

without importance for the examination of the question before us. It is quite natural that the members of the Council should desire to consider this situation among themselves and to confer together freely as to the best procedure to be adopted.

Accordingly, as far as I am concerned, I see no objection—in fact I see many advantages—to this meeting, which is a formal opening meeting, being followed by a private meeting of the members of the Council at which questions of procedure might be examined. We might then discuss at a later public meeting the question before us.

The President's proposal was adopted.

(The Council then went into private session.)

2958. **Mandates: Delimitation of the Frontier between Iraq and Syria.**

The PRESIDENT proposed that the Council should examine a question which did not appear on the agenda: the delimitation of the frontier between Iraq and Syria. Document C.843.1931.VI concerning this matter had already been circulated to the Members of the Council (Annex 1335). The President suggested that the Yugoslav representative, Rapporteur for questions relating to mandates, be asked to deal with this matter.

The President's proposal was adopted.

2959. **Expenditure resulting from the Summoning of the Council in Paris: Transfer of a Sum of 60,000 Swiss Francs from Item 3 to Item 2 (b) of the 1931 Budget.**

The PRESIDENT referred to his correspondence¹ with the Secretary-General regarding the expenditure resulting from the summoning of the Council in Paris, and submitted the following draft resolution:

"The Council:

"Having been informed that in view of the expenses involved by the prolongation of the sixty-fifth ordinary session of the Council due to the continuation of the examination of the Sino-Japanese question, and in view particularly of the high cost of the telegrams despatched to the Members of the Council, item 2 of the 1931 Budget, 'Sessions of the Council', is almost exhausted;

"Considering that, in view of the strictly political character of the present session of the Council, no objection can be raised to drawing on item 3, 'Unforeseen Expenditure (subject to special vote of Council)', for a sum sufficient to cover the cost of the said session:

"Decides to transfer the sum of 60,000 Swiss francs from item 3 of the 1931 Budget, 'Unforeseen Expenditure (subject to special vote of Council)', to item 2 (b), 'Extraordinary Sessions of the Council'."

The draft resolution was adopted.

EIGHTEENTH MEETING (PUBLIC).

Held at Paris on Saturday, November 21st, 1931, at 4.30 p.m.

Present: All the representatives of the Members of the Council, and the Secretary-General. Germany was represented by M. VON MUTIUS and the British Empire by Lord CECIL.

2960. **Appeal from the Chinese Government under Article 11 of the Covenant (continuation).**

The PRESIDENT. — Since our last public meeting, the Members of the Council have actively endeavoured to seek a method, suitable to the circumstances, of peacefully settling the dispute between China and Japan.

¹ See Annex 1334, Section XLVI.

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It may be well to repeat that the Council is acting in this question on the basis of Article 11 of the Covenant, which has been invoked by the Chinese Government. In virtue of this article, it is the duty of the Council of the League to take, by a unanimous decision of its Members, any action that may be deemed wise and effectual to safeguard the peace of nations. A resolution was unanimously adopted on September 30th. That resolution retains its full executive force.

It would be desirable to refer to the essential provisions. In the first place, the resolution records the declaration made to the Council by the Japanese Government to the effect that the latter has no territorial designs in Manchuria. Since Japan has no territorial designs it follows—and the resolution of September 30th also recorded a declaration by the Japanese representative to this effect—that the Japanese Government will continue as rapidly as possible the withdrawal of its troops within the railway zone, in proportion as the safety of the lives and property of Japanese nationals is effectively insured. Such are the essential factors of the problem as far as Japan is concerned.

On his side, the Chinese representative has declared that his Government will assume responsibility for the safety of the lives and property of Japanese nationals outside the railway zone as the withdrawal of the Japanese troops continues and the Chinese local authorities and police forces are re-established.

The Council's duty is to seek, in concert with the parties, suitable means of enabling them to carry out these undertakings as quickly as possible.

In the private conversations which the representatives of Japan and China have had with the President of the Council, certain possibilities have been considered. I think that the numerous discussions which have taken place during the week have been useful, inasmuch as they have enabled certain ideas to be cleared up and the points of view of the two Governments to be sufficiently defined with regard to the methods which they envisage to settle their dispute.

Before I ask the Japanese and Chinese representatives to speak, I should like to appeal to them urgently to confine themselves as far as possible during the present meeting to outlining the suggestions they desire to lay before the Council with a view to putting an end to the present situation in Manchuria.

I should add that, while the Members of the Council were endeavouring to bring together the points of view of the two Governments, they shared the emotion felt by public opinion owing to the gravity of the events. I think I shall be voicing the feelings of all my colleagues in saying that the Council will certainly desire to remind the two parties of the assurance given by them and recorded by the Council on September 30th, that they would respectively take all necessary steps not to aggravate the situation.

The Council's efforts to settle the dispute peacefully might be rendered vain if military operations continued and if public opinion in the two countries could not recover the calm necessary to enable the two Governments to co-operate in full confidence with the Council for the maintenance of peace.

M. YOSHIZAWA. — Mr. President: I have listened with the greatest attention and keen interest to what you have just said, and I desire to state how greatly my Government and I myself appreciate the efforts made by you, by all the Members of the Council and by the Secretary-General, to bring about a peaceful settlement of the present unfortunate dispute.

On September 30th, the Council unanimously adopted the resolution which serves as the basis, and, if I may so express myself, as a guide for all our work.

The Japanese Government entirely accepted that resolution. It is anxious that the resolution should be observed in the spirit and the letter, and hopes in this way to find a path to a successful and final settlement.

I have already informed the Council on several occasions that the origin of the present events in Manchuria unfortunately does not date merely from September 18th. The openly declared policy of the Chinese Nationalist Party, which consists in rejecting the most solemn undertakings by a unilateral repudiation of the treaties, the disregarding in practice of the clauses of the treaties which is encouraged by that Party, and the anti-foreign campaigns which it foments and directs, have led in Manchuria to a long series of vexatious acts, of acts of hostility and provocation, and to cases of the denial of justice; the Japanese people has been forced to realise that China was seeking in every way to take from the Japanese nation its legally acquired rights and to deprive the Japanese and Koreans residing in Manchuria of the fruits of their hard and patient labour. The Japanese and Koreans who had settled in those districts in the hope of being able to live and work there in peace are now of opinion that the safety of their lives, their property and their business undertakings is entirely dependent on the goodwill and pleasure of the Chinese authorities. It is easy to understand the sentiments of the entire Japanese nation, for which these rights and interests in Manchuria are of vital importance. Japan's right to live and her very existence are to-day at stake.

The scene of the incidents is remote, as the President stated the other day. The situation is a complicated one and even the news which we receive is often inaccurate.

So as to be able to pursue our efforts usefully on the basis of Article 11 of the Covenant and of the resolution of September 30th, it is essential that we should have a clear view of realities, and I think that everyone will agree in desiring to obtain impartial information on the situation. Accordingly, the Japanese Government considers that the essential condition of a fundamental solution of the question is a real knowledge of the situation as a whole, both in Manchuria and in China itself. It is for this reason that it proposes that the League of Nations should send a Commission of Enquiry to the spot. I believe that this proposal cannot fail to obtain the approval

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of all the Members of the Council. Of course, this Commission would not be empowered to intervene in the negotiations which may be initiated between the two parties, or to supervise the movements of the military forces of either.

There is one thing that I should like to add. In my Government's view, the creation and despatch of this Commission in no way modify its sincere desire to withdraw its troops as quickly as possible within the railway zone, in pursuance of the resolution of September 30th.

Already, to the extent permitted by the restoration of order, it has brought back a considerable number of detachments, and it will pursue this withdrawal, in the conditions envisaged by it up to the present, as soon as the necessary security has been established.

M. SZE. — Mr. President and Members of the Council: In order to show my extreme desire to co-operate with you, I will confine my remarks to a brief statement of our position, and, in deference to what you have just said, refrain from saying anything that would aggravate the situation.

The military occupation of Chinese territory by Japanese forces in violation of solemn treaties and of the Covenant is the crux of the situation. No disposition which fails to provide for the immediate cessation of all military operations and the withdrawal of the Japanese forces immediately set in motion and progressively executed over a period of time of the shortest possible duration can pretend to be a solution of the problem. My Government cannot bargain for withdrawal, or consent that withdrawal be dependent upon any other matter than the arrangement of details for securing the safety of life and property in the evacuated areas.

I reaffirm my former declarations that China is prepared to assume full responsibility for the maintenance of public order and the security of the life and property of Japanese nationals in Manchuria outside the area of the Southern Manchurian Railway. If further assurance is deemed necessary, any reasonable arrangement involving neutral co-operation under the auspices of the League will be accepted.

Face to face with events which rapidly march from bad to worse, we have been engaged in discussions which have led to no fruitful results, except, perhaps, to make more clear the issue which is before the Council. That issue is now plain, and the time has come to act, for, while we debate, suffering is increasing and irreparable damage is being done. Further delay can only render more difficult the task which confronts us. In order to secure the prompt and complete evacuation of its territory, China has the firm intention of demanding, as circumstances may require, every right and every remedy secured to it as a Member of the League of Nations—by Article 11 and by any other article or articles of the Covenant.

Lord CECIL. — I think that probably all the Members of the Council will desire to consider the proposal which has been made by the Japanese representative. I do not propose myself to express any definite opinion upon it, but merely wish to say that, in my view, there is urgent necessity for some means to be elaborated to enable the Council to know accurately what is going on in Manchuria. My Government and I myself have held this view from the very outset of these discussions. We should have been glad if some means of this kind could have been taken even in September last; but the proposal which the Japanese representative has made certainly appears to afford some hope that we may ultimately obtain authoritative information regarding the actual events in Manchuria.

I earnestly hope it may be possible for us, whatever we may say or do with regard to other aspects of this problem, at any rate to accept the proposal before us.

M. YOSHIZAWA. — I should like to draw the attention of the British representative to the following passage in my speech: "Accordingly, the Japanese Government considers that the essential condition of a fundamental solution of the question is a real knowledge of the situation as a whole both in Manchuria and in China itself". My proposal means that the enquiry would be made, not only in Manchuria, but in China itself. That, moreover, is the view I have already set forth.

M. SZE. — Under the resolution of September 30th, provision was made for information to be collected on the spot. This information was to be furnished by both parties, as well as by neutrals. May I enquire whether any neutrals visited the Nonni bridge and Tsitsihar and the surrounding district to collect information?

In order to prevent any misunderstanding, I should like also to say, with reference to the proposal made by the representative of Japan, that, when the composition, duties, etc., of the so-called Commission of Enquiry are being discussed, I shall propose amendments. I shall have to examine the whole matter before I can express any opinion whatever thereon, and I beg the Council not to misinterpret my attitude by thinking that I have accepted the whole proposal without knowing what it is.

It is understood that my country desires to be as conciliatory as possible, but it must be recognised that the matter before the Council at the present moment is the immediate cessation of hostilities so that the situation may not be aggravated, and the withdrawal of the Japanese troops in proportion as security is assured.

Lord CECIL. — I entirely agree with the President that our chief business in these proceedings is to take such measures as we think appropriate for safeguarding peace. This is our main purpose

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and, if I understand rightly, the anxiety of the Chinese representative. It would evidently be a complete failure of our duties—a complete failure of the whole object we have in view—if, during the progress of the work of this Commission, hostilities continued as they have unhappily continued during the past weeks.

With reference to the question put by the Chinese representative, I can inform him that I know of some neutral representatives who are in the district to which he refers. The district in question is very large, but I know that a British representative is at Anganchi, which is more or less in the region in question. I do not know whether there is anyone in Tsitsihar, but doubtless investigators will go wherever they think they can most usefully obtain information as to the events which are taking place.

M. SZE. — I express my sincere thanks to the British representative for his clear and definite answer. May I enquire whether it is possible for the information collected by the representative he mentions to be made available to the Council?

Lord CECIL. — I shall certainly see that the point just mentioned by M. Sze is considered, but I shall have to ascertain what other Members of the Council and Sir John Simon think to be right in this matter.

I do not mean by this remark that there is any reluctance on the part of the British Government to make this information available. I should, however, like to consider how far the information to which the Chinese representative refers is of such a character as to be of any use to the Council.

The PRESIDENT. — I must say that the French Government will take steps to ensure that those of its officials who are on duty in the areas concerned observe and report to their Government what they have seen. There is no need for me to say that any important information obtained by the French Government in this way will certainly be placed at the disposal of the Council.

M. VON MUTIUS. — When we met here on November 16th, we found, to our great regret, that the position in Manchuria, far from improving since October 24th and even since September 30th, had become appreciably worse, in spite of the Council's efforts to bring about a speedy settlement of the dispute.

The Japanese representative has explained to us why his Government has hitherto felt unable to carry out the undertaking entered into on September 30th to withdraw its troops within the railway zone. The Chinese representative, on his side, had already replied at Geneva that the state of insecurity which undoubtedly prevails in Manchuria, and which is at the present moment preventing the evacuation of the Japanese troops, was due precisely to the presence of those troops. I think it is sufficient for us to place on record these two views and to take account of the situation as it exists to-day. Our discussions have shown us the necessity of looking for some means of settlement other than those considered at Geneva. What is important is that we should deal with the situation before us and draw from it the necessary conclusions. While we do not wish at present either to go back into the past or to endeavour to fix the responsibility, we do desire to fulfil, and we are bound to proclaim, the duty which is incumbent upon us all—to put an end to a dispute which has already lasted too long. In a word, we have to find a practical solution of the difference which divides two great nations and which is causing anxiety to world public opinion.

The whole world is relying on the League of Nations to remove this danger to peace. The nations demand that we should find a satisfactory solution, and that confidence in the League of Nations, which is the very foundation of its existence and the essential condition of the success of all its efforts, should in no way be impaired. Public opinion has told us again and again that the fate of the League of Nations—that is to say, the fate of all peoples—is now at stake.

We have, of course, no intention of asking two Members of the League to surrender vital interests. The principal task of the League is to find just and equitable solutions. What we have to do is quite clear. The Council has not to solve all the questions at present at issue in Manchuria, but to put an end to a situation which is very like war and which certainly presents a grave danger of war.

The Japanese representative's suggestion which, if I am not mistaken, China does not entirely reject—that is to say, that a Commission, instructed both to furnish impartial information and to co-operate in the pacification of the country, be sent to the places in which disturbances have occurred—accordingly appears to me to be calculated to strengthen, in China and in Japan, the forces making for conciliation and peace.

I therefore venture once again to appeal to our Chinese and Japanese colleagues to make an effort to find with us the solution we all desire. We ask them not to allow themselves to be held back by scruples which we respect, but to contemplate an arrangement which, while leaving their principles unimpaired, will enable us to overcome the present difficulty and to take the first step towards an agreement. In this task we desire to aid them.

M. LERROUX. — The Council will perhaps allow me to lay before it certain considerations regarding the grave incident with which it is now dealing. It is, in fact, an incident, and I feel that we should constantly bear in mind that, whatever interest we, like the parties, may have in the relations of China and Japan as a whole, the incident of September 18th and the actual situation which has resulted therefrom constitute the essential subject-matter of our discussions.

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This is our third meeting, and the position in itself, far from improving, has become definitely more serious. The parties concerned will perhaps forgive the representative of a Power which, though widely separated from them geographically, is nevertheless closely united to them by ties of ancient friendship, for looking at the question from the point of view of the interests of a neutral nation and the interests of the League. If the matter is regarded from these two aspects, the important point is not the history of the relations between China and Japan, nor the validity of the treaties and protocols in which these relations are defined; it is not even the nature of the dispute which divides the two countries. The only important point is the methods employed to remedy the position and the question whether these methods can be reconciled with the principles of our international charters—the Covenant of the League of Nations and the Pact of Paris.

What are the facts? An incident occurred in a region with a very special regime, where two nations are living side by side under conditions known to you all. We have no direct information from neutral and impartial sources with regard to this initial incident. I venture to stress this important fact. Three months after the incident, the Council of the League of Nations, the highest and most powerful international authority, has been unable to procure the most elementary information as to the exact origin of the most serious dispute with which it has ever had to deal. In these circumstances, we must congratulate ourselves on the Japanese proposal.

We should first of all acknowledge that the intentions of the Japanese Government are absolutely honourable. With its customary nobility of mind, it has spontaneously declared to us that it had no territorial design in Manchuria, and that it would continue "as rapidly as possible, the withdrawal of its troops, which has already been begun, into the railway zone in proportion as the safety of the lives and property of Japanese nationals is effectively assured, and that it hopes to carry out this intention in full as speedily as may be".

Those are the actual words of the resolution we adopted unanimously on September 30th. In this connection, I desire to make two statements. The first is that, to my mind, this resolution, in taking account of the wishes of the Japanese Government, recognised the very special position of Manchuria by reversing the rôle which the desire for security should play in such matters, since it makes the evacuation of Chinese territory by Japanese troops depend upon the security of Japanese nationals and their property. Seeing that this application of the principle of security might be taken in future as a precedent, which would certainly be dangerous, I think it essential to lay stress upon its exceptional character, this being attributable to the desire for conciliation and understanding which the Council has constantly displayed in this matter. The second statement I wish to make is that to my mind the words "safety" and "protection" should be understood in their obvious and direct sense, and that, for my part, I should find it very difficult to extend them so as to include—as some of the documents submitted to us would seem to suggest—the settlement of certain questions relating to the disputed treaties.

I think it essential that we should consider in that light the solution which we must find for the question before us. In doing so we can, I am sure, rely upon the entire goodwill of the two nations directly concerned.

M. SCIALOJA. — I think we are very near the settlement of a problem which, at times, it appeared almost impossible to solve. If there is now a hope that we may achieve our object, this is largely due, Mr. President, to your energy and wisdom, two qualities in which you are pre-eminent.

I do not desire to prolong the discussion since we are, I think, all agreed; when there is agreement, we should act upon it and not lose time in talking. Now, therefore, we have only to act. I accordingly desire to make the following declaration on behalf of the Italian Government.

My Government will place at the disposal of the Commission of Enquiry all the facilities it possesses on the spot. We have a good many people there. We have Government officials and persons holding prominent social positions. All the Italians on the spot will contribute towards the enquiry. We cannot do much more than that, but what we do we shall do thoroughly.

The enquiry will be conducted by persons appointed by us, but it will be made above all by witnesses of what has occurred and what may still occur. These persons will also be able to explain to us the significance of the events, for occurrences very often acquire an importance which was not at first suspected. In order to understand certain acts, one must know the spirit in which they were performed. An effort must always be made to ascertain that spirit, and it is for the purpose of assisting in this way that Italy will place at the disposal of the Commission of Enquiry all the means she possesses.

M. ZALESKI. — From the very beginning of the serious dispute between China and Japan, the Polish Government associated itself with all the steps taken by the Council which appeared likely to bring about pacification and to restore between these two great countries the good understanding upon which peace depends.

The extreme complexity of the dispute and the special position of the territory which has become the scene of the events we are now considering have given to the matter submitted to the Council a wholly exceptional character, and have necessitated the employment by the Council of methods which are also exceptional.

The Council did not possess, and it does not possess even now, all the information required for the purpose of recommending measures which would bring the dispute in the Far East to a speedy end.

The Polish Government is prepared to support the proposal to send a commission of experts to study the position on the spot, because it hopes that that proposal will be accepted by the parties

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concerned, and that it will be a first step towards the pacification of public opinion in China and Japan and the restoration of normal conditions in Manchuria.

M. FOTITCH. — If the Council could unanimously accept the proposal to send a Commission of Enquiry, I also should be ready to support it. I should welcome it because I see in it a solution likely to restore peace and tranquillity in the area with which we are concerned. The Council has made every endeavour to discharge its duty under Article 11 of the Covenant. If these efforts have not produced all the results which might legitimately have been expected, the reason is that the dispute with which we are faced is of a wholly exceptional character, exceptional by reason of the remoteness of the scene of action—which has made it very difficult for the Council to obtain correct information—but exceptional also by reason of the intricacy and nature of the contractual relations existing between the two parties. For these reasons, the Council has been obliged to resort to a procedure which the President, at the meeting on October 24th, described as exceptional and one which could not be taken as a precedent.

I therefore accept the proposal to send a Commission of Enquiry, in the hope that this will enable the Council successfully to discharge its duties under Article 11 of the Covenant of the League of Nations.

M. COLBAN. — I shall not make a long speech. If I did so, I could only repeat more or less word for word what previous speakers have already said. I will therefore simply say that I accept the proposal to set up a Commission of Enquiry under the conditions specified by the previous speakers.

M. MATOS. — I also do not wish to prolong the discussion, but desire to state that I agree to the appointment of the Commission of Enquiry which has just been suggested.

M. GONZALEZ-PRADA. — I agree with what has been said regarding the adoption of any measures likely to lead to practical and decisive results.

M. GARAY. — No one will rejoice more heartily than the representative of a small country at the favourable turn which the Sino-Japanese dispute—a dispute which has been before us now for a long time—seems to be taking. Indeed, the existence and future of small States are closely bound up with the maintenance of peace, for peace is the essential condition, the natural and necessary environment, for the operation and development of law, and law is the support and stay of the weak. The events which have occurred in Manchuria during the past two months have brought in question certain principles of international law with regard to which the representative of the smallest State on the Council would have much to say and many reservations to make. But I would rather dwell on the great hope which is reviving among us that at last the efforts we have made on three occasions to bring the parties to an agreement will, with the loyal and resolute co-operation of our colleagues, the representatives of China and Japan, be successful. I express that desire on behalf of my Government.

The PRESIDENT. — As President of this meeting, I should be failing in my duty if I did not thank the representatives of Japan and China for having consented, in deference to a suggestion which I ventured to make, to keep their remarks within the bounds of those conciliatory and courteous discussions which have so often enabled us to deal with the most difficult situations. I should like to thank them for the tone of their explanations. If, as I hope, we succeed in reaching a friendly settlement of the grave dispute which has been referred to our jurisdiction, I am convinced that their attitude will be found to have singularly facilitated our task.

I am glad that a proposal that is concrete and definite—at least, as regards its principle—has been made by the Japanese representative. He proposes the appointment of a commission, which he calls a Commission of Enquiry, and which would proceed, in the distant countries with which we are dealing, to an examination of the difficulties of the situation and the causes of dispute, and would seek means of appeasing it and of allowing us to achieve a solution, not a temporary solution which can always be arrived at by dint of effort and goodwill, but a lasting solution—that is to say, one capable of ushering in a long period of appeasement and pacific co-operation between two great peoples. This is the end we have in view.

What will be the character of this Commission? I duly noted the reservations of the Chinese representative, and I understand them. This is a very recent proposal, in regard to which he has perhaps not been able to obtain from his Government all the information he requires—a proposal that does not contain the details without which it is difficult for him to pronounce an opinion. But I also noticed that he would not refuse to make an effort of conciliation if he thought that it would not be incompatible with the vital interests of his country.

As regards the Japanese representative, I imagine that, having put forward this suggestion, he has considered all its repercussions and all its consequences. I think that the despatch of a Commission such as that suggested would, apart from the valuable information which it would be likely to give us, create a calmer atmosphere, as the Polish representative has pointed out. The very fact of the appointment and departure of the Commission and the certainty that it would be on the spot and would study the circumstances and the difficulties of the situation are calculated to remove many anxieties and to tranquillise public opinion.

The Commission would consist of competent persons belonging to countries which have always shown themselves favourable to the settlement of disputes. It would be felt that the

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dispute was entering upon a new phase and was approaching the end. Many incidents would thus be avoided, for I would remind the Japanese representative that there can be no doubt that the despatch and the labours of a commission would occupy a certain time, and it is unthinkable that, during this period, acts of hostility could be committed which would lead to bloodshed in these areas and still further aggravate the situation. When we come to examine the substance of this proposal, we shall undoubtedly have to seek, with the assistance of our colleagues, the means of ensuring that this Commission should be able to begin its work with the certainty that it will not be disturbed by incidents such as those that have come to our notice.

I hope that the Chinese representative, after obtaining all the explanations which he very rightly desires, will understand that here, too, he must make an effort to co-operate with us with a view to a peaceful solution.

What will be the character of this Commission? This, of course, is the first question which arises. What will be the importance of the Commission? How many countries will be represented? Who will be the members? What exactly will be its terms of reference? How will it communicate to us the first results of its work, for I think that, as its investigations proceed, it should supply us with information? Here we have a whole series of problems raised by the Japanese representative's proposal. These are the problems which we must consider to-morrow. We must bring out the essential points of the proposal which has been laid before us, and this can only be done by co-operation between all the Members of the Council of the League, including the representatives of China and Japan.

All that we can do now is to note this proposal, to place it on record with great satisfaction, to see in it a beginning of the solution so earnestly desired, and to make every effort to achieve success along the lines indicated, so that, in as short a time as possible, we shall be able to say that this serious conflict is closed.

In moments like the present, which are fraught with trouble and anxiety, the President has not merely to consider the success of his work as President—that is a minor point—but he must remember that he has in his hands the future of that high and noble institution the League of Nations, and he must do nothing which might compromise the League. It would give me immense gratification to reach a successful result in conjunction with you. I should like to say, however, that, while we are pursuing our tentative efforts, which it is always easy to criticise and even to ridicule, the peoples of the world are not losing faith. If I laid before you the enormous quantity of telegrams which reach me from every part of the world testifying to the confidence which people place in us, to their hopes and to their faith in our success, I am sure that, like myself, you would derive therefrom great comfort. They would show you the great moral force of the League of Nations and how criminal it would be to allow a passing event to destroy such a force, with all its hopes for the future.

I am confident that the dispute with which we are dealing will not lead to any such disastrous result; and, when we have studied the proposal before us, when we have framed a draft resolution and have at last reached unanimity, I feel sure that we shall separate with joy in our hearts and with still greater confidence in the noble institution to which we belong.

M. SZE. — With reference to the appeal just made by our President for co-operation, I can assure him that the Chinese Government and the Chinese people greatly appreciate all the efforts he has made. I think I can say, without fear of contradiction, that the Chinese Government and people have tried their best—and I think they have succeeded—to do nothing that would make the present task more difficult.

As regards the proposed Commission of Enquiry, I think I should, even at the risk of repetition, make the position of my Government clear. While raising no objection to the proposal, but, on the contrary, being in favour of any means of obtaining a more accurate knowledge of events in Manchuria, the Chinese Government will not for a moment agree that the creation of a Commission of Enquiry should, in any way, furnish an excuse for a delay in beginning and progressively carrying out, in the shortest possible time, the complete withdrawal of the Japanese troops.

The Chinese Government will not be willing to discuss the proposal for a Commission of Enquiry upon any other basis. Whether or not a Commission of Enquiry is appointed, the immediate and imperative task which, according to the view of my Government, is before the Council is to take steps to stop the aggravation of the situation by the immediate cessation of hostilities, and to secure the withdrawal of the Japanese troops, which withdrawal should begin at once and proceed progressively to a prompt completion.

