

Appendix IX

Ref. F.E.234

Special Arrangements in connection with  
certain industries and commodities

Advertising

The first administrative ruling was given in February 1940, when "advertising by United Kingdom firms" was included in a schedule setting out the treatment to be accorded to various types of remittances abroad. The instructions then were that a liberal allowance of exchange might be granted, subject to control over expenditure actually incurred. Administratively, the yardstick of "pre-war scale of expenditure" was applied for judging the merits of current applications. Approvals were qualified with the proviso that receipted accounts covering amounts transferred for this purpose must be exhibited to the presenting banker by the applicant in due course.

In the same month the Treasury authorised the Money Order Department to issue money orders payable outside the sterling area where the applicant stated that the funds were required in payment for advertising costs, and provided sales to any one party did not exceed £10 per month or £120 in any one year. This authority was withdrawn late in 1943.

With the commencement of the "export drive" in June 1940 the Bank frequently sought the advice of the Department of Overseas Trade on applications for the transfer of funds abroad to meet the expenses of persons engaged in the trade. Consequently, when exporters commenced advertising abroad in the hope of increasing their sales and applications began to come forward to enable the payment for such advertisements to be made it automatically became the administrative practice to discuss such applications with the D.O.T. Later, applicants were advised to obtain the support of the D.O.T. before submitting their applications to the Bank. This resulted in the main responsibility for investigating the merits of any proposed advertisements being thrown on the D.O.T., and after

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some months' experience they developed a policy based on the Board of Trade's Grading List of Destinations for Exports. This policy was eventually discussed with the Treasury and the Bank, and following these discussions the Exchange Control Committee on the 13th May 1941 gave the following rulings:-

New advertising

Facilities should be granted only if the application was in respect of advertising aimed directly at the export of goods, and that such facilities could be granted without further reference in the case of Grade I countries on the Board of Trade's Grading List of Destinations for Exports. It could be of a generous nature for advertising in the U.S.A., while in cases of doubt regarding lower-graded countries the individual application should be referred to the Department of Overseas Trade.

Old advertising

The Bank's existing practice of allowing transfers on a scale comparable to pre-war expenditure was confirmed.

In the meantime, and following the passage of the Lend-Lease Act by Congress on the 11th March 1941, a series of protests appeared in the American Press against the advertising and sale in that country of goods produced in the U.K. from or containing a proportion of Lend-Lease materials. In August 1941 the D.O.T. issued a Memorandum on Commercial Publicity, compiled by the Export Committee to the Industrial and Export Council, commenting on the above-mentioned decisions of the Exchange Control Committee, the Lend-lease difficulties, the allocation of paper for advertising purposes and the guidance which should be given to would-be advertisers. The Memorandum remarked that any tendency to dissipate foreign exchange merely because a firm had reached Excess Profits Tax level was held in check (presumably by the Inland Revenue Department, since neither the Bank nor the D.O.T. would ordinarily have information on this point). As regards Lend-Lease it was suggested that the Control should require firms to whom exchange was allotted to make it clear in their advertisements that the goods concerned

concerned were not available during the war, and also that it might be well for the <sup>c</sup>Control to consult the D.O.T. in regard to all such applications.

The Treasury were not in favour of this last suggestion, but thought that all export groups should be informed as to the general practice governing the allotment of exchange for advertising. The Bank, however, were not prepared to accept the responsibility of giving guidance to traders in any of the ways suggested, though they were ready to consult with the D.O.T. on any new or special cases. In November 1941 the Exchange Control Committee outlined their difficulties with particular reference to the Lend-Lease position. These were:-

- (1) Although the Board of Trade had required British trade journals with overseas circulation to insert a statement on their advertisement pages to the effect that goods advertised were not necessarily available for export, the sale of commodities of which a supply was actually available might be adversely affected by requiring this formula to be included in all advertisements.
- (2) Only the Export Licensing Department were aware of the current state of the ever-changing "Black List" of goods which were not to be exported.
- (3) The activities of non-resident agents of resident firms would be difficult to control.
- (4) The objection of the U.S. authorities to advertisements of goods alleged to contain Lend-Lease materials arose largely from fear of local criticism.

A cable, on lines suggested by the Bank, was sent to Sir Frederick Phillips by the D.O.T.; it included a statement that the issue of export licences was not influenced by the fact that certain goods were advertised abroad, and suggested that an assurance to this effect should be given to the Lend-Lease administration. Before the suggested approach could be made, however, it was informally represented to the British Embassy in Washington by the Lend-Lease Administrator that, in view of growing resentment in the U.S.A. caused by considerable popular misconception of the origin of materials

materials used in the manufacture of British goods offered for sale in American stores, popular opinion might be placated if British products were labelled to indicate that they were not made from materials obtained under Lend-Lease or which were otherwise in short supply in the U.S.A. In transmitting this statement to the D.O.T. the U.K. Commercial Counsellor in Washington suggested that it might be better if American importers and department stores made a statement to the above effect in their advertising and trade literature. Later, he suggested:

- (1) That U.K. exporters should be allowed freely to advertise goods the export of which was clearly not precluded under the terms of the White Paper on Lend-lease arrangements, though it would be desirable that such goods should be labelled with a statement on the lines already suggested by the Lend-Lease Administrator.
- (2) That moderate advertising for the purpose of preserving goodwill should be allowed, provided it were made clear that the goods concerned were not being offered for export from the United Kingdom.
- (3) That compliance with these two suggestions might be made a condition of approval by the Control of the remittance abroad of funds for advertising.

It was eventually agreed by the Exchange Control Committee that the Treasury should advise the D.O.T. that the Bank would continue to deal with applications in respect of advertising on the lines laid down in the ruling of 13th May 1941. This again threw the responsibility of judging the merits of new advertising proposals on to the D.O.T., who were understood to have required applicants to submit a full draft of the proposed advertisement, in which it was in most cases insisted that a disclaimer on the lines set out above should be included: alternatively the nature and composition of goods for export was thoroughly investigated.

Interest seems next to have been transferred to South America, where the Bank towards the end of 1942 thought more liberal treatment was desirable to help the post-war export trade and combat

the competition

the competition of the U.S.A., who were advertising their products regardless of availability or shipping conditions. The Bank's practice had been to allow remittances freely on pre-war scales and to consult the D.O.T. if an increase over pre-war amounts was desired. In a few cases (e.g., proprietary medicines) the Bank allowed expenditure based on a sliding scale, calculated on a percentage of sales where sales were almost entirely dependent on advertising.

The Treasury agreed with the Bank, and pointed out that exchange should be allowed to cover retaining fees for the services of local agencies. In fact, however, the Bank's policy, as laid down by the Exchange Control Committee on 30th September 1941 (confirming that of May 1941) had included agencies, branches and other forms of indirect advertising such as free samples and entertaining.

The Treasury and the Bank next discussed the question whether the Government should not themselves advertise British goods in a general way in South America; and in August 1943 the D.O.T., the Ministry of Information and the Board of Trade suggested spending £50,000 or £100,000 over six months in advertising in South American papers, the money to be found by interested trades. The Exchange Control Treasury Committee, however, were sceptical of the advantages of such a plan, and feared that the firms who put up the money might do so at the expense of the British taxpayer. Nothing, therefore, appears to have been done, and in April 1944 the D.O.T. dropped the proposal, as they had found the groups approached also adverse to this form of advertising - often because the goods were not available.

In September 1943 the question of how best to advertise in Brazil came up, and the Bank agreed with the Commercial Counsellor in Rio that a joint arrangement between an existing local agency and a British firm would be the most advantageous method. The D.O.T., however, appear never to have received the requisite support from the commercial community.

On the 29th August 1944 the Exchange Control Committee discussed the question of advertising in U.S.A. in connection with post-war imports into the U.K. and Western Europe. The Bank's

practice

practice was stated to be "to give sympathetic consideration to advertisements which would further the country's exports and to refuse remittances for advertising so far as 'luxury imports' were concerned".

In general, while preliminary steps might be taken by the Bank, in regard to applications for new advertising, to discover the nature of the goods; volume of trade in the same direction for the past six years; sums previously spent on similar advertising; whether applicants proposed to export or import and, in the latter case, whether the import would subsequently be used in the production of goods designed for export; the eventual treatment accorded to such applications was decided by the views expressed by the D.O.T.

### Shipping

Expenditure abroad of British ships in the two or three years preceding the war was estimated at £55-60 million per annum, of which rather less than half was expended in foreign countries; and of this possibly one-third was spent in the U.S.A. During the war shipping was a very large consumer of foreign exchange. Foreign ships had to be purchased or hired, either to replace sunken British vessels or to bring imports from nearer sources outside the Sterling Area and involving non-sterling charges.

Although it was the practice of shipping companies to arrange for freight to be paid in sterling whenever possible, and their holdings of foreign currency were kept to a minimum, it was necessary for them to hold foreign balances to some extent. When, therefore, the Defence (Finance) Regulations were published at the beginning of September 1939 shipowners felt that they could not surrender all their "specified" currencies. They pointed out to the Treasury that certain disbursements such as port charges had to be met promptly and before a ship was allowed to sail. Accordingly, in February 1940, the Treasury, after lengthy consultations with the Bank, granted exemption from Regulation 5 to approved British companies and resident agents of non-resident shipping companies, on certain conditions, viz., that application should be made through the Mercantile Marine Department of the Board of Trade; shipowners should furnish the Bank with a statement of exchange held on 2nd September 1939 and should undertake to supply similar returns when requested; should provide monthly statements of receipts and payments suitably analysed; and should undertake that any foreign exchange balances held would be used strictly for the purposes of their shipping business. All other exchange, including surplus funds and investment income had to be surrendered. Thus the companies were allowed Retained Currency Accounts (and usually held about \$4 million).\*

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\*Treasury Letter 19. 6.1941.

This system continued until early in 1940, when the Ministry of War Transport (then Ministry of Shipping) requisitioned liners. The scheme entailed payments by the companies concerned on behalf of the Ministry, and these, because of the U.S. Neutrality Act, had to be made from separate accounts. These accounts were at first financed by advances from the Ministry's representative in U.S. or Canada. The effect was to turn these representatives into Authorised Dealers in U.S. and Canadian dollars, and they became at the same time an alternative to the normal channels for both issue and surrender of foreign exchange, an administratively undesirable arrangement.

The application of the Regulations to shipping gave rise to considerable difficulties. The subject was complicated because of -

1. The necessity of avoiding delay in the movement of ships, in particular those carrying essential supplies to the United Kingdom or to Allied nations.
2. The number of Government Departments interested in the matter, i.e., the Ministry of War Transport, H.M. Treasury, the Ministry of Economic Warfare and the Supply Ministries.
3. The diplomatic difficulties that arose following the chartering of Allied shipping by the M.O.W.T.

Although every endeavour was made to treat shipping matters in accordance with normal exchange control procedure and policy, it was not always possible to do so, and to avoid delays ad hoc decisions on varying matters were at times essential.

#### British Shipping

All British shipping was requisitioned by the Government in the early days of the war. It was placed under the control of the Ministry of Shipping, who also took over the complete organisation of the British liner companies. The necessity for the shipping companies to maintain accounts in specified currencies abroad, to settle disbursements and port dues promptly, was readily appreciated by the Bank; and by arrangement with H.M. Treasury the companies were in general granted permission to retain currency

accounts, subject to satisfactory undertakings and the surrender of surplus balances.

In the early part of 1940 the Ministry of Shipping established an organisation in New York (under the control of Sir Ashley Sparks)<sup>1</sup> and subsequently in Canada, and it was agreed that the companies' requirements of dollar exchanges should be provided through those Offices, and eventually that all surplus dollar currencies of the companies should be surrendered through them. The local offices of the Ministry made monthly returns to the Bank.

#### Purchase and Sale of Ships

With a view to avoiding unnecessary competition it was decided in the early days of exchange control that all purchases of foreign ships by residents should be subject to the prior control of the Ministry of Shipping. Similar provisions were instituted in the case of sales of British ships to non-residents in order that loss of cargo space should be avoided.

#### Freights

Broadly speaking, the Bank allowed freights payable on imports from and exports to the Sterling Area to be paid to non-resident shipowners or charterers. But in view of the demands of non-resident owners or charterers for dollar freights it was decided, when a change was made in the Regulations in July 1940, to allow payment only to the country of residence of the foreign owner or charterer. Some variation had occasionally to be made owing to the demand for pre-payment of freight at the port of shipment. In such instances the freight agent was reimbursed by allowing remittances to the country of export..

Special arrangements for the settlement of freight on the interchange of goods between Canada and the Sterling Area were necessary because trans-shipment in U.S. ports frequently involved the payment of U.S. dollars for freights. When the goods were sold on a c. and f. basis the seller became responsible for any U.S. dollar freight. On an f.o.b. contract this responsibility was

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<sup>1</sup>Resident Director, Cunard Company (later M.O.S. representative) in U.S.A.

transferred to the buyer, and in order to establish an equitable arrangement it was decided that the country of export should be responsible for providing any exchange necessary for the transport of the goods, notwithstanding the terms of sale.

The application of Lend-Lease to freights payable on certain goods carried in U.S. ships necessitated a careful watch on transfers to the U.S.A. for freights. In view of the difficulty in ascertaining which payments came under Lend-Lease, and in order to make possible a full Lend-Lease reclaim, it was agreed with the M.O.W.T. that from 1st February 1942 all freights payable on goods shipped on U.S. vessels from America to the United Kingdom should be settled by the Ministry's representative in the U.S.A.

It was appreciated that the payment by a U.K. resident of freight which was the proper responsibility of a non-resident was a means of evading the Regulations, and in consequence F.E.197 was issued on 12th March 1943, a notice which provided that except where payment was made in sterling to an agent resident in the U.K., freight due by a U.K. resident, acting as Principal, to a non-resident shipowner or charterer must be paid in a manner appropriate to the latter's country of residence.

#### Charter Hire

The Bank recognised that charter hire due by residents and payable to foreign shipowners represented income, and transfer to non-resident account was permitted. But, with a view to limiting the provision of exchange to essential cases, the Bank arranged that all charters of foreign ships by residents should be approved by the M.O.W.T.

#### Disbursements, Port Dues, etc.

To prevent the holding up of shipping it was necessary that applications for exchange to meet ships' disbursements should not be delayed. In January 1940 authority was delegated to authorised bankers to approve the canal dues and other disbursements of ships controlled or managed by residents of the Sterling Area. This authority was amended on 2nd April 1941 (F.E.135), when the powers

of Authorised Dealers to approve canal dues and ships' disbursements were limited to ships chartered to a resident of the Sterling Area: the Control did not wish to provide hard currency where the ship, although managed in the United Kingdom, was not operating in Sterling Area interests. In view, however, of the subsequent arrangements of the M.O.W.T. whereby all disbursements (including repairs) payable in U.S. or Canadian dollars on ships chartered to the Ministry were to be paid through their overseas representatives a new notice (F.E.145, 26th May 1941) was issued, requiring bankers to refer to the M.O.W.T. all transfers to the U.S.A. and Canada in connection with ships chartered to the Ministry.

#### Bunkers

The majority of bunkers made available to British or British-chartered ships abroad were dealt with as disbursements, and settlement was made in accordance with normal procedure for settling those charges.

The coal bunkering depots abroad were largely owned by U.K. concerns, whose custom before the war was to supply their depots with coal exported from the U.K. against sterling payment in London. The introduction of exchange control necessitated changes. When coal was despatched from the U.K. the importing country made payment in accordance with normal U.K. export control arrangements. Deliveries to British-owned or British chartered vessels were paid for in sterling remitted to the country where delivery took place; but sales to foreign ships were only allowed against dollar payment, the proceeds of which were generally paid to a Special Account of the country concerned.

Owing to the shortage of U.K. coal and shipping difficulties a considerable amount of coal was purchased in the U.S.A. under arrangements made by the M.O.W.T. Where this was shipped to British bunkering depots in South America it was the normal procedure for the importing country to provide dollars for the purchases; payment for supplies delivered to British ships was made in sterling to the country concerned. Difficulties

subsequently arose with Argentina, who demanded payment in the currency of the flag of the ship supplied, and in many instances this meant that London lost the intermediate profit.

### Oil

Oil bunkers were treated in very much the same way as coal. Supplies by resident companies to British ships were paid for in sterling; with one or two exceptions supplies to neutral ships were for dollars. The American oil companies usually demanded dollars for all oil bunkers, and settlement was normally permitted in that currency.

### Protection and Indemnity Clubs

Certain companies and clubs in the U.K. covered shipowners against various risks not covered by marine insurance, such as injuries to crews and damage to other shipping. To avoid the arrest of a ship, or to obtain its early release, it was customary for the protecting club to provide a bail bond. The terms of the contract between shipowner and club indemnified the former against any loss sustained, but under pre-war practice the club remitted direct or provided a guarantee in favour of the original claimant. In the war, where a British ship was concerned, the continuation of pre-war practice was permitted by the Exchange Control, as the ultimate liability was in any case that of a resident. Where the claim was for a foreign ship, the liability of the club was to the country of residence of the shipowner; but it was normal to allow modest payments to claimants in other countries, or to give them bail bonds for reasonable amounts. If large sums were involved the Bank would point out that the liability of the club was legally to the shipowner and that settlement should be made accordingly, and the shipowner had to provide (against the receipt of sterling from the indemnifying club) any third currency needed to satisfy the claimant.

### The Status of Seamen

Considerable difficulty arose over the treatment of seamen, and for administrative convenience it was decided to treat the accounts of all seamen, whether British or foreign, who called at

United Kingdom ports and received sterling payment as "residents". It was realised that it would be difficult or impossible to obtain from foreign seamen the surrender of their foreign currencies, and that any attempt to do so might lead them to leave their ships at foreign ports - an undesirable prospect in view of the acute shortage of men. British seamen were as a general rule fully subject to the Regulations and were required to surrender all specified currencies.

Foreign seamen were permitted to transfer their full pay and allowances to the country of their nationality or to that of their normal residence. Allied seamen could remit funds for the maintenance of their families or close dependent relatives, provided they were not in enemy territory.

A seaman subject to the laws of several countries, e.g., a Greek sailor employed on a Panamanian ship chartered to the U.S.A. and plying between South America and the United Kingdom, would be subject to the laws of each port of call, those of his own government and, as an Allied seaman, to U.K.Regulations. This led to serious complications, and discretion had to be exercised when dealing with what were apparently breaches by such seamen under the Regulations. It also led to requests for exchange not considered proper obligations of the Bank; for instance, under Norwegian law Norwegian seamen were required to set apart a portion of their wages as savings, and in U.S.dollars. The Bank naturally failed to comply with a request from the Norwegian Government to provide dollars for that purpose.

Numerous applications were made to the Bank to remit funds to seamen who had left their ship and remained in a foreign country. The M.O.W.T., while not wishing to interfere with the freedom of these men, pointed out to the Bank that a ready supply of funds would enable the seamen to postpone their return to work at a time when crews were urgently needed. Withdrawals were therefore limited to reasonable amounts, and only if medical evidence of incapacity was forthcoming. If the seaman's family were in the same country, however, it was not easy to maintain this attitude for long.

Seamen, in the same way as ordinary travellers, were permitted to take sterling notes up to £10 out of the country and to import the same amount. But the opportunities open to seamen to traffic in sterling notes in the Black Market necessitated a strict control, which is referred to under "Trade Control".

In 1945 the re-opening of some continental ports and the possibility of Black Market dealings made it necessary to reduce currency available to masters and seamen to a minimum (cash advances and petty expenses), and to extend existing instructions prohibiting the import of sterling bank notes to cover French, Belgian and Dutch notes.\* Maximum advances in local currencies were restricted to £4 per week for officers and £2 per week for men, to be issued with the warning that any such notes brought back to the U.K. would be confiscated by H.M. Customs. Foreign notes, like sterling, from ships' own funds, were accepted on landing for disposal through owners' or managers' bankers.

#### Resident Agents managing foreign-owned ships

In the early days of Exchange Control it became necessary to institute a system whereby the funds held by resident shipping agents on behalf of non-resident shipowners were segregated. Resident agents were required to open non-resident banking accounts for all funds held on behalf of foreign owners. Credits to the accounts were confined to charter hire, freight and insurance claims accruing to the foreign owner; and debits to shipping disbursements either within or outside the Sterling Area and remittances to or by order of the foreign owner.

When material alterations took place in the Regulations in July 1940 the existing arrangements were no longer workable, and shipping agents were then required to maintain separate resident banking accounts for each non-resident shipowner. Credits to these accounts were restricted to amounts which would normally be available for remittance to the foreign shipowner. Payments

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\*Notice of 15. 3.45, extended on 25. 6.45 to cover French, African, Italian, Norwegian, Danish, German and Austrian notes.

from the accounts to accounts outside the Sterling Area required the Bank's prior approval; in practice transfers were allowed to the country of residence of the shipowner. Where the vessel was working in Sterling Area interests, transfers to cover the ships' disbursements could be debited to the account; otherwise transfers outside the Sterling Area were only permitted against reimbursements by the shipowner in the currency expended. It was subsequently felt that more latitude was necessary in remittances to cover disbursements on foreign ships if the management of these ships were to be retained by United Kingdom agents. It was therefore decided that in all cases where a foreign-owned vessel was chartered to, or managed by, Sterling Area interests transfers would be permitted for current disbursements.

#### Arrangements with various foreign countries

##### Neutral Countries

In the early part of the war the Ministry endeavoured to charter neutral ships on a sterling basis, but a number of foreign owners were only prepared to accept dollars, or a percentage of the charter hire in dollars. It was eventually decided to allow payment for charter hire in a manner appropriate to the owner's country of residence, though in exceptional cases payment in dollars was permitted.

The usual form of M.O.W.T. charter party embodied a clause under which the Ministry undertook to supply foreign currency for normal ships' disbursements whether these were for charterers' or owners' account.

##### The Netherlands

On the entry of Holland into the war the Dutch Government requisitioned all their available shipping, and chartered it to the Ministry of War Transport, except for one or two liners. The arrangements between the Dutch Government and the Ministry of War Transport provided that charter hire should be paid in sterling\* to the Netherlands Shipping and Trade Committee Limited, a company established by the Dutch Government and registered in the United

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\*See also "Central Banks' Accounts" in Chapter .....

Kingdom; but in November 1942 it was agreed that 80% should be paid in U.S. dollars. Out of these funds the Netherlands Government were to meet owners' disbursements incurred in dollars and all expenditure incurred in the U.S.A. by the Committee or other organisation set up there by the Netherlands Government.

#### Greece

In like manner the Greek Government requisitioned all available Greek shipping, and by an agreement signed in the Summer of 1941 a large proportion of Greek ships were chartered to M.O.W.T. This agreement provided that charter hire should be paid in sterling, to be retained on a special type of account maintained with their U.K. bankers by the London agents appointed as nominees of the Greek Government; further, that monies arising from total losses should be placed to a separate account in the same names, and that payments from both accounts should only be made for certain approved purposes.

These accounts were to be under the supervision of the Bank of England,\* but in so far as the funds were held for Resident Account the Bank had no statutory power, other than under the Defence (Finance) Regulations, to control transfers outside the Sterling Area. The Greek Government had incorrectly presumed that the Bank could safeguard their position, and endeavours to protect their interests gave rise to considerable difficulties.

Funds accruing to Greek shipowners prior to this agreement and held by United Kingdom shipping agents were subject to Trading with the Enemy legislation, and it was agreed that, with the exception of payment for normal ships' disbursements such monies could be dealt with only when the consent of the T.W.E. Department had been obtained, after which they were available for remittance to Greece or for use within the Sterling Area.

A few Greek ships not on charter to the Ministry were run as free ships and were normally managed by U.S. shipping agents.

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\*See also "Central Banks' Accounts" in Chapter .....

In such cases the Bank did not provide exchange unless reimbursement was obtained in the same currency.

#### Yugoslavia

Certain difficulties arose out of "enemy" ownership. A number of Yugoslav vessels were managed by United Kingdom agents who were authorised to operate under T.W.E. licence. This licence permitted them to receive charter hire and pay the usual disbursements, but not to collect total loss claims. Long negotiations took place between the Yugoslav Government and the Ministry of War Transport, and although an agreement was eventually prepared it was never executed.

#### Poland

Resident companies owning or managing Polish vessels were treated as residents and the ships were run in connection with various British shipping lines. There was at first no definite arrangement for disbursements. The control of dollar expenditure was eventually centralised with M.O.W.T., but only after some trouble because management had apparently been directed from several quarters, including the Polish Transport Committee.

#### Norway

A considerable number of Norwegian vessels were available to the United Nations, and the majority were requisitioned by the Norwegian Government. A number of agreements were concluded between the latter and M.O.W.T. In some cases it was provided that charter hire should be paid in sterling\* to the Norwegian Shipping and Trade Mission, a quasi-Government Institution set up in the United Kingdom to undertake the business and shipping interests of the Norwegians. In other cases the Ministry agreed to provide 80% of the charter hire in dollars, and for a considerable period this was reclaimed under Lend-Lease.

A few Norwegian vessels that were not on charter to M.O.W.T. were considered "free", but in consideration of the

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\*See also "Central Banks' Accounts" in Chapter .....

priority accorded to Government cargo (freight was paid in sterling) it was agreed that should the dollar income of the vessels concerned be insufficient to cover normal dollar disbursements, any deficiency would be provided by the Bank.

#### Finland

When the Ministry of Supply chartered a number of Finnish vessels in January 1941 the Bank proposed that charter hire should be paid in sterling. The Finns asked for their own currency and were then offered half in sterling and half in dollars. This was not acceptable, and the Treasury agreed to provide gold in London or South Africa in place of the dollars.

#### Belgium

A few Belgian ships were under the control of the London offices of the Belgian shipping companies. These were chartered to M.O.W.T. but their owners were dealt with like British companies. (One Belgian company with U.K. offices had large dollar assets in the U.S.A. which could not be released owing partly to the U.S. Freezing Order and partly to claims by Germans).

#### Spain

Two or three Spanish ships were chartered to the Ministry and the charter hire was paid to Spain in sterling.

EXCHANGE CONTROL AND THE BRITISH INSURANCE MARKET

## INTRODUCTION

## LLOYDS UNDERWRITERS

- (1) United States of America Business
- (2) Other Non-Sterling Area Currency Business
- (3) Canadian Business
- (4) Sterling Business

## BRITISH INSURANCE COMPANIES

- (1) Foreign Currency Transactions
- (2) Sterling Transactions
- (3) Overseas Branches, Agencies and Subsidiaries
- (4) Settlement through Inter-Office Accounts
- (5) U.S. Marine Trust Fund
- (6) British Companies operating in Canada
- (7) British Companies operating in Argentina
- (8) Remittances from the United Kingdom
- (9) Reinsurance

## FOREIGN INSURANCE COMPANIES

CANADIAN LIFE COMPANIES OPERATING IN THE  
UNITED KINGDOM

## PROTECTION AND INDEMNITY ASSOCIATIONS

- (1) General procedure
- (2) P. & I. Trust Fund
- (3) Working Balances

## WAR RISKS INSURANCE

- (1) In the United Kingdom
- (2) In the United States of America

EXCHANGE CONTROL AND THE BRITISH INSURANCE MARKET

Before the war British insurance business provided this country's balance of payments with a net credit of about £20 million: from the United States of America alone the net influx of funds into the United Kingdom in 1939 was \$28 million. It was important that this favourable item among the 'invisibles' should be impaired as little as possible by the introduction of the Defence (Finance) Regulations.

In the early months of the war the Bank sought the co-operation of the Insurance Market in formulating an acceptable procedure under which insurance operations of every kind might be effectively controlled with the least amount of interference to the world-wide interests involved, and the results of their labours became crystallised in the "Bank of England's Insurance Memorandum, 2nd August 1940", which was to serve as a guide to the Insurance Market. (Annex I)

Since the primary object was to allow normal pre-war insurance practice to continue with the minimum of hindrance, the main action under the Defence (Finance) Regulations was limited to (a) securing the surrender to H.M. Treasury of as large amounts as possible in the specified currencies, and (b) restricting the issue of policies to residents in non-sterling area currencies to certain classes of risks indicated in the Memorandum. In practice, however, the instructions contained in the Memorandum were interpreted with some degree of elasticity where particular circumstances warranted discrimination.

Generally speaking the basis of the Memorandum was that residents were allowed to insure only on sterling or in a sterling area currency, the major exceptions being:-

- (i) exporters from the sterling area were allowed to take out cover in the currency of the contract - since the foreign importer sometimes insisted on an insurance policy in his own currency; and
- (ii) the continuation of life policies expressed in non-sterling area currencies which had been taken out pre-war.

Non-residents were allowed to insure in any currency they wished provided premiums were remitted to the United Kingdom in the currency of the policy. But an exception to this was that fixed assets in the sterling area had to be covered only in a sterling area currency so that claims could be directed to blocked (sterling or other Sterling Area currency) account, since there was no reason why capital should be exported as a result of an accident when otherwise it could not have been taken out of the sterling area.

The Control permitted claims to be remitted to non-resident beneficiaries (with the exception of claims relating to fixed assets in the sterling area), but surrender values and loans on pre-war life policies were not freely transferable and could be credited only to a Blocked Sterling Account. No objection was raised to the companies' granting premium loans in order to keep policies in force. As from October 1943 the transfer of surrender-value proceeds to non-residents was permitted except to residents of Argentina, Switzerland, Canada and Newfoundland.

