

Status of individuals: ~~arrangements for industries and commodities~~

For the proper interpretation of Regulations and Orders a great number of detailed directions, definitions and special arrangements were necessary, some of which were available from the beginning, others only after experience of the effectiveness (or failure) of those already in existence. The Appendix^{legis} with definitions of "residence", and after giving a fairly full account of deliberations on (and consequent modifications in) the status of evacuees, refugees and other individuals, proceeds to deal (in part B) ~~with~~ with the mechanics of trade control and arrangements for certain industries and commodities.

A. STATUS OF INDIVIDUALS

Residence

Residents and Non-Residents

The following persons came within the vires of the Defence (Finance) Regulations:-

Any British subject who was in the United Kingdom or any foreign country (but not a British subject who was elsewhere in the British Empire).

Any alien who was in the United Kingdom.

The Regulations imposed specific obligations as follows:-

Regulation 1 required all such persons to register "restricted" securities of which they were "owners" for the purposes of that Regulation. (Administratively, the Bank of England did not accept registrations from "owners" who were not considered resident in the U.K.).

Regulations 4 and 5 required all persons who had been in the United Kingdom since the 3rd September 1939 to surrender gold and specified foreign currency respectively.

Regulation 5b required exporters from the United Kingdom to obtain payment in a prescribed form for exports to certain territories.

Regulation 5c required persons in or resident in the United Kingdom who had a controlling interest in certain foreign bodies corporate to transfer to the Treasury any assets (including securities, gold or foreign currency) of the body which the Treasury may have desired to purchase.

Of the restrictions imposed by the Regulations the most important were those on:-

the transfer of securities - Regulation 3A;

and the making of payments - Regulation 3C

The basis

The basis of the restrictions in both cases was the residential status of the holder of the securities or the banking account from which payment was being made.

For the purposes of Regulation 3A a holder was presumed to be resident in the country in which he actually was living unless evidence to the contrary was produced. Transfer of securities in which a non-resident had an interest as transferor or transferee required the Control's permission.

Residence for the purposes of Regulation 3C was a more complicated matter.

No attempt was made to define "residence" or "non-residence" until 17th July, 1940, practice being based on principles formulated by the Treasury and founded in part on Income Tax rulings. On that date Regulation 3C(3) was issued providing that any person who had been in the United Kingdom since the beginning of the war should be regarded as "resident" unless the Treasury gave a ruling to the contrary. On the 15th August, 1940, a further Regulation was issued - 3C(4) - empowering the Treasury to specify the residential status of any person whether or not they had been in the United Kingdom since the outbreak of war. Regulation 3C(3A) provided (11th November, 1941) that the personal representatives of a deceased person should have the same residential status for the purpose of dealing with the Estate as the deceased had had, and Regulation 3C(4A) (23rd February, 1942) gave the Treasury powers to determine, inter alia, the residential status of joint accounts or of accounts on which an Attorney was entitled to operate.

There were two types of person to be dealt with in questions affecting residence:-

- (a) Those who were normally resident in the United Kingdom, and
- (b) Those who were normally resident outside the Sterling Area, persons normally resident in other parts of the Sterling Area being subject to the Defence (Finance) Regulations of the country of their residence.

Persons normally resident in the United Kingdom

Broadly speaking, persons in this class who had gone outside the United Kingdom within the twelve months prior to the outbreak of the war were regarded as resident and (unless they were within the Empire) subject to the Defence (Finance) Regulations

even if

even if beyond their jurisdiction. This applied to the considerable number of persons who left this country for North America after the fall of France for reasons of personal safety, as well as to persons in H.M. Forces or who had gone abroad in Government employment. Persons going abroad to take up commercial posts were at first regarded as resident in the country where they were employed, but subsequently it was agreed that they should continue to be treated as residents of the United Kingdom.

There were, however, certain persons in this class, known as "quitters", whom the Treasury, in order to control their assets here, wished to rule as non-residents of the Sterling Area, and powers to do this were included in Regulation 3C(3).

British women who went abroad and married non-residents were given the same residential status as that of their husbands.

Following the outbreak of war in the Far East considerable numbers of persons resident in such parts of the Sterling Area as Malaya and Hong Kong went to North America for temporary residence, but although a greater leniency was observed in allowing them to draw on their sterling funds, the Control continued to regard them as residents of the Sterling Area.

Persons normally resident outside the Sterling Area

It was the practice to regard such persons as resident in the country in which they were permanently residing at the outbreak of war or with which they appeared most closely connected. In deciding this question regard was given to nationality and the individual's movements in the preceding years. As regards Canadian nationals in the United Kingdom or United Kingdom nationals in Canada, close liaison was maintained between the United Kingdom and Canadian Controls, and any doubtful cases of residential status were the subject of agreement between them. (See also under Canada).

Where a non-resident moved from one country to another outside the sterling area for permanent residence, he was in general redesignated as a resident of the latter country only if it suited the Control to assume the liability represented by his sterling assets expressed in the currency of that country, rather than in that of the former. Exceptions were sometimes made in individual cases because of special circumstances.

After the

After the occupation of France and the Low Countries a large number of refugees came to the United Kingdom, augmenting the not inconsiderable number of such persons who had come here previously. These people were regarded as residents of the United Kingdom, and although, if they were only here en route to another country, they were for a time granted a temporary stay in complying with their obligations under the Defence (Finance) Regulations, they were in general required to conform in full. On their moving elsewhere for permanent residence they were redesignated as of their new country, the treatment accorded to their funds varying with the country to which they went, the nature of their activities while here and the extent to which the funds arose from the sale of "specified" currencies to the Control or the vesting of securities.

Non-residents (other than United Kingdom Nationals) living in the occupied territories who had escaped and taken up permanent residence elsewhere were, if they so desired and after their sterling funds had been released by the Trading with the Enemy Department, given the status of residents of their new country, and their funds were released to them or not according to their new country of domicile. Administratively, however, such funds were not released in the earlier stages of the war, relaxation in regard to some countries taking place later. United Kingdom Nationals continued to be regarded as residents of the occupied country unless they came to the Sterling Area, when they were designated residents of that part of the Sterling Area in which they were.

Persons normally resident abroad, but on a temporary visit to the United Kingdom, were regarded administratively as non-residents. Non-residents coming to the United Kingdom to do war work were given special treatment. They were permitted to retain their non-resident accounts, but were also permitted to have resident accounts to which their pay and allowances received in the United Kingdom could be credited, and they were exempt from Regulations 1, 4 and 5. The term "war work" was interpreted liberally to mean any useful occupation which could be presumed to release a United Kingdom citizen for service in H.M. Forces.

American troops and members of ancillary American Services, e.g., American Red Cross, who came to the United Kingdom were regarded as residents of the U.S.A. and treated accordingly.

Non-residents coming to the United Kingdom other than for war work were, unless here on a temporary basis, regarded as resident, although they were often given a partial exemption from their obligations under the Defence (Finance) Regulations.

Certain persons, e.g., American-born wives of British Nationals possessed dual nationality, one being British, the master nationality depending on the country where they happened to be. Such persons were normally regarded as residents of the Sterling Area, wherever they might be, so long as their husbands were regarded as resident. If, however, they were widowed or divorced and as such returned for permanent residence to the country of their alternative nationality, they were given the status of a resident of that country.

In dealing with companies, the same general rules were applied as in dealing with persons. The place of registration, the country of residence of the shareholders and the place where the business and control of the company were situated were considered in determining residence, the last named being the most important factor.

Ex-Residents

Residents who left the U.K. normally retained their rights and obligations under the Defence (Finance) Regulations. The exceptions were refugees and transmigrants and that class of British nationals who were considered to have left the U.K. to avoid their wartime obligations (or to engage in unpatriotic activities). Those so evading their duties were known as "quitters". They lost their rights but remained subject, at least in theory, to their obligations. The accounts of refugees and "quitters" were blocked; but even the accounts of normal and otherwise blameless ex-residents needed watching to prevent compensation transactions.

Regulation 3C, passed on 17th July 1940, was introduced to permit the blocking of sterling accounts, and Section 2B of this Regulation, which came into force on 11th November 1941, strengthened the hands of the Control. No payments were to be made to a resident
of the

of the Sterling ^{Area.} consideration for the receipt of a payment or acquisition of property outside the Sterling Area.

Lists were furnished by the banks of persons who, although outside the Sterling Area, still maintained Resident Accounts - about 600 in number.* The accounts of all persons found to be refugees and transmigrants (other than British subjects) who had left the country were then redesignated as non-resident and blocked. Information concerning British subjects who might be "quitters" was submitted to the Treasury for their decision, and if they were so adjudged their accounts, too, were blocked.

Persons who left the country after November 1941 were not classified by recourse to the banks, but by the Passport Office and the Home Office, who informed the Bank when an exit permit was given and advised the date of actual departure. The Bank then blocked the account.

The Regulation as amended was fairly effective in stopping further leakages in the category of compensation arrangements. But in the latter part of 1943 many of these blocked accounts benefited by the change of policy under which the Control began to rid itself of a part of its deferred liabilities.

On 16th December, 1941 the Exchange Control Committee had agreed that British subjects emigrating (with H.M.G.'s permission) outside the Sterling Area should be required to live on their own earnings. Prior to that decision it had been the practice of the Control to regard such persons (including British women who went abroad to be married) as non-resident from the time they left the country.

On 20th January 1942 the Committee were asked to consider
the residential

*It was found that the Banks had designated many accounts wrongly.

the residential status of such women (who, it was pointed out, would acquire the nationality of their husbands) in the light of their recent agreement. The Committee decided as follows:-

1. Their accounts would be treated as non-resident.
2. They would be allowed to transfer their sterling to their new domicile to a limit of £1,000, subject to 5. below.
3. Their sterling balances remaining after such transfer would be blocked. Investment in approved securities and the remittance of interest arising therefrom would be allowed.
4. Any registered securities would be deregistered.
5. The concession referred to in 2. should be reduced or cancelled altogether, according to the market value of the securities deregistered.

Accounts would be carefully scrutinised to ensure that the concessions were not being used as a means of evasion.

Foreign Nationals in U.K.: Exemptions granted

This was a political matter, dealt with mainly by the Foreign Office and the Treasury.

The Defence (Finance) Regulations, which applied to all persons considered residents of the United Kingdom, did not, in their form as at 3rd September 1939, provide that the Treasury could grant exemption from the need to register securities under Regulation 1, although powers to grant dispensation under Regulations 4 and 5 (covering surrender of gold and specified currencies) had been taken.

Shortly after the outbreak of war various foreign embassies requested that their staffs should, in view of their extra-territorial rights, be granted exemption from the need to comply with Regulations 1, 4 and 5. This request was granted in respect of foreign diplomats and accredited agents in this country, and on 15th September the U.S. Embassy were advised that U.S. subjects would be granted exemption from Regulations 1 and 5 (but not from Regulation 4 (Gold)) provided they did not also possess British Nationality and had not been resident in the United Kingdom for more than seven years. Powers to grant full exemption from Regulation 1 were given to the Treasury in S.R. & O. No. 1251 of the 21st September 1939: this Regulation was later - on the 23rd November - revoked and embodied in Regulation 5A.

The Treasury

The Treasury had advised the Bank of England that it was their intention to extend to nationals of other countries the concessions granted to U.S.subjects: it was, however, proposed that such exemptions should be granted only to nationals of countries whose Governments were prepared to grant reciprocal concessions to British subjects resident in their territories, and thereafter decisions were always based on the treatment accorded to British subjects in the country concerned.

In October 1939 foreign nationals who had been given exemption from Regulation 1 (at that time nationals of U.S.A., France, Italy, Belgium, the Netherlands, Sweden and Switzerland) were permitted to sell their foreign "restricted" securities abroad for investment in other securities (whether restricted or not) and to retain the foreign currency income from such investments.

Later in the same month foreigners became entitled to exemption by virtue of their nationality irrespective of the length of their residence in the U.K.

As the war progressed and various countries became "enemy" territory for the purposes of the Trading With the Enemy Act, the exemptions granted to their nationals were withdrawn. Dutch nationals were made an exception, and from January 1941 were permitted to retain securities denominated in Dutch, N.E.I. and N.W.I. guilders and balances of N.E.I. and N.W.I. guilders.

In March 1940, after refusal by the Swedish Government to allow the passage of Allied troops through their territory, the exemption granted to Swedish nationals was modified to cover only Swedish securities and currency (but Swedes who had already received full exemption were allowed to retain that privilege).

Applications by Chileans and Colombians for exemption were refused because British subjects living in their countries were not granted reciprocal concessions, and applications by Chinese nationals because the U.K. were providing China with sterling and felt that Chinese nationals resident here should assist by surrendering foreign currencies.

The following table summarises the exemptions granted:-

(a) Full

(a) Full exemption from Regulations 1 and 5

To nationals of -

Argentina	Panama
Bolivia	Peru
Brazil	Portugal
Costa Rica	San Salvador
Cuba	Spain
Dominican Republic	Switzerland
Guatemala	Turkey
Honduras	Uruguay
Lichtenstein	U.S.A.
Mexico	Venezuela

(b) Full exemption from Regulation 1 only

To nationals of -

Iran

(c) Limited exemption from Regulations 1 and 5

To nationals of -

Holland - for securities in Dutch, N.E.I. ^{the} and N.W.I. guilders and balances of last two currencies.

Sweden - for securities and balances in Swedish kronor only.

The exclusion of certain foreign nationals - apart from refugee nationals of enemy or enemy-occupied countries (see "Refugees") and Chileans, Colombians and Chinese - from the above list arose from the absence of any applications on their behalf for exemption.

H.M. Forces

(Ref.F.E.234.62)

The general Control policy of distinguishing between residents and non-residents was observed in the treatment of members of H.M. Forces. The tests for residence or non-residence were applied in respect of the domicile of the individual before joining H.M. Forces. Members of the Indian Army were in all cases regarded as subject to the Indian Regulations.

The Forces serving overseas at the outbreak of war were mostly stationed in the sterling area, and their reinforcement within that area raised no currency problems except that of the export of sterling notes. Troops going to any country abroad were, in accordance with normal procedure, permitted to take with them sterling notes not exceeding £10 in value. They were not permitted to take notes ashore at their ports of call or disembarkation; the notes had to be exchanged for local currency through the Army authorities.

In order

In order to cover long sea voyages, personnel of troop ships going "east of Suez" were allowed in August 1940 to take £25 each in sterling notes, but in view of the issue of advances of pay this privilege was withdrawn shortly afterwards by Army Council Instruction.

So far as drawings by "resident" members of H.M. Forces were concerned, the following principle was stated in a Notice to Banks and Bankers (8.1.40):

"Sterling bills, cheques, etc. drawn by members of H.M. Forces serving abroad may be credited to a foreign account without completion of Form E.1 and without question."

