

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9004

October 31, 1934.

Dear Sir:

On June 8, 1934, following the approval by the United States and Cuba of a treaty abrogating the so-called Platt amendment, the board of directors of the Federal Reserve Bank of Atlanta adopted a resolution directing the officers of the bank to apply to the Federal Reserve Board for permission to discontinue the agency operated by the bank at Havana, Cuba. A copy of the resolution referred to is attached.

The Federal Reserve Board was advised of the action taken by the board of directors of the Atlanta bank, and after giving consideration to the matter, decided to arrange for a meeting in Washington of representatives of the American and Canadian banks operating offices in Cuba for the purpose of discussing with them the question of the discontinuance of the Havana Agency.

Such a meeting was held in Washington on July 13, 1934, at which representatives of the National City Bank of New York, the Chase National Bank of New York, the First National Bank of Boston, the Royal Bank of Canada, the Canadian Bank of Commerce and the Bank of Nova Scotia were present, and the resolution adopted by the

board of directors of the Atlanta bank and the following telegram received under date of July 12, 1934, from Acting Governor Johns of the Federal Reserve Bank of Atlanta, were brought to their attention:

"The following cable has been received from Manager of our Havana Agency:

"Late yesterday the Cuban Secretary of Treasury called me to his office and advised that he had information that a conference between Federal Reserve Board and representatives of foreign banks operating in Cuba would be held July 13th to discuss the Cuba situation. He states that both he and the President feared that this conference might result in the withdrawal of the Havana Agency and due to the valuable service rendered considered the withdrawal of it would prove very detrimental to Cuban interests and would like to see any such decision avoided if possible. Secretary of Treasury requested that I advise you that on July 13th he will recommend to cabinet repeal of all legislation relative to withdrawal of money from Cuba enacted since May 22nd and that in all probability immediate adopting in this connection will be taken. Secretary of Treasury and the President request that this information be transmitted to you with the request that you transmit same to Federal Reserve Board."

Governor Black advised the representatives of the banks that the functions of the Havana Agency since its establishment had consisted largely of the furnishing of new currency to banks in Cuba, the exchanging of fit currency for mutilated, dirty and unfit notes, and the handling of cable transfers between the United States and Cuba. He said that the agency had been operated at a loss and that such operating losses had always been accepted and had not affected the continuance of the agency by the Federal Reserve Bank of Atlanta, but that the directors of the Atlanta bank had been concerned about conditions in Cuba and felt that the full responsibility of the agency

should not be upon the Atlanta bank and that this was especially true because the agency served the commercial and exchange needs of all parts of the United States and was in reality operating for system purposes; that for a considerable period the Havana Agency kept on hand approximately \$25,000,000 in currency and in emergencies a great deal more; that the amount had been reduced to between \$10,000,000 and \$12,000,000 after conferring with banks in Cuba; and that the reduced amount had been found to be a sufficient supply to keep on hand at the agency except in cases of emergency. (In this connection it may be noted that under date of September 17, 1934, the Board was advised by the Atlanta bank that its directors had authorized the reduction of the amount of currency at the agency to \$5,000,000). He stated also that the Havana Agency was established for the purpose of carrying on the operations of a money depot in Cuba at a time when transportation facilities were slow and unsatisfactory as compared with those of today; that the Federal Reserve Bank of Atlanta has a branch in Jacksonville, Florida, where it keeps on hand both issued and unissued currency which can be transported by airplane from Jacksonville to Havana in a few hours; that currency also can be sent by rail to Key West, Florida, and from there could be transferred by plane to Havana in a few hours; and that in the circumstances it would seem that the transportation problem as between this country and Cuba has been solved. He added that he was of the opinion that the directors of the Federal Reserve Bank of Atlanta were not concerned greatly over the possibility of actual loss of funds inasmuch as it was felt that the

revolutions in Cuba were merely political uprisings, but he felt that the primary considerations prompting the action of the directors of the Atlanta bank in adopting a resolution to discontinue the Havana Agency were (1) the fact that the transportation problem has now been solved, (2) that the directors desire to eliminate the risk of the political unrest in the island, and (3) the recent abrogation of the so-called Platt Amendment.

All of the bank representatives present at the meeting expressed the opinion that the agency should be continued and they were requested to address letters to the Board setting forth their reasons for their opinion. Copies of the letters received by the Federal Reserve Board in response to this request are attached for your confidential information.

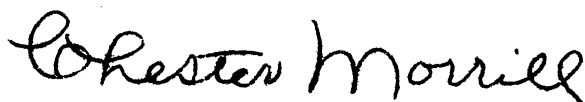
At a meeting of the board of directors of the Federal Reserve Bank of Atlanta held in Atlanta on August 10, 1934, at which Governor Black was in attendance, he reviewed the consideration given by the Federal Reserve Board to the resolution adopted by the Atlanta bank relative to the discontinuance of the Havana Agency and stated that he had considered the possibility of the agency continuing as a system agency which would be operated by the Federal Reserve Bank of Atlanta for the twelve Federal reserve banks. At that meeting the directors of the bank voted that the Federal Reserve Board be advised that the Atlanta bank would cooperate in a system operation of the agency and that, in their opinion, such an arrangement would be a proper solution of the problem.

