

IV

“On the recommendation of the Financial Committee, the Council appoints as trustee for the loan M. C. E. ter Meulen, the Chairman of the Financial Committee.”

Appendix.

The trustee will be appointed and may at any time be removed by a resolution of the Council on the advice of the Financial Committee. The trustee may at any time resign on giving one month's previous notice in writing to the Council. In the event of the death or resignation or removal of the trustee, or the trustee becoming, in the opinion of the Council, unfit or incapable of acting in the trusts of the loan, or in the event of a vacancy occurring for any other reason in the office of the trustee, the Council, on the advice of the Financial Committee, will, by resolution, appoint any other person to be the trustee in place of the trustee so dying, resigning, removed, becoming unfit or incapable of acting, or otherwise ceasing to be a trustee. If in order to avoid a vacancy in the trusteeship, an appointment is necessary between the sessions of the Council, the Council authorises its President immediately to make an appointment on its behalf, on the advice of the Chairman of the Financial Committee, subject to such appointment being approved by the Council at its next session. A body corporate may at any time be appointed as trustee.

C. 151. 1925. II.

Annex 760a.

FREE CITY OF DANZIG DANZIG MUNICIPAL LOAN.

Report by M. J. Avenol and Sir Arthur Salter on behalf of the Financial Committee.

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Report by M. J. Avenol and Sir Arthur Salter.

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I.

In the report addressed to the Council regarding their seventeenth session (Document C. 100. 1925. II, p. 7), the Financial Committee informed the Council that they were consulted by representatives of the Free City and of the Municipality of Danzig with regard to a foreign loan proposed to be raised by the Municipality for development purposes. The Committee was requested to recommend to the Council to allow the League to be associated with the scheme for this loan.

The Committee received a report on the subject from M. Avenol and Mr. Loveday who visited Danzig during January. After hearing representatives of the Polish Government, the Financial Committee indicated in a memorandum (Appendix 1) under what conditions they would be willing to make to the Council the recommendations requested. This memorandum was given confidentially to the representatives of Danzig as a guide for their negotiations, as well as to the representatives of Poland.

The Committee also authorised the undersigned, in the absence of members of the Committee, to present the views of the Committee to the Council.

II.

The negotiations of the Municipality of Danzig for a foreign loan led to the signature of a contract between the Municipality and two London banks (the British Overseas Bank, Ltd., and Helbert, Wagg & Co., Ltd.) on February 19th, 1925, for the issue of a 7 per cent mortgage loan of £1,500,000 (nominal). As will be seen from Article 32 of the Contract (Appendix 2, page 617), the banks have the right to withdraw from the contract in the event of the association of the League being refused.

In the drafting of this contract, due regard has been had throughout to the Financial Committee's memorandum. The text of the contract was communicated to the Secretariat and has been carefully examined.

We felt justified in recommending that the conditions made by the Financial Committee with regard to the total and the expenditure of the loan may be considered as fulfilled. Though the nominal total of the loan is £1,500,000, the net total to be received by the Municipality will be below the limit approved by the Financial Committee (£1,333,333), owing to the fact that the loan will be issued at a price below par. The proposals for the erection of a Messe house and a central-heating station, which the Committee could not recommend, have been eliminated from the programme of expenditure. The land development scheme, about which the Committee also felt a certain doubt, has been maintained. The Committee did not ask, however, for the elimination of this item and was not positively opposed to it.

III.

The programme of expenditure, which forms a part of the contract and which, during the course of the negotiations in Geneva, has been modified by agreement between the Municipality and the bankers (the modified programme is given in Appendix 3), also contains a provision for £320,000 to be used for harbour works. An agreement was reached to-day (see Document C. 198. 1925.II, Annex II) between the Municipality and the Harbour Board, under which the Municipality offers this sum of £320,000 to the Harbour Board on the same conditions as those under which it receives itself the larger loan from the London bankers, with this exception, that the £320,000 lent by the Municipality to the Harbour Board will be amortised in ten years. The Harbour Board accepts this offer, with the reserve that it can withdraw its acceptance before April 1st, 1925.