The Bank were prepared to approve world-wide Letters of Credit up to £100 for members of the Forces going abroad (a facility authorised by the Exchange Control Committee and made known to the banks through the Bankers Sub-Committee; not by an F.E. Notice).

Up to the middle of 1940 the only considerable theatre of operations outside the Sterling Area was France, and as relations between the British and French monetary authorities were close few difficulties were experienced. Francs were made available in limited quantities for gifts to members of the Forces serving in France and currency was even provided to enable their wives to visit them.

After the collapse of France the development of the Empire Training Scheme, with Canada as its primary training ground, and the growing co-operation of the U.S.A. resulted in these two countries receiving members of H.M. Forces in numbers far greater than had been anticipated. It was, moreover, realised that the presence in North America of Service personnel with free use of sterling funds was giving opportunities for compensation arrangements for the benefit of civilian evacuees, by that time arriving in North America in increasing numbers. Although the drawing facilities given to Forces' personnel serving overseas had always been intended for their personal use the banks had so far been under no obligation to impose this restriction.

Accordingly, in May 1941 F.E.141 was issued requiring bankers to enforce the restriction in question, and withdrawing the privilege of unrestricted drawings so far as members of the Forces serving in North America were concerned: such persons were thenceforward required to live on their pay and allowances, whether made

available

available locally (in the case of prolonged service in North America) or in this country (where Service members were in North America for shorter visits or on tours, etc.). All withdrawals from their personal accounts in excess of the limit imposed were made subject to application on an Exchange Control Form in the usual manner, and were approved only when the full support of the Government Department concerned was forthcoming. The effect of F.E.141 was, of course, to limit the issue of Letters of Credit for Service personnel to countries other than N.America: with this limitation Letters of Credit were still approved where facilities for cashing cheques were required - but the amount was no longer restricted to £100.

During 1941 the Treasury codified with the Service Ministries the transfer abroad of allowances etc. The decisions taken may be summarised briefly as follows:-

Members of H.M. Forces who were regarded as residents of the Sterling Area and whose families were living outside the Sterling Area fell, broadly speaking, within the following categories:-

- (a) Those whose families were permanently resident outside the Sterling Area on 3rd September 1939 and had not changed their country of residence since that date.
- (b) Those whose families had accompanied them abroad on the understanding that maintenance would be permitted and who had remained abroad even though the husband had returned to the Sterling Area. (This understanding would only have been possible up to the date when members of the Services were warned that the mere fact that their dependents happened to be outside the Sterling Area would not necessarily entitle them to allowances - e.g. Army personnel were given this warning on 24th July 1940).
- (c) Those who, when stationed abroad, married "non-residents".

In the above cases the maximum remittances permitted were:-

- (i) Full allowances plus voluntary allotments within the limit normally permitted in the Service in question, or
- (ii) Where no system of voluntary allotments applied, family lodging or consolidated allowance plus 50% of pay.

(d) Those

(d) Those whose families had been evacuated to Canada in the knowledge that Service allowances would not be permitted in cases where either the Serviceman or his wife were Canadian - originally £100 per annum for the wife and £50 for each child; these allowances were subsequently increased to £240 and £120, respectively.

The method of remittances in the above-mentioned categories was as follows:-

Royal Navy - Through Service channels or through banks in the U.K., provided that in the latter case the Naval authorities had given their approval.

Army
Officers - Through U.K. banks.
Other Ranks - Through Service channels.

R.A.F. - Normally through Service channels for all ranks.

(e) Where in the knowledge of the warning mentioned in (b) above the Serviceman's family were either evacuated abroad or accompanied him on his duties.

In cases of this nature the normal treatment for civilians evacuated abroad was applied; i.e., the transfers were effected under the C.O.R.B. scheme or an arrangement allied thereto. Remittances were normally permitted only in cases where children were concerned, in which case transfers of £120 per annum were allowed for each child and £240 per annum for the mother or other adult person in whose care they had gone.

As soldiers serving abroad whose children had been evacuated under the C.O.R.B. scheme were not normally in a position to approach the Board for maintenance remittances, arrangements were made for the War Office to authorise banks to effect remittances under indemnity.

When Iran, and subsequently North Africa and the Azores, became spheres of operations there was no change in the working of F.E.141, and Service personnel in these countries were allowed to draw on their sterling funds subject to the limitations imposed by that Notice. Applications were sometimes received for the despatch of gifts or money to Forces serving outside the Sterling Area; and such

such requests, provided they were reasonable and concerned remittances to countries other than Canada or the U.S.A., were normally allowed in view of the fact that in case of refusal it would be simple for a person in this country to credit the resident account of the Serviceman in question, who could thereafter make withdrawals under F.E.141.

The treatment originally accorded to non-residents who came to the U.K. for the sole purpose of joining H.M. Forces was crystallised in a decision given by the Exchange Control Committee on 22nd December 1940. This laid down that such persons should retain their non-resident status, but could open resident accounts if they so wished for the receipt of their pay and allowances; such accounts could be utilised to effect maintenance remittances to families and dependents overseas. It was found, however, that this facility did not accord with the arrangements made by the War Office, who at that time were permitting maintenance remittances through official channels only where the terms of enlistment stipulated such a privilege. This situation placed British non-residents who, from patriotic motives, had come here to join H.M. Forces at a disadvantage vis-à-vis "resident" Service personnel.

An additional point which necessitated correction was the fact that a number of non-residents serving in H.M. Forces were using their resident accounts as a medium for compensation in collaboration with persons living here who wished to make funds available to evacuated dependents.

The issue of F.E.142 on 17th May 1941 regularised the position regarding non-residents who came to the U.K. to join H.M. Forces by laying down that:

1. Any existing sterling accounts were to continue to be regarded as those of residents of the country where the holder had his permanent residence, payments to and from such accounts remaining subject to the same restrictions and formalities as hitherto.
2. Applicants in this category were exempted from registering restricted securities under Regulation 1 and from the surrender of gold and specified foreign currencies under Regulations 4 and 5, if the assets were held at the time of entry into the U.K. or

U.K. or acquired subsequently in a manner not contrary to the Regulations.

3. Applications to sell sterling securities had to be referred to the Bank.
4. Salary, pay and allowances received in the U.K. could be remitted to dependents abroad under the following conditions: Commissioned Officers of the Armed Forces could only have their salary, etc., credited to a "resident" account or paid in cash; bachelors were normally allowed to remit 25% of such income and married men 50%. If the remittances were to countries where Registered or Special Account arrangements were in force transfers had to be made through such channels. As regards other ranks, any Service allowances payable to persons abroad could be issued through the usual Service channels, but while such ranks might open "resident" accounts no remittances abroad were allowed therefrom.

Representations by the Canadian Government on behalf of their nationals serving either in the Canadian or H.M. Forces led to an amendment to F.E.142 (dated 3rd July 1942) which allowed officers so serving to effect remittances from their "resident" accounts up to the full amount of their pay and allowances.

Prisoners of War

The residential status of members of H.M. Forces who became prisoners of war was unaffected. Until the Spring of 1940 the number of prisoners on either side was negligible, but by the close of the French campaign in 1940 many thousands of British Servicemen were in German hands. There were at that time only some 2,000 German prisoners here and the situation placed the British Government at a great disadvantage in attempting to negotiate through the Protecting Power any agreement regarding remittances to or by our men. The German Government insisted that remittances from the U.K. should be made in free devisen through the medium of the Deutsche Bank, to be converted into marks at the free mark rate. It was estimated that this would benefit the enemy directly to the extent of

some

some £750,000 per annum, while British prisoners would receive the benefit of only some 50% of this sum. Although the Italians were more reasonable, in view of the difficulties put up by the German Government no concrete arrangement was made. Subsequently the position was radically altered, and a reciprocal agreement was made early in 1944 whereby a prisoner of war could effect payments in his own country by the debit of any balance of pay held in his favour by the Protecting Power.

Under the Prisoners of War Convention ()
Prisoners of War were entitled to retain any foreign currency assets they possessed on their persons at the time of capture.

If they possessed any sterling balances with bankers in the United Kingdom or sterling securities deposited here, such assets would undoubtedly have been paid to or held by the banker concerned to the order of the Custodian of Enemy Property with the result that the Prisoner of War would not have access to those assets without the consent of the T.W.E. Department, which would probably not be given.

(By International Convention) Prisoners of War in any part of the British Empire (including Canada) were allowed to receive remittances from their home country through the Protecting Power.

At the conclusion of hostilities some Prisoners of War in the United Kingdom (particularly in Scotland) were, on ceasing to be Prisoners of War, employed on the land through local War Agricultural Committees. Such persons were, with T.W.E. consent, allowed to remit a certain proportion of their sterling earnings to their dependents in Germany through the medium of the German Section of the Foreign Office. (For limits, etc. see subject files.)

There was also a special set-up for Italian Prisoners of War engaged on agricultural work.

INTERNEES

The term "internee" had no special significance in its application to Exchange Control practice. (Internees must not in any case be confused with Prisoners of War - see separate note.)

A person who was interned in the United Kingdom was subject in all respects to the provisions of the Defence (Finance) Regulations like any other resident of the United Kingdom. He was therefore required to comply in all respects with those Regulations, namely, to sell to the Treasury against sterling his holdings of gold and specified foreign currencies and to register with the Bank of England his restricted securities. He was at liberty to apply to the Exchange Control, like any other resident of the United Kingdom, for the grant of foreign exchange to discharge his commitments abroad, e.g., the annual premia on a Life Assurance policy in his own name taken out pre-war with a Swiss or American Assurance Company.

No impediment was placed on his dealing with his sterling assets in the United Kingdom.

He was not regarded as an enemy under the T.W.E. Act.

Some internees were subsequently sent to Canada (or Australia), probably for greater security reasons. No remittances were at first allowed from the United Kingdom to the Dominion; for their benefit but later it was decided to allow a small amount ~~to be sent~~ ~~to cover~~ to cover bare necessities such as shaving tackle, tooth-brushes, etc.

The status of such internees gave rise to some discussion in 1940. It was then held that treatment accorded to them should not be less generous than that provided by the terms of the Prisoner of War Convention (which did not itself cover them, of course). Under this Convention Prisoners of War were entitled to retain any assets in foreign currencies which they possessed when captured. From 5th August 1940 Internees were under the jurisdiction of the Home Office, whose wishes, however, in regard to giving internees not less generous treatment than Prisoners of War could not override the Defence (Finance) Regulations. Under these Regulations evacuated
internees

internees either had surrendered their gold and foreign exchange or were bound to do so. It was only when such an internee was eventually released by the Home Office and the Government of the country where he was domiciled that any question of providing him with his own currency would arise.

At the end of June 1941 it appeared that some internees were being released in the Dominions on the condition that they went elsewhere, e.g., to South America. If they could not be given some dollars they could not leave Canada or Australia, and would remain interned, as they either could not, or would not wish to, be brought back to the U.K. The Treasury wondered whether some dollars should not be provided ^{for them,} but were inclined to think not, and the Bank also thought that dollars should not be released. Later, however, cases were considered from time to time by the Hardship Committee and in some cases small amounts of exchange were made available.

The Home Office appears to have been more sympathetic to internees than the Treasury, and certainly more so than the Bank (who disliked their being regarded as a separate class); but the T.W.E. Department were ~~also~~ inclined to suggest that no funds whatever should be transferred even to internees in the Sterling Area (Australia) Internees overseas, for example, were only in exceptional circumstances allowed to sell Sterling Securities.

In one respect, however, internees in Canada and Australia were better off than other evacuated residents: remittances in foreign exchange from Germany (or elsewhere) were available to them, through the protecting power, provided the War Office agreed; and the Military Authorities appear to have raised no objection, for if they had it might have reacted unfavourably on British Prisoners of War and internees in enemy hands.

If after internment either in the United Kingdom or Canada an internee, not being a British subject, was released and took up permanent residence outside the Sterling Area then he was at liberty to apply for the treatment accorded to foreign nationals under F.E.205.

Refugees

Refugees

"Refugees" may be divided into two classes:-

- (1) Nationals of enemy or enemy-occupied territory who, for racial, religious or political reasons, fled from their country of normal domicile and had been in the United Kingdom during some period after 3rd September 1939. (British nationals coming to the United Kingdom from enemy or enemy-occupied territory were never regarded for Defence (Finance) Regulations purposes as "refugees" - but as residents of the United Kingdom).
- (2) Persons who removed since 3rd September 1939 from territory declared enemy for the purposes of the Trading with the Enemy Act to a non-enemy country outside the Sterling Area without having in the meantime established residence in the Sterling Area. (This category included both British subjects and foreigners).

Treatment of these two classes necessarily differed.

Those in the first class, having been in the United Kingdom, had been subject to the Regulations and regarded as "residents". Those in the second class were never fully subject to the Regulations as "residents", and our only concern was whether or to what extent their sterling should be available to them in their country of refuge.

For purposes of administration only persons in the first class were referred to as "refugees", whilst those in the second, after they had been cleared by the Trading with the Enemy Department, were for convenience referred to either as -

- (a) ex-enemies - if they left enemy territory after it was so declared for the purposes of the T.W.E. Act, or
- (b) "pseudo ex-enemies"* - if they left enemy territory before it was so declared.

1. Foreign

*The term "pseudo ex-enemy" was not officially defined but was applied to a person who was treated under the Defence (Finance) Regulations as resident in a country which was, or was treated as, enemy territory but who, because he removed from that country before it was declared enemy territory, to a non-enemy country, was not, and had not at any time been, an enemy for purposes of the Trading with the Enemy Act.

1. Foreign Refugees who were in the United Kingdom after the 3rd September 1939

Sterling accounts of foreign nationals, including refugees, resident in this country had always been regarded as resident. In the early days, when a foreigner left this country for a destination outside the Sterling Area banks tended, without reference to the Bank of England, to treat his account immediately as that of a non-resident. This opened a channel for a leakage of reserves, since there was nothing to prevent a resident of the U.K. from exporting his funds by the simple expedient of crediting the account of the foreigner just before the latter emigrated, i.e. while his account was still regarded as resident. The Bank of England accordingly drafted the first F.E. Notice (F.E.46, dated 7th March 1940), which related to the sterling accounts of all foreign nationals. This Notice laid down that no change from resident to non-resident status should take place until the account-holder had been away from the United Kingdom for six consecutive months, and then only if ^{the} amount transferable did not exceed the balance on the account on 3rd September 1939. Cases not so covered had to be referred to the Bank of England, with full particulars of the origin and nature of the additional credits. F.E.46 also stipulated that in all cases a declaration must be obtained from the account-holder that no part of the balance was held on behalf of or in trust for a third party. To meet the account-holder's requirements during the period of six months after leaving the United Kingdom banks could approve maintenance transfers, provided they were reasonable and in accordance with the standard of life of the applicant.

