

MEMORANDUM

1) On the 1st of December the Swiss Trade Delegation was handed a draft for a proposed Agreement in connection with the purchases of the Government of the United Kingdom in Switzerland.

2) The draft provided that all debts so due on the coming into force of the proposed agreement or falling due while it is in force, should be paid in Sterling to a Special Account at the Bank of England in the name of the Swiss National Bank at the official rate for Swiss Francs fixed by the Bank of England on the date on which payment in Sterling is made, the Swiss National Bank to pay the equivalent of the Sterling sums received at the same rate in Swiss Francs to the Swiss creditors.

3) It also provided that the National Bank would pay into the Special Account all sums in Sterling and the proceeds of the sale of any gold or securities (if and when sold) at present owned by them in the United Kingdom, with the provision that the free export of such gold, if desired, would not be subject to restrictions.

4) It was further proposed that the sums standing from time to time to the credit of the Special Account should be employed only for payments of goods purchased in the United Kingdom and the rest of the British Commonwealth of Nations (with certain qualifications), of debts due from persons in Switzerland to persons in the same countries-in



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countries in respect of freight, royalties, insurance, patents, commissions, contracts made before a certain date, or for such other purposes as may be agreed upon between H.M. Government and the Swiss Government.

5) The Swiss Delegation has since discussed in Switzerland with the Swiss Authorities and the National Bank the new situation created by these proposals and they feel it is their duty to state that the proposals have caused disappointment and no little surprise. This proposal is in fact tantamount to the establishment between the United Kingdom and Switzerland of a system involving on the part of Switzerland purchases of British or Empire goods and services as high as the purchases of Swiss goods by H.M. Government. In the present state of affairs it is out of the question that Switzerland should ever be in a position to be able to use such an amount of British goods and services.

6) The Swiss Government fully realize and appreciate the reasons which prompted H.M. Government to seek a solution to the currency and transfer problems arising out of the purchases made and to be made by H.M. Government in Switzerland, and they, in conjunction with the National Bank, have therefore carefully considered in what way they could best contribute to the furthering of the

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future exchange of trade between the two countries.

7) The Swiss Government and the National Bank feel however that the proposals contained in the draft agreement would not be compatible with the present Neutrality Laws of Switzerland. In addition the proposals, apart from the limited capacity of Switzerland to absorb in goods, freights, insurance etc. the huge Sterling balances which would accumulate from time to time in the Special Account, would involve exchange risks which could not be borne by the Swiss National Bank or the Swiss Government.

8) Furthermore, and although the Swiss Government believe that it is not the intention of H.M. Government to cause in respect of their purchases a deviation from the guiding principles adopted by the Swiss Government for the execution of orders for war material entrusted to Swiss Industry, the proposals contained in the draft agreement submitted on December 1st would in fact result in a direct credit being given for such war material by way of advances to be made by the Swiss National Bank to the Swiss manufacturers against the Sterling balances accruing on the Special Account.

9) While it is not possible for the reasons explained to accept the proposals contained in the draft agreement, the Swiss Government, in their effort to enter into H.M. Government's intentions and to find a solution to the currency and transfer problems involved, have decided

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to offer an alternative solution which they feel would in practice more directly obviate the most acute of the problems with which H.M. Government is concerned. The Swiss Government are to this effect prepared in principle to authorize the opening of a substantial credit in Swiss Francs which for obvious reasons should preferably take the shape of an agreement between a syndicate of British and Swiss Banks. Such a credit would in their opinion make it possible to improve considerably the results so far reached in the negotiations for the normal exchange of trade between the two countries and to find a satisfactory solution to the difficulties of those Swiss Industries mostly affected by the policy hitherto followed by H.M. Government, and having regard also to the pre-war contracts and the Tourist Trade.

10) The credit which might be revolving by nature and, once the amount has been fixed in relation to the ultimate outcome of the trade negotiations, could offer certain important possibilities to use Sterling in the United Kingdom and the British Empire, whereby the freeing of fresh Swiss Franc supplies could be made available from time to time.

11) In view of the stringent necessities falling on the Swiss Money Market for the financing of the Swiss Mobilisation and Defence expenditure, and to avoid a

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too heavy strain being put on the country's financial resources by similar credits being demanded from other sources, it would appear to be of paramount importance that under the special circumstances the proposed credit should be provided with adequate guarantees or safeguards and possibilities for the Swiss Banks to mobilize it in case of need, so as to ensure the fulfilment of its comprehensive purpose.

11th December, 1939.