M. YOSHIZAWA. — I beg to thank you, Mr. President, for your very friendly words. The question we are now discussing is both complicated and important. For the moment, the particulars I have given are only in the nature of general principles, for I am still in communication with my Government on this subject. Nevertheless, I have been greatly encouraged by your observations. I also thank the members of the Council for their very friendly words.

As I have already stated on many occasions, my Government is prepared to withdraw its troops as soon as the safety of Japanese nationals and their property is effectively assured. Unfortunately, the situation is still full of danger, but my Government is at present endeavouring to improve it.

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The PRESIDENT. — The Council has now a proposal before it. This proposal will be considered, and, as soon as a draft resolution can be laid before the parties and the other Members of the Council, another meeting will be held.

NINETEENTH MEETING (PUBLIC)

Held at Paris on Wednesday, December 9th, 1931, at 5 p.m.

Present: All the representatives of the Members of the Council, and the Secretary-General. The British Empire was represented by Viscount CECIL OF CHELWOOD, Spain by M. DE MADARIAGA and Poland by M. DE CHLAPOWSKI.

2961. Tribute to the Memory of M. Salandra.

The PRESIDENT. — This morning we received the sad news of Antonio Salandra's death. This great Italian statesman was one of those who have made a valuable contribution to the work of the League. His name is now added to the already lengthy list of men whose memory we piously cherish.

In the Council, where he sat for nearly two years, his charm, his sagacity and the keen intelligence which he concealed under an appearance of smiling good-fellowship, won for him the friendship of all his colleagues.

I should like to recall the words with which he welcomed us at the Doria Palace in Rome, in 1924:

"It is only right that within the walls of Rome there should be appreciated at its true value the effort which is being made by the League to ensure to the peoples a durable peace, which cannot henceforth be imposed on the world by the preponderance of a single nation but which may in future be guaranteed by the desire of all nations for peace."

I have thought it opportune to recall these words at a moment when the Council, after three weeks of effort to settle a dispute between two of its Members which has been referred to it, is resuming its public meetings.

I am sure I shall be voicing your sentiments in requesting our eminent colleague, M. Scialoja, to convey our most sincere condolences to M. Salandra's family and to the Italian Government.

M. SCIALOJA. — I should like to thank you most warmly, Mr. President, for what you have just said regarding our late colleague, Antonio Salandra. For my country and myself this is a cruel blow. I shall add nothing to what you have said of the statesman, because that is the part of Salandra's life which is most familiar to the world.

But, as a former colleague of Antonio Salandra's at the University of Rome, where he was Professor of Law, I will only add that he was one of our greatest Italian writers. It is difficult to write, as Salandra did, on a multiplicity of subjects in a style which was always suited to the subjects with which he was dealing. Latterly, he had begun to write the history of the most important part of his life. As a rule, books of this kind constitute rather an apologia than an impartial judgment of the facts. Those of Salandra, on the contrary, are an unbiased expression of the truth. His works will remain classic on account of their purity of style and simplicity of expression.

So when I go back to Rome I shall no longer find my old friend, with whom I used to talk almost daily of our studies. I shall keenly feel the loss of a man who has lived about as long as I have, since he was only two years older than myself, and I cannot help thinking that before very long I shall follow him. Those who have known me and whose thoughts and deeds I have shared are awaiting me.

I should like to thank you again, Mr. President, for the tribute you have paid to my distinguished countryman.

2962. Tribute to the Memory of M. Loucheur.

M. FOTITCH. — Since our last public meeting, the League has lost a faithful and valuable supporter. Louis Loucheur, a former French Minister and statesman, who has succumbed to a sudden illness, has on many occasions rendered important services to the League. In

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economic questions the League had no more capable adviser, and it is especially to this field of work that his prodigious energy and keen and fertile mind were applied. It was with inspired devotion and tireless zeal that Louis Loucheur threw himself into the League's work, and we all remember the outstanding part he took in the Economic Conference of 1927, which he was the first to propose, in the numerous Committees of the League of Nations and of the Assembly, and in the Commission of Enquiry for European Union.

I feel, however, that it is especially incumbent upon me to recall the services rendered by Louis Loucheur in the final settlement of the so-called question of the optants. It is by a cruel irony of fate that I should have to recall this in the very room where, on April 28th, 1930, we signed with him, as President of the Eastern Reparations Conference, the agreements that put an end to those disputes.

The members of the Council will all remember the long and difficult discussions on this thorny question, which went through many Council sessions without a final solution being reached. Thanks to Loucheur's authority, tact, inexhaustible good-will and generous enthusiasm, we were finally able to settle this question to the satisfaction of all concerned. In this matter, Loucheur rendered a genuine service to the cause of peace and earned our sincere gratitude.

In paying a heartfelt tribute to his memory, I am sure, Mr. President, I am speaking for all my colleagues on the Council.

The PRESIDENT. — You will not be surprised if I associate myself most warmly with the just and well-deserved tribute which has been paid to the memory of Louis Loucheur. I thank the representative of Yugoslavia most sincerely for having given this just appreciation of a man who was among the most energetic and ardent collaborators of the League of Nations. In the name of the League, I thank him. I also thank him in the name of my country, which has not yet realised the extent of the loss it has suffered. Lastly, I thank him most profoundly in my own name. Loucheur was not only a comrade-in-arms, closely associated with most of my efforts; he was a friend—a devoted, faithful and always loyal friend. His death is a cruel loss to me; one feels those losses keenly when one has reached the time of life that I have reached myself.

2963. Mandates : Delimitation of the Frontier between Iraq and Syria.

M. FOTITCH presented the following report and draft resolution¹:

"The Council has before it a joint request by the British and French Governments relating to the delimitation of the frontier between Iraq and Syria, which territories are under their respective mandates (Annex 1335). The information communicated by the two mandatory Powers shows that certain difficulties were encountered in carrying out the provisions of Article 1 of the Convention signed by them on December 23rd, 1920,² as regards the Syria-Iraq section of the frontier.

"In the first place, divergencies of opinion exist as to the exact interpretation of the frontier which Article 1 of the Convention was intended to define. Secondly, it was found that, whatever interpretation was placed upon Article 1 of the Convention, a frontier drawn in strict conformity therewith would be likely to be unsatisfactory in certain sectors for military, political, administrative, tribal, economic, geographical or other reasons.

"The British and French Governments consider that it is not within the competence of a Delimitation Commission such as that referred to in Article 2³ of the Convention to modify the

¹ Document C.880(1).1931.VI.

² Article 1:

"The boundaries between the territories under the French mandate of Syria and the Lebanon, on the one hand, and the British mandates of Mesopotamia and Palestine, on the other, are determined as follows:

"On the east, the Tigris from Jeziret-ibn-Omar to the boundaries of the former vilayets of Diarbekir and Mosul.

"On the south-east and south, the aforesaid boundary of the former vilayets southwards as far as Roumelan Koeui; thence a line leaving in the territory under the French mandate the entire basin of the western Kabur and passing in a straight line towards the Euphrates, which it crosses at Abu Kemal, thence a straight line to Intar to the south of Jebel Druse, then a line to the south of Nasib on the Hejaz Railway, then a line to Semakh on the Lake of Tiberias, traced to the south of the railway, which descends towards the lake and parallel to the railway. Deraa and its environs will remain in the territory under the French mandate; the frontier will, in principle, leave the valley of the Yarmuk in the territory under the French mandate, but will be drawn as close as possible to the railway in such a manner as to allow the construction in the valley of the Yarmuk of a railway entirely situated in the territory under the British mandate. At Semakh, the frontier will be fixed in such a manner as to allow each of the two High Contracting Parties to construct and establish a harbour and railway station giving free access to the Lake of Tiberias.

"On the west"

³ Article 2:

"A commission shall be established within three months from the signature of the present Convention to trace on the spot the boundary-line laid down in Article 1 between the French and British mandatory territories. This commission shall be composed of four members. Two of these members shall be nominated by the British

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frontier defined in Article 1 to an extent sufficient, in the Syria-Iraq section of the frontier, to remove the unsatisfactory features above mentioned.

"The mandatory Powers being for these reasons unable to prepare suitable joint instructions for the Commission as regards the Syria-Iraq section of the frontier, and desirous of promoting a speedy, final and equitable settlement of a question of primary importance to the populations of the territories over which they exercise their respective mandates, have invited the Council to examine all aspects of the difficulties referred to above. They propose that, after forming its conclusions as to the intentions of Article 1 of the Franco-British Convention of December 23rd, 1920, the Council should indicate a frontier between Syria and Iraq based thereon but modified as required by the aforementioned considerations, the frontier so indicated to be accepted by all concerned as a definitive solution of the frontier question.

"The British and French Governments suggest that the task of the Council would be facilitated by the appointment of a Commission, which would collect on the spot such information and would make such recommendations as might assist the Council to reach a decision.

* * *

"I do not propose that the Council should examine the substance of the question forthwith, since the two Powers which have submitted it to us have not yet sent us the memoranda and maps defining their respective points of view, and since they suggest that, before the Council comes to a decision, it should send a Commission of Enquiry to the spot. The action of the Council, if it accepts the mission offered to it, should, in my opinion, be confined for the moment to the appointment of this Commission and the definition of the task which it will be called upon to undertake.

"I therefore propose that the Commission should consist of three commissioners selected for their special competence, being nationals of countries not parties to the question, whose appointment might be entrusted to the President in Office of the Council, assisted by the Rapporteur for mandates questions. In order to facilitate this choice, the two parties might be requested to submit proposals in this connection. The Commission would be assisted by four assessors, each of the parties appointing two.

"The Commission's task would be defined by the actual terms of the request made by the British and French Governments; it would consist in collecting on the spot full information and particulars as to the military, political, administrative, tribal, economic, geographical and other problems which the question involves, so as to permit of its thorough investigation. The Commission would then make such suggestions to the Council as might assist the latter in framing its decision, which will be final, with regard to the Syria-Iraq section of the frontier.

"Needless to say, the expenses involved by this consultation would have to be borne by the two mandatory Powers concerned.

"Should the Council be prepared to accept the various suggestions which I have the honour to submit to it, I propose that it should adopt the following resolution,

"The Council,

"In pursuance of the joint request by the British and French Governments:

"(1) Decides to accept, in principle, the British and French Government's request that it should examine all aspects of the difficulties raised by the delimitation of the frontier between Syria and Iraq, should form its conclusions as to the intentions of Article 1 of the Franco-British Convention of December 23rd, 1920, and should then indicate a frontier between Syria and Iraq based on this Convention but modified as required by the aforementioned considerations;

"(2) Decides to set up a Commission consisting of three commissioners selected for their special competence, being nationals of countries not parties to the question, assisted by four assessors, to collect full information and particulars on the spot, and to make such suggestions as may assist the Council in framing its decision on this question. This decision will be final;

"(3) Requests the President in Office of the Council to appoint, with the assistance of the Rapporteur for mandates questions, the members of the above-mentioned Commission; the two parties are requested to submit jointly proposals in this connection;

and French Governments respectively, the two others shall be nominated, with the consent of the mandatory Power, by the local Governments concerned in the French and British mandatory territories respectively.

"In case any dispute should arise in connection with the work of the commission, the question shall be referred to the Council of the League of Nations, whose decision shall be final.

"The final reports by the commission shall give the definite description of the boundary as it has been actually demarcated on the ground; the necessary maps shall be annexed thereto and signed by the commission. The reports, with their annexes, shall be made in triplicate; one copy shall be deposited in the archives of the League of Nations, one copy shall be kept by the mandatory, and one by the other Government concerned."

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" (4) Decides that the sums required by the Commission for the accomplishment of its work shall be borne by the British and French Governments, the mandatory Powers for Iraq and Syria. "

The PRESIDENT. — The report which has just been submitted to the Council provides that the President in Office of the Council will have to appoint, with the assistance of the Rapporteur on mandates questions, the members of the Commission which is to be sent by the League to examine on the spot the problems connected with the delimitation of the frontier between Syria and Iraq.

Since by a coincidence the present President of the Council is the representative of one of the parties concerned, I think my colleagues will agree with me that, in accordance with the Council's usual procedure, my predecessor, the Spanish representative, should be asked to undertake this particular duty.

In taking this decision, the Council will simply be following the procedure observed in minorities questions, when, if the President in Office belongs to a country interested in a question under examination, he delegates his power to deal with it to his predecessor in office.

The President's proposal was adopted.

Lord CECIL. — I desire, on behalf of the British Government, to express my warm thanks to the Rapporteur, and, I hope, by anticipation, to the Council for the proposal which is now before us. I am sure all the members of the Council will agree with me that this will constitute, when adopted, a valuable step towards the settlement of this question.

Perhaps I may be permitted to add that this seems to me an excellent and striking example of that part of the work of the League of Nations which is not so spectacular as some of the other activities in which we are engaged, but which is nevertheless of very great importance for the welfare and happiness of mankind. We have here a question which has arisen between two of the Members of the Council and which I hope will, by this step, be settled without undue controversy or undue delay to the satisfaction, I doubt not, of all parties concerned.

I venture to express once more the thanks of my Government to the Council and to the Rapporteur.

The draft resolution was adopted.

2964. Appeal from the Chinese Government under Article 11 of the Covenant (continuation).

The PRESIDENT read the following draft resolution¹:

" The Council,

" (1) Reaffirms the resolution passed unanimously by it on September 30th, 1931,² by which the two parties declare that they are solemnly bound; it therefore calls upon the Chinese and Japanese Governments to take all steps necessary to assure its execution, so that the withdrawal of the Japanese troops within the railway zone may be effected as speedily as possible under the conditions set forth in the said resolution;

" (2) Considering that events have assumed an even more serious aspect since the Council meeting of October 24th³;

" Notes that the two parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life;

" (3) Invites the two parties to continue to keep the Council informed as to the development of the situation;

" (4) Invites the other Members of the Council to furnish the Council with any information received from their representatives on the spot;

" (5) Without prejudice to the carrying out of the above-mentioned measures,

" Desiring, in view of the special circumstances of the case, to contribute towards a final and fundamental solution by the two Governments of the questions at issue between them:

" Decides to appoint a Commission of five members to study on the spot and to report to the Council on any circumstance which, affecting international relations, threatens to disturb peace between China and Japan, or the good understanding between them, upon which peace depends;

" The Governments of China and of Japan will each have the right to nominate one assessor to assist the Commission.

¹ Document C.964.M.529.1931.VII.

² See Minutes of the seventh meeting.

³ See Minutes of the fifteenth and sixteenth meetings.

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" The two Governments will afford the Commission all facilities to obtain on the spot whatever information it may require;

" It is understood that, should the two parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either party.

" The appointment and deliberations of the Commission shall not prejudice in any way the undertaking given by the Japanese Government in the resolution of September 30th as regards the withdrawal of the Japanese troops within the railway zone.

" (6) Between now and its next ordinary session, which will be held on January 25th, 1932, the Council, which remains seized of the matter, invites its President to follow the question and to summon it afresh if necessary. "

The President then made the following declaration¹:

" It will be observed that the resolution which is before you provides for action on two separate lines: (1) to put an end to the immediate threat to peace; (2) to facilitate the final solution of existing causes of dispute between the two countries.

" The Council was glad to find during its present sittings that an enquiry into the circumstances which tend to disturb the relations between China and Japan, in itself desirable, would be acceptable to the parties. The Council therefore welcomed the proposal to establish a Commission which was brought before it on November 21st. The final paragraph of the resolution provides for the appointment and functioning of such a Commission.

" I shall now make certain comments on the resolution paragraph by paragraph.

" Paragraph 1. — This paragraph reaffirms the resolution unanimously adopted by the Council on September 30th, laying particular stress on the withdrawal of the Japanese troops within the railway zone on the conditions described therein as speedily as possible.

" The Council attaches the utmost importance to this resolution and is persuaded that the two Governments will set themselves to the complete fulfilment of the engagements which they assumed on September 30th.

" Paragraph 2. — It is an unfortunate fact that, since the last meeting of the Council, events have occurred which have seriously aggravated the situation, and have given rise to legitimate apprehension. It is indispensable and urgent to abstain from any initiative which may lead to further fighting, and from all other action likely to aggravate the situation.

" Paragraph 4. — Under paragraph 4, the Members of the Council other than the parties are requested to continue to furnish the Council with information received from their representatives on the spot.

" Such information having proved of high value in the past, the Powers who have the possibility of sending such representatives to various localities have agreed to do all that is possible to continue and improve the present system.

" For this purpose, these Powers will keep in touch with the two parties, so that the latter may, should they so desire, indicate to them the localities to which they would desire the despatch of such representatives.

" Paragraph 5 provides for the institution of a Commission of Enquiry. Subject to its purely advisory character, the terms of reference of the Commission are wide. In principle, no question which it feels called upon to study will be excluded, provided that the question relates to any circumstances which, affecting international relations, threaten to disturb peace between China and Japan, or the good understanding between them upon which peace depends. Each of the two Governments will have the right to request the Commission to consider any question the examination of which it particularly desires. The Commission will have full discretion to determine the questions upon which it will report to the Council, and will have power to make interim reports when desirable.

" If the undertakings given by the two parties according to the resolution of September 30th have not been carried out by the time of the arrival of the Commission, the Commission should as speedily as possible report to the Council on the situation.

" It is specially provided that, 'should the two parties initiate any negotiations, these would not fall within the scope of the terms of reference of the Commission, nor would it be within the competence of the Commission to interfere with the military arrangements of either party'. This latter provision does not limit in any way its faculty of investigation. It is also clear that the Commission will enjoy full liberty of movement in order to obtain the information it may require for its reports. "

M. YOSHIZAWA. — Mr. President, I have heard with great interest the speech you have just made, and I feel it my duty to express my opinion in regard to it. I must say, however, that the instructions for which I asked my Government last evening have not yet reached me,

¹ Document C.965.M.530.1931.VII.

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and consequently I am bound to ask the Council to hold another meeting on this question to-morrow afternoon, when I expect to be able to express my views in a definite manner.

The PRESIDENT. — I do not think any of the members of the Council wish to oppose the request of the Japanese representative. I myself, as President, shall no doubt have a few comments to add at the next meeting to the statement I have made to-day.

The continuation of the discussion was postponed to the next meeting.

TWENTIETH MEETING (PUBLIC, THEN PRIVATE).

Held at Paris on Thursday, December 10th, 1931, at 4.30 p.m.

Present: All the representatives of the Members of the Council, and the Secretary-General. The British Empire was represented by Viscount CECIL OF CHELWOOD, Spain by M. DE MADARIAGA and Poland by M. DE CHLAPOWSKI.

2965. Appeal from the Chinese Government under Article 11 of the Covenant (continuation).

The PRESIDENT. — The Japanese representative informed the Council yesterday that he had not yet received from his Government instructions that would enable him to make a definite pronouncement, and he requested us to allow him to postpone his statement until to-day's meeting. We acceded to his desire. I hope that he is now in a position to make his statement, and I therefore call upon him to speak.

M. YOSHIZAWA. — Mr. President and members of the Council, I wish in the first place to thank you for your courtesy in complying with my request to put off the meeting of the Council until to-day. I wish also to express my gratitude for and my sincere appreciation of the efforts which, since the beginning of the present session of the Council, you have been good enough to make in regard to the serious question which has engaged our attention.

The special circumstances of the situation in China, the great distance which separates us from Manchuria, the diversity and the magnitude of the interests at stake, have made our work very difficult. In dealing with this question, however, you have amply displayed your customary spirit of conciliation, goodwill and patience. Thanks to your labour and tact, Mr. President, we have before us the draft resolution which furnishes us with the means of clarifying the situation.

With regard to paragraph 2 of the draft resolution, I am happy to accept it on behalf of the Japanese Government, on the understanding that this paragraph is not intended to preclude the Japanese forces from taking such action as may be rendered necessary to provide directly for the protection of the lives and property of Japanese subjects against the activities of bandits and lawless elements rampant in various parts of Manchuria. Such action is admittedly an exceptional measure called for by the special situation prevailing in Manchuria, and its necessity will naturally be obviated when normal conditions shall have been restored in that region.

With these considerations, I am happy to be able to declare that the Japanese Government accepts the draft resolution now before us.

M. SZE. — My Government intends to discharge in good faith every obligation which it assumes in agreeing to this resolution as interpreted by the President of the Council. The entire arrangement being a practical one designed to meet the pending emergency, it becomes necessary, in the interest of a complete understanding, for me to place upon record certain observations and reservations on points of principle, as follows:

I. China must and does fully reserve any and all rights, remedies and juridical positions to which she is or may be entitled under and by virtue of all the provisions of the Covenant, under all the existing treaties to which China is a party, and under the accepted principles of international law and practice.

II. The present arrangement evidenced by the resolution and the statement made by the President of the Council is regarded by China as a practical measure embodying four essential and interdependent elements:

- (a) Immediate cessation of hostilities;
- (b) Liquidation of the Japanese occupation of Manchuria within the shortest possible period of time;

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(c) Neutral observation and reporting upon all developments from now on;

(d) A comprehensive enquiry into the entire Manchurian situation on the spot by a Commission appointed by the Council.

The said arrangement being in effect and in spirit predicated upon these fundamental factors, its integrity would be manifestly destroyed by the failure of any one of them to materialise and be effectively realised as contemplated.

III. China understands and expects that the Commission provided for in the resolution will make it its first duty to enquire into and report, with its recommendations, on the withdrawal of the Japanese forces, if such withdrawal has not been completed when the Commission arrives on the spot.

IV. China assumes that the said arrangement neither directly nor by implication affects the question of reparations and damages to China and her nationals growing out of the recent events in Manchuria, and makes a specific reservation in that respect.

V. In accepting the resolution laid before us, China appreciates the efforts of the Council to prevent further fighting and bloodshed by enjoining both China and Japan to avoid any initiative which may lead to further fighting or any other action likely to aggravate the situation. It must be clearly pointed out that this injunction should not be violated under the pretext of the existence of lawlessness caused by a state of affairs which it is the very purpose of the resolution to do away with. It is to be observed that much of the lawlessness now prevalent in Manchuria is due to the interruption of normal life caused by the invasion of the Japanese forces. The only sure way of restoring the normal peaceful life is to hasten the withdrawal of the Japanese troops and allow the Chinese authorities to assume the responsibility for the maintenance of peace and order. China cannot tolerate the invasion and occupation of her territory by the troops of any foreign country; far less can she permit these troops to usurp the police functions of the Chinese authorities.

VI. China notes with satisfaction the purpose to continue and improve the present system of neutral observation and reporting through representatives of other Powers, and China will from time to time, as occasion requires, indicate the localities to which it seems desirable to dispatch such representatives.

VII. It should be understood that, in agreeing to this resolution, which provides for the withdrawal of the Japanese forces to the railway zone, China in no way recedes from the position she has always taken with respect to the maintenance of military forces in the said railway zone.

VIII. China would regard any attempt by Japan to bring about complications of a political character affecting China's territorial or administrative integrity (such as promoting so-called independence movements or utilising disorderly elements for such purposes) as an obvious violation of the undertaking to avoid any further aggravation of the situation.

Lord CECIL. — I am glad that both my Japanese and Chinese colleagues have accepted the resolution, and I do not desire to make any comment on their declarations except on one point.

The Council has heard the declarations of the Japanese and Chinese representatives on paragraph 2. There can be no doubt that the position in Manchuria is difficult and exceptional. It may well be that circumstances may arise there which will cause danger to Japanese lives and property from elements of the population out of control, and if an emergency of that kind should arise it might become inevitable that Japanese forces in the neighbourhood should take action against bandits and the like. But I welcome the recognition by my Japanese colleague of the exceptional character of the situation and that the necessity for such exceptional action will come to an end as soon as normal conditions have been restored. In saying this, I do not mean to suggest that the Japanese declaration weakens the obligation set out in paragraph 2 of the resolution to avoid any action which will lead to a recrudescence of fighting between the Chinese and Japanese troops, or a further aggravation of the situation.

M. DE MADARIAGA. — I should like to associate myself with Lord Cecil's remarks, both when he expressed his satisfaction at the agreement between the two parties on this question and when he commented briefly on what the Japanese representative had said. I would point out that the Japanese representative's observations are in harmony with the terms of our resolution; it begins, as you will remember, with a reaffirmation of the resolution passed unanimously on September 30th, 1931, whereby the two Governments recognise that the situation is an exceptional one and that the necessary steps should be taken to bring about the withdrawal of the Japanese troops within the railway zone as quickly as possible. In the second paragraph of our present resolution, too, the parties undertake to adopt all measures necessary to avoid any further aggravation of the situation and to refrain from any initiative which may lead to further fighting and loss of life.

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In these circumstances, the Japanese representative's observations, which are obviously to be attributed to a feeling of scrupulous frankness deserving of our respect, merely strengthen our assurance that this resolution, which is going to be voted upon, will be faithfully and loyally executed in the spirit and in the letter, not only in all the general cases to which the Japanese representative's explicit observations do not apply, but even in the cases to which they do apply, since Japan will be bound by the resolution which she is going to accept in a moment, and will be careful to apply even these exceptional measures in the spirit of our resolution.

The PRESIDENT. — As no one else wishes to speak, I will put the draft resolution to the vote.
The draft resolution was adopted unanimously.

The PRESIDENT. — The adoption of the Council's resolution marks an important step, and, I hope, a decisive one, towards the settlement of the dispute between China and Japan.

In noting with satisfaction the vote which has just been taken and which, concurrently with the creation of a calmer frame of mind, should prepare the way for a complete solution of the questions at issue, I cannot refrain, as President in Office of the Council, from submitting a few general considerations which find their logical place at the conclusion of our investigations.

The situation existing between China and Japan last September was brought before the Council under Article 11 of the Covenant. Being called upon "to take effectual action to safeguard the peace of nations", according to the terms of this article, the Council did not attempt to evade the responsibility of seeking a settlement, although it realised the extreme complexity and exceptional difficulty of the problem. On September 30th, it unanimously adopted a resolution, the full execution of which by the two parties was considered likely to restore between them "the good understanding upon which peace depends".

Since then, though there has not been "resort to war" within the meaning of Article 12 of the Covenant, there have unfortunately been "acts of hostility". Nevertheless, as the parties themselves offered to continue their loyal co-operation with the Council with a view to achieving a friendly settlement, it was on the basis of Article 11 of the Covenant that we resumed the study of this question at our last meeting, invoking also the application of the Pact of Paris.

In such a special case, we could not be expected to draw up a model settlement which could serve as a precedent for the future. We had to attempt something at once more modest and more difficult. Article 11 of the Covenant, which requires a unanimous vote, including that of the parties, obliged us to seek a solution on the lines of conciliation and compromise. This was the view which we took of our task. Various texts were gradually drafted, were communicated to the parties concerned and were re-examined in the light of the objections or reservations which they put forward. In this way we progressed by slow and gradual stages and by successive approximations until we reached the empirical solution which appeared to us to be the best suited to the special case before us. While the Council fixed no time-limit for the complete evacuation of the Japanese troops, it is none the less firmly convinced that the withdrawal of those troops within the railway zone will be carried out as rapidly as possible, under the conditions laid down in the resolution of September 30th last.