The treatment of gold holdings and "specified" currency assets while the holder was here depended on whether he:-

- (i) was a bona fide transmigrant (i.e. was taking effective steps to emigrate from the United Kingdom), or
- (ii) had established his roots in this country (e.g. had upon entry proposed to remain here or had been allowed to take a job in the United Kingdom).

Bona fide transmigrants were not called on to surrender their gold and specified currencies, but in order that these assets should

should not be dissipated the Bank insisted on their being placed under the control of United Kingdom banks; those not entitled to be regarded as transmigrants had to surrender. In all cases, however, restricted foreign currency securities had to be registered with the Bank of England.

When transmigrant refugees left the United Kingdom their blocked foreign currency balances and gold were released and their restricted currency securities de-registered. But if currencies had been surrendered the Bank did not restore the equivalent when the refugee left, and he was only allowed to take sterling. Bona fide transmigrants thus got more favourable treatment than the others who originally intended to stay here; but in most cases, of course, the latter only changed their minds when the invasion danger became imminent.

After the issue of F.E.46 it was found that certain foreign Consulates (chiefly of South American countries) were increasing the amounts of landing deposits; fees charged for entry into foreign countries were also raised. If the blocked currency balances and unvested foreign currency securities were insufficient to cover landing deposits, etc. the Control generally permitted irrevocable credits to be established by the refugees against their sterling balances. This made the six months' delay stipulated by F.E.46 largely inoperative. The Bank at first considered limiting the maximum amount a person could take out, but nothing was done until the whole situation was changed by the issue in August 1940 of F.E.83.

The introduction of Regulation 3A, on the 12th May 1940, which restricted the transfer of securities between residents and non-residents, raised the question of the sale of sterling securities by refugees. Since the refugee whilst here was regarded as "resident", he could sell his sterling securities, and upon emigration the sterling proceeds were under F.E.46 at his free disposal after six months. Where, however, he retained such securities and took them abroad, he was debarred from selling them at a later date in the United Kingdom. Consequently the tendency was for all refugees whilst in the United Kingdom to dispose of their sterling securities here, and thus

eventually

eventually create free sterling (mostly in New York) after emigration. This position led to the issue of F.E.73, on the 11th July 1940, which indicated that unless exceptional circumstances existed sales of securities by refugees of Belgian, French, Dutch or Norwegian nationality were to be "discouraged": in cases of urgency a decision would be given by the Bank of England after reference to the Trading with the Enemy Department. The applicant had to state his intentions as regards residence for the ensuing six months, furnish evidence as to where the securities had been held since 2nd September 1939 (or state the date of acquisition if prior to that date) and give the name of the person from whom, and the country in which, they were purchased.

When Holland, Belgium and France were overrun in 1940 special arrangements were made for refugees from these countries to encash, within defined limits, their holdings of franc and guilder notes in order to provide for their maintenance in the United Kingdom. The Bank at first authorised the cashing of Belgian and Dutch notes to the extent of £20 per head per week, but there was soon evidence that some Refugees were encashing much larger sums of foreign currency by peddling from bank to bank. On 22nd May, therefore, the rate was reduced to £10 a week and the amount changed was marked on their landing cards.

French refugees now began to arrive. As these, according to a Treasury letter, were "of a much higher social standing" than the Belgians they were originally allowed to change their franc notes to the extent of £20 a week; but this ^{too} was soon reduced to £10. For a few weeks a form of means test was also introduced in June for French and Belgian applicants, by the use of Registration Certificates. Various other arrangements were ~~made~~ made for different classes of refugees.

The stock of franc notes acquired by the Control was found useful later for repatriated refugees and for secret service purposes, etc.

F.E.83, issued on 3rd August 1940, cancelled the March Notice (F.E.46) and gave a definition of the term "refugee" which practically excluded all classes but that of transmigrants:-

"any

"any foreigner whose country is enemy territory within the meaning of the Trading with the Enemy Act and who since his arrival in this country has not received a Home Office Permit to take up an occupation".

It laid down uniform treatment for refugees thus defined. They were to be regarded as "resident" from the date of their arrival in the United Kingdom, and accordingly subject in all respects to the Defence (Finance) Regulations. The Treasury, however, would not ordinarily exercise their option to acquire specified currencies and gold until six months after the refugees' landing in the United Kingdom, provided that the total holdings were at once blocked and written authority given by the account-holders to their banks to sell their holdings to the Treasury. Should a refugee leave the country within six months of his arrival he was allowed to take with him his gold, foreign currency, foreign restricted securities, and also the sterling proceeds of any securities which had been vested. If after six months he left the United Kingdom to take up permanent residence outside the Sterling Area, transfer of the sterling equivalent of any surrendered gold, specified currencies or restricted securities was allowed from his own available sterling funds to his new country of domicile*; any restricted securities which had been registered but not vested were de-registered and released. After these concessions had been made any remaining sterling balance continued to be regarded as "resident" and not available for transfer outside the Sterling Area.

This new procedure enabled banks to advise refugee customers, in advance, of the treatment which would be accorded to their assets upon their departure from the United Kingdom, and thus avoided all argument about landing deposits and fees.

In March 1941 it was necessary to call the banks' attention (F.E.130) to the fact that income on sterling securities and from other assets in the Sterling Area owned at the time of a refugee's departure from this country (or subsequently acquired with funds from his Resident Account) could be credited only to his Resident Account.

It may be mentioned here that before the war the bulk (some 70,000) of the refugees in this country came from Austria and Germany.

Practically

*Thus, if he went to the U.S.A. the transfer would be to "Registered Sterling."

Practically all of them had been admitted on condition ^{that} they would emigrate in due course; but a considerable number were allowed to take employment here in order, for example, to bridge the period until their departure or to fit them for their new life in their country of destination. The war restricted the possibilities of emigration and consequently the Home Office no longer held refugees to their undertaking to leave the country. On a strict interpretation of F.E.83, refugees who obtained employment here lost the benefits regarding the release or re-sale of their foreign currency assets; but in view of the changed circumstances this decision was found to be too drastic in practice. The Exchange Control Committee accordingly decided that if a refugee was pressed by a Ministry to work here his case would be re-considered on emigration; and in January 1941 the Bank undertook to give re-consideration whenever cases were recommended by the Ministry of Labour and National Service. (Czech refugees were exceptionally given a "blanket" permit to work here without their refugee status being affected thereby).

Thus, F.E.83 introduced a radical change of policy regarding the use of refugees' sterling funds (apart, of course, from the sterling acquired by the surrender of foreign currency assets, etc.). This change was due to the growing need to conserve our foreign currency holdings. Most refugees wished to make their homes in the U.S.A.; and as the U.S.dollar was still the most urgently needed currency for war purposes, it was necessary to allow the refugees to take abroad only such foreign currency as they had sold to H.M.Treasury or ^{were} permitted to retain. In the former case dollars could be demanded [^] if the refugee was taking up permanent residence in the U.S.A.

But it was found that the practice of keeping refugees' sterling balances on Resident Accounts after the account-holders had left the United Kingdom led to a leakage of exchange through compensation arrangements. To combat this, Regulation 3C(2B), introduced on 11th November 1941, gave power to block the accounts of any person who had been in the United Kingdom at any time since the outbreak of war and was now regarded as a non-resident. The effect of

this

this Regulation as applied to refugees was set out in F.E.168, issued on 13th November 1941. The Resident Accounts of refugees who had left the United Kingdom were blocked under the Regulation, and the same treatment was accorded to what had been hitherto regarded administratively as the non-transferable sterling of any refugee who left after the date of the Notice. Such blocked balances were made available for investment in certain Government securities and in addition could be used to defray certain of the owner's commitments in the Sterling Area.

The opportunity was also taken in F.E.168 to revise the practice governing the foreign currency assets and gold of refugees.* All such persons were required, without delay, to offer for sale to the Treasury their specified currencies and gold and to register their restricted securities with the Bank of England.

Upon the departure of refugees from the United Kingdom for permanent residence outside the Sterling Area their assets were dealt with as follows:-

- (1) In respect of nationals of enemy-occupied countries who were in the United Kingdom on 3rd September 1939 and were not precluded by the terms of their Home Office Permits from taking up an occupation in the United Kingdom, and those who had arrived since that date for the purpose of carrying on business or taking up an occupation in the United Kingdom; and Enemy nationals with a Home Office Permit to take up an occupation in the United Kingdom:-

Such restricted securities as had not been vested were released. The proceeds of any specified currencies and gold sold to H.M.Treasury and of vested securities remained on blocked account.

- (2) As regards other nationals of enemy-occupied countries and other enemy nationals, including those who, while not having Home Office Permits to take up an occupation, had been allowed to engage in work without losing their transmigrant status:- Where specified currencies or gold had been sold to the Treasury or U.S. or Canadian securities vested, the transfer

of

*Under the terms of F.E.168 a definition of "Refugee" was no longer given or required.

of the equivalent amount of sterling was allowed in the manner appropriate to the country of destination. In all cases the sterling used to effect such transfer was to belong to the applicant himself, and evidence to that effect was required.

Restricted securities which had been registered but not vested were released.

(In Canada, in order to meet the Canadian Authorities' wish to restrict the increase in Canadian holdings of sterling, U.S.dollars were transferred to a branch in Canada of a Canadian bank, for account of the refugee, in respect of all gold, specified currency balances or securities - except Canadian dollar balances and securities - surrendered to H.M.Treasury. For Canadian dollar balances or securities Canadian dollars were transferred.)

Any sterling balance remaining after a refugee had received the above-mentioned concessions was blocked under Regulation 3C(2B).

On arrival in his country of destination the refugee was eligible for re-classification as a resident of that country. On application to the Bank of England to that effect, apart from the fact that his sterling balances were blocked he thereafter received the same treatment as was normally accorded to a non-resident. Income on his sterling investments was transferable to him.

F.E.168 continued in force until 22nd October 1943, when it was cancelled by F.E.205. By this time our foreign currency position having materially improved a number of relaxations in exchange control administration had already been introduced. It was considered that the time had come to get rid of a major portion of these blocked balances by allowing their transfer abroad.*

Accordingly, in F.E.205 banks were invited to apply for the release, inter alia, of refugees' 3C(2B) blocked balances in their books, and also for the sale of any securities purchased from such balances. Moreover, they were advised that in the case of refugees leaving the United Kingdom after the date of the Notice, the Bank of England would be prepared to consider the release of all or part of their sterling balances in excess of that arising from the "right" of transmigrants to recover the proceeds of currency and gold surrendered

and

*See also under Blocked Sterling (Appendix.....).

and vested restricted securities*. An exception was made in the case of refugees who had taken or might take up residence in Canada, Newfoundland, Switzerland or the Argentine: the block on refugees' sterling funds was maintained in these cases because the authorities in those countries were unwilling to accept free transfer of the further amounts of sterling involved.

In practice, the policy after the issue of F.E.205 was briefly as follows:-

- (1) Refugees who were redesignated before 22nd October 1943 as residents of any non-enemy country outside the Sterling Area other than Canada, Newfoundland, Switzerland or the Argentine:
 - (a) Applications for the release of accounts blocked under 3C(2B) or for the sale of securities purchased from such blocked funds were granted up to an amount of £5,000 for any one account-holder, irrespective of whether the funds arose originally from capital or income.
 - (b) Transfer of a sum larger than £5,000 was permitted if, after allowing for any transfers already approved -
 - (i) the balance to be transferred did not exceed the balance on the account at the 3rd September 1939 (or on the date, if later, when the account was last designated "resident") or
 - (ii) the balance to be transferred did exceed the balance on the 3rd September 1939 (or on the date, if later, when the account was last designated "resident"), provided that the excess was covered by items regarded as transferable to non-resident account (e.g. income, legacies, the proceeds of the redemption of sterling securities, etc.).

(2) Refugees leaving the United Kingdom after 22nd October 1943:-

- (a) So far as concerns "transmigrants" the machinery designed in F.E.168 for the effective transfer abroad of the proceeds of specified currency assets and gold, etc. surrendered to H.M. Treasury and/or for the release of any unvested foreign currency securities still applied, irrespective of whether the refugee removed to one of the

*Which now included Argentine peso securities.

the four countries mentioned or to any other non-enemy country outside the Sterling Area.

(b) Any refugees, other than those who removed to Canada, Newfoundland, Switzerland or the Argentine, were allowed to transfer the balances on their sterling accounts, except that if the balance exceeded that on the 3rd September 1939 (or on the date, if later, when the account was last designated "resident") the excess balance was blocked under Regulation 3C(2B) to the extent that it was not covered by credits to the account regarded as transferable.

By this Notice the bulk of the balances of refugees who passed through the United Kingdom were cleared, and the only funds of such refugees (other than those in the four countries mentioned) which would ultimately remain in this country were, broadly speaking, funds which would not in any case be allowed to be transferred to "free" non-resident account.

2. Ex- and Pseudo Ex-Enemies

As stated in the opening paragraphs the persons who came within the above designation (both British subjects and foreigners) were those who, since the 3rd September 1939, had removed from territory declared either then or subsequently to be "enemy" territory for the purposes of the T.W.E.Act to non-enemy territory outside the Sterling Area, without having passed through it.

Such persons first became a major problem when the enemy overran the Continent of Europe in 1940. In the early stages, control over their funds in the United Kingdom was exercised only under the T.W.E.Act; it was not until considerably later that powers were taken under the Defence (Finance) Regulations to immobilise such funds.

On 11th July 1940 the T.W.E.Department issued Notice T/E Gen.492 Part II, which authorised banks here to release amounts on the following basis to persons whose "last address of residence was in enemy territory and who have escaped to neutral territory":-

1. British subjects

1. British subjects

Sufficient to cover, for the time being, maintenance in their present country of domicile and to enable them to proceed to British territory. (The view had consistently been held that "escapers" of British nationality other than Canadians or Newfoundlanders should be shepherded to the Sterling Area).

2. Foreigners

£10 per head per month (with a maximum of £25 for a family for a period of six months from the date of their arrival in neutral territory.