One other aspect of the general problem of exchange control in relation to British insurance interest must be mentioned before dealing with the activities of the various sections of the market.

In view of the importance attached to insurance business emanating from the U.S.A., steps were taken by the British Insurance Market before and also early in the war to establish adequate dollar funds to cover their liabilities under U.S. dollar policies or to U.S.A. residents. This action allayed anxiety abroad and stimulated foreign insurance business here. The method adopted was the creation of Trust Funds by three important sections of the Market: (1) Lloyd's Underwriters, (2) certain British Insurance Companies and (3) certain Shipowners' Protection and Indemnity Associations. In addition, some provision was also made in respect of insurance business in Canada, but rather from the point of view of having adequate reserves handy in the event of a temporary breakdown of communications than from any real necessity to inspire local confidence in the London Market's ability to meet its liabilities notwithstanding the Defence (Finance) Regulations.

LLOYD'S UNDERWRITERS(1) U.S.A. Business

As early as October 1938 Lloyd's consulted the Bank on the position of policies written by them in foreign currencies in the event of war. They received a general assurance that there would be every disposition on the part of the Government not to interfere with the fulfilment by underwriters of contracts in foreign currencies undertaken before the outbreak of hostilities.

Six months later Lloyd's were receiving cables from the U.S.A. stating that their business in that country would be lost altogether, or at least seriously curtailed, unless assurances could be given to clients in the U.S.A. that dollars to meet claims would be readily available. Lloyd's, therefore, proposed to establish a separate Trust Fund in the U.S.A. of, say, \$25/30 million.

The Bank were at first averse from the establishment of a Trust Fund, fearing that it would place funds out of reach of the Government in wartime and establish a dangerous precedent. An alternative way of satisfying Lloyd's American policy-holders would have been a specific statement by H.M. Government that if Lloyd's provided the sterling, the Government would make the dollars available to meet any dollar claims.

It was decided, however, to allow Lloyd's to proceed with the establishment of the Trust Fund, which was set up with the assistance of the Bank in August 1939 and vested in the City Bank Farmers Trust Company of New York. No definite undertaking was given that the Fund would be exempt from requisitioning legislation. Its working was arranged by November 1939. The application of the D(F)R was next considered and the following arrangements were agreed:

- (a) Underwriters were not required to make a return of the securities transferred to the American Trust Fund.
- (b) It was not necessary for underwriting agents on behalf of underwriters to offer to the Treasury dollar balances held as reserve outside the American Trust Fund, but they had to make a detailed return of U.S.A. dollar securities so held.

- (c) The Committee of Lloyd's were to advise the Bank of England of the total securities and balances held in U.S. dollars both in and out of the American Trust Fund. For this purpose securities were to be valued as at 2nd September 1939 if possible; or, alternatively, as at a date as near as possible to the outbreak of war. Like information was to be furnished at the date of each annual audit.
- (d) Any U.S.dollar surplus in the Trust Fund disclosed at the audit was to be subject to surrender to the Treasury at the rate of exchange then current.
- (e) No insurances were to be written in U.S.dollars unless the premiums were received in that currency.
- (f) Since it was the practice for Lloyd's agents to draw in sterling or foreign currencies in settlement of certain claims, the Westminster Bank, through whom such business was done, were given general authority to continue it.

The amount of the Trust Fund was based on the audit requirements of Lloyd's Underwriters, which were laid down by statute so far as non-marine business was concerned and by Lloyd's Regulations in respect of marine business.

On 2nd September 1939 the amount held in the American Trust Fund was some \$32.8 million, of which nearly \$27 million was in cash and the rest in securities. In addition Lloyd's held about \$1.3 million outside the Trust Fund.

It was expected that considerable surpluses would arise which would be at the disposal of the Bank of England. By the end of 1939 the funds held by the Trust had grown to \$43 million and the external resources amounted to a further \$1 million. This total of \$44 million exceeded liabilities by \$8.4 million; but deduction of that portion which attached to open American underwriting accounts for the three years 1937/39, and other adjustments reduced the surplus to \$1.1 million.

As the surplus on the American Trust Fund would depend to some extent on the character of the dollar securities in which part of it was invested, the Bank took occasion, in August 1940, to

urge that any further investments during the war should be restricted to high-grade American short-dated securities, preferably not sterling-area dollar issues, to which Lloyd's agreed. In addition, the Treasury suggested that more of the cash should be invested in securities or gold, to be furnished by the Control. Lloyd's agreed to investment in gold, but were unwilling to reduce liquidity by further purchase of securities, while the Bank thought no advantage would be gained by passing over to the Trust Fund securities which could equally well be sold by the Treasury in the Market. Less liquid securities could not be sold to the Trust without a guarantee of value and liquidity.

By the middle of 1941 it had been established that the whole of the U.S. dollar business of Lloyd's underwriters was being passed through the Trust Fund, and therefore it was arranged that underwriters should surrender to the Control their individual dollar balances which they had been allowed to retain when the Trust Fund was created.

At the end of 1940 the Fund stood at \$57½ million and the surplus was \$5 million: a year later the Fund stood at \$70 million and the surplus at \$6.4 million. But in 1942 severe losses were incurred on American marine war risks and the Bank authorised the retention of about \$2.6 million to meet claims, so that the Fund was down to \$53 million and the surplus available for surrender to the Control was reduced to less than \$3.8 million.

In September 1942 a serious contingency arose in connection with the American business of Lloyd's. It seemed that, for censorship and security reasons, the U.S. authorities were contemplating action which would not only have had the effect of depriving Lloyd's of about half of their premium income, but would also, for all practical purposes, have meant the closing down of all U.S. insurance and re-insurance business in the U.K. market.

The Chairman of Lloyd's, before leaving for Washington in an attempt to deal with this alarming situation, sought the assistance of the Governor, who took immediate steps to urge upon H.M. Treasury the vital nature of the problem in relation to the general economic

outlook of the United Kingdom, and suggested that the full force of H.M. Government's influence with the U.S. Government should be used in support of the Chairman's efforts.

This was given through the Embassy in Washington; and as a result of continued pressure, both there and upon certain U.S. representatives in London, a solution satisfactory to the U.K. insurance market was eventually found.

(2) Other Non-Sterling Area Currency Business

Members of Lloyd's (including Lloyd's brokers) were allowed to retain accounts in the specified currencies (under the provisions of F.E.13). The surrender of surpluses was supervised by the Committee of Lloyd's. Arrangements were made for all applications for currencies other than U.S. dollars to be scrutinised by Lloyd's Committee before being submitted for the Bank's approval.

(3) Canadian Business

A difficulty arose in Canada in August 1940, when the Superintendent of Insurance in Ontario hesitated to renew Lloyd's licence unless a large sum in Canadian dollars was earmarked against contingencies. Reference to the Bank of Canada elicited the information that the Superintendent had no definite knowledge that Lloyd's possessed any Canadian dollar balances or securities. The Superintendent had asked that \$5 million should be held in Canada, though not necessarily as a Trust Fund - an amount said to be less than one year's premiums. Lloyd's, in fact, held about \$4 million in Canada at the end of 1939 and this could be made available. In September 1940, however, the Bank offered to arrange with the Treasury to earmark sufficient gold at the Bank of Canada to cover all outstanding claims. In case of need, this gold would be at the disposal of the Bank of Canada against claims admitted by Lloyd's Canadian representatives.

On the establishment of this gold fund, Lloyd's underwriters were to pay over to the Control such Canadian dollars as they then held or might later receive, with the exception of, say, 10% which would be retained as working balances. It was agreed that thereafter any Canadian dollars which Lloyd's underwriters had occasion

to purchase should be sold to them without loss on exchange. Lloyd's and the Treasury were satisfied with this arrangement, which took effect from 19th September, about £1,500,000 gold being set aside for so long as might be required.

(4) Sterling Business

Applications by members of Lloyd's to transfer sterling to non-residents were not scrutinised by the Committee, and it was therefore necessary for them to be accompanied by supporting evidence in order that each application might be dealt with on its merits.

BRITISH INSURANCE COMPANIES

On the 8th February 1940 the Chancellor made a brief statement in the House - "The fullest arrangements have been made to enable British Insurance Companies to carry on their overseas business without impediment and to meet claims by Allied, neutral or British claimants under any policy in accordance with the terms of the policy, whether it be expressed in sterling or in foreign currency."

(1) Foreign Currency Transactions

The Head Office of British insurance companies, and their branches and agencies whether inside or outside the sterling area, were expected to abide by the terms of the Bank of England's Insurance Memorandum of the 2nd August 1940; and all questions arising thereunder which were thought to concern the general practice of the Insurance Market were settled through the medium of the British Insurance Association: problems in connection with life assurance only were normally dealt with in consultation with the Life Offices Association. Most British companies and several Colonial and foreign companies operating in the United Kingdom were members of one or both of these bodies.

Each insurance company was given permission in the terms of F.E.17 to keep with a United Kingdom banker or with bankers abroad a Retained Account in any foreign currency, to which premiums due in that currency might be paid and claims and other disbursements debited. The use of Retained Accounts was, in practice, confined to U.S. and

Canadian dollars, Argentine pesos and Swedish kronor. Half-yearly returns of all such accounts were made through the British Insurance Association to the Bank of England, who then considered whether the balances were surplus to the companies' requirements.

The companies' foreign currency securities of a character requiring registration at the Bank of England fell into two categories: those which were at the free disposal of the companies (and therefore liable to vesting) and those earmarked under foreign legislation as cover for local liabilities or otherwise shown to be necessary for the retention of business. Securities in the latter category were exempted from registration, but half-yearly returns of such holdings were furnished through the B.I.A.

## (2) Sterling Transactions

To avoid delay in the settlement of claims by non-residents, all banks authorised to approve Sterling Transfer Forms were given a schedule of the classes of application which they could approve without the production of supporting evidence, provided the company concerned stated on the application form (i) that they were members of the B.I.A. (ii) the precise nature of the payment, and (iii) that the business in question had, since the 2nd August 1940, been undertaken in the terms of the Bank of England's Memorandum or, in the case of life policies, that the beneficiary had not changed his country of residence since 3rd September 1939. This authority extended to all classes of claims; but applications in respect of surrender values and loans on sterling life policies and annuities had to be submitted to the Bank of England, who directed that payment should be made to Blocked Sterling Account only. The companies were permitted to make premium loans for the purpose of maintaining a policy in force, although it was expected that they would make reasonable attempts to obtain a remittance from the policyholder.

As a result of administrative relaxations adopted in October 1943, the authority to banks to approve transfers without supporting evidence was extended to cover surrender values and the cash values of bonuses on pre-war policies payable to persons resident outside the sterling area except in Argentina, Canada, Newfoundland and Switzerland.

Permission was required if a resident wished to assign a sterling life policy or annuity to a non-resident, and such permission was given only if the non-resident had paid full consideration in a manner appropriate to his country of permanent residence.

(3) Overseas Branches, Agencies and Subsidiaries

As far as possible, branches and agencies of United Kingdom insurance companies were treated in the same way as their Head Offices, and non-sterling area branches and agencies were informed of the need to remit to the United Kingdom the maximum amount possible; but some relaxation was unavoidable where such branches and agencies had to conform to local foreign exchange or insurance regulations.

In the U.S.A., for example, companies writing certain classes of insurance, such as fire and marine, had to be "admitted" before they could transact business, and admission required that the dollar funds of the admitted branch should be supervised by the U.S. State Insurance Authorities. There were regulations affecting statutory deposits and reserves which in practice absorbed a large part of the premium income, and although there might be a balance surplus to the immediate requirements of the business remittances to the United Kingdom were subject to the approval of the State Supervisor. For practical purposes admitted branches had to be treated similarly to subsidiary companies incorporated in the U.S.A. and controlled by Head Offices in the United Kingdom through their shareholdings. Remittances to Head Office were limited to the extent that the insurance authorities released funds or allowed the distribution of dividends. As there was no special American legislation affecting life business, the local funds in excess of reasonable working balances of companies transacting such business were available for remittance to the United Kingdom. Whereas admitted branches and subsidiaries were always in a position to settle claims under their own policies without recourse to Head Office or the United Kingdom parent company, it was accepted that non-admitted branches and agencies might require to draw on Head Office to replenish their working balances.

Note 1

In May 1941 the possibility of raising a loan in the U.S.A. through the insurance companies was discussed. It would have been possible to pledge the shares of subsidiaries, but the only collateral which branches could offer would have been an attachment on their earnings. The companies pointed out that they would make a loss if they had to borrow in New York at, say, 4%, and receive only 3% on the sterling reimbursement: they were advised that the Government would not make up this difference.

Eventually it was found possible to utilise the assets of British insurance companies in connection with the Loan Agreement signed between the British Government and the Reconstruction Finance Corporation in July 1941. The shares of American subsidiaries of British insurance companies were pledged as part of the Loan collateral, while the income of the U.S. branches of specified United Kingdom insurance companies was assigned to the R.F.C. for the service of the Loan.

Note 2

In January 1943 the U.S. Insurance Commissioners were contending that sterling securities held by the admitted branches of British companies should be valued at the New York free market prices instead of at London prices. New York was practically a black market and its prices were 50% or 60% below London. Non-residents were not normally permitted to sell sterling securities in the United Kingdom, but the Bank decided to give an undertaking in the following terms:-

"Permission would be given for a British insurance company to sell in London British Government securities owned by it and held in connection with the operations of its U.S. Branch."

In view of this undertaking, the American authorities accepted the London price. The companies agreed that they would not normally make any request for such sales.

Note 3

In 1940 when there was fear of invasion, the companies consulted the Bank of England on the protection of their overseas interests, particularly in the United States. Subsidiary companies

presented little difficulty, provided that the certificate of ownership was not available to the enemy, but the position of agencies or branches was thought to be more difficult as, if adequate steps were not taken, a U.S. Superintendent of Insurance might feel it necessary to wind them up in order to protect the policyholders' interest. The companies therefore prepared Powers of Attorney in favour of their American representatives, irrevocable for one year. (These were renewed annually until the end of 1943 and then discontinued.) The Powers were forwarded to the British Ambassador in Washington, who was to release them, should need arise, on instructions from the Foreign Office. Where companies had subsidiaries in the U.S.A. the Powers were accompanied by formal letters to the Attorneys pointing out that the parent companies were subject to the D.(F.) R., and therefore were not allowed to deal in any way with their shareholdings in the subsidiaries without the consent of H.M. Treasury: in the event of the Powers coming into operation the Attorneys should regard themselves as in the same position as the grantors.

As an added precaution certificates of ownership were deposited in Canada, the shares for the most part remaining in the names of the parent companies.

#### (4) Settlement through Inter-Office Accounts

If a non-admitted branch in the U.S.A. asked Head Office to settle a dollar claim on the life of a person living in the United Kingdom there was no objection to the matter being handled in account between the two offices, since any dollars which the non-admitted branch had to spare were surrendered to H.M. Treasury in due course. But claims due to be settled in dollars by admitted branches and subsidiaries were handled in account by Head Office only if adjustment was made from time to time of amounts owing to Head Office (or other branches in the Sterling Area) by a remittance of U.S. dollars or through U.S. Registered Account. If, on the other hand, U.S. branches, whether admitted or not, settled claims properly payable by offices inside the Sterling Area, there was no objection to settlement being made in account between the offices concerned.

This applied, however, only where the claim was due to be settled in U.S.dollars. The Bank of England would not, for example, permit a Head Office in the United Kingdom to ask a branch or agency in the United States to settle out of its dollar funds a claim due in Argentine pesos. Wherever possible, Head Offices were required to settle in sterling claims by non-residents under sterling policies; payment through an appropriate sterling account was preferred to authorising companies to debit their foreign currency accounts for the purpose of meeting such claims in local currency.

(5) U.S.Marine Trust Fund

The many admitted British companies which conducted marine business in the U.S.had always held funds there, and continued to transact business under American control. In June 1940 the Deputy Governor wrote to the Treasury suggesting the establishment of a Trust Fund for non-admitted companies, a proposal which the Treasury approved. The Fund would obviate difficulties in the case of a temporary interruption of communications and was to be of \$10 million.

At first all companies participating in the business supported the scheme, of which the Bankers Trust Company of New York were to be the trustees; but early in August differences of opinion arose in the Market and the scheme was in danger of being abandoned.

About this time, however, a U.S.Act of 29th June exerted an influence: it authorised the U.S.Maritime Commission to provide marine reinsurance, marine war risk insurance and reinsurance of U.S. vessels should adequate cover on reasonable terms not be obtainable from companies authorised to do business in the U.S.A. The Bank and the British companies tried to discourage participation by the Commission and in this received help from the American Ambassador in London and the Insurance Superintendent of New York State. Intervention by the Governor resulted, by 20th August, in the reinstatement of the Trust Fund proposed as a contribution to this objective.

The Fund was to be invested in high-grade short-dated American domestic securities. The Treasury suggested that securities already vested could be used for part of the Control's contribution to the Fund. The Bank replied that, although it had been made clear

to the companies that it might be helpful to provide dollar securities instead of cash, the adoption of the proposal would be conditioned by the current prices of the securities in question.

The Fund was established by the end of August, the companies providing \$3.8 million in cash and securities and the Bank \$6.2 million in cash. The Trust Deed was dated 24th October 1940. The Bank had proposed that the Fund should be continued until three years after the cessation of hostilities in which the British Government were engaged at the time of the signature of the Deed, but no limitation of date was contained in the Deed itself.

It was eventually decided to substitute securities for part of the cash provided by the Bank, and as the holdings already vested were found to be unsuitable for this purpose a Vesting Order was issued on 11th January 1941 which yielded securities to a nominal value of \$3.4 million. These were sold to the Trust at the market price of the day, plus interest accrued to the date of delivery.

The interest earnings of the Fund were remitted periodically, but less than half of the funds was invested because of the low return obtainable on American securities.

As regards marine insurance in general it may be noted that there was an unofficial understanding that British and American companies should not seek to take business from each other during the war.

(6) British Companies operating in Canada

The Canadian Foreign Exchange Control Board treated the Canadian branches of British companies as residents of Canada. Canadian law required a deposit of securities by British companies equivalent in value to the liabilities of their Canadian branches, but a company was not precluded from covering its liabilities by means of a deposit consisting solely of sterling bonds of or guaranteed by the Government of the United Kingdom or any sub-division of the Empire. At the beginning of the war United Kingdom companies were encouraged to deposit sterling instead of dollar securities. Proposals were occasionally received to replace sterling securities by Canadian dollar securities, and these were refused. The Canadian control allowed any increase, as compared with 15th September 1939

(the date when Canada entered the war), in the excess of assets over liabilities, less 10% of the increase in assets which had to be retained in the Canadian branch, to be remitted in exchange to the parent company. Alternatively, foreign securities could be withdrawn and Canadian securities substituted.

In September 1940 a suggestion was received from Canada that some British companies were retaining their profits, and the Bank wrote to the British Insurance Association calling attention to this and asking that members should be reminded of their obligation to offer to H.M.Treasury as soon as they became available all balances of requisitioned currency surplus to requirements.

The response of the companies was in general satisfactory, though some were still suspected of retaining funds to supplement working balances. Their attention was drawn to the necessity for surrendering all funds in excess of an absolute minimum. One company pleaded provision against a possible breakdown of communications. This was regarded by the Bank as a breach of the understanding with the Market and the company were informed accordingly.

Deposit with the Canadian Superintendent of Insurance of securities to cover liabilities was often effected by depositing sterling securities with the Bank of Montreal, London, for account of the Receiver General of Canada. The Canadian Control required that the interest on these sterling securities should not be paid to the British companies in sterling but should be surrendered to the Canadian Government in exchange for dollars in Canada which the companies could not transfer. This ruling conflicted with the U.K.Exchange Regulations; and the companies themselves would have preferred to receive their interest in sterling.

Again, on the sale of any free securities held in Canada, British companies were required to reinvest the proceeds locally, although under U.K.Regulations the sale proceeds, being dollars, should have been offered to H.M.Treasury.

In both these cases the Bank, after consulting the Board of Trade, took the line that the position taken by the Canadian Control Board should be allowed to prevail. Any other course would

have meant asking the Canadians to make an exception to their general regulations in favour of the United Kingdom insurance companies' branches. The Bank reminded the British Insurance Association and certain companies that, although the funds were remitted to or retained in Canada, a portion of them would ultimately be transferred back to London as surplus.

In February 1942 the Canadian control altered its ruling concerning the interest on sterling securities deposited in London, and permitted payment of the interest to the companies' Head Offices.

An embarrassment from which the British insurance companies in Canada suffered was the pressure put upon them to subscribe to Canadian War Loans. For reasons of prestige and the maintenance of their competitive position they felt unwilling to refuse.

The question of such investments was first raised with the U.K. Exchange Control in connection with the issue of the 3rd Canadian War Loan in the middle of 1941. It was decided, in principle, that there was no objection to the companies investing in such loans out of local balances "if they felt compelled to do so", but that the remittance of dividends was not to be affected thereby. (The issue was raised on the particular case of a subsidiary of a British insurance company.)

Further applications came in February 1942. This time the U.K. Exchange Control stated that there was no objection, provided that the companies remitted the full annual amount released by the Canadian Superintendent of Insurance, even though this might mean selling the whole or part of the War Loan previously taken up.

The position was reviewed again in October 1942, when it was said that the situation had changed by reason of the Canadian Government's gift and the fact that the Canadian Control was now permitting more or less free remittances to the United Kingdom. After consultation with the Canadian Control, who stated that they did not wish to take up any rigid attitude, it was decided that the companies could subscribe where they felt obliged to for prestige purposes, but that the right of the United Kingdom to call for the

realisation of the security and remittance of the proceeds would be reserved. The circular letter of the British Insurance Association advising the companies did not put the matter quite in these terms. It indicated that subscriptions should be made only out of available funds in Canada and that the new War Loan holdings must be registered with the Bank of England and "not earmarked for any possible future increase of deposits".

The last occasion on which the matter was raised was in March 1943. The Bank then fixed a limit of \$30,000 as the maximum subscription to a War Loan without reference to the Control. In the following month there was a proposal to switch Canadian dollar securities into War Loan. The Bank said that this should not be done if the securities to be sold were registered. If certain securities should be de-registered, as was contemplated at the time, there would be no objection.

In 1942 the question of the long Canadian dollar position of British insurance companies operating in Canada was raised with an official of the Foreign Exchange Control Board, Ottawa, when visiting the Bank. In February 1943 detailed figures were obtained of the companies' holdings of Canadian assets (including mortgages and real estate) as at the 31st December 1941, and these figures disclosed that there was an apparent aggregate long position of approximately Can.\$11 million.

It was duly appreciated that the Vesting Orders of 1942 must have materially affected this position, that non-life companies' liabilities in Canada were carried into the annual report at only 80% of their value and, moreover, that a large excess was essential as a contingency reserve against abnormally heavy losses. Nevertheless, an approach was made to the British Insurance Association regarding the retention by the companies of Canadian dollar securities in excess of their requirements.

The Bank of England appreciated that the companies must hold Canadian dollar assets immediately available to meet all obligations promptly and to avoid their being unduly hampered in competition with American and Canadian companies. They also felt

that it would be inequitable to expect the companies to bear an exchange risk. On the other hand, the companies concerned clearly recognised the need, in the national interest, to remit surplus currency to the United Kingdom to the greatest possible extent.

Accordingly, with the concurrence of H.M. Treasury and the Foreign Exchange Control Board, Ottawa, a formula, (Annex II), which was to be subject to review from time to time, was agreed with the British Insurance Association for the purpose of governing the total of Canadian dollar assets of British insurance companies operating in Canada, which "in the case of each company shall be exempted from the provisions of Regulations 1 and 5 of the Defence (Finance) Regulations 1939 as being held as cover for the company's liabilities in Canadian dollars."

(7) British Companies operating in Argentina

Special consideration had to be given from time to time to difficulties encountered by British insurance companies in Argentina as a result of discriminatory legislation against foreign companies in general.

For example, under a decree of 6th February 1939 British companies in Argentina had been informed that the existing fixed reserves against insurance written in that country must be replaced by reserves which fluctuated in accordance with the business done. For some time the companies resisted the contention that these reserves should be deposited in Argentina. In June 1940, however, they were told that the reserves must be lodged immediately with their Argentine branches. The increase required was very considerable as the fixed reserves were said not to exceed £250,000, and in July and August some £674,000 registered securities (other than U.S. dollar securities) held in the United Kingdom were released and transferred to supplement local assets now formally deposited.

Early in 1944 further difficulties arose in connection with these statutory deposits. Certain Argentine sterling bonds became due for redemption in London, and the question arose as to how branches which had holdings of these issues included in their deposit should replace them. In reply to an enquiry from the

British Insurance Association the Bank stated that, subject to the formal agreement of the Banco Central, they were prepared to allow remittances to the Argentine for the purchase of peso bonds in replacement to the total of the redemption monies received by the companies in London.

The Banco Central countered with the suggestion that other sterling bonds should be purchased and deposited in London to the joint order of the Argentine Embassy and the company concerned. The Bank agreed, but when companies attempted to follow this course the Argentine Superintendent of Insurance refused to release the old bonds without substitute security; maintained that the replacement securities should by law be physically held in the Argentine; and therefore required an assurance that if bonds were deposited in London they would in no circumstances be blocked by the British Government.

At this point the Bank found it necessary to place on record that so far as they were concerned companies could:

(i) Remit the redemption proceeds back to the Argentine to buy peso bonds locally;

(ii) Buy peso bonds locally out of their surplus which would otherwise have been remitted in due course, or out of funds borrowed locally;

(iii) Buy Argentine sterling bonds for shipment to the Argentine; or

(iv) Buy Argentine sterling bonds for deposit in London to the joint order of the companies and the Argentine Embassy;

and it only remained for the Argentine Authorities to agree among themselves the course to be followed.

The position was not finally clarified until August 1944, when the Argentine Government introduced a new Decree which provided for the deposit of sterling or sterling bonds in London to the sole order of the Argentine Embassy; but companies who adopted this course would not be able to remit profits to the United Kingdom until such time as they had reinstated their deposits in peso bonds in the Argentine.

(8) Remittances from the United Kingdom

No objection was raised to the remittance of funds by Head Office to overseas branches and agencies of United Kingdom insurance companies to replenish working balances. Half-yearly statements of balances in specified currencies provided a check on undue accumulation of funds in any non-Sterling Area centre.

A request to increase statutory deposits owing to the demands of an expanding business in a non-Sterling Area country had in each case to be referred to the Bank of England, who allowed the application on the recommendation of the British Insurance Association. Applications to export capital to start or extend operations in any non-Sterling Area country were in the early days usually refused, but were later considered on their merits. Applications were generally approved if recommended by the B.I.A. Favourable consideration was normally given to applications to transfer for the purpose of forming local companies to combat nationalistic tendencies (and therefore discrimination against British companies) in various countries, particularly in South America.

(9) Reinsurance

No obstacle was placed in the way of companies reinsuring outside the Sterling Area or accepting business ceded by companies operating abroad; the essential requirement was that the settlement of balances arising from such business should be in the currency in which premiums were paid or received or, if in sterling, through the appropriate account. In practice, all reinsurance business was normally transacted in the currency of the original contract; but where this was an Obligatory Treaty and Excess of Loss Contract the reinsurance might be written in the currency of the ceder or in sterling.

FOREIGN INSURANCE COMPANIES

A number of branches and agencies of insurance companies whose Head Offices were resident outside the Sterling Area operated in competition with British companies in the United Kingdom and, within certain limits, were given similar facilities. The main

difference was that, while the sterling business of the foreign companies was regarded as written for their United Kingdom branch and therefore for resident account, all business written in non-Sterling Area currencies was for foreign account in respect of which the Sterling Area neither gained by currency premiums received nor lost by having to provide currency to meet claims.

CANADIAN LIFE COMPANIES OPERATING IN THE UNITED KINGDOM

Special arrangements were made in the case of the following Canadian companies, who wrote life business on a large scale in the United Kingdom and certain other parts of the sterling area -

- (1) Sun Life Assurance Co. of Canada
- (2) Canada Life Assurance Co.
- (3) Confederation Life Association
- (4) Crown Life Insurance Co.
- (5) Imperial Life Assurance Co. of Canada
- (6) Manufacturers Life Assurance Co.

For D.(F.)R. purposes accounts maintained with United Kingdom bankers in the names of the London Offices of these companies had been regarded as "resident" and those in the names of the Head Offices as "non-resident". Following the introduction of the canalisation of sterling, on the 18th July 1940, the non-resident balances could not be used to meet liabilities under the companies' sterling contracts with residents of countries with which the U.K. had registered or special account arrangements; nor could premiums or any other payment be received by them in sterling from residents of such countries.

