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Enquiry into clearing agree
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REPORT OF THE JOINT COMMITTEE FOR THE STUDY OF CLEARING AGREEMENTS¹

I.

1. As the result of a proposal put forward by the French delegation in the Second Committee, the last Assembly adopted the following resolution :

“ The Assembly requests the Council to arrange for an enquiry to be made by the Economic and Financial Organisation of the League concerning the causes, scope, methods and results of compensation and clearing agreements.

“ It requests that this study should, in particular, include an examination of the agreements concluded and the working of the organisations set up to provide for their execution, and should throw light upon the practical difficulties

¹ The present report was drawn up at the second session of the Joint Committee, held from March 25th to 30th, 1935.

The following were present :

Dr. Vilem POSPISIL, Chairman, Envoy Extraordinary and Minister Plenipotentiary, former Governor of the National Bank of Czechoslovakia ;

M. J. A. DEKNATEL, Director of the Dutch Clearing Institute (Netherlands), replacing M. ter Meulen ;

M. P. DEVINAT, Secretary-General of the Commission interministérielle de Compensation at the Ministère du Commerce (France), replacing M. Elbel ;

Sir F. W. LEITH ROSS, Chief Economic Adviser to the British Government (United Kingdom) ;

Sir Otto NIEMEYER, Bank of England (United Kingdom) ;

Mr. Oscar B. RYDER, Member of the U.S.A. Tariff Commission (United States of America), replacing Mr. Norman Davis ;

Dr. R. SCHÜLLER, Envoy Extraordinary and Minister Plenipotentiary, former Chief of the Economic Section of the Department for Foreign Affairs (Austria).

The following were also present :

M. G. DAYRAS, Inspecteur des Finances (France), President of the Financial Committee ;

M. DOLEZAL, Under Secretary of State at the Ministry of Commerce (Poland), President of the Economic Committee.

The following were absent and not replaced : M. A. DI NOLA (Italy), M. A. JANSSEN (Belgium) and M. STUCKI (Switzerland).

that have been encountered and the results that have been obtained.”

The Council requested the Economic and Financial Committees to set up a Joint Committee to supervise the enquiry and to report upon the conclusions to be drawn from it.

In a short session held at Paris in October 1934, the Joint Committee began its work by defining the kinds of agreements to be considered. It decided to regard as agreements covered by the Assembly resolution all those (whether or no they aim at establishing an equilibrium of commercial exchanges) under which, especially in the case of exchange restrictions, two parties agree upon provisions for the payment of debts arising out of commercial or other transactions.

The Committee at the same time decided to ask for information from countries which have concluded clearing agreements, namely :

Argentine	Estonia	Netherlands
Austria	Finland	Norway
Belgium	France	Poland
Brazil	Germany	Roumania
United Kingdom	Greece	Sweden
Bulgaria	Hungary	Switzerland
Chile	Italy	Turkey
Czechoslovakia	Latvia	Yugoslavia
Denmark		

It further decided that these countries should be asked to communicate :

(a) A general account of the causes, scope, methods and results of the clearing agreements concluded by them ;

(b) The texts of those agreements, accompanied by a brief analysis of each of them and of their annexes ;

(c) In regard to each of these treaties, particulars of the circumstances in which the treaty was concluded, of its subsequent development and any modifications it may have undergone, and of the results secured, accompanied by statistics ;

(d) A description of the working of the bodies set up to execute such agreements, together with particulars of difficulties experienced in applying them and suggestions for meeting such difficulties.

These decisions of the Joint Committee were put into effect by sending to the countries mentioned above a Circular Letter, dated October 31st, 1934, to which was attached a questionnaire.

The Secretariat has received statements from all the countries, except the Argentine, Brazil, Germany and Turkey. The United Kingdom Government stated that it had not concluded any clearing agreements.

2. The results of the enquiry are embodied in the two documents attached.

The first of these attempts to extract from the general body of facts and arguments communicated by the different Governments a succinct description of the main features of the clearing system. The Secretariat further endeavoured, on the basis of the statistical data at its disposal, to bring out in this document the effects of clearing agreements on international trade.

The second document reproduces or summarises the replies of the Governments to the questions in the questionnaire attached to the Secretary-General's Circular Letter.

These documents are intended to give as complete a survey as possible, not only of the actual state of affairs resulting from clearing agreements, but also of the different phases of their development, as well as of the opinions most frequently expressed as to their causes, scope and results.

Finally, the Committee was able to study the memoranda, written on its request by M. Basch, lecturer at Prague University, M. Guarneri, Director-General of the National Fascist Confederation of Industry, and Professor B. Ohlin, Stockholm University.

II.

The Joint Committee is therefore in a position to confine itself to summarising as briefly as possible certain reflections suggested by the results of the enquiry, and, inasmuch as all

information as to the scope and methods of the agreements is contained in the annexed documents, it proposes to restrict its observations to the causes and results of these agreements and to the possibility of abolishing them or of correcting their defects.

1. The establishment of clearing agreements arose out of conditions created by the institution of exchange control — that is to say, State restrictions on the purchase of foreign exchange in the open market. The Governments, in their replies, have not seen fit to go deeper into the matter; but it is necessary to point out that exchange control is only one form of defence against the effects of the general depression on countries whose economic and financial structure was specially vulnerable. The heavy fall in prices and the paralysis of international credit could not fail, in the absence of the regulating influence of the movement of capital, to give rise to a grave disturbance of the currents of international trade. The reaction of this disturbance on the monetary systems had the effect of hindering the natural and automatic international clearing process. It tended, on the one hand, to create abnormal channels of trade, and, on the other hand, to lead to defaults in payments or to conditions in which artificial methods of payment had to be sought. Clearing agreements, although apparently merely a mechanism for effecting payments, have frequently been used as a means of influencing the direction of trade.

The distortion of the system of trade and mechanism of payment under the stress of the economic depression was a general phenomenon taking different forms in different countries.

In view of the rapidly increasing shortage of foreign exchange, it was thought necessary in certain countries to limit, or entirely suspend, transfers abroad in respect of financial obligations and to limit the power of private persons to purchase with their national currency the foreign exchange required to pay for imports.

Countries which were creditors or suppliers (very often both) of the country whose currency was weak then found themselves confronted with serious difficulties. Not only were financial payments suspended or cut down, but a new kind of

bad debt soon accumulated on account of goods delivered for which payment could not be obtained — the so-called *frozen commercial claims*.

Moreover, the countries hardest hit by the depression have been led, in order to protect their currencies, to impose import restrictions of various kinds which, however unintentionally, often adversely affected other countries. This was inevitably the case when, with inadequate resources of foreign exchange at their disposal, they found themselves compelled to give preference to those imports most essential to their economic life.

On the other hand, the countries whose claims and goods remained unpaid were usually not inclined to accept increased imports of goods from the country with a weak currency.

Faced by this dilemma, they sought a system which would permit them : (1) to obtain payment for goods already delivered, (2) to continue, as far as possible — even on a reduced scale — their exports to the country in question, and (3) to secure at least partial repayment of their financial claims.

We need not consider whether, in such circumstances, creditor countries might not have adopted a policy better adapted to the conditions with which they were faced, nor whether it would not have been possible to facilitate the process of adjustment that was needed by bolder and better concerted action for the liquidation of the claims that were proving impossible of enforcement owing to the catastrophic fall of prices.

In the situation as it in fact developed, the countries which were economically and financially weaker were led either to take unilateral measures particularly harmful from many points of view or to introduce by joint agreement a system designed to eliminate transfers of foreign exchange so far as commodity transactions between the two countries cancelled one another. Thus arose the bilateral system of commodity clearing.

As it was not found possible to eliminate entirely evasions of the clearing system and as the country with a weak currency is usually also a debtor country, it follows that this system could only operate if the balance of trade between the two parties was definitely in favour of the debtor country.

A surplus in favour of the debtor country is required to enable it to meet financial obligations to the other contracting

party to liquidate frozen claims, and to make necessary purchases, particularly of raw materials, in third countries.

It is not surprising that, in face of the almost insuperable difficulties with which the situation was beset, the first persons to discern the possibility of the clearing process imagined themselves to be the inventors of a new and effective economic system.

2. Some time had, in fact, to elapse before it became apparent that the utility of this system in the face of the underlying causes of the depression was limited by its inherent defects. There is an immense difference between the spontaneous automatic, almost unconscious, clearing of debts and claims, generally through the machinery of banking, almost without the importer or exporter realising it, and the obligatory and necessarily bilateral clearing system as we see it applied at present.

Where a clearing agreement does not guarantee a sufficient supply of foreign exchange to a country with a weak currency, that country finds itself deprived, at least to a considerable extent, of the exchange the free disposal of which would naturally result from a surplus in its exports. A situation thus arises in which the orders of the weak-currency country at first tend to flow towards the country with which it has clearing relations, to the prejudice of third countries.

Moreover, the limited amount of free foreign exchange at its disposal makes it not only less and less able to purchase in third countries but also less able to make any payments to them. Since the starting-point is usually that the weak-currency country has an active balance of trade, it follows that, if it has at the same time large debts and a debit balance in relation to certain third countries, the latter probably will be the chief sufferers from the situation so created.

3. It might seem that things would proceed in a more or less satisfactory manner, at all events between the two countries between which clearing treaties exist. But, as will be seen from the description in the summary reproduced below, a series of forces tend to impair the trade relations between these two countries in the most undesirable way — by making it easier for the country with a strong currency, and more difficult for the country with a weak currency, to export.

It is natural that, while the depression continues, the pressure on the balance of payments of countries with weak resources should induce a corresponding pressure on the value of their currencies. The maintenance of the gold parity, which is threatened from the outset, becomes more and more difficult as the depression continues, in spite of the alleviation afforded by the more or less extensive and more or less regularised suspension of financial obligations in these countries. In the relations established by the clearing system, the rate of exchange corresponding to gold parity is from the outset relatively high, and acts accordingly as a brake on exports, while it encourages imports — whereas exactly the opposite process would be necessary to restore the position of a country which is both an exporter and a debtor.

In the other country, the existence of a rate of exchange higher than the natural rate places a premium on exports. The exporter receives more in exchange for the currency in which the payment is made than he would have received had there been no official rate. Not only does he receive more, but he is, at first at any rate, relieved of anxiety concerning payment being made, as he has a claim on the national clearing office and not on a foreign debtor. At a later stage, when, owing to these causes, unsettled arrears have accumulated, delays in payment will occur and credit will consequently have to be allowed.

The result of such a state of affairs is the reversal of the original trade balance on which the whole system was built, and the accumulation of frozen credits to the detriment of the country with a sound currency, while the other country consequently experiences an increased difficulty in continuing its exports and in obtaining, with a constantly declining volume of free foreign exchange, raw materials which it ought to obtain from third countries.

The situation just described changes from day to day as the various countries which have adopted the practice of clearing have speedily realised the dangers referred to above and are now endeavouring to meet those dangers by various measures.

4. Thus we see that the country with a weak currency, not wishing officially to abandon the official rate of exchange

in its transactions, introduces measures designed to neutralise the restrictive effect on its sales abroad of a rate which has become unduly high. These measures may consist in complicated systems of export bounties or import surcharges, which may vary according to the country of destination or provenance or according to the nature of the goods; or they may consist in giving the clearing offices special powers to fix the rate of exchange for transactions; or, again, they may consist in a considerable development of what is known as private compensation, which, while ensuring that every import shall be balanced by a corresponding export, leaves the parties concerned relative freedom to fix their terms of business, including the rates of exchange.

It should, however, be recognised that, if the system of private compensation is a phase in the process of evolution leading to the adoption of a natural rate of exchange, it cannot be regarded as an end in itself.

It is, in effect, a reversion to the primitive system of barter, which is only adopted by traders because money has ceased to be negotiable.

Moreover, the countries with free currencies, especially when they are at the same time financial creditors, become alarmed at the rapid increase in their commercial claims in arrears and realise the necessity of at all costs maintaining a balance in favour of the countries with weak currencies.

As they are in most cases unwilling to increase their imports, they generally have to decrease their exports; and this principle has been adopted in many clearings from the outset. In order to check the flood of arrears and to bring about their settlement, they institute clearing visas.

It is scarcely necessary to add, when the reversal of the natural currents of trade described above is borne in mind, that, in such circumstances, the final result of the system is to reduce the total volume of trade.

Nor have the unsatisfactory results of clearings been limited to the countries with weak currencies. The creditor countries which have adopted clearings have in some cases diminished the free exchange at the disposal of the weaker countries, thereby strengthening their own position as compared with that of other

countries and intensifying the fluctuations of exchange which already existed.

5. Before concluding this examination of the state of affairs created by the existence of clearing agreements, however, we desire to add certain further observations on the effect that these agreements have on international trade, and particularly on the interests of third countries. For their general effects on international trade, we may refer the reader to Annex I. Whatever construction may be placed upon the figures given and however opinions may differ as to the significance of the changes observed, it will be seen that the general tendency of clearing agreements is constantly to reduce the volume and value of international trade and to subject it to forms of restraint that necessarily hamper its development.

Third parties are adversely affected because a country with a weak currency will tend to buy as much as possible in the country with which it has a clearing agreement. Lacking free exchange, the weak-currency country will buy in the other country even goods which, in the ordinary way, it might have bought in third countries on more favourable terms. This leads to a diversion of commercial trends to the detriment of these last-mentioned countries, and if the third party is at the same time a financial creditor, it runs the risk of having to submit to treatment less favourable than that enjoyed by the other creditor countries whose relations with the debtor are based upon clearing arrangements. It should, however, be observed that, so far as raw materials not produced in either of the two contracting countries are concerned, purchases effected by one of them in the territory of the other will, in reality, be no more than a deviation of trade which will not put a stop to all exports of the product in question from third countries. But the weak-currency country will probably pay a higher price for its raw materials than it would have paid in the country of origin, and instead of buying raw materials it will be compelled to buy semi-manufactured goods; all these factors increase the price of what it buys, and will finally react unfavourably upon the cost price of the finished article. In many cases, measures are adopted to prevent such transactions. On both sides, the result will be a decrease in commercial transactions.

On the other hand, once natural automatic clearing has been either partly or wholly replaced by a number of water-tight bilateral arrangements, it is very difficult for third parties, producers of raw materials, to obtain the payments due to them, since, as a rule, their commercial balances with the debtor country are favourable. Third parties also suffer prejudice in another way; the debtor countries endeavour to procure in these markets free exchange, which they are unable to obtain elsewhere, by reducing their purchases from them. To sum up, when the question of clearing agreements is considered from the point of view of third parties, its most serious defect immediately becomes apparent — viz., its strictly bilateral character, which is the exact antithesis of that system of “communicating vessels” on which international economic life is based and under which the financial obligations which still exist were brought into being.

Side by side with the usual type of clearing, which was designed mainly for the recovery of commercial or other claims by the creditor countries, certain countries have employed bilateral clearings as an instrument of commercial policy for restoring equilibrium in the commercial balance between the two contracting parties, or even for obtaining a surplus.

Clearing agreements of this type usually contain a clause intended to restore the balance of trade and to secure an automatic return to the level provided for in the agreement.

Although of monetary origin, this form of clearing may place the States which accept it in contradiction with the most-favoured-nation clause; it is liable to create artificial channels of trade, running contrary to price levels; finally it reduces mutual exchanges to the level of the party for the moment less qualified to carry on export trade, and thus tends to reduce the volume of world trade.

Apart from their influence on the natural direction and total volume of trade, clearing agreements tend to lower the world level of prices. Their restrictive effect on trade limits possibilities of sale and, faced with the partial or complete closing of their outlets, the countries which are not parties to clearing agreements are gradually led to reduce the prices of their goods in order to sell them. These agreements thus reduce the volume

of trade and the prices at which trade is conducted ; they reduce the ability of debtor countries to meet those very financial obligations which gave rise to exchange control and subsequently to the introduction of clearing agreements.

Moreover, internal readjustments, which in many countries will be indispensable to the establishment of normal conditions of credit and trade, are rendered more difficult. In this respect, the system acts as a brake by maintaining an artificial currency rate and a disequilibrium between home and foreign prices. A return to equilibrium in exchange rates and commodity prices is an essential condition of improvement in the general economic situation.

It has been suggested that the prejudice caused to third countries might be avoided by making it possible to transfer balances between different clearings and thus making them multilateral. But there would be material difficulties in arranging such a system and the developments in this field have not been encouraging.

6. But it is not sufficient to indicate only the drawbacks of the system of clearing agreements which are fully realised by the very countries that have recourse to them ; these countries indeed are endeavouring by varied, if partial, measures to remedy the drawbacks as far as they can, pending the possibility of abandoning the system. In their replies, most of the Governments have stated that they consider this system to be a necessary evil and that they ask nothing better than to revert as soon as possible to the normal methods of international trade.

The next step is to attempt to discover how, in the difficulties now prevailing, this may be done ; for that, however, it will be necessary to go back to the root cause of the clearing system — that is to say, exchange control.

Such control is due to various causes of which the principal is the fear with which the Governments and public opinion of certain countries regarded the danger of a currency depreciation analogous to the monetary collapse of only a few years ago. However, certain countries, in very similar material, though different psychological, conditions, have been able to dissociate their monetary units from a fixed quantity of gold and thus avoid the necessity of imposing upon their trade restrictions

which would only serve to increase the depression. While it is not for this Committee to pass judgment on the policy which each country, in view of its special situation, thinks fit to apply in monetary matters, the Committee feels bound to point out one fact which is indisputably proved by the operation of the clearing treaties — namely, that when, in order to maintain the internal value of a currency at a particular level, that currency is prevented from serving as an instrument in trade, it ceases, at any rate as regards the external relations of the country in question, to perform the essential function for which it was created.

7. It remains to consider by what means clearing agreements can be abolished or their effects rendered less harmful.

In the first place, it is to be hoped that exchange control will be abolished, at any rate as regards commercial transactions, so that national currencies can once more perform their natural function, which is to be exchangeable without any limitation for all other currencies, and through them for goods.

In certain countries, a return to a more normal situation may be rendered difficult by the large volume of short-term debts which, in the absence of exchange restriction, might involve large-scale withdrawals. But the burden of debts of the majority of the chief debtor countries has already diminished to a very considerable extent. The depreciation of the dollar and of the pound, and of the currencies gravitating in their orbit, has constituted a real reduction of debts which has partly counterbalanced the increase in the weight of the debt caused by the fall in prices. Moreover, a number of special arrangements have been concluded, particularly as regards short-term debts, the aggregate result of which has certainly been to reduce considerably the payments to be effected.

But in some cases there have been no such arrangements, or they are not sufficiently wide. It may be necessary in such cases to maintain some control in regard to debt payments.

The Committee does not in any way desire to under-estimate the importance of the debt problem in relation to the existence of exchange control, but it is of opinion that the present situation proves beyond all doubt that the control of debt settlement by exchange control does not achieve its object. Exports, and

consequently the actual settlement of debts, are thereby made more difficult.

The experience of countries which have abandoned exchange control during recent years has proved that the risk of depreciation is not so acute if the Government concerned avoids monetary inflation. Their experience has also shown that the flight of capital which may occur when monetary depreciation begins is of a temporary nature and may be arrested by various means.

Creditor countries possessing ample financial resources are called upon to play a highly important part in restoring economic equilibrium. It is essential that these countries, realising that others in monetary difficulties are at once their clients and their debtors, should, when concluding agreements, display greater breadth of mind and not confine themselves to endeavouring to liquidate their claims ; they should bear in mind the economic interdependence which, whether they like it or not, actually exists between the fate of both classes of countries. It would be futile — and indeed out of place — to advocate the abandonment of exchange control, if the return by any country to free transactions were to mean that other States would refuse to accept its products on the pretext that their prices had thus been reduced.

In short, it is important that, when a debtor country endeavours to allow its currency to find its natural level by removing exchange control, creditor countries should not negative the effect of this action by increasing their own restrictions on trade.

So long as a creditor country is not prepared to develop and to maintain an unfavourable balance of trade, or at least to compensate a favourable balance by “ invisible ” imports, no international monetary system can operate successfully.

8. It is important to consider whether, during the period which must elapse before the foreign exchange control — at least for commercial transactions — can be abolished, it is not possible to modify the clearing agreements with a view to rendering gradually more normal the conditions under which international trade takes place. We believe that there is already a tendency in this direction and that signs of it are

apparent in the most recent stage of the evolution of clearing agreements.

The countries in question soon perceived that, unless certain precautions were taken, the position of the two parties to the clearing agreement gradually deteriorates, to the great disadvantage of both. As is shown by the Secretariat's summary given below (Annex II), countries have therefore been obliged to resort to measures intended to counteract this tendency which is inherent in the clearing system, especially when it is based on the application of a rate of exchange that has become artificial.

It should be pointed out in this connection that the Secretariat's enquiry was begun some months ago and that, in the meantime, the application of these measures has become more and more general. For instance, several countries with a weak currency, including the most important, have found that the result of the strict application of the legal parity was rapidly to wipe out all the balances in their favour resulting from their trade with their partners in the clearing agreements.

There is in certain countries a tendency to allow clearing offices to fix the rate of exchange by agreement between themselves. Moreover, the practice of private compensation, by which the parties concerned negotiate more freely between themselves the conditions of the transaction and the rate of exchange is becoming more widespread.

In short, all these measures and concessions tend to make it possible for producers and traders alike to re-establish among themselves — without the abandonment of the theory of legal parity — monetary and price conditions which are becoming more and more normal. These tendencies are undoubtedly in the right direction.

When the free market rate is extensively applied to commercial transactions, whether directly or by means of private compensation, the countries in question will realise that this method offers greater advantages and fewer risks than was thought, and will before long decide to apply this rate more and more generally, until clearing agreements are finally abolished. Even before that stage is reached it will be possible, where trade conditions permit, to replace the red-tape methods of the

clearing system by the much more elastic method of transfer or payment agreements, which would allow more freedom to the parties concerned and would not affect the direct relations between individual debtors and creditors.

Nevertheless, two important obstacles remain :

The first is of a political nature. Certain countries have by experience found clearing agreements to be an instrument enabling them to model their national economic system on new lines. They have therefore used them to modify systematically the existing channels of trade. They pursue a policy, over a longer or shorter period, of utilising clearing agreements in the same way as quotas or Customs duties. At the same time, these countries obtain through the clearing a credit in goods.

To hasten the return of normal trade conditions, it would be desirable that clearing agreements should not be used in future for such purposes.

The second obstacle is a technical one, and consists in the accumulation of commercial claims in arrears. These claims, to which the clearings owe their origin, contribute to their survival. The abandonment of the agreements depends to a large extent on the measures taken to liquidate them. To this end a unilateral clearing can be maintained in respect of a part or the whole of the exports from the debtor country till the arrears are settled. But this entails a suspension of further exports from the creditor country, and therefore also diminishes trade. In certain cases, debtor countries have been helped to liquidate arrears by a funding system — the debtor Governments taking over the payments made by the debtors in their national currency and the creditors accepting a long-term bond of the debtor Government in settlement of their claims. Such a procedure is, of course, only possible in cases where the debtor Government framed a policy which enables confidence in its credit to be established.

9. (a) In conclusion, while it recognises that the clearing system may, in certain cases, have helped to prevent a still more serious collapse of trade that might otherwise have occurred as the result of the general introduction of control of foreign exchange transactions, the Committee recommends that the clearing system should not be extended.

(b) It further considers, like most of the Governments consulted, that this system can only be regarded as an expedient or makeshift involving a number of drawbacks, and that it should therefore be abolished as soon as possible.

(c) The best, though not the only, solution would be the complete abolition of exchange control facilitated by measures designed at once to promote permanent arrangements in regard to financial debts and a less restrictive commercial policy which would afford minimum guarantees for export. Should such complete abolition be impossible, commercial transactions should at any rate be freed from the obstacles placed in their way by exchange control.

(d) Pending these measures of recovery, the Committee considers that all proposals and all action designed to counteract, directly or indirectly, the grave drawbacks to international commercial relations resulting from the application of an artificial exchange rate in order to relieve the situation of the debtor country should be encouraged.

(e) All measures reducing import restrictions and opening the way to the export of increasing quantities of goods from debtor States should also be encouraged — even in the interest of creditor countries with a sound currency — first in order to ensure the payment for their exports and secondly in order to promote general recovery.

(f) Measures designed to leave the conditions — including exchange conditions — under which imports and exports are effected to the initiative of the parties concerned should also be encouraged.

(g) The more definite this tendency towards a return to normality becomes, the nearer we shall get to a situation in which it will be possible to replace clearing agreements by less vexatious arrangements, such as transfer and payment agreements, and finally to abolish them.

* * *

While clearing agreements and other arrangements for the settlement of international payments by compulsory compensa-

tion are in most cases the outcome, as we have seen, of the introduction of restrictions on foreign exchange dealings in various countries, this action is itself the outcome of certain fundamental causes. The countries which adopt such restrictions and maintain them persistently, notwithstanding the growing difficulties that they cause to their economic life and to international trade, would no doubt be more willing to abandon them if they were not dominated by a feeling of insecurity, due in the main to the three following causes :

The risk of seeing certain foreign markets for their products suddenly closed by measures of prohibition ;

The instability of the international market in goods and capital, due to the instability of the rates of exchange between the principal currencies ;

Uncertainty as to the real and final weight of their indebtedness, despite the substantial alleviations which have already been generally brought about.

Hence, without prejudice to the suggestions made above — which should be put into force to the greatest possible extent — the Committee would regard the restoration of an international monetary standard, with the conditions of commercial freedom essential to its normal operation, as the most effective safeguard against disturbing action being taken as regards either dealings in foreign exchange or international agreements for the settlement of payments.

ANNEX I.

STRUCTURE, OPERATION AND EFFECTS OF CLEARING AGREEMENTS.

1. CAUSES WHICH LED TO THE CONCLUSION OF CLEARING AGREEMENTS.

For an understanding of the nature and operation of clearing agreements, it will be enough to consider, among the various circumstances that led to their creation, the fact constituting the *immediate and direct cause* — i.e., *the establishment of measures for the control of dealings in foreign exchange*. This control, as is well known, was introduced in many countries in order to protect an unstable currency and obtain the sums required to discharge foreign obligations. The policy of control has made it more and more difficult for foreign suppliers to secure payment for the goods sold to the countries in question, and speedily resulted in the freezing of their debts.

Moreover, the inevitable corollary of exchange regulation was control of imports. In order to economise foreign exchange, goods could not be imported from other countries without a permit issued by the competent authority. The object was to admit only articles that were really indispensable to the national economy. The goods imported were therefore subjected to a process of selection, and even when the selection was quite impartial, the practical result was a differential treatment that was calculated to some extent to affect international relations.

The situation thus created was all the more embarrassing to international trade since this policy was applied by numerous countries, more especially in Central and Eastern Europe, and including Germany, a country playing a leading part in world economics.

The new monetary, financial and commercial policy of these countries was therefore bound to have vast and far-reaching repercussions. Certain other countries, which had lent these countries considerable sums, while finding their commercial and financial claims becoming frozen, saw their exports to them decline.

A similar situation gradually arose, *mutatis mutandis*, between several Latin-American States and countries with no foreign exchange restrictions. It will easily be understood that the last named had to devise ways and means of putting an end to a state of affairs that was becoming more threatening from day to day.

The Governments of these countries immediately obtained powers to take any steps that would safeguard the interests of exporters in respect of countries whose foreign exchange regulations were prejudicial to them (Law of August 8th, 1932, in Belgium ; Decree of December 3rd, 1931, in France ; Clearing Law of 1932 in the Netherlands ; Royal Decree-Law of April 13th, 1933, in Italy, etc.).

These measures generally consisted in *payment or transfer agreements and clearing agreements*.

Clearing agreements vary considerably¹ and have been concluded more especially between European countries and Latin America. Clearing agreements are much more numerous than those for payment. In Europe, at the moment the former are the rule and the latter the exception.

They have been adopted chiefly by countries which, owing to the introduction of foreign exchange control in certain States, have found themselves unable to obtain payment of their claims (blocked or frozen claims) and which, at the same time, bought from those States more goods than they sold them. They felt these agreements were the surest way of recovering their blocked claims and of preventing the freezing of fresh claims ; the agreements have, in fact, rendered it possible for the amounts which should have been transferred to pay for

¹ The Anglo-German Agreement of November 1st, 1934, is an example of payment agreements. The main provisions of this agreement are as follows :

(a) German exports to the United Kingdom continue to be made, as heretofore, without any formalities or control, and they are paid for directly to the German supplier by the British importer without the intervention of a clearing office ;

(b) British exports are admitted into Germany up to the normal proportion which such exports had maintained in comparison with German exports to the United Kingdom during the preceding year, so that the balance of trade will not be altered. The actual proportion agreed upon was that British exports to Germany in each month should be admitted up to 55 per cent of the actual value of German exports to the United Kingdom in the second preceding month ;

(c) The limitation of British exports is effected by the licensing authorities in Germany : but in order to prevent this licensing system being abused, the exports from the United Kingdom of a few specified commodities (coal, herrings and textile manufactures) may not be restricted below the amounts of these exports in the preceding year, without the agreement of the British Government ;

(d) Thus out of the value of German exports to the United Kingdom, the normal porportion (45 per cent) is left at the free disposal of the Reichsbank : but the German Government undertook to set aside 10 per cent out of this 45 per cent to pay for frozen commercial debts, and they further undertook to meet the service of the Dawes and Young Loans held in the United Kingdom, the service of other German loans being funded for two years.

goods purchased in the countries with foreign exchange control to be used to that end.

There exist clearing agreements, not only between countries which have left foreign exchange uncontrolled and countries where it is controlled, but also between countries in the latter category.

2. THEORY OF THE OPERATION OF BILATERAL CLEARING SYSTEMS.

In each of the contracting countries, importers of goods from the other country, instead of paying their suppliers direct, remit the value of imported goods in the national currency to a special office¹ or undertake to do so. It is frequently provided that the Office shall receive payment, not only of trade debts which fall due after the agreement comes into force, but also of debts already due on that date.²

From the amounts thus received, the clearing office takes the sums necessary to pay national exporters for goods sent by them to the other contracting country. Exporters therefore are paid for their goods by the clearing office and not by the foreign customer who bought them.

