by residents of the Congo while they and the Congo were treated as residents of the Sterling Area. All the Belgians

hoped for was an assurance that the pre-existing sterling balances of residents of the Belgian area would not be blocked but would be available to pay for purchases in the Sterling Area. Having been given this assurance they readily agreed to keep pre-zero sterling out of the gold settlements.

But with pre-zero Belgian balances widely distributed throughout the London market, and available not only for payments in the Sterling Area but for transfers to other Belgian accounts (including those of the National Bank of Belgium), such funds would soon become indistinguishable from Belgian official balances acquired under the terms of the Agreement.

To overcome this difficulty the Belgian Government agreed not to claim any gold in respect of their official holdings of sterling except when these exceeded £5 million by an "additional sum" equal to the total net amount of Belgian-owned sterling at the date of the Agreement.

Although the Belgian Government accepted this modification with good grace it could not be entirely satisfactory from their point of view, not only because the amount of the "additional sum" remained fixed during the life of the Agreement while the volume of Belgian pre-zero sterling was likely to be substantially reduced during the same period, but also because when and so long as the Belgian Government's official sterling holdings were less than £5 million plus the "additional sum" the formula allowed H.M.G. to continue to purchase Belgian currency with sterling to be added to the Belgian Government's official holdings. As the British Government could at any time be required to sell sterling in exchange for Belgian francs only to the extent to which their holdings of Belgian francs at that time fell short of the equivalent of £5 million, the formula offered greater facilities to them than to the Belgians. Against this, however, the Belgians obtained the free use, within the terms of the Agreement, of their pre-zero sterling balances, both official and private, with no restrictions on the rate at which those balances could be spent - a concession which committed H.M.G. in effect to allowing future exports to Belgium to be paid for to some extent in pre-zero sterling instead of in sterling bought with gold.

With the balance of trade likely to be in the U.K.'s favour, H.M.G.* were hardly likely to use to the full their greater facilities for acquiring Belgian francs, while the Belgian Government were in any case free to requisition all pre-zero Belgian sterling and add it to their official holdings, thereby restricting H.M.G.'s powers to acquire francs against sterling. On the other hand requisitioning of pre-zero sterling to form an addition to Belgium's official holdings would gain to the Belgians the advantage of being able to pay in pre-zero sterling for U.K. exports.

The structure of the Agreement decided upon, it was necessary to dress it up for publication by stressing the mutual intention to co-operate in the monetary field, avoiding noticeable conflict with Bretton Woods and satisfying public opinion on the implications of the gold clauses.

A few comments on the form and mechanism of the gold clauses (Articles 2 and 3) of the Agreement may be made. To require either party to supply gold for balances in excess of agreed limits might be interpreted by the Press and by the public as a return to the gold standard. Accordingly, the text was drafted so that the obligation should be to buy gold from the other party.

But the dealings between the parties would be a fraction only of total dealings: and the dealings which they would have with their own markets might cause either party to accumulate balances in the other's currency above the agreed limit. A right of set off was accordingly provided (Article 3), and to ensure that the debtor would have sufficient of the creditor's currency to allow set-off the parties were required to maintain minimum balances in each other's currency. Since the debtor would have to restore his minimum balance if the creditor absorbed it by offset, the creditor could, by a series of offsetting operations, eventually reduce his surplus holdings of the debtor's currency; moreover, so long as the creditor had a surplus the debtor could only restore his minimum balance by purchasing the funds from the creditor with gold. Thus the machinery of gold settlements was secured.

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*In 1948 the balance was moving against the U.K.

It was, however, certain that no two Central Banks could meet the day-to-day demands made upon them if required to adhere strictly to the procedure envisaged in the Agreement. Some deviation from the text had to be allowed if the Agreement was to work and a letter from the Bank of England to the National Bank of Belgium, dated 31st October 1944, set forth how the Central Banks proposed to acquit themselves of the responsibilities laid upon them.

Comments on the Text of the Agreement

Article 1(ii)

The words "mutual consultation" were accepted by the Treasury only after considerable discussion and as part of a bargain whereby the Belgians agreed to drop their demand for mutual guarantees against depreciation. H.M.G. originally proposed that the parties should only be required to give notice to each other of an intention to vary the rate of exchange: this suggestion was prompted by their desire to avoid having to consult with too many countries before changing the sterling/dollar rate if the need arose. But the Belgians argued that they had Agreements with both the French and the Dutch and must be given time to decide whether to follow sterling or not.

Article 1(iii)

H.M.G. agrees to enforce the official rate in the U.K., Colonies and Mandated territories of the Sterling Area. "Enforce" in this context means quoting the rate and making it an offence to deal at any other.