To assist the companies, in August 1940 the Bank of Canada suggested, and the Bank agreed, that they should each maintain a Special Non-Resident Sterling Account to receive premiums from non-enemy non-resident holders of policies issued by their non-Sterling Area offices and to pay claims due to such policyholders. Should the balances on these accounts at any time be insufficient, they might only be replenished by the purchase of sterling from the Canadian

Control. Any surplus balances which might accrue to them might only be transferred to resident account. The accounts were subject to the supervision of the Canadian Control, who undertook to reimburse the U.K. Control for any "hard currency" losses occasioned by the arrangement. When agreeing to this arrangement, the Bank asked that the companies should for the future concentrate their sterling business with ~~the~~<sup>their</sup> Sterling Area offices, but at the earnest request of the Bank of Canada this proviso was subsequently withdrawn, and the non-resident accounts were made available for new business as well as for existing business.

The effect of the arrangements was to make all sterling (securities and cash) of the Canadian life companies "resident" except the balances on the non-resident accounts just mentioned.

The Bank of England having agreed to allow non-resident offices of the companies to continue to issue sterling policies, it was thought desirable to come to some definite arrangement with the companies governing the conduct of their business in so far as it was affected by the Defence (Finance) Regulations. Broadly speaking, the object was to ensure that the companies were not placed in a more favourable position than their British competitors, while at the same time allowing them to carry on with as little interference as possible. In April 1941 an attempt was accordingly made to draft a set of arrangements governing the conduct of the business of the Sun Life Assurance Co. of Canada, who alone had a London administrative office. It was desired to secure agreement with this company first and thereafter to make similar arrangements with the other five.

This intention was somewhat modified, and on 30th June the Bank of Canada were cabled to the effect that discussions had taken place with the London Offices of all the companies and that the proposals would be sent in due course to Canada so that they could be discussed with the Head Offices of the companies.

The domestic nature of the business of the Sun Life Assurance Co. of Canada needed special consideration, and draft

Schemes were eventually despatched to the Bank of Canada in September. Scheme "A" covered this company and Scheme "B" the other five companies. The two Schemes differed mainly on matters of procedure and were calculated to produce like results. A covering letter stressed two points:-

- (i) It was proposed that all transactions in non-Sterling Area currency policies, wherever issued, should be handled for account of the Head Office of the company concerned. This would mean that currency receipts in the hands of Sterling Area offices would not need to be surrendered to the Sterling Area Controls, neither would the latter provide currency for payments. No objection was raised to a suggestion made by the Sun Life that all collections and payments in respect of such policies issued before the war to residents of the Sterling Area should be effected in local Sterling Area currency, and that the companies should buy from or sell to the local Controls, half-yearly, currency to the extent that receipts exceeded disbursements or vice versa.
- (ii) In the case of loans granted and surrender values paid to non-resident sterling policyholders, British life companies were required to make payment to Blocked Sterling Account only. In order to ensure that British companies were not placed in a less favourable position than the Canadian companies, the latter should effect such payments in a similar manner. But the U.K. would raise no objection to payment being made out of Canadian or other non-sterling area funds at the disposal of the Head Offices.

The schemes were brought into operation as from 1st July 1942. The full text will be found in the Files.

#### PROTECTION AND INDEMNITY ASSOCIATIONS

##### (1) General Procedure

The insurance of shipowners' risks (e.g., injuries to passengers or crew, collision damage, fines, etc.) was highly

specialised and was handled by some half-a-dozen P.& I. Associations, known in the Market as "the Clubs". The procedure was for a ship to be entered by the owner with one of the Associations by payment of a subscription, and so long as the vessel remained on that Association's books the shipowner had to contribute his share towards the total claims paid. "Calls" were made from time to time, the amount each individual shipowner had to pay being based on the tonnage of the ships he had "entered". P.& I. insurance covered a multitude of risks outside those within the scope of ordinary marine insurance.

It was agreed, in principle, that the Clubs could pay small claims on behalf of non-resident members in the currency required, provided subscriptions and call payments due from the members concerned had been received through the channel appropriate to their respective countries of residence. This, of course, might mean that in practice Club dues received, e.g., in Portuguese Special Sterling, might cost U.S. dollars; but there seemed to be no alternative if normal P.& I. business were to be permitted to continue. Larger claims, however, which were often substantial, had to be met in the currency in which subscriptions were paid unless the vessels in question were on charter to the Ministry of War Transport, when payment in the currency required was permitted in order to avoid the arrest or to ensure the release of the ship.

In this connection it frequently became necessary for a "bail bond" to be given in order to avoid the arrest of a ship. This bond took the form of a guarantee under which the Club concerned bound itself to remit, if called upon to do so, a round sum sufficient to cover the claim; but before committing itself in this way the Club had to obtain the prior permission of the Bank.

(2) P.& I. Trust Fund

Four of the principal Clubs approached the Bank in July 1940 with the request that they might be allowed to establish a joint fund under the control of trustees in New York to satisfy their American members who, in the conditions then prevailing, feared that the Clubs might not be able to settle claims from London. It

was important to allay this anxiety if only because the operations of the Clubs brought in a net dollar income of \$200,000.

Since the Clubs, under their rules, could not participate in the Marine Companies Trust Fund, the Treasury agreed to the setting up of a Trust Fund of \$500,000, and provided \$75,000 in cash and the balance in U.S. securities. The Bankers Trust Company acted as trustees and arrangements were completed in December 1940. Investments were restricted to high-grade short-dated American securities, the dollar income from which was to be made available to H.M. Treasury.

(3) Working Balances

It was at first proposed that each Association should keep a working balance of \$5,000. This amount, however, was subsequently found to be insufficient for current working needs, and the figure was raised to \$20,000 for each of three of the Associations concerned and to \$50,000 for the other, subject in each case to any excess being surrendered to the Control. This arrangement was reviewed in June 1944 and extended for a further year.

WAR RISKS INSURANCE

(1) In the United Kingdom

War risks could be underwritten at Lloyds (waterborne risks only), with the insurance companies or through the War Risks Insurance Office, a self-contained department of the Ministry of War Transport.

The War Risks Office covered hull, cargo and crew insurances in respect of British ships, all ships chartered to the Ministry of War Transport and free Norwegian and Greek ships. In most cases the risk was underwritten and claims paid in sterling, and the maximum excess value on insurance of goods was limited to 10% above the invoice value. So far as the Market was concerned, however, there was no fixed limit of excess value on the war risk insurance of goods; much depended on the custom of the trade to which the insured goods related.

Payment of war risk premiums and claims (whether in

sterling or currency) were subject to the normal rules.

(2) In the United States of America

By general agreement the British insurance market did not normally cover war risks on land.

In the Spring of 1942, however, the U.S. Government set up a War Damage Corporation as an agency of the Reconstruction Finance Corporation, and the U.S. authorities insisted that 10% of war risks in respect of land risks should be taken by the insurance companies for their own account, with the proviso that over the whole period of operation any loss or profit to the companies should not exceed \$20 million in all. The maximum profit or loss to the British companies operating in the U.S.A. would be a little over \$2 million. The British companies, while reluctant to participate, felt that they could hardly avoid doing so, and in any event the risk was limited. The Bank and the Treasury agreed that the companies should accept the scheme.

The general policy of the Control as laid down by the Memorandum of 2nd August 1940 was to require sterling area exporters to insure in sterling wherever possible. But in the case of war risks insurance it was realised that the business of British exporters would be adversely affected if they were not allowed to take advantage of the more favourable rates offered by the U.S. Maritime Commission, and it was therefore decided to allow U.S. dollars for this purpose.

ANNEX I

BANK OF ENGLAND INSURANCE MEMORANDUM  
OF THE 2ND AUGUST, 1940

Note: Reference to "residents" in the following memorandum means residents of the sterling area.

Reference to "sterling" are intended to include the currencies of the countries of the Sterling Area.

INSURANCE BY RESIDENTS IN THE STERLING AREA

1. Life

No insurance may be issued in foreign currency on the life of a resident: and no insurance may be switched to a foreign

currency policy from an existing sterling policy. Pre-war insurances in foreign currencies may be continued in the original currency.

## 2. Non-Marine Risks inside the Sterling Area

May be insured in sterling only. Switching to foreign currency policies from existing sterling policies is not permitted.

## 3. Non-Marine Risks outside the Sterling Area

Assets owned by companies resident in the Sterling Area may be insured in the currency of the country in which the risk is situated. Requests for insurance in foreign currencies on privately owned assets should be referred to the Bank of England.

## 4. Third Party

Insurances in respect of foreign travel, etc., may be taken out by residents in sterling only: the Control will provide currencies if necessary to meet foreign claims.

## 5. Marine and Transit Risks and War, S.R. & C.C. Risks

### (i) Cargo and Transit Risks

Exports from and imports into the Sterling Area and trade between countries outside the Sterling Area financed by residents in the Area may be insured in sterling or in the currency of the contract of sale but not in any third currency.

(ii) Hull, machinery and other shipowners' Interests, insured by residents for their own account must be insured in sterling. Hulls, etc., chartered by residents from non-residents may be insured in a foreign currency chosen by the owners except that freight insured for account of the resident charterer must be insured in sterling only.

## INSURANCE BY PERSONS NOT RESIDENT IN THE STERLING AREA

### 1. Life

Non-residents may insure in foreign currency, but they may not switch from existing sterling policies, and no provisions should be made in new sterling policies for loans in foreign currency. Pre-war policies in foreign currencies may be continued.

## 2. Non-Marine Risks inside the Sterling Area

May be insured in sterling only. Switching to foreign currency policies from existing sterling policies is not permitted. Risks insured in foreign currency under long standing arrangement may continue to be insured in the original currency.

## 3. Non-Marine Risks outside the Sterling Area

May be accepted in foreign currency if desired. Insurance should continue to be effected, however, in the currency in which the risk has habitually been covered but it may be written in a different currency if business would otherwise be lost.

## 4. Marine and Transit Risks and War S.R. & C.C. Risks

### (i) Cargo and Transit Risks

Non-residents arranging insurance on shipments for account of residents may insure in sterling or in the currency of the contract of sale, but not in any third currency. Goods in which non-residents retain an interest after they are shipped may be insured in foreign currency.

(ii) Hull, machinery and other Shipowners' Interests insured by non-residents for their own account may be insured in foreign currency.

## RE-INSURANCE (ALL CLASSES OF BUSINESS)

### 1. Facultative Acceptances

Must be effected only in respect of offers where the original insurance is in accordance with the above regulations.

### 2. Obligatory Treaty and Excess of Loss Contracts

Must be effected in the currency of the original insurance or in the currency of the country of the ceder or in sterling. Premiums, losses and account balances may be settled in the currency of the ceder or in sterling, subject to the general condition that losses must be payable in the same currency as that in which the premium was received.

Note: In all cases where insurance policies are written in a foreign currency, the premium must be paid in that currency.

Bank of England,  
2nd August 1940.

(NOTE: Colonial Controls were later advised of the Bank of England's interpretation of paragraph 5(i) as follows:-

Cargo and Transit Risks

- (a) Exports from the sterling area may be insured in sterling or in the currency of the contract of sale, but not in any third currency.
- (b) Imports into the sterling area (f.o.b. and c.&f.) should be insured in sterling. Insurance under c.i.f. contracts would normally be effected by the non-resident exporter and would be outside the jurisdiction of the United Kingdom Control.
- (c) Trade between countries outside the sterling area financed by residents in the area may be insured in sterling or in the currency of the contract of sale, but not in any third currency.

ANNEX II

Canadian Dollar Assets held by British  
Insurance Companies

In order to define more clearly the position, under the Defence (Finance) Regulations, of the Canadian Dollar assets of British Insurance Companies operating in Canada through branches or agents, a simple formula has been established to govern the total of such assets which in the case of each Company shall be exempted from the provisions of Regulations 1 and 5 of the Defence (Finance) Regulations as being held as cover for the Company's liabilities in Canadian dollars.

The Bank of England appreciate that the companies must hold Canadian dollar assets in order to be in a position to meet

their obligations promptly and to avoid their being unduly hampered in competition with American and Canadian Companies. Moreover, the Bank recognise that it would be inequitable to expect companies to bear an exchange risk. The British Companies, on the other hand, recognise that in the national interest surplus currency must be brought home to the greatest extent possible.

It is felt that a formula on the following lines is a reasonable basis of agreement. For the purposes of this formula a British Company and its British Subsidiaries will be regarded as one company.

#### 1. Life Business

A Company will be allowed to retain assets in Canadian currency (including those deposited in accordance with local legislation) whose value is equal to 100% or the percentage held by the particular company at the 31st December 1941, whichever is the less, of its actuarial liabilities in Canada calculated on a Head Office basis. Such assets would comprise marketable securities, real estate, mortgages, policy loans and cash and agency balances. The assets which each company earmarks as being included in the permitted percentage is left to its own discretion. Subject to considerations of liquidity, all real estate, mortgages and policy loans and cash and agency balances should be included in the agreed percentage which should include also securities deposited under local legislation. Any securities earmarked as part of the permitted percentage will be exempted from the provisions of Regulation 1 of the Defence (Finance) Regulations: all other restricted securities must be registered at the Bank of England and would be available for vesting (together with any Canadian securities denominated in sterling which may have been, or may in the future become, subject to Regulation 1 of the Defence (Finance) Regulations, other than those deposited under local legislation). The Bank will be prepared where necessary to exempt securities from the provisions of Regulation 1 of the Defence (Finance) Regulations

in order to allow a company to make up its agreed percentage.

## 2. Other (Non-Life) Business

(a) A Company will be allowed to retain Canadian dollar marketable securities (including those deposited in accordance with local legislation) whose market value is equal to 100% or the percentage held by the particular company at the 31st December 1941, whichever is the less, of its currency underwriting liabilities in Canada, as determined by its annual statement to the Insurance Superintendent.

(b) In addition to (a) a company will be allowed to retain assets equivalent to the difference between the permitted percentage of liabilities and 200% of such liabilities. The difference shall include in the first place British Government securities deposited or held in Canada, or as part of its Canadian deposit with the Bank of Montreal in this country, investments in Canadian Securities denominated in sterling, real estate, mortgages, cash, agents' balances, etc. and only after all such assets have been utilised may the balance (up to 200%) be maintained in Canadian dollar securities. No increase in Canadian dollar assets for the purpose of making up the 200% will be permitted.

The assets which each company earmarks as being included in the permitted percentages are, subject to the provisions of the preceding paragraph, left to its own discretion.

Any securities earmarked as part of the 200% figure will be exempted from the provisions of Regulation 1 of the Defence (Finance) Regulations: all other restricted securities must be registered at the Bank of England and would be available for vesting (together with any Canadian securities denominated in sterling which

may have been or may in the future become subject to Regulation 1 of the Defence (Finance) Regulations other than those deposited under local legislation). The Bank will be prepared where necessary to exempt securities from the provisions of Regulation 1 of the Defence (Finance) Regulations in order to allow a company to make up its agreed percentage.

### 3. General

(a) An annual adjustment will be made to cover:-

- (i) Increases in liabilities - by utilising funds available in Canada, or
- (ii) Decreases in liabilities - by making available to the Bank surplus assets.

In this connection a certain elasticity is permissible and small adjustments need not be made so long as the formula is approximately adhered to.

(b) The valuation of a Company's assets will be computed as follows:-

- (i) Marketable securities - market value.
- (ii) Other assets - book value.

(c) Any case in which a particular company does not regard, for some special reason, the formula as dealing adequately with its particular position will be referred to the Bank through the D.F.R. Committee of the British Insurance Association.

(d) The Companies will undertake to remit at the earliest possible moment all surplus Canadian dollars for which permission can be obtained from the Insurance Superintendent, subject to any specific exemptions which may be given from time to time by the Bank of England. An example of this is the permission which has been given for investments within certain limits in new Canadian War Loans. The Companies appreciate that they may not invest any surplus Canadian dollars without the prior permission of the Bank of England.

(e) The Bank of England have agreed as an exceptional measure that any securities which require to be registered as the result of the application of the formula, but which form part of existing Canadian deposits, need not be the subject of an application to

the Insurance Superintendent for release from deposit prior to registration.

This concession is granted on the understanding that if on the occasion of any subsequent Vesting Order affecting the security in question a company finds itself unable to comply with the terms of the Order by the specified date because its negotiations with the Superintendent are not concluded, a full explanation of the circumstances will immediately be furnished to the Bank of England. Companies will be responsible for advising the Bank of England if delay in obtaining the release of a security affected by a Vesting Order is likely to occur.

4. It is understood that the arrangements outlined above will be subject to review from time to time.

March 1944

~~ANNEX III~~

## I General Basis

The provisions of the Bank of England's memorandum on insurance of the 2nd August 1940 were to be observed, unless otherwise specially provided.

Subject to any ruling made by the Canadian Control or by the Sterling Area Control concerned, the terms "resident" and "non-resident" were defined as follows:-

A "resident" was any person who, on the basis of the companies' records, was resident in the Sterling Area on the 3rd September 1939 or at any subsequent time.

A "non-resident" was any person who, on the basis of the companies' records, was not resident in the Sterling Area on the 3rd September 1939, had not since been resident in the Sterling Area and had not changed his country of residence since that date. Such a person was treated as a resident of the country shown in the records.

## II Sterling Accounts

The companies maintained in the United Kingdom both resident and non-resident accounts.

The resident accounts of the company, whether operated by the Head or London Office, might be credited with sterling receipts received from persons wherever resident and debited with disbursements made to persons, wherever resident, in respect of policies and annuities the branch records of which were held either in London or in some other Sterling Area office of the company.

The non-resident account of Head Office could be credited with sterling receipts from any source and debited with disbursements made to persons, wherever resident, in respect of policies and annuities written in sterling or Sterling Area currencies the branch records of which were held by any office of the company outside the Sterling Area.

(So

(So far as Scheme "A" was concerned the relevant sections concerning transactions permitted over resident and non-resident account, respectively, varied slightly as compared with the two preceding paragraphs. The Sun Life expressed a preference that the residence of the policy-holder rather than the domicile of the records should be the criterion for determining the account through which policy transactions were conducted. For all practical purposes, however, the result obtained was the same under both Schemes.)

Surplus funds on the non-resident account of the company could be transferred to one of the resident accounts but might not be withdrawn from the Sterling Area unless the company's sterling liabilities of all kinds were fully covered by sterling assets and then only with the prior approval of the U.K. Control. Any sterling balances so withdrawn might be sold to the Foreign Exchange Control Board in Ottawa only.

Sterling funds needed to replenish the non-resident account might be purchased from an Authorised Dealer in Canada only.

Offices and agents of the company, wherever situated, might purchase sterling through Authorised Dealers in the Sterling Area and Canada only.

### III Sterling (and Sterling Area currency) Policies written for residents in the Sterling Area

Premiums and claims were passed through resident accounts in the names of the companies.

### IV Sterling (and Sterling Area currency) Policies written for non-residents of the Sterling Area

- (a) These ranked as Head Office liabilities.
- (b) Premiums and claims were passed through non-resident accounts in the names of the companies.
- (c) Premiums and claims had to be received or paid through accounts appropriate to the country of residence of the policy-holder.
- (d) Premiums received in a currency of the Sterling Area could be transferred to the London non-resident account.
- (e) As an exception, premiums due in sterling might be collected from non-residents of Canada and the Sterling Area in U.S.

dollars

dollars or in any currency freely convertible into U.S. dollars. (Under the original schemes, it was provided that the currency so received should be sold to the Bank of England at half-yearly intervals, the proceeds being credited to the appropriate sterling account of the company. In April 1944, the Foreign Exchange Control Board, Ottawa, suggested that such settlements should be discontinued and, on the 27th June 1944, the Bank agreed in view of the smallness of the settlement figures and the amount of work involved in their production).

As a further exception, sterling premiums payable by residents of Canada were to be collected in Canadian funds in accordance with the regulations of the Canadian Control. The companies were under no obligation to remit such collections to the Sterling Area.

(f) Disbursements in respect of sterling policies had to be made from the account to which the relative receipts were credited. However, any disbursements to residents of Canada with respect to sterling policies were to be paid in Canadian dollars from Head Office funds, in accordance with the requirements of the Canadian Control.

(g) The Head Office had to maintain on the non-resident account or in sterling (or Sterling Area) securities sufficient funds to meet liabilities on non-resident policies.

V Non-Sterling Area currency policies held by residents of the Sterling Area

New policies might not be written in non-Sterling Area currencies for residents of the Sterling Area. Receipts and disbursements in respect of "pre-zero" contracts, however, could be accepted and paid by the companies at their option in local currency. (The original schemes provided that in such cases a half-yearly summary of receipts and disbursements should be submitted to the appropriate Control. In the case of an excess of disbursements in local currency, the company concerned would sell the equivalent in Canadian or U.S.dollars to the local Control. If there was an excess of receipts over disbursements, the local Control would sell Canadian or U.S.dollars to the company. This arrangement was also abandoned in June 1944).

## VI Loans and surrender values

The same rules applied as those governing British companies. At first, payment of loans or cash surrender values in respect of sterling policies issued before the 3rd September 1939 and held by non-residents of the Sterling Area could be made to non-resident payees by credit to Blocked Sterling Account only. As an alternative, there was no objection to payment out of Head Office Funds in a non-Sterling Area currency. Following the modification of the Bank of England's restrictions on certain capital payments to non-residents, opportunity was taken (27th June 1944) to amend the schemes in conformity, as follows:-

- (i)(a) Irrespective of the location of the policy records and of the date of issue of the policy, loans against sterling policies held by non-residents of the Sterling Area might be made by payment to Blocked Sterling Account only. Loans in respect of overdue premiums or interest required to maintain a policy in force were not blocked but every endeavour was to be made to obtain a remittance of such premiums or interest before a loan against the policy was granted.
- (b) Irrespective of the location of the policy records, cash surrender values of sterling policies issued before the 3rd September 1939 and held by non-residents of the Sterling Area might be transferred to an account appropriate to the country of residence of the policy-holder, other than to policy-holders resident in Canada, Newfoundland, Argentina and Switzerland. Payment of surrender values to residents of Canada and Newfoundland was to be made in Canadian dollars from Head Office funds; payment of surrender values to residents of Argentina and Switzerland could be made to Blocked Sterling Account only. Proceeds of surrender values on policies issued after the 3rd September 1939 to non-residents might in all cases be transferred to an account appropriate to the country of residence of the policy-holder (including the four countries mentioned).
- (ii) Notwithstanding sub-section (i) the U.K. Control did not  
object

object to the alternative whereby payments in respect of loans and surrender values could be made out of Head Office funds in a non-Sterling Area currency.

VII Transfers of branch records

Transfer out of the sterling area was not to be made unless the prior permission of the appropriate Control had been obtained; this would usually be given if the Control concerned was satisfied that the policy-holder was a non-resident.

British Film Industry

A.M.M.

3

This account of the dollar cost of the film industry is necessarily long. Constant preoccupation with the need to economise in dollars, and with the reactions likely to follow any given decision - on the British industry and film-going public and on the American interests associated with film distribution and production in the U.K. - involved the devotion of a large amount of time by a great many people to the conflicting causes. Whether dollar expenditure amounting to about £20 million during the war years was justifiable is probably an unanswerable question; but it seems worthwhile to attempt to set down here a connected story of the efforts made to follow the right economy.

In dealing with the film industry at the beginning of the war there were certain governing considerations:

1. The

1. The Americans had been transferring <sup>sterling</sup> into dollars <sup>up to</sup> about \$35 million annually. To allow so large a transfer to continue in war-time would be too great a drain on our resources.
2. On the other hand it was not thought practicable, especially by the Treasury, to reduce by much the import of American films. The closing of cinema theatres at a time when other forms of amusement were signally lacking would be politically difficult, and probably bad for morale.
3. For a number of reasons the British film industry was liable to fall to pieces on account of intrinsic inefficiency, the draining away of British talent to Hollywood, and an inability to obtain finance owing to past losses. It was generally desirable that the industry should be put on its feet, particularly in war-time, in view of its propaganda value and in order to earn foreign exchange.
4. The British market was extremely important to the American companies and was, in fact, essential to the commercial set up of the industry.
5. The American film industry had considerable political influence in the U.S.A.

It was clear, therefore, that a solution of the problem was to be sought in the reduction of the amount which the Americans should be allowed to transfer into dollars, and a diversion of the balance so far as possible towards the financing of British films.

An incidental proposal, which appears to have originated with the trade, was that a film bank should be set up to finance the British industry. British banks, with the exception of the National Provincial, had ceased to support it. While such a bank would probably have had to be financed from official sources, the idea had at first a certain amount of support from the Treasury on the ground that it would be better to lose money in financing British films than to spend dollars in renting American ones. This proposal, however, though revived from time to time, came to nothing.

1939-1940

1939-1940

The Bank's first contribution is contained in a memorandum of 25th October 1939, from which the following extracts may be given. The memorandum was read by the Treasury:

"It would seem advisable to aim at creating a vehicle which can itself take care of the remittances (or a considerable part of them) by assuring a market for British-made films in the U.S.A.

The essence of the proposal would be that the Americans should not only produce more and better films in this country, but definitely produce them with an eye to the American market and use the full resources of the American film distributing system to give their British-made films the same market status as their corresponding American-made films. This proposal would be tied into the scheme by linking the amount for which we would provide \$ with the \$ earned by British-made films in U.S.A.\*

One trade scheme proposes that in place of the 30 films costing about £25,000 each which American interests made here last year to comply with the Act (i.e., an expenditure of £750,000 in all) they should spend the same amount on 7 or 8 films costing about £100,000. The sponsor of this scheme thought that those 7 or 8 films properly designed and handled, could earn \$ to the equivalent of £3,000,000 p.a. in America - but he was not really concerned with that side of the scheme and the figure was only a guess on the spur of the moment.

Similarly, many of the type of film already being produced here could (at any rate with small adjustments) be made satisfactory bread-and-butter earners in the U.S.A. if the distribution systems there would handle them pari passu with corresponding American productions. The same authority guessed that these might produce a further £1,300,000 of dollars p.a..... There would also be the possibility of diminishing the amount to be remitted by supplying more of the U.K.demand from  
home

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\*A similar principle re-appeared in the terms of the Anglo-U.S. Film Agreement of March 1948.

home sources as a result of this scheme. But the essence of this scheme is not to aim at film self-sufficiency, but to offset our film imports more nearly by film exports.

#### Sundry Points

(i) As we should, in effect, be asking the Americans to transfer part of their productions of world-market pictures to the United Kingdom in consideration of their being allowed continued free access to the very important British section of that market, we should be prepared to allow them a dominant financial interest in the new British producing concerns. Otherwise it would be difficult to ensure the full co-operation of their distribution system in America - why should they push British-made films in which they have only a small stake when they might fill the demand with U.S.-produced films in which they have a 100% stake?

It might perhaps be thought wise policy to use the Exchange Control threat freely to compel the Americans to consider our proposals seriously, but to aim at making the proposals themselves as reasonable and workable as possible, rather than as profitable as possible, in the short view, to existing British interests. Mergers between British and American producers would seem to offer, perhaps, the best prospects.

(ii) It might be thought desirable that the finance of the new scheme, whether provided by a "Film Bank" (which the trade has talked of and the Treasury mentions) or by some other means, should be placed in the hands of people with the specialised experience and knowledge which the business seems to require. In practice, that might mean in American hands - but no doubt provision could be made for British control.

(iii) These suggestions are not, of course, intended to imply that no part of the remittances should be blocked. Blocking will no doubt be necessary to a greater or less extent....."

In October 1939 the Treasury had referred to the possibility of an organisation being set up to finance British film production, and on 5th December Mr. Cobbold gave them the Bank's views:-

"..... the

".....the whole question is full of difficulties and we do not feel able, with our present-day knowledge, to offer any advice. The Governor is so alive to the increase through the war in the risks of this normally very speculative and little understood business that he does not see any present prospect of being able to raise finance in the City for a film bank, nor would he wish for his part to sponsor such an undertaking. Indeed he is unable to escape the conclusion that in these times no money can be found for British production in general without a guarantee or some form of subsidy - in addition to the quota - from H.M.G. but, our contact with the industry having ceased upon the conclusion of the Enquiry.....we no longer have that intimate knowledge which we should require for advising as to the best means by which financial assistance for the industry could be applied. We are only alive to the care needed in view of the great risks involved in this form of finance."

The Board of Trade had to take the matter up with the American Ambassador (Mr. Kennedy, said to be personally interested in the American industry) and a general Agreement between the Treasury, the Board of Trade and the seven chief American Distributing Companies in the U.K. was negotiated in November 1939, to run for one year. The Agreement was as follows:

"Agreement Regarding the Treatment of American Films

1. Period of Agreement

(a) Agreement to run for one year. For the purposes of dollar remittances, the year will begin on 1st November 1939. For the purposes of quota, it will run from 1st October 1939.

(b) If it should be necessary to consider a further agreement, at the expiration of the present arrangement, discussions will be opened at least three months before the termination of this agreement.

(c) The term "companies" as employed in this agreement means the seven distributing organisations listed in Appendix "A" to the agreement.

2. Financial Conditions

(a) During the period 1st November 1939 to 31st October 1940  
the

the companies will be authorized to remit in dollars an amount not exceeding \$17.5 millions. This figure represents 50 per cent. of \$35 millions, which is understood to be the average of their remittances over the last three years. The allocation of this sum as between companies would be made on the basis of a scheme to be drawn up by the companies. During the first six months of the period, i.e. 1st November 1939 to 30th April 1940 each company will be entitled, should it so desire, to remit up to 75 per cent. of its share of the \$17.5 millions. During the second six months of the period, each company will be entitled to remit the rest of its allocation, the total dollar remittances for all companies during the period 1st November 1939 to 31st October 1940 not to exceed \$17.5 millions.