The sending of a Commission of Enquiry to the spot will enable the Council to continue its endeavours with a fuller knowledge of the facts and with due regard to all the factors of a problem the solution of which was rendered particularly difficult by the inadequacy of our information as to what was taking place in these distant lands.

This problem, I repeat, is of a very special character, because of the exceptional nature of the treaty or customary relations existing in normal times between the two countries, and also because the political status of one of these countries is governed by the international obligations of a Nine-Power Convention concluded at Washington in 1922, which it was not within our competence to interpret here.

If I lay stress upon the special character of the problem and on the reasons which led us in dealing with it to proceed with particular caution, it is in order to make it perfectly clear that the resolution which has just been adopted can in no way affect the doctrine of the Council of the League of Nations. That doctrine, as regards the occupation of territory and the operation of the articles of the Covenant, has been set forth in reports most carefully studied by distinguished lawyers and statesmen; it has been given official sanction by Council resolutions, and it retains its full force.

Except in the case of an express stipulation in treaties in force, the Covenant of the League of Nations does not authorise a State, however well founded its grievances against another State, to seek redress by methods other than the pacific methods set forth in Article 12 of the Covenant. For Members of the League that is a fundamental principle, in the same way as the "scrupulous respect for all treaty obligations", on which such stress has rightly been laid in the Preamble to the Covenant. These two principles are of equal value. Any infringement of either lays a grave responsibility on Members of the League. This responsibility was reaffirmed in the Pact of Paris, whose signatories assumed or renewed the undertaking to resort to pacific means alone for the settlement of international disputes.

I felt I ought to recall these principles at the conclusion of a discussion in which both the Covenant and the Pact of Paris have been invoked.

Having said this, I can now, with all the greater freedom, survey the first results which have been obtained by our efforts.

The war which threatened has been averted. Long-continued vigilance, patience and tenacity have brought this about. The obstacles set in its way, slight though they were, have

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at least restricted and slowed down the movement of events and checked its initial impetus, which presented the greatest danger to peace.

Three months have thus been gained, and this is not only likely to bring about a calmer frame of mind, to arouse public opinion throughout the world and thus to improve the psychological conditions of peace, but has made it possible to create machinery for the local organisation of peace. With the full consent of the two parties, to whom such an agreement does great credit, a Commission of the League will shortly be setting out for China, and, even before that Commission was set up, it was not a mere vain recognition of our rôle that both sides freely agreed that neutral observers should be sent to the spot by the Powers.

The communications of those observers who are in the actual zone of conflict will continue to supply us with valuable information. It is not that I wish to regard that information as likely to enlighten us on possible responsibilities, because I do not for a moment imagine that two Members of the Council, after having entered here into a formal undertaking on the basis of Article 11 of the Covenant, could place themselves in the position of having to shoulder any such responsibilities before world public opinion; but I think that, in a moment of tension, when facts are apt to be distorted, it is rendering a great service to both the countries concerned to supply them with accurate information as to what is going on on both sides in the occupied territories.

This information, obtained in an entirely impartial spirit, will always be carefully examined by us, and it is our ardent hope that the information we receive will be all that we can desire. If the calmer atmosphere sought by the Council is to be created, it is essential that no further incidents of any kind should take place. On November 26th, the two parties advised us of the apprehensions which they felt owing to the situation in the Chinchow district.¹ We thereupon took steps to avert the immediate danger thus brought to our notice and we remain ready to take any special action if the necessity should occur again. The observers sent to that area have noted, on the one hand, that the Japanese troops have been adequately withdrawn and, on the Chinese side, that no movements or preparations of an offensive character were taking place. The Council is therefore entitled to be confident that there will be no further hostilities and that, even if there is no official delimitation of a demilitarised zone, the definite undertakings which have been accepted on both sides will in any case suffice to prevent any further clash.

At this solemn moment when we are concluding a contract of good faith and honour, turning with emotion towards the representatives of China and Japan, may I say that I do not think I should be doing justice to two great peoples, Members of the Council of the League of Nations, if I did not state most emphatically, in my own name and in the name of my colleagues, that we firmly believe that our hopes will be realised.

I do not wish to conclude without thanking the Drafting Committee for the very valuable help it has given us during this difficult session under the authoritative and skilful guidance of Lord Cecil, assisted by the wisdom and experience of the Secretary-General, Sir Eric Drummond.

Finally, it is my pleasant duty to thank the great Republic of the United States for having assisted in the work of the Council of the League of Nations by means of parallel and incessant activities within the limits which it has itself determined.

LORD CECIL. — The observations which we have just heard add one more to the many obligations which the cause of peace and the League of Nations owe to our President, whom we all regard with respect and, if I may say so, with affection.

I agree most fully with the conclusions at which our President has arrived and I only desire to add a very few words to what he has said.

He has pointed out that the proceedings which have engaged the Council's attention for the last three months were initiated under Article 11 of the Covenant. Under that article the task of the Council is not one of arbitration or decision, but of mediation and persuasion. Nothing can be done under it except by the unanimous consent of all Members of the Council, including the parties to the dispute. It is evident that procedure of that kind may easily be prolonged. It is true that we reached a first stage of agreement at the end of September, but the agreement we then arrived at proved insufficient to put an end to the dispute or even to the hostile measures which have accompanied it. We have now arrived at a larger settlement, but the success of that, too, must depend upon the parties. It is easy for either of them, if they desire to do so, to destroy the work of conciliation on which we have been engaged. I am confident that that will not happen. If it did, the party that so acted would bear a heavy load of responsibility before the public opinion of the world.

I adhere most heartily to what our President has said as to the necessity for submitting all international disputes to pacific settlement. In no case nowadays must a nation take the law into its own hands. The substitution of reason for violence in the settlement of international disputes, the strict observance of international obligations, the promotion of friendship and co-operation between nations—these are the chief objects for which the League of Nations was brought into existence. It is therefore a matter for the heartiest congratulation that the parties have agreed to the appointment of this Commission, which will be charged with investigating,

¹ See Annex 1334, Sections XLIV and XLV.

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not only the actual questions that have here arisen, but the whole of the international relations between the parties. It is a heavy task, but the commissioners, whoever they may be, will be assured of the sympathy and support of all men of goodwill throughout the world, including, I doubt not, those who are nationals of the two parties to this difference.

M. DE MADARIAGA. — While I was listening to your statement, Mr. President, I thought that perhaps only those who have seen you at work at close quarters during the last few months realise your capacity to do something better than speak about the League of Nations—that is, to work for it.

You have summed up our views about this matter so adequately that there really remains very little for me to say.

If during the past few days we have sometimes felt pessimistic in measuring the distance which separated what we wished to happen, according to the spirit of the Covenant, from what was actually happening, at other times we were consoled by the fact that the distance which separates what we have done from what might have happened if there had been no League of Nations is much greater still.

We are far from having finished our work. This is only a first stage, but it is a very important one, since it has been marked, as the British representative emphasised, by the setting up of a Commission. The appointment of a Commission, especially by the League of Nations, is still perhaps the surest guarantee we have to-day that difficulties will be settled in the fairest manner and in the interests of peace. A Commission provides guarantees of knowledge and impartiality. I am sure that all the Members of the Council have every confidence that the President and the Secretary-General will see to it that this Commission faithfully reflects that spirit of impartiality and knowledge which must be the best guarantee of the League's work.

In conclusion, I should like to say that this conflict, which still exists and may exist for some little time yet, because it is a very difficult one and is the outcome of extremely complex circumstances, has proved to us the necessity of recasting as quickly as possible the methods available for dealing with all international difficulties. It is essential that these methods should be made internationally pure, and that such matters should be approached in an impartial spirit and not only with a view to setting up an international equilibrium. They must be approached, not only with the desire to settle the immediate conflict, but, what is still more important, to prevent disputes in the future.

M. MATOS. — I feel it my duty to submit very respectfully on this occasion a few observations concerning the serious incident which has momentarily disturbed the friendship and harmony between two great countries for whom we all have the greatest liking and respect.

As has been said on many occasions, the Council of the League of Nations had to intervene in this dispute on the basis of Article 11 of the Covenant, and I need not dwell on the fact that this has been one of the most difficult cases ever brought before the Council, owing to the special conditions in which it has arisen, the circumstances in which events have taken place, and the extreme complexity of the incidents which have resulted.

In conversations and private meetings between the members of the Council, I have had an opportunity of expressing with full frankness and sincerity the misgivings and apprehensions with which, as the representative of a small State, I watched the unfortunate events which separated the parties. I was and am seriously anxious that the principles of international law should be safeguarded.

It is obvious that, according to existing treaties, it is inadmissible that disputes arising between States, whatever their nature or origin, should be settled by other than pacific means. Nor is it admissible that the respect for and execution of treaties between States can depend upon the will of one of the parties. Such methods would be completely destructive of the international order, and hence of the maintenance of peace.

In particular, the resort to measures of coercion for the recovery of contractual debts is contrary to the principles of the Porter resolution adopted by the Hague Conference of 1907. Although the protection of the lives and property of nationals abroad is a generally recognised obligation, it appears to me that the fulfilment of that obligation must be subordinated to respect for the fundamental rights of States. That duty of protection must be discharged, moreover, in harmony with the spirit underlying the new international organisations which have been set up to secure the peaceful settlement of disputes between States in all circumstances.

I therefore think that I should be failing in my duty if on this occasion I observed a silence which might seem to imply an acceptance or endorsement, on my part, of views which I should regard as contrary to the principles and aspirations of the countries of America. There is a further and, from my point of view, essential justification for this attitude, since the defence of the principles which should prevail in international relations tends to consolidate the authority and prestige of the League of Nations, in which the weak countries put their trust, and through the normal operation of which these countries hope that, by a continuous process of evolution, the cause of law, justice and solidarity between the members of the community of nations will triumph.

I should like to say definitely that, when I voted for the resolution adopted and accepted by the parties, I did so in the spirit which is reflected in the words of our distinguished President. I must also lay stress on the fact that, in my opinion, this resolution is designed to settle a very

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special and particularly complicated case, without prejudice to certain views which may have been expressed in the course of the dispute. Hence, I do not consider that it can be taken as a precedent for the future.

I should like to say, however, that it would have been impossible for me to vote for the resolution if it had not embodied the principle proclaimed by M. Briand at the end of our October meeting. This principle is that the military occupation of the territory of a Member of the League cannot be used by another Member of the League to impose direct negotiations on questions that are pending. It is because this great principle has been safeguarded that I cannot oppose the resolution which has been adopted.

I cannot conclude without again expressing, as a member of the Council, my feelings of profound sympathy for the two great nations—China and Japan—and without expressing a wish for the re-establishment of normal relations between them as soon as possible, and for the promotion of their common interests and of peace and order, which are of equal concern to the countries of every continent.

M. VON MUTIUS. — Mr. President, I desire to associate myself with your remarks a few moments ago when you expressed the Council's satisfaction at having been able to bring about a certain measure of agreement between China and Japan. The resolution which we have adopted can hardly meet all the conflicting desires of the two parties. We can, nevertheless, congratulate ourselves on having found, without drawing upon all the resources at the League's disposal, a solution which, while respecting the principles of the two parties, is likely to avert the danger which this dispute entails for the peace of the world. The pacific settlement of disputes is and must remain the principal task of the League of Nations. I am grateful to the President of the Council and my other colleagues for having emphasised this so strongly. Germany is particularly interested in the maintenance of this principle. I hope that the work which has been begun to-day will only be a first step towards the final settlement of an incident which has caused so much anxiety. Our colleagues from China and Japan can count upon our support in reaching that settlement.

I do not wish to conclude, Mr. President, without expressing our gratitude for the skilful manner in which you have conducted our debates and for the hospitable welcome we have received in Paris.

M. DE CHLAPOWSKI. — Having voted, on behalf of the Polish Government, for the resolution which has been laid before us, I should like to express the ardent hope that the solution accepted by the two parties will contribute towards the restoration of normal relations and good understanding between those two great nations in the Far East—China and Japan.

I would refer you to the statement made by the Polish Foreign Minister at the meeting on November 21st and to the observations of the President, and I will confine myself to emphasising once more the extremely complicated and very special character of the conflict we are dealing with, which has obliged the Council to adopt a very exceptional procedure and very exceptional methods in carrying out the task devolving upon it under Article 11 of the Covenant.

The Polish Government is convinced that the patient work of the Council during this long session has brought about a relaxation of the prevailing tension and has prevented the aggravation of a conflict which, without the League's intervention, might have assumed proportions much more dangerous to international relations.

I cannot conclude without expressing my admiration for the untiring efforts made by M. Briand, as President of the Council, in the last few weeks in order to reach a solution acceptable to the parties concerned and a settlement of a matter of such high importance to the maintenance of peace in the Far East.

M. GONZALEZ-PRADA. — Like my colleagues, I am highly gratified at the Council's adoption of a resolution which we must hope will be effective in maintaining peace. But I should like to add a few words with regard to certain points of doctrine which I cannot pass over in silence.

We are obliged to recognise that the Council is faced with a problem of an entirely special character, both from the point of view of international law and from that of the events themselves. But, if these exceptional circumstances seem to have led us away—in a manner which I hope is also exceptional—from certain fundamental principles of international law, I think it my duty as representative of Peru to make certain statements in order to avoid any possible misunderstanding as to the bearings of the Council's resolution and the President's statement from the point of view of doctrine, and as to their repercussions outside Europe.

Nothing in the text to which I have given my approval in order not to raise any obstacle to the pacific settlement of a dispute, must be interpreted as affecting certain principles without which the existence and the rights of weak countries would not have that security which makes force unnecessary, this being the main purpose pursued by the Covenant of the League.

Some of these principles are as follows:

- (1) No State has the right to effect the military occupation of the territory of another in order to ensure the execution of certain treaties;
- (2) No State is entitled to oblige another—having invaded its territory—to enter upon direct negotiations on the bearing and legal value of treaties previously existing between the two States;

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(3) The exercise of the right possessed by each State to ensure the protection of the lives and property of its nationals must be limited by respect for the sovereignty of the other State; no State being entitled, in order to provide such protection, to authorise its military forces to penetrate into the territory of the other for the purpose of carrying out police operations;

(4) The fact that a State has certain rights, claims, economic concessions, etc., in regard to another State does not entitle the former to effect the military occupation of the territory or to seize the property of the debtor State. Any recovery of debts by compulsion is illicit, in accordance with the principles accepted by the Second Peace Conference (The Hague, 1907).

Even if the measures which have been accepted by the two parties concerned, and which we have adopted exceptionally in the special case of Manchuria, may be justifiable for the immediate purpose of averting war, they must in no case be interpreted as implying a renunciation of the principles of international law which have reference to the defence of the rights and interests of weak countries and which constitute the main safeguard of their independence.

It is for these reasons that I desire to inform my colleagues of the spirit in which I have given my approval to the resolution we have adopted, and how anxious I am to satisfy myself that the principles on which the Covenant is based remain intact.

M. GARAY. — Before reading my written statement I should like to thank you, Mr. President, most warmly for your constant efforts in the cause of peace and international conciliation. The task which has confronted you has been so difficult and so complicated, as you have yourself said, that your energy, your devotion to the cause of peace and your great intellectual qualities could hardly have found a greater and more worthy problem to engage them.

I should also like to thank the Chairman and the members of the Drafting Committee for their excellent work, which we highly appreciate. I would merely say one word regarding our distinguished Secretary-General, Sir Eric Drummond—he is beyond all praise.

The Council, which is a political organ of the League of Nations, having had to face an exceptionally grave and complicated situation with very limited means at its disposal, has, after long and strenuous efforts, been able to draw up the text of a resolution capable of unanimous acceptance, without which no decision taken under Article 11 of the Covenant can have executive force.

This resolution constitutes a compromise between the extreme claims of the parties, and has been accepted by the latter; so that it is purely practical in character and cannot be invoked later as a precedent. The Council is unanimous on this point, which it is hardly necessary to emphasise.

But, owing to the fact that policy creates its own law according to the influence exerted by interests and circumstances, and sometimes departs from the principles of pure doctrine, we, who represent nations without material interests in the areas affected and whose only desire in the present conflict is to safeguard the ideal of peace, law and justice, feel it necessary to dispel any ambiguity so far as we are concerned by reasserting on this occasion the traditional attitude of the countries which we represent towards certain important principles of international law which the events of the last few months have brought into prominence.

One of these principles is that of intervention, or rather of non-intervention.

We recognise the League's right to intervene among its Members to ensure world peace and to preserve their territorial integrity or political independence, in conformity with the relevant articles of the Covenant. On the other hand, a State's intervention in the affairs or territory of another with whom it is at peace must in our opinion be confined strictly to the limits and conditions laid down in the treaties between the parties.

We are far from denying the right of any State to safeguard the lives and property of its nationals residing abroad, but we do not regard this right as absolute, and it ends as soon as it begins to encroach upon the sovereign rights of a foreign State, rights which cannot be disregarded. The Republics of America have in their laws set up the principle of equality between nationals and foreigners; but they have refused to grant foreigners a preferential treatment or a superior status, which would be derogatory to the national dignity and would destroy the legal equality which is the basis of the international community.

We have very opportunely been reminded of the Porter proposal approved in 1907 at The Hague by the nations represented at the Second Peace Conference. This proposal, which allows resort to force for the recovery of contractual debts between Governments only when the debtor State refuses arbitration, or makes it impossible to draw up a special arbitration agreement, or does not comply with the award given, embodies a principle which is now universally recognised as forming part of international law. I would add that the Porter proposal was in its turn based on the Drago doctrine, which expressed the strong aspirations of the Latin-American group at the Conference. The Drago doctrine, which declares that it is not allowable to use compulsion for the recovery of the public debts of States in general, together with the older Calvo proposal, which condemns intervention, even by diplomatic means, to support private claims of a pecuniary nature, are characteristic elements of what is sometimes termed Latin-American international law.

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We therefore have a heritage of legal principles, general aspirations and international traditions which we have to take into account in considering these grave questions from our own standpoint, and I think it is a mere matter of straightforwardness that I should set forth these views and considerations here.

In our view, the intention of the Covenant in substituting peaceful and reasonable means of settlement for resort to force was to deprive the signatory nations of the dangerous right of taking the law into their own hands. Hence we should view with the greatest anxiety any return in international life to methods of force departing from the procedure of conciliation, arbitration, judicial settlement and mediation laid down as compulsory in the Covenant.

Subject to the above remarks, and expressing my most ardent hopes for the solution of the dispute which has arisen between two of the original Members of the League, who are at the same time very respected Members of the Council, I gladly accept on behalf of my Government the resolution which we have approved.

M. SZE. — Reference has been made to the special character of the question before us. I should like to say that China cannot be expected to admit that the operation of treaties, covenants and accepted principles of international law stops at the border of Manchuria.

With regard to your reference to Chinchow, I beg to say that the conditions round the Chinchow region are normal; there are no movements of Chinese troops, no increase of troops or preparations for any attack against the positions at present occupied by the Japanese troops. The foregoing has been confirmed by all the neutral observers. I can assure the Council that the Chinese Government does not contemplate any change in its present policy.

I wish also to join with the previous speakers in expressing to you my warmest sentiments of respect and high esteem, and I also wish to avail myself of this opportunity to express my thanks for the courtesy and hospitality of your great country towards my delegation.

(The Council went into private meeting.)

2966. Expenditure resulting from the Summoning of the Council in Paris: Gift from the French Government.

M. MATOS presented the following report¹:

"The Members of the Council will have seen the two notes by the Secretary-General (documents C.871.1931.X and C.967.1931.X)² informing the Council of the contribution made by the French Government towards the supplementary expenses involved in the holding of the present meetings in Paris.

"By the Financial Regulations, it is necessary that the acceptance of gifts to the League be approved by the Council. I am sure all my colleagues will join with me in thanking the Government of the French Republic for its generous gift, which I hereby propose that the Council accept."

M. YOSHIZAWA. — As representative of Japan—that is, as representative of a party to the present dispute—I should like to express my most sincere thanks for this very generous gift from the French Government.

The conclusions of the report were adopted.

2967. Close of the Session.

The PRESIDENT. — The Council's task is thus at an end. I should like to ask those of my colleagues who have been good enough to serve on the Drafting Committee to remain a few days longer in Paris in order not to leave their President alone to deal with a situation which still needs to be examined.

LORD CECIL. — I am obliged to return to England to-morrow afternoon, otherwise I should have been glad to give any assistance I could; but I have spoken to the British Ambassador here, who will be pleased to take my place.

The PRESIDENT. — It now remains for me to thank you sincerely for having assisted me in my task in such a way as to earn me praise, a large share of which falls to you.

I declare the sixty-fifth session of the Council closed.

¹ Document C.968.1931.X.

² See Annex 1334, Section XLVI, Communications Nos. 3 and 4.

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ANNEXES

Series of Publications : 1931.II.A.22.

Official No. : C.415.M.171.1931.II.A.
[F./Fiscal/73.]

Annex 1324.

WORK OF THE FISCAL COMMITTEE DURING ITS THIRD SESSION.

(Held at Geneva from May 29th to June 6th, 1931.)

REPORT OF THE COMMITTEE SUBMITTED TO THE COUNCIL
ON SEPTEMBER 19TH, 1931.

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INTRODUCTION.

The Fiscal Committee has the honour to submit to the Council the following report on the work of its third session, held at Geneva from May 29th to June 6th, 1931.

The following members of the Committee were present:

Professor Dr. Herbert DORN, *Chairman*,
Professor Th. S. ADAMS, assisted by M. ALVORD and Mr. RYAN,
M. BLAU,
Dr. Gino BOLAFFI,
M. BORDUGE,
Professor Dr. FLORÈS DE LÉMUS, assisted by Professor VINVALES,
Dr. MANTZAVINOS, assisted by M. SBAROUNIS,
Dr. SINNINGHE DAMSTÉ,
Sir Percy THOMPSON, K.B.E., C.B.

For the question of the plurilateral convention:

Mr. W. D. CAREY, corresponding member of the Irish Free State.

Representing the International Chamber of Commerce:

M. R. JULLIARD.

I.

EXAMINATION OF INTERNATIONAL CONVENTIONS RECENTLY CONCLUDED AND MUNICIPAL LAWS
RECENTLY ENACTED FOR THE PREVENTION OF DOUBLE TAXATION AND TAX EVASION.

On June 16th, 1930, France and Italy concluded a Convention for the avoidance of double taxation and the settlement of other fiscal questions (*Collection of Agreements*, Volume III, page 24). This Convention is based on the division of taxes into impersonal and personal taxes, the former being attributed in principle to the country of origin and the latter to the country of domicile. It contains the provisions of draft Convention Ia of 1928, more or less modified, but the modifications do not appear to change the general tendency of Draft Ia. Article 11, however, while reserving to each State the right to tax capital invested in the other State by its nationals, requires them to deduct in advance from the tax that levied by the debtor's country under the general rule. Articles 16-19 are concerned with tax evasion; the two States undertake to exchange information regarding the application of taxes on income, in accordance with Draft III of 1928. With reference to assistance in the collection of taxes, the two States undertake to consider the possibility (Article 19, paragraph 2).

A Convention of a general nature has lately (March 16th, 1931) been concluded between Finland and Sweden. It concerns all direct taxes imposed on income (net or gross) or property. No distinction is drawn between impersonal and personal taxes. In principle the taxes referred to will be collected by the country of the taxpayer's domicile. The exceptions in favour of the country of origin correspond to those in Article 2, paragraph 1 (therefore not including income from mortgages), and Articles 5 and 7 of draft Convention Ia. Article 10 reserves to the country of domicile the right to graduate the tax on the basis of the total income, including income taxable in the other country. In principle the Convention applies only to the nationals of the two countries; but in any particular case the competent authorities may extend it to others, and more especially to nationals of countries which have concluded Conventions for the avoidance of double taxation with the two States in question (Final Protocol, paragraph 1).

Mention must next be made of a Convention, of May 16th, 1931, between France and Belgium. This Convention relates to direct impersonal taxes and to certain registration fees. As far as concerns impersonal taxes, the Convention is based on the ideas embodied in Article 2, paragraph 1, and Articles 3, 4, 6, 7, 8 and 9 of draft Convention Ia of 1928. There is a special clause (Article 6) dealing with income from transferable securities, for which, in view of the peculiar provisions of the national legislation, a kind of deduction in advance is allowed. This is also the case in regard to the application of French law to Belgian companies liable for the tax on income derived from capital (Article 8).

Article 13 deals with the reduction of registration fees due by a company on account of the registration of an establishment in the other country. Article 16 provides for mutual assistance in the collection of taxes, on the lines of draft Convention IV of 1928.

In the matter of maritime shipping, agreements—all on the lines of Article 5, paragraph 4, of draft Convention Ia—have been concluded between Belgium and Denmark (August 11th, 1930, *Collection*, Volume III, page 32); Belgium and Ecuador (May 2nd, 1929, *loc. cit.*, page 33); Belgium and Finland (August 9th, 1930, *loc. cit.*, page 34); Belgium and France (October 7th, 1929, *loc. cit.*, page 35); Belgium and Iceland (August 11th, 1930, *loc. cit.*, page 36); Belgium and Norway (July 22nd, 1930, *loc. cit.*, page 37); Belgium and Sweden (July 22nd, 1930, *loc. cit.*, page 38); Canada and Denmark (June 18th, 1929, Exchange of Notes, *loc. cit.*, page 41); France and Norway (June 2nd, 1930, Exchange of Notes, *loc. cit.*, page 52); France and the Netherlands (February 15th-28th, 1930, Exchange of Notes, *loc. cit.*, page 54); Canada and Norway (May 2nd, 1929, Exchange

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of Notes); Denmark and the Netherlands (November 8th, 1930); the Irish Free State and Norway (October 21st, 1930); the United States of America and Spain (April 16th, 1930, Exchange of Notes) Denmark and Finland (January 12th, 1931, Exchange of Notes); the United States of America and Greece (August 19th, 1929, Exchange of Notes); France and Greece (February 18th, 1929, Exchange of Notes).

With regard to exemption from taxes on road traffic, mention should first be made of the International Convention concluded at Geneva in March 1931, which is dealt with in paragraph V of this report.

Various agreements have also been concluded upon this subject—between Norway and the Netherlands (October 9th, 1930) and between Belgium and the Netherlands (March 16th, 1931), both completely exempting foreign motor vehicles; between Denmark and the Netherlands (*Collection*, Volume III, page 76) and between Danzig and Germany (*Collection*, Volume III, page 76), these two providing only temporary exemption.