Article 5 was inserted at the Belgian Government's request to restore the principal market in Congolese francs to Brussels. It will be seen that H.M.G. avoided giving any assurance that Sterling Area currencies, e.g., rupees, would in fact be available in London against non-resident sterling. What would happen if the Reserve Bank of India declined to supply rupees to Belgium against sterling was left uncertain.

Article 6

The most difficult Article. It reflected Bretton Woods preoccupation with the question of capital transfers. It kept the door open to capital transactions which seemed advantageous while committing the parties in effect to co-operate to exclude "hot" money.

No decision on what capital transactions were advantageous was taken. Read in conjunction with Article 2 this Article, it was thought, should tend to restrict the transactions envisaged in Article 2 to those in respect of "current payments". It could be argued that Article 6 virtually committed both parties to maintain exchange control throughout the life of the Agreement.

Article 12

For political reasons the Belgian Government had to have an Agreement which looked as though it were designed to last some years. For their own reasons H.M.G. insisted on being able to terminate the Agreement quickly.

Siam was a country with which the U.K. had friendly relations, and had accepted a British Financial Adviser as its currency was based on sterling. But as it was outside hostilities it afforded opportunities for enemies to circumvent the Bank's arrangements to safeguard sterling. There was nothing to prevent German agents from presenting sterling to the Siamese Treasury or the Currency Department and obtaining ticals, which could be freely used to purchase dollars and other currencies.

During the month of September 1939 there were in fact fairly heavy sales of sterling to the Treasury, amounting to £727,000; but these were mainly due to nervousness on the part of Siamese holders. The Minister of Finance,* a firm friend of the Democracies, soon put an end to these non-commercial sales and also to the heavy withdrawals from the British Banks in Bangkok (Hongkong & Shanghai Banking Corporation, Chartered Bank of India and Mercantile Bank of India) by issuing regulations that in future no sales of sterling would be allowed, unless backed by documents proving a bona fide commercial transaction, and by informing would-be depositors in the Thai National Banking Bureau of monies withdrawn from the British banks that the Bureau would pay no interest on such deposits and would merely redeposit their monies in the British banks and itself earn the interest thereon.

In February 1940 the oil position became acute. All British oil sources were reserved for the war effort and Siam had not the dollars with which to make purchases in the United States. In these circumstances an appeal was made to the Bank of England to supply $4,918,000. The subject of hard currencies was at the moment much to the fore; and there were not wanting elements in the Siamese Government that strongly advocated the direction of all tin and rubber production to the United States. This was serious, as the value of Siamese tin production amounted to some U.S.$20 million a year, at that time accruing to the British authorities; and rubber production was 40,000 tons per annum. The British Financial Adviser† added his own appeal

*Luang Pradist Manudharm, later known as Nai Pridi Banamyong.

†Interned on 10th December 1941 for 9 months.

to the Bank, in order to prevent such fruitful sources of dollars being lost. On 30th March 1940 H.M. Treasury and the Bank of England agreed to give Siam U.S.$1¼ million a quarter for one year at the official selling rate, subject to there being no change in the normal direction of Siamese tin and rubber.

Another question at this time worrying the Siamese was their exclusion from the Sterling Area. When, however, it was explained to them that inclusion in the Area would entail the institution of an Exchange Control similar to that of the Bank of England; the continued holding of sterling as a central reserve and its possible increase; the pegging of sterling at a fixed rate for the duration of the war; and the limitation of demand for foreign exchange to the lowest level compatible with Siam's import requirements, the Siamese felt that the disadvantages outweighed any advantages to be gained. A part of their Currency Reserve was held in the U.S.A. in gold, and the enforcement of adequate exchange control was felt to be a practical impossibility.

In June 1940 German successes had their natural effect on the less stable members of the Siamese Government; and an agitation for a break in the sterling link prompted the Financial Adviser to enquire of the Bank whether they could instruct paying agents in the U.K. to refuse to honour sales of sterling by Siam. The Bank replied that they could only prevent sales of securities but could take steps in other ways, if Siam misused her sterling balances. However, with the signature during the month of non-agression pacts with Great Britain and France (the latter, however, not ratified), the agitation for a break with sterling died down.

