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[F 553.]

FREE CITY OF DANZIG

FIRST REPORT BY THE TRUSTEE FOR THE FREE CITY OF DANZIG 6½% (TOBACCO MONOPOLY) STATE LOAN OF 1927

(Covering the Period from June 25th, 1927 to June 30th, 1928.)

INTRODUCTION.

The President of the Council of the League of Nations having appointed me as Trustee for the Free City of Danzig 6½% (Tobacco Monopoly) State Loan of 1927, in conformity with the Financial Committee's report approved by the Council on March 10th, 1927¹ I herewith have the honour to submit to the Council of the League of Nations my first annual report, covering the period from June 25th, 1927 to June 30th, 1928.

The Trustee's task for the above-mentioned Danzig loan falls into three parts:

- (1) To control the proper application of the loan proceeds to the specific purposes enumerated in the Programme of Expenditure;
- (2) To control that the receipts on the Tobacco Monopoly Account and the Excise Account cover in every year one and one-half times the required maximum annual service of the loan,
- (3) To control the service of the loan.

According to Article 25 of the General Bond, the Trustee is entitled to appoint a representative to act on his behalf in his various functions. The Bank of Danzig has, as was the case with the 7% Municipal Loan of Danzig of 1925, again been found willing to do this. The detailed arrangements were concluded through an exchange of letters and other documents dated September 29th, 1927 and October 3rd, 1927 copies of which are annexed to this report.

I. PLEDGED REVENUES.

Article 7 of the Loan Agreement dated June 22nd, 1927 stipulates that the loan shall be specifically secured by a first and exclusive charge in favour of the Trustee for the bondholders on the gross receipts of the State from:

- (a) The Tobacco Monopoly and in particular from the Tobacco Monopoly Contract;
- (b) The excise on spirits (including vinegar).

Article 7 of the Loan Agreement also stipulates:

If, for any cause, the State shall find it necessary in the interests of itself and of the bondholders to cancel or modify the Tobacco Monopoly Contract, then all revenues derived by the State from tobacco shall thereafter be charged with the principal and interest of the bonds as a first and exclusive charge in favour of the Trustee for the bondholders."

If the receipts from the Tobacco Monopoly and the excise on spirits total in any one year less than 150 per cent of the required maximum annual service for that year, such other revenues of the State will be assigned to the Trustee as may in his opinion, be sufficient to bring the total assigned revenues up to 150 per cent of the annual service.

¹ See *Official Journal*, April 1927, pages 386 and 513.

II. SUPERVISION OF ACCOUNTS.

According to a Decree having force of law of March 31st, 1927 (*Official Gazette* of the Free City of Danzig of March 31st, 1927 page 17), a Tobacco Monopoly was instituted, which came into force on April 1st, 1927

From the Senate of the Free City of Danzig I have received a certified copy of a letter dated June 17th, 1927 addressed by the Commissioner-General for the Republic of Poland in Danzig to the Senate of the Free City of Danzig, confirming that the agreement of March 31st, 1927 between the Republic of Poland and the Free City of Danzig regarding a Tobacco Monopoly in the district of the Free City of Danzig has been sanctioned by the competent authorities of the Republic of Poland.

The whole gross receipts under the Tobacco Monopoly Contract and all gross receipts derived from excise on spirits (including vinegar) have, according to the General Bond, Article 16, to be credited to separate special accounts to be opened in the books of the Staatshauptkasse in the name of the Trustee. The Staatshauptkasse informed me on October 10th, 1927 that these accounts had been opened under the following headings:

Tobacco Monopoly Account, Trustee for the State Loan 1927
Excise Account, Trustee for the State Loan 1927

The payments under the Tobacco Monopoly Contract commenced on October 10th, 1927 and from that date both accounts have been credited with the receipts of the State, emanating from the Tobacco Monopoly and the excise on spirits (including vinegar).

III. EXPENDITURE OF THE LOAN.

According to Article 14 of the Loan Agreement, the loan proceeds were credited to an account in the name of the Trustee at the Bank of Danzig. They may be spent, according to the Programme of Expenditure, for the following purposes:

(1) Consolidation of the Floating Debt of the State: 14 million Danzig gulden = £560,000 sterling.