The sums which the Municipality will receive from the Harbour Board through the earlier amortisation, and which will be available for investment, will be replaced on the loan account under the supervision of the trustee and will be used only for constructive purposes, such as the second stage of the Radaune Water-Power Station and the extension of the gasworks, or otherwise as authorised under Clause 18 of the Loan Contract.

We have examined the agreement concluded between the Municipality of Danzig and the Harbour Board. In view of the terms of this agreement, including the provision in Clause 6 for the settlement of any disputes by an arbitrator, we consider that, with good-will on both sides, it gives a sufficient safeguard against difficulties arising in the expenditure of the money provided for port development. The agreement, including the detailed conditions of the advances offered by the Municipality to the Harbour Board, has been examined by a representative of the issuing houses, who has certified that it in no way infringes upon the security of the lenders of the principal loan (Appendix 4).

In these circumstances, we consider that we can properly recommend to the Council that the conditions laid down in paragraph 6 (b) of the Financial Committee's memorandum are satisfied.

IV

In the event of the Harbour Board withdrawing its acceptance before April 1st, 1925, we feel considerable difficulty in recommending to the Council that it should authorise the association of the League with the total loan, for, in this event, the Harbour Board would receive directly £320,000 from other sources, whilst the Municipality would itself receive about £1,300,000 out of its own loan. Thus, Danzig in its entirety taken as an economic unit, would receive sums considerably superior to the maximum of about £1,333,333 net (including sums for port development) laid down by the Financial Committee.

We would therefore recommend to the Council not to authorise the association of the League with a loan higher than £1,250,000 (nominal) in the event of the Harbour Board withdrawing its acceptance of the Municipality's offer.

V

The contract defines the duties of the trustee of the loan. It also provides that certain tasks shall be performed by the Council of the League of Nations. The full text of the articles concerning the Council and the trustee is given in Appendix 2.

The duties of the trustee, who is to be appointed by the Council of the League, fall into three groups:

(a) Articles 7, 8, 9 and 10 contain provisions in regard to the mortgages to be given as security for the loan, which will be made out in the name of the trustee, etc.

(b) Article 11 arranges for the right of the trustee to inspect the accounts in which the gross receipts of the municipal undertakings are entered. These receipts are pledged as security for the loan.

(c) Article 18 finally provides machinery by means of a system of vouchers to be supervised by the trustee or his representative, in order to secure that expenditure of the proceeds of the loan is confined to the purposes for which the loan is raised.

These different provisions are in accordance with what the Financial Committee considered should be the trustee's duties (see Appendix 1, below).

VI.

The Council of the League is mentioned in the following articles of the contract:

Article 30 provides that the Council shall appoint the trustee and fix the fee to be paid to him.

Articles 7 and 8 lay down that the mortgages to be given as security for the loan shall be made out in the name of the trustee or of a person to be designated in agreement with the trustee or in any other way that the Council may decide. Article 18, sub (a), stipulates that modifications in the programme of expenditure shall be decided upon by the Council. This clause was inserted because the Financial Committee felt that the responsibility for authorising such modifications should not be left to the unfettered discretion of the trustee. On the other hand, it is necessary to provide a method by which the programme of expenditure might be changed. In order to avoid a deadlock, the contract leaves an eventual decision in the hands of the Council. It is unlikely that in practice this task will give rise to difficulties. If the Council were requested to give a decision, it would probably itself consult the Financial Committee, who, in advising the Council, would enquire whether the purposes of expenditure to be approved were of an essentially reconstructive and sound financial character.

VII.

Attached to the present report will be found the statement signed by representatives of Poland and Danzig on the relations of Danzig with the League, which is required by Article 8 (a) of the Financial Committee's memorandum.

The only remaining condition in the Financial Committee's memorandum is that the agreement of the Polish Government and the High Commissioner should be obtained. The Polish Government has given its assent, and the High Commissioner is prepared to give his assent as soon as he has been able to verify formally that the conditions of the loan are in conformity with the status of the Free City. We understand that there is no reason to think there is any inconsistency but the late date at which the negotiations have been concluded have not enabled him to make the examination of the documents necessary before he can give his formal certificate.

