APPENDIX (No.III) TO PAYMENTS AGREEMENTS

Special Accounts (and Sterling Area Accounts)

The gradual tightening of control in the first half of 1940, whereby the free disposal of sterling held by non-residents was minimised, and the introduction of the Special Account system, have been described in chapters and . Before the various agreements were in working order much had to be negotiated by way of revaluation on gold guarantees and the amount of sterling which could be accumulated on the Special Accounts before such guarantees came into operation. It is the purpose of the following pages to record particular arrangements in detail, and also to give some account of procedure.

There was no technical difficulty in the way of every holder of a Sterling Account also having a Special Account; but this did not happen in practice. Many foreign countries operated Exchange Control and had for many years been trying to force their own nationals to disclose or turn over their foreign exchange. The incidence of our Regulations afforded a welcome opportunity to strengthen their hand. If sterling could only be credited to a Special Account and Special Accounts could only be opened by agreement between the Bank of England and the relative Exchange Authority, it was obvious that the position of a foreign country's sterling assets could be both known and controlled. (Although this favoured the Bank in getting Agreements signed, it was not always adduced by their negotiators as an argument in favour of the Agreements). In practice, then, most of the post-zero sterling of Payments Agreement countries was held on account of the banks of various countries.

Before passing on to record in detail the particulars of Agreements with various countries, a short

digression

digression must be made in order to put in their right perspective those accounts which were retained so that certain legitimate banking business in the U.K. should not be denied to non-residents, viz., the Sterling Area Accounts.

Sterling Area Accounts

It was realised that the logical conclusion of introducing the Special Account system would be that all foreign private accounts in British banks would be closed as soon as their existing balances were exhausted, and that an individual would no longer be able to keep any foreign exchange in his own name unless he were prepared, and could obtain permission from his local Control, to open a currency account with a local bank. This would not only have been awkward for the Bank's accounting system but also a severe blow to the many foreigners holding sterling securities and collecting interest and to a large number of British permanently residing abroad whom the Bank were obliged, by the very construction of the Regulations, to treat in the same way as nationals of the countries in which they lived. The Bank therefore persuaded the Payments Agreement countries (with the exception of Sweden and Turkey) to agree to the maintenance of private accounts provided that they were used for the type of banking operation with which a private individual was normally concerned, such as the collection of dividends and the payment of insurance premiums and school fees. Accounts operated under this system were known as Sterling Area Accounts.

In practice, the Bank allowed administratively, and without reference to the other Central Banks, additional transactions on these accounts where satisfied that the transactions were reasonable and unobjectionable from the point of view of the Agreement.

Sterling Area Accounts could be fed by payments from Special or Registered Accounts. The facility applied in most South American countries and in Spain and Portugal.

Spain

The Spaniards limited their agreement to this procedure to apply only to residents of Spain who were not subjects of the Spanish State. There were, however, many Spaniards who had maintained Sterling Accounts for the collection of dividends without the knowledge of the Spanish Authorities. H.M.Ambassador in Madrid insisted that some arrangements must be devised whereby dividends due to such persons would not be credited to Spanish Special Accounts, since this would disclose to the Spanish Authorities the identity of those persons (many of whom,

the

the Ambassador asserted, were unequivocal supporters of this country) with disastrous results both to the individuals concerned and to British prestige in Spain. To meet this situation U.K. bankers were informed confidentially that they ~~may~~ might maintain for such persons "continuation" accounts to which credits of the type normally permitted to Sterling Area Accounts could be placed. No debits, other than transfers to Spanish Special Accounts, were permitted unless specially authorised by the Bank of England.

Sweden The position of Sweden was exceptional; whereas arrangements with other Special Account countries provided for the transfer of their existing balances to their Special Accounts either direct or via Sterling Area Accounts, the Bank did not permit the transfer of existing Swedish balances to Swedish Special Accounts because of the gold liability attaching to the latter. (See "Gold Guarantees" below). Since it would have been administratively objectionable for Swedish Sterling Area Accounts to be governed by conditions different from those attaching to other Sterling Area Accounts, the alternative course was adopted, with the agreement of the Riksbank, of permitting the maintenance of Special Accounts in the name of private Swedish individuals.

Turkey The Turkish Authorities did not categorically refuse to agree to the maintenance of Turkish Sterling Area Accounts. They acknowledged the Bank's communications explaining the procedure but did not return either an affirmative or a negative answer. It was therefore decided to permit the maintenance on Sterling Area Account lines of private Turkish accounts, and to protect the Bank's position in the matter permission was given to the U.K. banks only on the understanding that this was an informal arrangement pending the agreement of the Turkish Authorities to Sterling Area Account procedure. The accounts were never officially described as "Turkish Sterling Area Accounts".