(2) Payments to. (A) the Conference of Ambassadors: 6 million Danzig gulden = £240,000 sterling; and (B) to the Reparation Commission. 9 million Danzig gulden = £360,000 sterling; total: 15 million Danzig gulden = £600,000 sterling.

(3) (a) Building of houses; and (b) two years' interest on the sum of 15 million Danzig gulden mentioned under (2) above: 11 million Danzig gulden = £440,000 sterling.

The moneys were to be withdrawn by the State for Items (1), (2) (A) and (B) and (3) (b) against receipts of the State, for Item 3 (a) against receipts of the local authorities accompanied by vouchers of the State.

For the purposes mentioned in the Programme of Expenditure there had been expended up to June 30th, 1928.

Items	Sums to be liberated	Sums liberated up to June 30th, 1928			Balance		
	£	£	s.	d.	£	s.	d.
(1) Consolidation of the Floating Debt of the State	560,000	554,045	11	9	5,954	8	3
(2) Payments to:							
(A) Conference of Ambassadors	240,000	240,000	0	0	—		
(B) Reparation Commission	360,000	360,000	0	0	—		
(3) (a) Building of houses		210,800	0	0	137,650	16	0
(b) Two years' interest on the sum of £600,000 mentioned under (2) above	440,000	34,330	19	0	57,218	5	0
	£1,600,000	£1,399,176	10	9	£200,823	9	3

Nothing having been stipulated in the Loan Agreement or General Bond as to the percentage of the two years' interest to be covered out of the loan proceeds on the above-mentioned £600,000, it has been agreed that this percentage should be 7.6291 on £600,000. This percentage is equal to 6½ per cent on £704,225 7s. of bonds, the proceeds of which amounted to 85.2 per cent (this being the average price realised by the State for the total loan) = £600,000.

Consequently for the two years' interest " a sum of	£	s.	d.
will be necessary which is to be liberated in monthly instalments of £3,814 11s.,	91,549	4	0
of which nine instalments have already been paid, <i>i.e.</i>	34,330	19	0
leaving a balance of	£57,218	5	0

There is still available for Item (3) Programme of Expenditure	£	s.	d.
from which will have to be deducted the aforesaid	194,869	1	0
leaving a balance of	57,218	5	0
	£137,650	16	0

for the building of houses. Of this amount I have, at the request of the Danzig Senate, consented to £40,000 being used for the laying-out of streets, canalisation, etc., connecting those houses with the main roads which have been built out of loan proceeds.

I ought to mention that in the Programme of Expenditure the proceeds	£	s.	d.
of the loan were estimated at £1,600,000, whilst in fact they amounted to	1,617,902	1	1
There has been liberated during the first financial year	1,399,176	10	9
leaving in reality a balance of	£218,725	10	1

against £200,823 9s. 3d. arrived at by taking the proceeds as estimated in the Programme of Expenditure.

Security for Loan.

According to information received from the Staatshauptkasse, there have been credited to the Tobacco Monopoly Account from October 10th, 1927 till June 30th, 1928 and on the Excise Account	Danzig Gulden.
	3,523,239.90
	5,446,466.92
Total	8,969,706.82

The maximum annual service of the loan requires an amount of £173,300, which, according to Article 19 of the General Bond, has to be covered one and one-half times; thus the two accounts must in every year show minimum receipts of £259,950 at 25 =	Danzig Gulden.
	6,498,750.—

It will be noticed that the receipts on the Tobacco Monopoly and Excise Accounts have, for a period of nine months, already considerably surpassed the maximum amount prescribed for the security of the service of the loan. I would add that the service for the Sinking Fund did not commence until April 1st, 1928, in consequence of which the service for the loan during the first financial year will amount to:

	Danzig Gulden.
12 months' interest = £123,500	3,087,500
6 months' Sinking Fund Service = £24,900	622,500
Total	3,710,000

So that one and one-half times the maximum total amount for the service of the loan during the first financial year will represent a sum of 5,565,000 Danzig gulden.

On September 29th, 1927 I gave standing instructions, in accordance with Article 17 of the General Bond, to the Staatshauptkasse to release immediately the balance standing to the credit of the two accounts each month after the remittance for the service of the loan has been effected by the Bank of Danzig to the British Overseas Bank, Ltd.