(b) Measures will be agreed between the companies and the Treasury and the Board of Trade which will effectively prevent the unauthorized transfer of their remaining revenues. For this purpose a control organisation will be set up representing the companies and the Board of Trade.

(c) Any foreign exchange accruing to the companies as a result of the distribution overseas of pictures made by them in the United Kingdom may be retained by the companies or an equivalent amount of dollar exchange will be placed at their disposal for transfer from the United Kingdom in addition to the \$17.5 millions specified in this agreement.

### 3. Quota Conditions

(a) To ensure the continuance of film production in Great Britain, the renters' quota will be maintained at its present level from 1st October 1939 until 31st March 1940.

The necessary power would be taken to treat this period of six months as continuous with the preceding renters' quota period (1st April to 30th September 1939) for the purpose of fulfilling the quota obligations under the Films Act.

(b) Powers will also be taken to make such other changes in the quota Act as the Board of Trade may deem desirable in the interests of British production.

(c) The

(c) The quota provisions of the Films Act will be administered with due regard to the various obstacles that war-time circumstances may cause to production.

(d) Immediate consideration will be given to the possibility of replacing the quota provisions in the second period of six months by alternative arrangements under which the companies would spend an amount equivalent to the monetary obligations that they would have incurred during that period under the Cinematograph Films Act 1938, this amount either to be spent directly on film production in this country or made available by way of guaranteed loan for financing such production.

#### 4. Supply of Films

It is understood that the companies will, in so far as lies within their power, continue to export their films to this market to the same extent as before and that under no circumstances will an artificial shortage of films be created by the companies. If for unavoidable reasons there should be a substantial shortage in the number of films available to exhibitors, the companies agree not to take advantage of this position, if it arises, to raise film rentals above their present levels.

#### Appendix A

##### List of the Companies referred to in the Agreement

Columbia Pictures Corporation Limited

Paramount Film Service Limited

R.K.O. Radio Pictures Limited

(Warner Brothers Pictures Limited  
(First National Film Distributors Limited

Twentieth Century-Fox Film Company Limited

Metro-Goldwyn-Mayer Pictures Limited

(United Artists Corporation Limited and  
(United Artists (Export) Ltd."

Thus, the seven American Distributing Subsidiaries in the U.K. had a global quota of \$17.5 million to divide among themselves. But there were also the "independent" U.S. producers, most of whom had no U.K. subsidiary and therefore exhibited their films in this country through the agency of British distributors. These had been over-

looked

overlooked at the time of the Agreement, but were dealt with individually on the same lines, most, though not all, being given a quota. Some companies were at first dissatisfied with their quotas, but the Bank pointed out that their current receipts were less than they had been a year before, so that the percentage convertible would tend to be higher than 50% of their existing earnings. In the event the total cost to the United Kingdom reserves in the first year amounted to nearly \$20 million.

The Bank do not appear to have been enthusiastic about this Agreement, since when it came up for renewal Mr. Thompson-McCausland commented that it was a misinterpretation of their suggestions....."In effect we suggested that the American companies should be encouraged to increase the film industry of the U.K. and in particular to foster its exports. It was suggested that the additional proceeds coming from such new exports should be a vehicle for transmitting some of the blocked balances which would accrue to the companies. What the Film Agreement did was to eliminate virtually the whole of the dollar proceeds of the British film industry by giving the American distributors the right to pay in blocked sterling for all the British films acquired by them."

The control organisation took the form of a Film Control Committee of three: one representative of the U.S. companies, one of the Treasury and one of the Board of Trade. The Committee set up machinery for supervising the transactions of the companies. The Bank (7th December 1939), at the Treasury's invitation, gave some advice which was passed on by them to the Committee, and some of which found its way into the Agreement. They commented on Clause 2(c) of the Agreement, which was badly drafted: "I suppose we shall not be expected to take in soft or blocked currencies from U.S. film companies and give dollars". The companies accepted this when definition of acceptable currencies was given.

The Control Agreement was forwarded to the Bank on 18th January 1940. It exempted certain classes of transactions from specific authorisation:

"Measures

"Measures for regulating the disposal of film companies' revenues

1. Between November 1, 1939 and October 31, 1940, transfer facilities into dollars will be provided to the companies by the U.K. authorities up to the amount of their individual allocations under paragraph 2(a) of the Exchange Agreement.

2. The companies agree that no part of the balance of the sterling funds coming into their hands between November 1st 1939 and October 31st 1940 will be transferred directly or indirectly from sterling into another currency or sold forward or transferred in sterling to the account of a non-resident without the prior written consent of the Board of Trade or the Treasury which they will be free to request from the Board of Trade or the Treasury at any time. For the purpose of this Article payments in any part of the British Empire other than Canada, Newfoundland, Hong Kong and British Honduras are not regarded as transferred into another currency.

3. It is agreed that bona fide transactions of the following kinds shall not require specific authorisation. But in the event of any type of payment being used by one of the companies to effect the indirect transfer of funds the Board of Trade or the Treasury may insist that all or any transactions by that company must be specifically authorised.

(a) Payments in the United Kingdom in respect of obligations incurred on behalf of the New York companies prior to November 1, 1939.

(b) The lease or purchase of real estate; the lease, purchase, construction or renovation of buildings and equipment; the purchase of sterling securities or options thereon, and the purchase or redemption of sterling mortgages, all in the United Kingdom. If on the behalf of the New York companies the latter not to dispose of any property or title so acquired except to British interests subject to British laws, during the period of the present Exchange Agreement, and any succeeding Exchange Agreement.

(c) Payments in the United Kingdom on behalf of the New York companies arising out of the purchase of literary, dramatic and musical properties and rights, and rights to motion picture patents and processes.

(d) Payments

(d) Payments in the United Kingdom on behalf of the New York companies in respect of film distribution and film production in the United Kingdom.

(e) Payments in the United Kingdom on behalf of the new York companies arising out of the acquisition of domestic and/or foreign distribution rights of films produced in the United Kingdom; and the export of the British films so acquired, as contemplated in paragraph 2 (c) of the Exchange Agreement.

(f) Payments in the United Kingdom on behalf of the New York companies in respect of personal services rendered in Great Britain.

(g) Payments in the United Kingdom in respect of adjustments, if any, to be made in the agreed Exchange allocations.

4. Public accountants, to be designated by the Board of Trade to examine the books of the companies at their expense at such intervals as the Control Committee may stipulate, and to report to the Committee whether any unauthorised transfer has taken place or appears to have taken place.

5. In case of an affirmative report, a further examination of the books of the company to be made by other public accountants to be selected by the companies and the Board of Trade jointly. If the unauthorised transfer is confirmed, the company to pay forthwith to the Treasury, without recourse or appeal, as a fine, an amount in dollars equivalent to the sterling amount so transferred.

6. The companies to submit to the Control Committee within 14 days from the end of each month, beginning December 31, 1939, a statement showing the amounts transferred during that month, and up to the end of that month, from the company's agreed allocation, under paragraph 1 above, and the additional amounts, if any, transferred with the prior written consent of the Board of Trade or the Treasury, under paragraph 2 above.

7. The Control Committee to consist of Mr. F. W. Allport, representing the companies, Mr. R. G. Somervell, representing the Board of Trade, and Mr. T. K. Bewley,\* representing the Treasury.

If during the currency of this agreement the general provisions

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\*Mr. W. Rendell subsequently became the representative of the Treasury.

provisions of the Defence Finance Regulations including any orders made there under are altered in such a way as to affect the operation of this agreement, the resulting situation will be brought to the attention of the companies by the Control Committee with a view to altering this agreement as may be necessary."

This Control Agreement, like the Exchange Agreement, did not cover the "independent" companies.

The fact that Australia and New Zealand were soon found to be making or authorising film remittances in U.S.dollars caused the Bank to enquire in March 1940 whether the original figure of \$35 million given by the American Embassy related to the United Kingdom only or to the sterling area. Up to this date the point appears to have been overlooked. It seems that the amount related to the United Kingdom only. However this may be, it was decided not to interfere with authorisations given by local Dominion Controls, as no large sums in dollars were involved, and as there was a considerable restriction on remittances. In October 1942 an attempt was made through Government Departments to find out what were the Regulations in force in India, the Dominions and the Colonies, and after their replies had been received there seems to have been better co-ordination of policy.

Some difficulty arose in agreeing the amount of the remittances which the American companies would make under the Agreement, as furnished respectively by the companies and the Bank of England, and in checking the earnings of British companies; and the treatment of the unremittable sterling balances due by British renters to the "independent" U.S.producers had to be settled. On 26th February 1940 a Bank letter to the Treasury read:

"With regard to the difficult problem arising out of the independent renters' sterling payments to the account of American non-residents, I feel that you are up against an inherent difficulty under the present arrangements. We are, in principle, entirely opposed to commencing a regime of blocked sterling balances.\* In spite of the trading difficulties which may ensue I feel that the  
correct

\*"Arrangements for blocking unremittable sterling by administrative action were evolved in the days of early Summer [1940] when the mere conjunction of the words blocked and sterling were apt to cause a shudder." (From a Treasury memorandum of 3rd January 1941.)

correct decision under the present agreement is to prohibit the transfer over and above the allocated amounts of sterling to any non-resident account. The American owners of the sterling should be encouraged to spend this money inside the Area for any desirable purposes. In my view, this is the correct interpretation of the Agreement and if the American producers do not trust the credit worthiness of the British film renters, the money should be deposited in a British bank in the joint names of the producer and the renter. Under such an arrangement the account would remain a resident account."

The Treasury agreed, and it was arranged that the Bank, on receiving the first application from companies who had been given a quota, should ask them for a certificate signed by their bank showing the total exchange and sterling transferred since 1st November 1939. The Bank would then see that they did not transfer more than 75% of their quota before 30th April 1940, and refer to the Treasury applications received from companies without a quota.

Once more, in February 1940, the President of the Board of Trade asked the Bank, with the assistance of such persons as they might require, to make a private investigation and report on the provision of finance for the film industry. The Governor appointed *Sir Gordon (then Mr.)* *Munro*, Mr. E. de Stein and Mr. Skinner. Their report is dated 30th March 1940, and pointed out that the position of the industry could not be remedied merely by providing finance. Assuming the aims of H.M.C. were not only to assure the present amount of British production, but to increase it by gradually replacing American second-grade films by better quality British films and making British films which would compete with American films, legislation would be needed to exclude gradually, by taxation or otherwise, second-grade American films, and to give power to introduce compulsory reciprocity. There were so many uncertainties, however, that if the Government should decide to provide financial assistance a central institution should be set up to administer and organise finance and to co-ordinate the industry. It should be temporary in character and financed on that basis. Capital for such an institution could not be found in the normal way, but would have to be found either by the Government, or

by

\* Created a K.C.M.G. in 1947.

by the City, the Government and the industry, or along the lines on which the Electricity Commissioners were financed. In any event the British renters or renter-producers should be the medium through which the financing of films was carried out.

In May the Governor drew up a scheme for a temporary and experimental film finance corporation, to be financed by the City, the industry and the Government; but nothing came of it.

#### 1940-1941

It had been agreed by Mr. Kennedy when the November 1939 Agreement was made that the amount of remittances should be further reduced after the first year of war, when the companies would have had "time to reduce their costs" (Bewley, L. 6.1.1940).

In the first year the companies, after remitting nearly \$20 million\*, were left with about £4 million, of which a part was used to repay loan creditors and only about £750,000 spent on the British film industry.

The first idea seems to have been to offer \$5 million only as the amount transferable in 1940-41, with the expectation of a compromise on \$7½-8 million. The former figure was offered on the assumption that revenues would continue to run at pre-war levels. The bombing of England from September 1940 onwards, however, caused revenues to drop about 20%, and it was no longer reasonable to expect much film production in Great Britain.

The Treasury were therefore prepared to raise their offer to \$7½ or \$8 million, but before this could be done the American Ambassador saw the Chancellor on 22nd October, and as a result of his insistence on the political aspects the Chancellor agreed, subject to Lord Lothian's confirmation of the political circumstances, to a transfer of

100%	of earnings up to	\$8 million
50%	" "	over \$8 million

provided

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\*Direct remittances to New York were \$15,148,000; the balance was made up of foreign exchange payments for other purposes, payments to non-residents in free and other sterling, and compensation payments to residents.

provided the total of both did not exceed \$12 million.\*

By an oversight, the Bank did not see the draft 1940-41 Agreement until it was sent to them on 26th December 1940. It provided for the transfer of all amounts authorised under the original Agreement in the hands of the companies on 26th October 1940; 100% of revenues up to \$8.6 million, 50% of revenues in excess of this and a ceiling on new revenue transfers of \$12.9 million. Eight in place of seven companies were covered, the newcomer being N.U.P. Finance Ltd., the British accounting subsidiary of Universal Pictures Co. Inc. 37½% could be remitted in the first three months and up to 75% in the first six months. Paragraph 2(c) in the old agreement was scrapped, so that British Companies no longer had the right to retain the dollar earnings of British films.†

The Bank were asked for their comments on the remaining provisions of the Agreement on the same day that they received it. They had several objections to the document. In particular, the last clause of the original Agreement, apparently (but ambiguously) safeguarding the Defence (Finance) Regulations, had disappeared and the new Agreement arrogated to the Film Control Committee‡ functions which should and could only be exercised by the Exchange Control, and virtually allowed the companies to contract out of any future additions to the Defence (Finance) Regulations. Then there was the objection already quoted in connection with the first Agreement (payment in blocked sterling for British films acquired by American companies), and it did not seem that ~~these were~~ adequate arrangements <sup>had been</sup> made to ensure that the blocked sterling was really blocked. The Bank (L.30.12.40) asked that their views should be put before the Exchange Control Conference (who had already seen the results of the first Film Agreement). The Treasury were at the same time disturbed about the large

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\*For an account of the negotiations and of Mr. Kennedy's attitude, see a letter from Mr. Rendell of the Treasury dated 20th January 1941. Delay in the issue of the Blocked Sterling Regulation hampered the Treasury.

† In the Control Agreement "Sterling Area" replaced "United Kingdom" in 1(a), (c), (d) and (e).

‡ The Committee had operated satisfactorily and had settled over seventy individual queries put to it by the companies during the year (on some of which it consulted the Bank).

large amount of sterling the companies were likely to hold, some £8 million by September 1941, and were thinking of ways to reduce their earnings, in anticipation of political pressure to transfer.

At a meeting at the Treasury (2nd Jan. 1941) it was explained to the Bank's representative that the companies were allowed to use blocked funds for a number of payments within the United Kingdom, and now within the sterling area, which in the Bank's view were in fact compensation payments. The Bank could thus no longer ask for blocking in the sense provided for under the Blocked Sterling Regulation. As regards the complaint that the Film Control Committee would be exercising Exchange Control functions, the only satisfaction obtainable was that the Treasury, through their own and the Board of Trade's representative, dominated the Committee of three. If the companies threatened to terminate the agreement to avoid compliance with some new Defence (Finance) Regulation, the Treasury could stop all remittances. Apparently the companies were now also no longer restricted to investment in securities specified for blocked sterling; but the Treasury pointed out that this did not matter, as the proceeds could not be transferred to a non-resident.

After the new Agreement the independent companies, who had mostly been allowed to remit 50% of earnings, like the Agreement companies, were to be restricted if possible to  $\frac{12}{17.5}$  of their 1939-40 allocation (the amount involved was small, some \$400,000).<sup>\*</sup> Otherwise the principles of the Agreement would be applied, so far as applicable.

Mr. Cobbold now wrote to the Treasury (L. 7th Jan. 1941):

"The subject is a big one, but seems to me to contain the germ of favourable as well as unfavourable developments. In general, I hope that in any event the blocked funds will encourage the establishment of a United Kingdom Film Industry capable to some extent of competition in the world markets after the War. To achieve that competitive position we shall need the use of the American blocked funds here towards purchasing films produced in  
this

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<sup>\*</sup>The amount appears to have been increased to \$500,000 in July 1941 (Treasury L. 5th July 1941).

this country, but experience suggests that we shall not get that help unless we have some means of putting powerful pressure on the Americans. Consequently I am not attracted by suggestions for making Film Companies' sterling funds more readily available to help the production of films in America. I believe we must be prepared to hold on to those funds as tightly as we can."

The Treasury professed themselves much interested in these ideas (which should not have been new to them), but rather feared that American capital might secure the equity of the post-war British film industry and create another Hollywood here. Mr. Cobbold replied (L. 14th Jan. 1941) -

"Surely any film producing industry which we may hope to build up here can only be successful if it becomes naturalised in its British surroundings. A mere imitation of Hollywood would, I agree, be abominable: but I think it would also be unsuccessful.....At this point, however, I do not feel convinced that we should have to part with control of any new film industry ..... and I would agree that we should do our best to keep the control ourselves. Some American participation in the equity however might be healthy."

In February the Board of Trade brought up again the question of providing capital for the British film industry through a Film Bank. At a meeting at the Treasury the Bank representatives stated that the Governor had been approached by the former President of the Board of Trade, when it had been proposed that finance up to £3 million should be provided, in part, at least, by the Government. Events since that time, however, had reduced the activities of the film industry to such small proportions that probably £500,000 or less was the limit which could usefully be employed. The Governor would be prepared to try and raise this amount in the City, if he could be satisfied on certain points in connection with the reorganisation and control of the industry, without having recourse to Government money or an immediate Government guarantee.

It appeared that there were three or four British producing units actually operating in February, and that the source of their funds was extremely precarious. The Board of Trade looked upon a Film Bank as an insurance for the maintenance of production at

its

its existing level, then at a minimum, while it would make post-war expansion more feasible.

The Exchange Control representatives at the meeting thought that the existence of a small but active and healthy industry in the United Kingdom would be a bargaining counter of great value when a new Agreement with the American film companies had to be reached in October. They also hoped that it might be possible to persuade the American companies to invest part of their untransferable sterling in the Film Bank, possibly in the form of debentures, which might be amortised over a period of time out of dollar earnings of the British industry. Other Treasury representatives, however, saw great difficulties in the way of the provision of financial support by the Treasury, even in the form of a deferred guarantee; and the scheme went back into cold storage.

Meanwhile, in January, the Bank had suggested a new method of dealing with the unremittable funds due to the "independent" U.S. producers which would allow, inter alia, the investment of these funds in British Government securities and the subsequent free transfer of the interest thereon. Other non-residents were allowed to transfer such interest under the new Blocked Sterling Regulation, and the concession would therefore seem called for; and the Treasury obtained some advantage from the partial immobilisation of the funds by investment. After much discussion a new form of account, called a Film Company Expense Account, was made available to the "independent" companies as from the 20th May 1941; and notices were issued - by the Bank of England to the banks concerned and by the Board of Trade to the U.S. companies and the British renters.

The arrangements were briefly as follows:-

1. Application might be made to the Treasury by each U.S. company for permission to open such an account in their own name with a bank in the United Kingdom, on the understanding that authorisation of an account conferred no right to convert balances thereon into dollars.
2. In approving each account the Treasury would permit credit thereto of unremittable sterling revenues due from specified British renters, whose payments would be substantiated by periodical returns as hitherto.
3. Transfers

3. Transfers might at any time be made from an Expense Account to a Blocked Sterling account established under Regulation 3E in the name of the U.S. company, whence investment might be made in any of the approved sterling securities. Transfer of any amount by which the balance of the Expense Account at any time exceeded £50,000 would be obligatory. Application might be made to the Treasury at any time to re-transfer amounts back to the Expense Account.
4. The Treasury would consider applications for a general authority to make certain payments from the Expense Account in respect of recurrent expenses in the United Kingdom and Eire, such as rent, services, etc. No other payments might be made without reference to the Treasury.
5. Statements of accounts made up to 30th April and 31st October each year would be required by the Treasury.

On the following day Mr. Cobbold called the attention of the Exchange Control Conference to the problems created by the rapid accumulation of blocked sterling balances owned by American film companies. These balances had reached £5 million by the end of April and would probably be doubled by the end of the year. As they increased, the Exchange Control were subjected to all kinds of pressure from people who sought to utilise the money in carrying out direct or indirect compensation transactions. Once such arrangements were permitted in principle, there would be no stopping the process, which would eventually dissipate the balances and inevitably choke off potential sources of U.K. dollar income.

There were three possible ways of attacking the problem. In the first place, restrictions might be imposed on the import of American films: this would entail measures to eke out or actually curtail current home consumption. Secondly, the production of British Films might be stimulated by means of government assistance, the success of which policy would largely depend on increased efficiency of management in the industry. Finally, an agreement might be made with the American interests under which, in return for some additional concession of dollars, the remaining balances blocked in the U.K. might be more securely tied up, preferably by investment

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in Government securities for release only in connection with film development in this country. Mr. Cobbold felt that effective action on the first Proposal might prove difficult at the time, but that the second and third should be actively pursued so as to remove the inconvenience caused by the existence of such large liquid funds.'

The Conference decided that the Board of Trade should be urged to proceed with the reorganisation of the British industry, so that the problem of American interests and the home industry might be dealt with comprehensively in the following October.

At a further meeting of the Conference on 30th July the problem was again discussed on the basis of a full memorandum prepared by <sup>the Treasury</sup> ~~Treasury~~ (Mr. Rendell). The eight companies were collecting revenues at the rate of £12 million a year. British films were valued at only £2½ million a year, and the falling off in British film production was making it impossible to supply the Americans with the number of films they were obliged to take under the quota. The clause permitting the Americans to use their funds in payments to British producers had put a lot of money into the pockets of second-rate producers, with no help to the industry, but not enough to mop up the accumulation of untransferable sterling.

Mr. Cobbold thought the blocked sterling should be kept down to a maximum of £12 or 15 million by reducing imports and increasing the allocation of dollars.

The prospect of a satisfactory comprehensive arrangement being worked out by October seemed remote.

A little before this meeting a proposition had been put up that Warner Brothers, by purchase of a large block of shares, at a high price and with money borrowed in the United Kingdom, should acquire control of the Associated British Picture Corporation. The Bank disliked the deal and Mr. Cobbold wrote to the Treasury on 28th July:

"..... As you know, I see great objection in principle both to -  
(a) allowing an advance to be made by a U.K. bank which though it may in form be to a U.K. company is in fact for the benefit of a U.S. company to enable them to buy U.K. assets; and

(b) allowing

(b) allowing in advance of any general settlement about blocked film sterling a substantial part of the purchase Price of U.K. assets to be paid for in unremittable sterling.

But my impression is that the deal has gone so far and has on general grounds received approval in such high quarters that it would be difficult to stop it on Exchange Control grounds. If I am right I can only regretfully conclude that your best course is to make the best possible bargain....."

In the same month the American companies lodged a protest with Lord Halifax, the American Ambassador. The large and increasing amount of funds impounded in England were needed, they said, for production costs in America, and they pointed out that under the agreements they were expected to be content with less and less dollars while being required not to reduce the number of pictures imported into England and not to increase their price. They referred to the Lend-lease Act as having changed the situation and urged a reconsideration of policy.

About this time the Treasury believed that the companies were contemplating increased production of films in the U.K., and therefore thought of making some concession on the dollar costs - say 25% of the total film cost, with a maximum of \$50,000 per film and costing a minimum of £30,000 - and also of agreeing to release sterling for such enterprises.

The Bank considered that the Americans' claim that they could not hold the major part of their cash resources in blocked sterling was justified. They were also persuaded that political pressure from Washington might be expected unless more favourable treatment were accorded. (L. 30.3.41).

In September the Treasury were prepared to drop the stipulation as to the maintenance of imports at pre-war level. They would, however, tell the companies that the inability to provide dollars on a pre-war scale would persist after the war.

It now appeared that available British production capacity was being used to the full, and that a large majority of the films were for the account of and financed by the Americans. These pictures were in the £60-100,000 class and labour, etc. was getting

more

more difficult daily. Unless, therefore, it was desired to induce the Americans to produce pictures costing £200,000 or upwards, involving the importation of Hollywood directors and "stars", perhaps the contemplated offer of dollars to meet part of the costs of films produced here was not necessary.

On the question whether any encouragement given to the Americans for making films in sterling countries should be confined to the U.K. or extend to the whole Sterling Area, the Bank (L. 29.9.41) urged that the U.K. was the only acceptable place for the industry to be established, but that films could be produced elsewhere if financed by untransferable sterling.

#### 1941-1942

As expected, political pressure from Washington now materialised, the President, Mr. Cordell Hull and Mr. Winant, the new American Ambassador in London, all speaking strongly on the subject. A proposal that no more dollars should be obtainable in 1941-42 than in 1940-41 and that the difference between the current and the pre-war remittance of £35 million should be used to build up British picture production led Mr. Hull to the declaration that such suggestions "did not approach the fundamentals, proceeded from an unacceptable hypothesis and were entirely inadequate."

The Treasury drafted a memorandum for Mr. Winant on which Mr. Cobbold commented (L. 22.9.41):

"..... I like the stress which you lay on the partnership idea but I should like to see you bring out more strongly what I believe to be the fundamentals -

- (a) That we dislike blocked sterling for which there is no foreseeable use as much as the Americans do.
- (b) That we can and shall be able to afford only a limited amount of dollars on film imports.
- (c) That we much prefer only to buy what we can pay for in a method acceptable to the sellers.
- (d) That this forces us to the alternatives of drastically cutting imports, which beyond a point we should deprecate, or of finding a constructive and co-operative use for sterling earnings in excess of the amount for which we can give dollars. There is no other alternative.

I think you are right in replying to the Ambassador in general terms rather than making a new offer with figures."

Mr. Cordell Hull had also stated that America was prepared to lend, against the securities which the British Government possessed in the United States, sufficient funds to liquidate the entire sterling amount. As this would not have given the United Kingdom any new resources the Chancellor had to decline, as tactfully as possible. In the same letter (25th Sep. 1941) he said:

"..... while I agree that it is a hardship on the companies not to be able to remit their earnings in full, they have reason, I think you will agree, to rejoice at the amount of those earnings. I know no industry which has done better in the United Kingdom in war-time, particularly as regards lightness of taxation."

In an enclosed memorandum the following sentence occurred: "While there is no desire to use our exchange difficulties to force the companies to help us to produce here - and any impression that officials of the Treasury and the Board of Trade intended to suggest this can only arise from an unfortunate misunderstanding - it is hoped that American co-operation can be secured on a basis of mutual interests and mutual help."

The 1941-42 Agreement was similar to the previous Agreements except as regards the transfer provisions, which allowed the eight companies dollars for 50% of their existing blocked funds and \$20 million in the year 1941-42, with proportionate amounts for the non-Agreement companies. Clause 2 read:

"During the period of the Agreement facilities for remittances in dollars will be provided by the Treasury to the Companies at the official rate of exchange ruling on the date of remittance - as follows:-

(a) In respect of the sterling funds in the hands of the Companies at October 25, 1941:

- (i) Such amounts as will enable the Companies individually to complete all transfers authorised under the 1940-41 Agreement
- (ii) such further amounts as will enable the Companies to transfer 50 per cent of the amount then remaining due to their New York Companies - this transfer to be made in one sum by the Agreement Companies as a whole in two equal instalments, the first on October 30, 1941, and the second on April 1, 1942.

(b) In

(b) In respect of the collective sterling revenues accruing to the Companies during the period of the Agreement a total of twenty million dollars, at the official rate ruling on the date of transfer, the transfers in this category to be made by the Companies individually at the end of each thirteen week period of the Agreement year.

(c) As regards the ascertainment of sterling revenues, it will be open to the Control Committee at its discretion to require during the Agreement period the Companies to submit evidence at reasonable intervals of the amount of the collective sterling revenues accrued to date since October 26, 1941.

(d) Facilities will be granted for the completion after October 24, 1942, of any transfers authorised and not completed before that date.

(e) The Companies will determine the manner and proportions in which the above mentioned transfers are to be divided among them."

The "independent" (or non-Agreement) Companies were similarly permitted to transfer 50% of their blocked funds and amounts of 1941-42 revenues proportionate to the \$20 million allowed to the Agreement Companies.

There were no further developments until June 1942, when one of the American companies, R.K.O., with the support of the U.S. Treasury, urged the release of their sterling funds on the grounds of financial difficulties and possible bankruptcy. The Bank was sympathetic to this particular case (and eventually \$2 million was released) but feared that compliance might become a precedent for other companies. In fact, the American Treasury urged new negotiations and Mr. Wendell Willkie and the heads of the big four companies opened conversations with Sir Frederick Phillips in Washington in July. Sir Frederick's point of view had been that it was absurd that the United Kingdom should be spending on American films "the greater part of all the dollars we can raise from our remaining exports to the U.S.". In going over the solutions possible, he pointed out that the increase of the entertainment tax had produced an excellent revenue but had not reduced attendances at the cinemas; and he, too, suggested a shortening of programmes. The Treasury, in spite of the loss of vast markets and heavily increased U.S. taxation, in August, felt that the American companies were profiteering since, they

they were arguing that their dividends should not be reduced. The Treasury asked the Inland Revenue to produce some form of new taxation on the companies in the U.K.