As banks in the United Kingdom were not required until 18th July 1940 to refer to the Bank of England before altering the status of an account in their books, a number of persons who left Europe early in 1940 for non-enemy territory outside the Sterling Area had at once been redesignated in accordance with their new country of domicile, and thus avoided the restrictions which were later extended to persons who left Europe subsequently. With this in mind, an amendment to T/E Gen.492 was issued by the T.W.E. Department on 31st October 1940, calling the banks' attention to the fact that all funds held by them for persons who were residents of enemy territory or for firms and companies carrying on business there became "monies which were not only in blocked accounts but monies which were, prima facie, held for the Custodian of Enemy Property pursuant to the statutory duty to pay or make a return within 14 days of the balances and other property so held on the operative date" (i.e., the date when the territory of former residents was declared "enemy"). This Notice made it clear that any out-payments were subject to the prior approval of the T.W.E. Department, and that banks could not effect transfers abroad merely on the grounds of the non-resident status for Defence (Finance) Regulations purposes of the account-holder. The opportunity was also taken to review the scale of transfers as follows:-

1. British subjects

1. British subjects

- (a) A sum normally sufficient to cover the cost of travel to the Sterling Area, together with
- (b) an allowance at the rate of £20 per head per month (with an overriding maximum of £50 per month for a family) for three months. After the lapse of such time a certificate was required from a British Consul to the effect that, for reasons outside the control of the customer, removal to the Sterling Area was impossible.

2. Foreigners

Drawings up to £100 pending departure to the Sterling Area or to the Americas: if it appeared to the bank that the individual proposed to take up permanent residence in his existing country of domicile, further reference was to be made to the Department before payment.

The Notice indicated that when the refugee had obtained a certificate from a British Consul in the Americas to the effect that he held an Immigration Visa for a particular country, his sterling accounts would, as a general rule, be redesignated. This indication was given because the Department envisaged that sooner or later they would have to release individuals if "in law" such persons established permanent residence outside enemy territory: but the statement was out of place in a T.W.E.D. Notice since decisions on residential status should have been given under the Defence (Finance) Regulations: accordingly a Notice to Banks was issued through the Bankers' Sub-Committee on 25th February 1941 stating that:-

- (i) Release from the provisions of the T.W.E. Act would only be granted in the case of -
- (a) Non-British subjects or firms, where satisfactory evidence of permanent resettlement outside enemy territory had been produced.
- (b) British subjects, where the account-holder had reached some place within the Sterling Area.
- (ii) No new residential status should be accorded to released accounts without the prior consent of the Exchange Control.

On the

On the 15th August 1941 powers were taken to block under the Defence (Finance) Regulations accounts released under the T.W.E. Act. Prior to this date cases arose where the T.W.E. Department were compelled to release accounts of certain foreigners (i.e. where (i)(a) in the preceding paragraph applied), and the Bank of England had to re-classify them as those of residents of the account-holder's new country of domicile, and to allow transfer of the balance there. The power to block the accounts of ex-enemies under the Defence (Finance) Regulations was given under 3C(2A), and a Notice to Banks (F.E.164) was issued shortly afterwards to the effect that -

- (i) Sterling accounts blocked under Regulation 3C(2A) would not normally be unblocked unless the account-holder -
 - (a) if an alien, established permanent residence in the Sterling Area or his country of nationality,
 - (b) if a British subject (other than Canadian or Newfoundlander), established permanent residence in the Sterling Area.
- (ii) Pending redesignation, banks were authorised to approve maintenance remittances to the account-holder's country of domicile at the time at the rate of £15 per head per month, with a maximum of £50 a month for a family. Transfers to British subjects were to be made only for the period covered by a certificate from a British Consul or High Commissioner stating that removal to the Sterling Area was impossible.
- (iii) Aliens who had not established permanent residence in their own country or the Sterling Area were permitted to opt for redesignation in accordance with their new permanent residence, in which case the maintenance transfers would cease and the balance on the account at the date of redesignation would remain blocked under Regulation 3C(2A) and be available for investment in the type of sterling securities which constituted an approved investment for funds blocked under Regulation 3E. In all other respects the alien would receive the treatment accorded to persons resident in the country in which he had elected to establish residence.

(The Control

(The Control were prepared to regard Canadians and Newfoundlanders establishing residence in their own country as resident there; but the Canadian Foreign Exchange Control Board, at their own request, were consulted on each case).

The foreign currency assets and gold of ex-enemies were released, subject to the following exception, where the specified currency, if not requisitioned by the account-holder's local Control, was to be accounted for under the U.K. Regulation, viz.: British subjects (other than Far Eastern evacuees in Canada) who had, since the outbreak of war, been treated as residents in a part of the Sterling Area now occupied by the enemy and had subsequently not been redesignated.

It should, however, be noted that U.S. dollar balances, gold and securities held by a U.K. resident on behalf of ex-enemies which were not to be accounted for under the Defence (Finance) Regulations remained nevertheless subject to the U.S. Freezing procedure where this applied.

The sterling accounts of companies and firms blocked under Regulations 3C(2A) were normally released only if the business had been re-established in the Sterling Area or in a non-enemy territory belonging to the country in which the company or firm was formerly domiciled: if the business were re-established elsewhere outside enemy territory, the Control were normally prepared to redesignate, but the sterling balances remained blocked.

The introduction, on 23rd February 1942, of a further addition to Regulation 3C gave the Bank powers to block accounts of persons who had left territory before it was declared enemy. Such account-holders who, for want of a better term, were referred to as "pseudo ex-enemies" were thereafter given the same treatment as ex-enemies.

Administratively, certain increases in allowances, when these appeared expedient, were introduced for special categories of "escapers": e.g. British subjects who had escaped from occupied Europe to Switzerland were allowed transfers from their sterling accounts at the rate of £50 a month in view of the high cost of living

* e.g. British subjects escaped from Hong Kong.

in

in Switzerland; and British evacuees from the Far East in North America, who were allowed remittances of £25 a month for the first member of the family group and £15 a month for each other member, subject to the condition that if they had liquid "specified" currency assets available for their use in their new country of domicile they were required first to live on such assets.

It was not until October 1943 that any alteration was made in the treatment given to ex- or pseudo ex-enemies. By that time, as already stated, the Bank were in a position to consider the immediate release of certain blocked sterling balances. Accordingly, on 22nd October 1943, F.E.204 was issued which, inter alia,

- (1) reaffirmed that the block on sterling accounts of British subjects (other than Canadians or Newfoundlanders) would not be removed until the account-holders had re-established themselves in the Sterling Area;
- (2) advised banks that they could apply for the release of the sterling funds of foreigners who had established permanent residence in a non-enemy country outside the Sterling Area other than Canada, Newfoundland, Switzerland or the Argentine; and also, that where sterling securities had been purchased from funds blocked under Regulation 3C(2A) before 22nd October 1943, application could be made for their sale and the transfer abroad of the proceeds.

Where permanent residence had been established in a country other than Canada, Newfoundland, Switzerland or the Argentine, the Bank now began to release on application:

- (1) balances (other than third-party funds) blocked under Regulation 3C(2A) prior to 22nd October 1943;
- (2) the sale proceeds of sterling securities purchased from accounts so blocked;
- (3) such part of balances blocked on or after 22nd October 1943 as would be available on normal tests (e.g. income) for transfer to the account-holder in his new country of residence.

Such

Such other funds as were not available for transfer abroad, the sterling balances of aliens who had elected to be redesignated as residents in Canada, Newfoundland, Switzerland or the Argentine (the difficult" countries) and of British subjects (other than Canadians or Newfoundlanders) who had not established residence in the Sterling Area remained blocked under Regulation 3C(2A). Any such funds (other than third-party funds) could be invested in approved sterling securities or used for the payment of bona fide obligations of the account-holder in the Sterling Area (other than for exports from the Area).

Those who did not choose redesignation continued to receive maintenance remittances.

Applications of residents of the U.K. to make remittances to Refugees of non-British nationality in neutral countries

The Control's policy was at first based on the principle that refugees of non-British nationality in neutral countries were a local problem and not their responsibility. Later, H.M.G. decided, on grounds of general policy, that some claim on this country's foreign exchange resources should be admitted for refugee relief. To put this changed attitude into effect it was considered that two things were desirable: that the Bank should not be the final arbiters of need and bona fides - which they could not easily assess - and that where possible refugees should be looked after by the local representatives of their own Government.

Arrangements were therefore made by degrees for the representatives of the various exiled Allied Governments in the U.K. to look after their own refugee nationals on the spot, a regular grant of exchange being made out of U.K. reserves for this purpose, where necessary: the Control then directed persons who applied to them for remittances to e.g. the Belgian Finance Ministry or the Dutch Red Cross in London who, after local investigation, arranged any remittances which they decided to allow.

Applications for remittances to refugees of French, Czech, Polish, Dutch or Belgian nationality in Switzerland were referred to the appropriate Department of the Allied Government in London. Those

Governments

Governments who had exchange resources provided themselves with the necessary currency, and H.M.Treasury made a monthly allocation of Swiss francs to those who had no such resources.

No distinction was made between persons who were in camps and those who were not. Nor was there any question of payments from abroad being necessary to avoid deportation, as the Swiss authorities did not deport even those who entered the country illegally, but merely put them in refugee camps. Where payments were allowed they were usually restricted to cases where the relationship between the parties was close i.e. that of parent, spouse or child.

The principles applying to Switzerland applied equally to other neutral and Allied territories outside the Sterling Area. In the first place the Control drew a distinction between neutral countries in Europe and other countries outside the Sterling Area. The reason for this was that many refugees escaped to European countries by devious means, whereas if they reached say, Venezuela, Argentine or the U.S.A., some guarantee for their maintenance would have been necessary before an entry permit was granted to them. The arrangements made with the Allied Governments for them to look after their own refugees were not so comprehensive in other European countries as in Switzerland.

The following summarized information is supplementary:-

Imports of Foreign Notes into the United Kingdom in 1940/41

The following Notices were issued to Authorised Dealers in connection with the action taken to deal with the import of foreign notes following the invasion of Norway, Holland and Belgium and the collapse of France in 1940:-

- 1940 May 22 The banks were authorised to encash Belga and Guilder notes for refugees from Belgium and Holland, including British nationals, at a rate of £10 per head per week.
- Jun. 12 Refugees from Belgium were required to declare their holdings of Belgian francs within fifteen days. Encashment at the rate of £10 per head per week was to continue but, on and after the 27th June, only after production of the registration certificate
provided

1940 (Contd.)

Jun.12 (Contd.) provided at the time of declaration.

H.M.Forces from Belgium were required to go to their own Paymasters.

Jun.22

Refugees from France were required to declare their holdings of French francs. Encashment at a rate of £20 per head per week was to be permitted. This was reduced to £10 on 18.7.1940, the last date for registration.

Members of H.M.Forces were to go to their Paymasters.

Jun.27

Arrangements had been made for Polish Forces to sell their French franc notes under certain conditions to certain banks. French franc notes for members of the French Forces might be cashed at main Post Offices.

The facilities set out in the previous Notices were to be granted whether refugees had other means or not.

1941 Jan.30

Refugees holding Guilder notes had to register their holdings with a Netherlands Consulate during the period 24th January to 7th February. From the 7th February onwards only stamped notes would be exchanged by the Netherlands Treasury.

Additional light on the position is given by an aide memoire prepared in the Dealing and Accounts Office at the time.

The following is a summary:-

Civilian Refugees:

(a) Notes held by British Government Departments and diplomats:

the Bank would buy without limit. Allied diplomats, however, ^{were} limited as to amount.

(b) Foreign official missions, diplomats, etc.were dealt with by their own Authorities.

(c) Civilian refugees (including British) applied to the banks who would purchase in limited amounts.

(d) Fishermen. British went to the banks; others to their own authorities

(e) Seamen (British and French) applied to British Paymasters; others to their own Authorities.

British Armed Forces:

- (a) French. French notes to Post Offices; other notes to British Paymasters.
- (b) Belgian. British Paymasters or their own Authorities.
- (c) Dutch. Dutch notes to British Paymasters; other notes to their own authorities.
- (d) Norwegian. French and Norwegian notes to British Paymasters; other notes to their own Authorities.
- (e) Czech. Their own Authorities.
- (f) Polish. French francs to the banks, under special arrangements; other currencies to their own authorities.

Statistics fail to give a full account of notes purchased from refugees during the period. The following,* though incomplete, may at least claim to derive exclusively from the inflow of refugees. They do not include (because figures are lacking) encashments by foreign governments for their own refugees. Notes brought in by members of the British Forces (not properly regarded as refugees) and cashed by their Paymasters, are also (rightly) excluded, as part of the total surrenders of notes by Government Departments.

The figures are totals paid in by banks (including also a small amount of francs from the Post Office). Their concentration in the five months May-September 1940 and the proportions of francs, belgas and florins are of some interest.

		(000's omitted)
	<u>10 May-30 Sep. 1940</u>	<u>1 Oct. 1940-31 Dec. 1941</u>
Francs	131,204	23,547
Belgas	8,672	2,080
Florins	836	274

*Dealing and Accounts Office.

Evacuees in the non-Sterling Area

There were three classes of persons who may be grouped together under this heading: adults and accompanied children (or unaccompanied children) evacuated from the U.K., U.K.residents who had been visiting N.America and were there at the outbreak of war*, and persons evacuated from the Far East.

Until about 25th June 1940, a few days after the introduction of the Government's scheme for evacuating children, both adults not engaged in war work and accompanied children could, on obtaining an exit permit, leave this country for the U.S.A. or Canada without having to sign a declaration that they would be fully maintained in those countries. After that date such a declaration had to be signed, and soon the exit of all adults between the ages of 16 and 60 was stopped altogether (except for mothers accompanying children under 16). Before the fall of France** became imminent evacuation had been negligible, but it then became heavy for a short time until terminated. During this rush enough people left to create problems later on, whether they signed declarations or not. Some would have signed any declaration without troubling about the engagements they were assuming. Others left under a misapprehension, or with misinformation as to the Exchange Control's requirements. A few bought return tickets with the intention of selling the return half on arrival.

Persons who were in N.America when the war began, like those who left the U.K. for N.America after 3rd September 1939, were not normally allowed to transfer any sterling. But like the evacuees they were allowed funds to bring them home or transfer them elsewhere in the sterling area. Many remained and took war jobs in the U.S.A.

and

*"Evacuee": any person outside the sterling area who is regarded as a resident of the U.K. and who is not abroad for business reasons and who is not a "quitter" falls to be considered in this class irrespective of whether he went abroad before or after the outbreak of war. (R.G.O.16.7.1942)

** Armistice with Germany signed 21st June 1940.

and Canada. When in difficulties their treatment by the Control was not very different from that of evacuees in similar circumstances.

After the fall of France the possibility of invasion in Britain naturally made parents anxious about their children, and a section of the Government itself encouraged their evacuation to safer parts of the British Empire. It was, however, made clear by the Parliamentary Under-Secretary (Mr. Geoffrey Shakespeare) who had sponsored the Scheme that the responsibility for sending or keeping children lay entirely with the parents. This he insisted upon both in a broadcast on 23rd June and in the House of Commons on 2nd July.

