

FEDERAL RESERVE BANK
OF NEW YORK.

X-2076

December 1, 1920.

OFFICE CORRESPONDENCE

To Mr. Jay
From E. R. Kenzel

SUBJECT: Australia and New Zealand
as countries whose customs
of trade require facility
for creating dollar exchange.

Referring to Governor Harding's letter of November 30 and the letter of the National Bank of Commerce, New York, dated November 29, attached thereto, in connection with this subject:

I have given careful consideration over a long period as to the desirability of permitting Australasian banks to draw dollar bills on American banks and bankers for the purpose of creating dollar exchange. I am convinced that it would be desirable and that the customs of trade and the financial and trade conditions there at the present time fully justify it, for the following reasons, among others:

Australia and New Zealand are almost exclusively agricultural countries, which depend on their exports of agricultural products as means of payment for their necessary imports. As in all agricultural countries the export movement is seasonal and when outward exchange is not making, they must have financing over the season until exports will resume. This they have heretofore had exclusively through London and the British interests which control all of the Australian banks have created a monopoly for sterling in the overseas business with Australasia. Practically all of the business done by the Australasian banks, they being British owned, is done for account of London. Penetration of American banking into Australasia has heretofore been impracticable because of the close monopoly maintained by the interested banks. This has resulted in a handicap against American commercial relations with Australasia and has practically, although not specifically required, both

with regard to imports and exports between this country and Australasia, that the business should be done in sterling and transacted through British banks, which has imposed rather a burden upon our trade with these countries.

At the present time, however, there is an opportunity for the penetration of dollar credits into Australasian markets, and the establishment of dollar exchange in those markets, at least one way. This condition arises from the fact that the stringency of credit in London prevents the establishment of credits there against which Australasian banks might draw in anticipation of their wheat and wool bills which will begin to be making in January and February. This view has been recently confirmed to me by bankers here, including foreign bankers who are closely in touch with the situation and have recently conferred also with Australian bankers who are visiting here. I believe that Australasian banks would welcome the opportunity to draw dollars on this country and that their ability to do so would be the entering wedge to the development of the trade custom of selling our exports to Australasia in dollars, which would relieve our exporters of all hazard of exchange in their traffic. There is no doubt that I have heard expressed anywhere as to the absolute integrity of the Australian banks and their ability to meet any obligations which they would assume and which would be granted to them in this country, and their trade position is, I believe, absolutely sound.

A further great advantage to our American commerce of the granting of this facility, and particularly at this time, would be the relief to our exporters who have large amounts due them for goods already shipped, upon which collections can not be made. Also, the export trade

to these countries, solely on this account, has come practically to a standstill. There is an excellent demand for American manufactures from customers there who are well able to pay for the goods, but lacking exchange facilities, are unable to do so.

I have heard no objection raised in any quarter, even among the foreign bankers represented here, against the granting of this facility in respect of Australasia, and I can conceive of no reason why it should not be done.