The Bank of England's view about this time is recorded in a letter from Mr. Cobbold to the Treasury:

"I entirely agree with your view (and indeed I have been urging it for the last two years) that the only real solution to these troubles is to take direct action to reduce American film earnings in this country. Blocking can never be more than a rear-guard action and the only object of blocking (at least in present circumstances) is to have something to give away when making arrangements to straighten out the position for the future. I believe that you should take immediate steps both to limit earnings by control of prices and to limit profits by increased taxation in some shape or other.

Until some such new arrangements have been made I should be strongly opposed to giving away the whole blocked sterling position which seems to me the only negotiating weapon you have in the squabble which the proposed measures to limit profits would undoubtedly produce."

In July the Treasury had begun to think of transferring the management of the Companies' accounts to the Bank of England, and in August were discussing the release of blocked sterling up to October 1942, without any commitment for 1942-43 (though probably \$20 million would be the figure). The companies could reopen the question if fresh taxation were imposed on them.

A Board of Trade representative had gone to Washington in August, and he appears to have negotiated a new quota Agreement.

Difficulties were likely to arise over the settlement of the amount that could be released in October, and the Treasury ruled that it should be the sum which would have been transferable if the Defence (Finance) Regulations had been applied to the companies over the whole three years, less the amounts actually transferred or spent in the sterling area. In general, the intention was to give the companies the same treatment as other British subsidiaries of American parents. Some of the complications can be seen from a draft of part of a cable to Washington supplied by the Bank of England:

"It

"It is our intention to dispose entirely of the unremittable film sterling accounts. As the bulk of these monies represents royalties and rents they are not affected by D.F.R. procedure in respect of applications to remit profits. We have recently been investigating the possibilities of liberalizing applications by U.S. subsidiaries to transfer profits, service charges, etc. but we have no intention of allowing the transfer of capital arising out of, for example, the sale of a cinema. If we give more liberal treatment to U.S. subsidiaries it would be in the nature of allowing the transfer of service charges, whether any service is performed or not, and of not restricting the transfer of profits by reference to the cash position of the company concerned. We shall continue to insist upon the full allocation of income tax and E.P.T. relevant to the period covering the profit application."

#### 1942-1943

As in other directions, the improvement in the U.K.'s dollar position and political pressure from the U.S.A. combined brought about a reversal of policy, and in practice arrangements followed the lines indicated. The Treasury agreed to leave for further discussion the amount transferable during the year; meanwhile transfers proceeded on the assumption that the total would be \$20 million. The blocked sterling held on 24th October 1942 was to be released on the basis of applying the Defence (Finance) Regulations to it. All other provisions of the previous Agreement were continued.

It was not expected that the application of D.(F.) R. would much reduce the amount transferable, but it gave rise to a great deal of work\* and correspondence with the companies.

As regards the independents, it was arranged that all their sterling holdings on the Expense accounts should be released, together with future receipts up to probably £5,000 - a figure chosen to reduce to a minimum the number of Film Company Expense accounts required.

The

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\*The Film Control Committee had done their best to keep transfers under the Film Agreements in line with D.(F.) R., but now it was necessary to scrutinise all past transactions again to see whether in fact they so conformed.

The Bank summarised the position in a letter to the Treasury of 29th October:

"I think it would be well if at this juncture I recapitulate first my understanding of the position regarding the Agreement Companies:-

- (a) 100% transfer will be allowed of that part of the sterling accumulated up to 24th October 1942 which is, in fact, transferable. That is to say, all amounts received by way of rents and royalties will be released, but in the case of profits and dividends, only such amount as would ordinarily be transferable on our normal profit rules:
- (b) No transfers would be allowed as the result of direct borrowing unless Rendell is of the opinion that the company in question deserves special treatment owing to a loyal observance of the previous Film Agreement:
- (c) Any capital items which were found to have gone into inter-company accounts would, of course, be eligible only for credit to a 3E Blocked Account. With these latter exceptions, the blocked film sterling account will be closed in respect of items accruing up to 24th October 1942.

.....

May I assume that in the case of the Agreement Companies transfers in respect of 1942-43 revenues will continue to be handled by the Treasury who will inspect the accounts, etc. as hitherto?

Then, as to the non-Agreement Companies. I believe that in no case has any of the non-Agreement Companies a subsidiary in the United Kingdom; if I am correct, the question of profits and dividends will not arise and the release of accumulated sterling, therefore, should present no difficulty. As to the future, I, too, would like to see the Film Company Expense Accounts eliminated entirely. But this will not be possible if a limit of £5,000 per Company is imposed on free transfers as I believe the revenues of five or six Companies are likely to exceed this figure considerably. I would, therefore, go even further and suggest that the free transfer of rents and royalties should be allowed without

restriction

restriction in the case of the Independent Companies, provided you feel that this could be done without our position, vis-à-vis the Agreement Companies being unduly prejudiced.

I would have no objection whatever to offer to the suggestion that transfers should in future be authorised by the Bank; we should, of course, need to call for a sight of the contract under which the rents or royalties were payable and we should also require an auditorial statement in support of the individual transfers, but I assume that these formalities differ little from what you have required of the Companies up to now."

The summary was regarded as substantially correct though somewhat simplified.

In November the limit of transfers for the independent companies was fixed at the proposed figure of £5,000, but this limitation too was abolished in the following May.

The Bank now cancelled their memorandum of 20th May 1941, and it was arranged that Film Expense Accounts should be operated only on the following lines (Circular letter 1.12.42):

- "(1) No credits (other than for bank interest if allowed by the banker concerned) may be placed to a Film Company Expense Account without the prior approval of the Bank of England.
- (2) Consideration will be given by the Bank to applications for permission to debit such an account from time to time with recurrent expenses in the United Kingdom and Eire of the non-resident accountholder.
- (3) Applications to effect remittances abroad from these accounts should be made to the Bank of England on the appropriate form according to the present procedure.
- (4) The balances standing to the credit of the accounts may not be charged or pledged for any purpose whatsoever without the express authority of the Bank of England.
- (5) Statements of the accounts made up to the 30th April and the 31st October must be submitted twice yearly to the Bank of England.
- ....."

In mid-December the Treasury suggested a further

relaxation

relaxation of requirements and the Bank wrote (L. 1.1.43):

"..... Your suggestion that you should allow transfer round about the end of January 1943 of all approved credits made up to the 24th October 1942, and that for 1942/43 a lag of one or two months behind credits should be imposed, seems to be a sufficient safeguard.

The Companies, I gather, understand that you expect them to make remittance only out of cash available and that the transfers should not in any way come from borrowed funds. Beyond that, we should not wish to pursue the question of liquidity even in relation to profits. Indeed, only exceptionally have the Exchange Control gone into the question of liquidity when dealing with applications to remit; as a general rule with royalty and rental transfers the question of borrowing would not be raised and, although we always bore it in mind when dealing with profits applications, we have found in practice that it was very difficult to apply and under our new profits rules we shall normally not attempt to do so ....."

By May 1943 all restrictions on the remittance of royalties by Agreement companies had been abolished retrospectively from 24th October 1942, while the independent companies reverted to Defence (Finance) Regulations and made their own arrangements with the Bank of England. From the point of view of remittances, neither Agreement nor non-Agreement companies could act without permission of the Exchange Control.

The detailed arrangements which had to be worked out for individual companies took some months to conclude.

So far as the remittance of earnings was concerned, from 1939 to 1943 the United States producing companies may be considered to have been in a worse position than companies and firms trading with the United Kingdom in other commodities. After the release of the previously blocked revenues, however, the Control endeavoured to treat them as nearly as possible in accordance with normal Exchange Control policy. It may be that the United Kingdom subsidiaries of the United States companies at times obtained some small advantage from the fact that their productions were financed from the U.S.A., but later this was controlled through Inter-Company Account.

British

British producing companies were perhaps treated rather more generously than other United Kingdom exporters as regards their currency requirements; this policy was followed because it was felt that, although the normal standards of expenditure within its industry were large, this expenditure produced correspondingly large returns.

Following is a summary of receipts and remittances down to the end of blocking and the release of £17 million:

(£ millions)

	<u>1939/40</u>	<u>1940/41</u>	<u>1941/42</u>	<u>1942/43</u>
Net receipts	10.8 <u>estimated</u>	10.9 <u>estimated</u>	15.7 <u>estimated</u>	16.6 <u>          </u>
Current revenue blocked	<u>4.0</u>	<u>5.2</u>	<u>7.8</u>	
Blocked revenue released	-	2.0	2.6	12.4
Current revenue remitted	<u>4.8</u>	<u>3.7</u>	<u>5.9</u>	<u>14.1</u>
Total remittances	<u>4.8</u>	<u>5.7</u>	<u>8.5</u>	<u>26.5</u>

#### 1944-1947

In March 1944 the Bank protested against the unrestricted import of small films for use in small private projectors and asked for a tightening up of import control on spare parts. As a direct result, these and other sub-standard films were made subject to Import Licence as from 20th July 1944.

In November

In November, as a further measure to economise in dollars, it was proposed to fix an overall limit to total royalties and rentals payable on imported films by distributing companies in the U.K. (i.e. both U.S. distributing subsidiaries and British companies importing U.S. films). Though the proposal was put forward on a dollar-saving basis, the motive was partly to reduce the total of companies' costs ranking for taxation purposes. It was intended to be a short-period measure only, and confined to remittances to the U.S.A.

As put forward, however, the scheme had the dual objective of

- (a) reducing payments for foreign films; and
- (b) encouraging film production in the U.K. by granting supplementary quotas to American companies which invested their profits in British films, and by allowing certain approved payments by distributors to U.S. producers to rank as taxation costs.

The extremely complicated administration which the scheme would require, the difficulty of assessing the probable gain - if any - to the U.K., the effects of a possible reduction in E.P.T.: these and other quasi-imponderables certainly did nothing to recommend it. The Bank also found objectionable the need for legislation which would, in effect, restrict the price which a buyer might pay for a given article. But the problem of relieving the balance of payments of part of the £15-20 million a year paid in film royalties, etc. remained.

In the Spring of 1945 discussion of the scheme was revived by the Treasury. The Bank feared that the more immediate problem of curtailing remittances would be subjugated to the encouragement of new production. After much correspondence and the production of several memoranda a Treasury meeting on 20th September decided to recommend that Ministers should consider complete prohibition of American films, and that the opinion of Lord Keynes (then beginning the loan negotiations in Washington) on such a step might be asked; but also that relaxation in the shape of a £5 million a year quota might form the basis of working a modified version of the original scheme. The matter was regarded as urgent, for the net cost of American films was running at a rate of about \$80 million a year.

In a note of 11th October, after considering suggested methods of restricting the import of American films - blocking, the scheme just described, the establishment of a British Film Institute and import licensing - Mr. Bolton concluded that import licensing was the simplest and fairest. Nothing further was done, however, and in the following Summer the Treasury (Mr. Rowe-Dutton) were writing to the Board of Trade:

".....I doubt whether we should feel at all content to leave the question of dollars for films to solve itself by the gradual infiltration of Rank and others into the American market.....it had always been my idea that we should tell the American people that by hook or by crook film remittances from this country must be halved, either directly by taxation of imports or indirectly by an increase in remittances for British films from the U.S....."

In any case, information on the earnings of British films was sketchy. It might have been as much as \$5 million a year; but a large part was deposited as security for a \$2 million loan by the Bankers Trust Co. of New York to the Rank organisation.

Interest was inclined to shift at this time to the possibility of controlling the proceeds of film exports, a most difficult matter, in which C.D.3 form technique had not proved very successful; and since proceeds of the sale or exhibition of films by American-controlled firms, if remitted to the U.K., were available for transfer in one form or another to the U.S.A. it was thought that only someone thoroughly familiar with film business could make any headway with the statistics available.

Early in 1947, with the deterioration in the balance of payments position, economy in film dollars again became a pressing matter. Among the fresh suggestions were an increase in the quota of British films and a Government film marketing agency.

The development of the British industry ruled out any long-term solution, but in February the Bank proposed import licensing as a short-term measure. A company would be formed with nominal capital found entirely by H.M.G., and licences would be granted only to films imported by the company, who would arrange for both import and distribution, without disturbing existing machinery for the latter

but

but with the right to examine contracts. By such means it was hoped to reduce the net dollar cost of American films to \$40 million.\*

The Customs, who had already proposed an import duty, were sceptical about the success of "such a highly artificial creation as the suggested monopoly". They held to the view that if the Americans could be persuaded to agree in principle to a reduction in remittances, they might be given a larger say in choosing the method least objectionable to them. A meeting at the Treasury (5.5.47) discussed both proposals and decided to recommend the import duty.

On 13th August a Treasury Order replaced the existing duty of 5d. a foot on imported film by one of three-quarters of "anticipated net proceeds", and in order that no part of the tax should be passed on to the film-going public the Board of Trade soon announced that they were prepared to stabilise rentals at their existing levels.

The American companies retaliated by selling the re-issue rights in old films which in the ordinary course would not have been exhibited again in the U.K. and withdrawing the proceeds.

By the end of 1947 the main interest was already turning in the direction of the still modest earnings of British films in America, and one proposal was that British producers earning dollars should be allowed their equivalent in tax-free imports of American films.

Early in 1948 an arrangement was favoured which combined the reduction of tax on imported films with the fixing of ceilings for total American business and for the value of import licences issued to British companies. This was likely, however, to reduce American earnings to a figure which would leave little for investment in British films; and the Board of Trade were anxious to see perhaps 10 or 20 films a year produced by American companies out of a total production of 50 to 80.

Meanwhile the President of the Board of Trade and the representative of the American industry (Mr. Johnston, then visiting Britain

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\*The eventual net outflow in 1947 on this account was £13.8 million against £17.5 million in 1946.

Britain) were negotiating a new Agreement. This document\* was signed on 30th March 1948, although the arrangements did not take effect until 14th June. By its terms the Americans, accepting \$17 million a year as their basic remittance, might convert into dollars a further part of their British earnings equal to the dollar earnings accruing to British companies from the showing of their films in the U.S.A.

This arrangement was to last for two years, though it was contemplated that the Agreement should extend to four. If extended, 50% or £2 million (whichever <sup>was</sup> ~~is~~ the greater) of the unexpended revenues <sup>were</sup> ~~are~~ to be carried forward, and the balance, if any, <sup>is was</sup> ~~is~~ to be subject to consultation. There was a proviso that any transactions thus involved should not impose a strain on the U.K. foreign exchange position. If not extended the parties reserved full freedom of action, with the reservation that unexpended U.S. funds should not be used for the purchase of foreign distribution rights in British films.

For the remainder of the American sterling during the maintenance of the Agreement there were a number of permitted uses as set out in schedules. These may be summarised thus:

1. Normal operations of the film industry - i.e. most of the requisites for the production and distribution of films, including the purchase, leasing, construction and equipment of studios; also the taxation of rights in the films produced in the sterling area.
2. Production of films in Britain.
3. Investment in British film production.

Profits on 2. and 3. would be convertible into dollars.

Film remittances to the U.S.A.\*\*

	<u>£ mn.</u>
September to December 1939	1.4
1940	3.6
1941	5.5
1942	19.5
1943	18.2
1944	15.5
1945	17.3
1946	17.5
1947	13.8

\*Cmd. 7241  
\*\*Statistics Office.

Oil

In order to understand something of the problems which faced the Exchange Requirements Committee in connection with oil it is necessary to remember that 80% of the oil supplies available to the U.K. came from the U.S.A., including virtually all lubricants. The production costs of other oils from sources in the American Continents and in Aruba, N.W.I., including the crude oil refined at Curaçao by the Royal Dutch/Shell Group, were almost entirely in dollars. For a time other available sources of production were the Netherlands <sup>East Indies</sup> ~~E.I.~~ and Roumania. Production in Persia was under the control of a British company, and the Sterling Area itself produced a certain amount of oil, but on balance was an importer. Any oil produced within but sold outside the Sterling Area had eventually to be replaced by oil from a dollar source.

Freight and insurance might equal or exceed the cost of the product; so that the landed cost of oil was often at least double the f.o.b.cost. For a variety of reasons, including freight saving, a regular custom of the oil trade was the practice of swapping. One oil company producing oil, say in the Persian Gulf, had a customer in the United Kingdom; another company producing oil in America had a customer on the East Coast of Africa: if each delivered to its own customer each would be involved in a long haul. To avoid this, Company A in the Persian Gulf would deliver oil to the East Coast of Africa to the customer of Company B; and Company B would deliver oil from America to Company A's customer in the U.K. The oil was exchanged on a gallon for gallon basis. A company might haul oil in its own tankers or might swap tankers as well. These were originally purely barter arrangements for the mutual convenience of the companies concerned; but the shortage of tankers dictated a maximum economy in their use, and there was an increasing tendency to sacrifice all other considerations to the short-haul policy and to take oil in every case from the nearest available source.

As regards marketing, the Petroleum Board was the representative of all the oil companies interested in the U.K. It was set up at the beginning of the war, and under its auspices was  
formed

formed the Overseas Supply Committee. This Committee arranged the programme of oil production and distribution throughout the world insofar as the supply of oil to the Sterling Area or the disposal of oil produced within the Sterling Area was concerned; the supply programme was arranged in agreement with the Petroleum Department of the Ministry of Fuel, and distribution was settled with the Ministry of War Transport. At the outbreak of war the various oil companies agreed amongst themselves on their respective spheres of influence and the split up of business in certain areas; their agreement was based on operations during 1938. The chief problems arose in connection with the U.S. companies; having traded before the war entirely on a dollar basis, they continued to expect the Sterling Area to give dollars for all oil purchased from them after the outbreak, even though some of it was actually produced or refined within the Area itself. Lend-Lease removed some of these problems but gave rise to others, all of which, however, were dealt with administratively.

The Exchange Requirements Committee's first thoughts on this subject in September 1939 were to hope that the Admiralty <sup>would</sup> <sub>^</sub> save them dollars by keeping the Mediterranean open; and the Admiralty did so until the entry of Italy into the war. A large hole in reserves was in any case expected, ~~as~~ <sup>was</sup> 75% of pre-war imports came from countries of difficult currency; and in the first war year civilian requirements in the United Kingdom alone were estimated at \$120 million, after allowing for the saving of over \$24 million in respect of the first rationing scheme.

The Bank drew up a scheme of procedure for dealing with the extremely complicated accounts of the Oil Companies, under which they would receive direct advices from the Companies; but it was arranged in October that the Petroleum Department should be responsible for the Government's United Kingdom oil policy and for certifying or refusing applications for foreign exchange in this connection, while the Bank was to deal with Empire requirements. The arrangement did not work well since the Petroleum Department was not directly concerned with economy of foreign exchange reserves,

while

while the Bank had no locus standi in dealing with the Companies and no method of ascertaining their net requirements. In December the Bank suggested that a sub-committee of the Exchange Requirements Committee should go into the question.

At the beginning of November the E.R.C. made a number of recommendations. They wished the embargo on imports from Mexico to be removed. The Treasury had already asked the Foreign Office in September to do this, but the Foreign Office was still unwilling to comply. The Dominions and India were paying for oil in dollars and the Committee wanted to know whether they were rationing consumption. The Treasury, the Bank of England and the Petroleum Department were asked to examine the figures, and take up the question of rationing with the Dominions, Colonial and India Offices. Next, the Committee thought the possibility of getting ~~the~~ supplies from Trinidad, Iraq and Iran should be explored. The location of refining capacity was also to be examined, and it was found that the facilities of United Kingdom refineries were being used to capacity and that a new plant was being erected for the refining of lubricating oil. The Committee was anxious that the re-export trade in lubricating oil, which produced £1 million a year, should be maintained. Another suggestion was to reduce Denmark's imports, at least to the extent that the United Kingdom furnished the requisite dollars.

In November, too, the Bank was exploring the possibilities of getting more oil from the Sterling Area, and a memorandum on the subject was sent to the Treasury.

The complexities of inter-company contracts and agreements and the many technical difficulties in handling the commodity sometimes made the Bank almost despair of getting an adequate administrative control over payments. They felt that they were, in effect, undertaking to sell dollars against as much sterling as the Companies could command.

During the first half of 1940 the Bank and the Government Departments were also concerned at the tanker shortage. This indicated the need of taking more oil from the nearest source of supply, the ~~Netherlands~~ West Indies, which in turn was disliked because it

involved

involved more payments in dollars. There were also political objections to a switch from certain sterling suppliers (e.g. Iran). The Treasury and the Bank would have liked a further restriction on civilian consumption, the rationing of which from an exchange point of view had so far been offset by a rise in price. Another cut of, say, 25% was suggested, but was resisted by the Petroleum Department. This Department was making extensive investigations into the whole oil question, and until they reported it was felt premature to set up the Sub-Committee. The Bank, however, drafted some "terms of reference" for such a Committee, which summarise the situation as it appeared in July 1940:

- "1. To get a clearer picture of exactly how the exchange requirements of the oil industry are arrived at. This would be simply a matter of educating the E.R.C. and the Exchange Control.
2. Having got that clear, to consider whether any further saving is possible in view of the limitations likely to be imposed by foreign exchange shortage. This should take account both of short-term and long-term possibilities.
3. To see whether there is any way of linking exchange going out more closely with oil coming in, for the purposes of exchange control. This refers mainly to the Sterling Area, as U.K. arrangements are fairly satisfactory.
4. To consider the special case of the Shell Group.
5. Generally, in the future, to keep touch with the Petroleum Department and to "interpret" for it at E.R.C. meetings - the Petroleum Department, of course, being represented on E.R.C. as fully as they may think fit - and to keep before it the possibility of saving exchange.

Agenda points for the Sub-Committee -

1. The tightening of the exchange position is causing us to tighten our control and sharpen our watch. We are still very much in the dark about the large exchange requirement for oil.
2. How does the currency agreement between the Dutch and ourselves affect our net foreign exchange liability for oil? Can we further increase the proportion of oil that the Sterling Area

takes

- takes from the guilder area.
3. The tanker position seems to vary from time to time. It is desirable that when tankers are easy they should be used to save foreign exchange. This will only be done if the urgency of the foreign exchange position is kept properly before those responsible for planning oil imports.
  4. In the long view our oil position, which was well covered when our main requirement was fuel oil for the Navy, has not been brought up to date to match our new R.A.F. and mechanised Army requirements. At present we can meet those requirements by incurring large expenditures of foreign exchange but, looking forward, we may have to review the position. In present conditions there are opportunities of learning precisely what is involved in a way which would be much more difficult in peace time conditions.
  5. The Foreign Office has discouraged any approach to Mexico. Hitherto Mexico has been able to find a market in Italy; but that is now cut off. Do the possibilities of saving foreign exchange warrant the Treasury's bringing greater pressure on the Foreign Office to modify its disapproval of Mexican negotiations?
  6. In at least two cases (Argentina and Thailand) the necessity of having dollars to pay for oil imports has been a factor in exchange negotiations or arrangements. With the Argentines we have allowed Special Account sterling to be used in payment for oil. With the Thais we had to allow dollars to cover at least part of their oil requirements. This question may well recur and it would be helpful to have a closer knowledge of oil conditions.
  7. We have had considerable trouble with U.S. Oil Companies trying to get dollars for oil sent to the Sterling Area from non-dollar sources. It is mainly an Exchange Control matter but manifestly closer knowledge of oil affairs would help us in such things.

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There is no serious difficulty about oil imports into the U.K. The import has to be approved by the Petroleum Department, and thereafter

thereafter payment is made on the usual lines. With the Sterling Area, however, there are many difficulties. Australia is the only country with whom we have been able to arrange a satisfactory check so far. The Australians pay for all their oil by remitting sterling to London<sup>and</sup> advising us of the net value of the oil import concerned, taking into consideration whether it has been brought in a sterling or non-sterling ship. With India a similar arrangement was suggested but does not seem to have got much further. In South Africa control is rudimentary. In the Colonies most oil seems to be sold on consignment, and no serious difficulties have yet arisen. The Shell Company is of course always a problem in itself as the dollars it asks for are simply a balance arising from complex debits and credits within the Group."

The sub-committee was never set up. In the late Summer a representative of the Petroleum Department went to the U.S.A. and the negotiations which followed were designed to reconcile the Americans to the substitution of as much as possible non-dollar oil for dollar oil. The Bank were averse from the alternatives suggested of credits or payments in blocked sterling - unless, perhaps, these expedients would cover the difficult dollar period which the United Kingdom faced in the immediate future.

American companies trading with the Sterling Area had been paid for their exports in sterling, most of which they had converted into dollars at the official rate, and a large part of the balance ~~in~~<sup>through</sup> the free market. There was no doubt that the Control had been losing an inordinate amount of dollars in respect of oil. In July 1940 the system of Registered Accounts for the U.S.A. and Switzerland had been introduced, and it then became more than ever apparent that some special procedure was necessary to ensure that dollars were given to the American oil companies only to the extent that they had incurred dollar expenditure for the cost of deliveries to the Area (including freights and insurance where paid in dollars) and for agreed profits.

The Bank's

The Bank's objectives at this time are summarised in memoranda of the 14th and 23rd September:

"1. The Petroleum Department recently took the line (at a Treasury Meeting) that however much we may increase the proportion of oil which we get from non-dollar sources, the total dollar cost will be unchanged because of the agreements by which ~~which~~ the oil companies parcel out the world market between themselves. It therefore becomes the more important for us to combat that attitude by an effective exchange control throughout the Sterling Area, which shall ensure that dollars only go out against dollar oil coming in. H.M. Treasury can then tell the Petroleum Department that if they will take care of their side of the business, which is to obtain as much oil as they can from non-dollar sources, the Exchange Control will see to it that a saving in dollars results from their efforts.

2. It is already agreed that to obtain the necessary control, we must introduce the "Australian" system throughout the Sterling Area - i.e. all oil imported into the area will be paid for in the first place by remittance of sterling to London, where dollars will be provided against, but only against, such remittances as are for oil coming from dollar sources.

Evidence on the source of oil imports, the currency in which freight is payable, etc., must be supplied to London by the importing country. ~~It is most desirable that this system~~

~~should be applied to all oil imports, the currency in which freight is payable, etc., must be supplied to London by the importing country.~~ It is most desirable that this system

should be applied to all oil imports without exception.

Adjustments will therefore be necessary in several points of common practice, of which the following have already come before our notice:-

(1) Swap oil

(i) Swap oil

If payments for swap oil are to be made safely on the above general principle of paying dollars only for oil from dollar sources, two conditions must be fulfilled :-

- (a) The Petroleum Department must have made sure that the oil needs of the Sterling Area are being met to the last possible gallon from non-dollar sources.....
- (b) We must be sure that all oil exported outside the Sterling and allied Area by Sterling Area companies (including, of course, Shell) is sold for dollars and that the dollars are either surrendered or accounted for to us. As the biggest quasi-sterling oil companies are partly outside the Sterling Area proper (Shell & Anglo-Iranian) this point will require special attention. It cannot be fully covered by our own export control. The companies themselves can be asked to submit to us a monthly detailed statement of their shipments outside the Sterling Area showing the dollar proceeds..... If necessary we might later ask the Dutch customs for confirmation.

(ii) Consignment oil

Oil is at present sent on consignment to certain colonies... .., and is distributed on commission by a local agent ..... The agent may act on behalf of more than one company....., and remits to his principals, in agreed shares, the net proceeds of the local oil sales, less local costs and his commission..... This system means that we may be giving dollars for oil imported from non-dollar sources. The following system is suggested:-

- (a) Payment for the landed value of the oil must, in the first place, be made to London in sterling, just as for any other oil, together with the usual evidence on the source of import etc. Dollars will only be given for dollar oil, as usual.

(b) Dollars

(b) Dollars will also be given for reasonable profits accruing to the American company on its share of the distribution business.....

3. Apart from the above oil payments proper, we would be prepared to supply dollars, against satisfactory evidence, for:-

- (a) Freights genuinely incurred in dollars.
- (b) Reasonable profits on distribution of oil within the Sterling Area.
- (c) Oilfield and oil refinery plant imported into the Sterling Area with the approval of the Petroleum Department.
- (d) Field expenses within the Sterling Area involving payments to American technicians.
- (e) Such other dollar expenditures, if any, as the oil companies can show to be a necessary part of their business in the Sterling Area.

4. It is recognised that though in principle we insist that Dutch oil should only be paid for in guilders or sterling, the Dutch authorities would have a good case for asking us to put up dollars against dollar expenses involved in producing Dutch oil for the Sterling Area. It should, however, be left to the Dutch authorities to bring up this point. If they are reasonable about allowing Shell to retain dollar proceeds (especially of swap oil delivered against oil for which we have paid dollars) then we can meet them reasonably on dollar costs of oil production. Rather the same applies to Bahrein. We should make sure that any oil exported to non-sterling/allied markets from Bahrein is paid for in dollars, to reduce the amount of dollars which we must find for the Bahrein field's requirements."

"The Exchange Control maintain close contact with the Petroleum Department which has given a great deal of attention to the exchange aspect of oil. There are now three major points which require consideration and possibly action.

1. The

1. The Petroleum Department have reached the point where no further considerable dollar savings can be effected without breaking the inter-company agreements. Although in the last resort it may not be advantageous to this country to break these agreements it is suggested that it might be made clear to the Americans that they cannot be regarded as sacrosanct in war-time and may have to be broken if economy in dollar expenditure for oil cannot be achieved otherwise.

2. Efforts have been made from time to time to curtail expenditure on oil in the remainder of the Sterling Area, and further efforts might be made in this direction.