VIII.

Subject to the receipt of the above formal certificate from the High Commissioner

We consider that the terms of the contract may fairly be considered as satisfying the Financial Committee's conditions.

We recommend, therefore, that the Council may properly undertake the responsibilities contemplated in the contract¹

And the different authorities concerned have agreed to the scheme.

In these circumstances, the undersigned have no hesitation in recommending to the Council, in the name of the Financial Committee, to authorise the issue of the loan under the above conditions under the auspices of the League as soon as the above formal certificate has been received from the High Commissioner.

(Signed) J. AVENOL.
J. A. SALTER.

Appendix 1.

MEMORANDUM BY THE FINANCIAL COMMITTEE AS TO THE PROPOSED LOAN
OF THE MUNICIPALITY OF DANZIG.

Geneva, February 12th, 1925.

1. The Financial Committee have had before them a scheme under which the Municipality of Danzig desires to raise a loan for certain development purposes, with the request that the Committee will recommend the Council to allow the League to be associated with the scheme. What is requested is, of course, not merely the formal assent which, in certain circumstances defined by the Convention of November 9th, 1920, is required from Poland, or the High Commissioner, or the Council (see paragraph 11), but a more positive assistance (of the kind described below) which the Committee understand to be required to enable a successful issue to be made in this case.

2. The loan which the Danzig Municipality desires to raise is different in character from the loans for Austria and Hungary (which were essentially for financial reconstruction) and that for Greece (which was designed to meet a special burden on the finances of the country resulting from a large influx of refugees). It is a loan for economic development, of the kind which is usually

¹ The Legal Section, after having examined the Contract, stated that it saw no legal objections to the provisions of the Loan Contract relating to the Council and the trustee.

negotiated — and in ordinary circumstances best negotiated — direct between the borrowing authority and the financial houses without League of Nations or other official association.

3. The Financial Committee, however, consider that, in view of the special circumstances of Danzig, the fact that the loan is for economic development should not prevent them from recommending to the Council that the League could properly be associated with it, within the limits and under the conditions defined below.

4. Danzig is a new territorial entity created by the Treaty. It is placed under the protection of the League, and a League High Commissioner, responsible to the Council, has important duties affecting its status and its relations with Poland. The Constitution and the Treaties create, indeed, an elaborate series of relations between the League, the Free City and Poland. It results from these conditions that the League has a very special interest in the fortunes of Danzig.

5. The Financial Committee consider that the future prosperity of the Free City and of the Municipality depends above all on the harmonious co-operation between the various authorities concerned, and that the League could only be recommended to associate itself with a loan operation if an agreed plan were put before it in which all these authorities were prepared to collaborate.

Subject to this general principle, which appears to the Committee essential for the success or security of any scheme for the development of the Free City the Financial Committee consider that the provisional plan proposed by the Municipality can properly be considered as of a reconstructive character, in the sense that, though not required for the establishment of a sound currency and budget position, which happily already exist, it will assist Danzig to proceed to a development which is required to assist her to attain a normal economic situation appropriate to her position and resources.

6. The Committee consider that the above description of the scheme, as essentially reconstructive and desirable in the interests of Danzig, can be properly applied to the proposed expenditure on the first part of the Radaune Water-Power Electric Station (11 million gulden), pipelines for electric supply (5 million gulden), water supply (1 million gulden) and sewage filter-beds (1,355,000 gulden), and that provision for these objects may properly be included in a loan. They feel rather more hesitation in including within their recommendation the schemes which relate to gas-works and land development. While some or all of these schemes may also be justified, the Committee feel that the total loan should be restricted to the minimum absolutely necessary for immediately productive purposes. In any case, the Committee cannot recommend the proposals for the erection of a Messe house and the central-heating station.