As regards the settlement of payments, direct relations between the exporters of one country and the importers of the other country, parties to the clearing agreement, cease to exist and are replaced by :

(a) Two triangular sets of relations (importers — clearing office — exporters) occurring within a single contracting country ; the sums paid by importers, and therefore paid in national currency only, are no longer used to pay the foreign sellers but the domestic exporters, thus linking the same country's imports and exports closely together ;

(b) A relationship between the two clearing offices which set off their respective claims and debts.

¹ Generally in the National or Central Bank, which is responsible both for the administration and financial operation of the clearing system (Austria, Belgium, Bulgaria, Finland, Hungary, Norway, Turkey, etc.), or for its financial operation only, the administration being entrusted to an *ad hoc* institution (in Italy, to the *Istituto nazionale per i cambi coll' estero* ; in Switzerland, to the Swiss Clearing Office ; in Belgium, to the Belgian-Luxemburg Clearing Office ; in the Netherlands, to the Netherlands Clearing Institute, etc.). In some countries, such as France, this institution (*Office de compensation des paiements* at the Paris Chamber of Commerce) is responsible for all clearing operations.

² The Additional Agreement of December 8th, 1934, to the Clearing Agreement between Switzerland and Germany provides in the case of Switzerland that payments arising out of tourist traffic or capital transactions shall also be made to the clearing office.

3. PRACTICAL OPERATION.

(a) *Order of payments to exporters.*

Exporters are paid in principle in the chronological order of the payments made by debtors,¹ so far as the clearing office funds permit.

(b) *Payments made to clearing offices constitute a final settlement in certain cases.*

Some agreements (*e.g.*, that of December 22nd, 1934, between Sweden and Germany) provide that payments made to clearing offices constitute a discharge for debtors, while other agreements (more particularly those concluded by Switzerland and Italy) contain a provision to the effect that the payments made by a debtor do not relieve him of liability until the creditor has received the amount of his claim. The object of this provision is to protect exporters against exchange risks by obliging debtors to pay any exchange difference that may arise between the rate on the date of payment and the rate on the date of transfer.

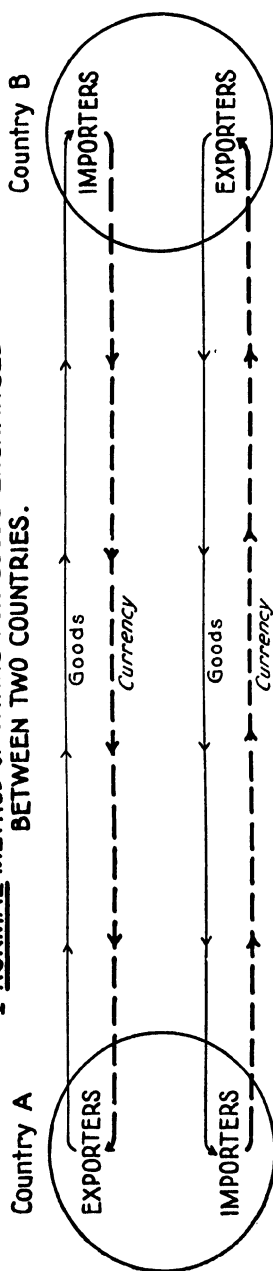
The question arises in certain countries whether, in the absence of any express provision on the subject, any exchange difference arising between the date of payment by the buyer and the date of payment to the vendor, where the price of the goods has been fixed in the currency of the latter or in any other currency than that of the purchaser, should be subject to later settlement between the parties to the contract.

Some hold that, when the buyer pays his own national clearing office and the latter notifies the clearing office of the seller, the result is to make the latter the creditor of his own national clearing office and the question of exchange risk no longer arises. Furthermore, since the payments made by importers are used *in toto* to pay exporters, they cannot be regarded as individual payments.

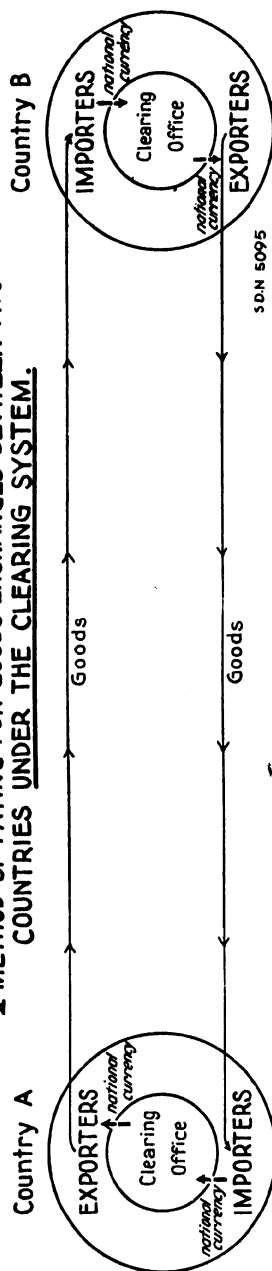
On the other side, it is argued that adoption of the method of transfer compulsorily imposed by clearing agreements on the buyer and the seller should not, and cannot, affect the will of the latter as expressed in the contract of sale. If the price has been fixed in the currency of the seller or in any currency other than the buyer's, the seller should receive in such currency the full amount of his claim. It should accordingly be implicitly agreed, in the obvious mutual interest of the sellers of both contracting parties, that the payment made by the buyer only acts as a discharge when the seller is paid.

¹ The two clearing offices notify one another of the payments received, thus authorising payment to the respective vendors.

I NORMAL METHOD OF PAYING FOR GOODS EXCHANGED BETWEEN TWO COUNTRIES.



II METHOD OF PAYING FOR GOODS EXCHANGED BETWEEN TWO COUNTRIES UNDER THE CLEARING SYSTEM.



I. Under the normal system, the two reciprocal flows of goods between countries A and B are accompanied by two opposite flows of currency representing the value of the goods and proceeding from the importers of each country to the exporters of the other.

II. Under the clearing system, only the two flows of goods remain; the external flows of currency are abolished. Inside each of the countries, a flow of the national currency proceeds from importers to the clearing office and from the clearing office to exporters.

(c) *Origin and provenance of goods: goods in transit.*

The goods covered by a clearing agreement are usually those originating in or coming from the territory of the contracting parties. Goods which have undergone an important change or conversion in such territory are sometimes covered by the clearing agreement (agreements of the Netherlands, Czechoslovakia and Italy with Germany, etc.).¹ The same applies to goods from the colonies: all the agreements of the Economic Union of Belgium and Luxemburg apply equally to the Belgian Congo and to Belgian mandated territory. The colonies are also included in the agreements made by France, the Netherlands and Spain with Germany, in the agreement between France and Roumania, etc.

On the other hand, transit trade is generally explicitly excluded in order to prevent the exporters of third countries from using the clearing system to obtain payment for their goods to the prejudice of traders of the contracting parties. Switzerland, whose transit trade is of considerable importance, has included transit transactions in some of her agreements. She also included transit transactions in her clearing agreement with Germany but, finding that her clearing accounts with Germany were overloaded with articles of foreign provenance — the reasons for this will be given below — she dropped them altogether in the Additional Agreement of December 8th, 1934.

(d) *Miscellaneous payments* (subsidiary expenditure — trade claims in arrears — financial claims — tourist traffic — postal and telegraph charges, etc.).

Payments arising out of commodity transactions between two countries are often taken to cover, not only payment of the price of the goods, but also the subsidiary costs of commercial transactions (transport, insurance premiums, commissions, Customs duties, etc.).

Payments of a miscellaneous nature, apart from those arising out of trade in goods, may be and are settled by clearing.²

¹ On the other hand, the finishing trade is excluded from the clearing agreements concluded by France.

² There are treaty provisions, for instance, for payments:

(1) Arising out of the settlement of accounts between the postal, telegraph and telephone administrations and the railways of the contracting parties (clearing agreements between the Netherlands and Germany, Italy and Germany, Sweden and Germany, etc.);

(2) Arising out of tourist traffic. Such payments are specially important for countries like Switzerland, Italy, Austria, Czechoslovakia, etc. (clearing agreements between Italy and Germany, Switzerland and Germany, etc.). A special feature of the clearing agreement between Switzerland and Germany is that the sums earmarked for

But it is chiefly the payments in respect of commercial claims in arrears and financial claims that are given precedence. The liquidation of blocked commercial claims is in fact the basic motive for clearing agreements, while financial claims are important, more particularly in the relations between certain Western European countries which lend large amounts of capital and Germany. At the present time, the clearing system is regarded by these countries as a useful means of recovering their blocked assets. The settlement of financial claims is also included in many clearing agreements concluded with Eastern European countries (clearing agreements between France and Hungary, France and Bulgaria, France and Turkey, Italy and Roumania, Switzerland and Roumania, etc.) and Latin-American countries.¹

The service of the Young and Dawes Loans is also included in certain agreements (France, Belgium, the Netherlands, etc.) with Germany.

(e) *Allocation and priority of payments.*

When there are several kinds of debts to be paid with the funds in the clearing office, the rule followed in most cases is to allocate the amount according to percentages fixed beforehand in the agreement itself. To make the system of allocation more elastic, it is often provided that, should one class of claims not absorb the proportion of the clearing funds allotted to it, the unused surplus shall be periodically credited to another class (Swiss clearing agreements, clearing agreement between Italy and Roumania, etc.).

In these allocations, commercial claims are given priority over financial claims. It has been felt — even in countries such as Switzerland, which largely make good the deficit in their balance of trade by the income from their investments abroad — that the interests of exporters must take precedence of the interests of investors.

the expenditure of German tourists in Switzerland are those due to imports into Switzerland of German coal;

(3) Representing the expenditure of legations, students (clearing agreements between Bulgaria and Austria, Hungary, Czechoslovakia, etc.);

(4) Representing the cost of manufacturing licences (clearing agreement between the Netherlands and Germany), patent fees (clearing agreement between Sweden and Germany), etc;

(5) In respect of maritime transport (clearing agreement between Italy and Germany), etc.

¹ The clearing agreement between Czechoslovakia and Austria only applies to financial payments in the case of Czechoslovakia and certain specific payments in the case of Austria.

- (f) *Assignment to the other party of a proportion of the sums available in the clearing fund.*

When the contracting party which is usually the other party's debtor for goods and creditor on other counts has left foreign exchange transactions free, it almost always puts part of the amounts available in its clearing fund at the free disposal of the other party¹: and sometimes (and this is the most usual case) the agreement lays down a percentage figure for this amount, sometimes it merely states that the proportion will be fixed by agreement between the parties (occasionally the amount is not disclosed). The percentage may be fairly low (4 per cent in the agreement between Germany and the Netherlands of December 22nd, 1934) or be almost a third of the payments made to the fund (40 per cent in the French-Roumanian agreement.)

It should, however, be observed that the proportion of the amounts available in the clearing funds of creditor countries which an agreement puts at the disposal of the other party is *not always transferable, although this is not to be gathered from the terms of the treaty*. To quote only one instance, the percentages granted to Hungary by her various clearing agreements can in many cases only be used by her, in full or in part, for certain payments inside the country concerned. This provision indicates the tendency, for each country, to balance as far as possible its trade exchanges with every other country. Naturally, this equilibrium of trade cannot easily be achieved and the result is that the amount in question often remains blocked.

Two essential points regarding the structure of clearing agreements have still to be explained. The first point is the following.

- (g) *Rate of conversion of the currencies of the contracting parties (or other currencies used for clearing).*

It has already been stated that the amounts paid by debtors to the clearing offices must be paid in the national currency. The clearing agreement lays down the rules to be followed in converting one country's currency into that of the other. Consequently, when the invoice is made out in the currency of the seller — which is naturally always the case if that currency is not controlled — the buyer must pay the amount of his debt in his own currency after converting it in accordance with the rules laid down in the clearing agreement.

¹ This is often the condition on which the debtor country with a credit balance of trade accepts the clearing system (cf. the replies of the Bulgarian, Yugoslav and other Governments).

Various methods are followed in this respect. The basis for conversion may be either the legal gold parity (agreement of Hungary, Belgium, etc.), or the "official rate" of exchange (agreement between Italy and Roumania, etc.), or the mean rate of the day on a given bourse (agreement between France and Germany),¹ or a conventional rate (agreement between Latvia and France), or market rates (agreements between Germany and Denmark, between Sweden and Turkey and Germany, etc.), or a "given stable currency or the rate of dealings on the bourse" (Austrian agreements). There are also agreements providing that the conversion of the currency of one contracting party into that of the other shall be carried out by agreement between the bodies responsible for working the clearing system (Italian agreements with Germany and Turkey), or at a rate fixed by the experts of the respective clearing institutions (agreement between the Netherlands and Germany).

In reality, however variously described, there are always two basic systems for converting the currency of one contracting party into that of the other: the system which disregards the *actual* value of the currency of the country with foreign exchange control and the system which takes this value into account.

The choice of the basis for conversion has a very great influence on the operation of clearing systems, as will be seen later. The consequences of such choice differ very widely, according to whether account has or has not been taken of the depreciation of the currency of the country which has instituted foreign exchange control.

In cases where invoices are made out in currencies other than those of the contracting parties, the bases for converting them into the currencies of the latter also differ very widely. Use is sometimes made of the exchange rate on the bourses of the contracting parties (agreement between Italy and Germany) or on the market of a third country (agreement between Italy and Yugoslavia). Sometimes the clearing institutions are made responsible for fixing the rate of exchange by joint agreement (clearing agreement between Italy and Turkey). Some agreements provide that conversion must always be carried out only in the currency of one of the contracting parties² (in Italian lire in the agreement between Italy and Yugoslavia, in French francs in the agreement between Estonia and France). When the currency of a specified third country is adopted as the basis for conversion and the invoice is made out in another currency,

¹ The rate of the Berlin Bourse is used for converting both francs and Reichsmarks.

² This is the currency in which the general clearing accounts between the two countries are kept.

the invoice must first be converted into the basic currency (agreement between Austria and Turkey).

Lastly, the accounts kept by the clearing offices are expressed in the respective national currencies (in most cases), or in the currency of one of the contracting parties¹ or in the currency of a specific third country.²

(h) *Clearing account surpluses and balances.*

There is a second feature of clearing agreements which is of considerable importance: the utilisation of any *surpluses* existing on the expiry of a certain period (fifteen days, one or three months) after the settlement of accounts between the clearing offices, as well as of the balances remaining on the termination of clearing agreements in favour of either contracting party.

The provisions regarding eventual surpluses aim at giving the debtor countries in whose favour they may arise an additional supply of foreign exchange over and above the percentage already allocated to them in the agreement, or at using such extra balances to expedite the settlement of the debts of those countries. Both these aims are sometimes achieved simultaneously (Additional Agreement between Germany and Switzerland of December 8th, 1934). There is sometimes a provision also that, should the balance exceed a given amount, the excess over such amount is to be at the disposal of the party concerned (clearing agreement between Germany and Norway). Another provision is that the use to be made of the surplus amounts in question shall be decided by agreement between the clearing institutions of both parties (clearing agreement between Italy and Germany).

As regards balances remaining on the expiry of the treaties, it is usually laid down that they must not be transferred.³ The importers of the country which has a favourable balance with the other country must continue to pay to the clearing office sums equivalent to the value of their imports at the moment when the agreement terminates until the claims

¹ The clearing accounts of Switzerland with Greece, Yugoslavia and Turkey are kept in Swiss francs; those of France with Estonia and Yugoslavia, in French francs. The clearing accounts between Estonia and Finland are kept in Finnish marks; the accounts between Italy and Yugoslavia, in Italian lire; those between Sweden and Germany, in Swedish crowns, etc.

² For instance, the clearing accounts of Sweden and Yugoslavia with Turkey are kept in French francs.

³ There are, of course, exceptions (agreements between France and Roumania, Greece and Roumania, Sweden and Germany, etc.).

corresponding to such balance have been fully met. This *liquidation clause* is contained, for instance, in the treaties concluded by Switzerland, in the agreements of Italy with Germany and Turkey, etc. But even when no such clause appears in the clearing agreements, the method of liquidating the balance is always to increase the exports of the country which is still a debtor in the clearing system. Transfers of balances in foreign exchange are avoided as far as possible, as they are considered inconsistent with both the spirit and the purposes of the clearing systems.

4. ESSENTIAL DIFFERENCE BETWEEN *NORMAL* (OR BANKING) CLEARING AND *CONVENTIONAL* (BILATERAL) CLEARING.

As the payments arising out of international obligations have always, since the credit system made its appearance in the economic world, been made by a system of set-off, it may perhaps be advisable to stress the great difference between *normal clearing* and *clearing carried out under the agreements* referred to here.

The *normal* (or banking) *system of clearing*, which only operates and can only operate between countries in which currency movements and foreign exchange transactions are unhampered, consists in a *spontaneous* and *automatic* setting-off of debits and credits between each country and abroad, this being done by exchanging credit instruments — reckoned at the free world-market rate — in certain institutions specially engaged in such operations. This is a matter of banking, with which importers and exporters of goods have nothing whatever to do and which therefore imposes on them no kind of compulsion.

On the contrary, *conventional* (bilateral) *clearing* systems are *compulsory* — other forms of payment being prohibited — and *bilateral* — *i.e.*, they only affect the obligations of one contracting party to the other; they are often based on conventional or artificial rates of exchange and impose on traders various obligations, formalities to be complied with, etc., which considerably restrict their freedom of action. As regards movements of money, communication between the economic systems of the various countries is abolished or reduced to a minimum, and each country, as already duly explained, ultimately becomes a self-contained unit.

Since the automatic process of adjustment brings no longer the balance of payments into equilibrium naturally, the individual States try to achieve this result by securing equilibrium with each of their trading partners — an obviously hopeless proceeding.

5. AN ADVERSE TRADE BALANCE NECESSARY FOR THE SATISFACTORY OPERATION OF THE CLEARING SYSTEM.

As a general rule, clearing agreements are concluded on the initiative of, or even under pressure from, the country with a sound currency. This is very natural, since the country with a controlled currency is not interested in applying a system which will result in depriving it of foreign exchange. Such a country is in fact compelled to accept the establishment of a clearing system by being threatened with denunciation of commercial treaties, quantitative restrictions (import quotas, etc.), additional duties, imposition of a unilateral clearing system, increased difficulty in finding foreign sellers willing to grant long credits.

The more the trade balance between two countries is favourable to the country with a weak currency, the greater will be the pressure exercised on that country.

Again, an *unfavourable* or adverse *balance* in a country with a sound currency is a *sine qua non* if the clearing system is to operate so as to further the interests of that country.

The existence of an adverse balance is all the more necessary if, as has almost always been the case, the country with a sound currency has had to impose a clearing arrangement on a country with a weak currency in order to recover blocked claims, since it is only by using the funds of its clearing office for such purposes after paying exporters — thereby implying an excess of its imports over its exports — that the creditor country can achieve its purpose.

The results of our investigations show that *an adverse balance tends to disappear* by the very functioning of the clearing system, as is explained later.

From then on, the essential object of the clearing system is endangered. By a curious change in the scale of values, the decrease in its adverse balance of trade, which a credit country would formerly have welcomed, becomes on the contrary a source of anxiety and difficulty. This has given rise to the saying: “*To have a good clearing system you must have a bad balance of trade*”.

It is therefore necessary, if the clearing system is not to become inoperative, to adopt special measures calculated to prevent changes in the respective proportions of the foreign exchange held by the parties in question.

6. FORCES RELEASED BY THE CLEARING SYSTEM ITSELF WHICH TEND TO ALTER THE NECESSARY RATIO OF TRADE BETWEEN THE COUNTRIES AND THEREFORE TO JEOPARDISE THE OPERATION OF THE CLEARING SYSTEM.

The causes which combine to produce this state of affairs — the modification of the balance of trade in favour of the country exercising foreign exchange control — are many and various.

(a) *A clearing system stimulates purchases by a country with a controlled currency.*

The first and chief of these reasons is that the traders of such a country naturally tend to increase their purchases in the other country, because they have no longer any exchange difficulties to contend with; they merely pay their clearing office in their own currency for the value of the goods imported. Furthermore, the very shortage of foreign currency, which the existence of the clearing agreement has accentuated, encourages them to buy in that country many goods which they used to purchase elsewhere, perhaps even at a lower price, but for which, in the absence of foreign exchange, they can no longer pay their old suppliers.

There is in addition the psychological factor that the traders of the other party, feeling that the clearing system gives them a complete guarantee that they will always receive the price of their goods, are inclined to increase their exports and develop their business.

Under a clearing agreement on the other hand, sale is, or may be, made conditional upon purchase. The stronger party obtains a monopolistic right of sale up to the limit of the value of its purchases from the weaker. This monopoly would have no particular importance if commodities normally required were equally easily obtained from any and all countries. In actual conditions in Europe, it has very great importance. The majority of the weaker States are characteristically exporters of foodstuffs and two or three raw materials: oil, tobacco, timber; they are importers of raw materials and manufactured goods. The stronger countries are exporters of manufactured goods. Not only have the terms of trade in recent years become less favourable to foodstuffs, but the European foodstuffs producers are to a considerable extent limited in the circle of their export markets by the cost of transport. The lower the price of foodstuffs, the greater the restrictive influence of transport costs. If this restricted circle of export markets insists on the conclusion of clearing agreements and under those agreements blocks the foreign exchange which the foodstuff-exporting countries obtain for their exports, these latter are driven either

to buy manufactured goods which they may not want at the price, or to buy raw materials which they do want, not directly from the producers of the raw materials, but indirectly from industrial States.

Lastly, when, as often happens, the rate of exchange between the currencies of the two parties is fixed by treaty regardless of the real value (generally lower) of the currency of the country where foreign exchange is controlled, a premium is put on that country's imports.

All these reasons naturally explain why the exports of a country with a sound currency to a country with a weak currency must necessarily rise.

(b) *Effects of an excessively high rate of exchange.*

Again, the factor last mentioned (conventional rate of the currency of the country exercising foreign exchange control) causes the prices of its goods to be artificially and automatically increased and thus handicaps its exports to the other contracting party.

Thus, imports into the country with a weak currency increase while its exports to the other country decrease.

(c) *Various ways of evading the clearing system.*

The third and last reason, which mainly affects payments to the clearing office of the country with a sound currency, is that traders of the country exercising foreign exchange control often try to evade and escape the clearing, so as to obtain at least some proportion of high value foreign exchange.

Among the methods adopted for this purpose we may mention the following :

(a) Selling goods, not direct to the other party, but through traders of a third country which has no foreign exchange control and is not bound by a clearing agreement to either of the countries concerned ;

(b) Agreeing with the purchaser to make a fictitious declaration of value or make out a fictitious invoice showing the goods at less than the real value, so that part of the cost price of the latter is not paid by the purchaser to the clearing office but deposited in a bank in his country for the account and at the free disposal of the seller ;

(c) Granting to the purchaser a long term for payment in the hope that meanwhile — in a rapidly changing world — the exchange and currency situation will improve to the advantage of the parties concerned ;

(d) Despatching goods to a branch in the territory of the other contracting party. The branch will of course not have to pay the cost of the goods but, as it sells them itself in the country, will be able to receive the full price outside the clearing system to the profit of the seller.

Traders of the country in which foreign exchange dealings are still uncontrolled are often prepared to lend themselves to these various expedients, either because they get more favourable prices from the suppliers, or because they, too, dislike the clearing system. The fact is that this system by its formalities hampers them considerably in transacting their business¹ and makes them lose valuable time. Imports and exports of goods are subject to applications being made on special forms, and to the submission of other documents (certificate of origin, original or copy of invoice, Customs certificate, undertaking in the case of importers to pay the value of the goods to the clearing office at the appointed date, export permit issued to the consignor by the proper authority, etc.), these being documents which it is sometimes impossible to have available simultaneously.²

7. TENDENCIES OF TRADE STATISTICALLY ILLUSTRATED.

The majority of clearing agreements have been contracted between a country — generally a debtor state — enforcing a system of exchange control and a country with freely convertible currency. In order to illustrate the broad tendencies of trade regulated by clearing agreements, trade figures for six countries which have concluded several such agreements have been analysed. Of the first three countries — namely, France, Switzerland and Italy (called Group A below) — none exercised exchange control in respect of merchandise transactions until December last; the three other countries — Hungary, Bulgaria and Roumania (Group B) — have all enforced exchange control.

The trade of these countries with those with which they have concluded clearing agreements (for the sake of brevity called “clearing countries” below) has been considered separately. This trade comprises :

That of *France* with Bulgaria, Estonia, Germany, Greece, Hungary, Latvia, Roumania, Turkey, Yugoslavia;

¹ Banks are also as a rule rather averse to clearing transactions, as they lose the profit on their transfers abroad.

² To avoid the reproach of needless red tape, some Governments (*e.g.*, France) have allowed traders to work the clearing system themselves. The results, however, do not seem to have been more satisfactory for those concerned.

That of *Switzerland* with Austria, Bulgaria, Chile, Germany, Greece, Roumania, Turkey, Yugoslavia ;

That of *Italy* with Germany, Hungary, Roumania, Turkey, Yugoslavia ;

That of *Hungary* with Austria, Belgium-Luxemburg, Czechoslovakia, France, Germany, Greece, Italy, Switzerland, Turkey ;

That of *Bulgaria* with Austria, Belgium-Luxemburg, Czechoslovakia, France, Germany, Italy, Switzerland ;

That of *Roumania* with Austria, France, Germany, Greece, Hungary, Italy and Switzerland.

The following table shows, for each year during the period 1931-1934, the share in the trade of the six countries mentioned of the countries with which clearing agreements¹ were in force at the end of the period. It should be observed that the agreements were concluded one by one in the course of the period and that the more recent of them have not yet affected trade considerably, though they may be expected to do so in the same direction as the older agreements. Comparatively few of the agreements were, in fact, concluded before 1933, and to some extent the movement of the figures given, particularly from 1931 to 1932, must be attributed to other measures (bilateral and unilateral) aiming at increased bilateralism and whose effect upon trade resembles that of clearing agreements.

In order to eliminate the effect of the increasing trade between France and her oversea territories, the French trade with " foreign " (that is, non-French) countries has alone been considered.

PERCENTAGE SHARE IN THE TRADE OF SIX COUNTRIES OF COUNTRIES
WITH WHICH CLEARING AGREEMENTS ARE CONCLUDED.

Group A.

	France (excluding trade with colonies, etc.)		Switzerland		Italy	
	Imports	Exports	Imports	Exports	Imports	Exports
1931 ...	20.5	14.8	35.9	21.6	20.8	14.4
1932 ...	19.0	16.1	33.8	20.9	18.8	15.7
1933 ...	17.3	16.8	36.0	22.7	20.3	17.4
1934 ...	15.4	19.8	35.5	29.5	21.3	22.6

¹ Including the agreement for " private compensation ", which in June 1933 was substituted for the clearing agreement between Roumania and Hungary.

Group B.

	Hungary		Bulgaria		Roumania	
	Imports	Exports	Imports	Exports	Imports	Exports
1931 ...	60.7	70.5	66.4	74.4	63.0	55.8
1932 ...	63.1	71.7	70.6	74.9	59.8	52.5
1933 ...	66.3	66.3	76.4	75.2	56.1	45.5
1934 ...	67.6	70.0	73.9	71.4	52.7	52.9

The movement of the percentages is striking. The share of clearing countries in the exports of France, Switzerland and Italy increased considerably during the period — from 15 to 20 per cent, from 22 to 30 per cent and from 14 to 23 per cent respectively. The share of clearing countries in the imports of France and Switzerland, on the other hand, did not rise — that in French imports fell, in fact, steadily from 20.5 to 15.4 per cent. Only that in Italian imports rose slightly during the period.

The figures given for Group B (Hungary, Bulgaria and Roumania) move in the opposite direction to those for France and Switzerland. The share of clearing countries in the imports of Hungary and Bulgaria rose appreciably, while that in their exports fell. (It should be observed that the rise in the export figure for Hungary in 1934 is due to the exceptional German demand). In the case of Roumania, clearings would appear to have affected both imports and exports unfavourably; but up to 1933 (after which year the figures are biased by the increased German demand for European raw materials), the fall in the share of clearing countries was greater for exports than for imports.

Effect upon the Trade Balance.

The table which follows shows the effects of the changes now referred to upon the balance of trade with clearing and other countries.

TRADE BALANCES OF SIX COUNTRIES WITH :

(a) COUNTRIES WITH WHICH CLEARING AGREEMENTS ARE CONCLUDED ;

(b) OTHER COUNTRIES.

(In millions of national currency.)

Group A.

	France		Switzerland		Italy	
	a	b ¹	a	b	a	b
1931 .	—3,936	—8,804	—516	—386	—954	—479
1932 .	—2,999	—7,785	—429	—533	—482	—964
1933 .	—1,649	—7,592	—381	—361	—470	—963
1934 .	—216	—4,713	—260	—330	—457	—1,985

Group B.

	Hungary		Bulgaria		Roumania	
	a	b	a	b	a	b
1931..	+75	—44	+1,325	— 51	+2,450	+3,992
1932..	+33	—27	+ 83	—171	+1,599	+3,101
1933..	+53	+27	+ 458	+186	— 83	+2,592
1934..	+51	+10	+ 164	+141	+ 315	+ 202

The passive balance of France, Switzerland and Italy in their trade with clearing countries was heavily reduced during the period. The French balance in 1934 was only 5 per cent of what it had been in 1931. In the case of Switzerland, the fall is relatively less important, but 82 per cent of the reduction in that country's total trade deficit is accounted for by the trade with clearing countries. In the case of Italy, the deficit in trade with clearing countries was reduced by over half, while that in trade with other countries was more than quadrupled. To the extent that the reduction of the deficit of the three countries mentioned with clearing countries was due to the movement of the trade with Germany, it cannot be wholly attributed to clearing agreements. The balances with other clearing countries show, however, the same tendency as those with Germany.