Special Accounts

Special Accounts were normally opened in the names of banks, sometimes in the names of firms and even, as in the case of Sweden, for private individuals. The terms of our bargain with Sweden obliged us to give gold for all special account balances beyond a specified amount. The Bank were at first willing to add to this liability by allowing transfers to Special Accounts of Swedish sterling balances held at the time the Agreement was made, whereas in most other cases old balances were transferable either to Special accounts or to sterling area accounts from which in turn they could be transferred to Special Accounts. As it was objectionable to create a separate sort of sterling area account for Sweden it was agreed with the Riksbank (whose Control was quite effective) that new funds could be placed to Special Accounts opened by Swedish individuals.

The usual procedure was to arrange for all or part of the payments due from the U.K. to be made to a Special Account at the Bank of England in the name of the Central Bank concerned. Although there was not the same legal compulsion as under a Clearing to secure that all debts due from the U.K. were so paid, the system worked reasonably well because over 80% of U.K. imports from the countries concerned were made by or for the account of a U.K. Government department. In order to interfere as little as possible with normal banking arrangements permission was given for the main Special Account at the Bank of England to be supplemented by a number of subsidiary Special Accounts opened in the names of the commercial banks of the foreign country with their U.K. correspondents. The Special Account balance was used to pay for that country's requirements in the Sterling Area, and in some cases a proportion was available for the purchase of foreign exchange at the Bank of England's official rate to meet needs outside the Sterling Area. (Owing to the U.K.'s large adverse balance of payments with the

Agreement

Agreement countries there was invariably a surplus of receipts over payments). The aim of the U.K. was to induce the neutrals to leave that surplus at the Bank of England while allowing them to invest such balances at call. As a further inducement they were offered the right to have gold when the balances so invested exceeded an agreed figure.

Payments agreement countries also undertook not to receive sterling from any source other than the Sterling Area.

The D(F)R. required U.K. banks to permit post-zero operations on Special Accounts only and covered them for so doing. Balances which existed at the date of the Agreements were available for use subject to certain limitations set out in foreign exchange notices.

Revaluation and Gold Guarantees

The main problem in persuading a foreign country to hold large sterling balances under the terms of a strictly bilateral agreement was to provide assurance against a depreciation of sterling; and the Agreements with 10 countries (Argentina, Bolivia, Brazil, Chile, Greece, Paraguay, Peru, Portugal, Turkey and Uruguay) did not guarantee all sterling in terms of gold. The basis of the guarantee was that in the event of a change in the London official middle price of gold the Special Account balances would be correspondingly adjusted by debit or credit of the Special Account at the Bank of England of the relative central bank.

An alternative

An alternative form of guerantee, which was originally given to Argentina and Uruguay but which was later replaced by the revaluation guarantee, was an undertaking that amounts on the Special Accounts in excess of an agreed figure would be converted into gold which would be available only for resale to the Bank of England against sterling.

The extent of the protection offered by the revaluation guarantee was not the seme in each agreement; as is shown below, in the majority of cases the guarantee covered the spot position on all Special Account balances, but in three agreements the central banks' Special Account balances only were covered, while in four agreements the forward position wes also included.

Variations in cover given by Gold Price Guarantees

Spot only	Spot end Forwerd
Bolivia	Argentina
Brazil	Chile (6 mths.forward)
Greece	Portugsl (Centrel Bk.only)
Peraguay	Uruguay
Peru	
Turkey	

Accounts covered by Spot Guarantee

Central Bank only	All Special Accounts
Brazil (A/cs et B/E only)	Argentina
Portugel (A/cs at B/E only)	Bolivia
Turkey (All A/cs)	Chile (with exceptions)
	Greece
	Pareguay
	Peru
	Uruguay

Argentine

The inclusion of the forward position in the cover was of greet prsctical consequence only in the case of Argentina (and Uruguay), where the importance of ensuring supplies of foodstuffs, particulerly meat, at fixed prices necessitated bulk purchesing on long-term sterling contracts with the corollary of forward exchsnge contracts.

In the absence of adequate data on this side the Bank was dependent for information regarding the Argentine forward position upon the Central Bank of Argentina, who reported the position daily by cable. Because the amount of sterling sold forward in respect of each contract usually exceeded the total proceeds of deliveries made

under

under that contract, periodic adjustment of the forward position was necessary. Moreover, the meat contracts covered supplies for the U.S.A. and Russia, for which exchange was put up in U.S. dollars, necessitating the cancellation of a corresponding amount of forward sterling.

Unfortunately the Central Bank of Argentina were found to be very dilatory in making these adjustments; for instance, a forward position of £4.3 million outstanding on 3rd October 1941 was corrected by the cancellation of £3.3 million only in June 1942; similarly, from a position of £6.4 million on 2nd October 1942 cancellation of £2.1 million was not made until October 1943, whilst in September 1944 the amount cancelled in respect of supplies to U.S.A. and Russia was £1.5 million less than the sterling equivalent of the corresponding U.S. dollar payments.

Thus, during extensive periods, the Central Bank's figures considerably overstated the true forward position, (at one time the net forward position reported to the Bank of England was just on £70 million) with the unsatisfactory result that it was impossible for the Bank at any given time to compute the true current liability under the guarantee.