As you know, Governor Black resumed his duties as Governor of the Federal Reserve Bank of Atlanta on August 16, 1934, and under date

of September 27, 1934, he addressed another letter to the Board with regard to the operation of the agency on a system basis, and a copy of that letter is also attached.

Under the law the Federal Reserve Board has the power to require a reserve bank to operate a foreign agency but the Board feels that to require system action would be undesirable and at the present time unnecessary since the Board endorses the suggestion of the Atlanta bank that the agency be operated by that bank for the account of the twelve reserve banks, and has under consideration the necessary details for that purpose. Accordingly, it will be appreciated if you will present the matter to the board of directors of your bank at its next meeting and advise the Board as soon as possible as to the attitude of your bank towards participation with the other Federal reserve banks on a system basis in the operation of the agency by the Atlanta bank. Upon acceptance of such participation by all banks, the details of the arrangement will be determined promptly and submitted to your directors for approval.

Very truly yours,



Chester Morrill,
Secretary.

TO THE CHAIRMEN OF ALL FEDERAL RESERVE BANKS.
(No copy to Governor, or extra copies to banks)

Federal Reserve Bank of Atlanta

X-9004-a

"WHEREAS, this bank has maintained for a number of years, with the consent of the Federal Reserve Board, an agency in the City of Havana, Cuba, through which agency the banks in Cuba have been supplied with currency of the United States; and

WHEREAS, the principal reason for the establishment of said agency was that the Federal Reserve System might act in accord with the spirit of the so-called 'Platt Amendment', and to the end that a sufficient supply of usable currency might be maintained in Cuba; and

WHEREAS, by treaty between the United States and the Republic of Cuba, the said Platt Amendment has been abrogated and its provisions are no longer of force; and

WHEREAS, the directors of this bank feel that the said agency should now be discontinued,

THEREFORE, BE IT RESOLVED That the proper officers of this bank be and they hereby are directed to apply to the Federal Reserve Board for permission to discontinue the said Havana Agency.

BE IT FURTHER RESOLVED That in addressing the Federal Reserve Board the officers of this bank make it plain that the Board of Directors desires to work no unnecessary inconvenience to the banks in Cuba, and that while it is the desire of the directors to close said agency as soon as possible, they wish its discontinuance to be effected in such wise as not unduly to affect the banking and business interests of Cuba.

BE IT ALSO RESOLVED That the good offices of the Federal Reserve Board be invoked to the end that the interests of this bank may not be injuriously affected by reason of legislation, official decrees, or other enactments or developments consequent upon or following the withdrawal of the said former treaty obligations set out in the said Platt Amendment."

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I, L. M. Clark, Secretary of the Board of Directors of the Federal Reserve Bank of Atlanta, do hereby certify that the foregoing is a true and correct copy of a resolution adopted by the Board of Directors of the Federal Reserve Bank of Atlanta at a meeting held on the eighth day of June, 1934.

(Signed) L. M. Clark

S E C R E T A R Y

COPY

X-9004-b

THE NATIONAL CITY BANK
of New York

New York
August 8, 1934.

Honorable E. R. Black, Governor
Federal Reserve Board
Washington, District of Columbia

Dear Governor Black:

I beg to apologize for my delay in complying with your request that, as one of the banks represented at the hearing held by the Federal Reserve Board in Washington on July 13, 1934, we send you a brief written statement in support of the verbal arguments made at that hearing in favor of the continued maintenance of the Habana Agency of the Federal Reserve Bank of Atlanta. This delay was due to our desire first to obtain the views of our representatives located in Habana on this very important question.

The Federal Reserve Agency in Habana was originally established, I believe, for two reasons:

(a) Because of the responsibility which it was felt had been assumed by the Government of the United States to maintain in Cuba an adequate supply of American currency when the American authorities, charged with the setting up of a new order of government and following the freeing of Cuba from Spanish rule, established American currency as the chief circulating-medium and as legal-tender in payment of all debts; and

(b) Because of the very important service which such Agency could and would perform for American business and banking interests in Cuba.

These reasons still exist and with practically the same force as at the time of the establishment of that Agency. American currency is still legal-tender and the chief circulating-medium in Cuba. Its place has not in any way been taken by the recent issues of additional Cuban silver coins or other legal-tender currency. The Agency is still performing a most important service for American business interests located in Cuba, for American exporters of raw materials, food-stuffs and manufactured goods, and for American banks doing business in Cuba, either directly, through branches located there, or through correspondents.

It is a well known fact that the benefits conferred upon American business, to say nothing of Cuban business, by the establishment of the Agency, have been very material. The general level of interest rates in Cuba has dropped very materially from what it was before the establishment of that Agency. It is probably fair to state that, from a peak of twelve per cent., with an average of approximately ten per cent., the interest level for sound short-term advances of a commercial nature has dropped to around six per cent. This is largely due to the presence in Cuba of the money-stock provided by the Agency and to the ease and rapidity with which transfers have been effected by that Agency. Before the Agency was established, reserves of from fifty per cent. to thirty per cent. of deposits were general. To-day ten to fifteen per cent. is considered adequate. The effect of the unlocking of these reserves upon the level of interest rates was most pronounced. I believe that I express the general conviction of banks doing business in Cuba when I say that a material increase in interest rates would follow immediately upon the withdrawal of the Agency.