They consider expenditure for port development as also reconstructive, and to be recommended, and that provision might be properly included in the loan, on the express condition that the Municipality and Harbour Board submit an agreed proposal such as to obviate the possibility of friction between the interested parties and to safeguard the rights and interests of prospective lenders.

Having regard to the above observations, the Committee consider that the amount of the loan proposed (£2,000,000) should be reduced by approximately one-third.

7. The Committee are glad to note from the declarations made to them that all the authorities concerned are fully alive to the importance of developing the efficiency of the port, and the Committee trust that a practical and economical plan for this purpose may be agreed upon between the Municipality and the Harbour Board without delay.

8. The Committee consider that the association of the League should be limited to the following lines:

(a) A document stating the present relations of Danzig with the League (including its position under the protection of the League and the main duties and rights of the League's High Commissioner, who is responsible to the Council) might usefully be drawn up. To this document might be appended statements certifying the assent of the various authorities concerned, *e.g.*, a signed statement by Poland that it assents to the loan, by the High Commissioner that he notes this assent and that no further assent is required from him, and by the Harbour Board that it agrees as to the proposed port development. This document, when signed, might be presented to the League.

(b) A statement by the Council, on the advice of the Committee, that it considers the loan to be one which is essentially of a reconstructive character, in that it is to be devoted to sound economic development, which is in the interest of Danzig.

(c) The appointment of a trustee by the Council, on the advice of the Financial Committee, to control the assets assigned as security to supervise the arrangements for the service of the loan, and to secure that the expenditure is confined to the purposes covered by the scheme.

The duties and responsibilities of this trustee must, however, be carefully defined under articles drawn up in accordance with principles approved by the Committee. In particular, the Committee consider that, while he might properly be responsible for seeing that the loan is expended on the objects specified in the scheme, he should not be responsible for authorising, under his

unfettered discretion, expenditure on other objects. If any elasticity is necessary, its exact limits should be defined in the scheme itself. The trustee should not, of course, be in any way responsible for the allocation of contracts, etc.

The formal responsibility of the Council would, of course, be limited to the choice of a suitable person as trustee, and it would not be responsible for his acts.

The Committee might recommend to the Council (if the conditions indicated in this memorandum are satisfied) to entrust the High Commissioner with the duties of the trustee pending the nomination of the latter, which should be within a period not exceeding six months from the date of the conclusion of the loan.

9. The Financial Committee, while satisfying themselves as to the reconstructive character of the scheme and examining the conditions and character of the League's association, consider that the exact nature of the securities is a matter best settled between the Municipality and the issuing houses.

10. The Committee desire to make it perfectly clear that they have in no way examined the question of the feasibility of a loan under the proposed conditions. In the case of Austria, Hungary and Greece they advised the prospective borrowers as to the conditions on which they thought it reasonable to negotiate, and to this extent assumed some moral — though not a formal — responsibility for the success of the negotiations. They are not proposing to assume any such responsibility in the present instance.

11. The Committee have had before them the following provision of the Convention between Poland and the Free City dated November 9th, 1920 (Article 7).

"The Free City may not contract foreign loans except after previous consultation with the Polish Government, which shall communicate its reply within fifteen days. In case of any objection being made on the part of the Polish Government, the question may be submitted by the Free City for consideration to the High Commissioner, who shall decide under the conditions laid down in Article 39 of the present Treaty.

"It shall be the duty of the High Commissioner to assure himself that the conditions of the loan are not inconsistent with the provisions of the present Treaty or with the status of the Free City."

The Committee are further informed that, by a decision of the High Commissioner, the obligation imposed by the above article applies also to loans required by the Municipality.

The Committee assume that the requirements so defined will be duly satisfied, and their recommendation to the Council to authorise the association of the League with the scheme would, of course, be conditional upon this.

12. In these circumstances, the Committee see no objection to negotiations proceeding with the Polish Government, the Harbour Board and bankers on the lines of the scheme, in the light of the above observations.

Subject to agreement being reached as a result of these negotiations, the Financial Committee will be prepared to recommend the Council to authorise the association of the League with the scheme on the conditions and in the manner described above.