The active balances of Hungary, Bulgaria and Roumania in trade with clearing countries also fell rapidly during the

¹ Excluding trade with French oversea territories.

period. On the other hand, the trade deficit of Hungary and Bulgaria with other countries was turned into a surplus from 1933. The surplus of Roumania with the same group, though falling, remained on a high level in 1933 ; in 1934, on the other hand, that surplus almost disappeared owing to the diversion of raw material exports to Germany at the same time as exports of cereals (which had to be disposed of in non-clearing countries) were partly suspended in 1933 and 1934.

The movement of trade balances may be further studied in the diagram on the following page, which shows exports as percentage of imports in the trade of the six countries with clearing and other countries in 1931 and 1934.

Clearing agreements are often concluded between two countries which have both enforced a system of exchange control. In such cases, the balance of their mutual trade is likely to move in favour of the country whose currency is least overvalued.

8. MEASURES TO READJUST THE TRADE BALANCE SO AS TO PERMIT OF THE SATISFACTORY OPERATION OF THE CLEARING SYSTEM.

States alarmed by the constantly increasing amount of purchases by weak-currency countries feel obliged to contemplate safeguards. The existing agreements have been altered with a view to maintaining the equilibrium in the amounts of foreign exchange held which is indispensable to the working of the clearing system. Quantitative restrictions on exports to weak-currency countries have also been imposed, in order to prevent their exceeding what is considered to be a normal amount.

Recent agreements generally include provisions for preventing evasion, or, at least, checking it as far as possible.

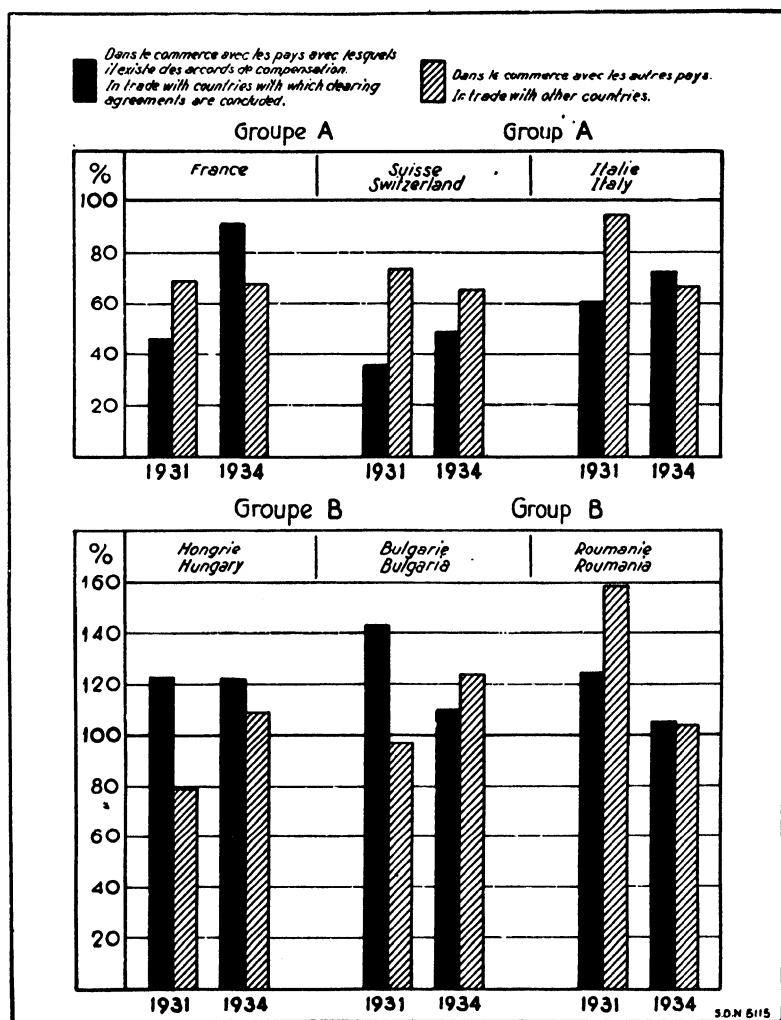
To prevent the risk of the seller, in a country with a weak and controlled currency, giving too long payment terms, the Swiss Government, for instance (which, in its early agreements, such as that with Austria, had suffered from these drawbacks in the case of payments to its clearing office), now lays down certain time-limits for payment. Italy has inserted in some of her agreements (with Germany, for instance) a clause that payment for the goods may in no case be protracted beyond the usual term for the particular goods dealt in.

Similarly, it has been made obligatory to attach to the goods, not only a certificate of origin, but another certificate from chambers of commerce or similar bodies specifying that the price invoiced by the exporters corresponds to the actual price (cf. Agreement between Italy and Roumania).

Lastly, an attempt has been made to obviate the other drawback referred to dealing with the despatch of goods to

DIAGRAM I.

Exports as percentage of imports of six countries in their trade with countries with which clearing agreements are concluded, and with other countries.



branches opened in the country of destination by making it compulsory for persons wishing to import goods on consignment or for sale on commission to ask for prior permission and report their sales, as and when made, to the clearing institutions.

The above shows clearly the patient and steady effort of adjustment and adaptation to constantly changing circumstances that the clearing machinery necessitates. Furthermore, provision is often made for setting up bilateral Government commissions to supervise the execution of the agreements. Consequently, in most cases, the term of the agreements is very short. When it exceeds a few months or is indefinite, the agreements can always be denounced at any moment, subject to one month's notice at most. They also often contain a *revision clause*.

9. PURCHASE OF RAW MATERIALS RENDERED DIFFICULT.

The indebted European countries which have concluded clearing agreements are practically all dependent upon the European market for their exports, and, with few exceptions, their partners in the agreements are European countries. Debtor countries in Europe are, however, largely dependent upon overseas countries for their supply of raw materials. Clearing agreements have recently rendered their supply of free currency scarce and their imports of raw materials at world market prices increasingly difficult. Among the countries in question may be mentioned Germany, Hungary and Bulgaria.

The German trade figures for the third quarter of 1933 and 1934 are (in million marks) :

Trade with :	1933		1934	
	Imports	Exports	Imports	Exports
(i) Twenty-one European countries with which clearing or compensation agreements are concluded	456	831	525	719
(ii) Other countries	588	399	533	287

While imports from the countries with which clearing or compensation agreements are concluded were 15 per cent higher than in 1933, imports from other countries were 9 per cent lower than in that year. Imports of raw materials from all European countries were 12 per cent higher in value than in 1933, but imports of raw materials from overseas countries were 19 per cent lower.

The following figures show the quantities and average prices of wool imported by Germany from the main oversea and some continental producers :

	Tons imported July- September		Average price in RM. per ton, July- September		Percentage change in	
	1933	1934	1933	1934	Quantity	Price
From Argentine, Australia, Union of South Africa, Uruguay	22,795	5,556	1,320	1,870	—76	+42
From Austria, Czechoslovakia, Hungary, Italy, Sweden, Turkey . . .	1,396	4,754	981	1,534	+34	+53
Total from the above countries	24,191	10,310	1,300	1,715	—57	+32

Average prices paid by Germany for raw materials imported rose, while the tendency in the world market was to fall. The following figures show the percentage change between the first and third quarter of 1934 in the average prices (in terms of gold) paid for raw materials imported by the United Kingdom, France, Germany and Italy.¹

	Percentage increase (+) or decrease (—)
United Kingdom	— 2.0
France	—16.7
Germany	+ 4.0
Italy	— 8.9

The reduction in the purchase by Germany of oversea raw materials, due to the diversion of her demand to the countries with which she had concluded clearing agreements, naturally contributed to the fall in world market prices and thus affected adversely the economic situation of the world as a whole.

¹ Basis: Official import price indices, calculated by variable weighting, according to the quantities of different goods entering into imports.

According to the Hungarian reply to the questionnaire sent out, the effect of her clearing agreements on the internal economic situation has mainly taken the form of increasing difficulty in procuring raw materials from countries with which Hungary has no agreements — a difficulty which has had an unfavourable effect on industrial production and on the export of manufactured articles.

In the Bulgarian reply, it is pointed out that the necessity of importing from countries with which clearing agreements were concluded checked imports from other countries.

10. INFLUENCE OF CLEARING AGREEMENTS ON COMMERCIAL RELATIONS.

The facts noted above show that clearing agreements tend to eliminate or restrict any impulse or movement towards increased trade between the two parties¹ and even to upset the trade balance between them and to facilitate the existence of unsettled debts. If trade is to expand, transactions would have to increase without the fixed proportion being changed, which is clearly very hard to achieve. It is true that clearing agreements have pierced the protectionist barriers raised by all countries against imports of foreign goods, particularly by countries with a sound currency against imports from countries with a depreciated or controlled currency, for it has been realised that a decrease in the imports from such countries meant the disappearance of the trade deficit necessary to make the clearing operative. In other words, it has been realised that debtor countries can only discharge their debts by paying them in the form of goods or services.

We have already mentioned the increased quotas for imports of German goods into France. Mention might also be made, for instance, of certain preferential tariffs granted by Czechoslovakia and France to Yugoslav imports to enable their exporters to obtain the amounts due to them sooner. Roumania has also found that certain Governments of creditor countries endeavour to encourage their imports of goods from debtor countries in order to increase their own exports and clear off more quickly the claims, due either to trade debts in arrears or to other reasons, which have remained longer in abeyance. It must, however, be added that this advantage is offset by fresh restrictions which, as a result of these very agreements, have been applied to exports from creditor countries.

¹ It should be noted that many agreements even fix the trade ratio: the Agreement between Belgium and Germany of September 5th, 1934, under which the two parties agree to keep the movement of exports between the Economic Union of Belgium and Luxemburg on the one hand and Germany on the other at the ratio of 62.5 : 100.

11. PRIVATE COMPENSATION.

A corrective of clearing agreements is afforded by private compensation, which consists of the direct export and import of goods between the two contracting parties. This affords the creditors of the contracting parties the advantage of immediate payment, irrespective of the funds available in the general accounts of their respective compensation offices. It is true that the view is often taken that, by depriving the clearing funds of part of their revenue, private compensation hampers their operation and should therefore be abolished, or, at any rate, confined to transactions which would otherwise become impossible.

Italy considers that, where a clearing system works normally, the need for private compensation does not arise. In the Italian Government's opinion recourse to compensation is either the result of a situation necessitating the liquidation of a credit which would otherwise remain blocked for an indefinite period, or else it constitutes the only means of surmounting certain barriers, such as the imposition or reduction of an import quota after the goods have been exported.

Nevertheless, certain countries (the Netherlands, etc.) encourage private compensation contracts, and provision is made for them in a large number of clearing agreements.¹ It is merely stipulated, in order to prevent any possible abuses, that the previous authorisation of the institutions in charge of the clearing service must be obtained.

Private compensation is also favoured by certain countries with weak or depreciated currency (Austria, for example, has made extensive use of it), as it enables their exporters, who are unable to sell at the official rate — since that rate would not cover their costs of production — to negotiate freely with the other party on all issues involved, including that of the rate of exchange.

By means of private compensation, exporters, in a word, are enabled to take advantage of the export premium afforded by the depreciation of their currency.

¹ In certain agreements (such as the agreement between Italy and Turkey), private compensation is confined to the reciprocal export of certain commodities originating in and coming from the territory of the two contracting parties (with or without limitation of quantity or value); the object is to encourage and stimulate the export of those commodities by reason of the facilities afforded by private compensation as compared with the official clearing system.

12. VIEWS OF STATES WITH CLEARING SYSTEMS.

If we examine the opinions expressed on this matter by the various Governments, we shall find that they one and all agree that clearing agreements are highly detrimental to international trade. However, it is easy to understand that countries which have introduced foreign-exchange control are much more hostile to clearing agreements than countries with a sound currency, especially when the other contracting party has placed no restriction on foreign exchange transactions; this hostility is even greater if the clearing agreements are not confined to commercial exchanges but embrace all classes of payments between the countries concerned. Nevertheless, they admit that, in dealing with another country which has also prohibited the transfer of foreign exchange, the clearing agreement may be of service inasmuch as goods can continue to be exchanged between the two countries, whereas, in the absence of such an agreement, trade would finally cease.

For their part, countries with a sound currency, and particularly those that have claims to be recovered, are well aware of the drawbacks to clearing agreements; but they accept them as the only possible remedies for an unhealthy situation. In their eyes, they are merely temporary expedients, the disappearance of which, when the international economic situation improves, will cause no regret.

Experience appears to show that clearing agreements may give satisfaction to countries with a freely negotiable currency in their dealings with countries with a controlled currency, provided certain precautions are taken. In particular, it is essential : (1) to take account of the effective rate of exchange ; (2) to include in the clearing agreement claims other than current commercial debts (and particularly private financial claims)¹ only if and in so far as the trade balance is sufficiently in favour of the country with a controlled currency ; (3) not to allow the trade balance on the basis of which the clearing agreement was concluded to be modified.

In Sweden, the Netherlands, and other countries, exporters have been able to obtain payment in full without undue delay. On the other hand, in several countries, exporters have had to wait a long time, and this difficulty has been met by a " mobilisation " of their claims.²

¹ In order to avoid friction between commercial and financial creditors.

² In the case of Czechoslovakia, for instance, mention may be made of the advances against clearing claims introduced by the Provincial Bank of Prague. This institution, which has a special public law character, gives credit to Czechoslovak exporters whose claims on foreign debtors have been entered in the clearing account pending the accumulation in Czechoslovakia of sufficient funds in this account for their payment.

There are likewise delays in France,¹ but clearing agreements have made it possible in that country also to release a considerable number of frozen claims. The Franco-German Agreement is now being improved as a result of the arrangement reached at the end of November. In particular, the percentage deducted in France from payments for German imports has enabled the service of the French blocks of German external loans to be met in full. Moreover, the return of the Saar to Germany is likely to bring about an appreciable change in the form of the Franco-German clearing agreement; this agreement will no longer cover Saar exports to the Reich, and this will presumably expedite the recovery of French claims in arrears.

13. CLEARING AGREEMENTS AND THIRD COUNTRIES.

The fact that clearing agreements artificially stimulate trade between the contracting parties — either because, for lack of foreign exchange, a country with a weak and controlled currency has to increase its purchases in the other country, or because clearing balances cannot be transferred but must be used in the country which is still a debtor — naturally affects third countries.

As we have seen, the countries whose currency is subject to control do not obtain under the clearing agreements any free foreign exchange which they can utilise for purchases on the markets of third countries. On the other hand, these countries endeavour to obtain the free foreign currency which they thus lack from the countries with which they have no clearing agreement, by restricting as far as possible their imports from those countries.

Oversea countries which used to supply raw materials to Germany and the other countries of Central and Eastern Europe have undoubtedly suffered serious losses, owing to the shrinkage in their trade with those countries.

This deviation of trade, this artificial canalisation of commerce between countries connected by clearing agreements, is moreover anti-economic. It has already been pointed out that, when the exchange rate of the currency of a country with foreign exchange control is kept conventionally at a level other than that

¹ In order to obviate these delays to some extent, the French Compensation Office has arranged for the "mobilisation" of claims, in agreement with the Bank of France. The latter accepts or rediscounts under certain conditions bills issued by exporters and accompanied by receipts delivered by the Office.

at which it would stand if the currency could be freely dealt in, the prices of that country's goods rise, to the detriment of its exports.¹ Again, this same country, being forced to buy from the other party even such articles as it could purchase elsewhere more cheaply (and which it actually used to buy elsewhere), pays more for its purchases. Another result is that both parties buy useless or unnecessary goods which they would normally not import, solely in order to liquidate a favourable clearing balance which would otherwise be left unused.

14. REDUCTION OF TRIANGULAR TRADE.

The ratio in each country's trade of active and passive balances which cancel out to the total trade of the country may be taken as representing its triangular merchandise trade. This ratio is, in the case of most countries, lower than it was in 1929. The following figures show the percentage ratio in question in the aggregate trade of twenty-two countries, representing nearly three-quarters of world trade :

	1929	1931	1932	1933
(a) Sixteen European countries	16.0	14.0	12.5	12.0
(b) Six other countries	22.6	19.0	20.2	19.6
(a) + (b)	18.3	15.5	14.8	14.2

The fall in the ratios would appear to be due largely to the tendencies of commercial policy. In particular, the extensive use made by European countries of quotas and clearing agreements is responsible for the fall in the ratio for these countries between 1931 and 1933.

Measures taken by any country in order to reduce its trade deficit with another are likely to influence, not only the trade of the latter, but of others. The country whose exports are most directly affected may attempt to find new markets for its exports, and, until this proves possible, it may neutralise the

¹ To obviate this unfortunate consequence, resort is frequently had to indirect devices. Hungary, for instance, while maintaining the gold parity of the pengő, has adopted for her foreign trade a *compensation or exchange indemnity* system. With the agreement of the parties concerned, she gives an export bounty, the amount of which is fixed by the authority according to the size of the subsidy considered necessary to sell the Hungarian goods abroad. Simultaneously, an import surtax is levied, the rate of which is fixed in accordance with the need for the goods to be imported.

effect of the change in its balance of trade by gold exports or new loans raised abroad. But in times such as the present, when trade barriers leave but small possibilities for an expansion of trade, the international capital markets are inactive and the gold reserves of many debtor countries largely exhausted, a reduction in these countries' credit balances in certain directions is likely to have the effect of reducing their imports from third parties. This again affects the triangular trade of the latter countries, which will have to reduce their imports from others. A move in the direction of bilateralism may thus cause a reduction in world trade which is many times greater than that in the trade between the two parties originally concerned.

Clearing agreements are one of the most important causes of the increased bilateralism in trade, though recent compensation agreements, quotas and tariff changes have also contributed to this result.

Bilateralism causes fall in gold prices.

The approach to a bilateral system of trade which is still in progress brings with it disturbances of extreme severity. Certain of the industrial countries of the European continent find it increasingly difficult to provide the currency needed for purchases from countries in other continents, as they are not able to sell large amounts of their own products to these countries. The latter, on the other hand, finding the demand for their products reduced, have to accept lower prices in terms of gold, and to meet this price fall by a continued depreciation of the exchange value of their currencies. Naturally, the fall in the prices of primary products spreads to other commodities. Accordingly, the average gold prices of goods entering into world trade continue falling. On the basis of import statistics of four big importing countries, this price is estimated to have been 46 per cent of the 1929 average in the first quarter of 1934, 45 per cent in the second quarter and 44.5 per cent in the third. This fall is a reflection of the growing scarcity value accruing to gold, which can be employed for payment in all directions, while, with the approach to bilateralism, the employment of goods otherwise than as payment for imports from the country of destination is being rendered increasingly difficult. The steady depreciation of paper currencies and the accompanying necessity for gold countries to deflate their price-level if it is not to become incompetent may thus be regarded as a consequence of the approach to bilateralism.

15. IS THE EXPANSION OF CLEARING AGREEMENTS ON A MULTILATERAL BASIS POSSIBLE AND USEFUL ?

(a) *Multilateral clearing agreements.*

The question has been raised whether, by extending the geographical scope of clearing agreements so as to cover tripartite transactions, the majority of the obstacles which to-day impede the working of bilateral compensation would not be eliminated and, above all, whether this would not facilitate a return to more normal conditions of international trade.

The conclusion to be drawn from the replies of the various Governments is that they are not in favour of multilateral clearings. In reality, every clearing agreement is an agreement *sui generis*, which is closely bound up with the special economic, financial and monetary situation of each of the contracting parties, considered separately and in its bearing on the situation of the other party.¹ Hence it is difficult to include third countries in the arrangement.

In this connection, we need only recall the opinion of the French Government, which was the first to bring this very question before the League Assembly, and the opinion of the Italian Government.

The French Government considers " that it is difficult to draw from the operation of the clearing agreements any general conclusions sufficiently positive to form the basis of international economic policy ". As regards universal compensation, it seems to it in any case essential " to exclude at the outset countries which are bound throughout to be in the position of debtors incapable of coping with their adverse balances, or, at any rate, of exercising sufficient control to limit their purchases to their effective potentialities of payment in goods or in foreign exchange ".

¹ This explains why the results of the agreements have varied so considerably from one country to another. For instance, Estonia has stated that her agreement with France has had a favourable influence on the volume of foreign exchange and hence on the cover of the Eesti Pank, whereas clearing agreements have helped to diminish the foreign exchange reserves of Bulgaria and, in particular, have prevented her from meeting her financial obligations regularly. Similarly, the conclusions reached by the Hungarian and Yugoslav Governments regarding their clearing agreements conflict with each other : in the first case they are unfavourable, while in the second they are favourable. Roumania has found that agreements confined exclusively to current commercial debts do not meet the interests of the contracting parties ; agreements covering payments of all kinds appear to her to be preferable to an unregulated system of foreign payments, particularly of the public debt service.

The Italian Government is even more categorical. It completely excludes the possibility of concluding multilateral agreements and maintains that a clearing agreement must necessarily be bilateral, mainly because economic and monetary disorder tends to lead to a system of balanced exchanges¹ and reduces trade to the primitive and elementary form of barter. In the Italian Government's opinion, only by stabilising currencies and attaching them to a fixed and universally accepted standard, such as gold, would it be possible to conclude multilateral compensation agreements. In such circumstances, however, there would be no further need for such agreements. The Italian Government goes still further and considers that, for the same reasons, it would be impossible to *establish a standard form of agreement*, although there are certain principles which should be followed in every case.

(b) *Tripartite compensation of balances.*

It has been suggested that the arrangements regarding bilateral compensation might be supplemented by multilateral compensation agreements applicable solely to available balances — for which the help of the Bank for International Settlements might possibly be sought. If the compensation fund showed a credit balance in favour of a certain country, that country should be allowed to use the balance for the payment of its exports to other countries in respect of which its compensation account showed a debit balance. It is obvious that by means of this compensation system, which would no longer be confined to exchanges between two countries but would be applicable to a large number of countries, credit or debit balances would be reabsorbed more quickly. Tripartite agreements of this kind already exist. For instance, there is the clearing agreement between Yugoslavia and Greece which provides for the possibility

¹ Clearing agreements may also be used to balance exchanges between the contracting parties. They naturally tend to have this effect when one of the parties has no longer any arrears of debts owing to the other and the sole object of the clearing agreement is to guarantee the mutual payment of current commercial debts.

The Belgian Government states that it has concluded clearing agreements (for instance, with Greece and Turkey) with States in respect of whom its trade balance was *favourable*, for the purely economic purpose of completely equalising commercial exchanges.

The Latvian Government asserts that, in its experience, a clearing agreement can only render the services expected of it if it is accompanied by a compensation agreement regulating the exchange of commodities and concluded on the basis of complete reciprocity. Hence Latvia and France have been induced to conclude supplementary arrangements with a view to equalising the balance of trade between the two countries.

of the transfer of the credit balance, or part of that balance, in the clearing account to third States which are not parties to the agreement.

The Italian Government is of opinion that an experiment might be made with this *super-compensation* system for clearing balances, restricting it of course to bilateral agreements. The debts and credits resulting from the clearing agreements concluded between the various countries might periodically be compensated. Such compensation, however, could be effected only by *joint agreement*, as it is obviously impossible to compel a creditor country to replace one claim by another that is more difficult to settle.¹

¹ It should be noted that certain agreements, such as that between Germany and Yugoslavia, expressly preclude all possibility of a tripartite or multilateral clearing.

ANNEX II.

REPLIES OF GOVERNMENTS TO THE QUESTIONNAIRE ON CLEARING AGREEMENTS.

On October 31st, 1934, the Secretary-General of the League of Nations invited certain Governments to send him a general account of the clearing agreements concluded by them; a questionnaire to serve as a guide in drawing up this memorandum was attached to the letter.

The present annex reproduces or summarises the information supplied by Governments on the various special points mentioned in the questionnaire. This information is given after each question.

I. CAUSES THAT HAVE LED TO CLEARING AGREEMENTS.

1. *What are the causes that have led you to conclude clearing agreements with other countries ?*

Austria.

The existence of foreign exchange control either in Austria or in the contracting country. In this respect, the clearing agreements concluded can in general be divided into two groups: the first group comprises the agreements concluded at the time when Austria had numerous restrictions on foreign exchange transactions, and other countries, where no such restrictions existed, demanded the conclusion of clearing agreements; the second group comprises the agreements subsequently concluded by Austria when her foreign exchange restrictions had been to a great extent removed and she was endeavouring to secure the recovery of the proceeds of her exports from States imposing such restrictions.

Belgium.

The exchange control measures adopted in foreign countries with their harmful effects on the Belgian export trade induced Belgium to conclude clearing agreements.

Bulgaria.

(a) The blocking of assets arising out of Bulgarian exports and the fixing of quotas for such exports.

(b) The restrictions on foreign currency dealings obtaining in Bulgaria.

Chile.

The reason for the conclusion of clearing agreements is in reality the rivalry between the European countries which compete for Chile's custom as consumers of their manufactured goods. The, commercially, less highly developed countries believe their interests to be injured by other countries whose foreign trade and financial services are more efficiently organised and which previously were in the habit of re-exporting to them Chilean foodstuffs and raw materials. In order to eliminate such re-export, Chilean goods are refused admittance unless an undertaking is given to invest the total or a certain proportion of their value in the actual countries of consumption instead of in the countries of re-export.

Czechoslovakia.

The reason why Czechoslovakia has been compelled to conclude clearing agreements with other countries has always been the impossibility of obtaining payment for Czechoslovak goods and other claims on the countries concerned, owing to the restrictions imposed by the latter on foreign exchange dealings.

Denmark.

Denmark has only one clearing agreement — viz., with Germany. The reason which led to the conclusion of this agreement was the difficulties created by the foreign exchange regulations in Germany.

Estonia.

Cause of the agreement with France: The unilateral institution of clearing arrangements by France in order to recover her outstanding debts.

Finland.

See No. 2.

France.

France was compelled to resort to compensation in order to come to the relief of French traders and industrialists exporting to countries with a foreign exchange control rendering it impossible for their nationals to meet their engagements by exporting capital.

From the outset, therefore, compensation was regarded as a defensive measure; and such it still is. It would be incorrect, speaking generally, to regard compensation as a retaliatory action. On the contrary, it must be regarded as operating to the advantage of the countries to which it is applied, inasmuch as it affords them the only practical means of continuing to purchase from other countries.

Greece.

The measures taken by Greece with a view to the liquidation of arrears of debts induced certain Governments to agree to conclude compensation agreements with Greece, and actually to press for such agreements themselves, as a means of settling these claims.

Hungary.

The principal motive was to avoid, as far as possible, any effects on trade as a result of foreign exchange control instituted at any rate in one of the contracting countries.

Italy.

In the latter half of 1931, serious transfer difficulties were repeatedly encountered by certain countries in meeting their commercial and financial liabilities abroad. As the outcome of a study of this situation, and of the resulting negotiations between creditor and debtor countries, various agreements were concluded, of which the most important are the general compensation (clearing) agreements.

Italy's position as a creditor country was almost entirely due to the fact that commercial claims matured without the debtor obtaining the necessary foreign currency to settle with his creditor, although he had paid or was prepared to pay the amount of his debt in his own currency. Another result of this "frozen" situation was gradually to reduce commercial relations between creditor and debtor countries and to disturb the whole system of trade that had become a tradition with Italian exporters and the supply of the importing country.

It was precisely in order, as far as possible, to overcome these difficulties that Italy decided immediately to conclude compensation agreements.

Latvia.

Latvia has concluded clearing agreements to protect the cover of her currency and to regulate payments to foreign countries.

Netherlands.

The Netherlands desired to retaliate against unilateral action on the part of certain countries in the matter of foreign exchange.

Norway.

The clearing agreements of Norway (with Germany, Greece and Turkey) were concluded on account of the exchange difficulties which were met with in the countries in question and which hampered Norwegian exports to those countries.

Sweden.

Cause of the agreement with Turkey : The institution of foreign exchange control in Turkey.

Cause of the agreement with Germany : Difficulties caused by the German transfer moratorium.

Switzerland.

The institution of foreign exchange control in a number of countries which are large customers and debtors of Switzerland.

Yugoslavia.

The essential and fundamental cause is the *marked decline in the influx of foreign exchange* as a result of :

- (a) The withdrawal of foreign capital ;
 - (b) The partial flight of national capital ;
 - (c) Quotas, Customs tariffs and other prohibitive measures by countries to which Yugoslav exports go ;
 - (d) Exchange difficulties of other countries, which have reduced the receipts from the tourist traffic and remittances of Yugoslav emigrants ;
 - (e) Cessation of service of debt obligations under the peace treaties.
-

II. OBJECTS.

2. *What have been your objects in concluding your clearing agreements ?*

Austria.

See No. 1.

Belgium.

(1) To procure the refund of capital belonging to Belgian export trade ;

(2) To re-establish a normal current of trade with countries which had blocked Belgian capital.

Bulgaria.

To settle her old commercial debts to certain countries (France, Italy, Belgium, Switzerland, Germany, Hungary, Austria, Turkey) ; to secure immediate payment for her exports and to ensure the purchase of certain agricultural products by countries which have instituted foreign exchange control (Austria, Germany, etc.).

Chile.

Chile has been compelled to accept clearing agreements with eleven European countries (Germany, Austria, Union of

Belgium and Luxemburg, Denmark, Spain, France, Italy, Netherlands, Sweden, Switzerland and Czechoslovakia) for the sole reason that this was the only means of obtaining the right to export to these countries her agricultural and mineral products (chiefly sodium nitrates and copper), in spite of the restrictions (export licences, quotas, etc.) to which the foodstuffs and raw materials which are Chile's only exports are subject in all these countries.

The only non-European country with which Chile has a clearing agreement is Brazil, the agreement being concluded as a means of remedying the consequences of the system of exchange control introduced in both countries.

Czechoslovakia.

To ensure the use of available active elements in the balance of accounts with the different countries concerned for payment in cases where there is an adverse balance against a particular country.

Denmark.

Facilitation of development of trade with Germany.

Estonia.

To safeguard the interests of Estonian exporters who might have suffered from the unilateral French clearing system.

Finland.