In the matter of municipal laws we may first mention a Swedish Royal Decree of 1928 whereby His Majesty may conclude conventions, or issue, subject to reciprocity, unilateral regulations for the prevention of double taxation on income and property (*Collection*, Volume III, page 73); a Swedish Law of September 28th, 1928, relating to communal income taxes (*Collection*, Volume III, page 74); there is also the Netherlands Law of June 14th, 1930 (*Collection*, Volume III, page 66), whereby very wide powers are reserved to the Crown and the Minister of Finance to remedy double taxation either by treaty or by unilateral enactment, and (see Article 3) not necessarily on condition of reciprocity. This law repealed a law of 1920 (*Collection*, Volume I, page 201), which was based on the same principles but covered fewer taxes (for instance, it did not apply to succession duties).

Lastly, there is a Yugoslav Law of February 8th, 1928, which exempts various classes of income (for instance, the income of companies) from income tax, when the taxpayer can prove that he pays a direct tax on the same income in another country.

The foregoing examination shows that the evil of double taxation is continuing to diminish. It should be noted in particular that, in the sphere of maritime navigation, very favourable results have again been obtained.

The Fiscal Committee expresses the hope that the idea of the necessity of international fiscal conventions once brought into existence will make increasing progress. The rapid and effective procedure which led to the International Convention of March 1931 on the taxation of foreign motor vehicles seems to it of happy augury in this respect.

II.

POSSIBILITY OF FRAMING PLURILATERAL CONVENTIONS FOR THE AVOIDANCE OF DOUBLE TAXATION OF CERTAIN CATEGORIES OF INCOME.

In the report on the proceedings of its previous session the Fiscal Committee laid down certain principles on which an endeavour might be made to obtain the approval of a large number of countries with a view to a plurilateral convention (document C.340.M.140.1930.II.Chapter V).

It added, in order to make its point of view quite clear, that "the adoption of a plurilateral convention on the lines proposed would not completely prevent double taxation as between the contracting parties even in regard to the classes of income enumerated; but it would appreciably encourage the tendency to reduce double taxation by uniform legislation—a method which was obviously superior in important respects to that of decreasing double taxation by bilateral conventions".

The Fiscal Committee appointed a Sub-Committee, consisting of Dr. SINNINGHE DAMSTÉ (*Chairman*), Dr. BOLAFFI, Mr. CAREY and M. CLAVIER, to submit at the Committee's next session a draft plurilateral Convention based on the proposals mentioned above. The Sub-Committee drew up on this basis a draft, which is reproduced below in Appendix I, at the same time as a report which indicates its attitude on the questions put to it by the Fiscal Committee.

At its present session the Fiscal Committee resumed the examination of the questions raised at its second session and of the draft and report of its Sub-Committee.

The Fiscal Committee unanimously agreed that the Sub-Committee's proposals, with the amendments made by the Committee (Draft A reproduced in Appendix II), might be taken as a basis for a plurilateral convention for the avoidance of double taxation as between certain countries; but it also noted that these proposals could not at present be accepted by other countries because the clauses of Draft A settled the position of both residents and non-residents, with the object of entirely preventing double taxation for both, so far as concerns the classes of income contemplated in the draft—an arrangement which would impose upon Governments, in respect of their own residents, obligations which they are not prepared to assume.

An attempt was made to find another solution which would enable these countries to accede to a type of plurilateral convention which would settle the position of non-residents only, leaving double taxation in existence to a certain extent. During the session a draft Convention (Draft B, see Appendix III) was drawn up on these lines.

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The idea was also expressed that the text of the Draft I *a* prepared by the Government experts in 1928, which has already permitted of the conclusion of numerous bilateral Conventions, might provide a useful basis for the elaboration of a plurilateral Convention between certain countries which may regard it as essential to make a distinction between impersonal and personal taxes.

Both new proposals (Drafts A and B) were discussed in the Committee. In view of the outcome of the discussion, the Committee does not feel that it can reach a final decision at present. It seems necessary to reconsider whether there is any real possibility of an adequate number of accessions to either or both of these two types of convention.

In so doing, the Committee had in mind the responsibility it would assume in recommending a type of plurilateral convention, having regard to all the difficulties that have come to light in the course of the development of the question in the Fiscal Committee.

As long ago as 1922 four economists, M. Bruins, M. Einaudi, M. Seligman and Sir Josiah Stamp, were asked to investigate the possibility of a plurilateral convention in the following terms:

"Can any general principles be formulated as the basis for an international convention to remove the evil consequences of double taxation, or should conventions be made between particular countries, limited to their own immediate requirements? In the latter alternative, can such particular conventions be so framed as to be capable ultimately of being embodied in a general convention?" (See document F.19, Introduction.)

In 1927 the Committee of technical experts expressed its opinion on the question of a plurilateral convention. This opinion is embodied in their final report (document C.216.M.85.1927.II.) as follows:

"A question discussed at great length by the Committee was, whether the Conventions should be *collective*, that is, signed by as many States as possible, or whether they should be merely *bilateral*.

"It would certainly be desirable that the States should conclude collective conventions, or even a single convention embodying all the others. Nevertheless, the Committee did not feel justified in recommending the adoption of this course. In the matter of double taxation in particular, the fiscal systems of the various countries are so fundamentally different that it seems at present practically impossible to draft a collective convention, unless it were worded in such general terms as to be of no practical value.

"For this reason, the Committee preferred to draw up standard bilateral conventions. If these texts are used by Governments in concluding such conventions, a certain measure of uniformity will be introduced in international fiscal law and, at a later stage of the evolution of that law, a system of general conventions may be established which will make possible the unification and codification of the rules previously laid down."

The same ideas are to be found in the report submitted by the General Meeting of Government Experts (document C.562.M.178.1928.II.).

These were the conditions under which the experts succeeded in framing three different types of bilateral conventions.

The Fiscal Committee has since taken cognisance of a resolution of the International Chamber of Commerce, emphasising the desirability of concluding a general or plurilateral convention for the avoidance of international double taxation, even if this convention had to be confined to certain special points.

Notwithstanding the difficulties indicated above, the Fiscal Committee endeavoured to find a solution for the problem of a plurilateral convention. At the same time it realised the necessity of making a thorough examination, so as to remove, as far as possible, any remaining doubts and to permit of the framing of draft plurilateral conventions which should be acceptable at all events to certain groups of countries.

As regards the two drafts referred to above, the essential ideas of the first are to be found in the Sub-Committee's report reproduced in Appendix I. Certain changes have been made, however, in the Sub-Committee's draft, chiefly with the object of making it quite clear that the exemptions provided for in the convention are compulsory. With reference to the essential ideas of the second, the Committee desires to reproduce below the views of those of its members who proposed this draft.

It is conceded by all that exemptions of the type provided for in Draft A are of a nature to avoid double taxation altogether. In form, Draft B is in the main intended to protect the residents of each of the contracting States from certain aspects of double taxation by enumerating and defining particular categories of income in respect of which these persons are to be immune from taxation in the country of origin while leaving other categories of income unaffected by the convention. Nevertheless, its authors consider that this Draft B is of greater practical importance and has a wider scope. The supporters of this draft consider that, when a country has, by signing a convention such as is found in that draft, secured for its residents relief from double taxation in regard to certain categories of income by limiting the right of foreign countries to tax its residents, that country will be more inclined to grant such relief to its own residents as will render them immune from double taxation in respect of other categories of income.

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Further, a preliminary condition of Draft B is agreement on the definite objects and on the limits of taxation at source or at origin, before deciding upon the exemption or relief measures necessary to be taken by any given country in order to protect its residents against all forms of double taxation.

Lastly, Draft B, in Article 1, lays down in principle that the maximum relief granted to residents who are nationals shall also be granted to foreign residents where these are nationals of a contracting State.

The Committee is of the opinion that the proposals contained in this report may be used in the following manner.

A certain number of countries would be able to accept the first draft, others the second, others again Model Convention Ia of 1928. Even if the proposals led to no other result, it would be a step in the direction of avoiding double taxation. There is some hope, however, that certain countries will be able to sign two plurilateral conventions of different types simultaneously. In this way double taxation will be eliminated to an increasing extent, even though a single plurilateral convention may appear impracticable at present.

In order to ascertain whether such possibilities exist, and how great they may be, the Fiscal Committee in forwarding this report and its appendices to all the members of the Committee, requests them to state whether they can accept one of the drafts referred to above, or two drafts of different types, and, if not, to offer observations supported by any amendments which might enable them to accept.

Although the question does not appear to it sufficiently ripe to warrant Government consultation, the Committee proposes that the present report be communicated to Governments for information.

III.

FISCAL CLAUSES TO BE INSERTED IN THE DRAFT CONVENTION ON THE TREATMENT OF FOREIGNERS.

The Final Protocol of the First International Conference on the Treatment of Foreigners signed in Paris on December 5th, 1929, laying down the procedure for the preparation of the next Conference provides that, after having collected the observations and suggestions of Governments, the Secretariat shall ask the opinion of the advisory bodies of the League of Nations. The Fiscal Committee was thus called upon to give an opinion on the various questions coming within its competence.

Of the fiscal clauses to be found in the draft discussed in 1929, the majority were of a general fiscal character (e.g., equality of treatment for foreigners and of the goods of the contracting parties), while others, such as those to be found in former Article 13 were designed to prevent double taxation.

As regards the first-named category, the Fiscal Committee has appointed to examine the clauses in question a Sub-Committee composed of: M. BORDUGE, *Chairman*; M. BLAU, Dr. BOLAFFI, Professor FLORÈS DE LÉMUS, Sir Percy THOMPSON.

This Sub-Committee will be asked to give, on behalf of the Fiscal Committee, the opinion mentioned in the aforesaid protocol.

As regards the clauses designed to prevent double taxation, the Committee felt that they raised one of the most important questions that it had had to examine in connection with the framing of the plurilateral Convention—namely, the taxation of branches of foreign undertakings. The discussions which took place on this point showed, as already mentioned, that it was at present impossible to reach agreement in the matter. Such being the case, the Fiscal Committee thought that it would be inexpedient to insert in the future international Convention on the Treatment of Foreigners a clause similar to that of the old Article 13 of the Economic Committee's original draft.

IV.

ENQUIRY INTO THE APPORTIONMENT OF PROFITS.

At its last session the Fiscal Committee made certain recommendations concerning the employment of the fund of \$90,000 from the Rockefeller Foundation. It urged, in particular, that this fund should be used in the first place for the study of the question of the apportionment of profits, and it appointed a Sub-Committee to conduct the enquiry to be undertaken for this purpose and to take the necessary executive action.

The Sub-Committee entrusted this enquiry to Dr. Mitchell B. Carroll, a former Legal Adviser to the Treasury Department at Washington, who had been connected for some years with the work of the Government experts and the Fiscal Committee as assistant to Professor Adams. It was decided that Mr. Carroll should carry out enquiries on the spot in different countries before formulating general conclusions. The enquiry was begun in the five following countries: France, Germany, Great Britain, Spain and the United States. In each of these countries a special report

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was drawn up under Mr. Carroll's direction by one or more assistant experts, usually selected from the fiscal administration of that country. These reports start with a general survey of the fiscal laws applicable to the profits from undertakings in the countries in question, and this is followed by more definite replies to a questionnaire drawn up by the Secretariat.

Mr. Carroll has supplemented this work by a general report, in which he has endeavoured to indicate the principal rules of apportionment employed in those five countries; but he considered it impossible at this stage of the enquiry to reach final conclusions.

The Sub-Committee decided that the five reports, which constitute an important contribution to the enquiries relating to double taxation, should be published together with Mr. Carroll's report, which would serve as an introduction. It was also decided that the enquiry should be extended to other European and oversea countries, so as to cover the countries of greatest economic importance, or those whose legislation in the matter of apportionment presents special characteristics. The other countries will also be asked to furnish detailed information.

There is hence reason to hope that, before the Fiscal Committee's next session, Mr. Carroll will have collected the necessary data to enable him to formulate conclusions.

V.

FISCAL RÉGIME APPLICABLE TO FOREIGN MOTOR VEHICLES.

The Fiscal Committee has noted with satisfaction the results obtained in regard to double taxation by the European Conference on Road Traffic which was held in Geneva, from March 16th to 30th, 1931. The Convention on the Taxation of Foreign Vehicles, as adopted by the Conference and signed by numerous States, reproduces, almost as it stands, the text prepared with the co-operation of the Fiscal Committee.

This Convention applies to motor touring-vehicles, to the exclusion of hired vehicles and taxi-cabs, which were also covered by the original draft. For vehicles travelling in countries other than that in which they were registered, it provides an exemption of ninety days per annum in each of those countries. For this purpose, a fiscal permit is being created which, like the triptych and the Customs passbook, will become an essential document for the international circulation of vehicles.

VI.

TAXATION OF INSTRUMENTS OF INTERNATIONAL COMMERCE (BILLS OF EXCHANGE, PROMISSORY NOTES, CHEQUES, BILLS OF LADING, ETC.).

The International Conference for the Unification of Laws on Bills of Exchange, Promissory Notes and Cheques, which held its second session, devoted to the question of cheques, in March 1931, informed the Fiscal Committee that the following recommendation had been submitted by the International Chamber of Commerce:

"Promissory notes, bills of exchange, cheques and bills of lading should be made the subject of conventions to the effect that taxes should be collected on those documents only in one country, either that of issue or that of performance (payment in the case of bills of exchange and cheques, destination in the case of bills of lading).

"The apportionment or allocation of charges on a flat basis might, in particular cases, also be considered."

The Conference fully approved this recommendation and added that, having been informed that certain countries did not collect any tax on bills of exchange and cheques, it considered that the generalisation of this practice was highly desirable with a view to promoting and increasing the use of bills of exchange and cheques, and it adopted a recommendation to this effect.

The Fiscal Committee, being desirous of ascertaining whether fiscal charges (imposts, taxes, stamp duties, etc.) on the international instruments of commerce mentioned above may, owing to the superposition of national charges, be to some extent an impediment to the free operation of commercial exchanges, decided to undertake the study of this problem. It accordingly drew up a questionnaire, which will be sent by the Secretariat to all its regular and corresponding members. It also appointed a Sub-Committee, consisting of M. BLAU (*Chairman*), Professor ADAMS, M. BORDUGE, Professor FLORÈS DE LÉMUS and M. MANTZAVINOS, to collate the replies to this questionnaire and submit a report to the Committee at its next session. The International Chamber of Commerce will also be consulted.

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VII.

DOUBLE TAXATION IN REGARD TO THE TURNOVER TAX.

At the general meeting of Government experts held at Geneva in 1928, the point was raised whether measures designed to prevent double taxation should not also be extended to the turnover tax. A suggestion to that effect has since been made by the International Chamber of Commerce.

A first exchange of views on this problem took place in the Fiscal Committee, which considered that it presented a different aspect according to whether the turnover tax was levied directly on the income of the taxpayers or on the movement of goods or capital. The Committee decided to investigate the question and drew up for this purpose a questionnaire which will be sent by the Secretariat to all its regular and corresponding members.

The Sub-Committee appointed to examine the question of the taxation of instruments of international commerce (bills of exchange, cheques, etc.), whose members have already been enumerated, has been asked to collate the replies to this questionnaire and submit a report to the Fiscal Committee at its next session. The International Chamber of Commerce will also be consulted.

VIII.

CUSTOMS AND FISCAL DUTIES ON NEWSPAPERS AND PERIODICALS.

The Joint Committee on the question of Customs and Fiscal Duties on Newspapers and Periodicals, to which the Fiscal Committee had delegated several of its members, held a first meeting on June 3rd, 1931, under the Chairmanship of M. BLAU, who submitted a report to the Fiscal Committee.

The Joint Committee found that the existing documentary material was inadequate and decided that the Secretariat of the Communications and Transit Organisation should send to the Governments, invited to the European Conference on the Transport of Newspapers and Periodicals held at Geneva from November 25th to 29th, 1929, a full and detailed questionnaire dealing with all duties, fees and taxes of every kind imposed on newspapers and periodicals. The same questionnaire will be sent by the Secretariat to the regular and corresponding members of the Fiscal Committee, who are nationals of non-European countries, as well as to the Press associations, with the request that they furnish the Secretariat with all available information as to the actual position in their respective countries.

On the basis of this information the Joint Committee will subsequently consider what measures it deems it expedient to propose.

IX.

PRINCIPLES ENABLING THE DOUBLE TAXATION OF AUTHORS' RIGHTS AND PATENTS TO BE AVOIDED.

The principles laid down in this matter by the Fiscal Committee at its second session were re-examined and did not give rise to any observation. They had in the meantime received approval from various quarters, notably the International Chamber of Commerce at its Washington Congress.

The Fiscal Committee declared these principles adopted at second reading.

X.

DEFINITION OF THE TERM "AUTONOMOUS AGENT".

The Fiscal Committee had before it various observations, emanating in particular from the International Chamber of Commerce and the Hague Industrial Council, concerning the definition of the term "autonomous agent" as adopted by the Committee at second reading during its previous session.

These observations were examined first by a Sub-Committee consisting of Dr. BOLAFFI (Chairman), M. MANTZAVINOS and Dr. SINNINGHE DAMSTÉ, and then by the plenary meeting.

As a result of this investigation, the Committee noted that, for special reasons, certain countries might be led to adopt provisions exempting, not only business done by an independent agent, but also business done by agents of other kinds and of limited powers. (See, for instance, the Treaty of July 25th, 1928, between Germany and Sweden.) Nevertheless, the Committee considered that this fact did not affect the definition of "independent agent" given in its previous report and that there was no reason to modify it.

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XI.

DRAFT RESOLUTION PROPOSED BY SIR PERCY THOMPSON.

At the Fiscal Committee's second session a draft resolution was submitted by Sir Percy Thompson, the discussion of which was postponed until the present session.

In the meantime Sir Percy Thompson had made certain changes in the wording of his resolution, the final text of which reads as follows:

"That the prevalent view that a certain economic result—viz., the creation of an artificial barrier which impedes the free flow of capital into the channels in which it can be most usefully and profitably employed—is produced by *double taxation* is fallacious; that *origin taxation* is solely responsible for this economic result which would remain unaffected if all taxes based on residence were everywhere abolished and in consequence double taxation ceased to exist."

The Committee noted the very interesting explanations furnished by Sir Percy Thompson. It considered that the question as expounded presented, in addition to a highly practical side, other aspects which fell rather within the field of theoretical economics. The Committee therefore thought it necessary that fuller preparation should be made for the discussion than was possible at the time. Sir Percy Thompson was accordingly requested to be good enough to submit to his colleagues a written statement setting forth the reasons which he had already given them verbally, to enable the members of the Committee to go more fully into the matter and be ready to discuss it at a later session.

XII.

GENERAL TABLES SHOWING THE FISCAL SYSTEMS OF THE VARIOUS COUNTRIES.

The Committee noted with interest the work done by the New York State Tax Commission and the Corporation Trust Company, which have published tables summarising the systems of taxation of the various countries.

The members of the Committee signified their readiness to assist to the utmost of their ability in enlarging the scope of this work. As regards the details of the proposed co-operation, it would be desirable for the Corporation Trust Company to furnish the information required for the practical planning of the work.

XIII.

PREPARATION OF INTERNATIONAL CONVENTIONS CONCLUDED UNDER THE AUSPICES OF THE LEAGUE OF NATIONS.

The Assembly resolution of October 3rd, 1930 (Section IV), lays down the preparatory procedure to be followed in principle in the case of all general conventions to be negotiated under the auspices of the League. The Fiscal Committee, in common with the other technical organisations of the League, is invited to examine this procedure in order that the Assembly at its next session may judge whether any changes should be made in it.

The Committee notes that, in the terms of the resolution itself, the rules of procedure which it lays down are open to modification and exceptions, particularly in cases where, in view of the nature of the questions for discussion or special circumstances, "the Assembly or the Council considers other methods to be more appropriate".

The Committee feels bound to insist on the importance of this reservation, which, from its point of view, constitutes an essential safeguard. It may sometimes be desirable to conclude within a short period international conventions for limited purposes, which do not require any lengthy procedure of consultation. The case of the Convention on the Fiscal Treatment of Foreign Motor Vehicles, which was signed after preparatory work of barely eighteen months, shows that expeditious procedure may have satisfactory results. The Fiscal Committee accordingly considers that the possibility should be left open for it to have recourse to such procedure in case of need.

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Appendix I.

PLURILATERAL CONVENTION FOR THE PREVENTION OF THE DOUBLE TAXATION OF CERTAIN CATEGORIES OF INCOME.

I. REPORT BY THE SPECIAL SUB-COMMITTEE TO THE FISCAL COMMITTEE.

The Sub-Committee appointed by the Fiscal Committee at its second session to draw up a draft plurilateral convention for the prevention of the double taxation of certain categories of income, to which it seems possible to secure the accession of a considerable number of countries, held two sessions, the first at The Hague on August 21st and 22nd, 1930, and the second at Rome from February 24th to March 2nd, 1931. This Sub-Committee consisted of the following members:

Dr. Gino BOLAFFI, Director and Chief of Division at the Ministry of Finance, Rome.
Mr. W. D. CAREY, Revenue Commissioner at Dublin.
M. Ch. CLAVIER, Director-General of Taxes at Brussels.
Dr. SINNINGHE DAMSTÉ, Director-General of Taxes, The Hague.

The Sub-Committee elected Dr. SINNINGHE DAMSTÉ as Chairman.

The Sub-Committee took as a base of its discussions the general proposals drawn up by the Fiscal Committee (document C.340.M.140.1930.II, §V).

After devoting its first session to a thorough examination of the principles contained in these proposals and drawing up a preliminary draft Convention, the Sub-Committee discussed at its second session the amended texts drawn up in the interval by M. Clavier and Mr. Carey.

The title of the draft indicates that the aim of the plurilateral Convention is to prevent the double taxation of certain categories of income, and the preamble adds that the Convention is based on the principle of reciprocity.

Article 1 makes it clear that the Convention does not concern all taxable persons but only those having their fiscal domicile in one of the contracting States and deriving certain forms of income, specified in the Convention, in whole or in part from one or more other contracting States.

By fiscal domicile the Convention understands the place of a natural person's normal residence, in other words his permanent home. In the case of juristic persons the fiscal domicile is the place of their real centre of management.¹ Any special cases will be settled by the application of Article 17 in consideration of the facts and of the domestic legislation of each State.

Although the terms of reference given to it by the Fiscal Committee were quite wide, the Sub-Committee thought it advisable to confine itself in the draft Convention to the categories of income referred to in the Fiscal Committee's proposals, with the exception that it added interest derived from mortgages. This income as well as that derived from immovable property is taxable only in the State in which such property is situated. Income derived from mortgages on ships is taxable only in the State in which the ships are registered. The Sub-Committee considered that the ships themselves could not be included in the immovable property referred to in Article 2.

Article 4 is one of the most important in the Convention; it refers to the income of industrial, commercial or agricultural enterprises which possess permanent establishments in two or more contracting States. The Fiscal Committee restricted its proposal No. 4 on this question to companies, leaving it to the Sub-Committee to define what was meant by a company. The Sub-Committee considered that this term should be interpreted as widely as possible and should apply, not only to joint-stock companies, but to legally constituted companies composed of persons having a legal status distinct from that of partners. On the other hand, Article 4 does not apply to natural persons.

The text of Article 4 is based on previous drafts and on the principles laid down last May by the Fiscal Committee.

Nevertheless, in order to obtain the accession of States which at present levy a tax on the whole of a company's profits, even if part of those profits is derived from permanent establishments situated abroad, the first paragraph of Article 4 was drafted in such a way as to recognise this practice, but subject to a clause (Article 15) permitting the company concerned to obtain a refund of that part of its contribution which constitutes a double taxation.

The Fiscal Committee asked the Sub-Committee to consider whether it would be desirable to add to the article concerning companies the following proposal:

"The fact that an undertaking has business dealings with a foreign country through a local company the stock of which it owns in whole or in part should not be held to mean that the undertaking in question has a permanent establishment in that country."

¹ In conformity with the definition given by the technical experts (document F. 212, page 21).

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After discussion, the Sub-Committee considered that this addition might lead to considerable difficulties and decided to reject it.

Article 5 reproduces the text previously adopted with regard to the income derived from maritime shipping or air navigation enterprises, except that it has been confined to companies with a view to concordance with Article 4, and that it has been stated that companies are taxable at the place of their real centre of management.

As regards interest on public loans (Article 6), which is not taxable in the State of fiscal domicile of the creditors, the interest on loans issued before the entry into force of the Convention has been left out of account, so as not to affect acquired rights.

Articles 7, 8 and 9 refer respectively to: (a) the earnings of frontier workers; (b) authors' rights and income from patents; (c) life annuities, which are to be taxable only in the State of fiscal domicile of the beneficiaries.

As regards authors' rights, it has been thought advisable for the sake of simplicity to condense the text adopted previously.

In Articles 10 and 11 rules have been laid down regarding the special régime applicable to: (a) the salaries of officials serving abroad; (b) public pensions. Both these sources of income will be taxable only in the State which pays them.

The Sub-Committee thought that it would be well to insert in the Convention an article reproducing a clause in draft Convention I *a* referring to the personal tax on natural persons having a fiscal domicile in two or more contracting States. In such cases the tax will be apportioned in these States according to the length of stay in each country as compared with the total length of stay in all the countries concerned during the fiscal year. Relief will be conditional on the submission of a claim in the form and within the time-limits fixed. If necessary, the relief will be given by way of repayment, so that the contracting parties will not have to modify their national legislations.

Another method of apportioning the tax might be adopted, in particular, if the taxable person did not reside during the fiscal year in a country but has a fiscal domicile therein. Article 12 is drafted on these lines.

Articles 13 to 15 contain measures to avoid double taxation when the State of fiscal domicile levies an impersonal or personal tax on income which under the Convention is taxable solely in the State of origin, or when the latter levies a tax on income which under the Convention is taxable only in the State of the taxpayer's fiscal domicile.

In the former case the proportion of relief will be equal to the proportion between this income and the total taxable income, so that the rate applied will be maintained. In other words the relief will be determined by the application of a rule of three. It may not, however, exceed the amount of tax paid in the country of origin of the income.

In this latter case the tax paid in the country of origin will simply be refunded.

The method of refunding may also be followed in the first case mentioned above.

Article 16 reproduces the terms of Article 13 of Draft I *a*.

Articles 17 and following refer to the arbitration clause. The Sub-Committee decided to submit to the Fiscal Committee without modification the articles unofficially drawn up by M. Barandon, as the matter can more profitably be discussed from a technical point of view at Geneva where the services of the Legal Section of the Secretariat will be available.