Although the parity sterling price of gold, calculated on the U.S. gold price of $35 per fine ounce and the London middle dollar rate of exchange of 4.03, was $173^{s}/8^{d}$ per fine ounce, the London official gold price had, for reasons stated elsewhere, been fixed at the outbreak of war at $168^{s}/-$ and in several of the Agreements the middle official price in London was quoted at $168^{s}/6^{d}$.

The basing of the revaluation guarantees on a price of $168^{s}/6^{d}$ proved a serious obstacle when, in 1943/4, it seemed desirable to adjust the official London buying price for gold, since the terms of the guarantees would have required a write-up of those Special Account balances covered notwithstanding that, because there would have been no change in the value of sterling in terms of U.S. dollars, no exchange losses would have been incurred by the Special Account holders.

In consequence, action on the gold price had to be deferred

until

until such time as it should prove possible to obtain the agreement of all the Special Account countries* covered by the guarantees to waive their technical right to the adjustment of their sterling balances.

Gold Guarantees

Four countries, Norway, Sweden, Portugal and Turkey, were not prepared to accept sterling without a guarantee that any sterling which could not be expended on goods and services from the Sterling Area would be convertible into gold, either at once, after a fixed period, or at the end of the war, and U.K. needs were so important that agreements were concluded with those countries on that basis. The relevant provisions of the agreements with Norway, Sweden and Portugal are stated below: details of the arrangements with Turkey will be found in the note on that country on page 14........

Norway. Above a basic figure of £100,000, Norges Bank had the right to obtain gold for 50% of their Special Account balances at the Bank of England until the latter totalled £2,100,000, when all further sterling accruals became eligible for immediate conversion into gold. On the expiry of the Agreement, Norges Bank had the right to obtain gold for any balance on their Special Account at the Bank of England after deduction of the sterling equivalent of any balance on the Bank of England's account at Norges Bank. This Agreement was not to run for long: it lapsed or fell into abeyance when Norway was occupied by the enemy.

Sweden. The Swedish Agreement, negotiated in December 1939, ran with extensions and slight amendments until February 1941, being thereafter renewed annually. Under the provisions of the original agreement, Sveriges Riksbank were entitled to immediate conversion into gold of balances on their Special Account at the Bank of England in excess of £3,600,000. After the enemy occupation of Norway the Special Accounts became practically a one-way channel for the settlement of debts due to Sweden for shipping, marine insurance and

similar

---

*The first to agree was Brazil.

similar invisible items (including the diplomatic payments of the refugee Allied Governments) with the result that by the end of 1940 gold deliveries under the Agreement totalled nearly £15 million. The Agreement was renewed in February 1941, and again in April 1942, on terms which limited the amount eligible for immediate conversion into gold to £650,000 per month above the basic holding of £3,600,000; any additional accumulations of sterling were to be convertible into gold at the end of the war. In neither year were the Riksbank able to take up their full allocation of £7,800,000, and the Agreement, as renewed in 1943, reverted to the terms of the original Agreement.

Portugal. Portuguese Special Account sterling was not convertible into gold during the currency of the Agreement (until three months after the end of the war), but on expiry of the Agreement the Bank of Portugal's Special Account balances at the Bank of England, and the Bank of England's escudo balances at the Bank of Portugal were to be settled by the delivery of gold, to be made within a period of five years after the date of termination of the Agreement. A Treasury delegation went to Lisbon in December 1944 to discuss this and related questions.

(For later developments – Sweden and Portugal – see pp. 20–23)

The Payments Agreements were not in every case the only Agreements covering payments with the countries concerned; they were complemented in some cases by existing Governmental Clearing Agreements, and in others by Governmental Agreements relating to particular commodities. Moreover, within the general pattern of the Agreements there were individual variations to meet particular circumstances, the most notable cases being -

(a) Bolivia

In normal times Bolivia bought little from the Sterling Area, any sterling accruing to Bolivia being usually sold in Buenos Aires. In order to ensure adequate supplies of Bolivian tin to meet the requirements of the smelting industry in the U.K., H.M.Government were prepared to negotiate an Inter-Governmental Agreement providing for part payment in gold for imports of Bolivian tin; but an Agreement was needed to cover other imports, and Bolivia was disinclined to negotiate

unless

unless an outlet could be provided for any surplus sterling. It was ultimately found possible to make arrangements for the transfer of Special sterling from Bolivia to Chile, Brazil and Peru, and a Payments Agreement was signed on 31st March 1941, a few weeks before the Inter-Governmental Agreement of 21st May 1941 to which it was complementary, and which provided that Bolivian Tin Companies which signed ten-year smelting contracts with U.K. smelters would receive 75% payment in Gold and 25% in Special sterling; other companies would receive gold and sterling in equal proportions. To meet these special circumstances the Payments Agreement provided for, inter alia -

1. Separate Special Accounts (designated Special Tin Accounts), to be opened by the Tin companies, to which would be credited payments in respect of tin imports into the U.K. Sterling on these accounts could only be used for payments in the Sterling Area but could be sold to the Central Bank of Bolivia.
2. Sales of sterling by the Central Bank of Bolivia to the Central Banks of Brazil, Chile and Peru at official rates, up to limits agreed or to be agreed with the Bank of England, which reserved the right to suspend unilaterally such transfers in the event of Bolivian sterling balances proving insufficient at any time to meet debts due to the Sterling Area.