Simultaneously steps are being taken by the Exchange Control to adopt in the rest of the Area the arrangements now in force for Australia by which all oil is paid for by sterling remittance to London, dollars being subsequently provided by our Control only if proof is forthcoming that the oil was actually paid for in dollars.

3. Consideration might be given to a scheme for inducing American interests to sell oil to the Sterling Area against sterling earmarked for specific purposes, e.g., tanker construction. There is little attraction in making payments to a blocked sterling account which would represent a sight liability either during or immediately at the end of the war, but if the sterling payment could be linked up with post-war expenditure within the Area some such scheme would be highly desirable."

Arrangements were made with the companies broadly on the lines of these memoranda and worked smoothly and satisfactorily. In general the relations between the Exchange Control and the companies were satisfactory, despite the complexities of the subject and the need for considerable supervision by the Control.

At the end of September the U.S. Treasury stated that it would be a mistake to deal with exchange in respect of any single commodity, and proposed that the question as a whole should be handled between the two Treasuries. The Bank accepted this and urged

urged early action, since the possible saving of dollars on oil was estimated (in November) at about 40% of \$124 million.

In November 1940 the "resident" account procedure was introduced to cover payments due to the American oil companies from the Sterling Area. This procedure was not covered by any Regulation but was a matter of arrangement with the companies concerned. The essence of the arrangement was that -

1. All payments due to the companies from the Sterling Area were to be made in sterling, which would be credited to a special type of account called "resident" but standing in the name of the American company concerned.
2. Such payments were subject to prior approval ~~of~~<sup>by</sup> the Petroleum Department (for imports into the United Kingdom) or ~~of~~<sup>by</sup> the local Control (for imports into other parts of the Sterling Area).
3. Conversion into dollars (or guilders, etc.) was allowed only to the extent that expenditure had been incurred in those currencies; dollars were also allowed for profits on the normal profit standard.
4. Any balance remaining on the resident account was available only for payments within the Sterling Area.

It had always been contended that oil produced and sold in the Sterling Area should be paid for in sterling; and this was provided for by the "resident" account procedure, as conversion into dollars was centralised in London and only allowed on the basis of evidence (submitted to the Petroleum Department or the local Control and advised by them to us) that the oil was of dollar origin and/or had been insured in dollars and/or hauled in a dollar tanker.

With the approach of the Lend-Lease policy nothing seems to have been settled; and under Lend-Lease, so far as supplies of U.S. oil were concerned, dollar difficulties were gradually removed, first in the United Kingdom and later for other parts of the Empire.

By the Spring of 1943 the oil companies were being instructed that they could ask in general for 100% sterling in payment for sales of oil (except bunkers) to S. American countries (whose sterling balances were becoming embarrassingly large).

Up

Up till then various percentages had been paid in sterling: afterwards some countries (e.g. Chile) still paid in dollars.

It will have been seen that the Exchange Requirements Committee's functions on import policy in connection with oil had perforce passed to the Treasury, the Petroleum Department and the Bank; nor was policy at any time easy to disentangle from administration, which of course was largely in the hands of the Bank. The Exchange Control at different times had difficulties of various kinds connected with oil with the Netherlands, Turkey, Free France, Russia, the Belgian Congo, Venezuela, etc., with the residential status of the companies, with bunker oil arrangements and other matters. But, with one exception, the activities of the Bank, the Treasury and other Government Departments may be said to have ceased to represent matters normally within the scope of the Exchange Requirements Committee by the end of 1940.

The exception concerned a brief which was prepared in the Spring of 1944 for oil talks with the Americans in Washington, and which produced an abortive agreement for an international oil scheme. The following is an extract from a letter from Mr. Thompson McCausland to the Treasury dated 17th March 1944:

".....Foreign exchange aspects of oil policy

I think that the following points should be included in a brief to the Petroleum Department:

- (a) While we have substantial credits on oil account to set against the gross debits, there is no doubt that a substantial net debit remains. As I have said above, I despair of an accurate picture of the oil balance sheet, but I should expect the net cost<sup>\*</sup> of the Sterling Area's oil to be not less than £20/25 millions.
- (b) Since all oil in international trade is sold for sterling or dollars, it is a matter of indifference from the foreign exchange point of view whether Sterling Area oil is sold within the Area (thus saving dollars on imports) or outside the Area (thus earning dollars or mopping up sterling on exports).

\* i.e. net dollar cost

(c) What

(c) What does matter is how much oil is produced and whether it is produced by British companies or foreign companies. A British company can be pressed to order as much as possible of its plant and supplies in the U.K. and will remit its profits and reserves to the U.K. A foreign company will spend very little in the Area other than strictly local disbursements and even they may be spent largely on consumption goods imported from America. Oil is already so important a raw material (and is likely to become more important still) that it would be highly undesirable from the foreign exchange point of view to enter into any agreement which, either now or in the future, would have the effect of increasing the Area's net adverse balance on oil"

Following are notes:

- (1) On the arrangements with the U.S. companies as they existed in July 1942. As already mentioned, the Bank's relationships with the oil companies were in general satisfactory, and the companies appreciated the Bank's attitude and expeditious handling; this was perhaps the more noticeable after the entry of the U.S.A. into the war, when the American companies began to experience the war-time requirements of their own country.
- (2) On the Royal Dutch/Shell Group.

The U.S. Oil Companies and the Sterling Area

1. Since November 1940 the following arrangements have been put into force throughout the Sterling Area with the object of centralising in London the granting of exchange to the chief U.S.

Oil Companies in respect of -

- (a) their imports into the Sterling Area,
- (b) materials and equipment, etc. required by their distributing and producing subsidiaries and branches operating in the Area,
- (c) the profits earned by the above-mentioned subsidiaries and branches.

2. The basis of the arrangement is that all remittances due from any part of the Sterling Area to the chief U.S. oil companies

are

are made in sterling, subject to the approval of the local Control concerned, to "resident" accounts which those Companies have opened with the following banks in London -

Barclays Bank Ltd. (Chief Foreign Branch)

Californian Texas Oil Company

Texas Oil Company

The Texas Company

Chase National Bank of the City of New York

Standard Oil Company of New Jersey

Bank of British West Africa

Atlantic Refining Company

Guaranty Trust Company of New York

Atlantic Refining Company

National City Bank of New York

Bahrein Petroleum Company

Californian Texas Oil Company

Californian Texas (Overseas) Oil Company

Socony Vacuum Oil Company

Standard Vacuum Oil Company

When such remittances are made the local Control arranges for the Bank of England to be furnished with information enabling them to deal with any subsequent application for the re-transfer of the sterling into foreign currency. The information required varies according to the purpose of the sterling remittance. (Details are given below).

3. On the basis of this information the Bank of England normally permit the re-transfer of sterling remittances covering -

- (a) f.o.b.cost of oil imported plus cargo insurance into the currency of the country of origin of such oil;
- (b) freight plus hull insurance into the currency in which the freight has been incurred;
- (c) cost of materials and equipment into the currency of the country of <sup>their</sup> ~~its~~ origin;
- (d) profits of subsidiaries into U.S.dollars.

4. The information required by the Bank of England is as follows:-

(a)

(a) Oil purchased from U.S. Companies on c.i.f. terms

Sterling remittances from the importing country cover the landed cost of specific imports plus freight, insurance and other charges as shown by invoices, bills of lading, Customs entries, etc. The Bank of England require to know:-

- (i) the amount representing f.o.b. cost plus cargo insurance;
- (ii) the amount representing freight (plus hull insurance);
- (iii) the country of origin of the oil;
- (iv) the currency in which freight has been paid.

(b) "Swap" oil

The U.S. Oil Companies have a number of arrangements with Sterling Area Oil Companies (e.g. Shell Group, Anglo-Iranian, etc.) under which the latter supply non-dollar oil to certain parts of the Area, on the U.S. Companies' behalf, against the receipt of dollar oil. The Bank of England were formerly prepared to give the U.S. Companies dollars for non-dollar oil sold by them in these circumstances. This is no longer the case - all oil imports without exception are paid for in the currency of the country of origin. This change of procedure is not intended to discourage such oil "swaps".

Sterling remittances covering non-dollar "swap" oil sold by U.S. Companies in the Area should be accompanied by the information set out in (a) above; the only difference being that:-

- (i) the fact that the remittance is in respect of "swap" oil should be stated;
- (ii) the amount given under (a)(i) should be further divided into two separate amounts, f.o.b. cost of oil and cargo insurance. The reason for this is that the Bank of England are prepared to allow the U.S. Companies to insure this non-dollar oil in dollars.

(c) Materials

- (c) Materials and/or Equipment required for Sterling Area subsidiaries or branches.

Orders for equipment, etc. must be submitted to the Priorities Section, Petroleum Department, for approval before they are placed.

Sterling remittances covering such purchases should be accompanied by confirmation that the local Control has seen the original of the relative Purchase Authorisation (Form PD/AA) issued by the Petroleum Department, London, or the British Petroleum Mission, New York.

- (d) Profits

The Bank of England are normally prepared to allow U.K. Companies controlled abroad, and U.K. branches or agencies of foreign Companies, to transfer interest, dividends or profits to an amount (before deduction of tax) comparable with the sterling sums used for the same purpose in the previous three years, after allowing for any variation in the sterling working capital employed. Transfers are allowed only out of actual trading profits.

Sterling area Controls are asked to adopt this basis for dealing with applications by local subsidiaries of a U.S. Oil Company to transfer their profits in sterling to the "resident" accounts in London of their parent companies.

- (e) Oil Imported on Consignment

In some parts of the Sterling Area (notably in the Colonies) the U.S. Oil Companies operate through local branches (having no financial independence) to which they ship oil on consignment for eventual sale in the territory concerned. As an exception to the arrangements described in 4(a) and (d) above the Bank of England are prepared to allow such branches to transfer in sterling to the resident accounts of their parent companies the net sale proceeds of oil imported on consignment, i.e., the sale proceeds less all expenses incurred in the territory in which the branch is operating. If any such branch imports Sterling Area oil for sale locally, payment should be made in sterling direct to the Sterling Area suppliers.

When

When authorising the transfer of net sale proceeds to London, Local Controls should give the origin of the oil sold and should split the amount transferred according to the origin of the oil if it is supplied from different sources.

N.B. For this purpose crude oil of Venezuelan origin and refined oil from Aruba, <sup>N.</sup>W.I., supplied by U.S. companies is regarded as dollar oil.

When the companies operate through local subsidiaries or associated companies only the remittance of net current trade profits is allowed (i.e. no remittances on account of depreciation).

5. A part of the oil supplied by U.S. Companies is produced in the Sterling Area by their subsidiaries. Such subsidiaries must surrender to the local Control concerned (or to the Bank of England) any dollar proceeds of oil sold by them outside the Area, including bunkers supplied to non-sterling shipping and/or aircraft - it is emphasised that such exports should invariably be sold for dollars since so much of the production expenses cost dollars.

Subject to these conditions, the Bank of England are prepared to provide dollars for the following purposes:-

- (a) Oilfield and oil refinery plant imported into the Sterling Area with the approval of the Petroleum Department;
- (b) Payments to necessary American technicians;
- (c) Such other dollar expenditure as can be shown to the Petroleum Department to be absolutely necessary for the business of the Company;
- (d) Profits.

#### 6. Insurance

Insurance of oil shipped by U.S. Companies to the "Area" may only be effected in the currency of country of origin or in sterling.

The only exception to this rule is that U.S. Oil Companies are allowed to insure in dollars or other appropriate currency non-dollar oil taken by them under "swap" arrangements with Sterling Area Companies and replaced by them with oil of dollar or non-Sterling Area origin.

Royal

The Group was owned 60% by a Dutch holding company and 40% by a British holding company. There were three main operating companies, each with subsidiaries all over the world. Of the three main companies one, a Dutch Company temporarily registered in the Netherlands West Indies, produced the oil, another transported it and acted as the Group's banker, and the third, as agent for the Dutch company just referred to, looked after the marketing and so acted as a channel for the greater part of the Group's receipts. The last two companies were registered in and operated from the United Kingdom. Since financial control of the Group was then centred in London and its principal reserves were held either in sterling or in currency at the nominal disposal of a United Kingdom company, the Bank decided to regard the Group as "resident" for the purposes of the Regulations. Transfers between the Group's sterling accounts in London were not restricted, but were reported to the Bank. The Group was liable to surrender its specified foreign currency holdings and earnings, but was authorised to operate a Retained Dollar Account in New York, looking to the Control to replenish it and to cover its foreign currency requirements.

The arrangements made were no doubt beneficial to the Control from a broad point of view and facilitated the vital movements of oil products; but their operation in detail was made difficult by the vastness and complexity of the business and by the natural difficulty of obtaining the normal evidence required in support of transfers to non-resident account. The latter problem was partly overcome by arranging for special examination by the Bank's accountants of the accounts of the chief United Kingdom companies concerned.

At the end of 1944 the Control was still uncertain as to what proportion of the Group's sterling assets and profits was properly transferable to the Dutch companies concerned, and accordingly stipulated that transfers between the sterling banking

accounts

accounts should not be recognised as committing the Bank to provide exchange in due course until they were satisfied that such amounts should properly be transferable to non-residents.

The problem became acute after the cessation of hostilities, with the re-establishment of the Dutch members of the Group in Holland and the gradual resumption of the Group's world-wide activities as both producer and distributor of petroleum products. The position was, however, finally stabilised for a period of ten years from 1946 by Treasury approval of a formal agreement between the three principal operating companies. Under this agreement the Group's financial arrangements were to remain centred on London for that period and their funds to remain liable to United Kingdom Exchange Control. The necessity for an agreed apportionment of the Group funds was thereby postponed until 1956.

Cotton

As early as June 1938 the closure of the Liverpool futures market at the beginning of the first world war had given rise to correspondence with the Bank; but the subject did not require, or receive, urgent attention until about three months after the outbreak of the second. In October 1939 the Bank produced a memorandum\* in which the value of the futures market, the difficulty of substituting non-American growths as its basis, and the Liverpool Futures Contract were discussed and proposals made. Being the basis for important negotiations with the Liverpool and Manchester Associations the text of this memorandum is given in full:

1. The Value of the Futures Market

The value of the Liverpool futures market to the Textile industry is not in dispute. It is only by dealing in futures that the spinners, manufacturers and merchants can "hedge" the risk of fluctuation in the raw material price. Without that hedging facility, business would become very difficult - among other things, the banks require the cotton to be hedged in any transaction which they finance.

The futures market also appears to perform a service in economising exchange, because, without a futures market in Liverpool, manufacturers would either (a) attempt to use another futures market, New York being the obvious choice. This would no doubt be impossible now, but in normal times it would be possible and would immobilise a very considerable amount of foreign exchange,

or (b) in default of hedging facilities, cover themselves by buying "actual" cotton to cover orders as they are booked. This would absorb substantially larger stocks of cotton than are required under the present system

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\*L.P.T.McC. 21.10.1939.

system, with a corresponding increase in the exchange immobilised,

or (c) find that the increased risks involved in carrying unhedged cotton were hindering trade. This, in what is still one of the chief export trades, would tend to reduce the inflow of foreign exchange.

2. The difficulty of substituting non-American growths as the basis of a futures market

(a) Markets

A satisfactory futures contract in Egyptian cotton is in regular use. But Egyptian cotton is used for a different market and trade from American and similar cottons, and its price may move quite independently of American prices. There would therefore be great difficulty in using the Egyptian contract to hedge risks in American-type cottons.

A futures contract for "other growths" is in existence, and attempts have been made to encourage its use. But the supply of "other growths" cottons appears to be too small to support a free market, and this "other growths" contract is practically never dealt in.

(b) Supplies

The total exports of Indian cotton are substantial, (e.g., as high as 1,628,000,000 lbs. in 1930, against total British imports of all cottons now averaging about 1,200,000,000 lbs. a year). But most of the Indian cotton is very short staple which can only be handled after adjustments have been made to the machinery normal in Lancashire, and even then the products are coarse, whereas Lancashire has been tending more and more to produce fabrics outside the coarser ranges. It is reckoned that not more than one-third of Indian cotton exports could normally be used by Lancashire, and that third would not, of course, be a substitute for the finer American cottons.

Other "outside" growths have increased substantially in recent years, and would, on a bare calculation of volume available, suffice comfortably to cover Lancashire's total requirements if the entire exports of "outside" countries

could

could be reserved for Lancashire. But one cotton may differ greatly from another, and it seems highly doubtful whether Lancashire could do without a considerable import of American cotton for some time to come.

It would thus appear that there is room to increase the use of "outside" growths, and especially Empire growths (as happened in the last war), but that America must probably remain an important source of supply.

As far as futures markets are concerned, it would be difficult to establish a free futures market in miscellaneous outside growths, owing to the wide variety in grades and staples which would make it almost impossible to establish a basis of cottons tenderable against the standard contract.

### 3. The Liverpool Futures Contract

The Liverpool futures contract is dealt in exclusively on a sterling basis and legally must be liquidated by the tender of cotton in Liverpool. In practice only a rather small proportion of deals are liquidated by the tender of cotton, because

- (a) the Clearing House balances out buyer against seller, so that in the end only those who are "short" on balance have to tender and only those who are "long" on balance have to accept cotton.
- (b) A buyer who subsequently sells may, by agreement, "ring out" his contract. This practice has tended to grow.

Consumers of cotton very rarely get their "actual" cotton through the futures market owing to the fact that any of a wide range of cottons may be tendered in settlement. The consumers prefer to buy the cotton they want on sample, or on type, and to close off their futures transactions concurrently with their purchase of "actual". Most of the cotton tendered in settlement is in practice taken by merchants. Indeed, the final tender of cotton is not an essential to the working of the futures market, and the obligation to tender was in fact suspended during the last war.

It is thus clear that the Liverpool futures contract  
itself

itself need never give rise to a demand for dollars at all - though the contract is frequently used by importing merchants and agents as a hedge in conjunction with import business which does require dollars.

#### 4. Conclusion and Suggestions

1. There does not appear to be anything in the Liverpool futures contract itself which calls for intervention by the Exchange Control. In fact the futures market probably tends to economise exchange, as shown in (1.) above. Consequently a Liverpool futures contract should never, in itself, be accepted as being grounds for an application for exchange.
2. It is the business of importing cotton that needs to be controlled. The Liverpool Cotton Association, which has a name for maintaining strict discipline amongst its members, would appear to provide a useful instrument of control. It is suggested that the right to buy exchange against cotton commitments should be restricted to an approved list of importing members of the L.C.A., approved branches or agents of U.S. shipping firms, and approved arbitrageurs or "straddle" operators if not included in one or other of the above two classes. Exchange would only be granted for operations by the above approved members on their own account; they would not be allowed to act for third parties.

"Approved" importers as above would be given freedom to buy spot or forward exchange against evidence of a corresponding liability actually contracted abroad, and an undertaking would be required that, in the event of that liability being liquidated without the import of cotton, the exchange would immediately be sold back to the Control. An undertaking would also be required that the "approved" member would only use the exchange in the normal course of import or arbitrage business, and would observe all possible economy in his demands for exchange. He would be required also to make monthly confidential returns to the Association of his total currency holdings and total cotton holdings in all parts of the world, and the Association would report any holdings which

appeared

appeared excessive with the recommendation that no further exchange be granted until the holdings had been reduced.

Finally, no "approved" or other member of the L.C.A. would be allowed to pass on "actual" cotton (whether delivered against spot, c.i.f., futures, call, or any other contract) except to another member or to a consumer of raw cotton for whose genuineness he could vouch. Such consumer would, in turn, be required to sign a declaration that the cotton was for his own use and not for re-sale as raw cotton.

3. It does not seem that any of these suggestions would involve serious dislocation, or indeed much more than a tightening up of present practice. Yet they would seem to block the way to evasions of the Control.

4. There remains the question of transactions on behalf of genuine consumers abroad. In the futures market itself this is no different from transactions on behalf of British subjects, except that a "swap" in foreign exchange presumably accompanies the deal. But normally a considerable business in "actual" cotton is financed here on foreign account, which immobilises our resources of exchange during the currency of the transaction. Such business is legitimate and provides an "invisible export" yielding exchange. It might be thought worth while, provided we can afford it, to give "approved" importers (as above) a maximum within which they must keep total foreign exchange outstanding on account of these transactions, and possibly to stipulate a minimum "margin" which must be put up."

At the beginning of December, after receiving Treasury approval of their draft proposals, the Bank entered into negotiations with the Liverpool Cotton Association. Final arrangements were made on the 7th February 1940 and were as follows:-

"As a result of conversations between the Bank of England, the Liverpool Cotton Association and the Manchester Cotton Association, the following arrangements have been agreed upon with a view to preserving, so far as possible, the freedom of the Cotton Trade to carry on business without endangering the objectives for which the Exchange Control was established.

1. The

1. The Liverpool Futures sterling contract will be freely available to all persons and firms connected with the Cotton Trade and to other clients who, in accordance with the circular issued by the Liverpool Cotton Association, have had dealings with Members' Registered Firms prior to December 16th. The latter clients, however, can only enter into transactions with the individual Members' Registered Firms with which they have dealt prior to the date mentioned. Profits accruing to foreign\* clients as a result of transactions in Liverpool futures may be credited to their account at any bank in sterling or remitted to the client by a sterling draft on a United Kingdom bank: such sterling will be at the free disposal of the foreign client. Foreign Exchange will not, however, be provided by the Bank of England or other authorised banks against such profits. It is understood that if at any time conditions develop on the futures market which seem likely to lead to the absorption of unnecessarily large amounts of foreign exchange, it may become necessary to place some restriction on the use of the futures contract.
2. The Liverpool Cotton Association and the Manchester Cotton Association will supply to the Bank of England an "Approved" List of their Members (other than Restricted Members) to which List there may be added from time to time, by agreement between the Liverpool Cotton Association or the Manchester Cotton Association and the Bank of England, the names of other reputable firms normally importing actual cotton and/or dealing in futures in New York and other American centres in connection with the import of actual cotton. The Bank of England and other authorised banks will grant exchange for such imports and/or futures transactions only to firms included in this "Approved" List, which firms shall give an undertaking to apply for foreign exchange under this arrangement only in connection with such business. "Approved" firms can only be granted exchange for dealings on their own account and not for dealings on account of  
third

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\*i.e., clients resident outside the British Empire (including Colonies, Protectorates, Dominions, etc.) Egypt and Iraq.

third parties; this provision will not exclude futures dealings in New York or other foreign markets on behalf of foreign clients, provided that all foreign exchange required for the business is found by the clients from foreign sources and that no loss of foreign exchange to the Control results from the transaction.

3. The "Approved" List will be lodged with the Bank of England together with the name or names of the bankers with whom each firm decides to concentrate its foreign exchange business arising out of cotton transactions. Each firm should at the same time submit to the Bank of England a statement of its outstanding cash and forward exchange position at the outbreak of war (if such a return has not already been submitted) and should thereafter return a similar statement for the last full business day of each month beginning with 29th December, 1939.

4. "Approved" firms will undertake to inform the Liverpool Cotton Association or the Manchester Cotton Association (as the case may be) of any abnormal deliveries of actual cotton made to persons or firms not usually interested in cotton, raw or processed, and the Association will notify the Bank of England.

5. As regards the physical import of American cotton, the Bank of England has already given permission to the Banks concerned -

- (a) To supply U.S.dollars spot or forward against contracts expressed in dollars to import "actual" cotton.
- (b) To continue such credit facilities as may be required to finance the movement of cotton.
- (c) To allot exchange against sterling cotton bills with documents attached discounted in New York on condition that a declaration is given that the shipment has not been covered by forward exchange and that the shipper is given the benefit of the official rate of exchange. Such bills must eventually be exhibited to the Bank of England as a check on the activities of the banks in New York."

The above

The above scheme operated for more than a year. Until the autumn of 1940 there was no great Government interference with the normal peace-time structure of the cotton market. On the 1st October the prices of raw cotton were temporarily fixed at the levels ruling in the Liverpool market on the 24th September, and from the 2nd December onwards controlled in relation to the movements of world prices. With such rigid control the purely speculative functions of the Liverpool market were eliminated; cotton merchants became, in effect, government servants working on a commission basis.

This development was one reason (of a negative character) for the closing of the Liverpool market on the 31st March 1941 for the duration of the war; though there were other reasons. Shortage of shipping space had caused the Government to exercise a close control of imports, and space for cotton had been gradually diminished from the middle of 1940 onwards. The British Government had made an agreement with the Egyptian Government in July 1940 to buy the entire Egyptian crop before April 1941; and in October 1940, in order to preserve foreign exchange and to ensure that certain foreign cottons were used for manufacture for export, the import of all foreign cotton was prohibited except under licence. In 1941 the Government began bulk buying in other countries and on the 1st April, through the medium of a newly-formed company, "Cotton Importers and Distributors Ltd", became the sole importer of raw cotton, at the same time requisitioning all existing stocks in the United Kingdom not already in the hands of consumers.

The Liverpool futures market thus became superfluous; and on the 1st April the official valuation quoted by the Liverpool Cotton Association ceased to be a maximum price and became a fixed price.

. . . . .

In addition to the arrangements made with the Lancashire Cotton market there were for consideration many other questions, both political and technical, connected with the Government's general cotton policy, and including of course exchange policy on which the Treasury consulted the Bank.\* The Bank's proposals were mainly

directed

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\*During these discussions at least a dozen memoranda were produced by the Bank, and are filed in E.R.C.11 (Vol.1).

directed to the diversion of purchases from the U.S.A., in order to save dollars.

As early as October 1939, for example, the Bank urged that some cotton should be bought from Brazil, if possible in exchange for reasonable debt settlements. Brazilian cotton was a better substitute for American than the short staple Indian growths. In January 1940 they also urged the limitation of the use of American cotton on the home market as a first objective. ↵

The Bank also pointed out the importance of assistance for textile exports. ↵ Partly for the above reasons and partly for reasons connected with home production policy, Government departments agreed on limitation; and on 16th April an order was issued restricting sales of textile piece goods and made-up goods to home trade retailers to 75% of pre-war sales (and sales of linen goods to 25%). Later the reduced imports enforced by reduced shipping space, and the demands of war industries for the diversion of labour from civilian trades, dictated yet further limitation; and in September sales of cotton goods for the next 6 months were reduced to 37½% of volume of sales in the "standard period". By April 1941 the shipping situation was worse, and the quota for April-September was cut to 20%.

In February 1940 the Bank were urging the purchase by the Government of Indian medium staple cotton - and, once more, a large part of the Brazilian export cotton. In return for our purchases India might be asked to take more goods from Lancashire and to use more short staple cotton at home. In this she might be helped, perhaps, by some of our redundant machinery.

#### Barter Agreements

The next development needs some reference to arrangements made with the U.S.A. a year previously.

In the Spring of 1939 the U.K. and U.S. Governments negotiated with a view to exchanging, on a barter basis, certain commodities to be held as strategic reserves in case of war. An Agreement was signed on 24th June for an exchange of 600,000 bales of cotton (valued at about £7½ million) against its equivalent in rubber (about 85,000 tons), to be held in reserve until the outbreak of war, or for 7 years. By the beginning of 1940 about 30,000 tons of rubber

had

had been bought (mainly in the Dutch East Indies) and about 240,000 bales of cotton either landed in or on its way to the U.K.

In April a new proposal by the U.S. Government was reported by the British Ambassador in Washington. The U.S. Government would either give credit against cotton purchases or consider a large barter deal for cotton, wheat and maize against, say, 240,000 tons of rubber, again to be held as an army war reserve for seven years, or until the U.S.A. became involved in war. The Ambassador also suggested that the possibility of buying cotton from Brazil should be used as a lever to get credit terms from the U.S.A. In a letter to the Treasury (1st May 1940) Mr. Cobbold said:

".....We are unrepentant in the view which we have frequently expressed that purchases from U.S.A. should be reduced to a minimum by diversion to Brazil, India and other sources. We remain wholly opposed to the policy of buying things from U.S.A. which we could get at less cost of exchange elsewhere in order not to offend certain American susceptibilities. It has always been and remains our view that the Americans should be clearly told that we have not got enough dollars for any purchases except those which are absolutely essential to our war effort (we have few enough dollars even for them).

Lord Lothian's latest cables seem to suggest that the figures given to him for prospective purchases are at least as high as the most optimistic Americans expect and also that there would be little real opposition to purchases in Brazil. I suggest that this gives you good ground for immediately re-opening the proposal to buy more in Brazil and India, which I think should never have been abandoned.

As to the proposal for a credit, we are wholly opposed (as we were in the tobacco case) to giving any undertaking to provide exchange to repay such a credit even after five years. If the Treasury once start to undertake liabilities of this sort for sectional interests they will never be able to stop and they will in fact be undertaking liabilities which they have no certain prospect of being able to meet. A policy on those lines seems

to me

to me far more likely to embroil us in trouble with the American Authorities than a reasoned statement of an adherence to the real position.

On the face of it I should have thought that the barter scheme as proposed has little attractions for us. It is a highly technical question and I do not feel qualified to give any detailed comments but it is clearly useless to us to fix up an arrangement which merely means earmarking a part of our normal sales to U.S.A. against additional purchases from U.S.A. We should also have to watch carefully the influence on prices of a large stock of rubber overhanging the market for a period of years.