Preservation of her possibilities of export to countries in which foreign trade is subjected to severe restrictions. (Finland has concluded two clearing agreements, one with Germany and the other with Estonia. At the moment only the former of these is in force).

France.

The sole object of France in instituting clearing agreements has been to ensure regular payment for French exports, in spite of the restriction or prohibition of foreign exchange transfers by an ever increasing number of countries.

Greece.

The objects which Greece had in view in concluding compensation agreements were, firstly, the facilitation of trade, in particular with certain countries with which continued trading might otherwise have been impossible owing to the shortage of foreign exchange, and, secondly, the attainment of balanced imports and exports with each of those countries individually. The latter object — though it may appear to be in the nature of an economic absurdity — is an imperative necessity in the present situation of Greece compelled as she is

to rely increasingly on her commercial exports, as she sees the invisible imports of her balance of payments (mercantile marine, emigrants' remittances, etc.) diminishing from year to year.

Hungary.

To maintain trade, to facilitate trade payments, to settle trade debts incurred before the conclusion of the agreements, to keep free disposal of some of the foreign exchange proceeds of Hungarian exports, to strengthen foreign exchange control.

Italy.

See n^o 1.

Latvia.

Avoidance of actual transfers of foreign exchange and maintenance of the figure of foreign trade transactions at as high a level as possible, while providing that such trade shall not suffer from the lack of effective transferable foreign exchange.

Netherlands.

Germany and Chile : To secure payment of future exports to those countries and to settle various outstanding debts ; Turkey : To ensure payment for exports ; In general : To protect Dutch trade against the effects of foreign exchange control.

Norway.

To enable Norwegians exporting goods to the countries in question to obtain payment for the goods delivered within a reasonable period and, in this way, to permit of the continuation, and if possible expansion, of Norwegian exports to these countries.

Roumania.

Improvement of the position arising out of the impossibility of effecting payment either by debtor States to Roumania or by Roumania to creditor States, especially in respect of commercial debts which are outstanding as a result of the disequilibrium of the balance of payments and of the danger to the national currency position caused by such disequilibrium.

Sweden.

Turkey : To obviate the consequences of restrictions imposed on foreign exchange transactions by Turkey and to maintain trade with that country ; Germany : To enable the interest on Swedish claims on Germany to be transferred and to provide effective guarantees of payment for Swedish exports to Germany.

Switzerland.

To safeguard the interests of the exporters ; to recover " frozen " commercial and financial debts ; to obviate the consequences of restrictions imposed on foreign exchange transactions in countries parties to the clearing agreements.

Yugoslavia.

Maintenance of trade relations without free foreign exchange ; concentration of export *Devisen* at the central bank of issue by obtaining a free percentage from countries on the gold standard ; part payment in goods of debts to creditor countries ; closer (indirect) control of the use of export *Devisen*.

III. STRUCTURE OF CLEARING AGREEMENTS.

3. *Do your clearing agreements relate exclusively to payment for goods exchanged, or do they also extend to the settlement of commercial or other debts (including tourist traffic, financial debts, etc.) ?*

Austria.

The following are the purposes for which deductions are made from the proceeds of clearing agreements : expenses of diplomatic and consular representatives, tourist traffic, maintenance expenses of sick people and students, the Public Debt, interest on securities. Provisions to this effect appear in the agreements concluded with Switzerland, Greece, Hungary and Turkey. There is no need to overestimate the amount of these deductions.

Belgium.

The clearing agreements signed by Belgium may be classified as follows :

(a) Clearing agreements relating exclusively to payments for commodities and blocked commercial debts ;

(b) Clearing agreements relating to payments for commodities, the return of blocked funds, " commercial-financial " debts and financial debts ;

(c) Clearing agreement regarding payments for commodities, the return of blocked funds by means of payments for a particular commodity and organisation of the exchange of agricultural goods for industrial products (agreement with Chile) ;

(d) Agreements concluded with countries which had established foreign exchange control and with which Belgium

had a credit balance of trade (the economic object was to establish absolute equality in the volume of trade)(agreements with Greece and Turkey).

Bulgaria.

(a) The agreements with Austria, France, Hungary, Italy, Poland, Spain, Switzerland and Turkey regulate the trade in goods and payment of old trade debts.

(b) The clearing agreement with Germany covers all payments of a commercial, financial or other character.

(c) The clearing agreements with Austria, Czechoslovakia and Hungary also cover the payment of the expenses of Legations, students and tourists.

Chile.

All Chile's clearing agreements provide for the payment of commercial debts by means of a proportion (15 to 30 per cent) of the proceeds of nitrate sales, and the Saltpetre Sales Corporation of Chile has even undertaken in all cases to sell the stipulated amount of foreign exchange at less than half its actual value, so as to facilitate the recovery by creditors of sums owing in respect of goods sold to Chile during the years 1931 and 1932, when foreign exchange was only made available subject to the governmental restrictions necessitated by its scarcity and trade conditions — in Chile (as everywhere else) — were such that debtors had not the liquid resources to enable them to meet their liabilities, even if they had been able to obtain the necessary foreign exchange.

Chile's agreements do not include tourist traffic or financial debts (save in one case), for the reason that *none* of the countries with which the agreements were concluded has made loans of the Chilean Government or invested any considerable sums in Chilean mines, industry, etc.

Czechoslovakia.

The clearing agreements signed by Czechoslovakia of the kind defined by the League of Nations Joint Committee are of the most varied nature. For the most part they are not agreements concerned solely with payments of a particular character, but are agreements dealing with a variety of different payments. As a whole they cover the following transactions :

(a) Payments for goods newly exported or imported ;

(b) Payments for goods exported or imported before the conclusion of the clearing agreement either at a relatively recent date or at a more distant date (the so-called " old blocked claims ") ;

(c) Payments for particular articles—exported, other goods not explicitly specified being left to be paid for freely in foreign exchange ;

(d) Payments in respect of capital investments (*e.g.* interest and amortisation payments), payments in liquidation of deposits or other obligations, payments in liquidation of particular forms of property, payments in respect of pensions, alimony, relief, dividends, directors' fees, inheritances, dowries, etc. ;

(e) Payments in connection with licences, patents, commission, published notices, advertisements, public performances, insurances, transportation, Customs, etc. ;

(f) Payments in connection with tourist traffic, watering-places, spas, etc. ;

(g) Payments in respect of diplomatic and consular agencies, transfers by cheques, etc.

Denmark.

The agreement with Germany relates exclusively to payment for goods exchanged.

Estonia.

The clearing agreement with France only relates to payment for goods. However, it also applies in practice to payments arising out of loans contracted by Estonia in France.

Finland.

The clearing agreement with Germany only governs trade payments between the two countries.

France.

In principle the clearing agreements provide only for the payment of claims resulting from the sale of goods. In certain cases they include machinery for the gradual liquidation of blocked commercial claims arising before the agreements came into force (arrears of trade debts).

The relative amounts used for the liquidation of arrears and the payment of current claims respectively are fixed either by the agreements themselves or by ministerial decisions or by annexes to the agreements.

France has further agreed in certain cases to leave at the disposal of the National Bank of the other country a certain percentage of the funds of the French Office, to enable a currency reserve to be built up for the purpose of transfers not in connection with trading transactions. The Franco-German agreement, for example, provides for a deduction of 15.75 per cent of the total payments by French importers to keep up the service of

the Dawes and Young Loans. The agreements with Hungary, Bulgaria, Turkey and Roumania contain similar provisions.

Greece.

The compensation agreements are in principle confined to the field of operations that come within the trade balance, since it is the other active elements of the Greek balance of payments on which Greece has to rely for meeting all her obligations to foreign countries other than those arising out of the import of goods. Nevertheless, as an exceptional measure, a part of the national income derived from the mercantile marine and a small part of the income derived from the tourist traffic have been included in the compensation arrangements with countries where it would not otherwise be possible immediately to balance the imports and exports. Accordingly, Greece has agreed to include in the compensation that part of freight charges which is effectively imported into Greece in foreign exchange as payment to Greek shipowners. She has also, under the compensation agreements with Yugoslavia, Roumania and Turkey, agreed to include in the compensation a small specified part of the value of goods imported from these countries against a part of the expenditure of Yugoslav, Roumanian and Turkish tourists in Greece. Almost all the agreements further contain provisions for the gradual liquidation of arrears of trade debts (originating before April 26th, 1932), under which either the percentage due half-yearly under Law 5422 is increased from 10 to 15 per cent, or a part of the value of goods exported is earmarked for the purpose.

Hungary.

As a general rule, the agreements merely relate to payment for goods (including, in most cases, the settlement of outstanding commercial debts). Some agreements relate in addition to the settlement of Hungarian financial claims, while the settlement of Hungarian financial debts is always excluded. Apart from these clearing agreements proper, there is a further category of payment agreements which are of much less importance and refer to the payment of foreign financial or other debts (not commercial debts) blocked in Hungary and the payment of Hungarian claims of the same kind blocked in foreign countries, by means of compensation, tourist traffic, additional exports, etc.

Italy.

In almost all the agreements, the claims referred to are those arising out of commercial transactions.

Some agreements, or special arrangements concluded in connection with these agreements (Germany, Hungary), cover

tourist traffic to Italy. Financial claims are dealt with only in very limited and special cases. The two clearing institutions are usually entitled to agree to transfers for purposes not explicitly contemplated or prohibited.

All the agreements make direct or indirect provision for frozen credits. Generally, some of the payments made in Italy in settlement of goods originating in the other contracting country are specially earmarked, if necessary, to pay for frozen Italian credits.

All the various agreements aim at promoting the gradual resumption and expansion of trade between the two countries concerned. Thus, a suitable proportion of the payments made in Italy by clearing is earmarked for payments in respect of new currents of trade; this proportion is increased by the amount earmarked for the settlement of frozen credits as soon as these have been cleared off.

Latvia.

The clearing agreements concluded by Latvia have only dealt with the settlement of commercial debts.

Netherlands.

The agreements with Chile and Turkey relate to payment for goods exchanged (including outstanding commercial debts). The agreement with Germany relates, not only to payments for goods exchanged, but also to the payment of charges incurred in trade between Germany and the Netherlands: transit, industrial licences, service of the settlement of accounts between the respective public services of railways, posts and telegraphs, etc.

Norway.

The agreement concluded with Greece relates exclusively to payment for goods supplied. That concluded with Turkey also relates to other commercial debts between the two countries. As regards the agreement concluded with Germany, it relates to payments for goods (including expenses incidental to the delivery of such), patent fees, licence fees and similar charges.

Roumania.

The agreements with Austria, Germany and Hungary relate exclusively to current commercial debts. The agreements with Czechoslovakia, France, Greece, Italy and Switzerland relate further to the payment of arrears of debt and other payments.

Sweden.

The agreement with Turkey relates solely to payment for goods. That with Germany applies, as far as Sweden is concerned,

to payment for goods (and charges relating thereto) and, as far as Germany is concerned, to payment for goods and interest on certain German debts.

Switzerland.

The agreements concluded with Bulgaria, Chile, Hungary, Turkey and Yugoslavia only relate to payment for goods. The agreement with Roumania also relates to the payment of financial debts and the agreement concluded with Greece provides that the balance existing in favour of the Bank of Greece, after settling commercial payments, shall be applied to the liquidation of Swiss claims not arising out of transactions in goods. The agreement with Germany refers, not only to trade in goods and capital, but also to passenger traffic (tourist traffic) and in general to all payments which have not been expressly excluded.

Yugoslavia.

The fundamental principle of all the clearing agreements of Yugoslavia is the provision of machinery for payment for goods exchanged. Exceptionally, payments in connection with tourist traffic are also made through the clearing system. Financial payments are made solely out of the free percentage at the disposal of the National Bank in free foreign exchange.

* * *

4. *Through what bodies (National Bank, special offices, monopolies, etc.) are clearing operations effected ?*

Austria.

National Bank.

Belgium.

Belgo-Luxemburg Compensation Office established by Royal Decree of August 31st, 1932.

Bulgaria.

National Bank.

Chile.

The Central Bank is responsible for the application of all the clearing agreements.

Czechoslovakia.

The National Bank, the bank of issue of Czechoslovakia, is entrusted with the clearing accounts in Czechoslovakia. In its relations with certain countries, the National Bank sometimes

delegates its functions to big commercial banks authorised for the purpose in connection either with all transfers or transfers of certain specified categories (*e.g.*, goods, tourist traffic, compensation transactions).

Denmark.

Danish National Bank.

Estonia.

National Bank.

Finland.

National Bank.

France.

The Paris Chamber of Commerce was entrusted with the organisation of the first Office de compensation : it has further been entrusted with the organisation of all the other compensation offices, including the Franco-German and Franco-Roumanian Offices handling commercial payments, which are the last to have been set up.

Greece.

The operation of the compensation agreements is in the hands of the Bank of Greece, which has organised a special department for the purpose. Except in the case of the agreement with Germany, which was concluded by an exchange of letters between the Reichsbank and the Bank of Greece, all the agreements are inter-governmental, even where they deal with compensation of a special character — viz., between tobacco monopolies (in Italy, Hungary and Sweden), apart from the case of the original tobacco agreements with Austria, which were concluded between the Bank of Greece and the Austrian Tobacco Monopoly.

Hungary.

National Bank.

Italy.

Istituto Nazionale per i cambi con l'estero. The Banca d'Italia acts as banker for the Institute.

Latvia.

Clearing operations with France are effected through a clearing office established *ad hoc* at the Ministry of Finance.

There are also compensation agreements between the Bank of Latvia and the banks of issue of Germany and Estonia.

Netherlands.

Nederlandsch Clearinginstituut. The banker of this institution is the Nederlandsche Bank N.V.

Norway.

Bank of Norway.

Roumania.

National Bank of Roumania.

Sweden.

Clearing operations with Turkey are effected through the Clearingkontoret and clearing operations with Germany through the Clearingnämnden.

Switzerland.

The administrative arrangements in connection with the clearing traffic are entrusted to the Swiss Clearing Office, while the financial administration is in the hands of the Swiss National Bank.

Yugoslavia.

National Bank of the Kingdom of Yugoslavia.

* * *

5. *Do your clearing agreements permit of " private compensation " ? If so, to what extent and on what conditions ?*

Austria.

The clearing agreements all contain a clause regarding the permissibility of private compensation transactions. If the sales effected by two parties, one being an Austrian concern and the other a concern belonging to the other contracting country, can be settled by compensation, the banks of issue of the contracting countries declare themselves willing to authorise such compensation.

As the carrying-out of compensation transactions, however, entails a number of formalities, such transactions have usually a restricted field of application during the validity of the clearing agreements, with the exception of the Austro-Roumanian clearing agreement, which is almost entirely based on compensation transactions.

Belgium.

Private compensation requires the authorisation of the Compensation Office.

Bulgaria.

Private compensation is provided for in several agreements on condition that it is settled only by means of clearing accounts (agreements with Austria, Germany, Czechoslovakia and

France) or that the two National Banks give their consent (agreement with Hungary, Italy and Turkey). As regards private compensation arrangements, in most cases a certain percentage — from 20 to 50 per cent — is required by Bulgaria.

Chile.

All the agreements relative to new purchases of European goods provide for " private compensation " against exports of other products from Chile (agricultural products almost exclusively); the responsible Chilean clearing authorities keep such transactions under supervision, special authority being required before they can take place outside the ordinary clearing system as provided for in the agreements.

No restrictions are placed upon private or direct compensation in goods, except in the case of nitrates and copper, the two chief exports of Chile, which are subject to special regulations designed to facilitate payments in respect of commercial debts or new purchases.

As a general rule, the copper producers (who are almost all citizens of the United States) have suspended their exports to countries in which they would be obliged to enter into compensation agreements, as it is only if they are able to make unrestricted use of the proceeds of such sales that they can pay the interest on their capital in the United States.

Czechoslovakia.

Private compensation transactions with countries having the clearing system may be divided into a number of different categories :

(a) With certain Balkan countries, private compensation transactions are allowed where it is found that the interval required for payment of claims arising out of exports stands in the way of new business being done. But the authorisation of private compensation transactions is made conditional on the operation including imports the amount of which exceeds the amount of exports by a specified percentage, as also on the balance which Czechoslovakia is compelled to find being paid into the clearing account.

(b) In the case of certain countries, private compensation transactions have been arranged within the framework of the compensation agreements between the States. The value of the compensation imports is carried to the special clearing account and used to pay for the corresponding exports, or, in certain cases, to finance the tourist traffic or the requirements of visitors to watering-places. .

(c) With some countries, " commercial " compensation is authorised without any concomitant authorisation of

compensation of payments strictly so called. Commercial compensation means that exports are allowed against a specified compensating volume of imports — *e.g.*, where — owing to existing obstacles in the country of the purchasers — it would not be possible to market Czechoslovak goods there without at the same time purchasing foreign products.

(d) In certain cases, only “personal” compensation is authorised — that is to say, the Czechoslovak exporter in whose favour a claim on a foreign country is created is permitted to make use of it to purchase goods he requires for his own use, to pay his own debts in the foreign country, or to make a business trip to the foreign country or a journey for purposes of health, etc.

(e) There is an element of compensation in the widest sense of the term in the use of clearing claims on foreign countries for capital investment in those countries, either in the form of simple loans — generally, long-term loans — or in the form of purchases of securities (bonds or shares), or in the form of acquisition of interests in undertakings, or directly in the form of acquisition of manufacturing or commercial plant.

Denmark.

The agreement with Germany contains no provision regarding private compensation transactions. Arrangements of this kind have only played an insignificant part in trade relations between Denmark and Germany.

Estonia.

Private compensation is not provided for in the agreement with France.

Finland.

The clearing agreement with Germany allows of private compensation subject to authorisation by the clearing institutions of the two countries.

France.

Private compensation, to enable traders in each of the contracting countries to set off their claims against their debts, so as to avoid transfer of the balances, is allowed in the majority of agreements on condition that a fresh special permit is obtained from the State offices or banks responsible in each case. The German and Roumanian agreements, on the other hand, prohibit private compensation.

It should be realised that private compensation has given rise to frequent difficulties, and that the abuses of which it is capable obstruct the operation of the clearing machinery.

It is accordingly becoming increasingly unpopular with many exporters and with many administrative authorities as well. The search for openings for private compensation and the offer of services in connection with it have developed into a regular trade, and support a growing number of middlemen.

Where the parity of exchange does not reflect the real value of the currencies concerned, private compensation inevitably develops, taking advantage of the arbitrarily encouraged depreciation of the currency. The worse a clearing agreement operates, the more pressing the demands for private compensation, with the result that the situation is proportionately aggravated.

Greece.

Provision is also made for private compensation by special arrangement in the agreements. Private compensation may also be admitted under the provisions of Law 5426, even where there are no compensation agreements. Moreover, in the case of any country whose imports have been made subject, at the country's own initiative, to the condition of "total" exchange, the compensations that take place are described as private and their organisation is subject to special authorisation by the Bank of Greece.

Payment for goods imported under private compensation arrangements is made in the following manner :

(a) Where the export of national goods precedes the import of foreign goods, the Bank of Greece does not deliver the bills of lading except against deposit with itself of bills of lading of foreign goods of equal value or, where there are no restrictions on the exchange of the bills of lading, against deposit of a specified guarantee ;

(b) Where the import of foreign goods precedes the export of national goods, the importer has to deposit with the Bank of Greece the entire value of such goods on blocked account. Sixty per cent of the amount is released on submission of the bills of lading proving the export of the corresponding national goods, and the remaining 40 per cent on submission of a certificate from the Customs authorities of the country of destination, visaed by the competent consular authority, proving the import of the goods in question into the country of destination

Hungary.

All clearing agreements covering the whole trade allow of private compensation with the consent of the clearing centres, except the Franco-Hungarian agreement, in which such compensation is only provided for in exceptional cases.

Moreover, payment transactions are carried out by means of clearing compensation for goods which are not subject to clearing under a clearing agreement.

Italy.

In several clearing agreements concluded by Italy, explicit provision is made for the possibility of " private compensation " ; no agreement prohibits it.

Private compensation — *i.e.*, the direct linking up of an export and import transaction in goods originating in one of the countries parties to the agreement and consigned to the other country, or coming from the latter — always implies the approval and supervision of both clearing institutions, since it is essential to ensure that, from the " foreign exchange " standpoint, private compensation should not have the effect of stultifying, even partly, the purposes for which the two countries concluded the agreement.

In practice, private compensation has not hitherto given tangible results in Italy. From the general economic standpoint, it is regarded as useful if it creates business developments which cannot take shape in the general framework of a clearing agreement.

This kind of compensation has proved successful in Italy in the case of goods already exported which have remained blocked owing to the introduction of a fresh quota or the increased restrictiveness of an existing quota, always provided that such a combination of contracts enables the quota to be ignored.

While they allow the possibility of private compensation, Italian clearing agreements either lay down no basic restrictions or else limit the possibility of such compensation to specific goods exchanged for other specific goods. This restriction has never been asked for by Italy, but has been by the other party, desirous in this way of confining this form of trade to goods which on account of their price were difficult to export, the obvious intention being to dispose of them to advantage in this way.

Where, however, a clearing system works normally and where there are no Customs restrictions which can be evaded only by resorting to private compensation, no need has been felt for such compensation.

Latvia.

The agreement with France admits of private compensation, though each case is subject to a special decision by the clearing organisations concerned. Private compensation transactions do not take place direct between the two firms, but through the

French National Bank for Foreign Trade. Some commodities — for instance, pit props — may not, however, be settled by private clearing.

Netherlands.

Private compensation is only allowed in the case of goods which do not come under the clearing system. For the latter goods, an authorisation is required.

Norway.

Direct compensation transactions between private individuals must be approved by both the clearing authorities concerned.

Poland.

Poland has no clearing agreements, properly so called, at the present time.

With the majority of European countries which have recourse to exchange restrictions on a relatively liberal scale, Poland has also been able to conclude agreements of the ordinary kind, in each of which provision is made guaranteeing the necessary foreign exchange to pay for Polish exports to the countries in question. In certain special cases, however, — they amount to some 1.5 per cent of the total of Polish exports — as a means primarily of financing trade with countries in the south-east of Europe in which Poland has frozen claims, resort has been had to what is known as “private clearing”, though not to the exclusion of other possibilities of effecting payments to the countries in question.

The general idea of the private clearing system may be briefly summarised as follows : Being unable to guarantee to Polish exporters payment for the goods exported by them to these countries, the Polish Government was led to allow compensation transactions by a private company known as the Polish Compensation Trade Company. This company has not a monopoly ; but it has certain privileges enabling it to block sums due to the exporters of the countries concerned for goods exported by them to Poland. These privileges — it must be repeated — have nothing to do with the general movements of foreign exchange, and do not involve any obligations of any kind either for the Bank of Poland or the official authorities in charge of Polish national finance. As the majority of imports from countries with strict foreign exchange control, who have frozen debts to Poland, cannot enter Poland freely, the Polish Government agrees not to give import permits for goods exported by such countries to Poland unless the Polish importer undertakes to pay the sum due for the import of the said goods into a blocked account opened by the company with certain banks in

Poland. These sums are used for the payment of Polish exporters to the countries in question.

It is obvious that this arrangement makes possible to a certain extent the regulation of trade with countries in which there is strict foreign exchange control and difficulty is found in arriving at an equilibrium of the trade balance — and that, without any compensation agreement or system of quotas with the countries concerned. It must, however, be added that this system itself involves certain disadvantages, and, in particular, the following :

(a) The unprohibited portion of exports from these countries to Poland comes in freely and cannot be used as a basis for increasing Polish exports to these countries ;

(b) The general tendency is towards an almost continuous falling-off of trade between these countries and Poland.

Roumania.

Trading is on a private compensation basis under the control of the issue banks concerned — viz., those of Austria, Czechoslovakia, Germany and Hungary.

Sweden.

Private or direct compensation is permitted, but only with the authorisation of the clearing organs.

Switzerland.

Private compensation is only allowed in the agreements concluded with Chile and Hungary.

The authorisation of the respective national banks is required for each transaction.

Yugoslavia.

The majority of clearing agreements provide for the possibility of *private compensation* between exporters and importers, with the previous assent of the institutions in charge of the clearing system to be obtained separately in each case.

* * *

6. *Are your clearing agreements related or not to other special arrangements of a commercial, financial or other character ?*

Austria.

The agreement with Turkey is the only one which is directly and closely connected with a trade compensation agreement, concluded simultaneously.

Bulgaria.

The agreement with Austria is connected with an arrangement concerning the purchase of Bulgarian tobacco by Austria. Similarly, a special agreement regulates the purchase of Bulgarian tobacco by the Italian monopoly.

The Bulgarian clearing agreements in some cases provide for certain facilities for the reciprocal exchange of goods (increase in import quotas, reduction in Customs duties, etc.).

Chile.

Under certain agreements, the Saltpetre Sales Corporation or the producers of copper have been guaranteed import licences up to a certain amount in exchange for the sale of a percentage of their foreign exchange at a specially favourable rate, with a view to the payment of commercial debt.

Czechoslovakia.

The clearing agreements signed by Czechoslovakia are, in some cases, independent agreements between Governments concluded solely with a view to payment for goods. Sometimes they are a part of commercial treaties. In other cases, they are agreements between banks of issue, as to which the Governments are kept informed.

Denmark.

The Danish-German clearing agreement is not related to any other agreement.

Estonia.

The clearing agreement with France is not related to other arrangements.

Finland.

The agreement with Germany is not related to any other arrangement.

France.

The clearing agreements are not in any case related to commercial or financial agreements. Their sole object is to establish forms of transfer for the payment of goods, which are themselves the subject of independent commercial agreements.

The last Franco-German agreement is, however, an exception to this general rule. Its negotiation (in July 1934) and its renewal (in November 1934) both synchronised with commercial negotiations; but part of the agreement includes arrangements of a financial character (earmarking of a percentage of the importers' payments for service of the Dawes and Young Loans).

Greece.

In principle, compensation agreements operate within the framework of existing commercial agreements, which, having almost all been concluded before the first phenomena of the crisis in Greece, are based (in all but two cases) on unconditional most-favoured-nation treatment. In the few cases in which commercial agreements of a provisional character were concluded during the crisis, the latter were combined with simultaneous compensation agreements. The provisional commercial agreement, for example, between Greece and Czechoslovakia of July 30th, 1932, refers to the compensation agreement of the same date between the two countries. The agreement between Greece and Brazil of May 15th, 1933, was conditioned by the agreement between the Greek Government and the Brazil-Orient Company, which had undertaken to organise the compensation between Brazilian coffee imported into Greece (and through Greece to all the Balkan countries) on the one hand and Greek goods imported into Brazil (and through Brazil to all the countries of South America excepting the Argentine) on the other hand.

Hungary.

In most cases, the conclusion or amendment of clearing agreements has been directly linked up with commercial treaties. There are, however, some agreements, especially the first agreements concluded with Austria, Belgium and Switzerland, which are not related to any other arrangement.

Latvia.

At the beginning, the agreement with France was quite independent and not connected with any other agreement. Experience has, however, shown that, if a clearing agreement is not accompanied by a compensation agreement regulating the exchange of commodities and concluded on the basis of absolute reciprocity, it does not render the services anticipated. The object and ideal of the agreement in question is to arrange commercial transactions in such a manner that they do not call for the transfer of foreign exchange. The Governments of Latvia and France were therefore subsequently led to conclude additional arrangements, with the object of bringing the trade balance of the two countries into equilibrium.

Netherlands.

The agreements with Chile and Turkey are connected with the commercial agreements. Links also exist (for instance, with regard to quotas) between the clearing agreement with Germany and the commercial treaty with that country.

Norway.

The agreement with Turkey was accompanied by a compensation and quota agreement.

Sweden.

The agreement with Germany is connected with two arrangements, one of which deals with the Dawes, Young and Kreuger loans and the other with the German transfer moratorium.

Switzerland.

The clearing agreements have in some cases been combined with the system known as the "compensation system", with a view to concentrating imports of certain foodstuffs and raw materials and in order to facilitate exports of Swiss industrial products and the liquidation of credit balances in the clearing accounts.

Yugoslavia.

The clearing accounts of Yugoslavia with the different countries are not related to other special agreements of a commercial or financial character. The commercial treaty with Greece, which also contains provisions with regard to payments, is an exception; and so in certain respects is the agreement with Czechoslovakia.

* * *

7. *In clearing transactions, what is the basis adopted for the reciprocal conversion of the currencies of the contracting parties (real, legal or conventional parity)? In this connection, are there any practices which aim at correcting the effect of the rate of exchange adopted, such as price rebates, export bounties, import taxes, etc.?*

Austria.

Under the first clearing agreements, conversion effected on a gold parity basis; subsequent agreements provide that conversion shall be effected on the basis of a stable currency or a current exchange rate.

Belgium.

In the clearing transactions concluded by the Economic Union of Belgium and Luxemburg, payments are made on the basis of the legal gold monetary parity.

Bulgaria.

Imports and exports are usually invoiced in the currency of the country with which Bulgaria has concluded the clearing agreement.

The value of Bulgarian imports is paid to the National Bank of Bulgaria in leva at the rate of the day.

Chile.

All Chile's clearing agreements provide for one, two or three rates of exchange, according to the kinds of claim with which they deal, as follows :

(a) A rate of exchange closely approximating to the " real " exchange, fixed by the Government or Central Bank, for the sale of the percentage of foreign exchange held back out of the proceeds of sales of nitrates (in the neighbourhood of 20 per cent); in the agreements this is described as account A ;

(b) A conventional rate of less than half the " real " value ; it is at this rate that the 15 to 25 per cent kept back from the sales of nitrates (account B) is sold, with a view to the payment of frozen debts ;

(c) A " real " rate of exchange at which Chilean exporters sell the exchange obtained abroad through the settlement of export transactions authorised by Chile in the form of " private " or direct compensation in goods.

Czechoslovakia.

The ratio between the two clearing currencies is sometimes a fixed rate and sometimes parity. This is the case where independent clearing accounts are opened in both countries. The sums paid into the account in one of the two countries are at once converted at the agreed rate into the currency of the other country, so that the creditor is entitled to a fixed payment in his national currency.