In July, owing to the dearth of shipping to and from Bangkok, the Siamese Government decided to make purchases of ships from the U.S.A. to an amount of $4 million. Tension along the Indo-Chinese border prompted the Siamese to wish to request armament and munitions from the U.S.A. for a further $4 million. As a result, their American Foreign Adviser was to be entrusted with the mission of securing a loan from the U.S.A. of $10 million; and the Bank were asked whether Siam could be allowed $1¼ million per annum to service the loan and a renewal of the $5 million for a second year for oil

purchases. The Bank agreed to consider both requests favourably when the time came: but, in fact, the American loan was not made. Meanwhile the Bank suggested that ships might be bought for sterling from the Greeks. This suggestion was not followed up by the Siamese, and ships were acquired from the U.S.A. against dollars purchased from the Japanese in Shanghai.

Attempts by the Thai Commercial Bank in 1940 to sell sterling in London to obtain dollars from the National City Bank in New York were probably successful to the extent of some £400,000, but were then stopped by the Bank.

The Hongkong and Shanghai Banking Corporation approached the Bank in August 1940 for permission to sell sterling in New York on behalf of their Bangkok Agency in order to support the Bangkok rate for yen. This was refused.

In July and August, in the face of Japanese offers to supply oil, the Bank and H.M. Government encouraged the renewal of negotiations for the reinstatement in Siam of the Asiatic Petroleum Company and the Standard Oil Company, who had withdrawn from the country in July 1939 as a result of Siamese determination to supply oil fuel themselves - with the exception of aviation spirit for the Siamese Air Force (which continued to be supplied by the Asiatic Petroleum Company). It was established that, as a result of the Shell Group's arrangement with the Exchange Control, it would make no appreciable difference to the Control's dollar position whether Asiatic Petroleum sold oil to Siam for sterling or dollars. The British move, however, had no success.

In November the U.S.A. having refused her materials of war for frontier troubles with Indo-China, Siam began definitely to turn to Japan, bartering rice, tin and rubber for armaments. This change of attitude would, in the realm of finance, have been much more positive had it not been for the pro-democratic views of the Minister of Finance.

A proposal to H.M. Government from Siam in July 1941 that the shortage of sterling resources of the Siamese Treasury might be met by a loan of £3 million from the British Government was not

followed up; it was intended that the loan should be invested in War Loan and added to the Currency Department's holding of securities.

Following on the freezing by U.S.A. and U.K. of Japanese dollar and sterling assets on 25th July 1941,* the Japanese Government applied to the Siamese Government for credits to the amount of 10 million ticals to cover existing contracts for rice and other purchases. This was refused; but a consortium of Siamese banks was allowed to open a three-months banking credit for the desired amount, repayment to be made in ticals or gold, and such gold to be freely transferable or to remain earmarked in Japan. The credit once repaid could be renewed on similar terms. After violent opposition by the Japanese, these terms were agreed to except that no arrangement for renewal was included.

On 2nd August the U.K. authorities allowed an application by the Currency Department to have £235,000 transferred from the frozen assets of the Yokohama Specie Bank in London to the Siamese Treasury account with the National Provincial Bank in respect of Tical Notes delivered to the Yokohama Specie Bank in Bangkok against a T.T. transfer of sterling made before 25th July.

Three days later the U.K. agreed that the British Banks in Bangkok should continue to finance Siamese trade with Hongkong and China, subject to an undertaking that they would not trade directly or indirectly with Japanese interests and that a list of their operations should be forwarded to the Bank.

An improvement in the oil situation was effected in July 1941 by the arrangement of two oil shipments to Siam from Singapore against payment in Straits dollars. The Singapore authorities in August showed signs of requiring payment in U.S. dollars for further shipments: but this idea was dropped as H.M. Treasury were anxious to placate Siam.

At about this time, the steps taken by the Japanese through private firms to secure increasing quantities of Siamese products, in particular tin and rubber, led the British and American Governments to agree to a scheme of pre-emptive purchases of rubber through the East

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*Date of Japan's occupation of French Indo-China.

Asiatic Trading Company, a Danish concern. The Siamese, since May 1941, had committed themselves to allowing Japan to purchase 30,000 tons out of an annual production of 48,000 tons. The tin position was slightly better: out of a production of 18,000 tons per annum, 13,000 tons were handled by British concerns which sent their ore to Malaya, thus leaving only 5,000 tons open. Prices in Bangkok for rubber had by August risen to 30% over Penang and for tin to 80% over Singapore.

The U.S.A. was to take a half share in the pre-emptive purchases and it was agreed that the dollars acquired by the U.K. in respect of the American half should be resold to the Siamese Government for sterling at the official rate. The arrangement was concluded on 12th September 1941. It produced 3,427 tons of rubber before the occupation by Japan on 8th December, of which 1,587 tons, still in Siam at that date, had to be written off.