13. There is to be no publication of this memorandum unless and until approval of the Council is obtained. But it may be used as a guide in connection with preliminary negotiations in the meantime.

Appendix 2.

TEXT OF THE ARTICLES IN THE CONTRACT FOR THE DANZIG MUNICIPAL LOAN CONCERNING THE COUNCIL OF THE LEAGUE OF NATIONS OR THE TRUSTEE.

Article 7 — The Bonds representing the said loan shall, as regards principal and interest, be the direct liability and obligation of the Municipality and shall further be secured by specific and exclusive first mortgages (*Erste-Hypothek*) to be inscribed at the expense of the Municipality in the name of the trustee hereinafter mentioned (who or whose successor as trustee is hereafter referred to as "the trustee") or in the name of a nominee appointed by the trustee or otherwise as the Council of the League of Nations shall determine for the benefit of the bondholders on:

- (a) All lands buildings and other property capable of being mortgaged under the law of Danzig pertaining to the Municipal Electric Works, the Municipal Gas-Works and the Municipal Water-Works subject as regards the Electric Works to the outstanding dollar mortgage above mentioned.
- (b) The freehold lands belonging to the Municipality specified in the Second Schedule hereto.

Article 8. — As regards the properties to be mortgaged as mentioned in (a) of Clause 7 such mortgages shall from time to time be extended to any improvements or extensions of the said undertakings or to any equipment thereof or to any further undertakings or lands buildings or properties acquired in connection with the development of such undertakings including the Radaune Works in so far as they are acquired out of the proceeds of the present loan, and can be mortgaged under the law of Danzig the Municipality undertaking not to dispose of any of the undertakings or further acquisitions or any parts thereof nor to grant any concessions or permits to other parties enabling them to carry on any business of the same character as the undertakings (except as regards any disposal concession or permit granted with the consent in writing of the trustee in agreement with the bankers) the general intention being that the Municipality shall whilst any of the Bonds are outstanding carry on such undertakings itself exclusively retaining to itself the monopoly to carry on such undertakings. In case of later acquisitions for any of the undertakings in so far as these are made in whole or in part out of the proceeds of this loan the Municipality undertakes to have mortgages on such acquisitions in so far as the law of Danzig permits immediately registered in the name of the trustee or in the name of a nominee appointed by the trustee or otherwise as the Council of the League of Nations shall determine.

Article 9. — As regards the lands to be mortgaged as mentioned in (b) of Clause 7 the Municipality shall be entitled from time to time with the written consent of the trustee to sell or otherwise dispose of any part or parts of such lands on bringing into mortgage either the proceeds of sale of such land or lands or other property of an equal value to the satisfaction of the trustee the intention being that the Municipality shall be entitled to dispose of or vary such lands or substituted security provided the security for this loan is not in the judgment of the trustee thereby impaired.

Article 10. — The Municipality undertakes to redeem as soon as possible out of the proceeds of the present loan the outstanding dollar loan above referred to and also that whilst any of the Bonds of the present loan are outstanding it will not create or issue without the previous written consent of the trustee acting in agreement with the bankers any mortgages charges or securities ranking ahead of or *pari passu* with the mortgages mentioned in Clause 7 hereof.

Article 11. — All gross receipts derived from the undertakings shall be credited as and when received by the Municipality to a central account to be opened in the books of the Municipality which account shall be available at all times for the inspection of the trustee or his representative and the Municipality undertakes to transfer from such central account to the Bank of Danzig fortnightly one twenty-sixth part of the total annual amount in sterling required to meet the service of the loan (both principal and interest) two such twenty-sixth parts to be remitted each month by the Bank of Danzig to the British Overseas Bank in London for account and risk of the Municipality Such fortnightly transfers to the Bank of Danzig shall begin on the 15th day of the month in which the issue takes place provided such issue takes place in the first half of that month or on the first day of the month following that in which the issue takes place if the issue is made in the latter half of that month. The remittances by the Bank of Danzig shall be made to London immediately the second fortnightly instalment shall have been received but the British Overseas Bank shall always be put in funds in London fourteen days before the date for payment of coupon to the full amount necessary to complete the current half-year's service of the loan. Should the gross receipts to the credit of the said central account be insufficient at any time to allow of such fortnightly transfer the Municipality will forthwith provide the Bank of Danzig with the deficiency out of the general revenues of the Municipality The Municipality undertakes to incorporate annually in its budget of expenditure whatever sum may be necessary to meet the annual service of the Bonds and all proper expenses and that it will procure the Free State of Danzig to forthwith pass a law making it obligatory on the Municipality to incorporate such sum annually in its budget.