In the most recent agreements, provision is made as a general rule for a single account only to be kept, the other bank of issue concerned keeping a parallel account in the other country — *i.e.*, a duplicate of the account in the other country. In the second country, the payments for goods to importers are made in the country which keeps the original account — generally at the current rate. Similarly, in the first country, the payments out of the account are converted into the currency of the other country at the Stock Exchange quotation. Some agreements stipulate that any exchange differences are to be met by the debtors (where so bound by their contracts) through the clearing account.

In the event of serious exchange differences, the bank of issue is not a party to the disputes which, in such case, arise; but it commonly recommends the parties concerned to come to an amicable arrangement by halving the loss, and wherever possible to avoid litigation. The clearing agreements concluded by Czechoslovakia in no case contain any provisions with regard to price rebates, export bounties, import taxes, etc.

Denmark.

The agreement with Germany contains no provisions on this point, but, in practice, it is the real parity which is taken as a basis for the reciprocal conversion of the currencies of the two countries.

Estonia.

France: The two accounts are kept in French francs; the Estonian crowns are converted into French francs at the market rate at Tallinn (real parity).

Finland.

The clearing agreement with Germany provides that, where the invoice is made out in Finnish marks, the conversion into Reichsmarks is to be made at the latest mean rate on the Berlin Stock Exchange, and that, where it is made out in Reichsmarks, the conversion into Finnish marks is to be made at the latest sight rate at the Bank of Finland. The two clearing institutions may agree to allow part payment of German exports to Finland in Kreditspermarks or Registermarks.

France.

The importers' payments into the Compensation Offices are always made in the national currency.

The legal parity is the basis generally adopted for the reciprocal conversion of the currencies of the two contracting parties.

In the case of Yugoslavia, the conversion of dinars into francs is effected at the official quotation of the National Bank of Yugoslavia at the current date, plus a premium fixed by that institution.

The fixing of a gold parity by agreement is undesirable, inasmuch as it does not take into account the real value of the currency. For example, the operation of the Hungarian agreement has been seriously compromised by the difference in value for the importer and exporter between the gold and paper pengö. The importers of Hungarian products suffer from the fact that they make their purchases in gold pengö, which are really paper pengö, while the Hungarian exporters have the benefit of an exchange premium representing the difference between the two.

Greece.

As a basis of conversion, the compensation agreements concluded by Greece have adopted the Zurich parity of the day of payment of the price of the goods. As there is no question of a fictitious exchange rate in this connection, no measures to correct the exchange have been necessary.

Hungary.

Legal gold parity. In order, however, to overcome the difficulties arising out of this rule, the exporters receive, in addition to the exchange value corresponding to the gold parity of the value of their exports, a compensation or exchange indemnity, the rate of which is fixed by an organisation set up for the purpose. Importers for their part are obliged to make payments to the clearing organisation at the official rate and, in addition, to pay a corresponding "compensation indemnity" to one of the authorised compensation banks. The system is at present applied in the case of all countries with which clearing agreements are in force, with the exception of Austria.

Italy.

The problem of converting the Italian lira into the currency of the contracting country, and *vice versa*, was exhaustively studied when the agreements were negotiated. In this particular field, Italy's experience is conclusive, as it covers all the possible solutions, which in practice may be reduced to the two following :

- (1) Conversion on the basis of the actual rates of exchange ;
- (2) Conversion on the basis of conventional rates not corresponding to the actual rates.

Italian circles still maintain that the adoption of the former solution is essential to the proper operation of a clearing system.

The second solution may in itself cause the gravest disturbances in the currents of trade between the countries parties to the agreement. A country whose currency, owing to the adoption of a conventional rate, is valued at a rate higher than the actual rate of exchange, is in this way imposing a handicap on its exports and placing a premium on its imports. As a result, the method of conversion applied has, as regards restoring the economic and monetary balance of the country concerned, an entirely opposite effect to that required : it increases imports and diminishes exports.

Furthermore, the adoption of a rate of exchange different from that actually obtaining encourages the holders of claims expressed in the currency which, quoted at this rate, is devaluated

in the clearing arrangement as compared with the other, to try by all possible means to evade the obligation of settling their claim through the clearing office, so as to be able to dispose freely of the foreign currencies represented by their own claim at the actual rate of exchange through the illegal channel of the so-called "black exchange".

Latvia.

Compensation transactions with France are calculated on the basis of a rate fixed by the Agreement which corresponds in effect to the gold parity of the two States. The agreement with Germany provides for the basing of the calculations, not on gold parity, but on the average rate at Berlin.

Netherlands.

Turkey and Chile: The rate of exchange of the day; Germany: The rate fixed by the experts of the respective clearing institutes.

Norway.

In clearing operations with Greece and Turkey, it is the real parity which is taken as the basis for conversion into French francs. The agreement with Turkey includes various rules regarding the conversion of one currency into the other. It further stipulates that losses on exchange and loss of interest arising out of transfers to the pool accounts are to be made good by means of supplementary payments into those accounts.

The clearing with Germany is effected at an exchange rate fixed by direct agreement between the two clearing institutions.

Roumania.

Commercial and all other kinds of payments are made by Roumania to all the countries with which she has concluded payment agreements on the basis of the legal monetary parity; similarly, in respect of countries with which Roumania has no payment agreements, the legal rate of the national currency is applied; the rates applied in the private compensation arrangements with Austria, Germany, Hungary, and even Czechoslovakia, represent a lower value for Roumanian national currency, since these rates do not take account of the devalorisation of the currency in those countries — for instance, the Austrian schilling and the Hungarian pengő, or the various kinds of marks which are negotiated in foreign countries at rates differing from those of the free mark.

Sweden.

The basis for the reciprocal conversion of the currencies of the contracting parties in the two agreements with Turkey and Germany is real parity.

The clearing account with Turkey is kept in effective French francs deposited with the Bank of France at Paris.

The clearing account with Germany is kept in Swedish crowns (the marks are converted into crowns on the basis of the latest average rates quoted on the Berlin exchange). All advice notes exchanged between the clearing organisations are expressed in Swedish crowns. In Sweden, payments to exporters are made in Swedish crowns; in Germany, they are made in marks.

Switzerland.

Payments into the clearing accounts are made in Switzerland in Swiss francs and in the contracting countries in the respective national currencies. The rate of conversion provided for in all the agreements, except that with Germany, is the official rate of the Swiss franc quoted in the respective countries. The aggregate accounts at the National Banks are kept in the respective national currencies. Only those in Greece and Turkey are in Swiss francs. A special system is provided for in the German-Swiss clearing agreement. The debtors on both sides are in principle entitled to pay in their national currency or to purchase marks or Swiss francs respectively from their national banks. In Germany, the conversion rate is the official rate of the Swiss franc; in Switzerland, the Reichsmark is converted at the rate of the day.

In order to eliminate all exchange risks, Switzerland lays down the principle that a foreign debtor is only regarded as having discharged his debt when the Swiss creditor has actually received the total amount due to him.

Yugoslavia.

As regards conversion from one currency into another, various clearing agreements of Yugoslavia provide for the application of the legal parities, while others stipulate for the current quotation at Zurich. Any other practice which aims at correcting the effect of the rate of exchange adopted, such as export bounties, import taxes, etc., is embodied in the clearing agreement. But the premium on the dinar should be borne in mind: it is at present 28.50 per cent of the exchange value — 9 Swiss francs = 100 dinars.

8. *Do your agreements stipulate that invoices may be made out in currencies other than the national currencies ? If so, what basis of conversion is provided for ?*

Austria.

If the invoices are not made out in the currency of one of the countries parties to the agreement or in the currency adopted as a basis, they must be first converted into one of these currencies. For instance, Austrian or Turkish claims made out in any other currency than the French franc must be computed after converting the said currency into French francs at the closing rate of the Paris exchange of the previous day.

Belgium.

If the debt is expressed in belgas or in any currency other than that of the contracting country, the value is converted into the national currency at the official rate of that country quoted on the day preceding payment.

Bulgaria.

When the invoices are made out in leva or in a currency other than that of the contracting foreign country, the conversion into the currency of that country is carried out at the official rate or at a rate agreed upon beforehand (Hungary).

Chile.

All Chile's agreements allow invoices in other currencies and take as the rate for conversion into the currency of the contracting European country the rate current on the date on which the amount of the invoice was paid in, or the preceding day.

Czechoslovakia.

The clearing agreements do not make it a condition that invoices should be made out in a specified currency, and the exporter is free to express the value of his goods in his national currency or in any other (foreign) currency.

If the creditor has made out his invoice in some currency other than his national currency, the question of cover for the risk of exchange fluctuation may arise. The solution is not the same in all cases. The risk is borne by the debtor, if it is not explicitly stipulated that his debt is discharged as soon as he makes his payment into the clearing account of his own country. Where, on the other hand, the debtor is not discharged until the creditor is paid, the latter is entitled to claim refund of the exchange difference.

Denmark.

The agreement with Germany is silent on this point.

Estonia.

The agreement with France provides for invoices being made out in other currencies than those of the contracting parties. These currencies are converted into French francs at the rate quoted at Paris on the day on which payment is made to the clearing office.

Finland.

Debts expressed in currencies other than the national currency shall be converted as follows : in Germany into Reichsmarks at the latest known rate on the Berlin Stock Exchange, and in Finland into Finnish marks at the latest "sight" rate of the Bank of Finland, of the respective currencies.

France.

The agreements which provide for invoicing in other national currencies invariably stipulate that such currencies are to be converted into the national currency at the official rate.

Greece.

The compensation agreements concluded by Greece do not, generally speaking, contain any special provisions with regard to the currency in which goods are to be invoiced. Invoices can therefore be made out in any currency covered in principle by the compensation agreement, on the basis always of the Zurich parity.

Hungary.

The making-out of invoices in other currencies than the national currencies is expressly admitted in most of the agreements concluded. The legal gold parity of the pengő generally forms the basis of conversion, although the text of the provisions on this subject vary in different agreements.

Italy.

As regards the conversion of any other country's currencies in which prices may be expressed, the principle to be preferred is that of the actual quotation on a third market of those currencies as compared with the currencies on which the clearing agreement is based. The method adopted for converting foreign currencies must never result in changing the proceeds collected by sellers as compared with the figure which would result from the application of conditions freely agreed upon from the respective purchasers.

Latvia.

In the clearing agreement with France, special stipulations provide for the settlement of commercial debts expressed in a currency other than those of the two contracting States (Article 6, paragraph 3).

Under the agreement with Germany, debts in other currency than the Latvian lat or the German Reichsmark are converted at the average rate at Berlin or Riga if no special arrangement has been made on this subject between the parties engaged in the transaction.

Netherlands.

Provision is made for the making-out of invoices exclusively in national currencies. Liabilities in other currencies are converted into the national currency at the rate of exchange of the day. The clearing accounts with Turkey and Chile are settled on both sides in florins.

Sweden.

(1) The agreement with *Turkey* provides that, if the invoice is not made out in the national currencies or in French francs, payment shall be made after conversion into French francs at the latest rate quoted on the Paris Bourse before the date on which payment is made to Sveriges Riksbank or to the Turkish Central Bank. Conversions of French francs into Swedish crowns or into Turkish pounds shall be made at the rate quoted by the banks at Stockholm or by the Turkish Central Bank respectively on the day on which payment is made. A clearing account is kept in effective French francs deposited at the Bank of France at Paris. Payments to Swedish exporters are made by cheques in French francs drawn on Sveriges Riksbank. Payments to the Clearingkontoret are made in French francs or Swedish crowns; in the latter case, the Riksbank provides the corresponding amount in French francs.

(2) The agreement with *Germany* provides that debts expressed in other currencies than the national currencies shall be converted in Germany into marks on the basis of the latest average rates quoted on the Berlin Stock Exchange and, in Sweden, into Swedish crowns at the latest selling rate quoted at Stockholm.

Switzerland.

See No. 7.

Yugoslavia.

No clearing agreement of Yugoslavia contains any obligation to make out invoices in any given currency. Each exporter and importer is left entire freedom in the choice of the currency in which to invoice. The basis of conversion is the current rate of the foreign currency on the national Stock Exchange, allowing for the premium.

There is one Order of the Finance Ministry, issued independently of the clearing agreements, under which all invoices of exports to Germany have to be made out in *dinars*, in view of the

considerable adverse balance in the clearing account of Germany *vis-à-vis* Yugoslavia.

* * *

9. *What are the various formalities to be gone through by the importer or exporter in virtue of the existing agreement, as regards both the consignment and receipt of goods and payment for the latter ?*

Austria.

The exporter and importer in Austria have no other formality to fulfil in respect of the forwarding and receipt of goods. The agreement with Turkey is the only one which provides that the consignment must always be accompanied by a certificate of origin.

Belgium.

The importation into the Economic Union of goods coming from a country with which it has concluded a compensation agreement is, as a rule, subject to the production of a duplicate of the invoice made out by the vendor to the purchaser. This document must be certified correct by the vendor and must contain the names and addresses of the vendor and purchaser, the date when payment falls due and other terms of payment, together with a dated and signed declaration by which the purchaser undertakes to pay the value of the imported goods to the National Bank of Belgium within the time mentioned.

Moreover, payments to be made by foreign purchasers of Belgian or Luxemburg products to the National Bank of the country which has an agreement with the Economic Union can only be made on the production of the duplicate of the invoice drawn up by the supplier and legalised by the Belgo-Luxemburg Compensation Office at Brussels.

Bulgaria.

Payment for imports is authorised on presentation of the invoice and the Customs declaration.

Chile.

The exporter need only apply for a private compensation permit when he wishes to fix his own rate of exchange in lieu of the ordinary clearing rate. This is the almost invariable practice in the case of agricultural products, which are not subject to the regulations regarding the holding-back of a part of the value for the payment of outstanding debts. At the same time or later, as he may prefer, the exporter hands over to the Chilean authorities orders for payment covering the whole or a part of the value of the European goods in which he desires to

trade. The orders are then transmitted by the Chilian authorities to the European clearing authority, so that the transaction may be authorised.

The importer of European goods must apply for an import licence, which is granted without restrictions whenever the necessary exchange is available in account A or has been obtained through a private compensation arrangement.

Czechoslovakia.

The formalities for exportation to countries with a clearing system are the same as in the case of exports to any other foreign country. The exporter has to notify the National Bank of the amount of goods invoiced with a view to control of the export currencies.

When goods are imported from a country with a clearing system, a distinction has to be made according as the goods are subject to authorisation being obtained from a special Commission at the Finance Ministry with a view to the control of imports (Foreign Exchange Commission) or are goods which come in free of such restriction. In the former case, the importer has to obtain a certificate from the Foreign Exchange Commission in accordance with the usual regulations. In both cases, the importer applies, when his invoice becomes due, to the National Bank for authority to make payment into the clearing account of the State in question. Such applications have to be made, for technical reasons, on forms of a special colour known as "credit certificates on blocked account".

Denmark.

In the case of the majority of articles, the importation of goods into Denmark is conditional upon the production in each case of an exchange certificate "*Valutaatest*" issued by the Foreign Exchange Office "*Valutakontor*" of the National Bank.

In general, this certificate enables the importer to clear goods through the Customs and subsequently purchase from the banks the foreign exchange which he requires to pay for them. As regards those imports from Germany to which the clearing system applies (that is to say, at present, to almost all imports from that country), the exchange certificates authorise, not the purchase of "free" exchange, but payment through the clearing system.

The Danish exporters receive payment in crowns from the National Bank as soon as the latter is advised by the Reichsbank that the German importer has paid the necessary sum in marks into the Deutsche Verrechnungskasse.

Estonia.

Presentation to the Eesti Pank of an import or export application on a special form.

France.

Under the Decision of February 15th, 1932, French importers may not import goods from the countries concerned, unless they undertake to pay the price of such goods to the Office de compensation of the Paris Chamber of Commerce.

Further, in order to obtain an import permit, importers have to apply through the Office. The permit, which compels the importer to conduct his transaction through the Office, should not be confused with the import licence.

The declaration submitted by the importer for stamping by the Office has to be drawn up in five copies in accordance with the prescribed form. It embodies an undertaking to make payment for the goods imported through the Office in the national currency of the country of the vendor of the goods.

The French importer has further to certify, on his own responsibility, that the foreign vendor agrees to this form of payment : this provision is effective only in the case of unilateral compensation.

As a guarantee for the undertakings to which they give their signature in their declarations, the importers are required to pay into the Office de compensation the equivalent of 10 per cent of the declared value of the imported goods as soon as the latter enter France. This payment is received by the Customs Service for account of the Office de compensation, and is refunded to the importer on proof shown either of the final payment for the transaction through the Office de compensation or of the cancelling of the transaction.

The Decision of February 15th, 1932, entrusts the Office de compensation with the duty of settling claims of exporters of French goods sold in the countries in question, the price of which has been paid by the purchasers themselves to a bank in their own country designated for the purpose.

These payments are used as compensation in *chronological order* to pay for transferred claims on French importers. The Office uses funds derived from payments made by the importers of goods originating in and/or coming from each of the countries concerned — as and when such funds become available and to the extent to which they are available — to pay the claims on those countries of exporters of French goods. Payment may be made as soon as the Office is advised of the receipt of the claims by the corresponding organisations in the foreign countries.

Where the funds derived from payments made by the importers are not sufficient to allow of immediate settlement of the claims of the registered exporters, the latter may be given receipts by the Office de compensation from a numbered counter-foil book showing the amount credited to the Office for their account.

Payment is resumed, as and when funds again accrue, in the order of the numbers of the receipts.

Greece.

The compensation agreements concluded by Greece do not in general contain special or detailed provisions with regard to the formalities to be gone through by the importer or exporter as regards the consignment or receipt of goods. The formalities required are laid down in the relevant Greek internal regulations.

Hungary.

Importers must submit their applications for foreign exchange, accompanied by Customs and transport documents and invoices (and, if necessary, certificates of origin), to the Chamber of Commerce and Industry of Budapest, which decides, under the control of the National Bank, whether the goods in question will come under the clearing arrangement or not. Admission to French and Austrian clearing arrangements is regulated by special provisions.

Exporters must be provided with a document from the National Bank of Hungary certifying that the exporter has remitted to it the equivalent of the exported goods in foreign currency or that he has undertaken to remit it within a certain period or that he has been exempted from this obligation.

Latvia.

The agreement with France does not lay down any provisions regarding the formalities to be completed by the importer or exporter. In practice, the formalities in Latvia are as follows : the importer applies to the Riga clearing office and encloses : (a) *the authorisation of the Foreign Exchange Committee* to effect payment through the clearing office of the Ministry of Finance ; (b) *the invoice* and (c) *the receipt issued by the Customs* (if documents relating to the goods are sent through a bank for collection, *the corresponding notification of the bank* must also be attached). The clearing office, after checking the above documents, issues to the importer an order to pay the corresponding sum into the current account of the clearing office of the Ministry of Finance with the Latvijas Banka. The clearing office, after receiving the advice of payment from the bank, notifies the clearing office of the Chamber of Commerce at Paris that payment has been made. The importers pay a charge of 2 per mille on the amount of the payment in favour of the clearing office.

As regards exports, the clearing office of the Chamber of Commerce at Paris transmits to the clearing office at Riga the schedules showing the amounts due to the Latvian exporters. After receiving these schedules, the clearing office informs the

exporters in writing that the transfer has been received and, at the same time, requests them to submit the documents relating to the export to the clearing office. After the documents have been checked, the amount due is paid, 2 per mille being deducted in favour of the clearing office (the Paris clearing office also charges 2 per mille, plus 3 French francs).

Netherlands.

Presentation to the Customs of a special declaration for imports and presentation to the Clearinginstitut of the claim on a special form in the case of exports.

Norway.

The agreement with Turkey makes the right to effect payments into the clearing account conditional upon the production of a certificate of origin. The agreements with the other two countries contain no such provision.

A check is kept on payments made into the German-Norwegian clearing accounts through the co-operation of the Customs authorities, who notify all imports of German goods into Norway.

All importers must supply a Customs declaration, which is addressed to the Bank of Norway by the Customs authorities, the importer being required to produce a duplicate when payment is made.

Sweden.

The importer must submit to the Customs certain information (and the certificate of origin of the goods in the case of imports from Turkey). No formalities for the exporter.

Switzerland.

Imports: The Swiss clearing office sends the importers a questionnaire (except in the case of transactions with Germany), in which they are required to give the essential data regarding the goods imported. Payments to the clearing account must in principle be notified to the National Bank on a special form; they must be effected in cash, by a banker's transfer or by postal transfer. The direct postal remittance of money abroad in settlement of sums governed by the clearing system is permitted only in trade with Germany.

Exports: Exporters and other creditors to whom the clearing system applies are required to notify their claims to the clearing office in writing on special forms. The National Bank pays the parties concerned on the basis of an audit of payments carried out by the clearing office, according to the funds available.

Yugoslavia.

The clearing agreements provide that payments into the pool accounts must comply with the conditions of the Foreign Exchange Regulations. Proof has, for example, to be furnished that the goods have been imported (*e.g.*, by means of the Customs declaration, original of the invoice or similar documents); or the exporter has to undertake to repatriate the equivalent value of the goods exported.

* * *

10. *How is the question of credit balances dealt with ?*

(a) *Credit balances originally anticipated.*

Austria.

If clearing agreements contain any provisions regarding settlement of the balance, this balance must be covered in accordance with those provisions, even after the agreement has lapsed. This form of settlement was necessary in the case of the clearing agreements concluded with France, Italy and Switzerland. The balance with the National Bank of Austria was settled by continuing to pay the proceeds of Austrian exports in the country concerned to the clearing office, and compensating them with the balance at Vienna.

Belgium.

The question of balances existing at the time when the agreements expire or are denounced is settled in the following manner :

In case of denunciation, the provisions of the agreement continue to apply to commercial debts which have arisen or may arise from contracts duly recognised to the satisfaction of the contracting parties as having been concluded before the date of denunciation;

In case of the expiry of the agreement, the balance available in favour of either of the two contracting parties shall continue to be discharged in accordance with the provisions laid down in the agreement until the balance is exhausted.

Bulgaria.

The settlement of credit balances is provided for in each agreement separately. In general, the National Bank tries to secure at least a minimum percentage of foreign exchange that can be freely arbitrated so as to be able to meet its engagements in other countries which buy nothing, or only insignificant,

quantities of goods, from Bulgaria. In order to be able to meet her service of State loans and other foreign obligations, Bulgaria is compelled to require, at the time of the arbitration, a small percentage of foreign exchange. (France, Spain and Switzerland each credit 30 per cent of the value of Bulgarian imports into those countries to a special account on which the National Bank can draw freely. Most countries, however, insist on complete clearing of reciprocal claims.)

Chile.

Chile's clearing agreements contain no provisions with regard to credit balances.

Of the proceeds of sales of Chilean saltpetre, 60 to 85 per cent is left free for transfer abroad, for payments due on foreign capital (which usually means English or United States capital) invested in Chile in nitrate concerns, and further for payments in respect of petroleum, jute sacks, shipping freights, etc., which are not payable in the contracting countries.

The proceeds of sales of all other Chilean goods must be used in their entirety for the purchase of goods in the contracting European country.

Czechoslovakia.

There is not as a rule any previous provision in clearing agreements for dealing with balances in the clearing accounts. Czechoslovakia has recently had a credit balance in all its relations with countries having the clearing system, and has been at pains to increase imports from these countries as a means of liquidating this balance. There are no obligations, however, in this respect except in the case of a single agreement.

Denmark.

The sole purpose of the agreement with Germany was originally to bring about the desired increase in trade, and it was only little by little that it came to be more generally applied. Even with the wider scope which it has acquired in practice, it is only in rare instances and to a limited extent that there have been differences requiring for their settlement the transfer of "free" exchange between the two banks.

Estonia.

The Estonian-French agreement does not provide for credit balances. (In practice, France deals with outstanding debts on the same basis as new debts.)

Finland.

(1) The agreement anticipates a surplus balance in favour of Germany, and it was consequently arranged that a certain percentage — fixed by special agreement — of the payments

to the Bank of Finland for German goods should be placed at the free disposal of the "Deutsche Verrechnungskasse". (Since the agreement came into force, however, the balance has always remained in Finland's favour.)

(2) If, on the expiry of the agreement with Germany, the payments into the Reichsbank are not balanced by the payments into the Bank of Finland, the payments into the latter are to continue until the whole of the outstanding balance is liquidated.

France.

It is a matter of experience that clearing agreements tend to a more or less rapid reversal of trade balances. This is shown by the case of France. The French trade balance with the majority of countries with which France has clearing agreements, from being at the outset passive, is now in process of becoming active in the majority of instances.

This development is indicative of one of the most serious defects in the agreements concluded by France.

The majority of them were concluded at a time when France had a debit balance in relation to the other contracting parties; and the maintenance of the position in this respect was in some sort assumed in concluding the agreements, as the only means of enabling the clearing machinery to operate regularly and clear up the arrears of trade debts.

But the conclusion of the agreements proved frequently to be the signal for a marked increase of exports and a marked decrease of imports, with the result that the operation of the compensation machinery did not fulfil its purpose.

Greece.

In principle, the majority of compensation agreements contain a provision to the effect that, where there is an uncovered balance for one or other of the contracting parties on the expiry of the agreement, the balance is to be liquidated by the export of goods, the provisions of the compensation agreement continuing to operate until the balance is liquidated. Certain agreements signed during the year 1934 further make provision for the restriction of imports from the other party, if the latter, in spite of having a credit balance in its favour, does not within a certain period take the necessary steps to re-establish equilibrium of the trade balance. Restrictive measures of this kind have already been applied in Greece during the second half of 1934 in the case of French and Czechoslovak imports.

Hungary.

Most of the agreements provide that the National Bank of Hungary may dispose freely of a given percentage of the sums paid in the contracting country for the settlement of liabilities in

Hungary. In some cases, however, this free percentage of Hungarian assets can only be used for certain payments within the respective country.

In addition, the Austro-Hungarian agreement authorises the National Bank of Hungary to use the credit balance remaining in its favour after the settlement of Austrian commercial debts in order to make other payments in Austria.

Italy.

The agreements concluded by Italy contain no rules for the settlement of clearing balances.

The agreement between Italy and Germany is the only one which provides, by means of a "sundry transfers" account, for a periodical determination of the clearing balance, to be settled by special agreement between the two Governments.

It should, however, be noted that in the agreements concluded by Italy it is always provided that the termination of the agreement shall not affect claims existing on the date of the expiration, these being still governed by the provisions of the agreement in question.

Latvia.

The clearing agreement with France does not contain any provision relating specially to the transfer of balances. Nevertheless, such transfers have taken place under accessory agreements, though to a small extent, but experience has shown that the transfer of balances in foreign exchange was not in accordance either with the spirit or the objects of clearing arrangements for commercial debts. Latvia has therefore based her recent policy in respect of clearing agreements on the principle of the non-transfer of balances in foreign exchange and the payment of such balances in goods.

Netherlands.

The clearing agreements with the Netherlands do not contain any provision relating to the transfer of balances.

Under all the agreements, a given percentage of the sums paid is placed at the free disposal of the Central Bank of the other contracting party.

Norway.

Under the clearing agreements with Greece and Turkey, any balances are carried forward without interest with a view to their use for the gradual liquidation of current transactions. No settlement of balances is to take place until the clearing system is finally wound up.

Under the agreement with Germany, any balance standing to the credit of the Reichsbank is to be made over to that Bank by means of bi-monthly transfers whenever such balance exceeds

500,000 Norwegian crowns. Any balance standing to the credit of the Bank of Norway is to be carried forward to the following account.

Roumania.

I. *Roumanian credit balances*: (a) In the case of countries with which trade is regulated by private compensation arrangements (without collective clearing accounts), the credit trade balance cannot be paid in foreign exchange if these countries have introduced foreign exchange restrictions. Roumania was in this position as regards Austria until 1933 and also as regards Hungary. She employed the credit trade balance for financial transfers (other than movements of capital) to these countries.

(b) The credit balance of certain other countries (France, Greece and, until September 1934, Italy) is paid in free foreign exchange in accordance with the provisions of the agreements.

(c) In the last agreement with Italy a proportion of 30 per cent of the value of the exports is reserved (the credit balance is less than this proportion) for financial payments to that country, and, from the practical point of view, this represents a quantity of foreign exchange assigned to a limited purpose.

(d) The position is the same in Switzerland (see separate note), which has a debit balance with Roumania (according to Swiss statistics, which include Roumanian goods imported through third countries, though according to Roumanian statistics, which only show direct consignments to Switzerland, Roumania has a debit balance). The proportion reserved for financial payments is 20 per cent, of which 15 per cent is allocated to State requirements.

II. *Roumanian debit balances*: (a) In the case of Czechoslovakia, with which country Roumania has a heavy debit balance, the maximum amount of the debit balance which may appear in the clearing account has been limited. Payments received by the clearing account in favour of Czechoslovak exporters are subject to this maximum limit.

In addition, the yield from certain goods has been allocated to the amortisation of the debit balance of the clearing account, in conjunction with the fixed proportion between exports and imports, which is favourable to Roumania; this is supposed to reduce the debit balance of the clearing account (which also represents arrears) and therefore also the trade balance.

(b) The agreement between the Reichsbank and the National Bank of Roumania (May 1st, 1933) provides for making good the balances existing at the end of each month by delivering goods or, if this is impossible, by some other means to be determined by the two banks of issue.

Sweden.

(1) The agreement with *Turkey* provides that 40 per cent of the amounts paid to Sweden should be placed at the free disposal of Turkey and 60 per cent should be employed for the payment of Swedish exports to Turkey.

(2) The agreement with *Germany* provides that amounts paid in Sweden should be used in the first place for the settlement of debts arising out of exports, and that the balance should be used partly for the payment of interest on Swedish financial debts and partly placed at the free disposal of Germany.

Switzerland.

(a) The agreements concluded with Hungary and Yugoslavia place 20 per cent, those concluded with Bulgaria and Turkey 30 per cent, and the Roumanian-Swiss agreement 15 per cent at the free disposal of the national bank of the contracting country with Switzerland.