During August 1941, pressure by Japan on Siam greatly increased. A demand (20th August) was made for a credit of Tcs.25 million and for the renewal of the Consortium's Tcs.10 million credit. The Japanese agreed to repayment in gold but wished to stipulate that it should remain earmarked in Japan. The Finance Minister, at the instance of the British Financial Adviser, refused to accede to this stipulation and insisted that any further acquisition by Japan of ticals should be against gold delivered in Bangkok. He would not agree to more than Tcs.10 million gold remaining in Tokio. Eventually agreement was reached to a sale of Tcs.25,000,000 against gold (on the basis of U.S.$ 35 per ounce fine and £1 sterling = U.S.$4.03 = Tcs.10.80). Tcs.13 million worth of gold were to be sent immediately to Bangkok, the balance to remain earmarked with the option of transfer to Bangkok. The Tcs.13 million gold were delivered in Bangkok on 16th October.

As a result of the cession of Indo-Chinese territory to Siam in 1941, the Indo-Chinese authorities, under Art.1 of the Financial Agreement deriving from the Peace Treaty between Siam and Indo-China, had to reimburse the Siamese Government for Indo-Chinese bank notes exchanged in the ceded territories for Siamese notes and subsequently surrendered to the Banque de l'Indo-Chine. Accordingly

on 5th October 1941 application was made to the Bank of England for permission for the Banque de l'Indo-Chine in London to transfer £44,344: 5: 7 to the account of the Siamese Treasury with the National Provincial Bank against 787,500 piastres of notes so surrendered. The application was allowed; but it was suggested that future settlements under this head should be made by transfers of U.S. dollars and not sterling.

On 2nd November 1941 the Consortium credit of Tcs.10 million was believed to have been liquidated by the Japanese in gold. The credit was renewed on the same terms for a further three months. The balance of Tcs.12 million of gold from the August sale of Tcs.25 million was called in November for delivery in Bangkok and a further sale of Tcs.25 million of gold was arranged. It is thought that Tcs.12 million of gold reached Bangkok on 10th December 1941, thus putting these gold transactions partly in order.

Negotiations were opened in November by the Siamese Government for a credit of U.S.$8 million from the American Government, one half to be made available to the commercial market. The entry of the U.S. into the war prevented this being brought to a conclusion.

On 9th December H.M. Government decided to freeze Siamese sterling assets.

In this month the Siamese in view of the loss of the London and New York assets of the currency reserve fund, fixed the value of the tical at 0.32639 grammes of fine gold: New York parity.

On 25th January 1942 the Siamese Government, presumably under orders from the Japanese, declared war on Great Britain and the U.S.A. The Finance Minister immediately resigned; but was appointed to the Council of Regency.

On 22nd April the gold value of the tical was reduced, and the tical was made exchangeable with the yen at par. The cover for the currency circulation was brought up to 100% out of the proceeds of a loan of Yen 200 million at 3½% granted by the Japanese Government.

At the same time, the National Banking Bureau was converted into a Central Bank.

CZECHO-SLOVAK FINANCIAL CLAIMS FUND

In October 1938, following the Munich crisis, the Czech Government appealed to H.M.G. for urgent financial assistance. H.M.G. immediately requested the Bank of England to advance up to £10 million to the National Bank of Czechoslovakia for account of the Czech Government pending the necessary legislation authorising H.M.G. to repay the advance. A Czech delegation arrived in London to discuss the uses to which the advance would be put and a Liaison Officer was appointed in Prague to examine and report on the situation. As a result of the discussions H.M.G. made a gift of £4 million (out of the £10 million) to the Czech Government, which was paid into a Special Account at the Bank of England in the name of the Czech National Bank and released as required to the Czecho-Slovak Refugee Institute in Prague for payments to assist in the emigration of refugees, such payments to be subject to a joint request by the Institute and the Liaison Officer. Of this £4 million £½ million was transferred to an account at Lloyds Bank, to be used to assist the emigration of refugees to Palestine.

The balance of £6 million H.M.G. advanced as a loan to be applied for the general purposes of reconstruction, including the relief and settlement of refugees in Czechoslovakia as then constituted. The Czecho-Slovakia (Financial Assistance) Act 1939 received the Royal Assent on the 28th February 1939 and provided for -

(1) Refund to the Bank of England of the advance of £10 million.

(2) Statutory authority for the provisions of the agreement drawn up between H.M.G. and Czechoslovakia in respect of the gift and the loan of which the latter was to be repaid from a further loan of £8 million to be issued in London.

But the occupation of Czechoslovakia by Germany on the 15th March 1939 interrupted the operation of these arrangements; by that date about £3¼ million and £3½ million remained on the Gift and Loan Accounts respectively.

The Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act 1939 was passed on the 22nd March. Its purpose was to secure that the Germans should not be able to seize Czech assets in the

United Kingdom while failing to make provision for the transfer of financial debts due from Czechs to British creditors. The Act laid down that no person in the United Kingdom holding on the 15th March cash, securities, or gold for anyone ordinarily resident in Czechoslovakia should release such holdings without the permission of H.M.T. and covered -

(1) Assets of persons who had left Czechoslovakia since the invasion by Germany.

(2) Assets of persons (including the National Bank) still there.

Thus both the Gift and Loan Accounts were caught*. In consequence the Czecho-Slovakia (Financial Claims and Refugees) Act 1940 was passed. The Act provided that -

(a) The balance of the Gift Accounts should be paid to the Treasury who, after deduction of an amount equivalent to such sums as had already been advanced to the Czech Refugee Trust (set up to carry on the work of the former Refugee Committee in London which had operated in conjunction with the Institute set up in Prague by the Czech Government) would pay the balance to a Fund entitled "The Czech Refugee Fund", under the control of H.M.T., to be used for the original purpose, i.e., the emigration of refugees.

(b) The balance on the Loan Account should be paid to a Fund to be entitled "The Czecho-Slovak Financial Claims Fund" to be used as specified by the Czecho-Slovakia (Settlement of Financial Claims) Order 1940.

This Order was introduced before the provisional Czech Government had been formed and was therefore unilateral, but was submitted to the Czech Legation in London before being ratified. The obligations to be satisfied were broadly -

(a) Various Czech loans where the beneficial interest was wholly owned by a British holder on the 8th May 1939.

(b) Certain obligations to the Trustees of Austrian Government Guaranteed Conversion Loan.

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*In May 1939 a committee was formed to advise H.M.Treasury on policy and assist in any negotiations concerning financial claims (excluding trade debts and claims from the Sudetenland). Sir O.E. Niemeyer was a member.

(c) Bank balances, etc., in Czechoslovakia on the 15th March 1939 where the beneficial interest since the 14th March was wholly owned by persons who were British holders at all times between the 3rd September 1939 and the date on which the claim was admitted by H.M.T.

The expression "British holder" in relation to any debt meant an individual who satisfied H.M.T. that he was resident in the United Kingdom between the specified dates.

Successful claimants were obliged to assign to H.M.G. those assets in Czechoslovakia in respect of which a claim was accepted.

The Fund was administered by the Czecho-Slovak Financial Claims Office under Sir Stanley Wyatt and claims met up to May 1942 totalled about £750,000. Some of the successful claimants who subsequently left the U.K. were given non-resident status by us under D.(F.)R.

The Financial Claims Office was closed in October 1942 and the remaining business dealt with by H.M.T. Total claims paid amounted to approximately £1,700,000; in addition to which £2½ million was spent (out of the £6 million loan) on reconstruction before Czechoslovakia came under German occupation. The balance was used to meet Czechoslovak obligations (bonded debts, etc.) to British holders, including the Czechoslovak guarantee on the Austrian Government Conversion Loan. It was finally exhausted by the 1st June 1948. Payments were made with the approval of the Czechoslovak Government after the latter had been re-established in Czechoslovakia.

On the 31st October 1945 the Treasury issued an order terminating the effect of the Czechoslovakia (Restrictions on Banking Accounts, etc.) Act. Money and property previously blocked under that Act then became subject to T.W.E. Department restrictions and were covered by the Money and Property Agreement with Czechoslovakia, signed on 1st November 1945.

Discussions with the provisional Czech Government in London as to whether they would accept liability for payments out of the Czechoslovak Financial Claims Fund reached no conclusion.

Negotiations continued after the Government returned to Prague, but the question was not finally settled until the Inter-Governmental Debts Agreement was signed on 29th September 1949*.

H.M.G. declined to meet a request of the Czechoslovak Government that the Czech Refugee Trust Fund (set up out of the £4 million gift) should also be wound up as having fulfilled its original purpose and the balance handed over to them. Apart from H.M.G.'s own claim to decide the fate of the balance, there were, of course, political difficulties in winding up the Trust Fund at the time.

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*The Czechoslovak Government accepted liability for £4,460,127 (principal and certain accrued interest) out of H.M.G.'s loan of £6 million, repayment to be made by instalments from 1954/65. H.M.G. agreed to make no claim for approximately £1,700,000 paid out of the Claims Fund. They accepted the sum of approximately £260,000 to be used for British Embassy expenses, etc., in Prague, all that the Czechs had been able to collect in respect of claims paid by the Fund. A clause in the Miscellaneous Financial Provisions Act 1950 provides for its winding up.