The Payments Agreement provided also that the Bank of England would make gold available to the tin companies in accordance with the terms of the Inter-Governmental Agreement.

(b) Chile

As Nitrate accounted for an overwhelmingly large proportion of the Sterling Area's purchases in Chile, H.M.Government's policy was to make an agreement regarding payments with the Chilean Nitrate Corporation (which controlled the marketing of Chilean nitrate and iodine) before negotiating a further agreement with the Chilean Government to cover proceeds of other purchases by the Sterling Area, of which wool, meat and hemp were the most important. In consequence the Payments Agreement with Chile was preceded by an Agreement (in May 1940) between H.M.Treasury and the Chilean Nitrate Corporation, whereby the latter agreed to accept Sterling for all their sales of nitrate and iodine to the Sterling Area and to use such Sterling in

the

the Area; except that H.M.Treasury agreed to provide the Corporation with dollars for dollar freights and production costs incurred in dollars, subject to certain safeguards. The Agreement was subsequently renewed annually on substantially the same lines, the chief modifications of the original Agreement being -

1. Dollar costs of $5 per ton were allowed on shipments of nitrate over 300,000 tons.
2. Dollar costs were granted for insurance charges and handling expenses incurred on the shipment of nitrate to the U.S.A. for transhipment to the Sterling Area.

The Payments Agreement concluded on the 30th October 1940 between the Bank of England and the Central Bank of Chile, while following the usual lines, provided that payments to Chile for nitrate and iodine sold to the Sterling Area should be subject to special agreement, and that any transfers of sterling by the Nitrate Corporation of Chile to convert such money into pesos or to pay to the Government of Chile any part of its share in the Corporation's profits should pass through the channel of a Chilean Special Account.

(c) Paraguay

A difficult technical problem was presented by Paraguay, which carried on its external trade largely through Buenos Aires, the Paraguayan currency being more or less based on the free market rate of the Argentine peso. Following a series of negotiations in Buenos Aires between the Bank of England and Treasury representatives and the Central Banks of Argentina and Paraguay, a Payments Agreementbetween the Bank of England and the Central Bank of Paraguay and a Tri-partite Agreement between the three Central Banks was concluded at the end of December 1940.

The Agreements provided -

1. For sterling arising out of entrepot trade in goods of Paraguayan origin undertaken by merchants in the Argentine to be credited to Argentine Special Accounts.
2. For transfers between the Special Accounts at the Bank of England of the two Central Banks, subject to the Bank of England's approval in each case.
3. That Paraguay should quote rates for sterling based on their official rates for Argentine pesos and the official sterling

selling

selling rate in Buenos Aires.

(d) Roumania

Two Agreements were concluded with Roumania:-

1. The Anglo-Roumanian Transfer Agreement (Inter-Governmental), which covered payments from the U.K. and contained detailed provisions for the allocation of the receipts, part of which were earmarked to meet fixed charges previously made from the Anglo-Roumanian Clearing, which the Transfer Agreement superseded.
2. The Anglo-Roumanian Sterling Area Agreement, which covered payments from the rest of the Sterling Area.

During the period that the Agreements were in operation the results were unsatisfactory, both because of the reduction of trade and the reluctance of the Roumanians to adhere to the provisions of the Agreement, particularly in the matter of outpayment in Roumania in respect of amounts credited to their accounts, which they would only agree to make out of lei received from persons desiring to make transfers to the Sterling Area. The accounts opened under these Agreements became subject to an Order of the Custodian on the 15th February 1941, and the balances thereon were subsequently transferred to his account.

(e) Spain

On the 18th March 1940 an Inter-Governmental Agreement was concluded providing for the resumption of the Anglo-Spanish Clearing which, originally set up in January 1936, had been suspended since December 1936 as a result of the Spanish Civil War. All debts arising from the import into the U.K. of Spanish goods and freights on Spanish ships were thenceforth payable into the revived Clearing. The Payments Agreement (Inter-Governmental) which was signed on the 2nd September 1940 was therefore complementary to the Clearing Agreement and covered all other payments from the U.K. and all payments from the Sterling Area to Spain.

Although based on the usual pattern the Payments Agreement contained a special provision that the Special Accounts could be used, in addition to payments in the Sterling Area, "for such other payments as may be agreed between the two contracting Governments". This

reflected

reflected the Spaniards' insistence on the vital necessity of their obtaining goods with the proceeds of their current exports; the Civil War had left Spain impoverished and it was regarded by H.M.Government as of the highest political importance to assist Spain to obtain essential requirements, if necessary from sources outside the Sterling Area.

