

"(2) The Council thanks the Financial Committee for the assistance which it has given towards the solution of this question.

"(3) The Council thanks the Conference of Ambassadors for its letter of August 25th, 1923. (Annex 572d.)

"(4) The Council desires that all interested parties may be kept informed of further developments with regard to the financial situation of the Free City, as provided for in the Council's resolution of January 30th, 1923. "

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Annex 572a.

C. 626. 1923. II.

FINANCIAL SITUATION OF THE FREE CITY OF DANZIG.

*Letter dated September 5th, 1923, from the Chairman of the Financial Committee to the President of the Council submitted to the Council on September 22nd, 1923.*

[Translation.]

The Financial Committee has instructed me to put before you its views on the very urgent question of the currency reform in the Free City of Danzig.

The Council, in its resolution of July 4th, 1923, requested the Financial Committee to keep it informed of all proposals for currency reform. Since that date, Dr. Volkmann, the Senator entrusted with the finances of the Free City, has forwarded to the members of the Financial Committee a scheme of reform which has been approved by the Senate of the Free City of Danzig, as appears from a letter, dated August 31st, from the President of the Senate to the High Commissioner of the League. Dr. Volkmann has recently completed his explanation of his scheme of reform to the Financial Committee. He emphasises the extreme urgency of the need for improvement in the currency situation of the Free City.

The Committee has also drawn upon other sources of information. It has consulted the High Commissioner of the Free City of Danzig, Mr. MacDonnell, who, in reviewing the general position of Danzig, laid stress upon the very serious political and social consequences which would arise from any delay in the reform of the Danzig currency.

The Financial Committee further desired to hear an authoritative opinion from a person of weight in Poland in order to do justice to the legitimate interests of the Polish Republic on certain questions connected with the scheme of currency reform, in view of the provisions of Article 7 and 36 of the Paris Convention between Poland and the Free City of Danzig. In point of fact, in a letter to the Secretary-General dated August 22nd, 1923, the Polish Government had already appointed M. Wieniawski, a former Secretary of State, as the Polish expert on all questions connected with the financial problems of the Free City.

Having access to all these sources of information, the Financial Committee has reviewed the various solutions which appeared worthy of consideration. It has formed the opinion that Danzig could not, to any advantage, adopt the Polish mark on account of its instability, and also of the fact that its reform is under consideration. On the other hand, in spite of the Polish Government's natural anxiety that Danzig should adopt the gold zloty as currency, it must be recognised that this currency has not as yet reached in Poland a position in law which would warrant Danzig in adopting it at present. Of the existing currencies, the Swedish crown did not appear suitable for adoption because commercial relations between Danzig and Sweden are not sufficiently important.

Moreover, a fundamental consideration forced itself upon the Financial Committee's notice. However desirable may be the adoption of a currency based on a gold standard, if, by adopting a currency slightly different from the dollar, the Free City of Danzig has reason to hope for almost immediate financial support, this constitutes a practical consideration which should, in the circumstances, override all theoretical preferences. The Financial Committee has therefore reached the conclusion that the adoption of a currency based on the pound sterling is for the time being the most businesslike solution. But the Committee considered that it ought, in developing this plan, to find a procedure which, while carrying out the object the Free City of Danzig had in view, would best obviate all difficulties which might arise with the Polish Republic, on which a change in the currency of the Free City may react.

With this object in view, the Committee considered that

(1) In order to provide for the future — in other words, not to prejudice the stipulations of Article 36 of the Paris Convention — the Free City of Danzig would be well advised to select for its currency unit a florin or "gulden" equivalent to the 25th part of the pound sterling (not the 100th part, as Dr. Volkmann's scheme suggested). The new Danzig florin would thus have a theoretical value par varying only by about one centime from that of the Polish gold zloty and it would be easier in the future, as soon as circumstances permitted, to consider the unification of the currencies.

(2) Dr. Volkmann's scheme, as approved by the Senate, hinges on the foundation of a Bank of Issue, the capital of which would, of course, be furnished by private investors and would amount to approximately £200,000. It would be sound financial policy for Polish banks to contribute substantially to this capital. This would not exclude capital sums put up by foreign financial groups.

(3) As a matter of principle, it would be desirable for the representatives of the Polish Republic and the Free City of Danzig to agree, on reciprocal terms, to conditions for the acceptance of the currency of one country by the other, bearing in mind the letter and the spirit of the Warsaw Convention of October 1921.

(4) It would also be highly desirable that Poland should undertake not to oppose the putting of the currency reform into operation, and that the Free City on its part, should give in advance a definite undertaking to apply Article 36 of the Paris Convention as under

"Poland and the Free City of Danzig undertake to enter into negotiations, when circumstances permit, on the request of either of the two parties, with a view to unifying their monetary systems. An interval of one year shall be allowed before such unification, when it is decided on, comes into effect."

For this purpose, with the future in view, without adopting any one particular scheme, it would be enough to include the following formula in the statutes of the new Danzig Bank of Issue

"The rights and privileges conveyed by this instrument are subject to any measures which the application of Article 36 of the Paris Convention may involve, it being understood that the legitimate interests of the shareholders shall be duly safeguarded.

"Should the position of the Bank, under the currency system finally adopted, not prove satisfactory to the shareholders, they would have the right, on a resolution of the general meeting, to sell their shares to the State of Danzig at a premium to be agreed upon between the Free City of Danzig and the founders of the Bank."

It would be the business of the new Bank of Issue to obtain the necessary credits from abroad for the immediate stabilisation of the currency on its own credits, supported, if necessary, by signatures of recognised financial repute.

It would thus be unnecessary for the Free City to raise a loan on its own account, and the delays and difficulties inseparable from reference to the Reparation Commission and the Ambassadors' Conference would thereby be obviated.

The above summarises the general views of the Financial Committee. In formulating them, the members of the Financial Committee are unanimous in calling the Council's attention to the extreme urgency of the problem. They are of opinion that every day lost increases the danger, not only for the Free City of Danzig but also, by direct consequence, for the Polish Republic itself.

(Signed) A. JANSSEN.

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Annex 572b.

C. 626. 1923. II.

FINANCIAL SITUATION OF THE FREE CITY OF DANZIG.

*Letter dated September 22nd, 1923, from the Chairman of the Financial Committee to the President of the Council, submitted to the Council on September 22nd, 1923.*

[Translation.]

On the 5th of this month I had the honour to forward to you, on behalf of the Financial Committee, the Committee's opinion with regard to the currency reform to be carried out in the Free City of Danzig. Since that date, the representatives of the Polish Government, on the one hand, and of the Free City on the other hand, have discussed the considerations contained in this letter and have accepted the general lines laid down therein.

I wish to inform you immediately of the reaching of this agreement, the importance of which you will appreciate. The text of the agreement has been forwarded to you by the parties concerned.

The Committee earnestly hopes that, thanks to this agreement, the currency reform will be put into execution as soon as possible and that thereby one of the essential conditions to the prosperity of the Free City will be fulfilled by the final re-establishment of its financial situation, to which the Committee has given careful attention for several years.

(Signed) A. JANSSEN.

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