I cannot conclude this report without recording the assistance which the Bank of Danzig has constantly rendered me, both during the period of organisation of the system of the Trustee's control and since the Trusteeship has come into operation, and I wish to express to its President, Dr. Meissner, my sincerest appreciation of the manner in which he personally and his Bank have facilitated my work.

Amsterdam, July 1928.

(Signed) C. E. TER MEULEN.

Annex

LETTER TO THE BANK OF DANZIG.

[Translation from the German.]

Amsterdam, September 29th, 1927

With reference to previous correspondence by letter and telegram in, which you stated that you were prepared to represent me as Trustee for the Free City of Danzig 6½ % (Tobacco Monopoly) 1927 State Loan, I hereby appoint the Bank of Danzig to act as my representative on the following terms:

1. The Bank of Danzig must keep the following accounts for the Trustee:

(a) The Sterling Capital Account, to which must be credited the proceeds of the loan as soon as they have been placed at the disposal of the Senate by the Bank Consortium, in accordance with the provisions of the Loan Agreement. Payments can only be made to the Free City of Danzig in accordance with the provisions laid down in paragraph 2 and on production of the prescribed vouchers. This account shall be kept for the Trustee free of interest and charges. The Bank of Danzig is free to come to an agreement with the Senate providing for the grant to the Free City of Danzig, in return for the use of these sums for investment, interest on the deposits transferred to the Bank of Danzig corresponding to the possibilities of such investment of these funds.

(b) A Loan Service Account, in which must be entered, converted into sterling, the amounts transferred by the Free City of Danzig to the Bank of Danzig for the service of the loan according to the provisions of Articles 17 and 18 of the General Bond.

2. The Bank of Danzig undertakes to examine and control the use made by the Free City of Danzig of the proceeds of the loan in accordance with the provisions of the General Bond. Moneys from the proceeds of the loan shall only be released to the Senate against special vouchers, which must correspond to the enclosures, Forms 1 to 4. These forms bear upon:

Form 1: The consolidation of the floating debt.

Form 2: Payments to the Reparation Commission and Conference of Ambassadors.

Form 3: Provision for building of dwelling-houses.

Form 4: Provision for service of interest on the amounts paid to the Reparation Commission and the Conference of Ambassadors in accordance with Article 24 of the General Bond.

The Bank of Danzig must satisfy itself that the receipts delivered by the Senate correspond in form and substance to the regulation forms. If the receipts are found to be in order, the Bank of Danzig must telegraph to me, giving the telegram reference number, for my telegraphic authorisation, and, on receipt of my answer, release the sums to the Free City of Danzig. Copies of the vouchers delivered, together with the debit note, must be sent to me for my records.

3. In virtue of my standing instructions, given herewith, the Bank of Danzig shall undertake to transfer from the Loan Service Account opened with the Bank of Danzig in favour of the Trustee to the British Overseas Bank, Ltd., London, funds required for the service of the loan to the amount and on the dates indicated in Article 17 of the General Bond. Notification of the transfers must be made to me at once.

4. The Bank of Danzig undertakes, on my instructions, to adopt the necessary measures to control the execution of the provisions of the Loan Agreement and the Programme of Expenditure. These measures relate to the following points:

(a) The Bank will ensure that the two accounts (Tobacco Monopoly Account and Excise Account) which have been opened in the Trustee's favour in the Staatshauptkasse, and to which must be credited the total gross receipts from the Tobacco Monopoly and the excise on spirits (including vinegar), are properly kept in accordance with the provisions of Article 16 of the General Bond.

(b) The employment according to the Bond of that part of the proceeds of the loan set aside for the building of dwelling-houses. In this connection the Bank must satisfy itself:

(i) That the advances made by the Free City of Danzig to the Communes and Kreise from the proceeds of the loan conform to the conditions laid down in the Loan Agreement.

(ii) That the Communes and Kreise use these advances for the building of dwelling-houses and that the money is expended in a proper manner the Bank of Danzig undertakes on my instructions to adopt appropriate measures for the supervision of the condition and progress of the houses under construction.

(iii) That the moneys employed by the Communes and Kreise for this purpose are advanced on terms which yield the same rate of interest and the same amortisation conditions to the Free City of Danzig as those which the latter has assumed under the Loan Agreement.