During the period of trouble through which Cuba has passed and is passing, the presence in Habana of the Reserve Bank Agency has been a very important factor in maintaining what confidence has remained in the stability of the financial situation there. The withdrawal of that Agency at this time would, in my opinion, have a very unfortunate effect upon the confidence with which both American and Cuban business interests would regard the financial situation in that island.

From the standpoint of American business, the maintenance of American currency as legal-tender in Cuba is of vital importance. This is especially true of the American exporter of American goods, such as American-grown rice, American-made automobiles, American flour, lard, oil, etc. These exporters can now draw for their sales in American dollars without worry or risk of exchange complications. The cost of financing such exports is practically the same as financing shipments from one part of the United States to another, principally because of the fact that the currency is the same. The presence of the Agency in Habana, with an adequate supply of currency, is almost a vital factor in the continuance of the legal-tender character of American currency in Cuba; whereas, it is generally agreed that the withdrawal of the Agency would provide a pressing argument for the creation of a bank of issue by the Cuban Government, the forcing into circulation of their own (and probably a dangerous and unsound) currency, and the probable withdrawal of the legal tender power of American currency there.

As a result of the introduction by the American authorities of American currency as the chief circulating-medium of legal-tender value in Cuba, a vast business structure and economic system has been built up there with American currency as its base. Many

millions of dollars of obligations are owing in Cuba to American exporters, business-men and banks, the collection of which would be made infinitely more difficult with the creation of a Cuban bank of issue with its own currency and the disappearance of American currency as the chief circulating-medium of the island. The trend is in that direction to-day, and both Cuban and American business is already fearful that it may come. The exchange problem is one of the major obstacles impeding the sales of American goods and products to the other countries of the world at present and if Cuba were to abolish the legal-tender value of American currency in Cuba, and by the advent of a cheaper currency of its own cause the disappearance of American currency from circulation, there would be created just one more obstacle to the sales of American goods abroad, and this to a country which has for over thirty years been one of our principal customers.

The withdrawal of the Agency would be particularly unfortunate at this time when a new commercial treaty with Cuba is about to be signed by our government providing for added reciprocity, as it would unquestionably make more difficult the payment for our goods sold to Cuba. It would, thus, have a tendency to destroy some of the benefits which it is hoped will follow the signing of the new treaty. We fear such withdrawal will have the effect of destroying that confidence in the stability of the Cuban currency system which has already been badly weakened by the political and social disturbances through which the Cuban Republic has passed.

Maintaining a money base at Miami will not, in our opinion, answer the needs of the situation. That base would be outside and not inside of Cuba, and the psychological effect of that fact will be very important as bank depositors will continually feel that there is an inadequate supply of money in the country, as banks will not feel the same safety in the matter of low reserves and consequent low interest and transfer costs that they now feel, and the argument in favor of, and the temptation for, creating a Cuban bank of issue will continue to exist and to grow stronger. Emergency transfers of money from Miami to Habana would be very much more costly than they are now under the simple procedure in effect under which currency can be obtained at any moment during the business day from the Agency at a very reasonable cost.

It is also important, in estimating the future, to take into consideration the probability of an important increase in the financial turnover in Cuba which should follow the development incident to the establishing of new trade relations favorable to Cuba through the medium of the new treaty, and it certainly seems fair to estimate that the operating profits of the Reserve Agency in Habana will reflect materially this larger financial turnover.

Sheet No. 4. Governor E. R. Black, Washington, D. C. August 8, 1934

Fundamentally, we believe that, because of her close and economic relationship to the United States, it is to the great advantage of Cuba herself to have American currency as her principal circulating medium, and that advantage is as great to American business in Cuba and to American exporters of goods to Cuba as it is to the Cubans themselves. Cuba is a country which has, since her independence, been almost entirely dependent upon American capital for financing her agricultural and business turnover and it seems logical to suppose that, for a considerable time to come, she will continue to remain so. That natural demand for the use of American funds in Cuba can best be met with the currencies of the two countries being the same and the presence in Cuba of an agency of our Federal Reserve System is one of the strongest factors there can be making for a continuance of that situation. Under it, American banks in Cuba can operate with the greatest efficiency and at the lowest cost. The operation of these banks in Cuba is of great benefit to American citizens doing business with Cuba and the financing of what will probably again exceed two hundred million dollars of annual imports and exports between Cuba and the United States will be materially helped by the continued maintenance of the Habana Agency of the Federal Reserve Bank of Atlanta.

Thanking you for the opportunity afforded this institution to lay before you its views upon this problem, please believe me

Very sincerely yours

(Signed) H. E. Henneman

Vice President

THE CHASE NATIONAL BANK

Of The City of New York

NEW YORK

Shepard Morgan
Vice President

July 20, 1934.

The Honorable Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor Black:

I take pleasure in complying with your suggestion, made at the meeting in Washington last Friday, that I put in writing our opinion on the question of whether the Federal Reserve Bank of Atlanta should close its branch in Havana.