Article 12. — The moneys from time to time standing to the credit of the capital account with the British Overseas Bank cannot be withdrawn until the bankers shall have been furnished with the written certificate of the President of the Court of Appeal (*Obergericht*) in Danzig stating:

(a) That all formalities requisite to legalise the loan have been given effect to and

(b) That the specific mortgages mentioned in Clause 7 have been rendered effective according to law and that the law of the Free State of Danzig referred to in Clause 11 has been passed.

After the bankers shall have received such written opinion (which shall be procured at the expense of the Municipality) the moneys standing to the credit of such capital account with the British Overseas Bank can be withdrawn by the Municipality but only in favour of the Bank of Danzig for account of the trustee and on the moneys being so credited to the trustee the bankers shall be released from all further liability The moneys required to meet English stamp duty on the bonds shall not be withdrawn but shall be applied by the British Overseas Bank in meeting such duty when it becomes payable.

As regards any balances standing to the credit of the trustee with the Bank of Danzig these shall only be drawn upon from time to time against vouchers certifying the proper expenditure to the amount sought to be withdrawn upon.

(a) Any part of the programme set out in the Third Schedule hereto (including expenditure properly attributable to capital but incurred out of revenue prior to the date of this agreement upon the Radaune Water-Power scheme). In the case of advances to the Harbour Board under the programme set out in the Third Schedule hereto receipts of the Harbour Board shall be accepted in place of vouchers. Should the said programme be altered in any respect by the Council of the League of Nations any expenditure falling within such amendments shall be permissible; or

(b) The repayment and cancellation of the existing dollar loan hereinbefore mentioned, or

(c) The purchase and cancellation of Bonds of the present loan but without prejudice to any obligations under the Sinking Fund.

Until such time as the Municipality shall find it possible to pay off the dollar loan a part of the proceeds of the present loan corresponding at the exchange ruling at the date of this contract to the capital equivalent in sterling of such dollar loan shall remain to the credit of the trustee and shall not be drawn.

The vouchers against which the Municipality can draw upon its balances with the Bank of Danzig must be in a form to be agreed upon between the trustee and the Municipality. For the purpose of supervising that the proceeds of the loan are properly applied to the specific purposes above mentioned or for assisting or advising him on any matters arising out of the loan or under this agreement the trustee is empowered to appoint at the expense of the Municipality a representative who shall have full access to the accounts of the Municipality and of the undertakings as well as the original vouchers. The accounts of the Municipality and of the undertakings shall be kept in such a way that it is clearly shown at all times that the above sums have been expended for the above purposes. The Municipality undertakes that the undertakings shall be managed at all times as though they were separate commercial undertakings.

Article 30. — The trustee throughout this agreement shall mean the trustee for the time being appointed to act as trustee by the Council of the League of Nations or any successor to be similarly appointed. Any fee whether annual or otherwise laid down by the Council as payable to the trustee for his services or to any nominee of the trustee in whose name any part of the mortgage premises may be inscribed shall be paid by the Municipality to the trustee or to his nominee in addition to the reimbursement of all disbursements or expenses incurred by the trustee or his nominee in connection with the trust. The trustee or his nominee shall not be liable for anything whatever except a breach of trust knowingly and intentionally committed.