(b) The German-Swiss agreement provides for the following settlement :

(1) Twelve per cent of all Swiss payments other than those relating to imports of German coal (which are credited to a special account) are placed to the credit of a free account with the Reich clearing office up to a maximum monthly amount of 5 million francs ;

(2) Each month, 24½ million francs are applied to payments for Swiss exports and interest on Swiss debts ; the balance remaining is placed at the disposal of the Reich clearing office up to 5 million francs per month, in case this figure has not been reached by the payments referred to under (1) ;

(3) If a balance still remains, it is used for settling debts arising out of the trade in goods and the interest service on Swiss debts in so far as it has been impossible to cover them by the 24½ million francs deducted in accordance with (2) ;

(4) Of the sums still available, an amount of 6 million francs is deducted in order to be applied in the proportion of 1 to 2 for the amortisation provided for in the agreement and payment for goods not of Swiss origin exported by Switzerland ;

(5) The surplus is placed at the free disposal of the Reich clearing office.

See also n° 6

Yugoslavia.

There is not as a rule any provision in the clearing agreements for dealing with credit balances. In one case, there is a clause which provides that, on the expiry of the clearing agreement, the contracting parties shall come to an understanding as to the liquidation of the balance remaining. In a few agreements only, it is specified that the existing credit balance is to be dealt with by new payments to the creditor country. There is practically no other way of dealing with this balance without remitting free foreign exchange.

(b) *Unforeseen or temporary credit balances.*

Bulgaria.

The unforeseen or temporary credit balances remain unused until goods are imported into the country in favour of which a balance exists.

Estonia.

Agreement with France : The balances in favour of Estonia are refunded by a transfer of foreign exchange ; those in favour of France are settled by exports of Estonian goods.

Hungary.

Hungary has authorised the use of amounts in pengö, which, for the moment, are not transferable and have accumulated in Hungary in favour of a country with which a clearing agreement existed, for investments or various payments within Hungary. In such cases, however, the contracting parties have endeavoured to facilitate the transfer of balances which have accumulated in this manner by increasing the exports of Hungarian goods.

Netherlands.

The question of these balances has not yet been settled.

* * *

11. *Duration of the agreements. Is their revision provided for, and, if so, in what form ?*

Austria.

The periods laid down for the agreements are usually short. The agreed time-limits for denunciation are also very short. The agreement with France provides that, if difficulties arise during the term of the agreement, an exchange of views will take place. Under the terms of the treaty with Italy, the agreement ceases to apply if changes are made in the

monetary parities. Under the Hungarian agreement, the clearing system ceases to operate, not only when the parity rates are changed, but also when, in the opinion of the National Bank of Austria or the National Bank of Hungary, these rates are no longer applicable in view of trade with third countries.

Belgium.

The agreements are generally concluded for three months and provide for one month's notice. Should any change take place in the monetary or legal parity, the agreement is subject to revision — that is to say, fresh negotiations must be entered into between the contracting countries.

Bulgaria.

Agreements are usually concluded for a period varying from six months to one year and may be denounced at from fifteen days' to two months' notice.

Chile.

In all cases, the duration of the agreements was originally fixed at one year, to be renewed by tacit agreement failing notice of termination by one of the parties. None of the treaties has so far been denounced. Revision has been made by mutual agreement between the contracting parties, changes in the sums, or in the list of transactions subject to reductions, being conditional on the payment in full of the amounts due.

Czechoslovakia.

The duration of agreements is not, in general, confined to a specified period. But the right is sometimes reserved to denounce agreements at the short notice of fifteen days, in order to make it possible to deal at once with any difficulties which may arise in operation, by the conclusion of a new agreement.

Denmark.

The agreement with Germany contains no specific provision as to its duration, though both parties have stated their willingness to negotiate whenever either of them may think the agreement in need of modification.

Estonia.

The agreement with France was concluded for an indefinite period.

It may be denounced at any time on giving one month's notice.

No provision is made for the revision of the agreement.

Finland.

The agreement with Germany, which was concluded on October 2nd, 1934, will remain in force until May 31st, 1935, but may be denounced at any time at fourteen days' notice.

France.

The duration of the agreements is not as a rule fixed ; but they are subject to denunciation at anything up to six months' notice, and certain agreements have already been revised several times (*e.g.*, the Hungarian and German agreements).

Greece.

The duration of the majority of compensation agreements is for six months ; but there is generally a clause providing for tacit renewal, except in certain cases where the agreement is for " partial " compensation (Roumania, Turkey and Yugoslavia), in which case there are facilities for temporary extension by common agreement between the two parties, with a view to new negotiations for an improvement of the Greek trade balance.

Hungary.

The agreements with Switzerland and Italy expire on January 31st and August 31st, 1935, respectively.

The other agreements have no time-limit, but are liable to termination at one month's notice, except the agreement with Greece, which provides, for notice of eight days. The agreements with Belgium, France and Turkey postulate a quarter's notice. The majority of the agreements provide for immediate termination in the event of modification of the legal gold parity of one of the contracting countries.

Italy.

Agreements are usually concluded for a limited period of a few months, but may be prolonged indefinitely by tacit agreement, subject to later denunciation on notice being given.

Latvia.

The agreement with France was concluded for an indefinite period, but it may be denounced at any time at one month's notice. The agreement also provides that the two contracting States are obliged to enter into negotiations immediately should any change take place in the rate of calculating parity fixed in the agreement.

Netherlands.

The agreement with Turkey was concluded for a period of six months.

The agreement with Chile was concluded for a period of one year.

The agreement with Germany concluded on December 5th, 1934, is to continue in force until December 31st, 1936.

Norway.

The agreement with Greece was in the first place concluded for a period of four months. Failing denunciation before the expiry of that period, it was to remain in force for a further period of four months, and so on until denunciation before the end of the third month of the current period.

The agreement with Turkey contains similar provisions.

That concluded with Germany may be denounced on the 1st and 15th of each month; in which case, it expires on the 15th or last day respectively of the month in question.

Roumania.

The duration of the Roumanian agreements is, in general, three to six months (with one exception — *i.e.*, twelve months).

Renewal is by tacit agreement.

Revision is provided for in two cases only and relates in particular to technical questions or to the quotas mutually granted. It is entrusted to committees which meet every three months.

In other cases, revision can only take place on the expiry of the agreements, or as a result of denunciation.

Sweden.

The agreement with Turkey was valid until the end of 1934 and it may be renewed by tacit agreement for periods of six months unless denounced (notice : thirty days).

The agreement with Germany was valid until the end of 1934 (it was replaced by a new agreement concluded on December 22nd, 1934).

No provision is made for the revision of these agreements.

Switzerland.

The clearing agreements are concluded for short periods or contain revision clauses to permit of their being rapidly adapted to any fresh situation. The majority of the agreements contain a liquidation clause under the terms of which exporters of a country in whose favour there is a balance with the national bank of the other country when the agreement terminates must continue to pay the equivalent of their imports to their national bank until the claims corresponding to such balance have been fully met.

Yugoslavia.

All clearing agreements provide for a duration of one to six months, with the possibility of renewal for a further similar period if the agreement is not denounced within the prescribed time-limit. Ordinarily, when an agreement is denounced, a new agreement is negotiated with the changes required.

12. *Do your clearing agreements apply exclusively to transactions in connection with goods originating in and/or coming from the contracting parties ?*

Austria.

The clearing agreements apply solely to goods originating in the other contracting State.

Belgium.

The clearing agreements concluded by the Economic Union of Belgium and Luxemburg may only apply to transactions in commodities harvested, manufactured or extracted from the soil of the Economic Union.

Bulgaria.

On the whole, the tendency among European countries is to allow articles of foreign origin or those with a world (exchange) price to be exported only in exchange for foreign currencies that can be freely arbitrated, which the National Bank of Bulgaria does not possess.

Chile.

In view of the commercial rivalry which led to the acceptance by Chile of these agreements, it is only natural that the European nations should have refused to admit goods other than those produced in, and consigned from, contracting countries, and should even have carried their nationalism so far as to refuse to allow payment for goods already paid for by their own forwarding agents on the ground that such goods had been produced in other countries, or for national goods on the ground that they were stocked in foreign ports, or for goods produced in factories situated a few yards beyond the frontier, even where such factories belong to industrial concerns of the contracting country.

Czechoslovakia.

The clearing agreements signed by Czechoslovakia are in principle applicable to goods imported from another country, where it is not stipulated that they are to be limited to articles manufactured in that country or subjected therein to any considerable transforming or finishing treatment.

Denmark.

The agreement only applies to Danish and German goods.

Estonia.

The agreement with France applies exclusively to the exchange of goods originating in and coming from the territories of the contracting parties (in practice, the clearing agreement

applies also to goods originating in and coming from countries other than France but which are sold by firms established there).

Finland.

Yes.

France.

The agreements apply exclusively to transactions in connection with goods originating in the contracting parties.

Greece.

In principle, compensation is applicable to goods originating in and coming from the countries concerned. Exceptionally, the compensation agreement with Switzerland also covers claims in respect of the export from Switzerland of goods coming from a third country. A similar exception is implicitly involved in the tax of the agreement between the Reichsbank and the Bank of Greece.

Hungary.

Only the purchase price of goods originating in the other contracting country can be paid into the clearing organisation. The purchase price of such goods must be paid into that organisation, even when they are imported into the other contracting country after transit through a third country.

Certain clearing agreements allow notwithstanding, within certain limits, payment into the clearing of the purchase price of goods originating in third countries (goods in transit).

Italy.

Yes.

Latvia.

The text of the agreement with France merely mentions commercial claims resulting from the purchase of Latvian goods imported into France and commercial claims resulting from the purchase of French goods imported into Latvia. In view, however, of the provisions of Article 1 of the Commercial Treaty between Latvia and France of October 30th, 1934, which places certain foodstuffs or colonial products for which France has created special markets on the same footing as French products in respect of their importation into Latvia, these products (cocoa beans, vegetable fibre, etc.) have also been paid for by clearing arrangements.

Netherlands.

The clearing agreements apply exclusively to goods originating in one of the contracting countries.

Norway.

All clearing agreements apply exclusively to transactions relating to goods originating in or coming from the territory of the contracting parties.

Roumania.

Generally speaking, the goods to which the agreements relate are goods originating in and coming from the parties to the agreements.

In the case of Switzerland, a small quota of 3 per cent has been allowed for goods of other origin.

Sweden.

The agreements apply exclusively to the exchange of goods originating in and coming from the territories of the contracting parties.

Switzerland.

The first clearing agreements concerned only products of Swiss origin. For centuries, however, there has been an intensive stream of international transit traffic through Switzerland, which had also to be taken into consideration when new agreements were concluded. Nevertheless, the debts in question could not be placed in the same category as those relating to the Swiss export industry, since such purchases as might be made in the clearing countries were often not sufficient to cover the arrears in respect of Swiss exports. Among the agreements in force, those concluded with the following countries take account of debts in respect of non-Swiss goods : Bulgaria, Germany, Greece, Hungary, Roumania.

Yugoslavia.

All clearing agreements relate exclusively to payments for goods originating in the contracting countries.

* * *

13. Do the agreements contain any provisions concerning transit and the finishing trade ?

Austria.

Goods in transit are not covered by clearing arrangements ; goods which have undergone finishing or conversion processes are included if they can thereby be regarded as nationalised.

Belgium.

Transit goods may never be paid for by clearing arrangements, but costs arising out of work in connection with the finishing trade may come under the clearing agreements.

Chile.

None of Chile's clearing agreements contain any provisions on this point, and it is the Chilean clearing authorities who decide as to the nationality of goods.

Czechoslovakia.

In exceptional cases, agreements have been concluded under which it is stipulated that goods in transit are to pay a certain percentage into the clearing account, the greater part of the purchase price being freely paid in foreign exchange outside the clearing. The object of this provision is to enable goods from overseas to be paid for freely in foreign exchange, leaving the profits of middlemen, shippers, etc. (derived from intermediary transactions which are entirely for the benefit of the country acting as intermediary), to be paid out of the clearing account.

Denmark.

The agreement with Germany contains no provision regarding transit and the finishing trade.

Estonia.

There are no provisions concerning transit or the finishing trade.

Finland.

There are no provisions concerning transit or the finishing trade.

France.

Transit is excluded from the agreements. The Franco-Turkish agreement stipulated that it should only apply to goods actually brought into consumption, and that the sums due in purchase of goods consigned in transit should be paid direct without passing through the Office de compensation.

The Customs authorities were instructed on October 31st, 1933, to apply this arrangement in the case of all agreements.

The German Agreement of July 28th, 1924, also excluded transit traffic. Considerable difficulties have arisen in connection with this provision, owing to the special character of Franco-German trade, and the question came up for consideration in the Franco-German negotiations in 1934. The new agreement contains certain provisions with regard to the payment of transport and commission charges, but it makes no change in the clauses relating to the origin of goods.

The finishing trade is also excluded from the agreements.

Greece.

In principle, the compensation agreements concluded by Greece do not contain any provisions with regard to transit or the

finishing trade, except the agreement with the « Brazil-Orient » Company referred to above and the agreement with Finland, which covers all goods purchased by Finland in transit through Germany, Belgium and the Netherlands as part of the compensable total of Greek goods.

Hungary.

See No. 12.

Italy.

There are no agreements dealing with the settlement of claims relating to transit trade, but some agreements cover the finishing trade.

Latvia.

The clearing agreement with France does not contain any provisions concerning, in particular, transit and the finishing trade.

Netherlands.

Transit is provided for and also the finishing trade, on condition that the goods have undergone transformation on a considerable scale.

Norway.

The agreements contain no provisions regarding transit or the finishing trade.

Roumania.

Goods in transit are, with few exceptions, excluded from the clearing agreements. In cases where they are admitted (Switzerland), a fixed percentage has been reserved in advance for the payment of these goods.

Sweden.

There are no provisions concerning transit or the finishing trade.

Switzerland.

See No. 12. In principle, Switzerland does not require importers to pay through the clearing account if the goods merely pass in transit through Switzerland (without being cleared through the Swiss Customs).

Yugoslavia.

There is no question of transit goods in the clearing agreements. In practice, payment for goods in transit is as a general rule excluded.

14. *Do the agreements contain any provisions concerning the colonies ?*

Austria.

No.

Belgium.

All the compensation agreements concluded by the Economic Union apply also to the Belgian Congo and territories under Belgian mandate.

Bulgaria.

The agreement with Belgium provides for the settlement of debts arising out of trade in goods of Bulgarian, Belgian and Luxemburg as well as *Belgian Congo* origin.

Chile.

None of Chile's clearing agreements contain any provisions on this point, but it has been assumed — and the assumption has never been contested — that the agreements in their present form are fully applicable to certain colonies.

Czechoslovakia.

The question of colonies does not arise in the case of Czechoslovakia.

Denmark.

The agreement with Germany does not contain any provisions relating to the colonies.

Estonia.

No.

Finland.

No.

France.

The German agreement covers the French colonies, protectorates and mandated territories. The Roumanian agreement is applicable to French North Africa, but the terms of the agreement in this case are not the same as those relating to the home country.

Greece.

The compensation agreements concluded by Greece do not contain any provisions with regard to colonies. The only case where the question might arise is that of France ; and the agreement with France contains no provisions in this connection. It was, however, understood, by common agreement between the Bank of Greece and the Office de compensation at Paris, that the

provisions of this agreement should be extended to all the French colonies, protectorates and countries under mandate.

Hungary.

Yes.

Italy.

No.

Latvia.

The agreement with France contains no provisions concerning the colonies.

Netherlands.

The agreements apply equally to the Netherlands overseas territories.

Norway.

None of the agreements contain provisions regarding the colonies.

Roumania.

Colonies are covered only in the agreement with France.

Sweden.

No.

Yugoslavia.

The clearing agreements concluded by Yugoslavia contain no provisions with regard to colonies. In practice, goods originating in colonies are not paid for through the clearing. The clearing agreement with France includes Algeria; but Algeria is, for administrative purposes, a part of France.

* * *

15. *Is the present structure of your agreements the same as at the outset, or has it undergone modifications? In the latter case, what were the reasons for these modifications?*

Austria.

The agreements can be divided into two groups (see also No. 1) :

(a) The first group comprises the agreements concluded with France, Italy, Switzerland and Yugoslavia on a gold parity basis. However, in view of the depreciation of the schilling on foreign markets, it was necessary to abandon the gold parity, as the transfer machinery was not working properly; exporters tried to evade the clearing, and large

balances accumulated at Vienna in favour of foreign countries. Thus, the intentions of those countries in concluding clearing agreements were also being frustrated. All these agreements have been terminated.

(b) The agreements in the second group are those concluded with Bulgaria, Greece, Turkey and later with Germany. In these agreements, the gold parity basis was dropped. The great advantage of the agreements concluded with the Balkan States was that the bulk of the imports consisted of tobacco, which was purchased by the Austrian Tobacco Monopoly, thus giving a guarantee for the regular operation of the agreement. The agreements in this group are still in force, as is also the clearing agreement concluded with Hungary, which occupies an intermediate position between the two groups. Although it was concluded on a gold basis, it has worked more satisfactorily than the other agreements concluded on that basis, owing to the fact that the Hungarian and Austrian currencies depreciated at the same rate up to 1934.

Bulgaria.

Most of the agreements have been amended.

Certain partial agreements have become general (Austria, Italy, Switzerland). The German clearing agreement entitles Bulgaria to use a part of the free foreign exchange for the purchase in Germany of articles of foreign origin.

The agreement with Belgium has been modified ; Bulgarian exports to Belgium are now paid for in foreign currency that can be freely arbitrated.

Chile.

As already stated in reply to Question 11, the agreements have been modified as a result of the desire of the European nations to secure payment of other claims after the claims to which the agreements originally related had been paid off.

Czechoslovakia.

Czechoslovakia's clearing agreements were concluded at different times, with the result that they are not uniform in character. The modifications made in them have sometimes been modifications of form and sometimes modifications of substance. Modifications of form relate, for example, to the transformation of agreements between banks of issue into agreements between Governments. Modifications of substance are very varied both in respect of subject and of motive, since

they have been governed, not only by Czechoslovak economic interests, but also by events in other countries. It is worth noting, however, that the agreements and the measures to which they have given rise show an increasing tendency to uniformity due to the measures on which they are based and the increase in their number.

Denmark.

Originally (May 1932) the agreement with Germany was only to apply to the additional Germano-Danish exports which it was hoped might thus be developed. The situation has, however, gradually changed, with the result that, at the present day, the clearing system applies to almost all goods exchanged between the two countries. This is partly due to developments in Germany, more particularly as regards the available quantities of foreign exchange, but also, naturally, to the need for guaranteeing to Danish exporters the possibility of withdrawing the sums standing to their credit in Germany. Negotiations are, moreover, now in progress with regard to certain modifications to the present text of the agreement.

Estonia.

The agreement with France has undergone no modification.

France.

The essential provisions of the compensation agreements remain as they were at the outset. But their application gave rise to practical difficulties which could not have been foreseen, and the contracting parties were in some cases compelled to make certain adjustments of detail where the operation of the agreements proved exceptionally difficult in practice.

The most pressing of the problems that have arisen is the question of the release of blocked arrears. The Hungarian agreement was twice revised in this connection, and the matter was one of the factors that led to the revision of the German agreement.

The transformation of the clearing situation to the detriment of France places the latter in presence of a dilemma : either she must speed up the liquidation of the arrears by increasing the percentage of the funds in the hands of the Office de compensation earmarked for this purpose — which she can only do at the expense of current transactions ; or she must treat the arrears as a secondary consideration and concentrate on the payment of current transactions — which she can only do at the expense of the interests of the holders of old claims.

It is, unfortunately, to be feared that overmuch haste to liquidate past arrears may mean the creation of new arrears,

owing to the impossibility of making sufficient funds available to finance the payment of current exports.

Greece.

The present structure of the compensation agreements concluded by Greece is not quite what it was at the outset. It has been subject to certain modifications indicated by experience, the chief of which is in connection with the restrictive measures to be imposed by either party in the event of an adverse balance on the clearing account. The insertion of this provision was found necessary, owing to the fact that, even with the clearing, the equilibrium of the trade balance was not automatically assured.

Hungary.

The majority of the agreements have been modified, chiefly because their operation was unsatisfactory. The principal modifications relate to :

(a) The introduction of the system of private compensation ;

(b) The establishment of the system of compensation indemnity ;

(c) The conclusion of certain arrangements, in connection with these agreements, for the liquidation of arrears of Hungarian debts ;

(d) The introduction in clearing practice of the system of making the pengő payment dependent on the condition that the corresponding amounts in foreign exchange be placed at the disposal of the National Bank of Hungary ;

(e) Payments to be made to Hungarian importers, which are dependent on the visa of their invoices by the National Bank of Hungary before the importation of the goods concerned ;

(f) The provisions regarding “ free percentages ” (proportion of Hungarian foreign claims placed at the disposal of the National Bank).

Latvia.

The text of the agreement with France has not been changed.

Netherlands.

The structure of the present agreements has not been modified.

Norway.

The agreements concluded with Greece and Turkey have not been modified. That concluded with Germany was modified in certain respects by the additional agreement of December 31st,

1934, more particularly on account of the experience gained with regard to the ratio between Norwegian exports and German exports and the resultant modifications in the balances shown by the clearing accounts.

Roumania.

All the Roumanian agreements have undergone modifications with a view to their amendment or adaptation to changed circumstances.

Sweden.

The agreements have not been modified.

Yugoslavia.

A certain number of Yugoslavia's clearing agreements have remained in operation without change of any kind (agreements with Czechoslovakia, France and Italy); but the majority have undergone various changes in order to adapt them to altered circumstances or to obtain more favourable terms.

IV. RESULTS OF CLEARING AGREEMENTS.

16. *What has been the effect of each of your clearing agreements on the volume of your trade in each direction with the other contracting party? (Please give figures indicating increase, stabilisation or decrease.) To what extent have modifications in the volume of trade in each direction influenced the effective execution of payments?*

Austria.

The first group of clearing agreements (see Nos. 1 and 15) have been in force for such a short time that no changes have been observed. The fact that the clearing agreements in the second group have also failed to produce any noticeable changes as compared with normal trade can be taken to mean that the unfavourable effects which might have resulted from exchange restrictions were neutralised by the provisions of the clearing agreement.

Bulgaria.

The agreements have greatly influenced the decrease in the credit balance shown by Bulgarian foreign trade :

(a) Austria : Bulgarian exports have decreased, to some extent also as the result of Austrian import quotas.

(b) Germany : The commercial balance is always in favour of Bulgaria. The surplus is used for the purchase of articles of foreign origin or for transfers on other clearing agreements concluded with third countries.

(c) Czechoslovakia : Bulgarian exports have decreased (to some extent also as the result of agricultural protectionism in Czechoslovakia).

(d) Switzerland : Imports from Switzerland have increased (this was insisted on by Switzerland).

(e) France : Exports to France have fallen off (partly also as the result of the French quota policy); imports from France have also fallen off (to a lesser extent), as commercial debts owing to that country have remained unpaid.

(f) Italy : Similar developments in trade with Italy.

Chile.

Any such examination of the statistics would, at present, be premature. Chile's agreements did not come into force until 1933 and 1934 and, while some have only been in force four months, others have been in operation for almost two years, so that no comparison is possible.

Other effects of these agreements, more particularly in the sense of an increase in Chilean exports under the stimulus of the stipulation that the proceeds are to be applied to payments in the other contracting country (either in the form of new purchases or in settlement of outstanding debts), have been neutralised by the unexpected maintenance by the European countries of import licences, quotas, etc., in spite of the agreements. These restrictions have prevented the sale of Chilean goods, and in consequence the purchase of goods of the other contracting parties or the payment of their claims.

On the other hand, the statistics make no allowance for maritime freights, etc., which, in the case of products like those of Chile, represent 30 to 60 per cent of the total value as shown by the statistics. The system by which the trade in saltpetre is distributed between the various markets of the world prevents the Chilean Customs authorities from ascertaining the real consignees of saltpetre exports, particularly consignees in non-maritime countries.

Chile, moreover, has suffered more than any other country from the shrinkage of trade as a result of the depression and the new European policy of producing the materials which were the basis of Chilean trade. Chilean exports have fallen to a tenth of what they were, and imports have had to be reduced

correspondingly. Since 1932, there has been as low recovery in both ; but, for the reasons already stated, no great influence can be attributed to the clearing agreements in either connection.

A much more substantial recovery in Chilian exports is observable in the case of trade with the United Kingdom and the United States of America, with which countries Chile has no clearing agreements, while on the other hand they do not have the system of import licences, quotas or other restrictions, such as at present constitute the keynote of European trade, even — strange as it may seem — between countries which have clearing agreements with one another.

Czechoslovakia.

The following information relates to the effects of clearing agreements on trade relations with specific countries :

(a) Germany : Czechoslovakia had a considerable adverse trade balance with Germany in recent years ; but since the year 1931 the amount has been reduced.

In 1934, on the other hand, Czechoslovak trade with Germany showed a large credit balance.

The extraordinary increase of Czechoslovak exports to Germany was due to the shortage of raw materials in Germany and to their increase in price.

On September 24th, 1934, Germany made all German imports subject to authorisation. It was plain from her economic programme that her aim was primarily to import raw materials and semi-manufactured products, and that she would protect herself against imports of superfluous articles.

Under these circumstances, it was necessary to come to a new agreement with Germany for the regulation of trade between the two countries. Czechoslovakia had to take steps gradually to liquidate the active Czechoslovak balance (which to-day totals 26 million marks) by reducing exports to Germany.

At the same time, Czechoslovakia had to induce Germany to agree to Czechoslovak exports not being confined to raw materials and semi-manufactured products, and to take a reasonable quantity of Czechoslovak manufactured articles.

Two Protocols signed on November 20th, 1934, embodied a settlement in the matter.

(b) Latvia : Czechoslovak exports to Latvia have appreciably decreased.

(c) Greece : The clearing system has unfavourably affected trade relations between Czechoslovakia and Greece ; without it, these relations would have developed much more extensively and rapidly than they have hitherto done.

(d) Turkey: The results of the clearing system with Turkey have not been satisfactory and the balance is constantly increasing. In this case, the danger of an increasing credit balance is to some extent nullified by the present quota system, which limits imports of foreign goods. Although the clearing system has only been in force since March 1934, the credit balance has already reached a sum of more than 20 million Czechoslovak crowns.

Estonia.

France : The commercial balance has remained favourable to Estonia, but the clearing balance, which at first (1932) was also favourable to Estonia, was subsequently (1933 and 1934) reversed in favour of France. This must be attributed to the fact that France has used the clearing system for the service of loans as well as for payments for her exports.

Finland.

See No. 17.

France.

The clearing agreements have had a psychological effect of a marked character on the attitude of exporters, who have been induced to extend their operations under the protection of the agreements, without further apprehensions as to the inability of their debtors to pay.

At the outset, it was felt to be difficult to discourage exporters applying to the competent organisations for advice.

Later, in presence of the accumulation of arrears, it became necessary to draw the exporters' attention to the risks of delay which they were incurring in exporting to countries with clearing agreements.

The French Government has not, however, any official means of putting pressure on French nationals in the sense of controlling the direction of their activities or diverting it from trade with these countries.

In the case of Hungary and Roumania, a clearing control stamp was introduced with the object of affording French exporters a guarantee of the payment of their consignments to these two countries. The clearing control stamp is affixed by the offices in the foreign countries only to the extent to which they can reckon upon having transferable funds at their disposal as a result of their own exports to France.

On the other hand, the Governments of the other contracting countries have been led to look more favourably on imports to their nationals of French products, being no longer in danger of finding themselves compelled to transfer foreign exchange in such a measure as to compromise the stability of their currencies.

Accordingly, at the outset, they gave extensive permits for imports of French products.

Certain of these Governments, having means of exercising a relatively close control of their foreign trade, subsequently made urgent representations to their exporters to cut down their sales to France, on the ground that the corresponding imports were so large as no longer to yield a foreign-exchange balance.

These two influences have combined to stultify the normal operation of the agreements and to accumulate arrears.

Greece.

It would be difficult to express an opinion as to the results of all the several compensation agreements concluded by Greece. The experience available is not at present adequate for the purpose. But a statistical table attached to the present report shows the trade movements with countries having clearing agreements with Greece. It is clear that definite conclusions cannot be drawn from this table, since the fluctuations recorded may be due to influences unconnected with the compensation machinery.

Hungary.

It is not possible to indicate in figures the effect of these agreements on the movements of goods, which are also influenced by numerous other and more important factors.

In three cases only was there an increase in trade during the year following the introduction of the clearing system, while in eight other cases a decrease was recorded. It must not, however, be inferred that the clearing agreements have had a paralysing effect on the trade balance. The latter followed a downward trend until the end of 1932, since when, however, there has been an improvement. But, of the eight clearing agreements concluded before the end of 1932, seven have resulted in a decrease in exports in the year following their entry into force, while seven also have resulted in a decrease in imports as compared with the previous year. On the other hand, as regards the four clearing agreements concluded after the end of 1932, imports and exports have increased in three cases during the year following the entry into force of the clearing agreement.

As regards the effect on balances, Hungary's considerable credit balances in relation to Austria, France, Italy and Switzerland before the conclusion of the clearing agreements have since been very greatly reduced.

On the other hand, Hungary's debit balance in relation to Germany and Roumania has appreciably decreased since the conclusion of the clearing agreements with those countries. This would appear to prove that clearing agreements tend to operate towards the balancing of trade movements.

In certain cases, it has been observed that the clearing agreements stimulate imports to Hungary. There can be no doubt that they have also influenced exports, but their influence cuts both ways and the two tendencies counteract one another to some extent.

As regards the effects of clearing agreements upon the movements of payments, it has been observed that the decrease in the Hungarian credit balances in relation to Austria, France and Italy has led to a marked accumulation of Hungarian trade debts. As regards Belgium, Czechoslovakia and Switzerland, the position has remained more or less unchanged, whereas Hungarian debts in Germany were greatly reduced in the course of 1934. At the present time, Hungary has outstanding commercial debts in all the countries with which she has concluded clearing agreements, though the latter cannot be held entirely responsible for this state of things.