The Sub-Committee considered that signatory States might have difficulties in introducing into their domestic legislation certain provisions of the Convention for the Prevention of Double Taxation. Thus the question arose whether the accession of the signatory States to all the articles of the Convention should be compulsory or whether they should be left free to accede to specific articles only. The latter method would have the advantage of allowing a very wide Convention to be drawn up, embracing practically all cases of double taxation, and of making it easy for all countries to accede in principle to such a Convention, which despite reservations by the different countries on particular points would none the less remain an ideal to be aimed at by all. After careful consideration, however, the Sub-Committee thought such a Convention would call for mutual sacrifices from the different countries and that, if left free to limit their accession, the majority would be tempted to avail themselves of this freedom with the result that the Convention would provisionally fail in its object. The Sub-Committee therefore refused to adopt the principle of an optional accession to the different articles of the Convention. It admitted of one exception, however. The discussions had shown that Article 15 deals with the relief granted by a country in which the real centre of management of an industrial, commercial or agricultural company is situated in respect of profits earned by that company in a country in which it has a permanent establishment. The discussion had shown that this article was regarded by most of the members as essential to the success of the Convention. If, however, under present conditions certain countries had serious difficulties in consenting to the sacrifices imposed on them by Article 15, it was thought that they should temporarily be given the option of postponing their accession to this article. The Fiscal Committee will have to judge whether the meaning of the word "temporarily" should be further defined.¹

¹ Mr. Carey considers that Article 15 should be omitted from the draft Convention and he does not accept the views of his colleagues set forth in this report with regard to that article.

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2. DRAFT PLURILATERAL CONVENTION FOR THE PREVENTION OF THE DOUBLE TAXATION OF CERTAIN CATEGORIES OF INCOME.

With a view to preventing double taxation in the matter of direct impersonal or personal taxation levied on certain categories of income, the High Contracting Parties have, subject to reciprocity, agreed to the following provisions:

Article 1.

Taxable persons and entities having their fiscal domicile in the territory of one of the contracting States and deriving, in whole or in part, from the territory of one or more of the other contracting States any of the forms of income to which this Convention relates, shall, in so far as such income is concerned, be accorded the special treatment defined in the following articles. For the purposes of the present Convention, the fiscal domicile of a natural person is the place of his normal residence, in other words, his permanent home, while the fiscal domicile of a juristic person is its real centre of management.

Article 2.

Income from immovable property which corresponds to the actual or presumed rental value of such property, and all other income derived from such property which cannot be regarded as income derived from industrial, commercial or agricultural enterprises, shall be taxable only in the State in which the property is situate.

Article 3.

Income derived from mortgages on the property referred to in Article 2 shall be taxable only in the State in which that property is situate.

Income derived from mortgages secured on ships shall be taxable only in the State in which the ships are registered.

Article 4.

Without prejudice to the foregoing provisions, and subject to the application of Article 15,¹ a company (or other association having a legal existence of its own) operating one or more industrial, commercial or agricultural enterprises shall be taxable in respect of the income from such enterprises only in the State of its fiscal domicile, provided, however, that, if such company (or association) possesses in one or more other countries one or more permanent establishments, that portion of the income derived from each State shall be taxable therein.

The competent authorities of the countries concerned shall come to an agreement, if necessary, regarding the methods of apportionment.

For the purposes of the present article, the following shall be regarded as permanent establishments: branches, mines and oilfields, fixed installations, factories, workshops, agencies, warehouses, offices and depots.

The fact that a company (or association) has business dealings with a foreign country through an agent of genuinely independent status (broker, commission agent, etc.) shall not be held to mean that it has a permanent establishment in that country.

Article 5.

As an exception to the end of the first paragraph of Article 4, a company (or other association having a legal existence of its own) operating one or more maritime shipping or air navigation enterprises shall be taxable in respect of the income derived from such enterprises only at its real centre of management.

Article 6.

Income from public loans shall be taxable only in the State of the fiscal domicile of the creditors. This provision does not refer to income from loans issued prior to the entry into force of the present Convention.

Article 7.

The earnings of workers living on one side of a frontier and working on the other shall be taxable only in the State of those workers' fiscal domicile.

Article 8.

Authors' rights and income from patents shall be taxable only in the State of fiscal domicile of beneficiaries. If, however, they are collected by persons to whom these rights have been assigned for a consideration, or fall on any other grounds into the category of industrial or commercial income, they shall be taxable as such under the conditions laid down in Article 4.

Article 9.

Life annuities shall be taxable only in the State of fiscal domicile of the annuitants.

¹ Mr. Carey considers that Article 15 should be omitted from the draft Convention and, therefore, dissents from the inclusion in Article 4 of the words "and subject to the application of Article 15".

Article 10.

The salary of an official or public servant who is serving abroad shall be taxable only in the State liable for payment of such salary.

Article 11.

A public pension shall be taxable only in the State liable for payment of such pension.

Article 12.

When a taxable natural person has a fiscal domicile in the territory of two or more of the contracting States, he may claim that the impersonal or personal tax on the income referred to in Articles 6 to 9 shall be apportioned according to the length of his stay in each as compared with the total length of his stay in all those countries during the financial year. The appropriate relief shall, when necessary, be given by way of repayment.

The countries concerned may, if they think fit, adopt some method of apportioning the tax other than that indicated in the previous paragraph, in particular when the taxpayer has not resided during the fiscal year in a country in which he has a fiscal domicile.

The claim referred to in the first paragraph must be presented in the form prescribed by the competent authorities of each country, accompanied by vouchers, within six months after the close of the financial year, provided, however, that the time allowed for making the claim shall not be less than six months from the date of the notification to the taxpayer of the latest assessment.

Article 13.

When the State of fiscal domicile of a recipient of the income referred to in Articles 2, 3, 10 and 11 has charged tax on any such income, the interested party may claim partial relief.

The proportion of this relief shall be equal to the proportion between this income and the total income chargeable, but it may not exceed the amount of the tax payable on that income in the State of origin. The appropriate relief shall, where necessary, be given by way of repayment.

The last paragraph of Article 12 shall apply in this case; the interested party must produce the official documents certifying that the tax has been paid in the State in which the income originates.¹

Article 14.

If the State of origin of the income referred to in Articles 6 to 9 has levied a tax on such income, the interested party may claim a refund, provided he proves that the income has been taxed in the State of his fiscal domicile.

The last paragraph of Article 12 shall apply to claims under the present Article.²

Article 15.³

If, in the case provided for at the end of the first paragraph of Article 4, the State of fiscal domicile of a company has levied a tax on the income of its permanent establishments situated in the territory of other contracting States, that company may claim partial relief from the tax. The last two paragraphs of Article 13, and also the second paragraph of Article 4, shall apply in this case.

Article 16.

As regards any special provisions which may be necessary for the application of the present Convention, more particularly in cases not expressly provided for, but generally covered by the Convention, the financial administrations of the contracting parties shall confer together, and shall take the necessary steps in accordance with the spirit of this Convention.

¹ Alternative proposed by Mr. Carey:

Article 13. — The exemption conferred by Articles 2, 3, 10 and 11 from the taxation of the country of the fiscal domicile of the recipient of the income may, if the competent authorities of that country see fit, be given by way of refund of tax, and the following provisions shall have effect in relation to any item of income to which these articles refer:

(a) The exemption of any such item of income from taxation in the country of domicile of the recipient shall not operate to reduce the rate of personal tax payable in that country.

(b) The country of domicile shall be deemed to have discharged its obligations under the said articles if it recoups the taxpayer to the extent of the full tax borne in the country of origin.

(c) The last paragraph of Article 12 shall apply to claims under the present article; the interested party must produce the official documents certifying that the tax has been paid in the State in which the income originates.

² Alternative proposed by Mr. Carey:

Article 14. — The exemption conferred by Articles 6 to 9 from the taxation of the country in which the income arises may, if the competent authorities of that country see fit, be given by way of repayment.

The last paragraph of Article 12 shall apply to claims under the present Article.

³ Mr. Carey considers that this article should be omitted from the draft Convention.

Article 17.

Should a dispute arise between two or more of the contracting parties as to the interpretation or application of the provisions of the present Convention, and should such dispute not prove capable of settlement either direct between the parties or by any other method of friendly arrangement, the parties may, if they are all agreed, submit their dispute to such technical body as the Council of the League of Nations may appoint for the purpose.

This body will give an opinion after hearing the parties and, if necessary, arranging a meeting between them. The opinion must be delivered within . . . months of the date on which the dispute has been referred to the said body.

The High Contracting Parties may agree, prior to the opening of such procedure, to accept the opinion given by this body.

Article 18.

Should the parties to the dispute decide not to ask for the opinion mentioned in the previous articles, or should they fail to agree upon this course, or, again, should they not agree to accept the opinion, the dispute shall be submitted for decision to the Permanent Court of International Justice unless the parties agree, under the conditions hereinafter stipulated, to have recourse to an arbitral tribunal.

Article 19.

If, in the case provided for in the previous article, the parties agree to have recourse to an arbitral tribunal, they shall draw up a special agreement determining the subject of the dispute, the arbitrators and the procedure to be followed.

Article 20.

If no agreement is reached between the parties as to the special agreement referred to in the previous article, or if they fail to appoint arbitrators, each party to the dispute shall, after a previous notice of . . . months, have the right to bring it direct before the Permanent Court of International Justice by means of a requisition.

Article 21.

Neither the opening of the procedure before the technical body referred to in Article 17 nor the opinion which it delivers shall in any case involve the suspension of the measures complained of; the same rule shall apply in the event of proceedings before an arbitral tribunal or the Permanent Court of International Justice unless the Court decides otherwise under Article 41 of its Statute.

TEXTS TO BE INSERTED IN THE PROTOCOL OF THE CONVENTION.

A. The adoption of the present Convention by two States which have previously concluded a bilateral Convention for the prevention of double taxation shall not involve the replacement or amendment of the provisions of that bilateral Convention so long as it remains in force.

B. Since the advantages of this Convention are accorded *subject to reciprocity*, they cannot be claimed from any contracting party, in virtue of the most-favoured-nation clause, by a State not a party to this Convention.

C. In acceding to the present Convention, each of the High Contracting Parties shall have the right temporarily to reserve its accession to Article 15; in that case, the other High Contracting Parties shall not be bound to apply the provisions of Article 15 to taxpayers having their fiscal domicile in the country or countries which have made that reservation.

Appendix II.

DRAFT PLURILATERAL CONVENTION "A" FOR THE PREVENTION OF THE DOUBLE TAXATION OF CERTAIN CATEGORIES OF INCOME.

With a view to preventing double taxation in the matter of direct taxation levied on certain categories of income, the High Contracting Parties have, subject to reciprocity, agreed to the following provisions:

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Article 1.

Taxable persons and entities having their fiscal domicile in the territory of one of the contracting States and deriving, in whole or in part, from the territory of one or more of the other contracting States any of the forms of income to which this Convention relates, shall, in so far as such income is concerned, be accorded the special treatment defined in the following articles.

For the purposes of the present Convention, the fiscal domicile of a natural person is considered to be the place of his normal residence, in other words, his permanent home, while the fiscal domicile of a juristic person is considered to be its real centre of management.

Article 2.

Income from immovable property which corresponds to the actual or presumed rental value of such property, and all other income derived from such property which cannot be regarded as income derived from industrial, commercial or agricultural enterprises, shall be taxable only in the State in which the property is situate.

Article 3.

Income derived from mortgages on the property referred to in Article 2 shall be taxable only in the State in which that property is situate.

Income derived from mortgages secured on ships shall be taxable only in the State in which the ships are registered.

Article 4.

Without prejudice to the foregoing provisions, the income of industrial, commercial or agricultural enterprises shall only be taxable in the States in which they have permanent establishments, each of these States being authorised to tax the profit derived from the permanent establishments situated in its territory. Nevertheless, the present Convention does not affect the right the contracting States may have to tax the income derived by enterprises domiciled in their territory from activities carried on in the territory of non-contracting States.

The competent authorities of the countries in which permanent establishments are situated shall come to an agreement, if necessary, regarding the methods of apportionment, so as to confine the taxation of each State to the profits earned in the territory of that State.

For the purposes of the present article, the following shall be regarded as permanent establishments: real centres of management, branches, mines and oilfields, permanent installations, factories, workshops, agencies, warehouses, offices and depots.

The fact that an enterprise (or association) has business dealings with a foreign country through an agent of genuinely independent status (broker, commission agent, etc.) shall not be held to mean that it has a permanent establishment in that country.

Article 5.

As an exception to the first paragraph of Article 4, a maritime shipping or air navigation enterprise shall be taxable only at its real centre of management.

Article 6.

Income from public loans shall be taxable only in the State of the fiscal domicile of the creditors. This provision does not refer to income from loans issued prior to the entry into force of the present Convention.

Article 7.

The income of the liberal professions shall be taxable only in the States in which they are regularly exercised.

Article 8.

The earnings of workers living on one side of a frontier and working on the other shall be taxable only in the State of those workers' fiscal domicile.

Article 9.

Authors' rights and income from patents shall be taxable only in the State of fiscal domicile of the beneficiaries. If, however, they are collected by persons to whom these rights have been assigned for a consideration, or fall on any other grounds into the category of industrial or commercial income, they shall be taxable as such under the conditions laid down in Article 4.

Article 10.

Life annuities shall be taxable only in the State of fiscal domicile of the annuitants.

Article 11.

The salary of an official or public servant who is serving abroad shall be taxable only in the State liable for payment of such salary. The same applies to scholarships awarded for studies abroad.

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Article 12.

A public pension shall be taxable only in the State liable for payment of such pension.

Article 13.

When a taxable natural person has a fiscal domicile in the territory of two or more of the contracting States, he may claim that the impersonal or personal tax on the income referred to in Articles 6 to 10 shall be apportioned according to the length of his stay in each as compared with the total length of his stay in all those countries during the financial year. The appropriate relief shall be given either by way of exemption or by way of a rebate involving, if necessary, a refund.

The countries concerned may, if they think fit, adopt some method of apportioning the tax other than that indicated in the previous paragraph, in particular when the taxpayer has not resided during the fiscal year in a country in which he has a fiscal domicile.

The claim referred to in the first paragraph must be presented in the form prescribed by the competent authorities of each country, accompanied by vouchers, within six months after the close of the financial year, provided, however, that the time allowed for making the claim shall not be less than six months from the date of the notification to the taxpayer of the latest assessment.

Article 14.

The relief provided for in Articles 2, 3, 11 and 12 from the taxation of the country of the fiscal domicile of the recipient of the income shall be given either by way of exemption or by way of a rebate involving, if necessary, a refund of tax, and the following provisions shall have effect in relation to any item of income to which these articles refer:

(a) The exemption of any such item of income from taxation in the country of domicile of the recipient shall not operate to reduce the rate of personal tax payable in that country.

(b) The country of domicile shall be deemed to have discharged its obligations under the said articles if it recoups the taxpayer to the extent of the full tax borne in the country of origin.

(c) The rules laid down in the last paragraph of Article 13 shall apply to claims under the present article; the interested party must produce the official documents certifying that the tax has been paid in the State in which the income originates.

Article 15.

The relief resulting from the application of Article 4 shall be given either by way of exemption or by way of a rebate involving, if necessary, a refund of tax.

The rules laid down in the second paragraph of Article 14 shall apply.

Article 16.

The relief provided for by Articles 6 to 10 from the taxation of the country in which the income arises shall be given either by way of exemption or by way of a rebate involving, if necessary, a refund of tax.

The rules laid down in the last paragraph of Article 13 shall apply.

Article 17.

As regards any special provisions which may be necessary for the application of the present Convention, more particularly in cases not expressly provided for, but generally covered by the Convention, the financial administrations of the High Contracting Parties shall confer together, and shall take the necessary steps in accordance with the spirit of this Convention.

(Here follow the articles establishing an arbitral procedure. See Articles 17-21 of the Sub-Committee's Draft, Appendix I B.)

Appendix III.

DRAFT PLURILATERAL CONVENTION "B".

The High Contracting Parties have, subject to reciprocity, agreed to the following provisions:

Article 1.

Each of the High Contracting Parties reserves the right to tax taxable persons and entities having their fiscal domicile in its territory in respect of the whole of their income irrespective of origin.

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Each of the High Contracting Parties undertakes, when applying the first paragraph of the present article, not to treat persons and entities of the nationality of one of the other High Contracting Parties less favourably than it treats its own nationals or the nationals of any foreign State.

For the purposes of the present Convention the fiscal domicile of a natural person shall be taken to mean the place of his normal residence, in other words, his permanent home, and the fiscal domicile of a juristic person shall be taken to mean its real centre of management.

Article 2.

Each of the High Contracting Parties reserves the right to tax natural and juristic persons not domiciled in its territory in respect of income which it regards as originating in that territory subject to the exceptions laid down in Article 3.

Article 3.

Article 2 shall not apply to the following:

(a) Income from maritime or air navigation undertakings;

(b) Income from industrial, commercial or agricultural undertakings not included under paragraph (a) of this article in so far as it is not derived from a permanent establishment situated in the country;

(c) Income from public loans issued after the present Convention goes into effect prior to the entry into force of the present Convention;

(d) The earnings of workers living on one side of the frontier and working on the other;

(e) Authors' rights and income from patents. If, however, they are collected by persons to whom these rights have been assigned for a consideration, or fall on any other grounds into the category of industrial or commercial income, they shall be treated under the rule laid down in paragraph (b) above;

(f) Life annuities.

Article 4.

For the purposes of applying Article 3 (b) the following shall be regarded as permanent establishments: branches, mines and oilfields, plants, factories, workshops, agencies, warehouses, offices and depots.

The fact that an undertaking has business dealings with a foreign country through an agent of genuinely independent status (broker, commission agent, etc.) shall not be held to mean that it has a permanent establishment in that country.

The contracting parties undertake to instruct their competent authorities to come to an agreement, if necessary, regarding the methods of apportionment.

Article 5.

When a taxable natural person has a fiscal domicile in the territory of two or more of the contracting States, he may claim that the tax shall be apportioned according to the length of his stay in each as compared with the total length of his stay in all those countries during the financial year. The appropriate relief shall, when necessary, be given by way of repayment.

The countries concerned may, if they think fit, adopt some method of apportioning the tax other than that indicated in the previous paragraph, in particular when the taxpayer has not resided during the fiscal year in a country in which he has a fiscal domicile.

The claim referred to in the first paragraph must be presented in the form prescribed by the competent authorities of each country, accompanied by vouchers, within six months after the close of the financial year, provided, however, that the time allowed for making the claim shall not be less than six months from the date of the notification to the taxpayer of the latest assessment.

Article 6.

The High Contracting Parties reserve the right to apply the exceptions provided for in Article 3 by way of appropriate relief. For such case relief shall only be accorded on condition of its being established that the income in question has been taxed in the State of fiscal domicile. The last paragraph of Article 5 shall be applicable to the claim provided for in the present article.

Article 7.

As regards any special provisions which may be necessary for the application of the present Convention, more particularly in cases not expressly provided for, but generally covered by the Convention, the financial administrations of the High Contracting Parties shall confer together and shall take the necessary steps in accordance with the spirit of this Convention.

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Series of Publications: 1931.II.A.24.

Official No.: A.55.1931.II.A.
[F. 960.]

Annex 1325.

WORK OF THE FINANCIAL COMMITTEE
DURING ITS FORTY-SECOND SESSION.

(Geneva, September, 1931.)

REPORT OF THE COMMITTEE, SUBMITTED TO THE COUNCIL
ON SEPTEMBER 19TH, 1931.

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INTRODUCTION.

The Financial Committee has the honour to submit to the Council the following report on part of the questions with which it has dealt during its fourth Session. The Committee will submit separately reports on the question which was referred to it by the Council concerning a loan of the Governing Commission of the Saar Territory, of the financial situation of Bulgaria, and on the requests recently made by the Austrian and by the Hungarian Governments.

The following members were present:

M. SUVICH (<i>Chairman</i>);	Sir Otto NIEMEYER;
M. DE CHALENDAR;	M. POSPISIL;
Mr. Norman DAVIS;	M. RYGG;
M. JANSSEN;	Sir Henry STRAKOSCH;
M. TER MEULEN;	M. TANAKA.
M. MLYNARSKI;	M. KEMPNER.

1. For Estonian questions:

M. JAKSON, President of the Bank of Estonia;
M. WESTEL, former Minister of Finance, President of the Union of Banks of Tallinn;
M. SCHMIDT, Envoy Extraordinary and Minister Plenipotentiary of Estonia accredited to the League of Nations.

2. For Greek questions:

M. TSOUDEROS, Vice-Governor of the Bank of Greece;
M. VARVARESSOS, Economic Adviser to the Bank of Greece;
Mr. FINLAYSON, Financial Adviser to the Bank of Greece.

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I. ESTONIA.

The Financial Committee heard M. JAKSON, President of the Bank of Estonia, and M. WESTEL, former Minister of Finance, President of the Union of Banks of Tallinn, who were accompanied by M. SCHMIDT, Envoy Extraordinary and Minister Plenipotentiary of Estonia accredited to the League of Nations.

M. Jaakson submitted to the Financial Committee for examination a certain number of amendments to the statutes of the Bank of Estonia, which were approved subject to a few alterations.

The Committee also heard a statement on the general conditions of economic life in Estonia, with special reference to the position of the bank of issue and the state of public finances. The explanations given to the Committee show that, taking into account world conditions and difficulties, the position is, on the whole, satisfactory; in particular, the balance of trade, which was formerly unfavourable, is now favourable, thanks to a considerable reduction in imports. The Bank's commitments are being reduced, and the proportion of the cover and of foreign exchange reserves is increasing partly on account of special non-recurrent resources. As regards public finances, the budgets of the last few years have shown either a surplus or have been balanced. In view of the cautious estimates and the reductions in expenditure ordered by the Government, which are now being effected, there is reason to anticipate that this will likewise be the case with the budget for the current year.

2. GREECE.

The Financial Committee heard M. TSOUDEROS, Vice-Governor of the Bank of Greece, M. VARVARESSOS, Economic Adviser to the Bank of Greece, and Mr. FINLAYSON, Financial Adviser to that Bank, who explained the position of the bank of issue, and asked the Committee's opinion on certain measures proposed by the management of that establishment.

3. DANZIG.

The Financial Committee has examined the fourth Report of the Trustee for the 1927 Free City of Danzig (Tobacco Monopoly) Loan. This report does not require action on the part of the Council.

4. TRANSFER OF FUNCTIONS OF THE MIXED GRECO-BULGARIAN EMIGRATION COMMISSION.

At the request of the Council, the Financial Committee has examined the request made by the neutral members of the Mixed Greco-Bulgarian Emigration Commission to the effect that, in accordance with the provisions of Article 7 of the Moloff-Caphandaris Agreement, the functions of the Commission under that agreement should be transferred by the Council to some other body or person. In view of the statement by the neutral members that the Mixed Commission has practically terminated its work and will shortly be liquidated, the Financial Committee is of opinion that it is desirable for the Council to decide upon such a transfer. In order not to create any new organ, the Financial Committee venture to suggest that it be itself entrusted with the functions in question, it being understood that the Committee may appoint two of its Members to act on its behalf in this matter in the interval between meetings.

5. FISCAL COMMITTEE.

The Financial Committee has noted the report of the Fiscal Committee on the work of its third session. The enquiries undertaken by this Committee are very far-reaching, and important progress has been made in the endeavour to abolish double taxation. This progress is marked by the signature, not only of a large number of agreements on special questions, such as the profits of shipping companies, but also of a few conventions of a general nature (between France and Italy, Finland and Sweden, Belgium and France), and finally of a plurilateral convention on the taxation of touring motor-cars in connection with the European Conference on Road Traffic.

The Financial Committee, in its last year's report, drew attention to two important tasks to which the Fiscal Committee had, at its 1930 session, decided to devote itself. One is the enquiry into the methods of apportionment of profits of enterprises operating in several countries, with a view to the unification of these methods. This enquiry is being actively pursued, and the Committee hopes before long to reach practical conclusions. Such a result would be of the greatest importance for the development of international commercial relations.

The other task undertaken by the Fiscal Committee—*i.e.*, the drawing up of a plurilateral convention on double taxation—has necessitated considerable work on the part of a sub-committee specially set up for the purpose and later on the part of the Fiscal Committee itself. The discussions on this question revealed radical divergencies between various types of national legislation and showed that the question was not yet ripe for a final solution. The drafts prepared

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as a result of these discussions will, however, in accordance with the proposals of the Fiscal Committee, be communicated at once to the Governments for their information. The Financial Committee considers that their attention should be very specially drawn to the importance of the question and the advantageous effect which the conclusion of a plurilateral convention on double taxation would have on the freer circulation of capital and goods, which is one of the essential conditions for the improvement of the present situation.

6. GOLD.

The Gold Delegation held a meeting from August 27th to September 2nd. It discussed the question of the effects and measurements of the fluctuations of the purchasing power of gold and the object of monetary policy. The Delegation hopes to adopt its final report at its next session.

7. RECURRENCE OF PERIODS OF ECONOMIC DEPRESSION.

The eleventh Assembly instructed the Economic and Financial Organisation of the League to "put itself in touch with the national organisations, whether consultative or planning councils or research institutes . . . and with their aid consider by what means the work now being conducted on the problem of recurrence of periods of economic depression may be co-ordinated."

In view of the first part of this resolution, the Economic and Financial Committees suggested to the Council, in January 1931, a procedure for obtaining the views of the economic councils and research institutes to which reference is made. These consultations have resulted in a report (appendix) of which the Members to the Economic Committee appointed to deal with the subject have already given their approval.

The importance which the eleventh Assembly attached to the proposed endeavour to co-ordinate the work on the causes of the recurrence of periods of economic depression such as that from which the world is to-day so acutely suffering is evident from the report of the Second Commission. "It felt", it stated, "that this problem was one which imperatively demanded co-ordinated and concerted study." The Economic councils and research institutes recommend that meetings of representatives of such of these institutes and of any national or international organisation as are engaged upon work on the question and of individual experts should be convened at suitable intervals.

They add that "a qualified economist, together with an adequate staff of assistants, should be permanently attached to the Secretariat".

The Financial Committee endorses this recommendation.

8. BUDGET PROVISIONS.

The Committee has been informed by the Secretariat that there is no item of the budget of the Financial Section and Economic Intelligence Service on which there is any available balance not earmarked until the end of the year out of which to defray the expenses of enquiries such as may arise out of the requests made by certain Governments. It presumes that, if necessary, credits will be provided from some other item of the Secretariat Budget.

The Committee understands further, however, that the 1932 Budget, as at present submitted to the Assembly, contains no provision for anything beyond the normal work of the Committee. This Budget was drawn up in May of this year and was submitted to the Committee at its session. Since then, a very grave financial crisis has developed, affecting certain countries which have been reconstructed under the auspices of the League, which may throw additional work on the Committee. We must face the possibility of urgent and abnormal calls upon the Committee and consequent expense, the amount of which it is at the present stage impossible to forecast accurately.

In the present year, some of the Committee's work has already been affected on grounds of expense. An important report to the Committee from the adviser to a Central Bank was cut down. The printing of certain reports upon aspects of the gold problem and of the report on the co-operative enquiry in Bulgaria has had to be deferred. The Committee fully recognises the need for economy, and yields to none in its desire to encourage and to practise it to the utmost. Nevertheless, it desires to say that it will not be in a position adequately to discharge the very heavy responsibilities it bears as the financial adviser to the Council, and towards the Governments of countries which have been authorised by the Council to seek its assistance, unless adequate budgetary provision is made. It believes its work is regarded as of great international importance in the present crisis precisely on financial grounds.