There was much difference of opinion in the country (reflected to some extent inside the Bank of England) as to whether the evacuation of children was right and wise. It was not easy even some years after the event to be quite sure whether the policy was or was not justified, taking all the circumstances into account, including the danger of invasion at the time; still more difficult must it have been in the Summer of 1940.

Those who were allowed to go, apart from the assisted Government scheme which was instituted, benefited to the extent that they were able, in many cases, to leave earlier than those who were State-aided. On the other hand the arrangements which they made to be supported outside the sterling area were necessarily in the long run precarious, and they were for a long time not permitted to transfer any sterling. There was no guarantee that their hosts would continue to implement their assurance of full maintenance indefinitely, and no way of enforcing such undertakings.

It does not appear that the Bank had sufficient opportunity given them to express any full opinions on the Government Scheme or its implications. It was, however, the Bank and the Treasury who had to deal eventually with hardship cases, and this led to the Bank's urging measures for modifying the friction and resentment caused in Canada, the U.S.A. and this country.*

The

*See also "Financial Relations with U.S.A.".

The first country with which official arrangements for evacuating children were made was Canada, and a telephone message from the Treasury on 31st May 1940 seems to have been the first intimation that the Bank received. The idea then was that 5,000 children should be sent unaccompanied to Canada.

Mr. Shakespeare* represented the British Government in this matter, and on 1st June the Treasury had agreed with him that the children sent to Canada should be between eleven and sixteen years old. A central authority was set up in Canada which would pay transportation from the time of arrival in Canada.*

On 18th June the Treasury was still resisting the making of private arrangements. They pointed out that the genuineness of the offers of maintenance was extremely difficult to establish. They thought that no adults should be allowed to go unless exceptionally; and that all children should come under the Government Scheme, which would ensure that the age limits would be the same for both rich and poor. Commenting on this, the Bank (Mr. Cobbold) expressed approval provided the Government Scheme were comprehensive and immediate; otherwise he doubted whether it was wise to interfere in any way with private support offered from the other side. The attempt to bring private evacuation under control failed.

The establishment of a Children's Overseas Reception Board was announced on 20th June. The Dominions were now said to be ready to take 20,000 children at least, and most of the speakers in the debate urged that far greater numbers should eventually be sent. The Scheme did not rule out private arrangements, but was set up to provide under C.O.R.B. for "a fair cross-section of the population" (as desired by the Canadians). The aim was to send grant-aided and non-grant-aided school children in the proportion that the schools
bore

*The "Children's Overseas Reception Board". (of which Mr. R. Shakespeare was in charge) ✓

bore to each other in this country; actually the proportion of grant-aided children was much greater than this.* No mothers were allowed to accompany their children under the C.O.R.B. Scheme, unless they had lost their husbands in the current war. In fact, none went.

Parents of children in grant-aided schools were asked to pay 6s. a week, the same contribution that they would be making for children evacuated in the U.K. But this payment was subject to a means test. All other parents paid voluntarily amounts up to £1 a week as from the date when C.O.R.B. permits were introduced (1st January 1942). C.O.R.B. paid a flat rate of 6s. to the Canadian and other Dominion Governments but not to the American Government. Passage both ways was provided free for the grant-aided, and the home passage for the remainder, and some clothing could be supplied if necessary. Evacuees of whatever age could take £10 each in sterling notes with them, and all evacuees to Canada were to stay at least six months there. The C.O.R.B. was immediately inundated with applications. In all, 2,664 children were sent under the Scheme to Canada, of whom 2,606 were "working class" and paid an average of 5s.6d. a week, the remaining 58 paying on the average 12s. The Bank did not deal with any of these.

An American Committee for the evacuation of children was also set up, and announced on 1st August that they would be sending 1,000 children to the U.S.A. during the month, one escort being provided for each 15 children. This Committee was entirely separate from the C.O.R.B. and H.M. Government had no responsibility for it. The two organisations, however, kept in close touch. The Control was asked and agreed to provide £15 in sterling notes for each escort.

The children themselves could take up to £10 in sterling,
of

*Mr. Shakespeare told the House of Commons on 2nd July that in the first week there had been 40,000 applications from grant-aided schools in England and Wales and 12,000 applications from parents of children in other schools: he proposed that 75% of the children evacuated from England and Wales should be from grant-aided schools. In Scotland, however, the proportion would be 98%: total applications from Scotland in the first week were 14,750.

of which up to £6 was provided later in the form of a dollar draft (to avoid losses and theft during the journey). Children between five (or in some cases three or four) and sixteen years of age were accepted. Parents had to pay the children's passage (£24, 3rd class only) and could arrange to pay by instalments through the United Dominions Trust Limited. Fewer children went to the U.S.A. than to Canada, but the selection of sponsors was more carefully done under the American scheme.

The American Committee was originally set up to relieve the American Embassy in London. It was a voluntary body, helped by voluntary contributions (mostly from Americans) and was given special facilities by the Passport Office and Ministry of War Transport. A New York Committee chose the sponsors with the assistance of child welfare agencies. The American Committee also helped private evacuees, and sponsored a few mothers of children under five.

In Canada the C.O.R.B. children were primarily the responsibility of the Provincial Governments, who worked through Children's Aid Societies. These found sponsors, carried out inspections and were available to give advice on problems. Questions of policy were referred to the Dominion Government, which also paid any heavy medical expenses. C.O.R.B. had a fund for the purpose, built up out of parents' contributions, but the Canadians never drew upon it.

The Treasury were still saying that if there should be more applicants than the Canadians could finance, rich children should not be allowed to go at all. They could go to other parts of the sterling area, and the only special concessions should be for Canadians. Eventually, a Canadian-born father was allowed to remit (or retain) £100 per annum for a wife and £50 per annum for each child. Canadian-born wives of British nationals shared in this arrangement.

Schools in Canada

Mr. Shakespeare said in the House of Commons that the reason for sending certain schools as such was only because the Canadian Government had pressed strongly that they should be sent. It was indicated that arrangements had already been made and that the schools had some kind of connection with the schools which had offered

offered to receive them.

Eight schools* were evacuated to Canada and a few school parties also went out independently. Schools going en bloc were allowed to finance themselves in Canada against payment of fees in blocked sterling in London. Some schools, however, went out in the expectation that they would be supported by the schools they were joining up with, and found there were no funds for their maintenance or that blocked sterling would not be acceptable. In other cases blocked sterling was at first accepted by the Canadian schools who later, however, were unable to continue providing dollars. Private charity had to be organised to deal with this unfortunate situation. The independent school parties were not allowed blocked sterling accounts, but with one exception appear to have experienced no special difficulties.

Because of a shortage of escort ships the arrangements for evacuating schools were suspended on 16th July 1940.

The distressing position of the evacuated schools continued for some time, but at the beginning of December the Exchange Control Committee agreed that announcements by Ministers before the evacuation of schools en bloc was prohibited constituted a commitment on the Control, and decided that sterling balances arising from payments by U.K. parents might be allowed to stand in the name of non-resident Canadian trustees, so that the philanthropic providers of dollars in Canada might receive some recognition of the debts owing to them, assurance of ultimate transfer, and identification of the sterling.

A scheme for setting up a Trust Fund in sterling, with Canadian trustees, to send English boys to private schools in Canada was, however, turned down (26.5.41).

In May 1942 relief came with the decision of the U.K. Government to allow transfer of \$600 per annum for each original pupil, and in some cases this was made retrospective to the Autumn of 1940.

Some British evacuees must have had Canadian funds which they should have surrendered to the Control. As early as 22nd July 1940

*Abinger, Byron House, Roedean, St.Hilda's Priory, Sherborne, Benenden, Penbury Grove and Miss Tovey's P.N.E.U.School. The first five named were either invited or encouraged by Major Ney of the National Council of Education of Canada, who does not appear to have given thought to the question of finance.

1940 the Bank of Canada complained that they were having about fifteen cases a day of private evacuees wanting to use their dollar funds; ⁷⁷³ and at the end of August they called attention to trust funds and holding companies in Canada whose income or assets British residents were endeavouring to use.

Later it was reported that Canadian companies which were either subsidiaries of English companies or companies in which English shareholders had a major beneficial interest were making payments to wives and children of English directors or shareholders. The Canadian Control said that they could not stop this, but where instances came to their notice they were pointing out that the transactions might be an infringement of British Regulations.

In mid-September Sir Otto Niemeyer, from Ottawa, suggested that evacuees who reached Canada before, say, 31st August and had departed "previous to the tightening up of the Regulations" should be allowed a bare subsistence, each case being judged on its merits by the Canadian Foreign Exchange Control Board. The Bank (18.9.40) felt unable to agree.

While no misleading statements appear to have been made by Government spokesmen in the House of Commons or elsewhere, the exchange difficulty does not seem to have been stressed or even always mentioned. Parents and others applying to send funds to evacuees frequently expressed the view that sooner or later it would be possible to reimburse the sponsors; and it was also very evident that not a few sponsors shared this opinion.

Some cases of anticipated failure to provide promised maintenance occurred quite early, and as the war went on some hosts in N.America naturally found their financial position deteriorating through heavy taxation, or from other causes. Friction arose also between hosts and guests for personal reasons, and evacuees sometimes had to leave the homes originally provided and go elsewhere, find jobs, or enter into all kinds of compensation arrangements, only some of which came to light or could be stopped.

It was hardly to be expected that the mothers who accompanied evacuated children should understand very clearly why their money in England was no use abroad. Many never succeeded in grasping the points at issue; nor could some Canadian and American sponsors understand

understand the enforced dollar poverty of persons known to be "richer" than their hosts. Such a situation was bound to lead to trouble, and did so, misunderstanding being in general worse in the U.S.A.

In the first two years or so of the war it was not always possible for adult evacuees to obtain work in either the U.S.A. or Canada, other than some ordinary domestic employment. In consequence, the evacuees were absolutely dependent on their hosts, even for pocket money, and the cost of personal requirements: which caused not a little criticism on this side. At the same time there was some resentment on the other side through hosts having to keep their adult evacuee guests in idleness.

Later, the position changed and anyone able to work had no difficulty in obtaining it, a factor always taken into account when any question of remittances to evacuees arose.

On 23rd September the "City of Benares", on its way to Canada, was sunk by enemy action with great loss of life. This led to the suspension of the C.O.R.B. and American Schemes of evacuation on 8th October 1940.

In 1940 (apparently the first concession) permission was given to send to evacuees, through the C.O.R.B., Christmas parcels up to £5 in value, and from February 1941 parcels of clothes, books and toys up to £10 in value per annum.

By April 1941, when Canada was more prepared to hold sterling, the Exchange Control Conference discussed suggestions made by the Bank "solely on national grounds" for a more generous treatment of evacuees. The Canadian Control, who had been very embarrassed by the problem, had pressed the Bank several times to do something or to give the Canadians discretion in the matter. The Treasury, however, did not believe that the number of hardship cases was great and were unwilling to give further assistance.*

Accordingly

*Exchange Control Conference Minutes 21st May 1941

"Lord Catto said he had learnt of the decision, taken after consultation with the Dominions Office, not to relax the prohibition on remittances to evacuees in Canada. He wished to record his emphatic disagreement with that decision, which he felt to be greatly against the public interest."

Accordingly, at the end of May the Bank advised the Bank of Canada that all that could be done was that hardship cases should be dealt with on a more favourable basis than hitherto. It had already been decided that dollars would be granted in cases where medical treatment was required, and now transfers "on a reasonable basis" were to be made for persons of advanced age. Hardship was, however, measured by an absolute standard, not by reference to previous experience or expectations.

A small Committee of three, representing the Treasury and the Bank, was set up which met fortnightly and dealt with many cases of hardship on each occasion.

Surgical and medical expenses over £5 and up to £100 were usually allowed, against production of bills, and in January 1943 the £5 limit was dropped. Passage money to the sterling area and maintenance while awaiting shipment was always conceded. Later, maintenance was permitted (generally for three months) while alternative arrangements were being made, shipping often not being available. The C.O.R.B. gave help in finding homes through their Ottawa representative and the Children's Aid Societies. The Imperial Order of the Daughters of the Empire occasionally assisted financially - mostly unaccompanied adults. Later, educational needs were also sympathetically considered by the Hardship Committee, especially when sponsorship arrangements had broken down.

In July the Bank of Canada was still complaining of the friction and misunderstanding caused by a situation which they thought was out of all proportion to the amount of dollars being saved, and in August there was much correspondence in "The Times" and other papers on the subject. There also seemed considerable doubt whether all evacuees knew that they could be assisted to the sterling area.

On 14th August Mr. Cobbold wrote to Sir Horace Wilson:

"Evacuees to U.S.A. and Canada"

I mentioned at last week's Exchange Control Conference that further consideration would, in our view, have to be given shortly to the position of refugee children and mothers in U.S.A. and Canada. I should now like to put forward the following suggestions, which you may find it convenient to consider with a
view

view to discussion at the next meeting of the Conference.

We are convinced that the present position cannot and should not be maintained and that the friction and argument to which it gives rise will outweigh the saving of dollars, especially now that our immediate exchange prospects are somewhat less black. The difficulty is to find a solution which will not cause more trouble than it allays.

As you will remember, we were from the first opposed to allowing any evacuation of children and mothers except under the Government scheme, as we anticipated that the "currency declaration" which had to be signed would in many cases prove worthless. They were, however, allowed by H.M.G. to go, and we have evidence that in many cases, as was to be expected, the arrangements for their maintenance have broken down or are strained to breaking point.

The present position is that in many cases people are clandestinely breaking the law, whilst in others evacuees are being supported by "carrying round the hat" in America; all the time the feeling of disgruntlement is on the increase.

We have considered and discarded three possible solutions -

- (a) To set up tribunals in U.S.A. and Canada to consider applications for transfer of dollars on merits. We reject this on the practical grounds that the tribunals would be subject to every sort of pressure, would find great difficulty in getting at the facts, and would inevitably give rulings which would be widely regarded as invidious.
- (b) To allow per capita remittances to all U.K. evacuees in U.S.A. and Canada. This would mean giving favourable treatment to quitters and other whom we have no desire to help.
- (c) To require mothers and children to move to the Sterling Area and draw attention to our willingness to allow remittance for their passage. This we reject because, short

short of compulsion which is surely impracticable, we do not believe they would go, and the sore would remain unhealed.