Italy.

It is hardly possible to give a very definite reply to the question regarding the results obtained from the application of these agreements, which (it must be remembered) were introduced and are operating amid the most varied manifestations of protection, direct or indirect, and of currency chaos. It is only possible to suggest the best technical basis for the conclusion and execution of such agreements.

Netherlands.

The clearing system has not been in force long enough to permit of a final opinion as to its effects. The three accounts, however, have hitherto remained more or less *liquid*.

Norway.

The agreements have not been in force long enough for it to have been possible to establish with any degree of certainty what their effect will be upon commercial exchanges between Norway and the other countries concerned.

Certain information is, however, available.

Exports to Germany greatly increased during November 1934, with the result that Norway's normally adverse trade balance is now in equilibrium. In point of fact, the value of the exports exceeds that of the imports, as the figures for the former do not include the large quantities of whale-oil which are forwarded direct from the fishing-grounds and do not touch Norwegian Customs territory. Payments for such oil are spread out over several months. To judge by the figures, the value of imports is tending to decline.

In consequence of the reversal of the balance, the sums paid into the pooled account at the Bank of Norway have been

insufficient to offset those paid into the Reich Compensation Office, the result being a balance in favour of the Bank of Norway.

Norwegian exporters are therefore at present unable to obtain immediate payment and are obliged to wait until sufficient funds are available in the pooled account of the Bank of Norway.

Under Article VIII of the agreement, the competent German authorities in foreign exchange matters are bringing about a reduction of the balance by means of restrictions upon extraordinary imports from Norway.

The figures of the trade between Norway and Greece show a tendency to decline, but it should be noted that, in the case of imports, the commercial statistics only include goods purchased in Greece. Part, however, of the goods imported are purchased in other countries although of Greek origin. As, however, trade with that country is relatively small, the agreement has not yet been in force long enough to permit of definite conclusions.

As there is comparatively little trade between Norway and Turkey, the figures for the short period of time which has so far elapsed are not sufficiently informative to make it possible to appraise the development of commercial relations between the two countries. Trade is indeed somewhat irregularly distributed over the various months of the year.

Roumania.

Agreements which aim merely at regulating trade are not in accordance either with the necessities or interests of the contracting parties; and they further create discontent and difficulty in respect of commercial agreements, which must be brought into line with the clearing agreements.

As regards the results of agreements relating to claims of all kinds, it must be admitted that, in almost all cases, the effect of such an agreement, as soon as it has been put into force, has generally been to reduce considerably the commercial relations of the two countries concerned, and even to restrict substantially the exports from creditor countries to debtor countries. This fact was noted especially in the first year in which the agreement between Roumania and Italy was applied, and is at present being noted in the relations with France.

It would, nevertheless, appear that after some time, during which the parties concerned maintain a certain reserve in their commercial relations, the movement of trade receives a fresh impetus, and even the Governments of the creditor countries concerned subsequently endeavour to promote their imports of goods from debtor countries in order to increase their own

exports and to bring about a more rapid settlement of debts arising either out of commercial arrears or due to other causes and remaining outstanding for a longer period. The fact was noted in the application and amendment of payment agreements with Italy and Switzerland.

Sweden.

The agreements have not been in force long enough to permit of reliable conclusions.

Yugoslavia.

Yugoslavia applies the system of agreements on payments differently in different countries. With certain countries, the agreements have been working long enough to enable their effect on the foreign trade of Yugoslavia to be measured. In the case of other countries, where there is a possibility of compensations of a special character (private clearing), these compensations have also been in operation long enough to allow of an estimate of their effect on foreign trade. In a third class of countries, with which clearing agreements have only recently been concluded, it is impossible to estimate their effect. In the first and second classes of countries with which a clearing or compensation system has been in operation for a relatively long period — these include Czechoslovakia, France, Germany, Italy and Switzerland in the first class and Austria, Greece, Hungary and Poland in the second class — the clearing agreements will be found to have had the effect, at a time when foreign trade was on the decline, of increasing Yugoslav exports (from 2,071 million dinars in 1932 to 2,888 million dinars in 1933) and swelling the whole volume of foreign trade (from 4,818 million dinars in 1932 to 4,958 million dinars in 1933) with the ten countries mentioned.

* * *

17. *To what extent do your exporters obtain payment?*

Austria.

Austrian exporters have been paid in full.

Chile.

Chilian exporters are all fully paid in cash. A non-capitalist country like Chile could not do business on any other basis.

Czechoslovakia.

Germany : Exports to Germany have not been paid in full (the credit balance at the Reichsbank amounts to some 26 million marks).

Turkey : The clearing account between Czechoslovakia and Turkey shows a credit balance reaching a sum of more than 20 million Czech crowns.

Greece : The clearing surplus in favour of Czechoslovakia had, by the end of November, reached the amount of 32 million Czech crowns. The Bank of Greece has refused to accept payments for Czechoslovak goods, which would raise that surplus above 32 millions.

Estonia.

Estonian exporters have been paid in full.

Finland.

The clearing agreement concluded with Germany has been especially clumsy to work, and has on many occasions given rise to differences of opinion as to its interpretation, and even to serious disagreement. The settlement of debts and payments between Finland and Germany has, moreover, not proved to be as easy as had been hoped when the agreement was signed, as the debts owing to Finnish exporters have constantly been "frozen" in the clearing account. This appears to be all the more unreasonable as German exports to Finland are still considerably in excess of our own exports to Germany, although the difference is no longer as large as it was in former years.

France.

The following are the necessary preliminaries to the receipt by French exporters of payment for their consignments :

(1) The foreign debtor must have paid the sums owing to him to the corresponding organisation in his own country, and the French office must have been informed of such payment by its foreign correspondent ;

(2) The French office must have the funds at its disposal ; and it derives such funds solely from the payments made by French importers, who only pay when their accounts fall due.

One initial cause of delay is the fact that French exporters mostly deal on a cash basis, whereas the importers are allowed time-limits for payment which are sometimes very long.

But the main reason is the fact that French imports have been curtailed partly by the effect of the French policy of quotas and partly by the tendency of countries with controlled currencies to export to countries with which they have no clearing agreement.

Further, the compensation agreements were in general concluded at a time when there was already a considerable amount of blocked claims in the other contracting countries. These claims were at once registered at the foreign offices, without any corresponding entries in the books of the French office. The result from the beginning has been a delay in operation of the agreements, which, in certain cases, has rapidly increased to many months.

As the blocked accounts carry no interest under the compensation system, the French creditors are subject to a very considerable loss on these accounts.

To meet this difficulty, the French office in agreement with the Banque de France set itself to arrange for the "mobilisation" of these claims.

On December 31st, 1934, the difference between the amount of sums paid to the foreign offices and the total of French exporters' claims settled was 260 millions, excluding Germany.

This considerable delay is a source of serious anxiety to creditors who are holders of receipts; and only too frequently it acts as an inducement to them to resort to private firms, which discount the receipts at a usurious rate and do not hesitate on occasion to spread panic amongst the holders of the receipts.

The French Government is at present concerned to seek a remedy of this difficult situation. It is also engaged at the moment on the study of means of ensuring the liquidation and "mobilisation" of claims in arrear.

Greece.

Greek exporters obtain payment immediately owing to the practice of the Bank of Greece, which takes over the obligations of the parties concerned for its own account and makes payment of their claims in drachmæ on submission of the relevant documents in proof.

Hungary.

Hungarian exporters have as a general rule recovered without any difficulty the sums owing to them. This is due partly to the fact that, in the case of the majority of clearing agreements, Hungary had a debit balance, mainly as a result of including arrears of trade debts under the clearing system.

Latvia.

Since the imports of countries which have concluded clearing agreements with Latvia have hitherto exceeded the exports, it has been possible to settle all the claims of the exporters without any complications in this respect.

Netherlands.

Netherlands exporters have been paid in full.

Norway.

Norwegian exporters receive payment of the full amounts of their claims when the necessary sums have been paid in to the competent clearing authority in the other country and when that country's account at the Bank of Norway contains sufficient funds for such sums to be paid out (see No. 16).

Sweden.

Swedish exporters to Turkey have been paid without undue delay, and exporters to Germany have received payment in full also without delay.

Yugoslavia.

Generally speaking, exporters from a country whose clearing account is active have to wait their turn for payment, while exporters from a country whose clearing account is passive are paid as soon as the notice of payment arrives. As Yugoslavia at the outset had an active balance in relation to Austria, Yugoslav exporters to Austria had to wait a number of months before recovering their claims. By the second half of 1932, the situation had changed, and all the Yugoslav clearing accounts showed a passive balance, so that our exporters were able to recover their claims without any delay. Exporters, on the other hand, from countries with which Yugoslavia had clearing agreements had to wait their turn over a number of months before receiving the equivalent value of their exports to Yugoslavia. During the current year (1934) the situation changed considerably, and a number of Yugoslav clearing accounts were *again active* in relation to foreign countries; in particular, Germany. The only passive balance — and this had been reduced to something like 60 per cent of its former total — was with Czechoslovakia. If the whole of the active Yugoslav clearing balances are deducted from the whole of the passive balances, there remains the small amount of approximately 50 million dinars in favour of the foreign countries. The maximum figure previously recorded for Yugoslav adverse balances to foreign countries was over 450 million dinars. The clearing agreements have enabled Yugoslavia to pay off almost the whole of the commercial debts to foreign countries contracted in the

second quarter of 1932, when the shortage of foreign exchange was at its most acute point in Yugoslavia.

* * *

18. *Can you mention any other characteristic modifications of your trade with the contracting parties as a consequence of the execution of clearing agreements ?*

Chile.

As already stated (see No. 16), it is as yet impossible to appraise the results of the clearing agreements. They are bound up inextricably with the general consequences of the severe depression of 1932, as also with the effects of the restrictive measure applied by European countries, including those with which Chile has concluded clearing agreements.

All that can be said is that the countries which have derived the greatest benefit from the agreements are those which have allowed the greatest liberty in regard to the importation of saltpetre. In the case of Sweden, Denmark and Czechoslovakia, for example, Chile's commercial debts have been settled in full, and payments have also been made in respect of the interest due on private Spanish investments in Chile.

France.

See Nos. 16 and 17.

Greece.

The trade currents may perhaps have been affected to some extent by the compensation agreements, inasmuch as imports into Greece from countries with which the latter has an active trade balance have been systematically encouraged. But the results of such encouragement are very dubious, since it is found that Greece, while unable to reduce seriously her continued favourable balance *vis-à-vis* Germany, has at the same time increased her purchases from the United Kingdom, with which she has no compensation agreement.

Hungary.

See No. 16.

Netherlands.

See No. 16.

Norway.

The agreements have not been in force long enough to afford any experience on this point.

Sweden.

See No. 16.

Yugoslavia.

In consequence of the execution of the clearing agreements, certain countries with which Yugoslavia has a passive balance have endeavoured to give us certain preferential tariff treatment in order to enable their exporters to recover their claims sooner. This is the case with Czechoslovakia and to a certain extent with France.

Yugoslavia has herself been compelled to take the same action in the case of Greece.

* * *

19. *To what extent have your clearing agreements affected your trade with other countries ?*

Austria.

There have been some cases of international trade being transferred. In countries where importers are, under the foreign-exchange regulations, generally restricted as regards payment of their debts to foreign countries, there is a tendency to import the goods of third countries also through the clearing country. This is especially true when settlement by clearing confers advantages. Nevertheless, such one-sided advantages soon lead to the clogging of the clearing machinery, and this in turn makes the conclusion of transactions of this kind impossible.

Bulgaria.

Clearing agreements have forced Bulgaria to direct her foreign trade to countries with which she had concluded conventions and with which her trade balance was favourable, so as to be able to use her free assets. This often necessitated the purchase of goods at higher prices and led to a decrease in the imports from other countries. (Another cause which contributed to this decrease was the decline in Bulgarian purchasing power as the result of the fall of agricultural prices.)

Chile.

As already stated in reply to several previous questions, the redistribution of Chilean purchases desired by the European countries with which Chile has clearing agreements has been frustrated by the countries in question themselves, through their import prohibitions and quotas. Not being herself permitted to sell to these countries the quantities of her own products which she was in a position to supply, Chile has had no occasion to purchase the products of these countries

within the rigid limits of the clearing system, particularly as she was under obligation at the same time to pay off outstanding debts to those countries.

Such being the case, third countries have been unaffected by the clearing agreements, the effects of which have been nullified by the very countries concerned in their conclusion.

In the United Kingdom and the United States of America, on the other hand, where Chile has been able to dispose of her products unhampered by official restrictions, sales have increased by 50 to 70 per cent, and Chile as a result has been able to purchase much more in return, and indeed to make larger payments to these two countries than to all the European countries combined.

Czechoslovakia.

It may be said, generally speaking, that the effect of clearing agreements on the trade of any contracting State with a third State is frequently plain to view — that is to say :

(1) If an economically weak State has concluded a clearing agreement with an economically strong State, the resultant reaction in certain cases is that the State which is weak economically and for the purpose of the clearing is compelled to purchase from the other contracting State a larger quantity of *superfluous* goods, which means a loss on the sale of such goods for the third State ;

(2) On the other hand, it may happen that one of the contracting States finds itself compelled, in virtue of the clearing agreements, to purchase from the other contracting State a larger quantity of goods — the effect of which is to eliminate the economic pressure on the third State which has hitherto taken these goods, so that its economic position is made easier.

In a word, it may be said that clearing agreements tend to foster the substitution of new — and frequently artificial — channels for old and habitual channels for the exchange of goods.

Estonia.

Trade with third countries would not appear to have been greatly affected by clearing agreements.

France.

The trade of France with countries with which she has clearing agreements does not amount to as much as 20 per cent of her total trade. This gives the measure of the effect which the clearing agreements have had on French trade with other countries.

Greece.

In any case, there is unquestionably a comparative stimulation of Greek exports, which must be due largely to the compensation agreements.

Hungary.

See No. 16.

Latvia.

Latvia has always avoided any discrimination in her commercial policy. On the other hand, she has favoured imports from all countries which have not interfered with Latvian exports and has thus helped to increase the general volume of trade.

Netherlands.

See No. 16.

Norway.

See No. 18.

Roumania.

There is little doubt that the increase in imports of Austria (the only industrial country in Central Europe with a depreciated currency until 1934) took place to the detriment of the imports of other industrial countries.

Sweden.

See No. 16.

Yugoslavia.

The Yugoslav clearing agreements have not made much change in Yugoslav commercial relations with the countries with which there is no clearing agreement. The movements of Yugoslav foreign trade with these countries have been on similar lines to the movements of Yugoslav foreign trade as a whole—that is to say, exports to these countries have diminished when exports in general diminished, and imports from these countries have increased when imports in general increased. Slight changes have occurred in certain cases (*e.g.*, imports from Brazil have fallen off). That cannot, however, be attributed to the clearing agreements with third countries, but merely to the natural development of trade relations or to special measures in particular cases.

20. *Have the clearing agreements had any effect on the restrictions imposed on imports or exports; or, on the other hand, has the operation of these agreements been affected by autonomous measures of commercial policy taken while they were in force (prohibitions, Customs quotas, tariff increases, etc.) ?*

Austria.

Clearing agreements have not been found to affect other trade agreements. On the other hand, the operation of the clearing system has made it possible to forgo other measures of commercial policy the purpose of which would have been to overcome the obstacles arising out of exchange restrictions. In other respects, the clearing agreement with Bulgaria could not operate owing to the fact that it was in force at a time when Austria was not purchasing Bulgarian wheat and when, therefore, one of the chief mainstays of the clearing system was lacking.

Bulgaria.

See No. 16.

Chile.

As stated under No. 19, administrative restrictions on imports (licences, quotas, etc.) have almost entirely nullified the effects of such agreements, while the latter have had not the least influence on the restrictions.

Only a very few countries have accepted the true view which treats a clearing authorisation as tantamount to an import permit.

Czechoslovakia.

The different forms of restrictions on the import or export of goods were mostly in existence before the conclusion of the clearing agreements, and, in our opinion, the latter in their initial stage have not made any very considerable changes in the restrictive measures in question. But it is obvious that, in the event of a large balance subsequently accruing, the two parties have a greater interest in controlling — and, it may be, restricting — in various ways the imports or exports of particular articles. This case arises where it is desired to “compensate” an excessive balance. But, where clearing agreements are not concluded until the moment when large quantities of claims resulting from the sale of products have been frozen, the movement of goods is controlled from the time the agreements begin to operate. In general, it may be said that the influence of clearing agreements on the selection of articles is intensified in

proportion as the need for reducing an adverse trade balance is more urgent and more imperative.

Estonia.

The restrictive measures have been more liberally applied in respect of goods paid for through the clearing system.

France.

The operation of the clearing agreements illustrates the truth that one must buy in order to be able to sell. Nothing is so well adapted to show that money is only a medium of exchange and that international trade is in reality only the exchange of goods for other goods.

From this standpoint, the question of Customs quotas assumes primary importance.

The clearing agreements, evolved while the economic depression was in full course, have always suffered from the unilateral quotas which have made equilibrium impossible.

France, a country in which almost all forms of production are represented, has never been in a position, throughout the depression, to concede any supplementary quota for the import of any product, whether agricultural or industrial. But almost all the countries with which France has clearing agreements are mainly agricultural producers, and the goods which they are able to supply to France in effective payment of French exports cannot be admitted to the French market except at the expense of French agriculturists.

The interests of the French peasant and the interests of French exporters are thus in open conflict. If it is difficult to increase imports, there is no other way of arriving at equilibrium in the clearing agreements, except to restrict exports. But the arbitrary control and restriction of foreign trade, which are the direct consequences of any such attempt, are regarded by many as a dangerous form of "managed economy". They regard it as regrettable that the legitimate desire to protect creditors should compel recourse to such brutal measures. Unfortunately, the present situation appears to be such as to render them necessary.

The clearing system in itself involves an intervention by the State in international trade to which exception might be taken. Such intervention, the immediate effect of which is to create, for a time at any rate, an atmosphere of confidence in which exports are stimulated, results also in the unpaid creditors gradually coming to believe themselves entitled to claim the guarantee of the State for their blocked assets.

Greece.

The clearing agreements have operated within the framework of the current import quota system; but where Greece

has a favourable clearing balance, the Greek Government is always prepared to give supplementary quotas to the countries with which there is such a balance.

Hungary.

The clearing agreements have had an effect on import restrictions ; but, on the other hand, restrictive measures have also had a powerful effect on the operation of such agreements.

Where the other contracting party has shown appreciation for the measures adopted by Hungary in matters of commercial policy, the clearing system has operated more or less satisfactorily. Where such understanding was lacking, the result was imperfect operation of the clearing system.

Latvia.

Clearing agreements have not had any particular effect on Latvia's system of foreign trade. A special body — the Foreign Exchange Committee — has been created, in accordance with the provisions of Latvian autonomous legislation, for the control of international payments. This Foreign Exchange Committee must give its authorisation for all payments to be made in foreign exchange. This procedure has been maintained, especially for purposes of record, for settlements with countries which have concluded clearing agreements with Latvia.

Norway.

In Norway, the agreements have not given rise to any kinds of restrictions on imports or exports.

Sweden.

The agreements have had no effect on the restrictions imposed on imports and exports.

Yugoslavia.

The clearing agreements have had a *favourable effect* on the maintenance of foreign trade with a whole series of countries with which trade would otherwise have been very difficult, if not impossible. The fundamental features of Yugoslav foreign trade have not been greatly modified by the existence of the clearing agreements. It is only in the case of Yugoslav trade with Czechoslovakia that certain changes have been apparent since the clearing system was set up, in particular the reduction of the large adverse trade balance of Yugoslavia *vis-à-vis* Czechoslovakia, which was a feature of the past. But here again the reduction of the Yugoslav adverse trade balance may be put down to the effect of the commercial treaty quite as much as to the operation of the clearing agreement. All that can be said is that the large adverse balance enabled Yugoslavia to

obtain certain facilities from Czechoslovakia in the matter of commercial policy.

* * *

21. *Should your clearing agreements contain stipulations regarding other items in the balance of payments (service of loans, tourist traffic, etc.), to what extent have these stipulations been carried out, and how have the respective positions of the beneficiaries of these stipulations and of exporters been affected? What effect have they had on the volume of trade?*

Austria.

The use of funds diverted from the goods clearing system to make other payments has inevitably aggravated the position of the creditors who sold the goods. This was noticeable during the operation of the agreement between Austria and Switzerland, since 30 per cent of the proceeds was earmarked for the debt service and Swiss creditors had consequently to wait longer for settlement of their claims. In the other clearing agreements concluded by Austria, however, the proceeds of the clearing funds have been diverted to purposes other than the payment of goods to a much smaller extent.

Bulgaria.

The service of loans is not provided for in the clearing agreements.

Chile.

Hitherto such matters have not been covered by the compensation agreements concluded by Chile.

Czechoslovakia.

Provisions with regard to clearing payments in respect of transactions other than trade in goods — for example, payments in connection with visits to watering-places or tourist traffic, or payments arising out of the investment of capital — have now been tested and studied. A distinction must be made between clearing agreements which allow of such payments in connection with capital investment and payments exclusively in respect of trade in goods. Under some of the agreements there are separate accounts for payments in connection with investment of capital and financial payments. Nor is the policy of both parties to the agreements the same, since Czechoslovakia allows, in principle, all financial payments and, in general, all payments which do not involve flight of capital, whereas other

countries concluding clearing agreements for the most part impose restrictions on transfers in connection with capital investments.

Estonia.

As France uses the clearing system for the service of loans contracted by Estonia, the clearing balance is in her favour. As, however, Estonia is only required to pay off this balance by the export of goods, it follows that delay in the payment of French exporters is inevitable.

On the other hand, France, with her import quota policy, does not appear to desire to improve the position of Estonian exports, which is the only way in which the above-mentioned credit balance could be paid off.

France.

The calculation of the sums placed at the disposal of the national banks of foreign countries for the settlement of political and other claims was made at the beginning in such a manner as to ensure the normal operation of such settlement.

But the changes in trade movements, which have followed on the institution of the clearing agreements, have had their effects on the payment of non-commercial claims, and have not failed to bring their beneficiaries into conflict with the exporters, who are compelled to wait longer and longer for payment of their claims.

The clearing agreements concluded by France contain no provisions with regard to tourist traffic.

Greece.

The stipulations of the compensation agreements regarding other items in the balance of payments, such as freights and the income derived from tourist traffic, have operated without difficulties. The simplest and most appropriate method of compensation in the case of a number of freights has proved to be the fixing of a lump percentage to be deducted from the aggregate total of the transactions concerned. Accordingly, where the agreements are on the basis of "partial" compensation, the percentage of foreign exchange to be allowed to the countries concerned is increased by the special percentage representing that part of the income from freights which is effectively imported into Greece in foreign exchange. The income from tourist traffic has only recently been included under the compensation system, and that only for a relatively small sum and only in relations with the Balkan countries. The system has operated well enough up to the present, but the experience available to date is quite insufficient.

Hungary.

Under clearing agreements providing for payments other than those in respect of goods, Hungary has been able to make payments to foreign countries up to the total of the amount of foreign exchange obtained within the framework of these agreements. Where these amounts of foreign exchange had to be produced by Hungarian exports, the result has been dependent on the openings for export conceded in this connection.

Only in certain cases have tourist traffic agreements produced all the foreign exchange required to satisfy the demands of Hungarian tourists.

The arrangements made with a view to the transfer of financial claims through the export of wheat and rye have been utilised to the full extent by Swiss creditors, and in part only by French and Netherlands creditors.

The transfer of the claims of parties to the "pengö transfer agreements" concluded with the British and American creditors was only possible in part.

Generally speaking, goods exported under tourist traffic agreements or pengö transfer agreements have been goods which would not have been exported in the ordinary way.

Netherlands.

See No. 16.

Norway.

Experience to date is insufficient to warrant any expression of opinion on the points dealt with under Nos. 21 to 26.

Sweden.

As the agreements have only been in force for a very short time, it is impossible to reply to this question.

Yugoslavia.

Where the clearing agreements contain stipulations regarding payments other than for trade debts (*e.g.*, in connection with tourist traffic, consular fees, emigrants' remittances), the operation of the system of payments is as regular and as satisfactory as in the case of trade debts, and frequently even more so, since the amounts involved are not very high and can therefore be dealt with without much difficulty outside their chronological order. Under the Yugoslav clearing agreements, financial payments are not made through the clearing. Yugoslavia has merely obtained *free percentages* from certain countries — *i.e.*, *Devisen* which have been placed at the disposal of the Yugoslav National Bank. The free percentages accorded under the clearing agreements with France and Switzerland have to be used by Yugoslavia for financial payments in these countries.

22. *What consequences have the clearing agreements had on the internal economic situation? What difficulties of all kinds (complaints, delays in payment, etc.) have been met with in your country?*

Austria.

Keen criticism has been expressed of the agreements in the first group (see Nos. 1 and 15) because the system of compensation on a gold parity basis provided for in those agreements was disadvantageous to exporters. As regards the agreements now in force, a few complaints have been made concerning the agreement with Hungary because transfers from Hungary to Austria were rather slow. No complaint has hitherto been made of the manner in which the system has been worked by the two national banks.

Bulgaria.

Rise in the price of imported goods. Other difficulties have made themselves felt in trade with countries having an active commercial balance in relation to Bulgaria. The latter's inability to pay off the adverse balance led to a decrease in imports from these countries (France, Italy). The clearing agreements cause difficulties for the import of raw materials not produced in the countries with which Bulgaria has concluded agreements. This results in an increase in the prices of same.

Chile.

All Chile's clearing agreements have been concluded with industrial countries supplying her with manufactured articles produced under conditions in which such countries compete with one another, as well as with other foreign countries and, in certain cases, with Chilean producers themselves. Under these circumstances, the economic disadvantages from which Chile has suffered have not been due to the clearing agreements themselves, but to the permit systems, etc., by which clearing transactions are restricted or prevented, and Chilean importers are compelled (for lack of the necessary permits) to break off transactions already initiated, and to transfer their custom to countries where such restrictions do not prevail and open up new and unfamiliar sources of supply.

These restrictions have also considerably delayed the payment in Europe of the equivalent of the sums paid in by Chilean debtors to meet their frozen debts in Chile; and it is to

be feared that, if Chilian sales in the countries concerned continue at the present slow rate, the creditors will have to wait ten years or more for their money, and lose the interest on the debtors' payments in Chile into the bargain.

Czechoslovakia.

The effects of clearing agreements on the internal economic situation are, generally speaking, of two kinds. In the case of countries to which Czechoslovakia exports more than she takes from them in imports, there is inevitably a slowing-down of transfers, which involves financial difficulties for the exporters and a limitation of exports. On the other hand, in countries which have an active trade balance with Czechoslovakia, Czechoslovak goods have increased market openings. The general tendency is to the increase of imports from countries with which there are clearing agreements, except in so far as general economic policy puts obstacles in the way.

Estonia.

The clearing agreements would not appear to have had much effect on the internal economic situation.

France.

The clearing system being only a palliative of an economic situation already compromised, it would be unfair to blame it for the difficulties which arise out of its operation. Compensation agreements are only concluded with countries which have ceased to make normal transfers of foreign exchange — countries the nationals of which may be regarded as defaulters, so far, at any rate, as other countries are concerned. It is not therefore surprising that the problem of finding a remedy for such serious evils should present some difficulties.

The unblocking of claims in arrear for example, can only take place at the expense of current transactions. But the clearing system cannot operate satisfactorily without the earmarking of special "liquidation" percentages for arrears. Under present circumstances, payments under the French clearing agreements are being made with increasing delay, to which the firms affected take increasing exception as they find themselves little by little deprived of their working capital.

Another criticism which is made in the case of certain clearing agreements is that their effect has been to increase the price of goods originating in the countries concerned by establishing a fictitious rate of exchange out of all relation to the internal prices of these countries.

For their part, the banks, which cease to benefit by their transfers to foreign countries, show little sympathy as a rule for

clearing agreements. They are apprehensive of the system becoming general; in which case, they would be compelled to forgo a great part of their international activities.

The public, again, frequently objects to the formalities to which it is compelled to conform. The formalities are indispensable; but they are not always well adapted to certain special branches of trade, however much effort is made to smooth the path of the inevitable procedure.

Lastly, the clearing agreements have been accused of fostering fraud in certain connections. The most frequent form of fraud consists in the drawing-up of fictitious invoices or increasing the figures of genuine invoices, with a view to setting free sums blocked in countries which prohibit the export of foreign exchange. It is very difficult for the Customs authorities to bring such frauds to light.

Greece.

There can be no question that, by rendering the operation of commercial transactions slow and complicated, compensation agreements increase the effect of the general measures adopted as a result of the crisis, in the sense of discouraging trade. It may, however, be said that Greek trade is tending gradually to adjust itself to the new state of things, in spite of the not infrequent complaints which are heard in this connection. So far as the internal economic situation is concerned, the most serious effect of the compensation system is the rise of prices, especially in the case of certain products, partly as a result of the diversion of trade channels in accordance with the active or passive position of the clearing accounts, partly in consequence of the effect on prices of the compensation agreements as a whole — an effect which is especially marked in the case of private clearing. It is in any case indisputable that the conception of “international prices” under existing conditions cannot be the same as under a system of — even highly relative — freedom of trade movements, for the simple reason that it is and must be inevitable that a preference should be given, regularly and unhesitatingly, to the import of products against compensation and products from countries with which there is an adverse clearing balance, even where the same products might be obtained elsewhere at lower prices.

Hungary.

The effect of the clearing agreements on the internal economic situation has mainly taken the form of increasing difficulty in procuring raw materials from countries with which Hungary has no agreements. This difficulty has had an

unfavourable effect on industrial production and exports and has at the same time increased the cost of raw materials.

See also Nos. 16, 18, 19 and 23.

Latvia.