Article 32. — The bankers shall at their option have the right to determine this contract by notice in writing in any of the following events:

1. If the League of Nations shall not allow the loan to be issued to the public under its auspices.

2. In the event of any political or financial developments or other *force majeure* occurring prior to the issue which in the bankers' opinion precludes such issue being a success. In case of notice to determine being so given by the bankers neither party hereto shall have any claim against the other.

Appendix 3.

AMENDMENT DATED MARCH 13TH, 1925, TO AGREEMENT MADE FEBRUARY 19TH, 1925, BETWEEN THE MUNICIPALITY OF DANZIG, PARTY OF THE FIRST PART, AND THE BRITISH OVERSEAS BANK, LIMITED, AND HELBERT, WAGG & COMPANY LIMITED, PARTY OF THE SECOND PART.

Whereas, in consequence of negotiations between the Municipality of Danzig and the Board for the Harbour and Waterways of Danzig resulting in an agreement dated March 13th, 1925, copy of which is attached to the present amendment, certain alterations are rendered necessary in Schedule III referred to in Clause 18 of the above Agreement of February 19th, 1925

It is agreed between the parties as follows:

There shall be inserted in the above Agreement of February 19th, 1925, and shall be accepted as an integral part of that Agreement the Schedule III hereby attached in place of the Schedule III originally attached to that Agreement.

(Signed) D. WARD.

(Signed) ERNST VOLKMANN.

THIRD SCHEDULE.

Programme of Expenditure.

A.	Development of the Radaune Water-Power Station	£436,000
	Extension of system of electrical distribution network	200,000
	Extension of Water-works	40,000
B.	Development of real estate:	
	(1) Opening-up of factory sites on the Niederer front	101,000
	(2) Opening-up of land for residential purposes of Brösen	125,000
	Construction of new sewage filter-bed system	55,000
C.	Other purposes	320,000

This sum will be advanced for harbour works, amortisation being within ten years sums available for investment through this earlier amortisation will be replaced on the loan account and will be used for the second stage of the Radaune Works and the gas-works, or otherwise as authorised under Clause 18 of the Loan Contract.

£1,277,000

(Signed) D. WARD.

(Signed) Ernst VOLKMANN.

Appendix 4.

LETTER TO M. AVENOL AND SIR ARTHUR SALTER FROM THE REPRESENTATIVE OF THE BANKERS.

Geneva, March 13th, 1925.

With reference to the negotiations which have taken place between the representatives of the Municipality of Danzig and of the Board for the Harbour and Waterways of Danzig relative to the proposed Municipality of Danzig 7 per cent Mortgage Loan of 1925, I beg to inform you that I have examined the agreement, dated March 13th, 1925, between the above two parties and am satisfied that the proposed advance of £320,000 out of the proceeds of the above loan, under the conditions comprised by the agreement referred to, in no wise infringes upon the security of the lenders under the above Mortgage Loan as provided in the contract of February 19th, 1925, between the Municipality and the bankers.

(Signed) D. WARD,
 Manager British Overseas Bank, Limited.

Appendix 5.

STATEMENT ON THE RELATIONS OF THE FREE CITY OF DANZIG WITH THE LEAGUE OF NATIONS.

A. — The Principal Allied and Associated Powers, in favour of whom, in accordance with Article 100 of the Treaty of Versailles, the German Reich renounced the sovereignty over the territory which now constitutes the Free City of Danzig, have, in accordance with Article 102 of the Treaty of Versailles, established this territory as "the Free City of Danzig"

Under Article 102, the Free City of Danzig is placed under the protection of the League of Nations.

Under Article 103 of the Treaty of Versailles, the constitution of the Free City of Danzig is placed under the guarantee of the League of Nations.

B. — In accordance with Article 103, a High Commissioner appointed by the League of Nations resides at Danzig.

His duties are as follows:

1. In accordance with Article 103 of the Treaty of Versailles and Article 39 of the Convention concluded at Paris on November 9th, 1920, between Danzig and Poland, which Convention may not be modified (Article 40) except by agreement between Danzig and Poland, it is the duty of the High Commissioner to deal in the first instance with all differences arising between the Free City of Danzig and the Polish Republic in regard to the Treaty of Versailles or to any arrangements or supplementary agreements made thereunder or to any matter affecting the relations between Danzig and Poland.