In pursuance of this policy a tri-partite Agreement had been concluded in July 1940 between the Governments of the U.K., Spain and Portugal which permitted Spain to pay for Portuguese goods in sterling up to an amount of £600,000, later increased to £728,000. During the negotiations for the Payments Agreement the Treasury negotiator was endeavouring to arrange various deals to enable the Spaniards to obtain goods outside the Sterling Area, in particular Chilean nitrates and Brazilian cotton; a protocol to the Payments Agreement provided that £300,000 could be transferred from the Special Accounts to pay for Spanish imports of Chilean Nitrates.

The Agreements with Spain did not provide for the conversion of any part of Spain's sterling into gold. But H.M.Government's pre-emptive purchasing policy in Spain led at times to substantial accumulations of sterling in the Clearing and a consequent withholding of export licences by the Spaniards. On one occasion, to relieve the congestion, H.M.Treasury allowed a part of the Clearing balance to be used to purchase gold from the Bank of England.

(f) Turkey

Since 1938 financial relations with Turkey had become increasingly dominated by political considerations. A Clearing with Turkey had been in force since 1936 but, largely owing to the over-valuation of the Turkish pound, arrears of debts due to U.K.exporters had steadily increased. In 1939, in order to obtain a political pact with Turkey, a high-level decision was taken to afford Turkey substantial financial assistance, and in January 1940 Agreements were signed providing for an Armaments Credit, a Gold Loan and a £2,000,000 Loan to liquidate Clearing arrears. In February 1940 a consolidating Clearing Agreement was signed under which trade between Turkey and the U.K.was placed on a compensation basis to avoid accumulation of fresh arrears. But the prospect of heavy purchases from Turkey on

both

both pre-emptive and supply grounds made it necessary in December 1940 to negotiate a comprehensive Payments Agreement. The Turks got very favourable terms, since H.M.G. were obliged to agree in principle that if goods from the Sterling Area were not available to Turkey the latter's favourable balance on Sterling Area trade would be released for purchases in the U.S.A.

The Agreement, which introduced Special Account procedure between the Sterling Area and Turkey, provided for the continuance of the Anglo-Turkish Clearing, into which payment would continue to be made for all private U.K. imports of Turkish goods: all payments to Turkey by the U.K.C.C., which would cover the bulk of Sterling Area imports from Turkey, were, however, to be passed over the Central Bank of Turkey's Special Account at the Bank of England. The Central Bank had the right to obtain gold on demand for 10% of the U.K.C.C. payments, and at four-monthly intervals for balances in excess of £400,000 on their Special Accounts at the Bank of England. In addition, the Central Bank received gold for 50% of their pre-Agreement sterling balances. There was, however, an undertaking that to the extent that their Special Account balances were insufficient to meet payments due for goods imported from the Sterling Area the Central Bank of Turkey would provide the additional funds by the sale to the Bank of England of gold or free foreign exchange to the value of any gold which might have been ceded to them in respect of their surplus sterling during the preceding twelve months.

The Agreement provided for the maintenance, at the current rates, of the existing exchange system in Turkey, whereby the official rate of £T5.20 = £1 was subject to various premiums, the chief of which was a premium of 40% allowed on sterling arising from Turkish exports to the Sterling Area, and from freights, and premiums of 48% and 41% respectively, charged on sterling required to pay for Sterling Area goods and for freights. (See also pp. 23 & 24)

(g) Russia

As ~~the~~ a result of H.M. Government's promise of all possible aid to Russia when she was attacked by Germany on 22nd June 1941, an Agreement for the mutual exchange of goods was signed on 16th August 1941 with the Soviet Government. A further Agreement between the Bank of England and the State Bank of the U.S.S.R. came into force on 3rd

September

September 1941, setting out the technical measures for effecting payments under the Inter-Governmental Agreement.

The main feature of the Inter-Bank Agreement was that payments for Russian civil purchases were made through a (No.1) Account of the Russian State Bank at the Bank of England, which was fed by the proceeds of Russian sales to the U.K.Government. Any deficiency was covered by an advance of 60% by H.M.Government, and 40% by the U.S.S.R.from the sale of gold or dollars to the Bank of England or by the delivery of platinum.

Military supplies to Russia were outside this Agreement, which was mainly designed to finance civilian supplies sent to Russia through the co-ordinating medium of the U.K.Commercial Corporation.

Debits or credits for goods bought or sold, certain insurance premiums and claims, and repayments of indebtedness both as regards capital and interest under the 1936 Export Credit Guarantee Agreement passed through the Account.

Advances made by H.M.Government to the U.S.S.R.were repayable in sterling or U.S.dollars at the option of the U.S.S.R.in five equal yearly instalments beginning at the end of the third year from the date on which the advance was made. Interest at 3% per annum on the amount of advances outstanding was payable half-yearly.

These arrangements worked with smoothness, and by contrast with the Payments Agreements proved to be a useful source of gold: by the opening of 1944 the U.K.had received over £15 million gold from the U.S.S.R.

All payments other than those mentioned were made through ordinary Russian sterling accounts and no restrictions were placed on the disposal of the balances to third countries other than countries coming under the Special or Registered Account arrangements.