The clearing system practised by Latvia has not given rise to any particular difficulties in connection with the internal economic situation. Similarly, no complaints have been received from exporters regarding delays in payments. But experience in Latvia has shown that the clearing system for payments must be based on a balance of trade that is as far as possible in equilibrium. This object might be obtained by supplementing the clearing agreements with agreements aiming at compensation in goods. For, while Latvian exporters have had no reason to complain of delays in payment on account of the Latvian debit trade balance, it is only natural that complaints might be made by the other contracting party if the debit trade balance were greatly increased. It is indispensable for the proper working of the clearing agreement that the merchants of the two contracting parties should be satisfied.

Netherlands.

See No. 16.

Norway.

See No. 21.

Sweden.

See No. 21.

Switzerland.

(1) When goods arrived in Switzerland by rail, the various clearing accounts lost large sums by reason of the fact that foreign supplies charged the transport costs to the Swiss consignee. The latter settled that account with the Federal Railways, which, on their side, credited the railway company concerned direct — that is to say, independently of the clearing agreement — with the amount in respect of the railage in foreign territory. Hence the rule now in force that goods arriving in Switzerland by rail must be sent carriage paid to the Swiss frontier.

(2) Certain difficulties are encountered in endeavouring to check the value of imports and exports, particularly when the goods in question are not goods entering into world trade and are not loaded in complete wagon-loads — for these, it is possible to refer to the prices quoted on the Stock Exchange and on the market — but are, on the contrary, goods of a very divergent character, constantly varying in both quality and quantity and forming the subject of very varied traffic. It

would be well if the compensation offices in countries parties to a clearing agreement gave one another mutual assistance when there is any enquiry into declarations of value. It is desirable that the deduction of value should be made compulsory on consignment sheets.

(3) The fixing of certain time-limits for payment for the transfer of sums governed by the clearing agreement has been found a useful means of avoiding the drawbacks attaching to unusually long credit-periods, which might have meant the loss of certain sums for the clearing account.

Yugoslavia.

It may be said that the consequences of the clearing agreements have been favourable to the internal economic situation. No difficulty of any magnitude arose in the application of the agreements at the outset, when Yugoslav exporters were able to recover their claims without delay, Yugoslavia having an adverse balance to all countries. That is no longer the position, particularly in the case of Germany and Greece; Yugoslav exporters to these countries have to wait for months before they can get in their money. Means have therefore been found of making advances to them on the strength of their claims through the intermediary of the National Bank at rates fixed by the latter.

* * *

23. *Have the clearing agreements had any influence on the position of the currencies of the contracting countries? What has been the effect of these agreements on the position of the foreign currency reserves?*

Austria.

Clearing agreements do not appear to have had any particular effect upon the currency situation of Austria.

Bulgaria.

The clearing agreements have led to a decrease in the foreign exchange reserves in the country, and have prevented, in particular, the regular payment of the foreign debt of the State and the other financial engagements of the country.

Chile.

Although numerous, the clearing agreements to which Chile is a party have all been concluded with countries with which Chile never did much business or with which her trade has been more or less killed by the administrative restrictions introduced against Chilean exports, with the result that the volume of trade

has been so small as compared with the unrestricted countries that no useful purpose can be served by considering the influence which, in other circumstances, these systems might have exercised over the currency and foreign exchange reserves of Chile. It may, indeed, be said that the latter have remained quite unaffected by the agreements.

Czechoslovakia.

The clearing agreements have not had in the past, and generally speaking have not in the present, any effect on the currency situation of Czechoslovakia, apart from the effects on the supply of foreign exchange which are inherent in the nature of clearing agreements as such. That is to say, foreign exchange which would otherwise be used to pay for imports from the other country is saved and used to pay for goods exported to the other country — an arrangement which would be difficult of attainment in the existing conditions in regard to foreign exchange.

As the surplus of the trade balance is an important item in the balance of payments, it is plain that clearing agreements, by their tendency to promote equilibrium of the trade balance, exercise a direct influence on the total of monetary reserves. In so far as clearing agreements concluded with countries where the service of payments is not normal have succeeded in liquidating frozen credits or preventing the accumulation of new frozen credits, they have served as a support of currency policy ; for claims on other countries which cannot be liquidated are not, in reality, anything but an illusory backing to the national exchange.

Estonia.

The agreement with France has had a favourable influence on the volume of foreign exchange held by the Eesti Pank, and consequently upon the cover of the Estonian crown.

France.

This question does not arise in the case of France.

Greece.

It may be said that the compensation agreements have had a favourable effect on the currency position of the country, inasmuch as they have increased Greek exports to a certain extent. In the case of countries with which Greece has an active trade balance, all necessary steps have been taken to prevent depreciation of the currencies of such countries from having an unfavourable effect on the drachma.

Hungary.

The clearing agreements have not made it possible to meet Hungary's financial debts, and have hindered the import of

goods, more especially of raw materials. They have exercised an unfavourable influence on the rate of the pengö abroad and have been a contributory factor in increasing the compensation indemnities granted to exporters.

At one time, these agreements also led to a considerable accumulation of pengö at the National Bank of Hungary, and thus exercised a deflationary influence.

Latvia.

One of Latvia's objects in concluding clearing agreements with various countries was to eliminate as far as possible the direct transfer of foreign exchange to foreign countries, since the export of foreign exchange as a means of payment diminished the reserves used as cover for the Latvian monetary system. The clearing agreements cannot exercise a direct influence on the reserves of foreign exchange ; they can only to some extent make them less liquid, and this is done in the following manner : When payments are made in foreign exchange, the incoming and outgoing amounts of such foreign exchange cause the reserves to fluctuate ; this fluctuation is much smaller when payments are effected on the basis of a clearing agreement, as in this case part of the debts can be cleared off without the necessity of drawing on the reserves of foreign exchange. During the year 1933, about 40 per cent of international payments for goods were made in Latvia by means of clearing arrangements, the balance being settled by direct transfers of exchange. The payment clearing arrangements therefore do not directly raise the question of the extent of foreign exchange reserves, but solely that of the method applied for settling international payments.

Under these circumstances, the question naturally arises as to what advantages are obtained by the settlement of international payments by clearing arrangements as compared with direct payments. The clearing method is more convenient, and the settlement of international payments was in fact effected almost entirely by clearing arrangements even before the economic crisis. The change made in this method of settlement as a result of the economic crisis consists of the introduction of a certain system and certain principles which are defined in clearing transactions. This systematisation relates, for instance, to the creation of a certain scale in the amortisation of stocks of goods, other debts, etc. Efforts are also made to introduce the principle of reciprocity into international commercial transactions by means of clearing agreements.

Netherlands.

See No. 16.

Norway.

See No. 21.

Sweden.

See No. 21.

Yugoslavia.

The clearing agreements have had a favourable influence on the stability of the currencies of the contracting countries. It is true that the foreign exchange reserves have been largely reduced by the conclusion of a large number of clearing agreements ; but it should at once be added that, as a result of these agreements, all demand for *individual requirements* has ceased. The National Bank concentrates in its hands the *Devisen* derived from export to countries with which Yugoslavia has no clearing agreement, together with the free percentages obtained under the clearing agreements ; and all the *Devisen* thus obtained are used exclusively for financial payments by the Yugoslav State and State institutions. Payments by individuals to foreign countries are scarcely ever authorised except for imports of goods from countries with which Yugoslavia has no clearing agreement. Such payments are made out of that part (40 per cent) of the *Devisen* derived from exports to countries where there is no clearing agreement, in respect of which there is no obligation to hand over the *Devisen* to the National Bank.

* * *

24. *Have the purposes which you aimed at in concluding your clearing agreements been achieved ?*

Austria.

The clearing agreements in the first group (see Nos. 1 and 15) concluded on the initiative of other countries were rescinded as soon as it proved possible to make transfers from Austria to foreign countries without resorting to that system. As regards clearing agreements still in force, the results so far observed in the matter of the settlement of accounts are not unfavourable.

Belgium.

Clearing agreements have to some extent enabled trade to be restarted and frozen commercial debts to be recovered.

Bulgaria.

The clearing agreements have achieved their purpose of averting a still greater evil — that is to say, embargoes or quotas on Bulgarian exports, the blocking of Bulgarian assets, etc.

Chile.

Chile's purpose was to export large quantities of Chilean goods to the other contracting parties, buying from them in

return and paying off outstanding Chilian debts. Import restrictions have made the achievement of these ends impossible.

Czechoslovakia.

Clearing agreements are measures of necessity, protective weapons under existing circumstances; and they should be treated as such. They afford traders in the States concerned an assurance of obtaining payment, though possibly not till after a long interval and only with difficulty. There can be no question, however, that they have an influence on commercial policy; and it may be taken as certain that, if they continue long enough in operation, trade relations between peoples will be modified in a sense not in accordance with their natural trend.

Denmark.

The Danish-German clearing agreement has yielded satisfactory results. It has helped to keep trade between the two countries at a level which it would probably have been difficult to maintain in the absence of such an agreement.

Estonia.

The agreement with France has resulted in an improvement in the method of settling accounts.

France.

Generally speaking, the clearing agreements were concluded as the lesser of two evils, and it is fair to say that they have brought — at any rate, momentary — relief to French foreign trade. France can also claim to have been satisfied with the results in the case of certain countries — in particular Austria, where the clearing (which incidentally has been under notice of denunciation for some months past) has proved highly effective.

In a number of cases, however, the operation of the clearing has brought to light so many defects, and trade has been reduced to such an extent, as a result of measures taken, whether by France or by the other contracting parties, that the French Government has been led to wonder whether it was desirable to maintain the agreements, at any rate in their present form, and whether it would not be preferable to restrict them to the liquidation of claims in arrear irrespective of the effect on current exports.

Before expressing an opinion as to the consequences of the clearing policy on French foreign trade, it is essential carefully to distinguish the reasons for failure which are inherent in their institution and operation on the one hand and the general causes (such as trade restrictions, quotas, etc.) on the other hand, which would in any case have reduced the volume of French trade without any question of clearing agreements.

Greece.

The objects which the Greek Government had in view in introducing the system of compensation agreements have been attained to a certain extent, because (1) the agreements have considerably eased the position in respect of foreign exchange, and to that extent have contributed to the stability of the national currency, and (2) they have facilitated the reduction of the adverse trade balance, even though this result has been achieved in the majority of cases by reducing trade with the countries concerned to the level of the lower figure in the balance. One of the most important factors in the satisfactory operation of the system of compensation agreements, in the Greek Government's opinion, is the fact that the Bank of Greece itself assumes the exchange risks, in the first place, by making immediate payment to the exporter in drachmæ of the sum corresponding to the amount of his claim and, in the second place, by discharging the importer of his debt as soon as he has paid the amount due from him to the foreign exporter in drachmæ converted at the parity of the day of payment.

Hungary.

Trade relations have been maintained in the case of each of the clearing agreements, though they have not in general developed as satisfactorily in the case of countries with which Hungary has clearing agreements as in that of countries with which she has none. The clearing agreements have made possible the payment for current imports and to a certain extent the liquidation of trade debt arrears in addition, but they have not made it possible to pay off the whole of such arrears.

It should also be noted that, for various reasons, payments for trade debts have not always been effected through the clearing system.

The development of free percentages has been distinctly unfavourable.

The clearing agreements have, in general, helped to make the foreign exchange control more effective.

Latvia.

The question whether the objects at which Latvia aimed in concluding her clearing agreements have been achieved must be answered in the affirmative.

Norway.

See No. 21.

Sweden.

See No. 21.

Yugoslavia.

By the conclusion of the clearing agreements and agreements regarding payments, Yugoslavia has achieved the purposes at which she aimed in concluding the agreements.

* * *

25. *Does the extension of the clearing system to the sphere of multilateral agreements appear to you possible and desirable? If so, in what form?*

Austria.

The extension of the clearing system to several countries would certainly seem to be a possibility, but would only be of practical importance in a few cases dependent upon special circumstances. The operation of a clearing system between two countries is closely bound up with a number of economic factors, and any alteration even of a single one of these factors jeopardises a bilateral clearing system. The danger would necessarily be even greater when, as in a multilateral system, the relations between at least three countries play a decisive part and any change in one of the factors governing the relations between two of the States concerned affects the operation of the clearing system as a whole. It would, therefore, hardly appear possible to set up permanently a general clearing system covering several countries.

Chile.

In theory, such an extension would be valuable, provided always that the strict application of the clearing system were insisted upon and that no other systems of restriction were introduced to neutralise its effects.

The only case in which such a system would appear practically possible is the case of trilateral agreements between countries whose geographical situation, etc., makes them economically complementary; for there are countries which other countries would find it impossible to admit to a multilateral agreement.

Czechoslovakia.

Multilateral clearing agreements are suited to certain circumstances and are desirable. Czechoslovakia herself has on occasion handed over her active clearing balance *vis-à-vis* a particular country to a third State whose clearing balance *vis-à-vis* the second country was adverse. The case shows the practical possibility of a tripartite clearing where circumstances are favourable. The institutions entrusted with the operation of clearing agreements between States can and should

develop their functions, and reduce to a minimum the unfavourable effects which are otherwise the inevitable accompaniment of clearing agreements by recourse to multilateral agreements, particularly between States which are economically and financially interdependent, so as to enable active balances to be used for payment to other States. In other words, any bilateral clearing agreement which leads, directly or at the end of a considerable period, to an active balance in favour of one of the parties ought to be transformed into a multilateral agreement. The ideal (approximately speaking) would be the conclusion of multilateral agreements between a group of countries whose balances of payments were so well arranged that each one of the countries in the group had an equilibrium of payments in relation to the whole of the rest of the group. But it is essential not to shut one's eyes to the fact that the realisation of multilateral agreements will, in practice, encounter obstacles of an all but insurmountable character. It would therefore be better to consider ways and means of promoting a wider resort to *tripartite agreements*. A commission of properly chosen experts might study the concrete possibilities of agreements of this kind and examine such proposals as may be made in this connection. But such agreements, though they represent an advance on purely bilateral agreements, should not be regarded as arrangements of more than a transitory character. They should be regarded rather as a stage in the transition to monetary and economic freedom, and not as permanent arrangements. Lastly, the conclusion of such agreements further presupposes greater mutual comprehension between States than is commonly required for the conclusion of commercial treaties, and that the objects of the present enquiry are not attainable (in our opinion) without the stabilisation of political conditions, in default of which collaboration in this field becomes impossible.

Estonia.

The Eesti Pank has not yet considered this question.

Finland.

See No. 26.

France.

A priori, multilateral clearings would appear to be a normal extension of bilateral clearings, and experiments have been attempted in this connection with certain countries which are worth watching.

There are, however, certain considerations which would appear to limit the application of multilateral clearings to special cases.

(a) *Tripartite compensation.*

The practical application of such tripartite compensation is inconceivable except for limited periods and for a group of specified transactions, and its successful operation presupposes a close understanding between the three contracting parties, which will no doubt imply control by the respective States of their foreign trade.

(b) *Universal compensation.*

As to universal compensation, it would appear essential at the outset to exclude countries which are bound throughout to be in the position of debtors incapable of coping with their adverse balances, or at any rate of exercising sufficient control to limit their purchases to their effective potentialities of payment in goods or in foreign exchange.

Greece.

The lack of elasticity which the present system of compensation evinces is, in the Greek Government's opinion, an argument in favour of the expansion of bilateral into plurilateral agreements. But the successful operation of a system of plurilateral compensation would depend largely on the extent of its application. The Greek Government has already taken certain steps in this direction by successfully insisting on its recent agreements with Yugoslavia (April 1st, 1934), Roumania (October 17th, 1934) and Turkey (November 10th, 1934) being concluded on a tripartite clearing basis.

Hungary.

As the preliminary conditions indispensable to the regular operation of a general multilateral clearing agreement can only be fulfilled with difficulty, it remains to be seen whether there is not a possibility of stimulating international trade by the extension of existing bilateral clearing agreements to a number of countries. But this system also entails serious drawbacks, which make it doubtful whether several countries would be willing to adopt it. On the other hand, the system of private compensation arrangements between several countries, as adopted by Hungary on several occasions, might be recommended to the attention of Governments by the League of Nations, and in appropriate circumstances such multilateral compensation arrangements might be linked up with the official clearing systems.

Italy.

There does not seem any justification for regarding it as possible to make clearing agreements multilateral. Other general or special considerations apart, a compensation agree-

ment can only be bilateral, since economic and monetary disorder tends to lead to a system of balanced exchanges and to reduce trade relations to the elementary and primitive form of barter. Only by stabilising currencies and reducing them to a fixed and universally accepted standard, such as gold, will it be possible to conclude multilateral compensation agreements. In such circumstances, however, there would be no more need for such agreements.

Nor can the conclusion of uniform agreements be regarded as possible, although there are a few principles which must always be observed if an agreement is to work. The first of these is the necessity for basing an agreement on the actual and not on a legal or conventional rate of exchange.

In present circumstances, and with only bilateral agreements in mind, it might be possible as an experiment to adopt eventually a super-compensation system for clearing balances. The debts and credits resulting from the clearing balances concluded between the various countries might *periodically* be compensated when occasion offered. Such compensation, however, could be effected only by *joint agreement*, as it is obviously impossible to compel a creditor country to replace one claim by another that is more difficult to settle.

Latvia.

Latvia has not had sufficient experience to reach any conclusions on this subject. Since, however, reciprocity is in the very nature of clearing agreements, it would appear extremely difficult to generalise this system in the form of multilateral agreements.

Norway.

See No. 21.

Poland.

The Polish Government does not think it either desirable or even possible to expand existing bilateral clearing arrangements into a system of multilateral clearing. The difficulties which attend the execution, not only of all clearing agreements, but even of the "semi-clearing" arrangements practised by Poland are the clearest proof of this.

Sweden.

See No. 21.

Switzerland.

For Switzerland, the question of multilateral clearing agreements has arisen hitherto only in theory. Although she has several clearing balances in her favour, which she would like to wipe out, she has not yet found any countries that would

be prepared to give her a corresponding passive balance. Nor would she be in a position at present to effect an exchange of balances, since, at the moment, she has only a single balance — in relation to Hungary — and it is necessary for her to retain this in order to maintain Swiss exports to that country.

It would, however, appear desirable that this question of multilateral clearings should be thoroughly studied.

Yugoslavia.

The system of multilateral clearing agreements would appear to be possible and desirable, though there are practical difficulties in the way of realising all the conditions precedent to the application of such a system.

In the agreement with Greece, Yugoslavia consented to take a part (30 per cent) of her commercial claims in so-called blocked *Devisen* — i.e., in claims of Greece on third countries under Greek compensation agreements with those countries. Unfortunately, it has not proved possible up to the present to recover any part of the Yugoslav claims on Greece through this indirect channel. But the theoretical possibility is there, and would seem to have a good chance of being translated from theory into practice. The difficulty at present in the way is the existence of large Yugoslav claims against the country in relation to which Greece is a creditor (Germany).

It is desirable to point out in this connection that the Yugoslav agreement with Germany contains a clause introduced after the conclusion of the agreement, prohibiting the cession to a third country of the active clearing balance — that is to say, excluding multilateral clearing. (Yugoslavia agreed to this clause at a time when she had an adverse trade balance in relation to Germany; at the present time, there is a considerable balance in favour of Yugoslavia.)

* * *

26. *What conclusions does your experience of clearing agreements enable you to draw from the point of view of international economic policy ?*

Austria.

Clearing agreements are devices resorted to when the usual methods normally employed for international settlements and money transfers have ceased to operate as a result of circumstances the causes of which are to be found in monetary policy and, in a wider sense, in general economic policy. Clearing agreements would always have the drawback of being

rather more rigid and less adaptable than the normal methods of payment. In an economic system such as existed before the depression, the conclusion of clearing agreements seemed unnecessary. We will have to wait and see whether any features — and if so, which features — of the new economic system that has developed during the depression will continue to exist even after the depression ends and the prosperity curves are rising. The form of the future economic system would also decide the fate of the clearing system.

Bulgaria.

Clearing agreements have increased the barriers to international commerce and decreased the trade in goods. International credit and the normal flow of payments have also been effected.

Chile.

Such agreements can only be of benefit in special cases, and provided they are applied without other administrative restrictions in contradiction with the principles they embody.

It is also necessary that they should take careful account of the relative economic positions of the contracting countries (debtor and creditor relations, capital investments of either country in the other, relative positions as producers of raw materials, consumers of manufactured articles, etc.) and should aim at equilibrium of the balance of payments and not merely of the balance of trade. Furthermore, they should have regard to existing habits of life in the countries concerned and, where modifications in such habits are required, should not seek to introduce such modifications in other than a slow and gradual manner.

Estonia.

Clearing agreements are in the nature of provisional measures applied because of the abnormal situation prevailing in international trade. It would be preferable to bring about conditions permitting of the re-establishment of free dealings in foreign exchange.

Finland.

Clearing agreements cannot be to the advantage of international trade. On the contrary, they actually hinder trade between the countries concerned, while, at the same time, showing a tendency to lead, in the long run, to the compensation system of trade. Such a tendency cannot be regarded as desirable, at least in so far as Finland is concerned, whose interests require that international trade should be as free as possible. Clearing agreements should therefore be regarded as an evil which can only be defended when circumstances render

it unavoidable. It would therefore be inappropriate to adopt international measures to develop the mechanism of such agreement, and still more inappropriate to endeavour to secure their general application. Attempts should, on the contrary, be made to render the economic conditions of each country such that clearing agreements lose their justification and that the world can be freed from those already in force.

France.

The French Government is of opinion that it is difficult to draw from the operation of the clearing agreements any general conclusion sufficiently positive to form the basis of international economic policy.

The practice of compensation agreements is, in the case of France, the result of circumstance ; a necessity imposed and not of her own seeking. Conceived as a purely defensive measure, the compensation agreements have only been retained in so far as they were required for the protection of French exporters to certain countries where they were exposed to an increasing risk of failing to obtain payment.

From the standpoint of general international policy, the French Government is inclined to regard clearing agreements as exercising a fatal influence in the direction of universal monetary disequilibrium.

Advocating as it does the prompt restoration of monetary equilibrium, the French Government is inclined to believe that clearing agreements will become objectless as soon as definitive monetary stabilisation is achieved.

In any case, compensation, whether bilateral, tripartite or multilateral, cannot affect the fundamental nature of international trade, which is the exchange of goods for goods. This expedient, capable, no doubt, of limiting the losses of exporters with dangerous commitments in countries with controlled currencies, cannot be expected to enable States with pretensions incompatible with their economic potentialities to maintain permanent economic equilibrium.

Greece.

The Greek Government will not be in a hurry to express an opinion as to the lasting value of the compensation system as a permanent part of the machinery of foreign trade. At the same time, it is of opinion that the system has operated from the end of 1931 onwards as a palliative, which has contributed to some extent to moderate the effects of certain phenomena — mainly monetary phenomena — of the world economic crisis.

Hungary.

Clearing agreements are not indispensable, especially in the case of relations between a country which has established foreign exchange control and a country which has not. The worse drawbacks of clearing agreements appear in connection with, or as a result of, foreign exchange control. The most serious effect, in so far as foreign trade is concerned, is, in our opinion, the unfavourable influence which such agreements have on the purchase of raw materials. The clearing system demonstrates the truth of the principle that debtor countries cannot, in the ordinary way, make their payments to creditor countries except by the export of goods.

The greatest drawbacks of clearing agreements might be eliminated if countries unprovided with foreign exchange were permitted to draw freely upon the proceeds of their exports to the extent necessary to cover their requirements.

In any case, the importance of clearing agreements should not be exaggerated, as the part they play in world economic activities is of less moment than that played by measures of commercial policy. Nevertheless, the so-called "general" clearing agreements, which provide, not only for commercial payments, but for financial payments also, are particularly dangerous and are therefore to be avoided.

Italy.

In the world economic situation, which has been aggravated, if not created, by the collapse and the instability of so many currencies, clearing agreements are a necessary evil which experience shows can hardly be dispensed with if trade is to be kept up within certain limits, by providing, so far as compensation makes it possible, the necessary means of payment.

Latvia.

Payment clearing arrangements are closely connected with structural changes which are at present taking place in world economic affairs. The creation of payment clearing arrangements with a view to settling international commitments is due (1) to the disturbances resulting from the failure of the monetary system based on the gold standard, which cannot function except under the liberal system of world economic affairs or foreign trade, and (2) to the destruction of the sound foundations of the principle of most-favoured-nation treatment. The monetary system based on the gold standard which was renewed after the war and adopted in the most important countries in the world provided a method of settlement which was well suited to the highly developed international economy. The fate of this monetary system based on the gold standard was dependent on the very existence of international economy,

and *vice versa*. The collapse of international economy (free movement of capital, circulation of commodities) as a result of the autonomous commercial policy of certain countries (Customs, quotas) was bound to disorganise the working of the gold standard, which, in its former and unchanged form, is the only possible monetary system and method of settlement of liberal international economy.

Similarly, the most-favoured-nation clause in commercial agreements is a characteristic sign of liberal international economy and even its essential element. With the development of the policy of self-sufficiency, certain countries remained faithful, rather by tradition, to the most-favoured-nation clause, but this principle of the most liberal possible international economic system has, in fact, been destroyed. Moreover, this principle cannot even be applied under present conditions, in which economic systems are isolated and commercial policy is based on very special measures (quotas, licences, etc.). The principle of reciprocity is beginning to be introduced into the policy of commercial agreements.

Payment clearing agreements are to be regarded, on the one hand, as a corrective of and substitute for the gold standard system in times of crisis. But, on the other hand, the principle of reciprocity inherent in the new commercial policy is also based on such agreements, the main object of which is to facilitate the working of the monetary system based on the gold standard.

Netherlands.

See No. 16.

Norway.

See No. 21.

Poland.

Poland regards clearing agreements and all private compensation arrangements and the like as a makeshift in the field of international economic relations, and as a system which must necessarily disappear when once the conditions of general recovery throughout the world permit.

Roumania.

Without maintaining that payment agreements create a position favourable to other commercial relations in a period of depression such as the present, it must nevertheless be admitted that, by making the structure of such arrangements as complete as possible and by entering into parallel commercial agreements which enable the clauses of such agreements to be executed, the latter are certainly to be preferred to the

position created by the difficulty of making payments in respect of commercial transactions under an unregulated system.

The important point is that, according to our experience hitherto, payment agreements can only give results if they include in particular the regularisation of the service of the public debt, which, in the case of countries like Roumania, should be carried out exclusively by means of the credit balance of exports, and, consequently, if any regulation of foreign payments between different countries is to satisfy commercial and private interests of all kinds, it can only do so if it provides means by which the credit of the State is placed outside the discussion and is brought into line with regulated commercial and private interests.

Sweden.

See No. 21.

Yugoslavia.

The system of clearing and other agreements on payments appears to be indispensable under the economic and financial conditions at present prevailing in the world. In the first place, it makes possible trade relations between a number of countries which would be more or less unable, in consequence of existing circumstances, to trade together in any other way. A second advantage which the clearing system affords is the restriction of the foreign exchange market and the fact that it creates a possibility of maintaining the stability of the national currency by what may be called technical means, with very little recourse to material means.

The experience of Yugoslavia over nearly three years justifies the National Bank in saying that the clearing system is of great economic value from the international standpoint, though the need is felt of determining and improving the general principles which should govern agreements on payments and, at the same time, finding a means of putting an end to the prohibitive trade restrictions, which do more harm to international trade relations than either foreign exchange restrictions or clearing agreements.

ANNEX III.

COUNTRIES WITH CLEARING AGREEMENTS.¹

Austria.

Bulgaria	Greece	Turkey
Germany	Hungary	

The Belgo-Luxemburg Union.

Bulgaria	Greece	Turkey
Chile	Hungary	Yugoslavia
Germany	Roumania	

Bulgaria.

Austria	France	Switzerland
The Belgo-Luxem- burg Union	Germany	Turkey
Czechoslovakia	Italy	Yugoslavia
	Spain	

Chile.

The Belgo-Luxem- burg Union	France	Netherlands
	Germany	Switzerland

Czechoslovakia.

Bulgaria	Greece	Turkey
Estonia	Roumania	Yugoslavia
Germany		

Denmark.

Germany

Ecuador.

France

¹ This list gives under the heading of each country the names of the other countries with which it has concluded clearing agreements still in force.

This list is based on the information received by the Secretariat up to March 1st, 1935.

Estonia.

Czechoslovakia

France

Latvia

Finland.

Germany

France.

Bulgaria
Chile
Ecuador
Estonia

Germany
Greece
Hungary
Latvia

Roumania
Turkey
Yugoslavia

Germany.

Austria
The Belgo-Luxem-
burg Union
Bulgaria
Chile
Czechoslovakia
Denmark

Finland
France
Greece
Hungary
Italy
Latvia
Netherlands

Norway
Roumania
Spain
Sweden
Switzerland
Yugoslavia

Greece.

Austria
The Belgo-Luxem-
burg Union
Czechoslovakia

France
Germany
Hungary
Norway

Roumania
Switzerland
Turkey
Yugoslavia

Hungary.

Austria
The Belgo-Luxem-
burg Union

France
Germany
Greece

Italy
Switzerland
Turkey

Italy.

Bulgaria
Germany

Hungary
Roumania

Turkey
Yugoslavia

Latvia.

Estonia

France

Germany

Netherlands.

Chile	Germany	Turkey
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Norway.

Germany	Greece	Turkey
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Roumania.

The Belgo-Luxem- burg Union	France	Italy
Czechoslovakia	Germany	Switzerland
	Greece	

Spain.

Bulgaria	Germany	Yugoslavia
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Sweden.

Germany	Turkey
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Switzerland.

Bulgaria	Greece	Turkey
Chile	Hungary	Yugoslavia
Germany	Roumania	

Turkey.

Austria	France	Norway
The Belgo-Luxem- burg Union	Greece	Sweden
Bulgaria	Hungary	Switzerland
Czechoslovakia	Italy	Yugoslavia
	Netherlands	

Yugoslavia.

The Belgo-Luxem- burg Union	France	Spain
Bulgaria	Germany	Switzerland
Czechoslovakia	Greece	Turkey
	Italy	