I sincerely hope that a firm line will be taken on the question of cotton purchases and credits which I believe to be fundamental."

On the occupation of the Netherlands this barter scheme was withdrawn (see "Rubber").

Licences for the re-export of cotton to all European and Mediterranean countries, except France, had apparently been stopped at the end of April, and a proposal to license cotton imports was discussed early in May. The Bank welcomed this proposal and confined their comment to explaining normal Exchange Control practice, which was to provide exchange for all licensed imports, but only (as under existing arrangements) when the goods were about to be shipped. It was not until 30th September, however, that the Ministry of Supply made the use of foreign cotton subject to licence. The order applied to all cotton grown outside the Empire, although for the time being an open general licence was issued for Egyptian, Sudanese and French Equatorial African cotton. Apart from preserving foreign exchange, the object of the licensing was to see that certain foreign cottons were used only for export manufacture. (The exemption of Empire-grown cotton from licensing was withdrawn from 5th February 1941.).

Various amounts of Indian and Brazilian and also some Peruvian cotton were purchased, although apparently not as much Brazilian as the Bank would have liked. After 1940, however, the availability of Lend-Lease facilities for American cotton removed the exchange objections to its procurement, and decisions on our raw cotton requirements came to be regulated almost entirely on shipping and technical supply grounds, upon which H.M. Government had by that time highly-qualified advisers available in the Departments.

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Rubber

In January 1940 a survey of the rubber position from the point of view of foreign exchange was prepared in the Bank. The Sterling Area was a large net exporter of rubber. In 1938, for example, it exported 466,000 tons and consumed only 132,000. Taking the Empire as a whole, including Canada, the surplus in the five years 1934-8 ranged from 296,000 to 456,000 tons, while shipments to the U.S.A. ranged from 242,000 to 403,000. Only in 1936 did the surplus fall short of U.S. requirements; and after satisfying these the balance would, in most years, more than cover the total demand of all other hard currency countries. But this was in fact largely supplied by the Dutch.

These figures do not include the Malayan and United Kingdom entrepot trade in Netherlands East Indies rubber - for which the Area paid out guilders and received soft currencies. This trade varied from 107,000 to 219,000 tons in the same five years. Early in 1940 the Area's adverse balance in guilders was about £42 mn., of which a substantial part was due to this factor.

A solution was wanted which, while not endangering the price of rubber, would allow us to maintain the commercially profitable entrepot trade. The memorandum suggested that the only course was to make an agreement with the U.S.A. for the entire U.S. gross import of rubber, including entrepot rubber, to be drawn from Empire sources for the duration of the war. Should we need non-Empire rubber to meet the combined Empire and U.S.A. demand, we could buy it from the Dutch. Meanwhile, the regulation scheme could continue. If the Dutch did not agree, permits or exchange for imports of Dutch rubber could be refused and the balance needed could be made up by de-restricting Empire output. This point of view was not put before the Treasury.

The next move was the proposal by the Americans of a new barter deal in April 1940 (c.f. "Cotton" section). It will be remembered that the Bank believed that a more advantageous transaction might be arranged than under the American proposal to exchange cotton

and

and grain against the 240,000 tons of rubber which they offered to hold for seven years or until they were at war.

The Dutch had, however, been undercutting the British in sales of rubber to the U.S.A. after the introduction of the control of rubber exports on 9th March.\* This made the Bank less reluctant to accept some barter deal, and the Deputy Governor wrote to the Treasury on 13th May:

"I enclose a note which may throw some light on the Dutch sales of rubber for sterling in America. Whatever the motive of the Dutch exporters, they can drive our exports out only by cutting the price; to the extent that they are prepared to accept and hold sterling instead of dollars or guilders, it is only a way of cutting the price.

The only safeguard against such price-cutting by our competitors is to tie up the Americans in a barter agreement which requires them to take so much British rubber. These Dutch sales have a bearing on the tentative offer from Washington of a new barter agreement under which America would take 240,000 tons of rubber against cotton, wheat and maize. This seems to us an offer worth considering, on certain conditions:

- (a) It is not clear whether the 240,000 tons, which is less than our peace-time exports in a bad year, includes or is additional to the 85,000 tons of the existing barter agreement. An endeavour should be made to ensure that it is additional. This, I understand, has been taken up.
- (b) We should insist that the whole transaction is outside the scope of the International Rubber Restriction Scheme. This scheme governs normal commercial trade; since the proposed American purchase is for a war reserve, to be kept off the market for seven years unless America goes to war, it cannot be regarded as ordinary commercial trade. H.M.G. should therefore be free to ask British rubber producers, over and above their normal quota of exports, to supply this 240,000 tons as a war effort at a price fixed by H.M.G. It would be necessary to give an undertaking that as and when this 240,000 tons is put

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\*Under S.R. & O. (1940) No. 291.

on the market the British quota shall be correspondingly reduced. But the immediate need is to secure the rubber without expenditure of guilders, letting the distant future take care of itself.

The advantage of a barter scheme of this nature, in addition to securing an immediate sale, is that it fixes a sterling price for imported American products which we shall wish to buy anyhow and shall now take in exchange for rubber the price of which we fix and pay in sterling; and that it diverts to a hard currency market a lot of rubber handled by London (and sometimes purchased with guilders) which at present goes to soft currency markets.

The whole position may, of course, be radically changed by developments in Holland, either military or monetary."

The occupation of the Low Countries produced a new situation. The Americans dropped their barter scheme and were now anxious to buy all the rubber they could. They asked that the quota under the Restriction Scheme should be raised from 80% to 90%. The Treasury and the Bank, however, were at that moment conducting a delicate negotiation with the Dutch with the object of linking the guilder to sterling, and had some reason to fear that the N.E.I. currency would be linked with the dollar. If that should happen the Bank would favour a special sale of rubber to America for dollars, and in any case the arguments for a barter deal were now weaker. Meanwhile, the Treasury and the Bank desired that no commitment should be taken on the rubber proposals until the position was clearer. The barter scheme as such was abandoned on 20th May, and on the advice of the rubber experts the quota was provisionally continued at 80% for the last two quarters of 1940.

By an agreement of 14th June the N.E.I. currency had been linked with sterling; and early in July an agreement was made with the Americans, who offered to buy 150,000 tons of rubber, making advance payments which could be used for the purchase of essential agricultural commodities. The Americans soon increased their offer to 435,000 tons of rubber, of which they would not expect delivery for two or three years, and <sup>also offered</sup> to advance us dollars up to £75 million to buy cotton, tobacco and other of their surplus agricultural

products

products. The Embassy in Washington urged acceptance on the grounds that Congress and public opinion would then grant what they might not concede later if the war situation of Great Britain "became desperate". The Treasury, however, insisted (apparently on the suggestion of the Bank) that the U.K. should not be required to buy anything they did not really need, and asked to be allowed to use the credits for general purposes as well, e.g. <sup>for</sup> steel.

The Americans (20th July) were not willing to accept this counter-proposal, which might be expected to arouse opposition in Congress as a violation of the Johnson Act.

In August the Americans arranged to purchase a further 180,000 tons, bringing their emergency reserve up to 330,000 tons; the quota was raised to 85%, and in September to 90%, for the last quarter of 1940. The industry had lost its European markets, but the action of the U.S.A. kept it operating profitably at a fairly high level. The quota was again raised to 100% for the first quarter of 1941.

In July 1941 the Ministry of Supply became the sole importer of rubber, but continued to use the machinery of the London market for its distribution.

The war in the East <sup>entirely</sup> ~~completely~~ changed the rubber outlook, and on 21st December a "Rubber Control Board" was set up to exercise <sup>full</sup> ~~complete~~ control on behalf of the Ministry.

The fall of Singapore on 15th February 1942 completely undermined the supply position, and at the same time opened up vast possibilities for the American synthetic product.

In January 1942 the Rubber Trade Association of London prepared a memorandum which they forwarded to the Ministry of Supply, the Chairman of the Rubber Control Board and others, setting out the history of the London Rubber Market, explaining its operations, its importance to London, its benefits to producers and consumers, and the unfortunate position of dealers and brokers through the loss of business since the Ministry of Supply had become the sole importer and vendor of rubber during the war. The memorandum suggested that the Board of Control should appoint the Association to carry out its policy and authorise remuneration on a scale which would enable dealers and  
brokers

brokers to survive. Later, additional memoranda were prepared by the Association and forwarded to the Authorities.

The Bank of England were sympathetic. The London Rubber Market ought to be maintained in existence, and the closing of the Liverpool Cotton and Wheat Markets was not a precedent on which a decision concerning the Rubber Market should be based: this country <sup>was a</sup> ~~was a~~ net buyer<sup>a</sup> of wheat and cotton but <sup>a</sup> net seller<sup>a</sup> of rubber.

On 21st October 1942 the Governor wrote to the Minister of Supply -

"I understand that your Department has been considering the future of the London Rubber Market and that Sir Kenneth Lee\* has been asked by the Trade to speak with you before any final decision is taken which will break up the skeleton organisation that they have so far been able to maintain.

If the question is considered only as an immediate wartime issue I realise that there can be but one answer. Yet in this case I believe that the longer view may properly claim your attention. After the war it will be this country which will have to put the rubber plantations on their feet. They will have suffered more than almost any other important commodity producer, and they will have new competition to face from synthetic rubber in what has been their chief market. In reinstating the rubber producers it will be of the greatest advantage to us to have available the resources and experience of the London Rubber Trade. I fear that if we jettison what remains of the trade now we shall not only be depriving ourselves of that advantage but handing over the whole market in plantation rubber to the Americans who, I understand, are retaining a large part of their trade organisation under their wartime distribution arrangements.

I cannot in any case put to you too strongly the importance of doing all that is possible to ensure the resilience of a trade which had become our principal single source of dollar earnings."

Negotiations

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\*Director General of Controls, Ministry of Supply.

Negotiations between the Rubber Trade and the Government continued, and in February 1943 the British Ambassador in Washington forwarded some views connected with the rehabilitation of rubber plantations in the Far East, urging H.M.G. to formulate their plans for an early presentation to the Americans, and the Governor took the opportunity to reinforce his views by writing to the Colonial Office <sup>(17.2.1943).</sup>

The answer from the Minister of Supply to the letter of October 1942 did not reach the Governor until the middle of March 1943-

"I felt that the force and importance of the points set out in your letter were such that their consideration necessarily involved full consultation with the Treasury, particularly as these issues concern, though perhaps in a lesser degree, other organisations and businesses which are in peace-time important invisible exporters though their functions have been rendered wholly or partially redundant during the war.

You will know that the policy which has been followed in matters of this kind was laid down by the Ministerial Committee on Economic Policy in the early months of the war: in effect it makes it possible to remunerate intermediaries and other agencies only for useful services which they are able to render under the present economy. The policy does not permit payment to be made to such organisations or businesses which is in the nature of compensation for loss of business or goodwill or to maintain them in being for the post-war period. The whole matter has been most carefully discussed with the Treasury and in the result it does not seem practicable at the present time to depart from the general policy that has been laid down.

As regards the Rubber Market, we have, however, been able to agree with them on certain services which under present conditions they are able to perform, and have proposed terms of remuneration which they have accepted."

There seemed to be nothing more that the Bank could do. The Governor replied that he was glad that the Rubber Market would continue in existence and would be alive and available for service after the war. "Perhaps it will help us to defend our fair share of the rubber business against the American onslaught."

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On 23rd March the Governor wrote again to the Colonial Office, on the future of the plantations -

"From the telegram which you were good enough to enclose I gather that your plans are concerned only, or predominantly, with the period after reoccupation. That is indeed important. But I should like to believe that careful thought was being devoted to the rehabilitation and, if need be, the reorganisation of the plantation industry as a whole. It is, I suggest, important to ensure that the industry shall have every advantage of efficiency, organisation and finance when it faces its newly entrenched rivals in North and South America after the war. It will surely be too late to begin thinking about that after reoccupation."

Soon after re-occupation the Rubber Controller was released (1st November 1945) and replaced by two bodies, a Rubber Directorate and a Tyre Directorate.

Exactly a year later the Secretary for Overseas Trade announced in Parliament that the London Rubber Market would be re-established, with all its normal functions, on 4th November, 1946.

A few weeks previously the (International) Combined Rubber Committee had decided that the world supply position justified the ending of the system of international control.

*Huber*

Tobacco

In August 1939 it was known that the tobacco companies were holding sufficient stocks to meet about two years' demand. Before war broke out official limitation by the U.K. on import of tobacco from the U.S.A. would have contravened an Article in the existing Trade Agreement between the two countries; but the outbreak of war rendered that Article void. Recent suggestions that the companies should switch their purchases to Eastern Europe had not been favourably received.

Mainly U.S.A.

At the time war broke out the companies were in process of buying £15 million worth of American tobacco of which they had apparently already bought about £3 million. Tobacco was not included in the first list of goods subject to import licensing. The situation was delicate; although the need for saving dollars was immediate, suddenly to cut off buying (it was the middle of the buying season) would have created bad political feeling. An approach to the American Government explaining our difficulties seemed called for, with perhaps a hint at some kind of assistance - a loan from American banks to U.K. tobacco companies or a Government agency to help growers to finance the holding of stocks. In any case it seemed to be necessary to restrict the amount to be purchased to less than £15 million.

On 8th December, at a Treasury meeting attended by representatives of the principal tobacco companies, all companies agreed to submit immediately to the Treasury a complete statement of their stocks of tobacco and the time they were expected to last, and also full details of their currency assets and liabilities. They would also instruct their buyers in the U.S.A. to suspend buying pending examination of the general position.

Six big companies (Imperial, B.A.T., Carreras, Gallaghers, Wix and Godfrey Phillips) reported aggregate cash holdings of over \$40 million. If allowed, there were further purchases to be made of nearly \$60 million. Stocks on hand were expected to last from 1½ years

years (B.A.T. and Wix) to 2½ years (Godfrey Phillips).\*

In the face of a big American crop and the prospect of the market breaking <sup>were stopped,</sup> if all or a large part of buying the right policy had to be found. The Treasury held differing views among themselves - suspension of buying American, pooling of companies' stocks, taxation (or even rationing) to reduce consumption.

Before the end of September the War Cabinet had decided against further purchases of American leaf tobacco. Further, the Bank had issued (27.9.1939) instructions, internally, that no exchange was to be allowed or sterling transferred to a foreigner or sterling credit facilities given to purchase tobacco from the U.S.A., Canada, Cuba, Holland (or N.E.I.). Other applications might be granted so long as they involved no direct loss of exchange.

The next step was to require the companies to offer for sale to the Treasury their surplus dollars over and above any unavoidable winding-up expenses, the exact amount to be settled between the companies and the Bank of England. No further dollars would at present be allotted for the purchase of U.S. leaf tobacco (letter from Financial Secretary of the Treasury to the companies 30.9.1939).\*\*

The substance of the above arrangements was communicated to Australia, New Zealand and India by cable, <sup>and</sup> to Eire by letter: assurance was sought that <sup>no</sup> dollars <sup>for tobacco purchases</sup> would be allocated without previous consultation with the Treasury, by banks in those territories ~~and~~ ~~tobacco purchases~~. The Bank cabled in the same sense to the Central Banks of Australia, New Zealand and India (6.10.1939).

Early in November, though the non-availability of exchange for tobacco purchases was generally known, there was some doubt as to when the interested parties had received the information. The Bank had telephoned the authorised dealers as early as 5th September; on 26th September the whole market had received notice (F.E.18); and on 11th October the Tobacco Trade Organisation circularised their own market.

\*The C.W.S. were also asked for figures. They held no free dollars and did not state the expected duration of their stocks.

\*\*Exceptionally, the B.A.T. were granted a limited amount of dollars to buy leaf tobacco for manufacture for export only (export trade was about £5 million a year).

market. The position of tobacco shipped between 2nd September and 11th October was thus not clear. Various decisions were given to meet differing situations; but the criterion generally was that no exchange or sterling transfer should be allowed for tobacco ordered since the outbreak of war.

The U.S. Government, finding it necessary to finance part of the American crop because of the failure of U.K. companies to make their usual purchases, arranged with the Imperial Tobacco Co. to store and hold supplies of leaf on their behalf, giving them an option to buy up to July 1941, an arrangement which involved no dollar credits or further expenditure by the companies. No undertaking, however, was given by H.M.G. to make dollars available for this purpose.

The fact that manufactured tobacco could still be bought against sterling was a cause of grievance to U.K. manufacturers, denied exchange for the import of leaf. A proposal to extend import licensing to both manufactured and unmanufactured tobacco had been under consideration for some months, and their import <sup>with out licence</sup> was prohibited as from 1st January 1940, though goods despatched to the U.K. before that date did not require a licence.

As early as February 1940 the tobacco companies lodged a formal protest and application to be allowed to buy in the U.S.A. The Imperial Tobacco Co. put forward a plan by which a corporation in the U.S.A. would buy tobacco <sup>for which</sup> ~~which~~ the British companies would pay the sterling equivalent of the required dollars into a special account; while the U.S. corporation would agree not to ask for transfer for (say) 20 years. An additional 10% in sterling would be put up to cover exchange risks. The arrangement was intended to be a private business one in which H.M.G. would have no part. This idea - in principle blocked sterling - was not acceptable <sup>to H.M.G.</sup> but the possibility of a dollar loan might be explored.

It was desirable to buy about half the 1939 crop, which was held by the Commodity Credits Corporation and would cost about \$20 million. Obstacles to a loan were the exchange risk and the lack of suitable assets as security. Perhaps the possibility of the sale of sterling bonds would be examined? The Treasury were against anything which would injure <sup>the</sup> prestige of sterling (the 10% depreciation element in

in the original scheme implied expectation of a fall); the American buyer of sterling security could re-sell in the U.K. and take out dollars; and nothing must be done which other traders would use as a lever to press H.M.G. to allow them to buy in America by a means equivalent to blocked sterling.

The Imperial then suggested that the sterling should be invested in 3% War Loan, to be deposited with an American bank as security for the dollar loan, and that they should negotiate for themselves and any other manufacturers wishing to participate.

The Treasury were again unable to agree, but had no objection to the companies exploring in America the possibilities of a straight dollar loan, say for not less than 10 years and up to a maximum of \$15 million. H.M.G. could not, however, guarantee to supply dollars to cover interest. The Imperial did not ~~feel~~ <sup>feel</sup> able to proceed with a plan which would involve their taking the whole exchange risk.

The policy with regard to the export trade pressed for quick settlement: trade might be lost if companies lived on their stocks and began to export goods made from <sup>to pieces of</sup> deteriorating quality. The Treasury thought that the B.A.T. were in a stronger position than the Imperial to obtain a straight dollar loan, and sought the Bank's <sup>chairman</sup> views. The Governor went into the question with the B.A.T. (Sir Hugo Cunliffe-Owen) and his chief representative, then in London.

The B.A.T. submitted an explanatory note in which they proposed to ask for authorisation to borrow \$5 million and to use the interest and dividends from their American investments in annual repayments. The Bank suggested, as an alternative, that the dollars should be borrowed (for five years on notes or for two or three years by bank advances) by the Brown & Williamson Tobacco Corporation, all of whose shares were directly or indirectly owned by the B.A.T.

The final proposal was that Brown & Williamson, who needed to borrow to finance their own purchases <sup>from</sup> ~~out of~~ the 1940 crop, should borrow at the same time the additional \$5 million required by the B.A.T. Security would be part of Brown & Williamson's leaf and part of the B.A.T.'s holding of Brown & Williamson's shares.

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The transaction was completed by the end of May when the Guaranty Trust Corporation of New York made Brown & Williamson a loan of \$15 million at 2%. \$1 million were repayable in each of the first two years of its currency, \$1½ million in each of the third and fourth. The remaining \$10 million was on a five-year note. The Treasury permitted the B.A.T. to retain \$1 million a year towards the service of the loan. The B.A.T. were also allowed to meet \$6 million of their total requirements by retaining currencies derived from their sales in third countries; so that with the loan they were enabled to spend \$11 million for tobacco from the 1939 American crop.

The financing of the Imperial Company's requirements still hung fire. American banks would not make an unsecured grant and it looked as though negotiations with the Export-Import Bank, who had been interested enough to make an approach, would also be unsuccessful. Nothing, in fact, came of them, and the Imperial presumably continued to draw on their substantial stocks in the U.K.

#### Lend-Lease

Quite soon after the passing of the Act tobacco was included among commodities eligible for Lend-Lease, but in April 1942 it was made clear that this did not apply to "non-combat areas or areas remote from active conflict"\*; and from April 1943 Lend-Lease supplies of tobacco for civilian use ceased. (No payments for tobacco were made between June 1941 and May 1943).

The Bank were not concerned with the Government's arrangements for selling to manufacturers, and were not, in fact, called upon to any great extent to deal with or comment upon matters connected with Lend-Lease tobacco.

The precise amount of Lend-Lease tobacco received by the U.K. is an elusive figure. U.S. Trade Accounts distinguish between Lend-Lease and other shipments, but shipments to the U.K. are suspect since they almost certainly include a large amount of leaf tobacco which passed through the U.K. and was eventually consumed in manufactured form by our forces overseas. And the simple deduction of the sterling equivalent of dollars released to buy tobacco from the value of total imports is unsatisfactory: tobacco could be acquired  
for

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\*Statement (30.4.1942) by the Lend-Lease Policy Committee.

for dollars accumulating on the B.A.T.'s retained account; which purchases, in turn, might be either for the B.A.T. in the U.K. or for Brown & Williamson in the U.S.A.

Perhaps the best idea of the extent to which Lend-Lease relieved our dollar reserves of a further drain for tobacco purchases is to set out figures given in a Parliamentary answer\* to the question "How much was paid for United States tobacco imported into this country in each of the years 1938 to 1944" side by side with corresponding figures for total imports of tobacco from the United States as recorded in the official trade returns of the U.K.:-

<u>£ millions</u>	<u>Total Imports</u>	<u>Amount Paid (Hansard)</u>
1938	17.8	17.6
1939	8.3	8.2
1940	3.6	3.6
1941	11.6	1.6
1942	14.0	Nil
1943	36.5	17.6
1944	26.4	20.1

Thus, in the four full war years 1940-1944, of total imports amounting to £92 million, £43 million are stated to have been against payment, so that we appear to have received some £50 million Lend-Lease tobacco.

~~Here, again, the close correspondence between Imports and Amount Paid in the three early years arouses suspicion that "Amount Paid" was in fact "Imports", irrespective of when the payments (often in advance for tobacco) were actually made. This, however, does not affect the Lend-Lease period.~~

#### Canadian Tobacco

\*Hansard 20.12.1945. It is not known how the pre-war figures of "Amount Paid" were arrived at: presumably they are simply recorded import values very slightly adjusted.

Canadian Tobacco

In December 1939, at the request of the Treasury, Canadian dollars were made available to some twenty firms of manufacturers (a schedule of amounts allotted to each firm was submitted) to enable them to import 8 million pounds of leaf tobacco from Canada during 1940, of which nearly a third was allotted to the Imperial Tobacco Co.

On 23rd August 1941 the Bank wrote reminding the Treasury of their agreement to release dollars, at the end of 1939, for the purchase of Canadian tobacco, and pointing out that while most of the firms on the schedule had utilised their full quota, the Imperial and one other company had not. What, if any, were more recent arrangements for buying Canadian leaf? The Treasury replied that exactly similar arrangements were being made as for 1940. This meant that the U.K. had agreed to purchase a further 8 million pounds before the 1942 crop came to market.

It appeared later that the Tobacco Controller, who had been in Washington discussing the application of Lend-lease to tobacco, had been under some pressure from the Canadians there, and in Montreal, to take an additional five million pounds, a further supply which could easily be used. The Treasury were against spending the extra dollars, the Bank less strongly; both thought that Mr. Munro's opinion should be taken. He supported the idea and the extra purchase was made, the Imperial getting nearly half the allotment in addition to rather more than half the 8 million pounds. Canadian dollars were similarly released for purchases of

of ~~£~~ 16 million <sup>pounds.</sup> from both the 1943 and 1944 crops. <sup>Actual</sup> Imports and dollars released compare as follows:- 942

<u>Year</u>	<u>Imports</u>		<u>Sterling equivalent of Can. \$ released</u>
	<u>lbs. million</u>	<u>£ million</u>	
1940	8.5	.58	.4
1941	2.5	.19	.4
1942	10.7	.90	.3
1943	9.1	.89	.7
1944	8.9	.95	.8
1945	12.1	1.39	1.7

### Oriental Tobacco

The blending of a proportion of Balkan and Turkish tobacco with American in cigarettes for home consumption had been advocated for some years. But the proposal met with much resistance owing to the conservative taste of the British cigarette smoking public\*. Except for export, where blending was already the practice, manufacturers were reluctant, and Greek and Turkish delegates who came to England in 1939 returned home disappointed.

Empire tobacco had of course found a small market; and increasing supplies, as they became available, looked like being absorbed, particularly when imports of American were restricted.

In the Autumn of 1940, however, the Government took a longer view and arranged to buy £500,000 worth of Greek tobacco which would be ready for shipment in October 1941, and further purchases were decided upon at a Treasury meeting on 20th December 1940, though they were expected to invite criticism in the U.S.A.

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\* including H.M. Forces. According to the B.A.T. the Government, in their earlier orders, insisted on "Players," made entirely of high grade American leaf, for the ration supply.

(It does not transpire apparently whether they did). In 1941 <sup>943</sup> tobacco to the value of £753,000 was imported from Greece, but only insignificant amounts thereafter until 1946.

The purchase of Turkish tobacco was associated with the terms of ~~the~~<sup>a</sup> special agreement with Turkey\* under which the U.K. and France engaged to deliver £15 million of gold to Ankara as part of a credit of £43½ million granted to Turkey. (The Bank expressed a strong preference that the gold should be set aside in London, but in the event it had to be shipped). Service on the British part of the gold loan was to be in the form of half-yearly annuities in Turkish pounds, to be used by H.M.G. to purchase commodities from Turkey, including tobacco. The departmental responsibility for purchasing tobacco was on the Board of Trade but the Treasury decided to employ the B.A.T. as their agents. Since, *at first*, purchases of tobacco had to be paid for in advance of the annuity dates, the financial arrangements involved the Bank in swaps of gold (set aside in London) for Turkish pounds, the amount not to exceed the total annuity payment next due and the gold to be bought back after not more than 90 days\*\*.

The Turkish end of the business is not without interest. The B.A.T. employed one merchant of repute, who bought, stored and ~~secured~~<sup>the</sup> tobacco. When he required an advance to meet his expenses he informed the B.A.T. in Turkey, who advised their London headquarters. This began a chain of advices and authorisations - to the Board of Trade, through the Treasury and the Bank of England, <sup>and</sup> in Ankara both the Commercial Secretary and the Turkish Central Bank (where the Turkish pounds were held for the E.E. Account). On instructions from the Board of Trade the Turkish Central Bank paid the £T into a special account with the Ottoman Bank in the name of the Turkish merchant. Finally the merchant drew on the Ottoman Bank, who were throughout registered with the Turkish Régie as the holders of *the* tobacco

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\*8th Jan. 1940, renewed on 1st January 1941 for 1 year.

\*\*Owing to differential rates the Bank incurred a small loss on these transactions, recoverable from H.M.T.

Except in the first half of 1940 tobacco was not bought to the full amount of the annuity payments, which were of the order of £T4½ million <sup>a year,</sup> and there was no provision in the agreement as to when the £T received from the loan service should be spent. In August 1941, H.M.G. were not over-anxious to buy Turkish tobacco because of losses at sea and further risk of them. At the same time, the Bank did not wish to accumulate £T indefinitely. The British Ambassador was strongly against any cessation of purchases, which he feared would have serious political reactions (particularly German propaganda) in Turkey. Purchases, in fact, seemed to have continued throughout the war, Import of tobacco from Turkey:-

Annual statement of trade of U.K.

In 1941	£560,000
In 1942	463,000
In 1943	187,000
In 1944	1,461,000
In 1945	<u>601,000</u>
	£3,272,000

*Purchases may, of course, have been more regular than these figures indicate, and the tobacco stored in Turkey. They do account for the greater part of the annuity payments (expendable also on other commodities); which in five years would amount to about £T 22½ million, or just over £4 million sterling.*

By the end of 1940, the large companies had signed a voluntary agreement to buy the U.K. Government's oriental tobacco, which they obtained at cost price to the Government.

From the blenders' point of view the best Balkan tobacco was Bulgarian; <sup>and there were Bulgarian loans in default</sup> Suggestions (in February 1940 to the Board of Trade and <sup>in</sup> January 1941 to the Treasury) that moderate purchases would be readily absorbed by the English companies came to nothing. The second suggestion was by Mr. Cobbold, who thought that Bulgaria would want payment in raw materials but ..... "we have a strong case for insisting that part payment at least should be in sterling for the benefit of the bondholders".