I would like to say at the outset that the Atlanta Bank has provided through this branch an important service to member banks and to American commerce with Cuba. The Chase National Bank, as you know, has one office in Havana; otherwise it has no branches in Cuba. For that reason we are perhaps not subject, in the same degree as banks having a large number of branches, to the consequences of sudden and unforeseeable demands for currency. Yet even in our own experience it has been sometimes a matter of practical importance to have a ready source from which to obtain currency, and at all times the ease of obtaining it at a moment's notice from the branch of the Atlanta bank has made our administration simpler and more economical.

This has undoubtedly resulted in easier credit terms to both Cuban and American customers having first or second-hand relations with our Havana branch. I cannot quote figures from our own records because the Chase National Bank has operated its office in Havana only since the Federal Reserve Bank of Atlanta established its branch there. But it is clear that should the branch be withdrawn we should have to hold larger reserves of currency and would have to raise our credit terms accordingly.

Similarly, the withdrawal of the Reserve Bank's transfer facilities would mean heavier charges for exchange transactions between New York and Havana. Our records indicate strong seasonal movements of funds in and out of Cuba, and these periodic movements do not coincide. Even assuming that American currency should remain legal tender after the withdrawal of the branch, it follows that the existing premium or discount on exchange operations would be materially larger and would suffer considerable

The Chase National Bank
Of The City of New York TO The Honorable Eugene R. Black Sheet No 2

fluctuations from one season to another. Thus American commerce with Cuba would be subjected to costs which the present arrangement largely obviates.

But I think American currency would not remain legal tender for long. During the last few months there has developed in Cuba an aggressive movement favoring the establishment of a central bank. You will recall that during our conference the other day frequent references were made to the monetary decrees, which, according to the observations of the banking representatives present, threatened the stability of the Cuban currency and interfered seriously with exchange operations. The first, among other things, provided that the Cuban silver peso should have the character of unlimited legal tender. The author of that decree, Juan Andres Llitas, frankly stated in the Havana newspaper Pais under date of May 27th that one of the purposes he had in mind in drawing up the decree was the ultimate establishment of a central bank of issue.

The decree relating to exchange transactions has now been abrogated and it is hoped that similar action will soon be taken with respect to the currency decree. If this hope is realized much damage will be undone. But if it should develop that the Reserve Bank of Atlanta withdraws its branch, it seems probable that both measures will assume their former effectiveness, and that the agitation for a central bank would be pressed to a conclusion.

Cuba now and probably for some time to come will have resources inadequate for a central bank. It would be difficult and probably impossible under existing conditions for such a bank to keep its circulation within the bounds set by its limited reserves. The consequences of inflation need not be touched upon except for this, that a deterioration of the Cuban currency would go far to nullify the benefits which Americans and Cubans alike hope to obtain from the trade treaty now under negotiation.

It has been suggested that a money base in Miami would serve the practical purposes of the Atlanta Bank branch in Havana. I venture the opinion that such a base would not meet the real requirements of the case. It would not relieve the banks from increasing reserves nor obviate wide exchange fluctuations. Nor would it prevent the active prosecution of the plan for a Cuban central bank of issue. On the other hand, if we retain Cuba within the field of our own currency, we avoid with respect to at least one country one of the major factors of world-wide trade disturbance.

I much appreciate the opportunity the Board gave me to appear before it last week.

With kind regards,

Yours very truly,

(Signed) Shepard Morgan

Shepard Morgan

THE FIRST NATIONAL BANK OF BOSTON

BOSTON, MASSACHUSETTS

1784 * 1934

July
Twenty-four
1 9 3 4

Hon. E. R. Black, Governor
Federal Reserve Board
Washington, D. C.

My dear Governor Black:

Just as we left the meeting in Washington I think one of your Board members suggested that we might send in a memorandum and I am enclosing our thoughts regarding the Atlanta Agency of the Federal Reserve Bank.

For your confidential use, I am enclosing a copy of a memorandum of the Board of Directors of the American Chamber of Commerce of Cuba which was taken up at a special meeting that they had on June 13th and forwarded by the President of the Chamber of Commerce to the State Department in Washington.

Yours very truly,

(Signed) Charles E. Spencer, Jr.

Charles E. Spencer, Jr.
Vice President

Enclosures

Memorandum for Governor Black, Federal Reserve Board,
Washington, D. C.

Our bank would favor the continuance of the Atlanta Agency of the Federal Reserve Bank for the following reasons:

It allows us to carry a smaller cash reserve than would be necessary if we were dependent upon replenishing our reserves from outside the Island. With the higher cash reserves carried, this would contract the loaning ability of the bank operating on the Island and, as long as the Cuban government carries United States currency as legal tender, we feel there is a real need for the Federal Reserve Bank Agency in Cuba. Should they start a Bank of Emission, at that time we feel that the continuance of the agency would not be called for; that the discontinuance of the agency would have a strong bearing on fostering or bringing to a head a central bank for Cuba, our best estimate being that it would be a barrier which American business would have to cope with should Cuba have its own currency.

The retiring of the agency at this time would have a very disquieting effect upon the depositors and would undoubtedly affect the economic improvement of the Island for some time to come.

We trust that the Board's decision will be to continue the facilities that exist at present.