(h) Switzerland

In December 1939 the Swiss Government rejected a proposal for a Payments Agreement on the Special Account lines with the answer that, since it would involve granting credit for U.K.arms purchases, it would be incompatible with Swiss neutrality. An alternative proposal by the Swiss Government for the opening of a Swiss Franc Credit, preferably

between

between a syndicate of British and Swiss banks, to finance normal trade was explored but came to nothing, and in June 1940 Registered Account Procedure with Switzerland was introduced unilaterally.

Up to the beginning of 1942 Sterling Area requirements of Swiss francs were met almost entirely by the sale of U.S.dollars to the National Bank of Switzerland. In February 1942, however, the National Bank, which had become increasingly averse from accepting U.S.dollars after the U.S.freezing regulations, refused to provide Swiss francs against U.S.dollars unless they could be transferred to Spain and Portugal, with whom Switzerland had a heavy deficit. As the U.S.Authorities were unwilling appreciably to modify their restrictions in this direction, it was arranged as an interim measure that the Swiss Bank should make Swiss francs available against the earmark with the Bank of Canada of 10,000 kilos of gold, which would be transferable to the account of any non-enemy Central Bank but would be exportable only within the Western hemisphere.

Although this arrangement was intended to be temporary, it was renewed in July and continued in operation until December 1943, when, following the failure of further negotiations to secure a Payments Agreement and an increasingly obstructive attitude by the National Bank of Switzerland, a Monetary Agreement was concluded between the Bank of England and the National Bank whereby the latter agreed to provide Swiss francs without limit of amount against gold in London, with the right to ship it at any time.

The Swiss francs so obtained were to be available for any payments in Switzerland by Sterling Area residents (including Allied Governments) and for Protecting Power requirements of the British and Allied Governments. The National Bank received the right to ship out of their existing stock of gold in London an amount equal to the amount of gold transferred in Ottawa to the National Bank by the Bank of England during 1943.

In connection with this Agreement undertakings were given to the Swiss Government by H.M.Treasury and the Ministry of Economic Warfare that the Swiss gold in Ottawa could be shipped six months after the conclusion of hostilities with Germany, that special restrictions previously placed on Swiss exports to the Sterling Area in view of

exchange

exchange difficulties would be re-examined, and that the existing "enemy content" ruling in respect of Swiss exports would be maintained while the Agreement remained in force. The Agreement was terminable on 31st December 1944, thereafter continuing in force subject to three months' notice by either side.

(i) France

In February 1944 the first major step was taken in the direction of establishing future Payments arrangements with the Western European Allies by the conclusion of a Financial Agreement* between H.M.Government and the French Committee of National Liberation. This Agreement, which in many respects followed the lines of the 1939 Simon-Reynaud Agreement, established unified financial arrangements between the Sterling Area and all the territories under the administration of the F.C.N.L. Hitherto there had been two rates of exchange - one for the ex-Free French territories and the other for North and West Africa and Martinique; the Agreement fixed a single rate of exchange of Fcs 200 = £ Sterling, not to be changed without prior consultation between the contracting parties. It also enabled either party to acquire without limit (and without any gold or foreign exchange counterpart) such quantity of the other's currency as might prove necessary during the lifetime of the Agreement.

The Agreement provided for periodic consultation to ensure smooth working and to maintain, so far as the exigencies of the war might permit, an equilibrium between the amounts of Sterling and Francs held under the Agreement; the contracting parties also agreed so to operate exchange control as to prevent unjustified movements of capital from one area to the other.

The intention was also expressed of endeavouring to arrange where possible that sterling held by the Central Agency and francs held by the Bank of England might, subject to the agreement of the other party concerned, be used for current financial payments in third territories.

By an Annex the rate of exchange for Syrian and Lebanese

pounds

---

*This agreement was abrogated by the Anglo-French Financial Agreement of 27th March 1945.

pounds was fixed at 8.83 to the £ Sterling and 22.65 Francs to one Syrian and Lebanese pound. In the event of an alteration in the Franc/Sterling rate, the rate between Syrian and Lebanese pounds and Sterling would not be altered without prior consultation with the Levant States.

To extend the availability of francs and sterling, the Monetary Authorities of Portugal, Spain and Sweden were approached and agreed to continue to settle with the French territories in Special Account sterling; in the case of the South American Special Account countries it was felt that the existing sterling position would make further payments to them in sterling inadvisable.

The French, however, showed a strong desire to confine payments with Spain and Portugal to a franc-escudo-peseta basis and only to allow sterling to be employed for converting surplus balances in those currencies or in meeting requirements which could not be financed under normal machinery. It was accordingly agreed that the French could transfer sterling to Portugal and Spain up to specified amounts in settlement of any residual deficits with those countries.

Sterling transfers were also allowed administratively in both directions between French Overseas Territories (including Syria and the Lebanon) and the U.S.S.R., China, Iran, Saudi-Arabia, the Yemen, Ethiopia, the occupied Italian territories in Africa, Surinam, Curacao and Central American countries.