The High Commissioner has the right to refer to the Council of the League of Nations, if he thinks it necessary any matter which has been submitted to him for decision by either party. The two parties shall have the right to lodge an appeal against any decision given in the first instance by the High Commissioner.

The provisions of Article 39 of the Paris Convention shall also apply if the Polish Government raises objections to any foreign loan in regard to which it has been consulted by the Free City under Article 7 of that Convention and if the Free City submits the question to the High Commissioner. The High Commissioner must ascertain that the conditions attached to the loan are not inconsistent with the provisions of the Paris Convention or with the status of the Free City.

The same arbitral procedure shall be applied if the Free City of Danzig or Poland lodges an appeal with the High Commissioner against any decisions of the Danzig Port and Waterways Board. In accordance with Article 19 of the Paris Convention of November 9th, 1920, between Danzig and Poland, a Danzig Port and Waterways Board was established for the administration of the port, the waterways of Danzig and the railway system specially serving the port. This Board is composed of five Danzig and five Polish delegates, under a Chairman chosen by agreement between the two Governments or appointed by the Council of the League of Nations. His vote is decisive in the case of an equal division.

2. In accordance with Article 6 of the Paris Convention of November 9th, 1920, the High Commissioner has the right to veto any international treaty or agreement, in so far as it applies to the Free City of Danzig, if, in the opinion of the Council of the League of Nations, such treaty or agreement is inconsistent with the provisions of the Paris Convention of November 9th, 1920, or with the status of the Free City of Danzig.

March 14th, 1925.

(Signed) Henryk STRASBURGER.
Henrich SAHM.

C. 198. 1925. II.

Annex 760b.

FREE CITY OF DANZIG DANZIG MUNICIPAL LOAN.

Letter from the Senate of Danzig to the President of the Council of the League of Nations.

Geneva, March 14th, 1925.

On February 19th, 1925, the Municipality of Danzig concluded an agreement with the British Overseas Bank, Ltd., and the banking firm of Messrs. Helbert, Wagg & Co. in London in regard to the issue of a seven per cent loan of £1,500,000. In order to render possible a successful issue of this loan, the banks made the association of the League of Nations with the loan a condition. The Senate of Danzig approached the Financial Committee of the League at its last meeting with a view to discussing with the Committee under what conditions the Financial Committee would be able to recommend to the Council that it should authorise the League's association with the loan. The Financial Committee specified those conditions in a Memorandum which was communicated to the Senate of Danzig and which served as a guide to the Senate in its further negotiations.

Since all the conditions laid down by the Financial Committee have now been complied with, the Senate of Danzig has the honour to request the Council to authorise the association of the League of Nations with the proposed Loan.

The Senate of Danzig, on behalf of the Municipality of Danzig, has the honour to submit the following documents annexed hereto, from which it is clear that all the agreements required by the Financial Committee have been received:

- I. A letter from the Polish Government, dated March 13th, 1925,
- II. An agreement between the Municipality and the Harbour Board of the same date
- III. A declaration from the High Commissioner.

(Signed) Ernst VOLKMANN.

Appendix 1.

LETTER FROM THE POLISH GOVERNMENT TO THE PRESIDENT OF THE DANZIG SENATE.

Geneva, March 13th, 1925.

In reply to your letter dated March 12th, I am instructed by my Government to inform you that I agree to the raising of a loan by the Municipality of the Free City with the Overseas Bank in London, after consultation with the Polish Government, as required by Article 7 of the Treaty of Paris, on the understanding that the yield of the loan is employed solely for the purposes and up to the amounts decided upon by the Financial Committee of the League of Nations at its seventeenth session.

As regards the portion of the loan to be used for building and works in the port (£320,000), the Polish Government, considering that, under paragraph 23 of the Treaty of Paris, these works can only be carried out by the Harbour Board, cannot agree that they should be carried out by the Municipality of the Free City of Danzig.