(Signed) Charles E. Spencer, Jr.

Charles E. Spencer, Jr.
Vice President

July 24, 1934.

COPY

Memorandum of the Board of Directors
of the
American Chamber of Commerce of Cuba
June 13, 1934.

I

Revival of Cuba's political and economic life, and of America's trade with Cuba, is President Roosevelt's announced purpose. Secretaries Hull and Wallace have eloquently stressed this double objective, in urging those bold and constructive legislative measures which now make it attainable. All Americans whose lives, interests or sympathies are with Cuba, desire its fullest realization.

The Sugar Act and the abolition of the Platt Amendment are already realities. Now comes the third and most vital step, - a new and more liberal Reciprocity Treaty. Unless taken, and taken promptly and soundly, the program is unfinished, and ineffective.

The Treaty should contain appropriate mutual safeguards against the frustration of its aims. Otherwise the expected mutual trade benefits will not come. While of great interest to both countries, such safeguards are vital to Cuba - as her life depends upon prosperous trade with America.

II

It is axiomatic that tariffs and trade treaties can be neutralized by fiscal policy. Legislation affecting currency, foreign exchange, taxes, etc. can either increase or diminish the benefits of lowered duties and concessions. Unwise legislation might even annul them. For example, as Secretary of Commerce Roper, and his Assistant Secretary John Dickinson, recently stated during the Reciprocal Tariff Bill hearings, one

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effect of the devaluation of the American dollar was to heighten the already high American tariff wall. This devaluation made it more costly for Americans to buy goods from foreign countries, and made it less profitable for foreign countries to send their goods to America for sale in competition with American goods. Applying that principal to Cuban-American trade, it is easy to perceive how the benefits which American exporters might expect to receive through the concession by Cuba of an additional preferential to the United States, might be rendered to a large extent illusory by Cuban fiscal policy resulting in depreciated Cuban currency. If such depreciation happened to be greater as compared with the dollar, than as compared with the pound, the mark or the franc, the result would be a "preferential" which did not "prefer".

The essence of reciprocity is mutuality. Mutuality in international trade between Cuba and the United States should be complete, not partial. And it should be a mutuality of liberty. In matters of trade, prohibitions and restrictions may completely destroy mutuality and lack of confidence may vitiate it to the point of making it unattainable. Subject to any necessary quota restrictions required to protect vested interest on either side, there should be no restrictions other than those covered by the tariff itself. Realization of the President's objective of a revival in interchange of goods between the two countries, will not occur if Cuban merchants and Cuban factories, whoever may own them, are penalized and restricted by export taxes, exchange embargoes, depreciated currency, expropriations, etc. Such measures strangle trade, destroy confidence and if adopted in either country would grievously devitalize and eventually ruin,

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the mutual benefits which are the objective of the Treaty.

III

The new Treaty, like the new Sugar Act, is experimental. It is of paramount importance that the experiment be successful, and that safeguards be provided to prevent its failure from the outset.

As such safeguards, to protect the new commerce which these measures are designed to promote, the following points are suggested as essentially important matters for inclusion in the Treaty:

1. Neither country should impose any export tax, embargo or similar restrictions (in addition to those existing January 1, 1934) upon exportation to the other country of money, or credit (whether in the form of currency, exchange or credits) for the purpose of payments.

A- On or with respect to loans, investments or securities.

B- For services.

C- For the purchase or use of property, real, personal or otherwise.

D- In cases in which such payments are made by persons or entities, citizens or residents of the one country to persons or entities, citizens or residents of the other country.

E- Nor upon the exportation of money or credit to the other country for the personal requirements of citizens or residents of either country.

2. Provisions for payment of money in the national currency of either country contained in contracts made prior to or during the life of the Treaty by citizens of either country shall not be invalidated or suspended

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by legislation of either country during or subsequent to the adoption of the Treaty.

3. Neither country should impose any export tax, directly or indirectly, (in addition to any such tax existing January 1, 1934) upon the products of its soil or industry exported, or produced or processed for export, to the other country.

4. Citizens or entities of either country residing or carrying on business in the other country should enjoy the same rights and privileges, and be entitled to the same status and treatment, as citizens of such other country, with respect to engaging in commerce, industry, agriculture, professional or other lawful occupations, and to holding and using property; and there should be no discrimination directly or indirectly, with regard to taxation, or protection of property and person, by either country against citizens of the other country, or against entities owned or controlled by citizens of the one country, when resident or doing business in the other country.

No citizens or entity of either country shall be subject to confiscation of property, nor shall he or it be deprived of property except by competent authority and for just cause of public utility and after proper indemnity.

Note: If under the terms of the Reciprocal Tariff Bill in its final form the inclusion of such matters as positive covenants of the Treaty should be deemed to be beyond the power conferred by Congress upon the President, it might be possible to safeguard the Treaty in this respect by specifically recognizing, as grounds for denunciation of the Treaty, acts in violation of the provisions above outlined.

APPROVED:

AGENCY OF
THE ROYAL BANK OF CANADA.
Incorporated 1869
68 William Street

Frederick T. Walker)
John A. Beatson (Agents
Edward C. Holahan)

NEW YORK,

July
Eighteenth
1934

Honorable Eugene R. Black,
Governor, Federal Reserve Board,
WASHINGTON, D. C.