Tin

From the end of October 1939 the Treasury and the Bank were anxious that commodities of which the Empire had a surplus for export should be invoiced in hard currencies if sold to hard currency countries, and the question as it affected several commodities, including tin, was discussed with the relevant Ministries at the Treasury on 28th December. Mr. Cobbold then stated that export control for exchange purposes had been long under consideration, but that it had been decided to take no action in the first months of the war so that exporters might have time to adjust themselves and get the export trade going. Now the Bank proposed to make a start with a few commodities which were good dollar earners. As regards tin, they hoped to arrange for exports to hard currency countries still to be financed in sterling in the London market, the credit-giver to obtain an undertaking to cover sterling bills in hard currency. It was realised that ~~the risk of a sudden loss of financing~~ <sup>Some</sup> and shifting of the market <sup>(and its financing)</sup> away from London had to be <sup>risked.</sup> ~~avoided~~.

The Bank's general view on Tin is given in a memorandum of 22nd January 1940:

"As with rubber, the Empire is, on balance, a large exporter. The following table compares Empire production with Empire consumption (Canada for this purpose being included), and shows the surplus for the last three years.

	(000 tons of metal)		
<u>Empire</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Production	86.4	99.0	61.8
Consumption	27.0	32.2	23.9
Surplus	59.4	66.8	37.9

In addition to the tin actually mined in the Empire, the smelters in England, Singapore and Penang attract large amounts of tin for treatment and re-export. The non-Empire tin coming to the U.K. is mainly from Bolivia, with smaller amounts from Chile; that going to Malaya is mainly from Siam, with smaller amounts from French Indo-China, Japan and China. Thus, provided that we can resist the demands for dollars in payment  
for

for this imported tin, no hard currency payment is involved, as there is for our entrepôt rubber bought from the N.E.I. The amount of non-Empire tin ore or concentrate imports into the U.K. and Malaya in recent years ~~has~~ <sup>was</sup> been:-

(000 tons of ore or concentrate)

	<u>1933</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>
U.K.	19.9	30.1	35.9	38.8	32.4
Malaya	<u>16.9</u>	<u>17.4</u>	<u>16.3</u>	<u>20.9</u>	<u>25.9</u>
Total	36.8	47.5	52.2	59.7	58.3

These imports, together with the Empire surplus, ~~give~~ <sup>give</sup> us control over a very large proportion of the world's tin output, Bolivia and Siam (who both send <sup>d</sup> their concentrates to us) being the only large non-Empire producers apart from the N.E.I.

The objectives of tin policy thus appear to be relatively simple:-

- (1) To refuse payment in hard currency for tin imports.
- (2) To maintain world prices at as reasonably good a level as possible - which appears to amount to keeping the restriction scheme in existence.
- (3) To sell for as much hard currencies as possible.

Owing to the U.S. preference for Straits tin our position there is reasonably strong in any case. In recent years the proportion of Empire tin entering into U.S. imports has varied little from 85%. It might be considered worth while to attempt to induce the U.S.A. to buy all her tin from us for the duration of the war. But a U.S. agreement is not the key to our strategic position in tin as it is in rubber and in tea. For the rest, we should perhaps seek to increase the Empire share in tin imports by minor "hard" consumers, and discourage Empire and French purchases from any but sterling sources. But no set plan of campaign seems to be called for as with rubber and tea."

Meanwhile, late in 1939, it appeared that the Americans were proposing to set up a smelting plant to deal with Bolivian tin, which might be adverse to the continuance of London's predominance as the world's tin market, though the net value of our exports of tin smelted in this country was not large. The chief Bolivian producers

had

had an interest in the Liverpool Smelters and in the Penang Smelters, but payment difficulties - Bolivia had a big favourable balance with the U.K. in free sterling - might lead to their acceptance of American proposals.

Our normal purchases of Bolivian tin were about 17,000 tons (fine) a year. Purchases in war-time were generally higher. In January 1940 the Treasury, the Bank and the Ministry of Supply were thinking of a compromise to be made with one producer, the Aramayo Company, who produced about 7% of Bolivia's tin output. The proposal was that 40% of the sterling proceeds of the tin sales of this Company, which was registered in Switzerland, should be converted into Swiss francs, and that this arrangement should not be disclosed, no other Bolivian company having raised the question. The agreement was apparently concluded early in February.

The Bank then proceeded to make arrangements with the London Metal Exchange, asking them to make their offers of tin in sterling at the official rate, and giving them the assurance that the dollar/sterling rate would remain unchanged to them while such offers remained open. This agreement was completed by the middle of March. (See F.E.234.10 for full terms.)

#### American demand and Restriction

Going back to May 1940, the Americans appeared likely to come into the market for all the tin they could buy, say 50-100,000 tons in the next year, and wished the quota to be raised accordingly. The maximum world output was estimated at 230,000 tons a year, and demand had been running for some months at a rate which would absorb all this if the building up of stocks were included. In consideration of their large demand the U.S.A. had asked that the price should be lowered. The sterling price, which had been £230 a ton until 11th December 1939, was well above this level in May; and at £230 the buffer pool was normally supposed to begin selling. A still higher price, however, ruled in New York, viz. 50 cents a pound, which was about the level prevailing since 1934.

A meeting at the Colonial Office, attended by the Bank, thought that the Americans should pay the dollar price and guarantee to keep it at 50 cents or above. The meeting decided to recommend to the International Tin Committee that the quota should be raised from 80% to 100% for the 3rd quarter of the year. (Earlier in the month the Bank had suggested an increase). The Americans should be informed that if a satisfactory agreement were reached the quota would be raised to 120%, equivalent to maximum output. On 8th July the quota was, in fact, raised to 130% of standard and remained at this level until the removal of all restrictions soon after the entry of Japan into the war.

The Americans appear to have kept the price around 50 cents until January 1942, when it went up to 60 cents. They bought 75,000 tons, offering advance payments on condition that the United Kingdom bought certain agricultural products. As in the case of rubber this offer was not accepted.

#### Bolivian Agreements

The fall in the dollar value of the free pound at the end of March 1940 made the Bolivian position acute, as the producers were receiving an effective price of about 39 cents a pound as compared with 45 cents, the price in New York. Moreover, two American companies were already experimenting with Bolivian tin concentrates and were contemplating building a smelter.

In these circumstances the Bank expressed willingness to consider a private Payments Agreement between the Bolivian producers and the English smelters, whereby the whole of the Bolivian tin concentrates would be purchased f.o.b. at the current sterling price, 50% of the proceeds to be spent in the Sterling Area and the balance transferred into gold at the Bank's official selling price (then 169s. an ounce). The gold would be at the free disposal of the Bolivians.

In May Mr. Antenor Patino of the Patino Company, but negotiating as Bolivian Minister in London, made the counter proposal that gold should be provided for 75% instead of 50% of the proceeds, and the Bank and Treasury countered with an offer of two-thirds.

All participating companies were to sell the whole of their output of concentrates to the British for ten years; but the gold clause was to operate only until the cessation of hostilities, when H.M. Government would have the right to withdraw this facility on six months' notice, and either side could terminate their payment arrangements by giving similar notice.

Negotiations dragged on until the 8th August, when a contract was made between the Patino mines only and Messrs. Williams Harvey & Co., the smelters. (Patino was the most important of the Bolivian tin interests and controlled <sup>Williams</sup> Harvey & Co.) In the previous month various departments of the American administration had been holding conferences with the four principal smelting companies in the U.S.A., with a view to relieving the U.S.A. of dependence on foreign smelters; and it was said that the Americans were influencing the Bolivian Government in their hesitation to give assent to the Patino contract, which, however, was secured on the 21st May 1941 by means of an Intergovernmental Agreement. The Americans had secured a contract in October 1940 with all the Bolivian producers except Patino. Meanwhile the Payments Agreement (signed 31st March 1941) with which the Tin Agreement was linked, was also being negotiated.

Negotiations for the Patino contract were fraught with all manner of vicissitudes; but the need for securing the Patino Companies' tin and the Bolivian Government's approval seems to have dictated the provision in the eventual contract for the payment of 75% in gold asked for by Patino. On value the terms were complicated but were substantially the price of the London Metal Exchange. This price was paid from August 1940 to December 1941, when the Agreement was modified; and from January 1942 to June 1943 the equivalent of the U.S. price, then 60 cents (= £333:10: - per ton). Mr. Patino had constantly asked H.M. Government for the equivalent of the U.S. price, but it was only conceded on the closing of the London Metal Exchange for tin in December 1941, when Japan entered the war and international control

control ended. After June 1943 the same price continued to be paid, although no agreement was made.

As a result of pressure from the U.S.A., who found great difficulty in operating their new Texas smelter with lower grade ore, it was agreed in 1943 to divert a proportion of the Patino production, which was of high grade, to the U.S.A. Some 8,000 tons (fine) were so set aside for the Texas smelters in that year. The Americans asked for the whole of the Patino production in 1944 to be diverted to them, but this request was not granted. For 1945 the U.K. agreed to a further diversion to the U.S.A. of 50% of the Patino output, delivery to be spread over the whole year because of shipping difficulties.

American delay caused considerable difficulties over payment for the diverted tin, but it was arranged that Patino should continue to receive 75% gold and 25% sterling, while the Ministry of Supply secured reimbursement 100% in dollars from the U.S.A., who had refused payment in Registered Sterling.

Tea

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Early in 1940 the Bank felt that the International Commodity Agreements limiting production should be re-examined from the point of view of their advantages or disadvantages in war-time to the Sterling Area.

Urged by the Bank, on 19th January the Exchange Requirements Committee took this view as regards Tea, and asked the Ministry of Food to review the position; bearing in mind that -

- (1) Rationing might be desirable, on shipping rather than exchange grounds, *though* there were strong political advantages in favour of freedom of consumption of an outstandingly popular article like tea to set against the rationing of other articles.
- (2) The Empire as a whole was a net importer of tea, owing to *the* consumption of Java tea by Australia and Egypt. It followed that on exchange grounds our interest lay in a low world tea price. It also followed that on exchange grounds the abrogation of the Tea Restrictions Scheme should be pressed for, unless such a step endangered the Empire's export and re-export markets of tea.

The Bank thereupon produced a memorandum (22nd January) which showed that if the absorption of the Sterling-Allied group as a whole was taken the net import was substantial. Thus, on balance we had (normally) to pay out hard currencies, in practice mainly guilders. This would not happen but for the Restriction Scheme.

The U.S. and Canada were the only "hard" countries that took significant amounts of tea from us. If we were by some means to obtain from both an undertaking to import at least as much Empire tea as in some given (large) recent year, it could not seem unreasonable. The amount involved would be about 35 million lbs. to each, 70 million lbs. in all; and the value about £3½-4 million. The next step would be to induce the Empire (and, if possible, the French Empire too) to buy only Empire or "soft" tea.

The biggest change in sources of supply would be in Australia which took over 30 million lbs. a year from the Dutch. Egypt and the Sudan would also change over from a largely Dutch to a purely Empire supply; but in doing so would save shipping. A net advantage in hard exchange of perhaps £2-3 million might be obtained.

A meeting

A meeting held at the Ministry of Food on 12th February, with representatives of the Colonial Office and the International Tea Committee present, was against any full application of the Bank's suggestions, the Colonial Office and still more the Tea Trade being opposed to upsetting the agreement. The Ministry of Food were to give careful consideration to rationing later, probably in the Autumn.

The Bank decided to watch the position and press for rationing in good time, but did not urge the proposal to ask the U.S. to maintain her imports of Empire tea at pre-war level, which they feared was impracticable. The Dutch were said to be making great progress in America at the expense of Empire tea.

A meeting at the Ministry of Food on 11th April 1940 agreed that no further action should be taken on the proposal to ask Australia to take more Empire tea; and that the Ministry of Food should try to get consent for a purchase of Java tea for home consumption.

The Australian market could be supplied by diverting some existing U.K. exports from the soft currency countries and former enemy countries to which they were going; but <sup>probably</sup> not without (a) reducing consumption in the U.K., or (b) increasing Empire output, either of which would break the Tea Restriction Scheme. Was it worth while to upset this and risk a fight between the Dutch and this country for the U.S. market for £2-3 million a year? The Bank still thought it was, but proposed to look into the position in greater detail.

Barter schemes were now in the air. In April the Bank agreed that if we refused to buy Dutch tea the Dutch would have to find outlets by underselling us in our outside markets, especially U.S.A., with the net result that though we might exclude hard imports we should lose our hard exports, and be little better off on balance.

That argument would, however, lose its force if we could do a barter deal in tea with the U.S.A. We should be assured of our market and should remove Empire tea from U.S. price fluctuations. Canada should not, perhaps, present much difficulty since she imported very little Dutch tea at any time, and might consent not to change over to Dutch tea. This point of view, however, does not seem to have been pressed further on the Treasury.

At the

At the end of April the Ministry of Food wished to buy 30 million lbs. of Java tea for home consumption. In June this proposal was resisted by the Bank in spite of the guilder having meanwhile been linked to sterling. It would be more to the point to dispose of additional supplies in the U.S.A., if this could be done without a fall in prices.

After the occupation of the Low Countries and France, the situation changed again considerably and the Bank's revised views were forwarded to the Treasury in a letter of 17th June:

".....After looking further into the possibility of increasing our tea sales in New York through mobilisation of the big British tea blenders and distributors there, I have come to the conclusion that there is not much to be looked for from that. Now that the Dutch are with us, the main problem is to ensure that whatever tea is sold in New York shall fetch as good a price as possible. The distribution of the sales between Dutch and British tea is a matter of secondary importance.

On the other hand it seems that some thirty million pounds of Dutch tea will be surplus this year. If we refuse to buy it for U.K. consumption, it is not too early to consider with the Colonial Office what joint steps should be taken by the Dutch and ourselves to prevent that surplus depressing prices in New York."

The stock of tea in the United Kingdom was running down, and on 26th June the Exchange Requirements Committee agreed to purchase 40 million lbs. from Java at a cost of £1,300,000.

Tea rationing was introduced into the United Kingdom on 9th July 1940.

For 1941 an arrangement was made in February to take 48 million lbs. from the Dutch out of a total of 485 million lbs. from all sources. The Treasury thought the result would be a better balance in world markets generally, with India and Ceylon having much more and the Dutch rather less to dispose of than in 1940.

The picture was once more altered by the U.S. Lend-Lease Act (11th March), after which, except for attempts to cut down expenditure on advertising in the U.S.A. and Canada, the Bank were not active until the Tea programme for 1942 was discussed. The Ministry of  
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of Food's proposal (November 1941) was the same as for the previous year. But they feared that the Java supply might be interrupted by war with Japan and wished to buy a further 50 million lbs. from the Empire, which would mean an increase in the Empire crop. The Bank pointed out, that under the International Agreement, this would mean a corresponding increase in the Java crop with a consequent over-supply and fall in prices:

".....It would appear that even if the Java supply is cut off for the whole year, the shortage will only be 23,000,000 lbs, or less than 5% on current consumption.

.....In the supplementary memorandum, from the Tea Branch of the Ministry of Food, the following sentence occurs.....

'Further, the supply (i.e. the extra 50,000,000 lbs.) might be of value politically in speeding up the abolition of the ration.'

I think this shows what their attitude is."\*

In short, the Bank did not think it justifiable to spend hard currencies in order to make the position of the Food Ministry easier.

The Treasury, after first considering a compromise, accepted the Bank's views, and at a meeting of the Committee on 4th December rejected the idea of buying the extra amount from the Empire (India). The Food Ministry admitted that an increase in the production of tea had been their "main interest". On 29th January 1942, however, the question was before the Committee again; and this time they gave way, apparently in view of the military situation, shipping developments, and the likelihood of higher prices in 1943.

After this the Bank appear to have confined themselves mainly to efforts to reduce expenditure on advertising. For many reasons, the Bank did not regard favourably the Board's arguments for much higher allocations; for one thing the Netherlands Government had refused to contribute more than a token payment. However, expenditure in 1945 was back to the 1941/42 level.

Funds

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\*Memorandum L.P.T-McC. 26.11.1941.

Funds made available by the Control to the International Tea Market Expansion Board for advertising and maintenance of a skeleton organisation in North America were:-

	<u>U.S.\$</u>	<u>Can.\$</u>
Year ending 30th September 1940	750,000	145,000
1941	250,000	50,000
1942	250,000	50,000
1943	50,000	15,000
1944	100,000	30,000
1945	250,000	50,000



It is clear from these figures that:-

- (1) Consumption of newsprint is much greater than the consumption of any other class of paper.
- (2) As a higher proportion of newsprint than of the other papers is home manufactured and therefore relies on imports of pulp, a very large proportion of our pulp imports must be for the manufacture of newsprint.

Taking all classes of paper together, about 70% of home consumption is supplied by home production. But that generalisation includes such products as greaseproof paper, tissue paper, and strawboard, of which home production is much smaller than imports. Exclusion of those classes would give home production about 75% of the home market. In any case it is evident that we import only about one-quarter of our requirements in the form of paper, boards, etc., and about three-quarters in the form of pulp.

2. The closing of the Baltic would cut us off from our principal source of imports of both paper and pulp, with the exception that over 70% of our import of newsprint is from Canada and Newfoundland, and practically the whole of our import of strawboard is from Holland. The following table shows the sources of our imports of the principal paper products in 1937 and 1938 (the grouping is not quite the same as in table 1).

(000's Cwt.)

	<u>1937</u>		<u>1938</u>	
	<u>Quantity</u>	<u>Percentage</u>	<u>Quantity</u>	<u>Percentage</u>
<u>Newsprint</u>				
From:-				
Canada, New-				
foundland and				
other Empire	6,973	73	6,515	71
Baltic and Enemy	2,125	22	2,183	24
Others (mainly				
Norway)	<u>524</u>	<u>5</u>	<u>456</u>	<u>5</u>
	<u>9,622</u>	<u>100</u>	<u>9,154</u>	<u>100</u>
<u>Packing &amp; Wrapping</u>				
From:-				
Canada (and other				
Empire)	115	2	78	2
Baltic and Enemy	4,848	77	3,174	71
Others (mainly				
Norway)	<u>1,346</u>	<u>21</u>	<u>1,252</u>	<u>27</u>
	<u>6,309</u>	<u>100</u>	<u>4,504</u>	<u>100</u>
<u>Boards (other</u>				
than Netherlands				
strawboard)				
From:-				
Canada (and				
other Empire)	868	18	790	21
Baltic and				
Enemy	3,041	65	2,214	59
Others (U.S.,				
Norway,				
Netherlands)	<u>806</u>	<u>17</u>	<u>734</u>	<u>20</u>
	<u>4,715</u>	<u>100</u>	<u>3,738</u>	<u>100</u>
<u>Netherlands</u>				
<u>Strawboard</u>	<u>4,783</u>		<u>3,477</u>	

The imports from the Empire other than Canada and Newfoundland are very small.

3. As was shown in paragraph 1, our pulp import is much greater than our paper import. The sources of our pulp imports have been:-

<u>U.K. imports of all wood pulp - 000's tons</u>				
	<u>1937</u>	<u>Percentage</u>	<u>1938</u>	<u>Percentage</u>
Canada (and				
Empire)	52	3	49	3
U.S.A.	15	1	18	1
Baltic and Enemy	1,402	78	1,257	78
Other (mainly				
Norway)	<u>325</u>	<u>18</u>	<u>293</u>	<u>18</u>
	<u>1,794</u>	<u>100</u>	<u>1,617</u>	<u>100</u>

Note: These figures are given in "Air-dry" weight for wet pulp).

Apart from esparto grass, of which we import over 300,000 tons a year from Algeria and Tunis (and a little from Spain), there is no other substantial import of paper-making materials. Two points are suggested by the table:-

(1) The obvious point that the closing of the Baltic would cut us off from four-fifths of our pulp supply.

(2) That Norway is the chief remaining source of supplies.

4. There is another factor, which seems likely to limit the alternative supplies available from Canada and Newfoundland. It is that U.S.A., who imports even more wood pulp than we do, normally draws about two-thirds of her import from the Baltic. (France, whose import is about a quarter to a third of ours, also gets her pulp mainly from the Baltic). There is thus likely to be a big diversion of U.S. demand to Canadian suppliers, and a general world shortage of wood pulp. The following table shows the proportion of world exports of mechanical and of chemical pulp respectively coming from Baltic and enemy sources in recent years:-

(000's metric tons)

(000's metric tons)

	<u>1935</u>	<u>1935</u>	<u>1937</u>
World exports of:-			
<u>Mechanical Pulp</u>			
Total export	984	1,019	1,146
Percentage from Baltic and enemy sources	64%	61%	59%
<u>Chemical Pulp</u>			
Total export	4,320	4,765	5,284
Percentage from Baltic and enemy sources	78%	76%	75%

5. As home mills could cover the whole of our reduced requirement of all the main paper products (i.e. excluding such things as tissue paper and strawboard, of which most of our normal requirement is imported) the question arises whether we should import any paper at all. The following considerations seem to be relevant:-

- (1) The cost of converting pulp into newsprint (which is a cheap form of paper) is about £4 per ton. In the case of Newfoundland, however, a considerable part of this £4 is in the cost of coal and materials imported from the U.K., so that the foreign exchange loss on importing paper from Newfoundland instead of pulp is less than £4 per ton. There is probably not the same offsetting import from the U.K. in the cost of Canadian newsprint.
- (2) A normal mix for newsprint is 80% wet mechanical pulp and 20% dry sulphite. The wet mechanical pulp is about twice as bulky as the paper it will make. Therefore about 50% to 80% more space is required for importing the pulp for a given quantity of newsprint than for the newsprint itself. Against this must be set the waste of space involved in stowing the rolls of newsprint. It is claimed that for newsprint in rolls there is not much net saving in shipping space from importing paper instead of pulp. The same might not apply to newsprint not in rolls; but the import of that is relatively small. For any large newspaper press rolls are essential.

(3) The

(3) The majority of our imports of chemical pulp are "dry", on which there is very little, if any, waste of shipping space as compared with the paper which can be made from the pulp. In normal times, however, as much as 25% of our chemical pulp imports are "wet". Some 90% of these imports of "wet" chemical pulp are from the Baltic (the greater part from Sweden), so that, if the Baltic is closed, "wet" chemical pulp imports might fall to a low figure.

It would appear from these considerations that import policy might be shaped on the following lines:

- (a) The saving of foreign exchange to be had by importing pulp instead of paper should make for import of pulp where there is no substantial loss of shipping space involved. This would in practice mean that we should manufacture here all papers with a high content of chemical pulp and a low content of mechanical.
  - (b) Flat papers or boards with a high content of mechanical might offer an advantage in shipping space if imported as the manufactured product instead of as pulp. Information on the relative saving in space might be sought for the principal products. That saving could then be considered against the extra cost in foreign exchange.
  - (c) The import of newsprint in rolls from Newfoundland would probably have to be considered by itself.
  - (d) It would be worth enquiring whether the import of wet chemical pulp need be continued.
6. Woodpulp is required not only for paper but for rayon and explosives. But only the highest grade bleached chemical pulp is used for explosives, and then only to replace cotton linters, so that pulp is not essential in explosives manufacture. The consumption of woodpulp in rayon manufacture in 1935 was about 42,000 tons - not a large amount in comparison with total consumption, but a factor to be borne in mind.
7. It is worth observing that virtually all paper and pulp imports must be from hard currency countries if the Baltic is closed.

8. The conclusions

8. The conclusions seem to be:-

- (1) As a world shortage of pulp threatens, we should take steps to secure the very maximum amounts available from sources near at hand, of which Norway is chief. On the short voyage the waste of carrying space on wet pulp will not matter so much as on the longer voyage from Canada.
- (2) If the world shortage develops and prices rise, we shall be in danger of paying out more hard currency for less pulp and paper unless we take early steps to reduce our consumption to the probable level of available supplies.
- (3) As, after doing all we can to secure near-by supplies of pulp and to import in the most economical way, we are still likely to be very short of supplies, we should cut paper consumption by a greater margin than the 40% cut now in force. A cut of 67% would not seem to be too high in view of the probable shortages.

Newspapers and magazines are the biggest consumers. A very steep cut in their requirements should be possible without damage to the national effort. It might be open to them to mitigate the effect of a steep tonnage cut by reducing the weight of the paper used.

The consumption of packing and wrapping papers seems capable of a steep reduction without ill effects. In industry and wholesaling, jute sacking can in some cases be used to replace paper; in retailing big economies are obviously possible, more especially if the packaging of goods purely for publicity purposes is discontinued."

A further memorandum on 5th April (not sent to the Treasury) pointed out that the United Kingdom normally spent about £30 million a year on imports of paper and paper making materials, and that a cut to 60% only might be offset by a rise in price. Normal consumption used at least 2 million tons of shipping a year. On the other hand, although wet pulp was more bulky than paper it seemed to be more easily stowed. Judging by the last war, a cut to 25% of normal would not be excessive.

On

On 18th April the Treasury stated that as a result of the German occupation of Scandinavia a further £4 million worth of mechanical pulp would have to be bought from Canada and Newfoundland. Mr.Cobbold at once suggested a further cut in consumption, and on 23rd April at the Treasury Mr.Thompson-McCausland pointed out that the Ministry of Supply were proposing to spend £33-35 million, an amount greater than in any peace year, and urged that a firm line should be taken with the Paper Controller (chosen from the Trade) and on newsprint. Since newspaper proprietors wanted an 8-page paper as the minimum that would leave enough advertising space to pay expenses and enough news space to compete with the B.B.C., why not raise the price of papers from one penny to two pence?

Following a discussion in Committee on 23rd April, Mr.Cobbold wrote to the Treasury (7th May):

".....I understand that a further meeting of the E.R.C.is to be held shortly to discuss the programme for the remainder of 1940 with particular reference to consumption. The programme submitted to and provisionally considered by the E.R.C.meeting on the 23rd April seems to me fantastic in the present state of our dollar resources. On the figures submitted the proposed expenditure on imports seems to be on the basis of £33-35 million a year, which appears actually to be greater than in any peace year.

On the basis of the Ministry of Supply memorandum..... the annual import programme is:

	(000 tons per annum)
Paper making materials:	
Pulp and esparto	500
Pulp wood (in pulp equivalent)	158
Paper	690
Newsprint	<u>325</u>
	<u>1,673</u>

(This excludes 57,000 tons per annum of pulp for rayon).

Of the above, only 11,000 tons a month (132,000 per annum) is required for export.

In support

In support of the contention that the paper import programme is excessive, the following figures for the reduction of paper imports between 1913 and 1918 are interesting:

	<u>Imports of Paper and Pulp</u>		(000 tons)
	<u>1913</u>	<u>1918</u>	1918 as % of 1913
Paper	644.1	104.6	16 $\frac{1}{2}$ %
Pulp etc. (dry weight)	<u>942.4</u>	<u>384.0</u>	<u>41%</u>
	<u>1,586.5</u>	<u>488.6</u>	<u>31%</u>

In 1938 our imports of paper and pulp were:

Paper	(000 tons) 1,070.7
Pulp, etc. (dry weight)	<u>1,963.8</u>
	<u>3,034.5</u>

Assuming the same percentage cut as in 1918 against 1913 (i.e. to 31%) our imports now should be 940,000 tons.

It seems to me a case which calls for a strong attitude on the part of the Exchange Requirements Committee. I do not believe that the exchange considerations have been properly taken into account in forming the programme and I think that we should consider the advisability of laying down a maximum for foreign exchange expenditure well below the figure now envisaged....."

The same opinions were emphasised by the Bank at an Exchange Requirements Committee meeting two days later, and it was decided to press for a reduction in paper and newsprint consumption in 1941 to 30% of pre-war. Further purchases in 1940 were authorised in anticipation of a rise in prices.

Meanwhile, at the end of April, a sub-committee of the Priority Department of the Ministry of Supply ("Burleigh Committee") began to consider all uses of paper, etc., from cheque forms to railway containers and the export book market. In the Autumn this Committee put up a programme of imports for 1941, representing a consumption of about 42% of pre-war (instead of 30%) and the Exchange Requirements Committee on 11th September seemed prepared to accept this increase provisionally.

After

After this date the Bank's contributions to discussions are not of any special interest until the end of the war in Europe was in sight - and also the danger that powerful Press interests would put forward claims for the gradual restoration of newspapers to pre-war size.

The Control's case is concisely put in a letter (H.A.S. 3.4.1945) to the Treasury:

"I am told that an extra four pages allowed to the newspapers would cost us about £5 million in imports..... The present four page paper is so cheap to produce that it pays on circulation alone, whereas an eight page paper is, I understand, an uneconomic business, being neither small enough to pay on circulation nor big enough to bring in a profitable advertising revenue. The real choice lies between a four-page paper and a twelve-page paper and the real sum at issue is therefore more likely to be £10 million than £5 million"

The book publishers' case, to which the E.R.C. had long been sympathetic, was argued by (among others) Mr. I. J. Pitman\* (Letter 13.4.1945). Mr. Pitman stressed, in particular, the dangers of American competition for the sale of British authors' rights and for our channels of distribution at home and abroad.

The newspapers were answered in October, when the Chancellor (Mr. Dalton) informed the Newsprint Supply Company that owing to the dollar shortage an increase in imports of newsprint must be postponed indefinitely. As a consequence, daily newspapers' allocations remained at 24% of pre-war, weeklies were raised from 21½% to 28½% and books from 50% to 65%.

In July a proposal by the Board of Trade (I.L.D.) to remove all restrictions on the import of books was opposed by the Bank. Nearly eighteen months later an Open General Licence was announced, to operate from 1st January 1947 for the import of all books (not periodicals) except fiction in English and children's books.

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\*A director of the Bank at the time.