The Agreement signed between the United Kingdom and (Provisional) French Government on 27th March 1945 had the following main provisions:-

1. Non-interest bearing credits up to £100 million and Fcs.20 milliards to the French and U.K.Governments, respectively, available until 26th February 1946. Should either of these amounts prove insufficient the two Governments to consult together: sufficient funds should always be ready at both Central Banks.
2. The Bank of England to open two accounts in the name of the French Government designated "A" and "B". The "A" account to receive instalments of the credit. The "B" account to receive various moneys, viz.:-
   - (a) £40 million deemed by the contracting governments to be the excess of sterling in the U.K. owned by French nationals over francs in Continental France owned by U.K. nationals;
   - (b) the balance in the Franco-British Liquidation account;
   - (c) sums due by the U.K. resulting from the use of French merchant ships and the disposal of cargoes by French nationals, and from the expenditure of the British Armed Forces in the Franc Area prior to the Agreement.
3. A balance to be struck (in the currency of the creditor government) on 28th February 1946 by comparing drawings of both governments on their respective "A" accounts.
4. If the French Government were debtor the balance to be discharged in gold up to one third of the total of gross payments (in francs or sterling) made by the Franc Area to the Sterling Area during the year ended 28th February 1946. If the U.K.Government were debtor it had a similar obligation to discharge in gold (but payments already made in to the "B" account were to be excluded). The total (in whichever direction) to be settled in gold

to be

to be agreed between the two Central Banks. The French Government to utilise any credit balance in sterling on its "B" account to pay the remainder of the amount due by them after the payment in gold.

If the residual payments were insufficient (in either direction) to cover the total amount due by either Government the balances not reimbursed to be carried forward on conditions to be agreed between the two Governments. There was provision also for the payment, as soon as funds were available and as agreed between the two Governments, of sums due by the French Government to the U.K.Government in reimbursement of advances to the French National Committee in 1940 and for supplies by the Allied Armed Forces to the French civil population before the present Agreement should come into force.

Finally, in general, both Governments waived further financial claims on one another, either as regards the Anglo-French Financial Agreement of 12th December 1939 or for items arising out of the prosecution of the war.

Later Developments: Sweden, Portugal, Turkey

Sweden

In 1944 it was decided to conclude a Monetary Agreement under which Sweden should accumulate sterling if necessary up to the amount of gold transferred to her during the operation of the (renewed) Payments Agreement of February 1941. Negotiations, initially conducted by the Bank, were opened in London in November. The Swedes, while expressing readiness to associate themselves with measures for rehabilitating sterling as an international currency, showed the strongest reluctance to commit themselves to hold sterling, and proposed instead that kronor credits should be made available. This proposition, and also the Swedish desire for an exchange guarantee, were rejected

whereupon

whereupon the Swedes insisted that the conclusion of a Monetary Agreement must be preceded by an inter-governmental understanding on the question of supplies.

A draft Agreement on this basis was initiated by the Treasury and the Swedish Delegation at the end of November. H.M.G.'s attitude on the question of supplies still did not satisfy the Swedish Government and the new Agreement was not signed until 6th March 1945, though made retrospective to 1st January because the Payments Agreement had not extended beyond the end of 1944.

The Agreement, signed in London on 6th March 1945 (but deemed to have come into force on 1st January) fixed kronor 16.90 = £1 as the "official rate", to be enforced by the contracting parties in all territories where they had jurisdiction, and not to be varied by either except after giving the other "as much notice as may be practicable". The Bank of England (acting as Agent of ~~the~~ H.M. Government) was to sell to the Riksbank at the official rate so much sterling as might be required for payments which residents of Sweden were permitted to make under the Swedish exchange regulations in force; and the Riksbank had similar obligations in kronor.

The Bank of England had the right at any time to sell, against all or part of the Riksbank's sterling held with it, kronor at the official rate, or to set aside gold for the Riksbank in London. The Riksbank had a reciprocal right to sell sterling against the Bank of England kronor held with it. The gold set aside for either Bank was at that Bank's free disposal, and exportable.

The U.K.Government was not to restrict the availability of sterling held by Swedish residents for transfer to other Swedish residents, to Sterling Area residents or to residents outside both Sweden and the Sterling Area, to the extent to which both Governments took such opportunities as offered for these facilities with the consent of other interested parties. The Swedish Government had reciprocal obligations with regard to kronor.

The Riksbank were to purchase their requirements of sterling area? currencies other than sterling, for making payments where those currencies were legal tender, from the Bank of England.

The investment of the funds of either Bank were to be only as

agreed

agreed by the Bank at which the funds were held. There were also provisions for co-operation in applying the Agreement with flexibility and for its review if, during its life, either party should adhere to a general international monetary agreement.

During 1943 and 1944 Special Account sterling became increasingly concentrated in Argentine, Brazil and Portugal, whose balances at the end of November 1944 were respectively £82 million (and a net forward exchange position of £20 million), £35 million and £70 million. The Argentine and Brazilian balances were not convertible into gold and there was scope for the absorption of surplus sterling in the repatriation of external debt and, more particularly in the case of Argentina, for the purchase of British-owned undertakings in those countries.