I reserve the right to amplify and modify at any time the conditions set out in this letter and the enclosures, and in such case the Bank of Danzig must conform to my new instructions.

I appoint the Bank of Danzig my representative subject to the reservation that I am entitled to cancel the appointment at any time. The Bank of Danzig, on the other hand, is also entitled to cancel the appointment on giving me six weeks' notice.

Should the Trustee be changed, the Bank of Danzig undertakes to exercise its functions as representative during the time that the post of Trustee remains vacant and until the new Trustee has assumed his duties.

I shall be obliged if you will kindly inform me in writing that you accept the above terms.

Enclosures.

(Signed) C. E. TER MEULEN.

VOUCHER

[Form 1.]

For Expenses incurred by the Free City of Danzig in the execution of the Programme of Expenditure of the Free City of Danzig 6½ % (Tobacco Monopoly) State Loan, in accordance with Paragraph 24 of the General Bond.

RECEIPT

The Free City of Danzig has to pay the sum of
 on to
 This payment is provided under Paragraph 1 of the Programme of Expenditure of the loan (Third Schedule attached to the General Bond).

The Free City of Danzig hereby certifies that it has received the sum of

£.....

in words: pounds sterling, from the Bank of Danzig to the debit of the Trustee's Account for the payment of this amount.

Danzig, 19...

Senate of the Free City of Danzig

(Two signatures).

[Seal.]

[Form 2.]

VOUCHER

For Expenses incurred by the Free City of Danzig in the execution of the Programme of Expenditure of the Free City of Danzig 6½ % (Tobacco Monopoly) State Loan, in accordance with Paragraph 24 of the General Bond.

RECEIPT

The Free City of Danzig hereby certifies that it has received the sum of:

£.....

in words: pounds sterling, from the Bank of Danzig to the debit of the Trustee's Account, for payment to in accordance with Paragraph 2 of the Programme of Expenditure (Third Schedule attached to the General Bond).

Danzig, 19...

Senate of the Free City of Danzig:

[Two signatures].

[Seal.]

[Form 3.]

VOUCHER

For Expenses incurred by the Free City of Danzig in the execution of the Programme of Expenditure of the Free City of Danzig 6½ % (Tobacco Monopoly) State Loan, in accordance with Paragraph 24 of the General Bond.

RECEIPT

The Communes and Associations of Communes stated below have, in accordance with Paragraph 3 of the Programme of Expenditure (Thrd Schedule attached to the General Bond), received the following advances from the Free City of Danzig for the building of dwelling-houses as per the attached receipts:

	Danzig Gulden.
(a) The urban Commune of.
(b) The urban Commune of.
(c) Kreis
etc.

Total

The Free City of Danzig hereby certifies that it has received the above sum of gulden =
 £.....

in words: pounds sterling, from the Bank of Danzig to the debit of the Trustee's Account.

Danzig, 19...

Senate of the Free City of Danzig
 [Two signatures].

[Seal.]

[Form 4.]

VOUCHER

For Expenses incurred by the Free City of Danzig in the execution of the Programme of Expenditure of the Free City of Danzig 6½ % (Tobacco Monopoly) State Loan, in accordance with Paragraph 24 of the General Bond.

RECEIPT

The Free City of Danzig has applied the following amounts between and for the service of interest on the sums paid to the Reparation Commission and the Conference of Ambassadors, to a total amount of £600,000, in accordance with Paragraph 2 of the Programme of Expenditure (Thrd Schedule attached to the General Bond)

Interest at the rate of 7.6291 per cent = £.....

The Free City of Danzig hereby certifies that it has received the above sum of
 £.....

in words: pounds sterling, from the Bank of Danzig to the debit of the Trustee's Account.

Danzig, 19...

Senate of the Free City of Danzig
 [Two signatures].

[Seal.]

LETTER FROM THE BANK OF DANZIG.

Danzig, October 3rd, 1927

We have to acknowledge receipt of your letter of September 29th, with enclosures 1 to 4, and state that we are prepared to act as representatives of the Trustee for the 1927 Free City of Danzig 6½ % State Loan in conformity with the terms set out in that letter and the enclosures.

Bank of Danzig
 [Two signatures.]

M. C. E. TER MEULEN,
 Trustee of the
 1927 Free City of Danzig
 6½ % State Loan, Amsterdam.