We conclude that the right solution is to allow remittance up to a fixed flat-rate maximum for each child and to fix that maximum at a figure which in addition to the children's own maintenance would contribute indirectly towards the maintenance of mothers or other grown-up companions, on the assumption that one grown-up ought not to be looking after less than two or three children. The alternative of fixing a slightly lower maximum for children and allowing a separate remittance for mothers or other grown-ups in charge of children might work out more fairly in some cases, but it would be much more open to abuse owing to the difficulty of checking up that adult applicants are really in America for the purpose of looking after children and it would open the door to pressure in favour of remittances to adults in general. The allowance can only be on a bare maintenance basis and is bound often to be considered wholly inadequate: but it would refute the charge, which must we think be refuted, that we leave children and their mothers whom we have allowed to go to America stranded and dependent on casual charity for their bread and butter.

Arrangements should be made for all children who wish to benefit under the concession to be registered with the appropriate British authorities in U.S.A. and Canada. These authorities should provide us with a list of the "approved" children, showing the source and the beneficiary of the payments. We suggest that the concession might apply to anyone under 18: those between 14 and 18 may be presumed not to need a grown-up to look after them but this would be counterbalanced by their own heavier expenses. As to the maximum figure, we have in mind £15-£20 per head per month, according to whether two or three children are thought to be a reasonable "minimum" per grown-up, but we have no very fixed ideas.

We should not propose to do any more for adults unconnected with children than we do now, i.e. allow remittances on a scale to people who are there on H.M.G. or approved business and nothing in other cases, subject to the administrative exceptions which are already made by ourselves in cases of hardship.

If a concession for children on the above lines is approved, it should be definite and final. Apart from Ministerial approval, the scheme would evidently have to be agreed with the U.S. and Canadian authorities as well as with the Children's Overseas Reception Board who might or might not wish the concession to apply in whole or in part to children evacuated under the Government scheme.

The only alternative we see to a concession on these lines is a decision by the War Cabinet, after consideration of the various political issues involved, that no change is to be made and a definite and reasoned statement to this effect in the House of Commons."

The Treasury preferred a grant of £10 a month for adults in charge of children and £5 for each child. The opinions of the British Ambassador in Washington, the High Commissioner in Canada, the Foreign Office and the C.O.R.B. were then sought and the usual divergence of views appeared. The High Commissioner strongly approved of concessions being made, and thought that they should be extended to C.O.R.B. evacuees and to the schools.

The British Ambassador in Washington said the difficulties concerned British mothers and were temperamental as well as financial. He favoured shipping the adult evacuees back to the U.K. in a vessel specially selected for the purpose - though it was doubtful how many would go. This course had been advocated by the C.O.R.B. representative in New York, who was adverse to the concession scheme". He claimed that many evacuees had gone to the U.S.A. against the wishes of their hosts or with the collusion of sponsors, it being understood that the evacuees would be left to shift for themselves after arrival. Concessions would be no good to those who had not the sterling funds for remittances, while some sponsors, finding money provided, might
seize

~~*By the Spring of 1943 he had changed his mind.~~

seize the opportunity to withdraw from their engagements.

(Incidentally he remarked that 50% of the more troublesome women were Jewesses.) It was also apparently claimed by the English Speaking Union's Committee for Overseas Children that the number of women working as domestics had been much exaggerated.

The Foreign Office thought the concession in the U.S.A. should be for mothers only, although if children were given an allowance in Canada this might make difficulties with the U.S.A. where such help was not needed. But political considerations would require the same treatment for U.S.A. and Canada. In any case, were not the amounts proposed too high?

The C.O.R.B. in London, basing their argument on remittances to children in the sterling area, thought that £2 or £3 per child should be sufficient and as much as parents could afford. On the other hand, the Bank advocated £10 for each child, and strongly disapproved of a Means Test which the Treasury wished to apply to adults through the Overseas League in the U.S.A. and the Imperial Order of Daughters of the Empire in Canada.

The Treasury now decided to proceed with their original proposal, except that the monthly allowance per child was reduced to sums up to £3, and that the Means Test for adults was abandoned. C.O.R.B. children were included. (In their case the 6s. weekly contribution was paid to the Government, who remitted it to the sponsors, and the balance, up to £3 a month, was sent by the parents through a bank or by money order.)

The Bank was still anxious that some attempt should be made to bring mothers home in a convoy, but this was not found practicable, and after Japan entered the war opportunities of transfer to the sterling area outside the U.K. were much diminished. The Bank also suggested once again giving discretion to the Bank of Canada.

Meanwhile, owing to intervention by Mrs. Roosevelt, the American Ambassador asked the Chancellor whether some financial help could not be given. Our own Ambassador in Washington remained somewhat adverse to the Scheme, contending that only a small minority of the evacuees would have sufficient funds to transfer. In Canada the Government and the National Committee accepted the Scheme in general,

but

but wished unaccompanied children, unless over fourteen, to receive no remittances. The Bank thought this amendment indefensible, and the Dominions Office pointed out that it would hardly be possible to grant funds to the 859 children for whom the U.S. Committee was responsible while denying them to corresponding children under the C.O.R.B. Scheme in Canada.

The Scheme came into operation on 1st January 1942.

Remittances were allowed in respect of children who had left the U.K. since 3rd September 1939 and were under 16 years of age at the time of departure, and to adults who went in charge of such children and were still responsible for them. The maximum rate was £10 per month for an adult and £3 per month for a child. The remittances were governed by an annual permit system administered by the C.O.R.B. (unless made through Service channels). Having received a permit, the remitter could make arrangements through his bank without reference to the Bank of England. The application forms were sent by the C.O.R.B. to the Bank of England, where they were checked up, in most cases after the permit had been issued. The Bank issued a Notice to Bankers on 9th January (F.E.174)*. The machinery worked smoothly on the whole.

On 12th February some more minor concessions were made. Children over sixteen allowed to go for reasons of ill-health were given access to the Scheme. Those just over sixteen at date of departure could be given remittances at the rate for children; if, however, they went in charge of younger children who were still under their care they could receive the adult rate. Widows of men killed on active service could receive remittances under the Scheme, in addition to any pension available to them.

By the end of March 1942 1,315 adults and 5,421 children (of whom 647 were under the Government C.O.R.B. Scheme) were eligible for

*The U.K., U.S.A. and Canadian banks charged no commission.

for remittances which would have involved a total maximum cost per annum of some £334,000; the number of C.O.R.B. permits at that date was only 3,522; how many others were supplied through the Services (without permits) is not known.

After two years some of the children were getting near the age for a university education, and Canadian universities offered to accept payment in blocked sterling. It was proposed in April that remittances for adult training in Canada should be allowed only if the High Commissioner certified that such training was in the national interest and conducive to the more effective prosecution of the war, but this suggestion was dropped. Remittances were limited to £10 per month.

The question of whether an increase in the allowances should be made in 1943 was discussed during the Autumn. At the end of August 1942 C.O.R.B. remittances covered 1,568 adults and 6,501 children, the maximum cost* being some £422,000 a year, a sum which was now declining. In addition, there were 750 adults and 3,900 children registered with the C.O.R.B., comprising Government and voluntary evacuees some of whom were getting remittances through Service channels or under special arrangements.

About 400 hardship cases had been dealt with, in recent months with greater liberality, especially as regards educational expenses.

An increase in the allowance for adults from £10 to £15 or £20 a month was urged in some quarters, and from £3 to £5 for children. The High Commissioner in Canada and Sir Frederick Phillips in Washington did not seem to think that a change was necessary, and the alterations made were therefore slight. Permits in 1943 were to be issued only for children under eighteen years or age on 1st January and for adults in charge of them, although exceptions to this age
limit

*Actual and maximum remittances. A sample of 500 cases taken in the Spring of 1943 showed that 66% of the remitters sent the maximum amount. In money this meant that 92% of the maximum sum was remitted.

limit could be made up to six months to finish an educational course. Parcels for children over eighteen were stopped.

Mr.Cobbold (L. 7.1.43), while accepting the views expressed, thought it might be wise to keep a step or two ahead of trouble, and that the matter might have to be raised again.

C.O.R.B.remittances from 1st October 1943

In view of Lend-lease, etc., and increased taxation in N.America, opinion began to favour a higher scale of remittances, and in May the Dominions Office again asked the opinion of the British Ambassador in Washington and the High Commissioner in Ottawa. The scale suggested for children was £150 to £250 per annum, depending on needs for education etc.; for adults in charge £400 to £500 per annum was proposed. The change was to be made on 1st October.

The Washington Embassy thought that £400 to £500 per family, depending on size and age, was enough, that remittances might be discretionary, and in the case of unaccompanied children should cover specific expenses. The High Commissioner appears to have thought the offer too generous.

The decision made was to raise remittances on 1st October to £20 per month for adults and £10 per month for children, with a further amount up to £180 per annum for a child's education if recommended by the C.O.R.B. In certain cases the change was permitted as from August 1943. C.O.R.B.remittances to the Canadian Government (and other Dominion Governments) were raised from 6s. to 12s. a week.

Parcels were cut from £10 to £2 per annum in 1944, and because of the need to conserve clothing supplies in the U.K., no special clothing coupons were issued.

These changes, it was ruled, covered "new" evacuees as well as those already in North America.

Education

In March 1943 the C.O.R.B.pressed for the same concessions for higher education as were allowed in the U.K. (where conditions were always changing); this in certain cases meant deferment of National

Service

Service to the age of 20 for boys and 21 for girls. £10 a month was being allowed for higher education, and the C.O.R.B. suggested £10 for the first year at college or post-school course for boys not over 18, and girls not over 18½, at the end of the college year; with certain extensions for medical and scientific studies and, for girls, approved social work. The Exchange Control agreed to be guided by the C.O.R.B., and in April sanctioned further transfers up to £30 a month for senior matriculation candidates at high schools. They at first allowed £120 per annum, later £180, and sometimes gave more if Treasury approval could be obtained; and by February 1944 the Treasury was agreeing that holiday camp expenditure was, if not a part of higher education, at any rate a part of reasonable expenses. As regards age deferment, the Control agreed in June that the C.O.R.B. could use discretion.

Income Tax

The Canadian Government held that our evacuees were liable for Canadian income tax if resident in Canada for more than 183 days in any year. Tax was charged on total income, any tax paid in the U.K. being deducted. On the question being raised, the Bank of Canada thought it best that the British Control should permit transfer of this charge and the Inland Revenue agreed. The point apparently came up first in the middle of 1943, but there were not many cases as the Canadian authorities seem to have claimed on large incomes only. The Foreign Exchange Regulations being more flexible than income tax laws on both sides of the Atlantic, the British Government agreed to these transfers.

Kinsmen Trust

An organisation was formed in 1942 (21.3.42 and 15.7.42) setting up two funds, one for the U.S.A. and the other for the Commonwealth, under which parents of evacuated children and other interested persons subscribed money for scholarships and studentships or grants of money to citizens of the U.S.A. and Commonwealth "to continue their education and studies in the U.K.". Special consideration was to be given by the managing trustees to "issue, kindred or nominees" of

persons

persons who had provided hospitality or services to our evacuees. This was a very legitimate form of indirect compensation.

Far Eastern Evacuees

These persons were not evacuees in accordance with the definition given at the beginning of the section, since they were not necessarily residents of the U.K. It is convenient, however, to deal with them here.

In December 1940 it was decided that evacuees from the Far East who had elected to go to Canada or the U.S.A. should not be allowed to transfer sterling into dollars unless special reasons were forthcoming. They should remove to the sterling area. From April 1942, however, remittances of not more than £15 per head per month were permitted, with an over-riding maximum of £50 per month for a family of over 3 persons. Provisions was also made in August 1942 for hardship cases. Evacuees from the Far East (e.g. Singapore) to U.S.A. continued to receive maintenance remittances previously paid with the approval of the local control, if not excessive.

As from the end of September 1942 all such allowances appear to have been raised to £25 for the first person and £15 for each other person per month. Those not covered by the C.O.R.B. scheme also got maintenance assistance up to £10 per month and, on 21st October 1943, this was increased to £20 irrespective of age or circumstances.

U.K. residents in N. America at the outbreak of war

These received nothing at all at first. Later, on proof of hardship, remittances which varied according to the needs of the case but rarely exceeded £10 per month were permitted. Later still a flat rate of £15 per month was granted to persons over 65. Though at first the concession was confined to those who had left the U.K. before the war, it was subsequently extended to all of this age group irrespective of date of leaving. Additional amounts were permitted only on proof of real need. Other cases were dealt with on their merits by the Hardship Committee. In October 1943 the regular amount permitted to the older people was increased to £20 per month and the
age

age limit reduced to 60.

785

The following figures* shew the evacuee position down to June 1944:-

	Originally Evacuated		Returned to U.K.		Still in N.America on 30 June 1944	
	Adults	Children	Adults	Children	Adults	Children
U.S.A.	1,114	4,321	549	1,894	565	2,427
Canada	1,800	6,000	1,100	2,600	700	3,400
	2,914	10,321	1,649	4,494	1,265	5,827
					7,092	

Of these 7,092:

U.S.A.

Canada

Applied for passages home

1,011

2,500

Still to return unless remaining permanently

1,981

1,600

2,992

4,100

2,992

7,092

The only later figures apparently available relate to children only. On 1st March 1945 there were still 1,780 children left in the U.S.A. and 1,980 in Canada.

*H.M. Treasury (Canada, round figures only)

Personal Payments

The following is a list of compassionate and other personal payments which U.K. residents were permitted to make:-

Alimony and payments under Court Orders.

Army, Navy and Air Force - remittances to their homes by overseas members, i.e. those who had come from outside the Sterling Area, of a non-technical nature.

Charities and religious purposes.

Graves - upkeep of relatives' graves.

Houses and estates abroad - maintenance of.

Insurance Premiums on remitter's life.

Maintenance and relief of distress.

Medical Fees.

Pensions payable by Government Departments and Police Force.

Pensions payable to British or Foreign nationals resident abroad.

School fees.

Subscriptions - Clubs (not over £10).

Travelling expenses of residents in United Kingdom - personal.

Perhaps mention should also be made of the (commercial) transactions in Postage Stamps.

Postage Stamps imported by stamp dealers or by private philatelists.

Up to October 1942 the Bank's practice regarding these payments was:

- (1) Payments by British subjects to British relatives were dealt with on their merits;
- (2) Foreigners (other than war workers) wishing to make payments to foreigners abroad might get satisfaction if the remittance was either -
 - (a) to close relatives living in their own country; or,
 - (b) to finance the escape to a neutral country of a close relative in enemy territory and in personal danger.

A Minute (22.10.1942) of the Evacuee Sub-Committee recommended modification of existing practice by making (a) read ".....living in the country of their (the relatives') personal residence; and assimilating (b) to the treatment afforded by

paragraph

paragraph 2, Section 1. of the Trading with the Enemy Notice to Banks
 No. 2~~x~~ ^(22. July, 1942) but without relaxing the restriction to close relatives.