Portugal

The Portuguese balances, however, represented a direct though deferred gold liability - settlement was to be effected within 5 years of the date of termination of the existing Agreement. During the latter half of 1944 the Bank and the Treasury had this problem under active consideration, as a result of which it was decided to negotiate the replacement of the Payments Agreements by a Monetary Agreement suitable to post-war conditions. This was to be accompanied by the funding of the residual Portuguese balances for progressive utilisation over a period of years on sterling goods and services.

Negotiations, with the object of clearing the way to tie up the sterling accumulated on Portuguese account, were opened in December 1944. The Portuguese were not prepared to waive their right to gold, though ready to agree to a considerable extension of period for its delivery. The existing Agreement was to run until the end of the war; and between August 1945 and the signing of a

new

new agreement, with sterling still accumulating, the Portuguese set a limit of £5 millions to the amount they were prepared to hold; some gold was in fact sold to them during this period.

An Agreement with the Portuguese Monetary Area was eventually signed in London on 16th April 1946, taking a form which became a prototype adopted, with modifications to suit circumstances, in many subsequent bilateral agreements.

Most of its provisions had been, in fact, foreshadowed in the Swedish Agreement: fixation of the "official rate"; protection (and extension where opportunity offered) of the availability of sterling; mutual co-operation towards flexibility of operation. But the Portuguese Agreement went further in laying down limits of £5 million and Escudos 500 million to the amounts which each Central Bank could sell to the other before gold (freely disposable and exportable) was set aside in London or Lisbon.

A Supplementary Agreement, extending the scope of the principal Agreement, was signed in London on 26th February 1947. This provided that the Bank of England, which under the principal Agreement was enabled to sell sterling to the Bank of Portugal, could now request the latter to purchase, for sterling or gold at its option, escudos accumulated with it in the Bank of England's name. And the Bank of Portugal likewise had a similar reciprocal right. After discussion in Lisbon this Supplementary Agreement was abrogated on the 12th December 1947.

Turkey

The Turkish Payments Agreement ran for successive periods of one year from 31st March, subject to three months' notice. In December 1944 H.M.G.gave notice to the Turkish Government of their intention to terminate it. Two main objectives in the negotiations for a new agreement were (a) the elimination of the liability to convert Turkish sterling into gold and (b) either an adjustment of the rate of exchange proportionate to the extreme war-time rise in Turkish prices, or their re-alignment with world prices.

The Trade

The Trade and Payments Agreement with the Turkish Government, signed in London on the 4th May 1945, abrogated the Anglo-Turkish Agreement of the 3rd February 1940. Its main provisions were:-

The Turkish Central Bank -

(a) to publish "at such times as may be necessary" its buying and selling rates for sterling against Turkish pounds (and premium for certain operations); and

(b) to open a "Turkish Account" at the Bank of England; all possible steps to be taken to ensure that all payments between residents of the Sterling Area and residents of Turkey are settled through Turkish Accounts (i.e., any Sterling Account in the name of a resident in Turkey with a Bank in the U.K.).

There were similar provisions to those in the Swedish and Portuguese Agreements for extending the availability of sterling and for the Turkish Central Bank's purchase of other currencies through the Bank of England; and in addition, similar provisions for the investment of funds and for review of the Agreement.

The import of U.K. and Turkish goods into Turkey and the U.K. respectively was to be allowed in accordance with existing legislation, with equitable treatment for Turkish goods in the event of quantitative limitations on U.K. imports. It was also provided that payments by Turkey to the "Commodities Account" under the Guarantee Agreement of 27th May 1938 (and Supplementary Agreements) should continue to be governed by the provisions of that Agreement.

One clause was devoted to an undertaking that the U.K. Government would do their best, having regard to the general export and import situation of the U.K., to satisfy the internal economic and industrial requirements of Turkey and to grant facilities for the import of Turkish goods into the U.K.

Structure of the Payments Arrangements

Legal Basis

1. Regulation 3C (1) of the Defence (Finance) Regulations

2. The Regulation of Payments (Consolidation) Order, 1941 (S.R. & O. 1941 No.1654) paragraph 1 and schedule

3. Regulation 5B (1) of the Defence (Finance) Regulations

4. The Regulation of Payments (Consolidation) Order, paragraph 2

5. The Regulation of Payments (Exports to China) Order, 1941 (S.R. & O. No.1287)

6. Regulation 2A of the Defence (Finance) Regulations

7. Defence (Finance) (Definition of Sterling Area) (No.5) Order 1941 (S.R. & O. 1941 No.1890) made under Regulation 10 of the Defence (Finance) Regulations

Provisions

The Payments Agreements (as distinct from those used for Clearings) provided for -

(a) The currency in which trade might be transacted

(b) The opening of the Special Accounts mentioned above

(c) The type of payments permissible thereto

(d) The uses of the Special Account sterling

(e) The rate of exchange

(f) Sterling Area Accounts

(g) The mutual provision of currencies

(h) The employment of funds with the Bank of England

(i) A guarantee on sterling balances in the event of an alteration in the price of sterling against gold

(j) The provision of gold in place of excess of sterling