My dear Governor Black:

At the meeting to which you called the representatives of the banks doing business in Cuba, for the purpose of hearing their views as to the continuance or discontinuance of the Havana Agency of the Federal Reserve Bank of Atlanta, it was the unanimous opinion of those attending that the Agency of the Atlanta Federal Reserve Bank should be maintained and reasons were given therefor. After this discussion it was suggested that, for the purpose of record, each of the Institutions represented should write a letter to the Board in support of the opinions expressed at the meeting. In compliance with this request, I beg to say on behalf of this Institution that I think there are two principal reasons why the Agency should be continued, certainly for the present time at least, and these are:

First, - That the present is a critical stage for the Mendieta Government and such a step would be bound to have a bad effect on public confidence just when conditions seem to be improving and the Government has taken the necessary steps to undo the ill considered financial decrees of the last two months.

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Second, - As the Board is aware, there has been considerable agitation in Cuba for the formation of a Cuban central bank with powers of emission and while it is difficult to see how such a project could be carried out on any sound lines in view of the fact that the Cuban Government is not at the present time in a position to provide a metallic base for a National currency, at the same time it is quite conceivable that the withdrawal of the Agency would be seized upon by the advocates of a National Cuban currency as a pretext for pushing such a plan, with the possible result that some unsound currency plan would be adopted.

I need not stress to your Honorable Board the detrimental effect that such a plan if carried out would have on business between the United States and Cuba. Owing to the very low price of sugar obtaining for the last couple of years, reciprocal trade between Cuba and the United States has fallen in terms of Dollars to very low figures, but under the improved conditions made possible by the Jones-Costigan Act and the betterment of World sugar statistics, there is every reason to believe that Cuba with a greatly enhanced return from her sugar crop will be in a position to largely increase her imports from the United States provided no currency or exchange barrier is set up.

Another point which should be mentioned is that while it is true, as stated by the Atlanta Bank, that the facilities for the shipment of currency from Jacksonville and Miami have been enormously improved, it is, nevertheless, a fact that the withdrawal of the Atlanta Agency in Havana would necessitate the carrying of larger reserves by the commercial banks in Cuba, adding to the already great expense of doing business there and having a tendency to

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bring back the very high rates for money which prevailed a few years ago.

I think we may sum up our argument by saying that the closing of the Agency of the Federal Reserve Bank of Atlanta would be a serious blow to American investors and business men in Cuba just at this time when they were beginning to have hope and need all possible help in creating stable conditions in Cuba.

In conclusion, I wish to express the appreciation of this Institution in being given the opportunity of stating its views and thank the Board for the courtesy and consideration with which we were received.

With assurances of our highest respect, we remain,

Yours very truly,

THE ROYAL BANK OF CANADA,

(Signed) F. T. Walker

A g e n t

THE CANADIAN BANK OF COMMERCE
New York Agency
Exchange Place and Hanover Street
NEW YORK

July 19, 1934

CONFIDENTIAL

The Honourable Eugene R. Black,
Governor, Federal Reserve Board,
Washington, D.C.

Dear Governor Black:

In accordance with your request, we have pleasure in confirming our verbal advices to you of Friday, the 13th instant, regarding the advisability or not of discontinuing the Havana Agency of the Federal Reserve Bank of Atlanta.

The foreign trade of Cuba with Canada is negligible with the result that the Cuban branches of Canadian banks handle the same class of business as do the Cuban branches of American banks, consequently a large portion of this business is dependent upon and of assistance to the interchange of trade between Cuba and the United States. We are in full accord with the arguments set forth in detail by the representatives of the interested American banks and emphasize the following:-

The presence of the Havana Agency of the Federal Reserve Bank of Atlanta has a strong stabilizing effect on the financial trend of thought of the population of Cuba generally, and particularly in political circles. That the Cuban Government realizes this would appear to be evidenced by the fact that upon learning there was a possibility of the closing of the Havana Agency of the Federal Reserve Bank of Atlanta the Cuban Administration in order to show its good faith and restore financial confidence rescinded the Decree prohibiting the exportation of capital from Cuba. To close the Havana Agency of the Federal Reserve Bank of Atlanta at the present time would not only nullify all this but would encourage - indeed it might force - Cuba to resort to some form of currency of its own with all the attendant hardships upon business in and with Cuba. The withdrawal of the Havana Agency of the Federal Reserve Bank of Atlanta would necessitate all Canadian and American banks with branches in

The Honourable Eugene R. Black -2

July 19, 1934

Cuba carrying much larger cash reserves there, with a consequent increase in the cost of credit, which increased cost would have to be borne not only by Cubans but also by Americans doing business in and with Cuba.

We take this opportunity of expressing to you our appreciation of the services rendered us in the past by the Havana Agency of the Federal Reserve Bank of Atlanta, and also to thank you for your courtesy in asking us to appear before your Board.

Yours faithfully,

(Signed) C. J. Stephenson

Agent

M

AGENCY OF
THE BANK OF NOVA SCOTIA
49 WALL STREET

P. W. Murphy,) Agents
F. W. Murray, (

NEW YORK July 20th 1934.

