

ANNEX D

EUROPEAN PAYMENTS SCHEME AND TRADE RULES

I.—Introductory

It has become apparent in the discussions in Paris that the lack of balance which exists in European trade, and the payments difficulties to which this leads, form a problem second only in importance to the problem of the dollar deficit. Just as there is a persistent scarcity of dollars amongst the countries of Europe, so those countries themselves have become divided into two classes—those who are persistent net creditors in Europe and whose currencies therefore tend to be scarce, and those who are persistent net debtors and cannot therefore purchase within Europe the imports which they need. This difficulty leads in turn to a second, that since some European currencies have become "harder" than others, European currencies are no longer freely convertible one with another. The result is that trade can no longer be carried on through a multilateral system in which a country can offset its surpluses with one country against a deficit with another. Instead, bilateral relationships have been substituted, the object of which is to produce an exact balance in trade and payments between each pair of countries. These tendencies have had a restrictive effect upon European trade.

2. For some countries, some means to bridge the gap in their European payments is urgently needed. France, for example, is faced with a serious deficit in her trade with the sterling area; and most countries in Europe are unable to balance their payments with Belgium. A solution of this problem is not only of great importance to European recovery, it is also closely linked with the problem of the dollar deficit. The United States, for example, can hardly be expected to meet large demands from participating countries for the export of steel so long as European supplies of steel are not being fully used as a result of payments difficulties. Moreover, the European countries themselves cannot build up their economies so as to make themselves independent of American aid by 1952 unless they can import essential goods and services from other participating countries.

3. To meet this situation, measures are needed falling broadly under two heads:—

- (1) Some system of financial assistance to cover the deficits of participating countries with one another.
- (2) The formulation of a common commercial policy designed to enable debtors and creditors to bring their balance of payments more closely into equilibrium with one another at the highest possible level of trade.

Action under the first head is intended to assist in the achievement of the aim stated in the second. A system of financial assistance alone may provide a palliative for the existing disequilibrium, but cannot of itself provide a cure. It must be emphasised, therefore, that the action under the two heads must go together and that the scheme now being worked out in Paris is one for the restoration of European trade on a healthy basis and not merely one to remove current payments difficulties.

II.—Financial Assistance to Cover European Deficits

4. After many schemes had been considered, it was agreed that the financial assistance to be given under the first head should be linked with the distribution of dollar aid. The method finally worked out, and embodied in the present plan, divides into two parts the dollar aid received by each participating country which is a creditor in relation to the other participating countries:—

- (a) Unconditional Aid (based upon what has been called the "overall deficit," *i.e.*, the Western Hemisphere deficit of each country, minus its surplus in Europe), and
- (b) Conditional Aid, equivalent to the European surplus.

Conditional aid would be granted only on condition that the country receiving it would be willing to contribute an equivalent amount in its own currency for the purpose of financing the deficits with it of other participating countries.