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Appendix.

OPINION OF MEETING OF REPRESENTATIVES OF NATIONAL ECONOMIC COUNCILS AND RESEARCH INSTITUTES WITH REFERENCE TO THE STUDY OF THE RECURRENCE OF PERIODS OF ECONOMIC DEPRESSION.

The Economic and Financial Organisation of the League has asked for the opinion of the meeting on the questions raised in the following resolution of the eleventh Assembly:

"The Economic Organisation . . . should put itself in touch with the national organisations, whether consultative or planning councils or research institutes . . . and should . . . with their aid consider by what means the work now being conducted on the problem of recurrence of periods of economic depression may be co-ordinated."

The meeting, having heard the explanations of the Director of the Financial Section and having taken note of the commentary on this question in the report of the Second Commission¹ of the last Assembly, after an exchange of views between the various members, has reached agreement on the following considerations and proposals:

During the course of the whole of the last century, very serious economic depressions involving loss, unrest and suffering similar to that now being experienced as a result of the present depression recurred at frequent intervals.

One special feature of the sequence of events to-day, however, as contrasted with earlier times is that, whereas a number of pre-war depressions were confined to a relatively limited area, to-day their repercussions are felt throughout the world.

Hence the urgent necessity of a common study by the competent organisations and experts in each country of the means of diminishing the intensity of such depressions and of a concerted effort to limit their effects in future.

Indeed, the problem of the causes of the recurrence of periods of economic depressions is one which imperatively and urgently demands the attention of all who may be able to contribute to its solution. If the League were to endeavour to co-ordinate the work now being conducted by a number of national or international organisations and individual scientists, it might contribute in no small measure to the chances of useful results. A rapid solution of the problem is scarcely to be expected—indeed, it has never been possible to entertain such a hope. It is, however, for this very reason that it would appear necessary to take up at once the study in the manner suggested in the resolution of this last Assembly.

In recent years, a number of organisations have been founded with the object of studying the trade cycle, of interpreting the crude statistical data made available by Government bureaux and other organisations and of keeping the public informed of the developments which take place. Certain of these institutes have gone farther and have devoted a part or the whole of their time to endeavouring to elucidate the causes of these fluctuations in economic activity.

It is this work with reference to the analysis of causes which the Assembly clearly had in mind. Such work has been and is being conducted, not only by special organisations, but by independent researchers in many parts of the world. The work of private individuals is no less important than that of elaborately organised research. Indeed, the institutes which have devoted attention to this problem are confined to North America and Europe, and it is essential that the world problem should be studied on a world basis. The object is rather to co-ordinate research and possibly to inspire fresh lines of enquiry than to construct a new machinery.

It is natural that the private persons and national organisations should tend to study the question largely from the standpoint which is of particular interest to their own countries. It is therefore desirable that the world forces should be carefully watched and their character and inter-relations analysed.

¹ Extract from report:

When we consider the magnitude of the losses from which the world suffers during a period of economic stagnation similar to that through which the world is now passing, it is impossible not to be impressed by the almost absolute failure of society up to the present to devise any means by which such disasters may be averted. The Committee felt that this problem was one which imperatively demanded co-ordinated and concerted study, and recommends, therefore, in a separate resolution . . . that an endeavour should be made to study the causes of the recurrence of periods of prosperity and depression.

National investigations are already being conducted in certain countries. A number of research institutions have been founded in recent years to study this question, and a number of Governments have set up, in addition, central economic planning or advisory councils.

The Committee considers that the first step should be to ascertain, after consultation with the bodies just mentioned, by what means the work which is now being done may be co-ordinated and stimulated, to collate the results already reached, compare the experiences and researches of the various national institutions, and thus at once to promote the world study of what is essentially a world problem and to devise means by which countries may acquire a greater control over their economic destinies.

The Committee, however, desires to add that it is fully conscious of the difficulties and obscurities of this highly technical scientific problem. It is not putting forward this recommendation on the assumption that any ready-made solution is likely to be rapidly discovered. It felt, however, that the League would be failing in its obligations if it refused to face the problem on the grounds that it was intricate or difficult.

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The meeting puts forward the following suggestions for the organisation of this work:

The meeting considers that, in present circumstances, effect can best be given to the recommendation of the Assembly by requesting the Economic and Financial Organisation of the League to convene at suitably frequent intervals meetings of representatives of those national economic councils and research institutes and, in general, any national or international organisations that are engaged on the problem of the recurrence of periods of depression. To these meetings individual experts well known for their scientific work in this field should also be invited.

It would seem essential for the full success of these concerted studies that a qualified economist, together with an adequate staff of assistants, should be permanently attached to the Secretariat. This expert should undertake especially the scientific preparatory work for the meetings, and ensure continuity of effort and render the work of the meetings as effective as possible.

Official No. : A.55 (a).1931.II.A.
[F.960(a).]

Annex 1325 a.

WORK OF THE FINANCIAL COMMITTEE

SUPPLEMENTARY REPORT OF THE COMMITTEE SUBMITTED TO THE COUNCIL ON SEPTEMBER 19TH, 1931.

- I. BULGARIA.
II. SAAR GOVERNMENT LOAN.

I. BULGARIA.

1. Refugee Settlement.

The Committee received the twentieth report of the League of Nations Commissioner (Annex 1326), and heard a statement from him on the progress of the settlement work, which is almost completed. The last of the loan funds have been expended, and the work is at an end except for a few points which will have been dealt with by next spring.

2. Financial Situation.

M. René Charron, the League Commissioner, and M. Jean Watteau, Adviser to the Bulgarian National Bank, made various statements regarding the economic and financial position, which the Committee was able to examine with the assistance of the representatives of the Bulgarian Government: M. Al. Malinoff, Prime Minister and Minister for Foreign Affairs; Dr. Al. Ghirghinoff, Minister of Finance; and M. Boris Ivanoff, Secretary-General of the Ministry of Finance.

(a) *National Bank.* — Having examined the position of the National Bank, the Committee felt called upon to repeat the advice by following which, during 1930, the bank of issue was able to improve its position and hold out against the effects of the world crisis this year. The present situation still demands the greatest caution. The stability of the Bulgarian currency is not only one of the fundamental conditions for balancing the budget, but is also one of the foundations of all economic and commercial relations, and it is altogether in the interests of every Bulgarian citizen to accept measures to secure its maintenance.

(b) *Budget.* — The Financial Committee found that, at the close of the last financial year, there was a deficit of some 1,300 million leva on a total expenditure of 8,000 million, this being due to the big falling off in revenue. To meet this deficit, the Government was obliged to issue Treasury bonds for 600 millions in Bulgaria, and to take over temporary Treasury measures. It has not yet been possible to repay these Treasury debts.

The budget for the current financial year (1931-32) was based on an estimate of 7,900 millions; but it is to be feared that the revenue cannot reach such a level. The Bulgarian Government has stated that it is determined to balance the budget, and has already enforced certain restrictions

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of expenditure. It has recently discussed with the Committee what measures are still necessary to balance at a figure of 7,200 millions. The Minister of Finance hopes to succeed on the lines of the proposals detailed in the attached table.

The Committee has accepted the Bulgarian Government's undertaking to carry through this definitive plan, by which it thinks that this year's budget can be balanced. The Committee desires to add that the execution of the plan is a matter of extreme urgency.

The Committee has called the attention of the Minister of Finance to the fact that the success of these various measures would be endangered if any further expenditure should become necessary in consequence, for example, of the present law on pensions and of the losses which the present administration of the Cereals Buying and Export Department may cause. It is therefore necessary that the law on these two points should be very speedily amended.

Furthermore, even if the budget were completely balanced through the measures outlined above, the problem of Treasury elasticity would still remain. In order to facilitate Treasury operations during the current financial year, the Committee thinks it might be possible temporarily to postpone certain extraordinary debt repayments to the National Bank, provided that the budget plan is adopted by the Bulgarian Government, and according to the progress of its execution. The final solution of the problem demands, however, that revenue surpluses be found—during the present financial year, if possible, and, in any case, in time for the next financial year—to enable the temporary Treasury advances to be repaid. The Committee has asked the Minister of Finance to undertake definitely certain reforms which should lead to this result—namely, the final drafting and introduction of bills to reform the liquor tax, to codify the direct taxes and to re-organise the budgetary system and the public accounts, and the preparation of a bill introducing a turnover tax.

The Financial Committee is happy to state that the Bulgarian Government is determined to take the energetic steps that the situation demands, and it will continue to watch this action very closely. The Committee is convinced that, if this programme is promptly put into effect, Bulgaria will be able to overcome her present difficulties.

Appendix.

I. BUDGET 1931-32.

	Million leva
Expenditure voted (net)	7,900
Estimated revenue	7,900
Probable revenue	6,800
Probable deficit to be met before June 1932	1,100

II. ESTIMATED RESULTS OF THE MEASURES PROPOSED BY THE BULGARIAN GOVERNMENT IN ORDER TO BALANCE THE BUDGET FOR 1931-32.

	Million leva
Reduction of expenditure (at the same rate as in the first five months)	600
Seasonal and administrative improvement in taxation receipts . .	150
Additional contribution from the Pernik Mine	30
Repayments by certain funds	20
Improvement in railway returns	100
New taxes on national industry	60
Recovery of arrears through the Cereals Department	70
Direct recovery of budget arrears	70
Total	1,100

II. SAAR GOVERNMENT LOAN.

The Financial Committee has been informed of the proposal of the Governing Commission of the Saar Territory to raise a long-term loan of 150 million French francs. It is of opinion that the financial situation of the Saar Territory is sound and that the service of a long-term loan of 150 million francs should place no undue strain upon the finances of the Governing Commission.

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Moreover, the loan will be employed for the conversion of existing credits to local bodies, the service of which is already borne by the inhabitants of the Saar territory.

Having regard, however, to the uncertainty which may be felt in connection with the position after 1935, the Financial Committee suggests that, in order to assist the Government Commission in its negotiations, the Council should make the following declaration:

"The Council undertakes to include in the decisions which will have to be taken in conformity with paragraph 39 of the annex 'Saar' to the Treaty of Versailles, the necessary measures to protect the interests of the lenders."

Official No.: A.55(b).1931.II.A.
[F.960(b)].

Annex 1325 b.

WORK OF THE FINANCIAL COMMITTEE.

SECOND SUPPLEMENTARY REPORT SUBMITTED TO THE COUNCIL ON SEPTEMBER 25TH, 1931.

- I. AUSTRIA.
- II. HUNGARY.
- III. GENERAL.

I. AUSTRIA.

On August 7th, 1931, the Austrian Government addressed a letter to the Secretary-General of the League of Nations requesting the Council to proceed to an examination of Austria's economic and financial difficulties and to seek the means of remedying them. Thereupon, the Secretariat took immediate steps to ascertain the extent of the problem. On September 4th, the request of the Austrian Government was referred by the Council to the Financial Committee, which heard statements of the Deputy-Secretary-General, the Director of the Financial Section and M. Rost van Tonningen, who had in the meantime visited Vienna. The Financial Committee had, further, the benefit of direct information provided by the representatives of the Ministry of Finance regarding the federal finances and the State undertakings, and by the Adviser to the National Bank concerning the banking situation. The Committee also conferred with the Chancellor and the Minister of Finance, and considered with them the various measures by which the Austrian financial situation could be improved.

Apart from the common problem of the world depression which affects Austria as it affects all other countries, there is the special problem of the economic structure of Austria and her commercial relations. This question will require further careful attention later. But the problem demanding immediate solution, and for that solution immediate and urgent action, is a financial one.

While the present position of Austria presents special difficulties, the budgetary situation is fundamentally different from, and far better than, what it was in 1922. The budgetary difficulties, though they demand prompt and vigorous action, are not insuperable.

The turning-point in Austria's public finance was reached a year ago. Up to June 1930, receipts continued the upward progress which started in 1923 and which has often been considered as a proof of the recuperative power of the country since the stabilisation of the crown in 1922, while expenses have closely followed this upward trend of receipts; but, from 1924 onwards,

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there was a favourable margin between the increasing expenses and the growing receipts, as shown by the following table.

	Schillings (millions)							
	1924	1925	1926	1927	1928	1929	1930	1931
Ordinary receipts . . .	1,350.0	1,492.1	1,589.0	1,771.4	1,892.4	2,010.0	2,027.0	2,013.9
Ordinary expenditure . .	1,259.3	1,325.0	1,485.8	1,660.7	1,764.0	1,843.1	2,040.2	2,181.9
	+ 90.7	+167.1	+103.2	+110.7	+128.4	+166.9	-13.2	-168.0
Capital expenditure chiefly met from loans . .	103.7	90.6	135.6	195.7	212.5	147.2	248.4	105.5

As appears from these figures, the budget proper still showed a surplus of 166.9 millions in 1929. The 1930 budget was deficitary by 13 million schillings; the probable deficit in the current budget of 1931 will be 168 millions, including 100 millions for the Creditanstalt. This change was due to several factors. The fall in existing revenue due to the economic depression was only partly compensated by new taxation; expenditure did not decrease correspondingly but, particularly in respect of unemployment, substantially increased. Moreover, in view of the agricultural crisis, the Government embarked in the autumn of 1930 on a programme of agricultural subsidies, now largely discontinued, requiring an expenditure of nearly 100 million schillings. In these circumstances, the level of the budget requires to be reconsidered in relation to the decreased national income of Austria.

Apart from ordinary expenses, investments have made a considerable demand on the Treasury in recent years. Since the re-establishment of budgetary equilibrium in 1923, it has been the policy of the Austrian Government to provide the bulk of the funds required for covering capital expenditure of a productive character from loan operations. Up to the end of 1927, the balance of the proceeds of the Reconstruction Loan, which had been issued in 1923 under the auspices of the League, was used for this purpose. When they became exhausted, the issue, with the approval of the Committee of Guarantor States, of a new loan to yield 725 million schillings for covering a programme of productive investments, to extend over the period 1928-1932, was authorised in October 1927. Various technicalities connected with the priority of the lien to be attached to the loan over reparation payments and claims on account of relief credits delayed any issue until July 1930, when the issue of a part of the loan was made, the net yield of which was about 395 million schillings. Since that date, the investments of the railways and the postal administration have been continued in the hope that the further block of the investment loan amounting to 330 million schillings would shortly become available. The gradual deterioration of the capital markets in the winter of 1930-31 rendered impossible the issue of this second block. In consequence, the Austrian Treasury and the railways had, by the end of August 1931, paid sums derived from their cash reserve and from short-term borrowings to an amount of 140 million schillings for investment expenditure, a sum which existing commitments will increase to about 180 millions by the end of this year. The railways themselves have a short-term debt of 133½ millions in addition to that of the Treasury (250 millions).

As a consequence, no further cash reserves were available when, with the breakdown of the Creditanstalt, fresh calls were made on the Government. A hundred million schillings were raised on the domestic market by an issue of Treasury bills (75 millions) and other short-term operations. Finally, a collapse was averted by means of a seven days' advance of 150 million schillings from the Bank of England on June 16th last.

The difficulties of the Creditanstalt, by far the largest bank in Austria, are well known. In May last, this bank informed the Austrian Government that the balance-sheet for 1930 showed a loss of 140 million schillings. In order to avert a breakdown of the banking system, the Government found it necessary to make heavy contributions to assist the Creditanstalt. As the Treasury was short of cash, the Government applied to the Committee of Guarantor States in order to obtain its authorisation for an issue of Treasury bills to an amount of 150 million schillings, or, if necessary of 250 million schillings. The Government, however, did not succeed in making an issue, but, obtained the above-mentioned temporary advance of 150 million schillings from the Bank of England, and, furthermore, the National Bank obtained an advance from the Bank for International Settlements, both of which advances had the effect of strengthening the foreign exchange position of the National Bank, which had naturally been subjected to heavy demands. The Government finally undertook to guarantee all deposits, foreign or domestic, of the Creditanstalt. The foreign creditors, for their part, undertook not to withdraw their advances, amounting to approximately 500 million schillings, for a period of two years. The Government is therefore in this connection under considerable contingent liabilities, the cost of which cannot be determined until the value of the assets can be more clearly ascertained.

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The Committee need hardly emphasise the importance of determining, as soon as possible, the liabilities of the State to the Creditanstalt and of relieving the Government from direct connection with commercial banking.

In the beginning of May 1931, when the losses of the Creditanstalt were published, the Austrian National Bank was in a strong position. On May 7th it had a total cover of well over 80 per cent. Thanks to its own reserves and also to the foreign exchange obtained from the Bank of England and the Bank for International Settlements, the National Bank was able to meet the demands made upon it through the withdrawal of foreign credits and the flight of Austrian capital, while it put large sums in schillings at the disposal of the Creditanstalt. The appointment of a foreign adviser to the National Bank helped to increase confidence. At present the cover amounts to about 40 per cent;¹ withdrawals have gradually diminished and confidence is returning.

While, therefore, the position in general has been held, the Financial Committee consider it urgently necessary that it should be further consolidated, and they are glad that the Austrian Government have proposed drastic measures to cope with it. After a joint examination of the situation with the Financial Committee, the Chancellor made the following declaration:

"The Austrian Government is determined to restore the balance of the budget and to take all necessary measures to maintain Austrian currency and credit. Being convinced of the urgency of budgetary reform, the Austrian Government will, in the course of the current year, take measures to make a further reduction of at least 35 million schillings in the difference between the revenue and expenditure in the general administration of the State and the railways.

"By means of savings on salaries and pension charges and on material (Sachaufwand), the Government expenditure (on the present accounting basis) will be reduced to a maximum of 1,900 million schillings in the budget for the year 1932. In addition, 100 million schillings will be provided from revenue for the repayment of short-term obligations. In order to cover these requirements, revenue of at least 2,000 million schillings will be secured, after taking duly into account the reduction in existing revenue consequent upon the economic depression.

"In 1933, a similar sum of not less than 100 million schillings will be provided from revenue for the repayment of short-term obligations. The Government will take steps to ensure that the railway and postal administrations shall cover their own expenditure in 1932. This will be achieved by means of savings and, if necessary, by a raising of the freight rates, and by measures for the regulation of the competition between the railways and the motor transport lines. Capital expenditure will be reduced to the lowest possible amount, in no case exceeding the amount to be repaid to the railways on account of existing sums advanced by the railways, and no further commitments will be entered into.

"In view of the extreme importance of the financial situation of the railways for the finances of the State, a special expert enquiry will be made into the administration and policy of the railway system in collaboration with the League of Nations.

"With the same energy with which the Government is endeavouring to restore order in its administration, the provinces and communes are making efforts to balance their budgets. This will require special measures and, in particular, savings similar to those to be made in the State budget. To this end the Government will exercise their existing powers and, in the interest of the autonomous bodies, will come to an agreement with them as to such extension of the existing powers of control as may be necessary, particularly as regards borrowing.

"The Government will not intervene in the commercial management of the Creditanstalt, except for the purpose of safeguarding its interests, as guarantor, in existing assets, and will use its good offices to see that the National Bank receives current information as to the development of the Creditanstalt, and will, so far as it is concerned, favour a concentration

¹ Abstract from the weekly statements of the Austrian National Bank:

	May 7th, 1931	September 7th, 1931
	Schillings (millions).	
Gold	214	190
Foreign exchange included in the statutory reserve	136	145
Other foreign exchange	505	138
Bills discounted	70	620
Note circulation	905	1,028
Sight liabilities	119	165
Reserve percentage	37.7%	30.4%
Percentage of total published cover	83.5%	39.5%

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of the management of the Bank. In view of the responsibility assumed by the Government for the Creditanstalt, it will insist upon a reduction in administrative costs, a step which will also be needed in respect of other banks.

"The Government further intends to revise the general banking legislation, providing, *inter alia*, for the publication of monthly statements by the banks, the furnishing of the necessary information to the National Bank and the maintenance of a minimum liquid reserve at the National Bank. The Government would be glad to consult the Financial Committee in this connection.

"The Government will arrange with the National Bank to retain, for so long as the Financial Committee considers it necessary, the services of an adviser, who may furnish the Committee or its representative with any information regarding the National Bank which may be required.

"The Government regards the rigidity of the costs of production in many branches of trade and industry as one of the most important causes of the present economic difficulties, and it feels convinced that, in order to increase the economic capacity of Austria, employers, employees and workers, as well as the whole population, will adapt themselves to the changed situation. We are the more convinced of this since our population—owing to the hard experiences it has gone through—knows what the maintenance of financial stability and of the monetary system means for every individual.

"The Austrian Government would be very glad to establish collaboration with the Financial Committee, receive in Vienna a representative or representatives of the Committee, give all information that may be desired and elaborate in agreement the detailed execution of the plan of reforms."

It will be observed that the main features of this programme are:

- (a) The taking of immediate measures to reduce expenditure during the rest of this year by 35 million schillings and to balance the budget for 1932;¹
- (b) The provision of a substantial margin over ordinary current expenditure of not less than 100 million schillings in each of the years 1932 and 1933 for the repayment of short-term liabilities;
- (c) A considerable reduction of expenditure, the total of which has been brought down—as may be seen from the Annex—approximately to that of 1929, in spite of increased expenditure on certain items—such as unemployment and public debt, which will probably cost 130 millions more than in that year;
- (d) The re-establishment of equilibrium in the railways and in the post and telegraph administrations;
- (e) Measures to bring down expenditure in local administrations, as well as costs of production in economic life in general, so as to adapt it to the changed circumstances and to furnish a basis for economic reconstruction;
- (f) Measures to deal with banking and especially with the Creditanstalt.

The Austrian Government has expressed its desire to establish collaboration with the Financial Committee and to receive in Vienna a representative or representatives of the Committee. The Government will give to such representative or representatives all information that may be desired and elaborate in agreement the detailed execution of the above plan of reforms.

The Committee is of opinion that the plan contained in the declaration of the Austrian Chancellor should, if energetically carried out, put the Austrian budget on a sound basis, in better relation to the actual conditions in Austria, and materially assist in strengthening Austria's economic situation. The Committee would therefore ask the Council to authorise it to send a representative or representatives to Vienna and to give to the Austrian Government such assistance as may be within its power.

Finally, the Committee would draw attention to the fact that both the Austrian Government and the adviser to the National Bank have declared to it that, in order to meet the requirements of the Treasury and to protect the foreign exchange of the National Bank, it would be necessary to raise an amount of 250 million schillings by foreign credits. The Committee agrees with this view, and is of opinion that the raising of such credits is essential for the successful reconstruction of Austrian finance.

¹ The figure of 2,000 million schillings contained in the Austrian Chancellor's declaration for the revenue receipts during 1932 compares as follows with the revenue during the last and the present year:

Revenue during 1930: 2,027 million schillings. Revenue during 1931, on the basis of the results for the first seven months, including increased taxes already imposed by the Government, and a careful estimate for the remainder of the year, 2,013 million schillings.

The difference between the yield of the 1931 tax increases in a whole year and the yield in that part of the year 1931 during which they have been enforced, is estimated at 102 millions.

In addition, the Government contemplates the introduction of new taxes estimated to yield 40 millions. From the resulting figure of 2,155 millions, 155 millions is deducted for decreased yield as against 1931 in view of the economic depression.

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Appendix.

SUMMARY OF BUDGET ACCOUNTS.

The following table shows the estimates for the year 1932, compared with the closed accounts for 1928, 1929 and 1930, and the probable results of 1931:

	1928	1929	1930	1931	1932
	Closed accounts			Probable results	Estimates
In Schillings (000,000's omitted)					
I. Current Budget:					
A. Administration proper:					
Expenditure	1,244.7	1,300.4	1,461.6	1,640.5 ¹	
Receipts	1,180.2	1,265.3	1,284.0	1,265.4	
	- 64.5	- 35.1	- 177.6	- 375.1	
B. Monopolies:					
Expenditure	215.2	224.8	229.2	214.0	
Receipts	438.3	453.3	449.4	462.1	
	+ 223.1	+ 228.5	+ 220.2	+ 248.1	
C. Federal Undertaking:					
Expenditure	277.0	295.8	309.5	303.8	
Receipts	268.2	290.6	292.8	286.3	
	- 8.8	- 5.2	- 16.7	- 17.5	
D. Railways:					
Expenditure	27.1	22.1	39.9	23.6	
Receipts	5.7	.8	.8	.1	
	- 21.4	- 21.3	- 39.1	- 23.5	
Total current expenditure	1,764.0	1,843.1	2,040.2	2,181.9 ¹	
Investments to be covered out of current receipts	51.1	34.6	34.7	34.4	
Total expenditure	1,815.1	1,877.7	2,074.9	2,216.3 ¹	1,900
Total receipts	1,892.4	2,010.0	2,027.0	2,013.9	2,000
	+ 77.3	+ 132.3	- 47.9	- 202.4	+ 100
II. Investments (covered or to be covered by loan funds):					
Railways	88.2 ²	44.3 ²	151.8 ²	25.5 ²	
Post and Telegraph	73.2	68.3	61.9	45.6	
Total	161.4	112.6	213.7	71.1	

¹ Inclusive of an expenditure of 100 million schillings for the Creditanstalt.

² These figures represent the amount paid by the Treasury to the railways for investments. The amounts effectively spent by the railways were:

	1928	1929	1930	1931
Investments	84.7	100.4	87.1	72.1

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II. HUNGARY.

In a resolution of September 7th, 1931, the Council referred to the Financial Committee the request of the Hungarian Government "for an examination to be made into the financial situation of the country by means of an expert enquiry".

The Committee, in consultation with representatives of the Hungarian Government and of the Hungarian National Bank, have made a preliminary study of the situation.

From this preliminary study and the conversations which they have had, it would appear that the Hungarian Government has taken energetic measures in order to improve the budgetary position. The budgetary accounts for the financial year 1930-31 for administration proper and certain public undertakings closed with a deficit of 150.1 million pengő (117 millions on administration proper and 33.1 millions on State undertakings). The budget for 1931-32 was based on estimates for receipts higher than the results obtained in 1930-31. Soon after the beginning of the present budget year, it became clear that receipts would not correspond to these estimates. To promote rapid action Parliament has empowered the government to take, in consultation with a small parliamentary Committee, urgent measures and, in order to restore equilibrium, the Government proposes to reduce expenditure this year by 73.5 millions (Administration 36.8, State undertakings 36.7), and to increase revenue by 95.5 millions (Administration 82.7, State undertakings 12.8). A substantial beginning has therefore already been made.

There are, however, other aspects of the financial situation in Hungary which demand a more thorough consideration and enquiry than it is possible to give them in Geneva. Owing to the fact that the letter from the Hungarian Government referred to above was only received by the Secretary-General on September 5th, the Committee have not had the advantage of any preliminary investigation conducted on the spot, similar to that which had been carried out in Vienna.

For these reasons, the Committee consider that it would be advisable that an expert enquiry should, as is requested by the Hungarian Government, be conducted at once in Hungary, and, in accordance with the resolution adopted by the Council on September 12th, with reference to work of this character propose to send a delegation to conduct this enquiry.