The Honorable E.R. Black, Governor,
Federal Reserve Board,
Washington, D.C.

Dear Governor Black:

Having reference to the recent conference at your office when New York representatives of Banks, American and Canadian, which have branches in Cuba, were invited by your board to give consideration to the continuance or discontinuance of the Havana Agency of the Federal Reserve Bank of Atlanta, - At your request I am glad to submit herewith our views in the matter.

It is undoubtedly advantageous to American business men in Cuba and to American exporters to that Country to have the Federal Reserve Agency in Havana. Were it withdrawn the banks would have to carry larger cash reserves in their own vaults, and consequently Americans in Cuba, as well as others, would be required to pay higher interest rates on loans from the banks.

The psychological influence of the Agency in Havana on business affairs, particularly while the general situation, politically and economically, is unsettled, is undeniably favorable to the interests of Americans in Cuba and to American exporters to Cuba.

The proposed trade treaty between Cuba and the United States now under consideration, and, it is thought, soon to become operative, should be very helpful to reciprocal business and we think that a continuance of your Agency in Havana would assuredly serve in furthering the benefits under the treaty to American trade, inasmuch as it would exert a powerful influence in stabilizing the currency and assist materially in facilitating the movement of money into and out of Cuba.

We think that while it is true, because of air mail facilities, currency can now be shipped quickly to Havana from Atlanta or Jacksonville, nevertheless some
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The Honorable E.R. Black, Governor,
Federal Reserve Board,
Washington, D.C.

July 20th 1934.

of the American and Canadian banks have branches in the interior of the island and in case of emergency it would be greatly to their advantage to have an immediate source of supply of currency such as is now afforded by your Agency in Havana.

We are in agreement with the views of the representatives of the American banks which were expressed by them at the meeting. We appreciate the benefits that we, as a Canadian institution, derive from the Havana Agency of the Federal Reserve Bank, and we feel that its withdrawal would be hurtful to the interests of all banks, as well as to those of commercial corporations and individuals doing business in or with Cuba.

I would like to express to you and to your board my sincere thanks for your invitation to attend the conference and for your courtesy there.

Yours faithfully,

(Signed) P. W. Murphy

Agent.

PWM/AS

COPYFEDERAL RESERVE BANK
OF ATLANTAOffice of
Governor

September 27, 1934

Mr. J. J. Thomas, Vice Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Thomas:

At the June meeting of our directors a resolution was passed directing the officers of this bank to apply to the Federal Reserve Board for permission to discontinue the Havana Agency of this bank. The resolution directed the officers, in transmitting this action to the Federal Reserve Board, to inform the Board that this bank desired to work no unnecessary inconvenience to the banks in Cuba and that they desired its discontinuance effected in such a way as not unduly to affect the banking and business interests of Cuba.

This resolution was transmitted to the Board and in considering it the Board invited representatives from the different banks in Cuba to a hearing in Washington. At that hearing these banks protested the discontinuance of the agency and afterwards transmitted opinions from business interests, all adverse to the discontinuance of the agency.

The Board has taken no action on the June resolution of our directors.

At the August, 1934, meeting of the directors of this bank a second resolution was passed in which the Federal Reserve Bank of Atlanta stated that it would cooperate with the other twelve banks in the System operation of this agency and in which resolution it suggested to the Board that the establishment of such System agency would be a proper solution of this question. This August resolution of our Board has been duly transmitted to your Board.

Last week when I was in Washington I discussed with the members of the Board the question of the establishment of this Havana agency as a System agency. This would really mean that the Atlanta bank would continue to operate the agency for the account of the System. This procedure would be very much in line with the practice of the New York Bank in operating foreign accounts as a System matter.

Mr. J. J. Thomas, Vice Governor - 2.

For your information I am attaching a statement of the different functions of this agency. You are, of course, familiar with the fact that this agency is largely a currency depot for the purpose of handling cable transfers of money in and out of Cuba for the account of banks in Cuba, and especially those banks in Cuba which are branches of American banks. It is true also that the Havana agency has been of benefit to the Cuban Government in the matter of currency exchanges.

It should be borne in mind that the Havana agency has no credit functions-- that is, it lends no money in Cuba or elsewhere. Its operation, in my opinion, has been of great advantage to the banks in Cuba and to the Government of Cuba. Its operation has resulted in the furnishing of clean and adequate currency to Cuba, which country has no currency of its own. It has prevented the necessity of the banks in Cuba carrying large currency reserves in their own vaults. It has furnished a measure of stability to banking and currency operations in Cuba.

You will recall that Assistant Secretary of State Sumner Welles conferred with me on the discontinuance of this agency and expressed his strong opinion that at this time, when Cuba was struggling to get on its feet both politically and financially, it would be a direct blow to such efforts to have the agency discontinued. You will also recall that the Cuban Government has taken action against the discontinuance of the agency.

I personally am in accord with the views of Mr. Welles and with the views of the banks operating in Cuba and with the views of the Cuban Government in this matter. However, the Federal Reserve Bank of Atlanta has operated this agency through a number of years and in its operation has served the whole country and other sections of the country more especially than this section, and my opinion that the agency should be continued would not be complete without expressing my feeling that it should be continued as a System agency.

