

October 31, 1946

Dear Mr. Dalton:

In examining the agreement signed by representatives of the Governments of the United Kingdom and Argentina on September 17, 1946, I have noted that Section B(6) of Article I provides as follows:

"If in any year the balance of payments with the sterling area be unfavorable to Argentina, Argentina may furthermore dispose freely within the said area of its sterling balances for an amount equivalent to the deficit."

This provision, which appears to have the effect of making the amounts so released available for expenditure solely within the sterling area, seems to be inconsistent with Section 10(ii) of the United States-United Kingdom Financial Agreement of December 6, 1945, which provides as follows:

"(ii) In consideration of the fact that an important purpose of the present line of credit is to promote the development of multilateral trade and facilitate its early resumption on a non-discriminatory basis, the Government of the United Kingdom agrees that any sterling balances released or otherwise available for current payments will, not later than one year after the effective date of this Agreement, unless in special cases a later date is agreed upon after consultation, be freely available for current transactions in any currency area without discrimination."

You will recall that Section 10(ii) was considered by both of our Governments to be a very significant provision, and that it was only after considerable discussion that agreement was reached as to its formulation. It seems clear from the discussions before your Parliament and the documentation relative to the Agreement that the meaning of this section and the importance attached to it by the United States were fully appreciated by your Government.

In the light of these facts, I am sure you can understand the concern of this Government upon learning that the Government of the United Kingdom had entered into a subsequent agreement containing a provision apparently in conflict with Section 10(ii).

While I have not completed my consideration of the other provisions of the Anglo-Argentine agreement, the importance of the apparent conflict explained above impels me to invite your attention to it without delay. I hope it will be possible for you to consider this matter and communicate with me with respect to it at an early date.

Very truly yours,

/s/ JOHN W. SNYDER

Secretary of the Treasury

Right Honorable Hugh Dalton
Chancellor of the Exchequer
Treasury Chambers
London, England

Copy # 2

Treasury Chambers
Great George Street
S.W. 1, London, England
17th December, 1946

My dear Mr. Snyder,

Your letter of October 31st about the Agreement signed between the Government of the United Kingdom and Argentina on September 17th 1946 was delivered to me personally by a member of the American Embassy in London, on November 27th.

I have read it carefully. I agree with you that Section 10(ii) of the Financial Agreement of December 6th 1945, provides that, a year after the effective date of the Agreement, any sterling released will be freely available for current transactions in any currency area.

The Agreement with the Argentine Government carries this out in respect of current sterling as from the date of that Agreement itself. It also provides that a certain amount of the accumulated sterling, standing to the credit of the Argentine, should be released in each of the next four years, for use in any currency area.

I suggest that it is not possible to separate the terms of any agreement we can make in this difficult field from the circumstances of the negotiations, or the facts of the trade with the country with whom the agreement is concluded. The parts of the Agreement with the Argentine which relate to the treatment of sterling are for four years. The probability of a deficit between the Argentine and the Sterling Area during those four years is hypothetical. At present, the Argentine is a large net earner of sterling, by reason of the supplies we are taking from her. This position has regularly marked the position of the trade between the two countries in the past, and it is not likely to be materially changed during the next four years.

I suggest, therefore, that further consideration of this hypothetical question might be deferred, until events indicate that there is some reasonable probability of it becoming actual. In the meantime, as I have already stated, all the net sterling that the Argentine is earning will be available for current transactions in any currency area, as well as part of the accumulated balance.

I need scarcely add my personal assurance that I am very mindful of our obligation under the Financial Agreement.

Yours sincerely,

/s/ HUGH DALTON

Mr. John W. Snyder

My dear Mr. Dalton:

I have read with great interest and care your letter of December 17, 1946, in response to my letter of October 31, 1946, with reference to the agreement signed by the Governments of the United Kingdom and Argentina on September 17, 1946. I am pleased to have assurance of your understanding that Section 10(ii) of the Financial Agreement of December 6, 1945, provides that one year after the effective date of the agreement any sterling balances released will be freely available for current transactions in any currency area.

May I now advert to two points in your letter which give me especial concern.

You suggest, first, that "it is not possible to separate the terms of any agreement...in this difficult field from the circumstances of the negotiations, or the facts of the trade with the country (concerned)". I assure you that I appreciate fully the difficulties involved in the negotiation of the sterling balance settlements. These difficulties cannot, however, be regarded as justifying commitments which contravene the terms of the Financial Agreement. Otherwise, as I am sure you will agree, the entire agreement could be rendered meaningless.

Secondly, you point out that in the past Argentina has regularly been a large net earner of sterling and that the probability of a deficit between Argentina and the sterling area during the next four years is hypothetical. Your letter suggests, accordingly, that the inclusion of Clause I B(6) in the Anglo-Argentine Agreement has little practical significance. While this may prove to be the case, this argument overlooks the fact that Clause I B(6) itself may furnish an incentive to Argentina to incur a payments deficit vis-a-vis the United Kingdom. Moreover, I must confess that I am unable to reconcile with the spirit of the United States-United Kingdom Agreement any commitment which under certain contingencies, even though remote, might require action at variance with the Agreement.

In the light of the not inconsiderable resistance that had to be overcome before we obtained Congressional ratification of the Financial Agreement, I think you can realize our concern over this matter and the importance we must attach to the fulfillment of the obligations undertaken therein by your Government. I am sure you

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will appreciate also the difficulties which must arise if future agreements involving settlements of accumulated sterling balances should contain provisions similar in intent to that of Clause I B(6) of the Angle-Argentine Agreement. I would therefore welcome some statement from you indicating that your Government has no intention of including such a clause in future agreements.

May I also point out that if and when there is reasonable probability that Argentina will incur a current deficit with respect to the sterling area, this Government would expect the United Kingdom to make appropriate adjustments with the Argentine Government, so that no discrimination at variance with the United States-United Kingdom Financial Agreement would, in fact, arise.

I have spoken frankly because of my grave concern over this matter, and because of my fear that instances of this kind, if permitted to recur, may make more difficult the maintenance and further development of those close and friendly relationships between our two countries which, I am sure, both of us wish to foster.

Sincerely yours,

Secretary of the Treasury

Right Honorable Hugh Dalton
Chancellor of the Exchequer
Treasury Chambers
London, England