It is possible that prompt action may be required to deal with the situation. For this reason the Financial Committee is anxious to obtain permission from the Council to take action, if necessary, between now and the next regular meeting of the Council, keeping the Council, of course, informed of any such action.

It desires, in particular, to be able to elaborate, with the Hungarian Government, a definite plan at an early date for the amelioration of the financial situation in Hungary. It also thinks that it may prove of great importance to the credit of the country if an early report can be published on the Hungarian financial position. It is anxious therefore that the Council should permit it to publish its report on this subject as soon as possible, should such a course prove desirable.

It may, for this reason, be necessary for the Committee to hold a special meeting before the end of the year.

III. GENERAL.

In concluding its present session, at which its task has included the consideration of the financial position of Austria, Hungary and Bulgaria, three of the countries with which the League has been closely connected in the past and towards which the League has moral and, in the case of the first two, in certain circumstances (which might arise) legal obligations, the Financial Committee think it their duty to call the earnest attention of the Council to certain considerations which, though relevant to these three countries, are also obviously of much more general application.

When the League undertook its various reconstruction schemes, the problems it had to face were in general as follows. Countries with budget deficits attempted to meet those deficits by monetary inflation, which caused prices to rise more rapidly than the public revenues could be increased. The rise in prices had caused an automatic reduction in the real burden of debt and in the real value of money wages. Enterprise had made fictitious paper profits; foreign debts were relatively small, and the flight from national currencies was local. The problem, therefore, was, in general terms, to stop monetary inflation, pending adjustment, to bridge the budgetary deficit by long-term loans, and by the combined effect of currency stabilisation and budget equilibrium to restore confidence. Long-term operations were possible because the cases to be dealt with were relatively isolated, and conditions in other parts of the world were such as to enable the necessary loans to be readily placed, once the conviction gained ground that the local budget and currency had been put in order.

The causes and circumstances of the present position are radically different. They are not local inflation with rising money prices, but, on the contrary, a fall of money prices in all parts of the world, with a consequent increase in the real value of money wages and in the burden of money debts, and decreases in the profit of enterprise again accentuating the financial burdens

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of the State. The Committee cannot therefore hide from itself, and does not wish to hide from the Council, that, necessary as undoubtedly are the individual methods of reconstruction which they have discussed with reference to particular countries, their success is closely dependent on the early solution of a general world price problem which did not exist in the earlier cases. This problem is not confined to Europe, it is equally pressing in the great primary producing countries of the world—in South America, Australia, India and in the United States of America—and has in its turn been accompanied by severe credit disturbance.

For such difficulties "stand still" arrangements, however necessary (as they undoubtedly are) as temporary measures, are no solution. Indeed, such measures in themselves only intensify the general contraction of enterprise and increase the prevailing uncertainty. They result in the accumulation of an amount of short-term debts which, while possibly in normal times presenting no insuperable problem, in present circumstances becomes increasingly disproportionate.

The report recently issued by the experts appointed by the London Conference who met at Basle emphasised the responsibility which rests upon the Governments of the world to take prompt measures to re-establish confidence, and urged most earnestly that they should "lose no time in taking the necessary measures for bringing about such conditions as will allow financial operations to bring . . . to the world sorely needed assistance".

The recent report to the Council of the Committee on Credit Problems repeated the same warning:

"Capital exists but it will not become fully available until confidence is gradually restored . . . Only by a visible improvement in political and economic conditions will it be possible to re-establish, along with the revival of confidence, a normal current of investments which, in its turn, will be a most beneficial factor in restoring prosperity."

The Financial Committee can only repeat and emphasise the conclusions arrived at independently by these two expert bodies, and urge the pressing necessity, in the interests of all countries, of immediate action.

Series of Publications: 1931.II.A.23.

Official No.: C.505.M.212.1931.II.A.
[F.938.]

Annex 1326.

SETTLEMENT OF BULGARIAN REFUGEES.

TWENTIETH REPORT OF THE COMMISSIONER OF THE LEAGUE OF NATIONS IN BULGARIA.¹

Quarter from May 15th, 1931, to August 15th, 1931.

A. Establishment of Bulgarian Refugees.

I. 1926 REFUGEE SETTLEMENT 7% LOAN.

Appendix I to the present report shows the position of the 1926 Refugee Settlement 7% Loan at July 31st, 1931, including the credit interest on the deposits in London and New York. The amount still available in foreign monies on deposit in the Bank of England at July 31st, 1931, was £50,546.

¹ For the nineteenth report, see *Official Journal*, January 1932.

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II. YIELD OF REVENUES ASSIGNED AS SECURITY.

The amounts paid into the account for revenues assigned as security for the 1926 7% Loan are shown below in leva:

Chapter of the budget	Receipts			Monthly budget estimates
	May	June	July	
Chapter 15 (Excise duty on alcohol, etc.)	4,262,974	5,692,363	5,925,521	5,000,000
Chapter 16 (Excise duty on salt, etc.)	26,513,494	24,230,975	23,040,075	29,166,666
Chapter 21 (Sale of matches)	8,613,000	8,082,000	9,038,000	9,583,333
Total	39,389,468	38,005,338	38,003,596	43,749,999

The receipts during the quarter amount to 115,398,402 leva, as against 131,357,398 leva and 137,241,300 leva for the corresponding quarters of 1930 and 1929. The depression is affecting the yield of the assigned revenues, which, for the first time, has fallen so far below that of previous financial periods. The service of the loan is still amply provided for, since during the last three months it has absorbed only 41,977,789 leva—i.e., 36 per cent of the sum available.

To the yield of the assigned revenues must be added the payments made by the refugees for the reimbursement of expenditure incurred in settling them. They amounted (in leva) to the following sums:

	May	June	July	Previous payments	Total payments up to July 31st, 1931
Interest	132,551	74,545	48,623	1,802,200	2,057,919
Amortisation	306,595	209,399	166,023	12,518,491	13,200,508
Total	439,146	283,944	214,646	14,320,691	15,258,427

Although the liabilities are appreciably increasing, payments by the refugees remain about the same, amounting, for the last three months, to 937,736 leva, as against 961,566 leva for the corresponding period of 1930. It would, in our opinion, be premature to conclude that the success of the work undertaken is still uncertain, or that the refugees desire to evade their obligations. It must not be forgotten that even comparatively old settlements created in 1927 cannot yet be regarded as going concerns, owing to the unfavourable general conditions obtaining during the last few years, and that, consequently, their yield has not yet reached a normal level. The 1928 and 1929 crops were bad, and in several districts were completely destroyed; in order to combat the famine, we were obliged to have wheat and maize distributed in several settlements which had been particularly hard hit. Though the last two harvests have been exceptionally good, the steady fall in prices has left very little profit for the producer.

Let us take, for instance, the case of the farmer with a family of four who is cultivating land of an area of 41.5 decars in the department of Bourgas (wheat district).¹ Assuming that the harvest is excellent and the stock-breeding conditions are favourable, the produce available will yield this year, according to the estimates of the Agricultural Bank of Bulgaria, a net profit of 6,755 leva, or about £10, as follows:

	Leva
725 kilos of wheat at 3 leva	2,175
Animals and animal products	4,580
Total	6,755

These results, modest though they are, cannot, in practice, be achieved by a refugee who is cultivating, with reduced live-stock, land which has been recently cleared, and who is not very well equipped. The above figures are really those for a long-established farm which is in full running order.

In any case, even if we admit the possibility of profits on the above scale, a refugee must obviously have the greatest difficulty this year in making the payments due in respect of the supplies allotted to him by means of the loan.

¹ We have purposely taken this typical example because the department of Bourgas has the largest settlements — 11,884 families, with average holdings of 41.43 decars.

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It should be noted that the Agricultural Bank has calculated the price of wheat on the basis of that actually charged by the "Directorate for the Purchase and Export of Cereals"—3 leva (basic price at the port of embarkation: 3.40 leva), without regard to the means of payment (30 per cent in tax bonds). At the time the report was submitted, the real price of wheat as charged by the producer fluctuated, at world parity, around 1.50 lev.

Article 57 of the law on the Settlement of Refugees provides that the land tax paid by the refugees during the period of redemption of their land must be paid into an account already opened with the National Bank and called "Land Redemption", the payments made to this account being, in application of the "general obligation", devoted to the supplementary amortisation of the loan. The Finance Minister has just given the necessary instructions for the enforcement of the provisions of this article.

III. EXECUTION OF THE SETTLEMENT PLAN.

Thanks to the steps taken by the General Directorate, the work of settlement is proceeding rapidly. At certain points, however, it cannot be completed before the winter, either because the undertakings have for some reason or other started too late, or because the work has been hampered by bad weather or even by malaria. We are of opinion, however, that, generally speaking, the work of the Directorate will be completed within a few months.

In the following chapters, we give, as usual, a summary of the results achieved up to July 31st, 1931.

(a) Various Supplies.

The following is a summary of the supplies distributed since the beginning of the work and entered as at July 31st, 1931:

		Leva
Seed:	11,932,421 kilogrammes	74,012,915
Live-stock:	22,106 head	157,840,608
Implements:	8,551 ploughs	63,431,817
	2,809 harrows	
	10,319 carts	
Fishing tackle		6,702,655
Copper sulphate		77,119
Total		302,065,114

The only supplies that remain to be allotted between now and the end of the work are intended for the refugees still to be settled in the neighbourhood of the Lower Karaboas Plain, on the land drained after the building of the dyke. There remain a few applications from other districts, but these can only be complied with if there are still credits available for this part of the settlement plan after the supplies for Karaboas have been allotted.

(b) Houses.

The following figures show the position as at July 31st, 1931.

	Houses		Barns		Stables	
	Finished	Contracted for	Finished	Contracted for	Finished	Contracted for
Built by private enterprise	6,857	1,508	4,762	1,247	5,825	1,134
Built on a monopoly basis by the General Directorate for the Settlement of Refugees	1,006	239	841	235	832	53
Built by the refugees themselves	563	89	392	50	474	66
Total	8,426	1,836	5,995	1,532	7,131	1,253
Figures as at April 30th, 1931	7,516	2,742	5,307	2,220	6,509	1,868

A comparison with the results at the end of the previous quarter shows that the building programme is progressing rapidly. However, as has already been stated, various undertakings will not be able to complete their contracts this year: 1,064 houses were to be built, 457 of which were ready on August 1st. Further progress will be made between now and the winter, and probably only a small number of houses will remain unfinished.

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Besides the buildings mentioned in the above table, the General Directorate is repairing 268 houses built in 1927 of mud bricks dried in the sun. Experience has shown that this method of construction is not satisfactory, and since 1928 all the houses have been built of baked bricks, in spite of the additional expense involved. We were of opinion that the refugees should be provided with houses which were really lasting and as comfortable as possible. The facts have entirely justified our view, as the mud-brick houses have suffered such damage that the General Directorate is obliged to rebuild them with baked brick, for which an appropriation of 8,000,000 leva has been provided.

(c) Distribution of Land.

The position at July 31st, 1931, has, according to the books of the General Directorate, remained unchanged since the beginning of the year; 1,032,270 decares had been allotted between 28,787 families, or an average of 35.86 decares per family.

Entries are only made in the books of the General Directorate in the case of land which can be handed over to the refugees as their property. The above figures do not, therefore, include land which, although occupied, is still the subject of disputes with the public administrations or communes. These disputes are, however, in course of settlement.

The work of surveying and parcelling out certain land to be allotted later is being continued. At Karaboas, for instance, numbers of allotments are available; but, as they are to be given to refugees who are at present in other parts of the kingdom, they will only be occupied as and when the houses are built. Similarly, the lands reclaimed from the Messemvria and Mandra marshes will not be distributed until the work of draining has been completed.

We expected to be able to settle about 32,000 families. According to the latest information, however, the figure will not exceed 30,500. Of 1,650 allotments (in round figures) scattered over the whole territory and prepared last year for distribution this summer to refugees already nominated, only 150 will be occupied. In view of the difficult position of Bulgarian agriculture, 1500 refugees have preferred to go to the towns and waive their claims under the settlement law.

The work of clearing and draining the land had, up to July 31st, 1931, entailed a total expenditure of 56,118,893 leva:

19,353,801 leva for the mechanical ploughing of 74,101 decares;
36,765,182 leva for the clearing of 78,384 decares.

(d) Supply of Drinking-Water.

Before the end of October, 127 villages, where 10,570 refugee families have been settled, will have been supplied with drinking-water. The outlay for this will approximately reach the total credits provided for this part of the settlement plan—i.e., 28,800,000 leva.

The General Directorate for the Settlement of Refugees has received fresh applications for a water-supply from 82 villages (7,129 families). It has had the preliminary survey made in a certain number of villages, but, owing to lack of funds, will be unable to carry out the necessary work. It is highly desirable that the Bulgarian Government should make every effort to meet the most urgent requirements in this respect, as the lack of a proper water-supply in the villages constitutes a serious obstacle to the development of the new settlements.

(e) Draining of Marshes.

1. *Lower Karaboas Plain.*—The supplementary work on the big dyke at Gihigen (completed last year), which was entrusted to the Directorate of Compulsory Labour, is proceeding satisfactorily and will be completed within a few weeks.

2. *The Straldja, Messemvria and Mandra Marshes.*—Frequent storms have interfered with the work. At Messemvria and Mandra, malaria is raging, affecting up to 30 per cent of the workers; the output of work in these two undertakings has consequently been less than was estimated. We hope that it will be possible to complete the draining of the Messemvria marsh before the winter, though it is unlikely that the draining of the Mandra marsh will be finished. As for the Straldja marsh, the work will be completed this autumn unless anything unforeseen occurs.

(f) Means of Communication.

The credit earmarked for the construction of the Rakowska-Mastanla railway line—i.e., 300,000,000 leva—having been expended without the line being completed, the Bulgarian Government decided, as stated in a previous report, that the completion of this work should be borne by the budget of the railways, under the supervision of the General Directorate, which has up to the present been granted credits amounting to 23,000,000 leva. The work is proceeding normally, and it is expected that the line will be open for traffic before the winter.

The roads built with the proceeds of the loan are finished or will be finished shortly.

Individual Files of the Refugees.

With the exception of the notarial act, 5,640 files are ready for the constitution of the mortgage on the land and houses as security for the execution of the repayment contracts.

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These notarial acts have not yet been issued, owing to the need of supplementing, by legislation, certain points in the law on the settlement of refugees. This law merely stipulates in its Article 50, as regards repayments in respect of the land, that "the time-limit for amortisation shall be fixed later, and shall not exceed that of the redemption of the loan". The year after the signature of the contract, as from which this time-limit is to begin to run, as well as the latter's duration, now remain to be fixed. Moreover, it is necessary to determine what constitutes the "contract" between the State and the refugee—whether the protocol by which the property is handed over to the refugee, signed by him and by a representative of the Agricultural Bank on behalf of the State, or the notarial act itself. The question is of importance for the calculation of the interest, which, under the terms of the law, begins to run two years after the signing of the contract, as usually a fairly long period elapses between the taking-over of the property and the issue of the notarial act.

B. 7½% Stabilisation Loan of 1928.

I. POSITION OF LOAN.

The position of the loan at July 31st, 1931, is shown in Appendix II to this report. The foreign exchange still available deposited in London and New York on that date amounted to £51,443.

II. YIELD OF THE ASSIGNED REVENUES.

The revenues assigned for the service of the 7½% 1928 Loan (Customs Revenues) amounted, during May, June and July 1931, to the following sums (in leva):

May	June	July	Monthly budget estimates
76,847,032	78,767,623	74,088,288	81,250,000

Imports for the last three months have considerably increased as compared with the preceding quarter: 83,225 tons as against 60,983 tons. The Customs revenues have, however, remained about the same: 229,702,943 as against 227,808,530 leva. Industry has now exhausted the stocks of raw materials constituted in 1929, and has been obliged to import considerable quantities in order to be able to supply the needs of the home market, which have increased owing to the seasonal revival of trade. This increase in imports has not, however, had any effect on Customs receipts, as raw materials and industrial equipment are admitted free of duty, in accordance with the law relating to the protection of industry.¹

The yield of the assigned revenues has improved as compared with last year. The receipts for the first four months of the financial year amounted to 310,770,259 leva, as against 216,556,476 leva for the same period of the financial year 1930-31. It is therefore to be expected, as we stated in the previous report, that the Customs receipts for the current financial year will come up to the budget estimates.

The service of the loan for the last three months absorbed 74,359,300 leva, or about one-third only of the available funds.

III. EMPLOYMENT OF THE LOAN.

I. £1,250,000 Sterling Block for Means of Communication.

(a) Railways and Harbours.

The following figures sum up the position at July 31st, 1931, of the expenditure for the execution of the Regnoul programme to be met from the credit of 672,300,000 leva appropriated for railways and harbours.

	Figures at April 30th, 1931 (In leva)	
Expenditure already authorised	672,300,000	670,000,000
Contracts concluded	535,759,342	535,759,342
Value of work undertaken on a monopoly basis	110,000,000	103,000,000
Sums actually expended	601,684,193	539,476,727

¹ According to information communicated by the Customs Department, 40 per cent of the 1930 imports consisted of goods needed for industry.

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The programme is not difficult of execution, and it is estimated that the credits unexpended at the end of this year will amount to about 15 million leva.

(b) Roads.

The following figures summarise the position at July 31st, 1931, with regard to the expenditure for the improvement of the road system in execution of the Regnoul programme, to be met from the credit of 176,966,179 leva earmarked for the purpose.

	Figures at April 30th, 1931 (In leva)	
Expenditure already authorised	190,239,300	189,639,300
Contracts concluded	132,937,758	128,723,358
Work undertaken by the Directorate of Compulsory Labour	30,770,000	30,770,000
Sums actually expended	113,216,160	93,398,593

The expenditure already authorised, which was calculated on the basis of the estimates in the terms of contract, seems to exceed the credit of 176,966,179 leva; but, owing to the economies effected in awarding the contracts, the expenditure does not, in fact, exceed the credit.

In our last report we expressed the hope that the work would be completed this year. In the light of the latest information in its possession, the Administration of Roads and Bridges estimates the cost of the work remaining to be done after January 1st, 1932, at 23,000,000 leva. But, judging from the experience of previous years, we are inclined to think that this figure will be considerably exceeded. Finally, we are sorry to say that, in spite of the urgent recommendations of the Commission, to which we have frequently referred in previous reports, some of the work is being carried out in a way which, technically, still seems to leave much to be desired.

(c) Execution of the Regnoul Programme.

The following table shows the position at July 31st, 1931, as regards the execution of the Regnoul programme:

	Estimates	Expenditure
(a) Railways and harbours:		(In leva)
1. Upkeep of railways and engineering works, reconditioning of rolling-stock	239,233,000	216,653,547
2. Improvements, enlargements, purchase of rolling-stock, supplies, etc.	329,255,000	289,126,563
3. Construction of new lines	72,312,000	72,283,521
Total for railways	640,800,000	578,063,631
4. Essential supplies, enlargements and improvements for harbours	31,500,000	23,620,562
Total for railways and harbours	672,300,000	601,684,193
(b) Roads and bridges:		
1. Road construction	55,000,000	28,706,845
2. Road repairs	49,966,179	38,993,997
3. Construction and repair of bridges	72,000,000	43,837,038
4. Material (expenditure not included in the Regnoul programme)	—	1,678,280
Total for roads	176,966,179	113,216,160
General total	842,266,179	714,900,353

The sums actually expended as at April 30th, 1931, amounted to 632,875,320 leva in all. The credit allotted to roads was, according to the Regnoul programme, fixed at 172,700,000 leva. In order to meet requirements, this credit was increased to 176,966,179 leva by transferring the available balance from the block of £1,100,000 (reimbursement of budget arrears). This supplementary credit has been allocated to road repairs.

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2. £500,000 Sterling Block for the Reconstruction of Devastated Areas.

(Article VII A of the Protocol.)

The £500,000 sterling block for the reconstruction of devastated areas has been expended in full, and the following figures (in leva) are final:

	Expenditure already authorised	Expenditure incurred in respect of contracts concluded	Sums actually expended
Government buildings	282,249,100	250,510,616	258,237,648
Roads and bridges	50,207,000	43,578,020	48,272,243
Railways	7,375,000	6,342,850	6,065,842
Water-supply	10,421,000	9,694,262	6,385,036
Correction of river-beds	12,700,000	12,345,500	12,667,805
Overhead expenses	9,000,000	9,000,000	4,371,426
Total	371,952,100	331,471,248	336,000,000
Figures at the end of the previous quarter	371,952,100	328,320,748	333,644,535

The expenditure authorised exceeds the value in leva of the £500,000 sterling block (336 millions) for the reason given above in connection with the expenditure on roads.

As for the sums actually expended, these exceed the commitments in certain cases, owing to the execution of additional work not contemplated when the terms of contract were fixed.

The final accounts showed that there were no more credits available, and that there remained 1,628,574 leva of uncovered expenditure. The Directorate for the relief of the victims of the disaster covered this expenditure out of other funds at its disposal, and debited these funds with 1,628,574 leva for overhead expenditure formerly covered by the £500,000 sterling block. The total amount under the head of overhead expenditure was thus reduced from 6,000,000 leva—the figure given in the last report—to 4,371,426 leva.

Now that the co-operation between the Commission and the Directorate for Relief¹ is coming to an end, we desire to pay tribute to the activity, initiative and devotion shown by the head of this service and his staff in the accomplishment of the difficult task with which they were entrusted.

In less than three years, a total sum of 876 million leva was expended in accordance with a carefully prepared scheme, which was consistently carried out in spite of difficulties of all kinds. A visit to the localities which suffered from the earthquakes of April 1928 will show that the work done has not only removed all trace of the damage, but has actually increased the potential resources of the region, which is one of the richest in the kingdom, so that the execution of the reconstruction scheme has judiciously helped to strengthen the country economically.

The following are the principal results obtained by means of the utilisation of the £500,000 sterling block:

Hospitals. — In the five big towns in the devastated area, hospitals have been set up, containing 1,500 beds in all, equipped with the necessary material and furnished with the most modern appliances.

Schools. — The largest school of agriculture in Bulgaria has been entirely rebuilt and eighty-two State or municipal schools have been rebuilt or restored.

Churches. — Thirty-five new churches; twenty-seven churches restored.

Town halls. — Twelve new town halls.

Roads and bridges. — Forty kilometres of roads and various engineering works have been repaired. Three large bridges have been built over the Maritza.

Water-supply. — The canals at Plovdiv have been entirely reconstructed, and twenty-one villages have been supplied with drinking-water.

Correction of river-beds and draining work. — In order to put an end to the floods resulting from the subsidence of the soil in the neighbourhood of the epicentres of the earthquakes, the Maritza and various other watercourses have been regularised.

Marshes which had formed and become foci of malaria have been drained.

¹ An autonomous organisation set up in 1928, whose statutes are similar to those of the Directorate for the Settlement of Refugees. It is managed by the engineer, M. Stoyanoff.

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IV. BUDGET.

The accounts for the financial year 1930-31 were finally closed on June 30th, 1931. The results published by the Ministry of Finance are as follows:

RECEIPTS.
(In leva.)

1. Ordinary Budget and Incorporated Funds.

	Financial year 1930-31	Comparison with	
		The results of the financial year 1929-30	Budget estimates
Direct taxes	602,781,993	— 22,331,530	— 352,218,007 — 36%
Indirect taxes	2,175,734,034	— 631,682,726	— 555,265,066 — 25%
Duties	655,966,320	— 147,204,492	— 103,033,680 — 13%
Fines and confiscations	69,302,698	— 16,644,210	— 19,697,302 — 22%
Railways and harbours	125,015,000	— 14,985,000	— 835,000 — 0.6%
Posts, Telegraphs and Tele-phones	283,567,329	— 10,431,271	— 22,432,671 — 8%
State domain and capital	388,316,909	+ 26,282,938	— 141,683,091 — 27%
Contributions of the communes towards teachers' salaries	435,710,293	— 79,493,294	— 49,289,707 — 10%
Miscellaneous revenue	477,800,398	— 138,666,575	— 328,229,602 — 40%
Revenue from closed financial years	365,318,991	— 40,625,330	+ 139,318,991 + 61%
Total	5,579,513,965	— 1,075,841,490	— 1,433,366,035 — 20%

Thus the deficits in the ordinary budget amount to 20 per cent of the estimates and 16 per cent of the results of the previous financial year. The chapters most seriously affected are those on direct taxes, Appendix III of which gives the details of the position of collection, of indirect taxes, of domains and capital, and of miscellaneous revenues, which includes the receipts from the incorporated funds.

2. Railways and Harbours.

Financial year 1930-31	Comparison with	
	The results of the financial year 1929-30	Budget estimates
1,160,266,467	— 97,759,406 (— 8.4%)	— 331,906,083 = 22%

The total receipts for the financial year thus amount to 6,739,780,432 leva, which is considerably exceeded by the expenditure.

EXPENDITURE.
(In leva.)

	Financial year 1930-31	Comparison with	
		Expenditure covered during the financial year 1929-30	Budget estimates
Ordinary budget and incorporated funds	6,364,704,653		
Extraordinary budgets for the previous financial years	8,669,382		
Supplementary war credits	162,090,137		
Provisional receipts, relating to the current account of the Public Debt and to the service of the refugees and stabilisation loans	156,416,858		
Payments not yet entered	158,559,165		
Total	6,850,440,195	— 28,132,216	— 148,452,865
Railways and harbours	1,255,545,922	+ 105,371,856	— 49,656,159
General total	8,105,986,117		

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As regards the general budget, the reduction in expenditure is thus only about 0.4 per cent as compared with the preceding financial year, and 2.1 per cent compared with the budget appropriation. As regards the railways and harbours budget, there is an increase in expenditure of about 9 per cent over the previous financial year, though it was still slightly below the appropriation. In view of the falling off in the receipts, there is, nevertheless, a deficit of 95,279,455 leva—76,091,143 in respect of railways and 19,188,312 of harbours. In accordance with the Constitutional Law, the last item is entered under expenditure in the State budget; whereas the former, which is provisionally covered by the Treasury, will be reimbursed by agreement between the Ministers concerned.

These comparisons are, however, based solely on the figures for expenditure which has actually been effected. When examining the warrants held over at June 30th, 1931, it will be seen that the portion belonging to the financial year 1930-31, which had been passed on that date, amounted the day before to about 300 millions, only 200 millions of which had been paid; while the portion belonging to the financial year 1931-32 rose between that day and the next from 266 millions to 694 millions. A number of warrants held over amounting to about 100 millions were thus, owing to the impossibility of effecting a settlement, carried forward from one financial year to another.