This, in effect, would make payments to be made to cover the
 "reasonably sufficient" travelling expenses (including landing and visa fees)
 of an individual and his family from the frontier of enemy territory to a
 destination outside it. A British subject or person under British protection must
 be in transit to the British Empire (except Eire, Canada or Newfoundland)
 or to British mandated territory.

The Minute also directed that remittances by resident
 British subjects to women relatives abroad who had lost their British
 nationality might be treated, in spite of the refugee rule, as if the
 relatives were British and not foreign refugees.

EARNINGS OF NON-RESIDENTS

(1) Profits, Interest and Dividends

In the third week of September 1939 the Treasury raised the question whether it was advisable to refuse to transfer profits and dividends. A policy of refusal seemed to them defensible and possibly desirable. As a compromise, however, the Treasury and the Bank thought transfer up to the average of amounts on which income tax had been paid in the three previous years might be allowed. The Inland Revenue pointed out that there were subsidiary companies here with parents abroad, and that in such cases the parent would be in a position to take accumulated reserves in the form of dividends. There might also be private companies controlled by persons abroad, and those persons could do likewise. Thus, if some kind of restriction were put on non-British company businesses to exclude reserves, a similar restriction might have to be placed on the dividends of at least some British companies.

Moreover, if profits going abroad as dividends of British companies were unrestricted but restriction was placed on remittances from non-British company businesses, foreign concerns with branches here might get round the restriction by forming the branches here into separate companies. Hence, some common rule of distribution ought to be applied to both company business and non-company business.

In November the Treasury suggested that a list should be made of American-owned businesses in this country, with a view to asking the Supply Departments to divert contracts away from such concerns and thus save the expenditure of dollars in the transfer of the resulting profits. The Bank thought it hardly possible to compile a reliable list of the kind proposed, and also held that anything which tended to deflect contracts away from the most suitable producer would retard the war effort.

No special Regulation dealing with profits and dividends was made, but as from July 1940 the principle on which authorisation was based was as follows:

No restriction on minority holdings.

U.K. companies controlled abroad and U.K. branches or agencies of foreign companies were permitted to transfer interest, dividends or profits to an amount (before deduction of tax) comparable with the sterling sums used for the same purpose in the previous three years, after allowing for any variation in the sterling working capital employed. Transfers were allowed only out of actual trading profits. As a base, companies were allowed the best of the three preceding years (instead of the average of the three years, as at first proposed).

This principle served to prevent the general use of profit-transfer facilities to transfer capital abroad. The restriction of transfers to amounts available out of trading profits was strictly enforced.

In July 1940, however, the whole question came before the Exchange Control Conference at the instance of Lord Keynes, who had recently joined the Treasury and thought the natural and proper thing to do in our difficult position at that time would be to stop all transfers of profits, interest, royalties and other current income, after warning the American Treasury. If the Americans protested, some concessions could be made. He thought that current policy was "so contrary to what one would expect in modern total war" that the Americans might think we were "not taking our financial position seriously". On this the Bank wrote to the Treasury (5.8.1940) pointing out that the questions raised had been gone over again and again and really dated back to the decision not to block balances at the outbreak of war.

"..... It would perhaps make the background clearer to Keynes if he were to see the reasons for which we advocated blocking balances on outbreak of war, the reasons for which you decided against that proposal and our reasons for resisting it when it was put forward some months later in wholly changed circumstances.

..... On the many occasions when we have discussed these points it has always been held by the Treasury, and more particularly by your legal advisers, that we cannot and must not prevent the payment of debts legally due. Interest, income under trust,

rents

rents and many other items, including such capital items as legacies, are all debts. Dividends are debts as soon as they are declared and we cannot prevent them from being declared: profits are not a debt but they are inextricably tied up with the dividend question and we do in fact limit their transfer on the principles of the Dividend Limitation Bill. Then there are categories like patent royalties which would probably have to be paid in any circumstances.

Secondly, as a practical proposition we should have to decide what is to be done with the money and we should have to provide uniform treatment throughout the sterling area: to do any good I believe that sterling proceeds would have to be definitely blocked either in securities or in cash, i.e., not utilisable for any purpose at all. If we were to allow credit to a new sort of account to discharge, e.g., interest payments within the sterling area we should I think have all the disadvantages and none of the advantages.

As far as the revenue items are concerned, I continue to feel that it would be unwise to make a move now. As with all the other things, if we had blocked at the beginning of the war and then gradually released where necessary it would have been a different story but I cannot believe there is much gratitude to be got from the Americans by initiating this measure now unless we are prepared to make a 110% concession the day after. We got away with the blocking of securities at a good psychological moment but I doubt if we should be so lucky with a block on interest, dividends, etc., at this moment and it would certainly be unfortunate so soon after our new American arrangements.* Unless you can be certain of holding out against American protests the game cannot in my view be anything like worth the candle: it still remains a major interest for this country to frown on default and I do not believe that even in hard cash, let alone prestige, results would justify the action

The

*Introduction of Registered Accounts.

The Treasury, apart from Lord Keynes, and the Conference appear to have agreed with the Bank that the moment was inopportune; and Lord Catto put up the alternative suggestion of a tax on dividends going abroad, for which there was precedent both in the U.S.A., and India. To reduce our liability would be better than to postpone it. Lord Keynes was attracted to this proposal but suggested that the tax should only be payable on the transfer of dividends, and still seemed to prefer prohibition of transfer. The Conference decided to take no action at that time (23.8.¹⁹⁴⁰~~40~~).

The proposal for a special tax on dividends, together with a suggestion that the transfer of trading profits should be restricted to a proportion instead of the whole, was raised again by the Bank in the Spring of 1941. A memorandum of 22nd April gives some figures of transfers authorised and refused, but points out that such statistics understate both the scale of the attempts to effect capital transfers and the success of the Control in preventing them, since there were always preliminary discussions in which claims were scaled down or withdrawn. Moreover, with experience the firms concerned were moderating their demands, and their bankers were inducing them to draw up their claims to comply with the Bank's requirements. Subject to this, the following figures summarise the Bank's experience between July 1940 and February 1941 in round figures:-

	<u>No.</u>	<u>Amount</u> <u>£ millions</u>
Transfers authorised	237	4.9
of which - over £20,000	40	4.4
under £20,000	197	.5
Transfers refused	68	.8
of which - over £20,000	8	.4
under £20,000	60	.4

These figures exclude all (except one case of) dividend transfers for minority holdings.

Of the 40 transfers authorised for amounts over £20,000, a classification showed the following:-

	<u>£000</u>
Falling within the province of the Ministry of Food	724
Falling within the province of other Departments	1,158
Industrial Requirements	706
Banks	165
"Luxuries" (other than food) and Miscellaneous	<u>1,694</u>
	<u>4,447</u>

The Control ^{funds} pressed companies with some success, to reserve sufficient to meet future tax claims on trading profits; and the increasing pressure of taxation supplied the companies with an independent incentive to make this provision. In order to avoid the complications of subsidiary companies owing large sums to overseas principals the companies were also asked to restrict dividend declarations to the amount to be transferred.

"..... Further restriction of transfer requires a new or amended rule. If it were necessary to consider only wholly-owned or controlled companies the simplest amendment would be -

Transfer to be restricted not to trading profit as a whole but to a proportion of trading profit, compelling the reservation of sufficient to meet tax liabilities and also a reasonable addition to the reserves of the United Kingdom company.

(The records of the companies are being examined to find out what are the present relations of profits to reserve appropriations, etc.).

There is, however, a danger that the controlling overseas principals may disperse their share-holding among a number of nominees, each of whom becomes a minority share-holder, able to claim his dividends through a bank as a matter of routine.

Dividends on minority holdings, transfer of which is not subject to control, account for a greater volume of payment than the controlled transfers: the latter are at a rate of £7.5 mn., out of a total of, say, £18 mn., for profits, interest and dividends transferred. If the transfer of trading profits by subsidiary companies to principals is to be further restricted it is desirable and necessary, to anticipate the danger referred to above, to

restrict

restrict transfer of other profits. Blocking would have the effect of piling up trouble for the future; a tax on transfers on foreign-owned capital on the American model is probably the only form of restriction easily applied to scattered minority holdings.

To deal with the problem of transfer of profits as a whole, therefore, a "withholding tax" on the American model seems the most practical measure."

On 24th April, 1941, Mr. Cobbold wrote to the Treasury:

"..... The simplest and at first sight most attractive method of reducing transfers would be to amend the present rule, which allows firms to transfer current profits up to the amount of the best of the three pre-war years, and restrict to a specified proportion of that amount. But I am disinclined on general grounds just at this moment to use the administrative pressure of the Exchange Control for this purpose. Any method that involves individual negotiations and discrimination seems to me open to the same objection. This drives me to the proposal of a tax on dividends and interest transferred outside the Sterling Area. This has the advantages of following an American precedent, of catching transfers to minority stockholders (in the aggregate a more important amount than transfers by wholly-owned or controlled companies), and of falling automatically without administrative discrimination. Such a withholding tax would also offer an enticement to wholly-owned or controlled companies to restrict their distribution of profits or dividends."

As regards the 40 applications in excess of £20,000, it was clear that no one Department or even two Departments (Food and Supply) could deal with the problem as a whole.

At the Exchange Control Treasury Committee on 29th April it was thought to be too late to introduce a withholding tax into the current Finance Bill. The Treasury undertook to obtain the opinion of the Inland Revenue. Their view (in October) was that there was "no principle of taxation that would warrant an Income Tax applying with a greater rate to income going abroad than to income which stays at home", and that it would be a very dangerous principle

for

for the U.K. as a creditor country to embark upon and might provoke reprisals. The Bank now came to the conclusion that while there had been something to be said for such a tax before Lend-Lease, the opportunity had gone by. Profit remittances to the U.S.A. were relatively small; the U.K. already withheld a heavy Income Tax from them; friction would arise if British residents in the Sterling Area were exempted, and to exempt them would be flagrant discrimination; and as a tax convention was being concluded with the U.S. State Department the moment was in any case inopportune (L. 3.11.41).

It may also have been thought that such a tax would stimulate successful methods of evasion. "For importing and exporting firms the obvious channel would be the invoice prices of the goods. The stopping of this loophole would be difficult as it would imply taxing imports. Such taxation could not be confined to imports from subsidiaries, as dummy companies would immediately be formed." No more was heard of the matter.

As part of the general relaxation of controls as the reserves of the U.K. began to rise two restrictions were removed in November 1942. Remittances were no longer limited by reference to the amounts transferred in the previous three years; nor were they required to be derived solely from current earnings. Past earnings, including amounts placed to reserve could be utilised, though in principle the parent company's pre-war investment was expected to be maintained. But full provision for U.K. taxation on profits had to be made whether currently due or falling due later.

In deciding what were profits the Bank were guided primarily by auditors' certified accounts, though it always reserved the right to satisfy itself that adequate reserves were being set up, and in particular that full provision had been made for income tax and E.P.T. on all profits in respect of the period for which transfer was desired. The American controlled companies raised little objection to this practice since the provision of tax accruing or likely to accrue on all profits to date seemed to be in accord with generally accepted practice in the U.S.A. On the whole the machinery worked quite smoothly and the Bank's rule was accepted as equitable.

In determining the figure for capital employed the Bank aggregated such items as formal share capital, free reserves, and the balances on Profit & Loss Account and inter-company account.

As regards fixed interest payments, whether derived from British Government securities or any other British or foreign sterling security, no obstacle was at first placed on transfer to a non-resident in any currency desired. This was administrative practice, no F.E. Notice being issued. Later, on the introduction of Special, Registered and Central American Accounts, fixed interest payments were made in sterling only - the sterling being of course transferable only to the extent that was provided in the Agreements governing such accounts.

(2) Patent Fees

In order that patent rights may be kept alive, it is necessary to pay renewal fees on the patent in the country of registration as they fall due.

Payments for patent fees, including payments for registration of trade marks and designs, therefore, fell into two classes:-

1. Payments in which there was no enemy interest.
 2. Payments to or on behalf of an enemy.
1. (a) Payments abroad by residents of the Sterling Area

From the outbreak of the war remittances to meet the reasonable requirements of a business were allowed, and transfers of funds to pay patent fees in currency or sterling were approved by authorised banks on this basis. In January 1940, the banks' powers in this connection were restricted to payments in respect of pre-war contracts: other remittances, including those for the registration of new patents, were dealt with by the Bank, ^{and} in the case of fresh patents after consultation with the Patent Office.

In November 1943, after consultation with the Chartered Institute of Patent Agents, a Notice to Banks (F.E.208) was issued with a view to facilitating these remittances, which were in general for small amounts. The Notice provided, inter alia, that Authorised Dealers might approve, without production of supporting evidence, any application for the payment of patent fees or for allied purposes, provided it was made by a Registered Agent. Previously the supporting evidence had been dispensed with only for amounts under £10, and all applications in excess of £25 had had to be referred to the Bank. Registered Agents were also allowed to conduct contra accounts in which amounts due to and from their correspondents abroad might be set off, a facility which had in general been withheld up till then. As regards patent fee payments, the Notice also dispensed with the requirements

of F.E.177, which made approval of the local Exchange Control a prior requisite for a remittance through London from a resident of another part of the Sterling Area.

(b) Payments from Neutral and Allied Countries to other countries outside the Sterling Area via the United Kingdom

Business of this type formed a valuable part of the patent agents' business and it was the Control's policy to interfere with it as little as possible. Until July 1940 payments abroad were allowed provided the remitter put up the currency required or the necessary sterling. After the disappearance of the free-sterling market sterling transfers became very much restricted and payments of this type were mainly on a dollar for dollar basis.

F.E.208 (November 1943) made a radical change in this respect, as it provided that payments each way should be made in the manner appropriate to the country of residence of the remitter or recipient as the case might be. For example, a Swede could make a payment in the Argentine by paying London in kronor or Swedish special sterling, and London would credit an Argentine special sterling account.

The amounts involved under both sections (a) and (b) did not total more than about £150,000 annually, of which approximately £100,000 went to the U.S.A.

2. The view was taken at first that payment of fees in enemy countries to keep alive patents owned by residents would, in general, be counter-balanced by enemy payments here for similar purposes. The Board of Trade accordingly licensed payments in enemy countries, or in non-enemy territory on behalf of enemies, provided the latter were made from funds remitted by or on behalf of an enemy (S.R. & O.No.1112 7th September 1939). A later Order (S.R. & O.No.794 5th June 1941) restricted this latter type of payment to allied territory.