This conclusion is reached, first, because of the fact that the whole country is being served; second, that the currency carried in Cuba has been equal to the combined capital and surplus of this bank and in that respect is too large an operation for this bank in a foreign country. The agency has been operated at some loss, but this loss has not been a moving factor in the decision of our directors, and the loss can be largely overcome by changing the rate for handling currency operations in Cuba.

Mr. J. J. Thomas, Vice Governor - 3.

Under the law the Board has the right to require a reserve bank to establish and consequently to maintain an agency in a foreign country. This puts rather a large responsibility upon the Board with respect to any one reserve bank and I would not even suggest now that the Board require this agency to be accepted by the System as a System agency. I rather feel that if the Board would conclude that this agency should be operated as a System agency and would request the cooperation of the twelve reserve banks in the responsibility attached to this agency, such proper solution would be accepted by the twelve banks and the agency could be operated by the Atlanta bank for the account of the twelve banks, and all questions as to the continuance or discontinuance of the agency would be solved.

At the present time we are reducing our currency holdings in Cuba to \$5,000,000. I think this amount would be adequate because currency can be transported from our Jacksonville branch, or indeed from a money depot which we might establish in Miami, in a very few hours. A supply of \$5,000,000 in currency will solve all the day to day needs of the agency and in event larger sums are required they can be speedily transported to Cuba.

I am of opinion that the Atlanta bank should be the operating bank for this agency because of its nearness to Cuba and because the agency is already well established by the Atlanta bank in Cuba.

I will greatly appreciate it if the Board will consider this matter and will determine that this agency should be a System agency and ask the cooperation of the twelve banks to this end. If the Board takes this action and the twelve banks acquiesce in it, the details of such arrangement can easily be worked out.

Thanking you and the Board for immediate consideration of this matter, I am, with my warm regards,

Sincerely yours,

(Signed) E. R. Black

Governor.

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Federal Reserve Bank of Atlanta

MEMORANDUM FOR GOVERNOR BLACK:

FUNCTIONS OF THE HAVANA AGENCY

The Federal Reserve Bank of Atlanta is authorized to exercise the following powers in Havana, Cuba, through its Agency;

1. To buy, sell and collect, prime bankers' acceptances and prime bills of exchange which are payable in dollars arising out of actual import or export transactions; bear the signatures of two or more responsible parties; bear a satisfactory bank endorsement; have not more than 90 days to run, exclusive of days of grace, and are secured at the time of purchase by shipping documents evidencing the actual importation or exportation and the actual sale of goods, and conveying or securing title to such goods;

2. To buy from or sell to the Republic of Cuba, or any banking institution doing business in Havana, cable transfers to or from any banking institution located in any city in the United States in which there is located a Federal Reserve Bank or Branch, charging a commission of \$1 per \$1000, provided that no such transfer shall by its terms be for credit to the account of any third party;

3. To pay out Federal Reserve notes or other currency of the United States in such denominations as may be demanded in payment of cable transfers to Havana, or in payment of cable transfers, bankers' acceptances or bills of exchange purchased in Havana, the kinds of currency to be paid out to be discretionary with the Agency;

4. To accept any and all kinds and denominations of United States currency, including Federal Reserve notes, in payment for cable transfers, bankers' acceptances, or bills of exchange sold by it in Havana;

5. To make direct exchanges in like denominations and amounts of new or fit currency for mutilated or unfit currency, tendered by the Treasurer of the Republic of Cuba, or any banking institution doing business in Havana, charging for such exchanges a commission at the rate of \$1 per \$1000;

6. The Agency maintains a stock of \$1 bills for convenience of the Havana banks and they are authorized to exchange these bills for any other denominations of United States currency, a charge of \$1 per \$1000 being made for such exchange.

FUNCTIONS OF THE HAVANA AGENCY - Cont'd.

7. The Havana Agency is also authorized to make direct exchanges of new and fit currency for American silver or gold coin, tendered by the Treasurer of the Republic of Cuba or any banking institution doing business in Havana, charging for such exchanges a commission of \$1 per \$1000. This has been discontinued in view of the high cost of transportation of American silver coin to the United States and such exchanges as have been made during the last two years have been made with the understanding that the entire cost of transportation would be borne by the Treasurer of the Republic of Cuba, plus our exchange commission of \$1 per \$1000. We have not been tendered American silver coin by any of the Havana banks.

8. The Havana Agency performs other fiscal transactions for the Treasurer of the Republic of Cuba, such as receiving Cuban gold coin under a repurchase agreement, delivering United States currency for such Cuban gold coin; the Cuban gold coin to be redeemed by payment of United States currency at the expiration of the repurchase agreement.

Recently the Second Export-Import Bank desired to ship to Cuba 10,000,000 Cuban pesos, and in order that delivery might be made in Havana, our Agency was requested to act as a representative of the Second Export-Import Bank and the Treasurer of the Republic of Cuba in making this delivery. A commission rate of \$1 per \$1000 for the currency received in payment of these pesos was charged, the total profit to the Agency being approximately \$3,800.

From time to time the Agency will likely be called upon to perform other fiscal agency transactions which they will likely agree to do, upon proper approval, when such transactions can be consummated with due safety.