	Leva
The total receipts	6,739,780,432
set off against expenditure	8,105,986,117
show a budget deficit of	1,366,205,685

which was covered as follows:

	Leva	Leva
By issue of Treasury Bonds to a net total of	596,500,000	
By the reincorporation of the available assets of certain "funds"	60,000,000	
Calls on profits from seigniorage	274,087,035	
Extra-budgetary receipts	19,242,240	
Utilisation of provisional surpluses of the new financial year	445,421,024	
	1,395,250,299	1,395,250,299
Producing a surplus of		29,044,614

which corresponds exactly to the credit balance of the Public Treasury account at the National Bank at June 30th, 1931.

In these circumstances, the net budget deficit for the financial year, taking into account the reincorporation of the available assets of special "funds", extra-budgetary receipts and the difference between the net proceeds of the issues and the Treasury Bond debt, amounted to 1,366,205,685 — (60,000,000 + 19,242,240) + 3,500,000 = 1,290,463,445 leva.

The results of the first three months of the financial year 1931-32 should be added to the above figures to give an exact idea of the position of the Treasury.

<i>Receipts.</i>		
(In leva.)		
Ordinary budget and incorporated funds	1,409,870,079	
Railways and harbours	292,077,674	
Total		1,701,947,753
<i>Expenditure.</i>		
(In leva.)		
Ordinary budget and incorporated funds	540,244,496	
Railways and harbours	97,024,391	
Extraordinary budgets for the previous financial years and supplementary credits voted during the war	8,441,885	
Provisional receipts, current account of the Public Debt, etc.	611,684,634	
Total		1,257,395,406
Difference		444,552,347
To which add extra-budgetary receipts		868,677
Provisional surplus		445,421,024

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The Treasury position as at June 30th, 1931, was thus as follows:

<i>Assets.</i>	Leva	<i>Liabilities.</i>	Leva
Total receipts for the two financial years	8,441,728,185	Total expenditure	9,363,381,523
Net proceeds of Treasury Bonds issued	596,500,000	Credit balance of the Treasury account	29,044,614
Calls upon profits from seigniorage	274,087,035		
Calling in of certain funds and extra-budgetary receipts	80,110,917		
	9,392,426,137		9,392,426,137

The actual position is thus as follows:

Credit balance of the Treasury account	29,044,614	Orders for payment held over	693,992,000
Total deficit	—1,539,034,421	Treasury Bond debt	600,000,000
		Seigniorage debt	274,087,035
	1,568,079,035		1,568,179,035

Thus, whereas the financial year 1929-30 closed on June 30th, 1930, with a surplus of 38,967,000 leva, leaving to be carried forward to the following budget a balance which, together with previous balances, amounted to 195,797,000, the budget for 1930-31 closed with a deficit of 1,300 millions, and leaves a legacy of a number of warrants held over amounting to about 100 million leva.

As regards the 1931-32 budget, it starts with a heavy burden and in most unfavourable circumstances. In the absence of issues of Treasury Bonds, recourse can only be had, to ease the position, to calls on profits from seigniorage, which may amount during the financial year to 500 millions, but will, together with the amounts outstanding from former financial years, make up a deficit of nearly 800 millions falling due on June 30th, 1932. This course must therefore be regarded as dangerous.

The situation has thus become steadily worse since June 1930, when the 1930-31 budget really came into force. The reasons for this are complicated, but are mainly connected with the world economic depression, which has had the effect of bringing down the prices of agricultural products, while restricting their markets. At the same time, and for various reasons, the amount of direct taxes collected fell considerably, while there was no reduction in public expenditure.

In view of the absence of any signs of economic revival, immediate and energetic action by the Government in the direction of a further reduction in expenditure and a better utilisation of receipts must be regarded as indispensable. It is the more necessary in view of the additional burdens which the work of the Directorate for the Purchase and Export of Cereals is likely to place upon the new budget.

This Directorate, whose constitutional law was discussed in our eighteenth report,¹ began to operate on February 2nd, 1931. On June 30th following, the date on which it was originally intended to be discontinued, it had practically ceased its operations, and, according to its provisional statistics, had made about 160 millions of profits in cash covering 482 million tax bonds² and representing a reduction of 67 per cent of the total nominal amounts collected and of about 11 per cent of the total amount of the taxes which may be paid in this manner.

Conditions changed radically after July 1931, when the Directorate, whose term of office was provisionally extended until October 31st, 1931 — pending a further inevitable extension — began its operations on the new harvest.

The Directorate first of all issued a new regulation: that henceforth 70 per cent of the purchase price of all cereals should be paid in cash and 30 per cent in bonds. These bonds would be purchased at par, and on each purchase the Bank would retain the amount of its claims on the seller.

The Bank would see to it that bonds thus acquired were circulated in the country and would sell them at par, but a bonus of one-sixth was to be accorded when they were presented in payment of taxes.

The State debt constituted by unsold bonds remaining in the hands of the Agricultural Bank after their validity had expired was to be set off against certain State claims against the Bank.

¹ See document C.238.M.104.1931.II A. Appendix V.

² At the end of July, about 390 millions of these bonds had been returned to the revenue offices.

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It was hoped that this system would put an end to the traffic in tax bonds and to the speculation to which it gave rise. The position was, however, somewhat precarious in view of the excessive prices fixed for purchases and the difficulty of obtaining good prices on the home market for a large part of the stocks acquired.

These fears were fully confirmed when, in the last few days of July, a considerable fall in world prices set in. The Government then decided to reduce the purchase prices accorded by the Directorate, and at the same time to put into force certain measures for the control and maintenance of the prices fixed for the home market. It is earnestly to be hoped that the working of this system will not involve actual losses for the Treasury in addition to the reductions accorded; but, if this is to be avoided, there must be fresh improvements, and purchase prices must be fixed which are at once more moderate and more readily adaptable to the fluctuations of the world parities.

V. NATIONAL BANK.

Appendix IV to the present report shows the position of the National Bank at the end of each of the three months under review.

After the slight seasonal revival mentioned in our previous report, the country found itself, towards the end of the first quarter of 1931, at grips with grave economic difficulties, due to the depression from which certain Central European countries are suffering and to the considerable fall in prices of agricultural products.

Without departing from the provisions of its Statutes, the National Bank has applied all the remedies at its disposal. A considerable increase in its commercial bill holdings (from 265 millions at the end of April to 394 millions on July 31st) represents rapid and effective rediscounting facilities accorded to a certain bank which had been temporarily affected by the—in fact, unjustified—repercussions of events abroad. Moreover, the Bank, by lowering the official discount rate by half a point as from June 4th, continued to encourage the reduction in the cost of money noted since the end of last year. The private discount rate thus varies between 9.5 and 12 per cent, and the rate of interest on deposits has been further reduced, and is now 5 to 6.5 per cent for the big banks and 7 to 7.5 per cent—in some cases 8 per cent—for the other institutions. Towards the end of the half-year the big private banks were unable to utilise their funds to the full, and showed a tendency not to increase the amount of their deposits and to confine themselves to investments offering special security. This policy ensures for the banks a high degree of liquidity, which was reflected on July 31st by the record figure of 1,006 millions in credit accounts with the Bank of Issue.

The harvest has turned out excellently, and the volume and quality are those of an exceptional year. Marketing difficulties have, however, unfortunately increased, and the prices of wheat have absolutely collapsed. Moreover, sales of tobacco have been uncertain and the prices obtained unsatisfactory.

All these factors have affected the Bank's stock of foreign exchange, which, after a period of relative stability—568 millions at the end of February, 534 millions at the end of May and 514 millions at the end of June—fell considerably in July—i.e., to 338 millions at July 31st. This fall, which affected foreign exchange not coming up to the standard of gold foreign exchange as laid down in the Statutes, has not yet affected the cover, which, on July 31st, exceeded the legal minimum by 3.61. It is to be feared, however, that this seasonal deficit will persist beyond the usual period.

The other principal items of the Bank's balance-sheet show but slight variations during this period. The Treasury bonds subscribed or rediscounted alone increased from 183,800,000 leva on April 30th to 243,800,000 leva on July 31st, the Bank having been obliged to allow certain "Funds" to "mobilise" in this way the advances which they had made to the Treasury.

Advances against pledged goods are being gradually liquidated and have fallen from 96 to 92 millions, "investments" remaining unchanged at 323 millions as against 321 millions. The following table shows the variations which affected the distribution of the bill holdings and of advances from December 31st, 1930, to March 31st and June 30th, 1931:

	31.XII.30 %	31.III.31 %	30.VI.31 %
Banks	50.13	43.07	46.33
Commerce	19.74	23.65	22.47
Industry	23.68	24.94	22.95
Miscellaneous	6.45	8.34	8.25

The examination of the bill holdings, not including advances, shows a bank re-discount percentage of about 74 per cent on June 30th.

As stated in our previous report, the total order of 250 million leva of copper-nickel divisional coins has been put into circulation, thus leaving the State a profit on seigniorage of 212,426,751, 128,087,035 leva of which has been made provisionally available for the Treasury.

Since then, the first batch of 20- and 50-leva silver token coins delivered has been put into circulation, thus making 248 millions available for the Treasury.

The total advances thus accorded or still to be accorded must be redeemed by June 30th, 1932, at the latest.

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VI. STATISTICS AND ECONOMIC DATA (SUPPLIED BY THE NATIONAL BANK).

A. Foreign Trade.

	1928	1929	1930	1930	1931
	For the whole year			For 7 months	
	(In thousands of leva)				
Imports	7,192,372	8,162,017	4,605,096	2,623,718	2,861,143
Exports	6,379,413	6,097,356	5,927,800	3,487,927	3,443,507
Balance	- 812,959	- 2,064,661	+ 1,322,704	+ 864,209	+ 582,364

The imports during the first seven months of 1931 show an increase of 237 millions in value and a decrease of 17,000 tons in volume, which seems to be due to the necessity of renewing certain stocks of relatively high-priced goods, raw materials or equipment, the purchase of which had been postponed as long as possible. This increase was mainly in respect of textiles—wool, cotton, and woollen and cotton goods—machinery and apparatus, metals and metal goods, vegetable oils and chemical products.

	Quantities			
	Exported during the first seven months of		Imported during the first seven months of	
	1930	1931	1930	1931
Weight (tons)	222,059	401,270	175,396	158,842

The value of the exports remained approximately the same, while their volume was nearly doubled. This increase relates mainly to cereals, 120,000 to 294,000 tons; eggs, 14,200 as against 11,200 tons; poultry, 1,300 as against 780 tons; flour, 7,000 tons as against a negligible quantity in 1930.

Generally speaking, the trade balance of the kingdom was favourable for the first seven months of 1930, with a surplus of 582,364,610 leva—though much less than the surplus for the corresponding period of 1930, which was 864,209,772. As from June 1931, and for the first time for a year and a half, there were unfavourable trade balances due to the fall in prices of agricultural products and to the restrictions imposed by circumstances on certain markets which were formerly largely open to Bulgarian exports.

B. Agricultural Statistics.

(a) Yield of the Cereal Crop.

The following figures are provisional and were compiled on the basis of information received in June and July. It appears likely that the yield—especially in the case of maize—will exceed the figures indicated.

	Area in hectares	Output (thousands of quintals)	Output in 1930 (thousands of quintals)	Differences in 1930 as compared with 1931
Wheat	1,161,510	15,278	15,075	- 203
Maize	696,507	10,140	8,268	- 1,872
Rye	254,935	3,277	3,124	- 153
Meslin	101,168	1,346	1,176	- 170
Barley	267,138	4,324	4,081	- 243
Oats	133,447	1,427	1,133	- 294
Total	2,114,705	35,792	32,857	- 2,935

(b) Value of the Crops (plants used in industry not included).

The following table relates to the crops of the last three years, compared with the average crop for 1908 to 1912.

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This year, in spite of the highly favourable prospects with regard to yield, we may expect a fresh fall in the value of the crop, as a result of the constant fall in the prices of agricultural produce and in particular of the collapse in the price of wheat.

Years	Total crop		Value per quintal		Value of the total crop (not including seeds)		Value of the crops (not including seeds) per head of population	
	Thousands of quintals	Index No.	Gold leva	Index No.	Millions of gold leva	Index No.	Gold leva	No. Index
Average 1908-1912 . . .	24,871	100	15.35	100	319	100	74.15	100
1928	26,230	105	21.95	142	495	155	87.72	118
1929	25,154	101	18.00	117	365	114	63.45	85
1930	35,112	141	9.24	60	287	89	48.82	65

C. Wholesale Price-Index Number.

(1914 = 100)

1924	2,688			
1925	3,052			
1926	2,781			
1927	2,819			
1928	3,072			
1929	3,205			
1930	2,585			
1930				
January	3,107		January	2,193
April	2,721		February	2,132
July	2,467		March	2,108
October	2,373		April	2,085
			May	2,088
			June	2,044

D. Protested Bills.

	1928		1929	
	Number	Leva	Number	Leva
January	15,337	111,819,097	13,719	113,192,033
February	14,556	105,712,466	11,239	90,167,775
March	14,643	100,975,598	12,641	99,433,785
April	13,793	91,814,860	14,861	106,500,813
May	15,768	104,133,666	19,061	140,342,206
June	13,369	93,751,200	15,331	125,199,218
July	17,187	120,740,468	21,920	152,871,240
August	21,594	147,817,253	23,554	158,630,065
September	22,572	143,495,746	29,152	199,743,521
October	21,271	151,537,079	30,299	289,989,065
November	15,158	139,428,506	26,993	305,809,887
December	14,351	120,668,902	28,758	341,535,527
Total	199,599	1,431,894,841	247,528	2,123,415,135
1930				
January	27,159	298,291,560	17,776	142,594,226
February	23,730	266,386,266	14,808	117,195,528
March	29,648	296,295,032	16,805	158,598,004
April	32,599	298,299,075	17,195	116,091,112
May	32,375	286,894,789	18,023	133,321,715
June	20,549	181,697,662	14,738	118,734,142
July	25,003	206,305,900	—	—
August	30,005	212,352,860	—	—
September	47,301	296,804,926	—	—
October	37,535	252,506,114	—	—
November	25,795	237,729,941	—	—
December	22,576	174,645,492	—	—
Total	354,185	3,008,309,617	—	—

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E. Bankruptcies and Moratoria in Bulgaria.

Bankruptcies.

	Commerce	Industry	Artisans	Banks	Total
1920	7	2	—	—	9
1921	12	4	—	—	16
1922	15	3	—	—	18
1923	24	3	—	1	28
1924	51	7	—	2	60
1925	52	5	—	2	59
1926	100	12	—	1	113
1927	93	23	—	3	119
1928	82	9	2	2	95
1929	85	18	4	—	107
1930	183	21	14	6	224
1931 ¹	104	20	6	3	133

Moratoria.

1926	67	23	—	—	90
1927	85	16	—	—	101
1928	48	9	1	—	58
1929	80	22	2	—	104
1930	297	52	40	6	395
1931 ¹	51	10	5	2	68

Appendix I.

SETTLEMENT OF THE SPECIAL ACCOUNT OF THE 7% REFUGEE SETTLEMENT LOAN OF 1926 AS AT JULY 31ST, 1931.

	Sterling block	Dollar block	Yield in leva
(a) Nominal amount:			
£2,400,000			
\$4,500,000			
(b) Net amount	£ 2,112,000	s. d. 0 0	\$ 3,915,000.—
(c) Deduct:			
Redemption of 1912 to 1913 Treasury Bonds	£ 625,889	s. d. 11 6	
Half-year's reserve	90,000	0 0 ²	168,750.— ²
Miscellaneous expenses: Stamps, printing of bonds, etc.	49,474	4 1	
	765,363	15 7	
(d) Add:	£1,346,636	4 5	\$3,746,250.—
Interest	118,468	10 8	320,107.50
	£1,465,104	15 1	\$4,066,357.50
(e) Subtract: ³			
Amounts released	£1,414,558	4 1	\$4,066,357.50
(f) Equivalent in leva of half-year's reserve			83,851,875 ³
(g) Proceeds in leva of amounts released			1,497,206,412
			1,581,158,287

¹ Provisional figures.² The equivalent of a half-year's reserve was refunded by the Bulgarian Government out of the proceeds of the Stabilisation Loan, in execution of Article VI, paragraph 2, of the Protocol of March 10th, 1928 (Item 6 of Annex III to that Protocol).³ Not including a sum of £24,144 os. 1d. which was used direct to pay in sterling for material supplied for the Rakowsky-Mastanla Railway.

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Placed at the disposal of:

	Leva	Sterling block	Dollar block	Yield in leva
1. The Directorate for the Settlement of Refugees	1,453,824,302			
2. The Government for the reconstruction of the devastated areas	45,000,000			
	1,498,824,302			1,498,824,302
Surplus available		£50,546 11 0 (Deposited in London)	—	82,323,985 (Deposited with the National Bank of Bulgaria)

Appendix II.

STATEMENT OF THE 7½% STABILISATION LOAN OF 1928 AS AT JULY 31ST, 1931.

	Sterling block		Dollar block	French franc block
	£	s. d.		
Nominal amount	1,800,000	0 0	13,000,000	130,000,000
Net amount	1,656,900	0 0	11,960,000	121,550,000
<i>Deduct:</i>				
Stamp duties and other expenses	39,286	7 0	49,250	5,200,000
Total	£1,616,713 13 0		\$11,910,750	Fr. 116,350,000
Equivalent in leva			3,365,320,140	
Add			5,000,000 ¹	
Total			3,370,320,140	
Amount utilised up to July 31st, 1931			3,280,427,028	
Surplus available on that date			89,893,112 ²	

Appendix III.

POSITION WITH REGARD TO THE RECOVERY OF DIRECT TAXES.

Financial Year 1930-31.

Taxes	Commitment	Amount recovered	Per-centage
	Leva	Leva	
Land tax	363,000,000	99,959,300	27.62
Patents tax	250,000,000	230,907,536	92.36
Supplementary tax on total income	35,000,000	26,281,332	75.08
Corporation tax	35,000,000	29,734,643	85
Tax on buildings	30,000,000	14,385,901	47.90
Tax on war profits	2,000,000	388,687	19.43
Tax on sheep and goats	65,000,000	52,894,590	81.30
Tax on exemption from personal service	75,000,000	42,337,009	56.31
Military tax	50,000,000	26,256,441	52.61
Tax on successions	50,000,000	29,636,554	60
Calls upon profits of the Directorate for the Purchase and Sale of Cereals		50,000,000	
	955,000,000	602,781,993	63

¹ Equivalent to interest collected by the Bulgarian Government on sums deposited abroad and paid into the loan account to make up the sum earmarked for road improvement (see twelfth report, page 9, (b) Roads).

² This figure represents the unexpended balance of the block of £1,250,000 earmarked for the improvement of means of communication—namely:

55,367,115 leva at the National Bank of Bulgaria;
6,311,483.30 French francs at the Bank of France;
£213 13s. at the Bank of England.

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Appendix IV.

POSITION OF THE NATIONAL BANK OF BULGARIA.

(In leva)

	As at May 31st, 1931	As at June 30th, 1931	As at July 31st, 1931
<i>Assets.</i>			
1. Gold coin and bullion	1,491,439,123	1,500,644,148	1,506,387,378
2. Foreign gold exchange	320,582,674	402,569,824	363,572,663
3. Other foreign exchange	323,724,743	258,508,242	113,736,242
4. Small coinage	209,076,009	349,639,344	322,716,370
5. Bills of exchange and promissory notes:			
Commercial Bills	263,970,898	277,369,504	393,725,560
Treasury Bills	—	—	—
6. Advances:			
To the Government	223,800,000	223,800,000	243,800,000
Other advances	192,513,875	189,989,027	190,388,278
7. State debts	3,064,426,593	3,064,426,593	3,064,426,593
8. Investments	318,345,709	324,283,002	323,152,376
9. Buildings and equipment	23,228,045	23,348,006	23,366,906
10. Other assets	411,206,297	412,777,156	447,285,981
Total assets	6,842,313,966	7,027,354,846	6,992,558,347
<i>Liabilities.</i>			
11. Capital paid up	500,000,000	500,000,000	500,000,000
12. Bank reserve funds	1,184,231,852	1,184,442,891	1,184,724,176
13. Bank-notes in circulation	3,183,469,697	3,283,389,197	3,208,903,252
14. Other sight liabilities, in leva	1,408,313,897	1,439,060,090	1,475,378,974
15. Deposits, in leva, at notice	257,031,048	255,868,807	253,486,984
16. Foreign exchange liabilities	109,872,994	147,520,969	139,622,819
17. Other liabilities	199,393,878	217,072,892	230,442,142
Total liabilities	6,842,313,966	7,027,354,846	6,992,558,347
<i>Cover.</i>			
(Proportion of gold and silver plus net amount of foreign gold exchange to bank-notes in circulation, plus sight liabilities)	37.07%	37.18%	36.94%
Discount rate	9%	8½%	8½%

Annex 1327.

C.554.1931.I.

FREE CITY OF DANZIG.

AMENDMENT TO THE CONSTITUTION.¹

LETTER FROM THE HIGH COMMISSIONER OF THE LEAGUE OF NATIONS AT DANZIG, SUBMITTED TO THE COUNCIL ON SEPTEMBER 19TH, 1931.

[Translation.]

Geneva, September 5th, 1931.

I have the honour to transmit to you herewith copy of a letter of August 29th, 1931, P.Z.I. 2110, which I have just received and in which the Senate of the Free City asks me to submit to the Council for its approval the annexed draft law modifying the salaries and pensions of officials and employees on the active list and retired and their survivors.

¹ For text of the Constitution, see *Official Journal*, December 1930.

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The Draft Law in question has a constitutional bearing, and therefore falls under Article 49, paragraph 3, of the Constitution of Danzig, by which "amendments to the Constitution can only come into force after they have been communicated to the League of Nations and after the League has stated that it has no objection to these amendments".

The measure contemplated by this Draft Law being in accordance with the recommendations made to the Council by the Financial Committee in 1926 when the Council approved a loan to Danzig, I can only recommend for the Council's favourable consideration the procedure contemplated by the Senate of the Free City.

(Signed) M. GRAVINA.

LETTER FROM THE PRESIDENT OF THE SENATE TO THE HIGH COMMISSIONER.

[Translation.]

Danzig, August 29th, 1931.

The Government of the Free City of Danzig has laid before the Popular Assembly (*Volkstag*) a Bill "to amend the rates of salaries and pensions of officials and employees on the active list and retired, and the surviving dependants of the same" (see Appendix). It is necessary that this law, since it involves interference with the established rights of officials and a modification of Articles 92 and 110 of the Danzig Constitution, should take the form prescribed by Article 49 of the Danzig Constitution for laws amending the Constitution. In accordance with this Article a Bill must pass two readings by a two-thirds majority, at least two-thirds of the elected deputies being present; at least one month shall elapse between the first and second readings.

The Popular Assembly of the Free City passed the first reading of the Bill by the necessary majority at a final vote on August 28th, 1931. The second reading cannot take place until the end of September, 1931. There is no doubt, according to the declaration of the parties, that at its second reading the necessary majority of the Popular Assembly will be forthcoming.

Since, by Article 49, paragraph 3, of the Danzig Constitution, the law cannot come into force until it has been communicated to the League of Nations and the League has stated that it has no objections to the amendments to the Constitution which it entails, the Government of the Free City would not in the ordinary way make this communication to the League of Nations till after the second reading (end of September 1931). As, however, it is of pressing importance to the restoration of the financial position of Danzig that the law should be put into force as soon as possible, we beg you to submit the law to the League of Nations at the opening session of the Council and to transmit to them Danzig's request that they should give their consent in accordance with Article 49, paragraph 3, of the Danzig Constitution without waiting for the second reading, subject always to the Bill receiving at the second reading the majority of the votes of the Assembly required by the Constitution. The Government of the Free City will then be in a position to put the law immediately into effect after the second reading has taken place in due course.

(Signed) Dr. ZIEHM.

Appendix.

[Translation.]

BILL.

The Popular Assembly and Senate have decided on the following Law in the form prescribed for amendments to the Constitution by Article 49 of the Constitution of the Free City of Danzig, and it is hereby proclaimed:

LAW TO AMEND THE RATES OF SALARIES AND PENSIONS OF OFFICIALS AND EMPLOYEES ON THE ACTIVE LIST AND RETIRED, AND THE SURVIVING DEPENDANTS OF THE SAME.

Article I.

§ 1.

Section 46 of the Danzig Wage Law of October 19th, 1928 (*Gesetzblatt*, page 329), is hereby abrogated:

(a) With effect as from November 1st, 1931, in the case of officials and pensioners whose total emoluments, apart from child allowances, exceed the sum of 300 Gulden per month, provided always that the total emoluments payable apart from child allowances shall not fall below the sum of 300 Gulden per month until March 31st, 1932;

(b) With effect as from April 1st, 1932, in the case of all other officials and pensioners.

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§ 2.

Section 1 applies *mutatis mutandis* to the calculations of:

(a) Pensions of all retired officials or surviving dependants of the same who come under the Officials' Pensions Law, the Accident Provident Law for Officials, and the Officials' Surviving Dependants Law;

(b) Salaries and pensions of pensionable employees on the active list and retired, and of the surviving dependants of pensionable employees;

(c) Salaries and pensions of officials and retired officials of communes and associations of communes (Section 52 of the Danzig Wage Law, Section 61 of the Officials' Pensions Law, and Section 30 of the Officials' Surviving Dependants Law) and of the surviving dependants of the same;

(d) Salaries of persons employed on the basis of the Employees' Wage Rate Agreement of June 17th, 1930 (*Staatsanzeiger*, Part I, page 199).

§ 3.

(1) Other corporations of public law standing within the territory of the Free City of Danzig, including the social insurance organisations, must reduce the emoluments of their officials and employees, retired officials, and surviving dependants of the same, in conformity with the provisions of Sections 1 and 2. For this purpose, they are hereby empowered to terminate existing contracts by giving one month's notice at the end of the calendar month.

(2) Paragraph (1) shall apply also to communes and associations of communes in respect of their employees, where these do not come under Section 2.

Article II.

The Danzig Wage Law of October 19th, 1928 (*Gesetzblatt*, page 329), shall include, after Section 48, the following new Section 48 (a):

" § 48 (a).

" (1) Alterations to the salaries governed by this Law, and alterations to the grading of officials according to the classes of the laws concerning salaries, may be introduced by law for the purpose of adapting such salaries or grading to the salaries or grading of German or Prussian officials;

" (2) In the event of the financial position of officials being adversely affected by the retrospective effect of any such alterations in salaries or grading, they shall not be required to refund the deficiency."

Article III.

No compensation shall be granted as a consequence of the enforcement of the measures in Articles I and II to persons affected thereby.

Article IV.

This Law shall come into force with effect as from November 1st, 1931.

Official No: C.502.1931.I.

Annex 1328.

FREE CITY OF DANZIG: DANZIG-POLISH RELATIONS.

APPENDICES TO THE SPECIAL REPORT BY THE HIGH COMMISSIONER
DATED AUGUST 15TH, 1931.¹

Appendix I.

"DANZIG GESETZBLATT", No. 32, OF JULY 2ND, 1931.

(This document is kept in the Secretariat.)

¹ For the text of the report see page 2254.

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