Circular from the Belgian Foreign Ministry (2 November 1943)

Caption: On 2 November 1943, the Belgian Foreign Ministry distributes this circular which refers to the address given by Camille Gutt, Belgian Finance Minister, at the signing of the Monetary Convention between Belgium, Luxembourg and the Netherlands on 21 October 1943, in London.

Source: GOTOVITCH, José (sous la dir.). Documents diplomatiques belges 1941-1960, De l'indépendance à l'interdépendance. Tome I: Le gouvernement belge de Londres 1941-1944. Bruxelles: Académie royale de Belgique, 1998. 496 p. ISBN 2-8031-0158-0. p. 408-411.

URL:
http://www.cvce.eu/obj/circular_from_the_belgian_foreign_ministry_2_november_1943-en-6f99d450-92dd-40bf-bee4-95e9c2e8a396.html

Last updated: 06/07/2016

Information notice from the Belgian Ministry of Foreign Affairs (2 November 1943)

A.E./B.Z., P 1192 N829. — SOMA, J. Rens Papers, PR 5 163.

London, 2 November 1943.

I should like to explain the background to and the scope of the agreement reached yesterday between the Kingdom of the Netherlands and the Belgo-Luxembourg Union.

During the years before the war, there was a groundswell in Belgium in favour of closer ties between Belgium and the Netherlands.

There are great similarities between the two countries: both cover a small metropolitan area and have large colonial empires, and both set great store by their independence and abhor any form of ambitious politics. In a world where the storm clouds were gathering, they were quietly busy working. There had been a few clashes between them, stemming from economic rivalries, but these had been resolved by mutual agreement or arbitration. Yet they still cropped up from time to time, and, in order to avoid them in future, many people dreamt of a Dutch-Belgian economic union.

Was such a union a natural development? Both countries are industrial and agricultural, with the Netherlands slightly more agricultural and Belgium slightly more industrial. They therefore complement each other to a certain extent, which is one factor. The other factor is that the Economic Union will replace two markets of 8 million inhabitants each with one single market of 16 million, and consumption will expand with the elimination of customs barriers. It will, therefore, also set an example and be an incentive for the creation of broader unions.

Unfortunately, the two governments had more immediate concerns, and, despite the very best intentions on both sides, they never even got as far as starting negotiations on this issue.

War and exile have brought them together, and the many positive contacts between them have paved the way for closer economic ties.

The financial agreement which they signed today marks the first step along that path.

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Three points need to be made here.

First: Although useful in itself, the main aim of the financial agreement is to prepare for and facilitate economic agreement. For too long now — since the end of the previous war — countries have been caught in a vicious circle in which their economies could not prosper without a healthy currency, but their currency could not be stable without a prosperous economy. This vicious circle needs to be broken somewhere, and we have broken it in the financial sector. Incidentally, this is also what Keynes and White are each doing in the two plans with which you are familiar. But it goes without saying — for our bilateral agreement and for a wider international agreement — that we cannot stop once the financial sector has been organised, we need to carry on to the economic sector. We are already working on this, but it necessarily takes longer, because the work is more detailed.

Second: I described the advantages of the agreement earlier, but it would obviously not work if the two countries had different financial and budgetary policies — if one, for example, was determined to expand at any cost, while the other wanted to bring prices down as much as possible. This was something that we discussed on many occasions, and, in so doing, we realised that our views are the same. Furthermore, one of the advantages of the financial agreement is that it provides for frequent, regular contacts between the two governments in order to ensure the necessary alignment of their economic policies.

Third: The agreement was signed in London. Why signed, rather than just negotiated?

Because, in all the upheaval that is bound to come with liberation, and in the huge amount of work to reorganise the country that will need to start immediately, we shall need to have stable elements ready prepared, as far as possible, in order to mark out the route for those who will bear the heavy burden of restoration.

However, there is, of course, no question of binding the country permanently without consulting it. It is essential, in this field as in every other, that the Constitution should hold sway. This is why the final article of the financial agreement is worded as follows:

'This Agreement shall be ratified, and its ratifications shall be exchanged as soon as possible.

'In the interim, it shall take effect provisionally from the time when it is signed; the Belgian Government or the Netherlands Government may end it at any time, provided that six months' notice is given.'

This means that if, for any reason, Parliament were to declare itself against the agreement, the government would repudiate it immediately. We are firmly convinced that that will not happen. But, in order to allow for that eventuality, we insisted — and as everyone will realise this was a vital concern for us — that Parliament's full rights should be reserved.

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The main idea of the agreement is that the Netherlands and the Belgo-Luxembourg Union will open credits for each other.

