

prejudices Germany. On the other hand, the fund required to pay the admitted claims of British creditors is deficient by the amount of British debts credited to Germany in the account which the Clearing Office has failed to collect. Any deficiency caused by the default of British debtors to meet their obligations has to be made good out of Clearing Office funds to the extent to which these are available.

Towards the end of October, 1920, representations were made by the German Government that owing to its other commitments, and to the depreciation of the mark, it would be impossible for it in the immediate future to provide the necessary funds to meet the Clearing Office balances; and on the 16th December following a communication was addressed to me by the representative of the German Ministry attached to this Department, notifying me that his Government would be compelled for the present to make default in the payment of the Clearing Office balances. A notice in similar terms was at the same time addressed to the French Controller. A meeting of the Council of Allied Controllers was thereupon summoned to consider the position, and to determine what steps should be taken in the circumstances. It may be conceded that strict adherence to the method of payment envisaged by the Treaty for the liquidation of Germany's obligations under Article 296 might prove embarrassing to the German Government. The monthly balances cannot be estimated in advance, for they are dependent upon the volume of admissions up to the day in each month when the accounts are simultaneously presented by all the Allied Clearing Offices. The aggregate of these balances has then to be provided in the currencies of the respective Allied countries within seven days of the presentment of these accounts. As the result of the discussion which ensued, it was agreed to consent to a variation in the above method of payment by substituting fixed for variable balances, with a view to facilitating the task of the German Government by affording it ample opportunity to provide the necessary funds in advance of its requirements. Joint meetings of the Allied Controllers and representatives of the German Government then took place, when the latter welcomed the above proposal, and as a result of prolonged negotiations it was ultimately agreed that fixed monthly instalments of £2,000,000 should be paid by the German Government for division between the Allied Clearing Offices in proportion to the respective amounts of their monthly balances.

In a footnote to the above extract, the Controller of the Central Clearing Office intimated that at the date of his report (27th September, 1921) the proportionate amounts received by the British Clearing Office under the above arrangement were in excess of its monthly balances.

53. On the 24th March, 1920, a cablegram was received from the Secretary of State for the Colonies in which it was stated that there appeared to be two alternative methods regarding the application of Article 296: (1) That New Zealand should establish its own Central Clearing Office, which would be entirely distinct from the office in London, would communicate directly with the German Clearing Office, and would appoint representatives in Germany; (2) that His Majesty's Government were willing that the Central Clearing Office, London, should act as agent for New Zealand for the transmission of claims between New Zealand and Germany.

The second alternative was adopted by New Zealand. In accordance with paragraph 11 of the annex to Section III of Part X of the Treaty, the Central Clearing Office, London, admits to the German Clearing Office liability in respect of the German claims upon New Zealand which are collected by the New Zealand Clearing Office, or by the High Commissioner for New Zealand from the London offices of New Zealand firms. The effect of these admissions is that the German Clearing Office has paid over to the British Clearing Office so much less than would have been the case had it not been necessary under the provisions of the Treaty to credit these admissions. In December, 1920, the Central Clearing Office therefore claimed from the New Zealand Clearing Office the amounts admitted by this office, less the amount of the claims admitted by the German Clearing Office as due to British nationals in New Zealand. As provided for by the Treaty, any indebtedness between New Zealand and Germany must be paid or received by Germany in New Zealand itself. The sum to be credited to Germany in the monthly settlement in respect of New Zealand admissions is the value of a cable draft for the amount payable in New Zealand on the day of settlement. The Central Clearing Office keeps a New Zealand Account, which is credited with all claims admitted by the German Clearing Office in respect of debts due to British nationals in New Zealand, and is debited with debts admitted by the New Zealand Clearing Office as due to German nationals. The balance of this account is settled with the Central Clearing Office monthly. If there is a balance in favour of the Central Clearing Office, payment is made to that office. If the balance is in favour of the New Zealand Clearing Office, the Central Clearing Office pays the amount to the High Commissioner for New Zealand in London.

LIABILITY OF THE NEW ZEALAND GOVERNMENT FOR DEBTS OWING BY DEBTORS WHO ARE UNABLE TO PAY.

54. Paragraph (b) of Article 296 of the Treaty provides that each of the high contracting parties shall be respectively responsible for the payment of debts falling within the scope of the Clearing Office scheme and due by its nationals, except in the case where before the war the debtor was in a state of bankruptcy or failure, or had given formal indication of insolvency, or where the debt was due by a company whose business has been liquidated under emergency legislation during the war. Under this provision it will be necessary to credit the German Clearing Office with the amount of debts which are proved against New Zealand nationals, even if the New Zealand Clearing Office is unable, for any reason, to collect the sums due. Thus, if a debtor becomes insolvent subsequent to the commencement of the war, or has left New Zealand after the 10th January, 1920, the above-mentioned provision will apply. The German Clearing Office is likewise required by the terms of the Treaty to credit in full to the Central Clearing Office, London, all debts proved to be due by German nationals to British nationals resident in New Zealand, irrespective of the fact that the German Clearing Office may not be in a position to collect a portion of these debts.

55. The charge of $2\frac{1}{2}$ per cent. commission which is deducted in the United Kingdom (see paragraph 50) will probably be sufficient to provide a fund for meeting all losses arising from the failure to collect debts owing by British nationals in the United Kingdom. As the volume of claims lodged by New Zealand nationals against German nationals for settlement through this Office is comparatively small, the charge of $2\frac{1}{2}$ per cent. will probably prove inadequate to establish a fund for meeting