In 1942, however, the previous licence was revoked, and permission was given for payment to the Patent Office of renewal fees on enemy-owned U.K. patents by licensees or part-

owners

owners in this country (S.R. & O. No. 753 22nd April 1942). A further Order (S.R. & O. No. 2104 10th October 1942) allowed the payment at the Patent Office in London of renewal fees on U.K. patents made on behalf of involuntary enemies.

The permission to make payments in enemy countries was withdrawn when the original licence was revoked, up till which time payments to enemy or enemy-occupied territory were made through neutral countries, usually Switzerland or Portugal. Payments for French renewal fees were made for a time to the French Consulate General in London; while fees on patents registered in enemy-occupied countries whose Governments were established in the U.K., e.g., Norway and Belgium, could be made in the U.K. to those Governments. The figure for payment to enemy territory was not thought to exceed £5,000 per annum at any time.

(3) Service charges

This heading comprises charges for technical or advisory services rendered to U.K. companies by non-resident parent companies or other consultants. It was realised that by means of over-invoicing for such services or charging for non-existent services principals abroad could assist in Exchange Control evasion and the withdrawal of capital. It was also realised that avoidance of U.K. income tax was a powerful incentive to excessive charges between associated companies.

On the other hand it was evident that many companies might expect to receive real benefit from such expenditure and that it would often be in the national interest not to impede payment.

By the end of 1940 general principles had been adopted for dealing with applications. Four chief requirements were laid down:-

- (1) There must be a binding pre-war agreement.
- (2) The charge must be allowed by the Inland Revenue Authorities as a deduction from assessable profits.
- (3) Payment must have been made regularly in the past.
- (4) Earnings must justify the charge.

If these tests were satisfied, it had to be shown that services were in fact being currently received and that those services were such as to justify expenditure of foreign currency. Judgment on these points was a matter of some difficulty, especially in connection with businesses not directly related to the war effort, or where it was felt that the services could equally well be obtained from within the sterling area.

In other instances where the Control were willing to allow transfer of sums due for the use of patents or for royalties it was often hard to decide what part of a so-called "service" charge was attributable to them.

In August 1941 H.M. Treasury suggested to the Exchange Control Committee that transfers should be judged by reference to a pre-war standard, as were profits. It was felt, however, that the existing practice was working smoothly and that the new proposal would penalise expanding businesses engaged on work of national importance.

It

It would, moreover, release for transfer many applications previously refused. Accordingly, no change was made except that where charges were on a flat annual basis it was ruled that they should not be disallowed merely because the services were not currently being received. In addition it was decided that amounts disallowed would be eligible for credit to Blocked Sterling Account, thus enabling the U.K. company to discharge its liability.

Applications to pay charges incurred otherwise than under binding pre-war agreements were the source of considerable difficulty, and policy was not definitely stabilised until the middle of 1943. Where the applicant desired to enter into an agreement, the position was at all times satisfactory in the sense that permission to execute the agreement could be given, carrying with it the right to consequent transfers, or withheld, in which case no question of transfer would arise. It was, however, often desired to continue payments where no sort of agreement existed or where a wartime agreement had been entered into without the Bank's consent. For a time such applications were judged on their merits, and transfer was either allowed or refused, with no option of blocked sterling; but at the end of 1942 the Committee ruled that transfer could not be permitted, and that blocked sterling would usually also be refused unless pressure was brought by the applicant.

At about that time, however, it was possible, owing to the improvement in the U.S. dollar position, to modify the Control's attitude towards charges payable under pre-war agreements to U.S. principals, by no longer requiring satisfaction that valuable services were currently being rendered. By the middle of 1943 similar relaxations were extended to other countries, though not to principals in Argentina, Canada, Newfoundland or Switzerland, and service charge policy except for those countries was then stabilised on the following basis.

Transfer was to be allowed in all cases where there was a pre-war agreement or an established pre-war practice - the sole test should be whether the Inland Revenue Authorities allowed the

charge

charge against profits. In all other cases transfer was to be permitted only where the services rendered were of national importance - evidence of which was normally to be obtained from an interested Government Department - and blocked sterling would not usually be allowed where free transfer was refused.

Missionaries and Missionary Societies1 query mp3
My

In the early days of Exchange Control applications for the transfer of funds for the upkeep of missionary or religious work outside the Sterling Area were numerous, averaging eight or ten a day. They came not only from the recognised missionary organisations* but also from local churches and groups of friends or individuals who wished to remit funds for the upkeep of unattached missionaries and their work abroad.

One of the earliest references to the question occurs in a memorandum dated the 16th November 1939, headed "Voluntary payments to non-residents" which was initialled, as provisionally agreed, by the Governor. This stated, inter alia, that remittances on a pre-war scale should be allowed for the "upkeep of missionaries and similar good works" but that contributions to foreign charitable organisations should be refused.

Applications continued to be dealt with on the broad principles laid down in the memorandum mentioned above for about a year, although by that time it seems that a certain amount of discrimination was being shown on the following lines:-

1. Geographical

Broadly speaking, remittances on a pre-war scale to China, South America, Belgian Congo and Canada would be considered favourably, whereas applications for transfers to ~~the~~ enemy or semi-enemy territory (i.e. most European countries, Japan and Spanish Africa) and Portuguese East Africa would not be allowed. Iran "would require special study", but in the following month remittances were sanctioned because the Ministry of Information thought that the conversion of Jews would fully justify the expenditure from the angle of the war effort.

2. Applications

*The Salvation Army was an exception; it was on balance a recipient of foreign exchange.

†On the 16th July 1940 the Treasury Exchange Committee stated that applications for remittances to missionaries in China and South America "would be considered sympathetically, in Canada with a little less sympathy, and in the U.S. with none".

2. Applications from the big societies were usually passed without much enquiry, although some pains were taken to see that expenditure did not exceed the pre-war scale. Private applications, unless accompanied by the plea of pre-war maintenance, were usually refused.

3. Type of Work

Consideration was given to the nature of the beneficiary's work, e.g., the upkeep of Medical Missions, particularly those for the care of lepers, were felt to have a strong claim.

This procedure led to anomalies in the treatment accorded to various applications, and it was decided by the Exchange Control Committee on 19th November 1940 to seek a more satisfactory arrangement covering the whole field of missionary work. Early in 1941 a meeting was held at the Bank of England at which representatives of the International Missionary Council and the Conference of Missionary Societies were present. These two bodies worked together and represented nearly all the Protestant missionary societies, and even those societies which were not members were prepared to accept their guidance on these matters.

After considerable discussion it was agreed that the International Missionary Council should draw up a schedule showing the total annual expenditure by each society and their annual requirements for each country. With this in front of them the Bank were able, in consultation with the Missionary Council, to allot an annual quota for each society. This had the effect of allowing the societies to budget ahead with confidence and of reducing the work entailed. These arrangements were approved by the Exchange Control Committee in May 1941, when the following procedure covering all U.K. societies (except Roman Catholic bodies, the Salvation Army, local churches and groups who cared for unattached missionaries) was agreed:-

1. T.W.E. and political considerations apart, applications were to be judged by their purpose and not their destination.

2. A quota

2. A quota was to be allotted to each society for the calendar year, distributed between areas on the basis of figures supplied by the Council.
3. Further discussions were to take place on the question of remittances to enemy and enemy-occupied territories, special consideration being given to France and the French Empire and to Japan. Certain blocked franc balances were to be utilised for payments to France and the French Empire.
4. Transfers to Portugal and Spain and their Empires, Switzerland, South and Central America and the Russian group were to be continued on the quota basis.

With the help of the Council the scheme was brought into operation to cover the calendar year 1942, providing for the requirements of 72 societies, or approximately £355,000.

The arrangement worked satisfactorily during the initial year, the I.M.C. being at all times ready to provide information. In October 1942 it was agreed that the scheme should continue during 1943 and that reasonable increases in the quotas might be allowed to cover the rising cost of living.

The total quotas approved for 1943 amounted to £526,000, the increase being almost entirely accounted for by larger remittances to China, where the cost of living continued to rise steeply in spite of a grant during that year by the Chinese authorities of an exchange benefit of 50% to missionary and other charitable remittances. During 1943 also a few societies re-opened work in Ethiopia; and remittances were allowed on the basis of the work existing in that country prior to the Italian occupation in 1935.

For 1944 quotas were approved amounting to £720,000, covering about 77 societies. Again the increase was accounted for almost entirely by China, where costs continued to rise. The exclusion of certain French overseas territory from the Sterling Area had the effect of bringing in a number of applications from Roman Catholic organisations who previously do not appear to have approached the British Control and had doubtless been provided with funds from France or from ^{the Vatican.} ~~the Vatican.~~ These applications were not on a sufficiently large

large scale to warrant the introduction of a scheme such as the one operated for the Protestant societies through the I.M.C.

Miscellaneous applications from individuals, groups or societies not covered by the scheme continued to be dealt with on their merits. Applications were frequently submitted in respect of exceptional expenses not allowed for in the budget of the societies covered by the scheme, e.g., travel expenses to enable missionaries to go on leave, unforeseen repairs to missionary property, etc., and were dealt with on as sympathetic a basis as possible.

Policy was in general based on the principle that remittances should be allowed to enable the work of missionaries abroad to continue on the scale previously existing, but that expenditure on extensions of work or new ventures should not be allowed. There were occasions, however, when political considerations had to be taken into account. For example, early in 1944 the British and Foreign Bible Society wished to send some £20,000 to Sweden to cover half the cost of printing the Scriptures "for post-war distribution on the Continent". As the other half of the cost was going to be paid by an American Society the Control referred the matter to the Foreign Office, on whose strong recommendation the Control agreed to grant the application.

new 2 HCBM

Relations with the
Trading with the Enemy Department, Board of Trade

The Trading with the Enemy Act of 1939 could not foresee and therefore made no provision for the position of Allies in enemy-occupied territory, and still less for the complications arising out of the evacuation of some of the Governments and Central Banks of occupied countries to London. It was therefore an Act difficult to administer.

The Bank of England were asked and agreed to help the Department in October 1939 (T.W.E. letter to ^{Mr.} Bernard, 10th October 1939). They assisted in drawing up the Black List, gave a great deal of advice on individual cases submitted to them by the Department and, more generally, in agreement with the Treasury acted as an intermediary between the Department and the banks and other City organisations, explaining the requirements of the Department to the City and the difficulties of the City to the Department.

Inevitably there were instances when the interests of the Defence (Finance) Regulations and the Trading with the Enemy regulations were equally involved, and the Bank ~~was~~^{were} occasionally obliged to press the Department to take a particular line of action in an endeavour to achieve the best results for all parties concerned. In such cases the Bank as usual worked in close concert with the Treasury. The Treasury also frequently approached the Bank for technical advice in connection with policy directives operated or to be adopted by the T.W.E. Department, and in this capacity the Bank ~~was~~^{were} indirectly concerned in the negotiation of Property Agreements and working arrangements over T.W.E. and Custodian matters with various Dominions and Allied Governments.

Towards the end of 1941 the Bank ~~was~~^{were} considerably exercised over what they regarded as the difficulties and dangers in the administration of Trading with the Enemy legislation "with its divided responsibilities and lack of centralised supervision", and the Governor spoke and wrote to the Chancellor on the subject, suggesting also the need eventually of a Ministry of Overseas Trade.

A little

A little over a year later, however, changes in the administration of the T.W.E. Department were felt to have improved matters very greatly. Early in 1943 discussion of the various steps to be taken as British territory held by the enemy became reoccupied brought the following reminder from the Bank: ".....we must bear in mind that we are now committed to consult Morgenthau if it is felt necessary to modify a rate of exchange in a reoccupied territory. Nevertheless we must not lose sight of the fact that a modification of the rate may be a vital factor in the future economy of a particular territory" (L. to H.M.T. 7.1.1943).

Arising out of reoccupation the treatment of sterling and dollar notes (apart from special issues to the troops) in the liberated territories begged for settlement. The T.W.E. Department, approached first by the British Embassy in Washington, consulted the Ministry of Economic Warfare and the Treasury, who thought that the Bank also should be consulted. The Bank deferred opinion until after the Treasury had set out their views in a letter (23.6.1944) to the T.W.E. Department. The Treasury referred to the financial directives to the armies of liberation, which were based on the policy that troops neither bought nor sold notes.

A local holder of sterling (or dollar) notes was instructed to deposit them with his bank. There was no economic-warfare reason why his notes should not be accepted, even though he was technically an enemy before liberation. He had not - like a resident of neutral territory who had paid the enemy in neutral currency (or his own) - benefited the enemy by acquiring sterling (or dollar) notes. The British Administration would deal with the local banks, who would have the opportunity of confiscating notes belonging to, e.g., collaborators.

There would be inter-Allied consultation on all this; but French franc, guilder, etc. notes had quite a different background from sterling or dollars and were the affair of their respective governments.

The Bank, replying to the T.W.E. Department (29.6.1944), expressed themselves in agreement with the Treasury, reminding them

of

of one point only. They referred to discussions in 1941 regarding payment of Bank of England notes with enemy (or suspected enemy) taint. The Treasury had ~~not~~^{then} given the Bank a general sanction under Section IV, and a general authority under Section I of the T.W.E. Act, to pay all notes on demand "notwithstanding the provisions of those Sections".

In April 1944 the T.W.E. Department asked for the Bank's opinion, with reference to an earlier consultation (when the matter had been dropped) as to the best course of action for the Department to take to ensure that their Notices to banks were not out of keeping with banking requirements in practice. Most of the Notices had, in fact, been referred to the F.E. Sub-Committees; but the Department, though they were prepared to take the banks' views, wondered whether it might not be well, when one of their Notices was up for discussion, to have a representative present to explain its purport.

The Bank, after sounding various banking personalities, replied that a direct approach to General Managers (through the Clearing Banks' Committee) might lead to the setting up, after considerable delay, of a new Sub-Committee, with terms of reference limited to T.W.E. Department matters. Many present members of the F.E. Sub-Committee would sit on the new Sub-Committee, but "...it would only add to their labours and various inherent frictions which were at present submerged might again rise to the surface" (L. G.L.F.B. 11.5.1944). The T.W.E. Department thought it would be best to leave matters ~~with the same~~, on the existing personal and friendly basis ~~on~~ which they stood.

The removal of T.W.E. restrictions was necessarily gradual. On 27th November 1945 the Statutory List was revised and about 45% of the names removed. Further arrangements to facilitate Allied control over enemy assets located outside enemy territory having proceeded meanwhile, the issue of S.R. & O. 1946 No. 1041 revoked the Statutory List as from 9th July 1946. Further Orders made at the same time

- (a) legalised trade with persons of enemy status who resided and carried on business in territory which had at any time been "enemy"; and
- (b) vested in the Custodian certain property in the U.K. owned by persons or firms whose names had been on the Statutory List immediately prior to its revocation.