This is *not* a clearing house — quite the reverse, thank goodness. In a clearing house, one party's purchases are conditional upon the other's. Here, the Netherlands provides us with guilders for our needs, and we provide them with francs.

Second characteristic: Each country is debited in its own currency. If I buy guilders from the Netherlands, I pay for them in Belgian francs which are credited to it, instead of dealing in a foreign currency.

If the Netherlands needs Congolese francs, Belgium will supply them in return for payment in Belgian francs. Reciprocally, the Netherlands would supply us with Dutch East Indies guilders in return for payment in Dutch guilders.

Accounts will be kept on a day-to-day basis and will be cleared month by month. Throughout the duration of the agreement, no guarantee in gold or other tangible guarantee will have to be provided by the parties. No requests will be made for balances to be paid in gold or foreign currencies. However, the debtor country may make repayments in gold at any time. It may also make repayments in foreign currencies, but only with the agreement of the creditor country.

The exchange rate for the guilder against the Belgian franc will be the rate resulting from the pre-war gold parities (BEF 16.52 to a guilder), which may be changed only by prior agreement between the two governments.

Third characteristic: I have already referred to the regular consultations that are at all events to be held between the governments in order to keep the payment mechanism flexible and to prevent any operations that are incompatible with Belgian and Dutch economic and monetary policy. This is covered in Article 4. But Article 7 of the agreement also provides that if, at a given point, Belgium is owed a balance of more than 60.5 million Dutch guilders, or if the Netherlands is owed a balance of more than 1 billion Belgian francs, the two governments will consult each other in order to end the imbalance. Article 12 reiterates the need for constant contact and united action in the economic and monetary field.

I shall not go into the detailed provisions governing the effect of the agreement and how it can be ended. I simply wanted to give you an idea of its essence and broad outlines.

As you will appreciate, although it is a financial agreement, it opens up channels to the economic field and establishes links with it. Warning lights could be triggered for the financial authorities in both countries at any time, if I might put it that way. Is the balance more than 500 million? The debtor must pay interest on the excess. First red light. Is the balance more than 1 000 million? Mandatory consultation between the governments. Second red light. Finance warns the economy every time. And it is on the economy that the authorities must reach agreement.

People may wonder why we have already fixed the exchange rate between the Belgian franc and the guilder and why we have kept the pre-war ratio between them.

First of all, we needed a stable basis for the agreement. The war has had very similar effects on our two countries — as we know from the information that we have received — and so it made sense to use the same exchange rate between the Belgian franc and the guilder as applied before the war.

Furthermore, the exchange issue will arise the moment a British or American soldier sets foot on our soil and on that of the Netherlands. Exchange rates will have to be set between the Belgian franc on the one hand and the pound and the dollar on the other, and likewise between the guilder and the pound and the dollar. These will then automatically determine the rate between the Belgian franc and the guilder. This was the idea that guided us, our Dutch friends and ourselves, in the first parallel talks that we have already had with our allies about the exchange rates for our respective currencies.

I said that the financial agreement paved the way, indeed led the way, to economic agreement. The difference is that the financial agreement has been in force since yesterday (subject to Parliament's approval, as I said). The economic agreement is still being negotiated. But, given the practical complexity of the subject, the negotiations here will result only in a preliminary transitional agreement preparing the ground for a final agreement which will not be concluded until the country has been liberated and on which Parliament will have to take a decision, just as on the monetary agreement.

In conclusion, I would draw your attention once again to Article 14, which I will repeat because it is short but crucial:

'Nothing in this agreement shall prevent Belgium and the Netherlands from acceding to multilateral international agreements on the stabilisation of exchange rates. They shall undertake only to do so jointly.

'Furthermore, third countries may accede to this agreement subject to the agreement of the Belgian and Dutch Governments.'

In other words, the Dutch-Belgian agreement does not erect a barrier around the two countries: on the contrary, it is open to everyone on the same conditions. It chimes perfectly with the Keynes plan, which specifically provides for a group to enter the international clearing union. The White plan is along the same lines. We and the Dutch are passionately in favour of a broad international agreement, and we shall provide the fullest possible cooperation. Last June, my Dutch friend and colleague Mr van den Broeck and I took part in the preliminary talks in Washington when the British and American suggestions were considered. We shall soon be returning to continue and advance the talks. We should not underestimate the difficulties of this huge undertaking, but there will, at least, be fewer between two countries like Belgium and the Netherlands. If we succeed in overcoming these at least, we shall have made an initial contribution to a general agreement. It was with this in mind that we set to work, and we believe that we have succeeded.