

*Main Provisions of Agreement between the Allied Controllers and the German Government.*

In my opinion all these objects were attained in the above-mentioned agreement, the main provisions of which may be summarized as follows:—

- (1.) The balance of indebtedness to the six Powers concerned was provisionally fixed at £24,000,000, which was to be secured by the issue of German Treasury bills maturing month by month on a gradually ascending scale, commencing at £300,000 and rising to £500,000 a month. The Allied Controllers estimated this balance at £36,000,000, but, on the other hand, the German Clearing Office contended that it would not exceed £14,000,000. The sum of £24,000,000 was agreed to by way of compromise, with a proviso in the agreement that any balance in excess of £24,000,000 should be secured by a further issue of bonds as and when such balance had been definitely ascertained.
- (2.) The proportions of the monthly instalments payable to the individual Allied Clearing Offices were fixed by the agreement.
- (3.) Upon ratification of the agreement the bonds for £24,000,000 to be at once deposited with the Reichsbank in exchange for a solemn undertaking to be given by it to the Bank of England, the Bank of France, and the National Bank of Belgium, to present them at maturity and to account to the said banks for the proceeds in the proportions fixed by the agreement.
- (4.) In the event of dishonour of a bond by the German Government, mark obligations to be substituted therefor to the aggregate amount of the exchange value of the primary bond at the date of its maturity. The substituted bonds to be payable to bearer and to be declared legal tender for payment of all German Government taxes and Customs duties.
- (5.) In the event of Germany obtaining hereafter a foreign loan, such an amount to be allocated in discharge of the obligations of the German Clearing Office as the Allied Governments, in conjunction with the German Government, might determine.
- (6.) Unsatisfied balances on the monthly accounts to carry interest at the rate of  $4\frac{1}{2}$  per cent. per annum.

These were the main provisions of the agreement. By the issue of bonds estimated to cover the total outstanding balances due or accruing due to the Allied Offices it regulated the method of payment, and by putting the whole series of bonds in escrow it ensured their regular distribution amongst the Allied Offices without the possibility of interference by the German Government, for the Reichsbank, in its own interests, might be relied upon to keep faith with the Allied banks. Moreover, in the event of the failure of the German Government to meet these bonds at maturity the Allied Clearing Offices would have received in substitution a security which would have been readily saleable, for no Government could exist without imposing taxation. It will be seen, therefore, that the agreement, if ratified, would have secured finality and provided reasonable security for the discharge by Germany of her obligations under the clearing system, and by removing all inducement to withhold the admission of Allied claims would have expedited their settlement.

*Conditional Approval by the Reparation Commission not acceptable to the Allied Clearing Offices.*

On the 30th October last, upon my return from Berlin, I forwarded a copy of the above agreement to the Reparation Commission, with a request for approval by them. On the 17th April last the Reparation Commission passed a resolution refusing such approval except upon conditions, of which the principal was an insistence upon their right in certain circumstances to suspend or reduce the payments under the agreement by postponement of the maturity of the bonds. As the acceptance of these conditions would, in my opinion, have disorganized the whole machinery of the agreement and defeated the main objects which the Controllers had in view in settling its terms, I wrote to the Reparation Commission, with your approval, requesting them to appoint a day to hear an application by me to vary their decision. In response to this request the Reparation Commission fixed the 22nd June, when I attended with my Allied colleagues and addressed the Commission at length, explaining the reasons why, in our opinion, the conditions which they attached to the approval of the agreement could not be accepted. My application to vary was supported by the whole of my Allied colleagues, with the exception of the Belgian Controller, who opposed, on instructions from his Government. The Commission, after according us a full hearing, adjourned their decision to give them an opportunity of considering the arguments which we had submitted to them. Subsequently I received a communication from the Commission notifying me that they adhered to their former decision.

The present position is, therefore, that the Clearing Offices are relegated to their Treaty rights, and are entitled to payment by the German Government of the monthly balances as and when they accrue due to them.

**BRITISH EMPIRE ACCOUNT WITH GERMANY UNDER ARTICLE 296 OF THE TREATY OF VERSAILLES.**

47. A statement showing the monthly balances from April, 1923, to March, 1924, which are owing by Germany to those portions of the British Empire which have established Clearing Offices under Article 296 of the Treaty of Versailles has been compiled from figures supplied by the Central Clearing Office, London, and is printed in the Appendix to this report. The accounts for the period June, 1920, to March, 1923, were published on page 20 of my previous report (H.—25, 1923). Since September, 1922, Germany has been in default in making payment of the balance due to the British Empire under para. 11 of the Annex to Article 296 of the Treaty, but, as will be observed from the above-mentioned statement, in February and March of this year Germany made two small payments amounting to £15,705 and £15,040 respectively. The total cash payments received from Germany in accordance with the provisions of Article 296 of the Treaty is £23,665,591. The balance in connection with Clearing Office transactions due by Germany to the British Empire up to the 31st March, 1924, is £4,218,758.

**NEW ZEALAND ACCOUNT WITH THE CENTRAL CLEARING OFFICE, LONDON.**

48. All claims under Article 296 of the Treaty of Versailles which are established by British nationals resident in New Zealand against German nationals or by German nationals against New Zealand nationals are credited by the debtor Clearing Office through the Central Clearing Office, London. An account has therefore been opened by the Central Clearing Office for incorporating therein the admissions between the New Zealand Clearing Office and the German Clearing Office. Until Germany made default in the payment of the balances due by her to the Allied and Associated Clearing Offices, as described in the two preceding paragraphs, the balance of the New Zealand Clearing Office account with the Central Clearing Office was settled monthly. If there was a balance in favour of the Central Clearing Office the High Commissioner for New Zealand, in London, paid the amount to that Office out of the New Zealand Clearing Office funds held by him; if, on the other hand, the balance was in favour of the New Zealand Clearing Office the amount was paid by the Central Clearing Office to the High Commissioner.