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1st Session }

SENATE

EXECUTIVE REPT.
No. 8

DEBT AGREEMENTS WITH THE FEDERAL REPUBLIC OF GERMANY

FEBRUARY, JULY 2, 1953.—Ordered to be printed.

Mr. WILEY, from the Committee on Foreign Relations, submitted the following

REPORT

(To accompany Executives D, E, F, and G, Eighty-third Congress, First session)

The Committee on Foreign Relations, having had under consideration a series of agreements with the Federal Republic of Germany (Ex. D, E, F, and G, 83d Cong., 1st sess.), reports them to the Senate and recommends that the Senate give its advice and consent to their ratification.

Public hearings were held on June 17 and 18, 1953, and the committee voted to report the agreements favorably on July 2, 1953.

GENERAL PURPOSE OF THE AGREEMENTS

The agreements pending before the Senate are as follows:

- I. An agreement on German external debts, signed at London on February 27, 1953, by the Federal Republic of Germany, and by the United States and 17 other creditor countries (Ex. D).
- II. An agreement between the United States and the Federal Republic of Germany regarding the settlement of the claims of the United States for postwar economic assistance (other than surplus property) to Germany, signed at London on February 27, 1953 (Ex. E).
- III. An agreement between the United States and the Federal Republic of Germany relating to the indebtedness of Germany for awards made by the Mixed Claims Commission, United States and Germany, signed at London on February 27, 1953 (Ex. F).
- IV. An agreement between the United States and the Federal Republic of Germany concerning the validation of German dollar bonds, signed at Bonn on April 1, 1953 (Ex. G).

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*Chairman's Files
German Bond Validation Program
Box 112*

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Three of these agreements concern payments to be made by the German Government, by public authorities in Germany and by private debtors in Germany to American nationals entitled to benefit from evidences of German indebtedness. The fourth agreement (Ex. E) is a settlement between the United States and the Federal Republic of Germany for GARIOA (government and relief in occupied areas) and ECA postwar assistance.

The agreements, if ratified, and if given effect by the necessary private settlements between creditors and debtors, should assist in regularizing the financial relationships of the German Government and German private debtors with the rest of the world.

SUMMARIES OF AGREEMENTS

The immediately following sections describe in broad terms the pending agreements. A summary of the agreements and annexes appears in the Senate documents (Ex. D, E, F, and G) transmitting the agreements to the Senate at page 203.

I. THE AGREEMENT BETWEEN THE FEDERAL REPUBLIC OF GERMANY, THE UNITED STATES, AND 17 OTHER CREDITOR COUNTRIES ON GERMAN EXTERNAL DEBTS (EX. D)

This agreement, which will become effective when ratified by the Governments of the United Kingdom, the Federal Republic of Germany, the French Republic, and the United States of America, states that the parties thereto find "reasonable" the proposed terms of settlement set forth in annexes to the agreement. The debts covered are the external prewar debts of the German Government, external bonds issued or guaranteed by public bodies within the territory of the Federal Republic, and private debts as noted below, most of which are owed by West German debtors to private creditors. The agreement defers for the time being consideration of governmental claims against Germany arising out of World Wars I and II.

The relationship between the governments signing this agreement and the private creditors is unique. In effect, the intergovernmental agreement sets forth the general terms which the governmental parties find "reasonable" and provides a framework within which private agreements can later be negotiated between individual creditors (or their representatives), and governmental authorities or private groups in Germany. The annexes to the basic agreement, are, couched in terms of "agreed recommendations," made by representatives of private groups that creditors of specified classes are advised to consider settlements offered by German debtors in West Germany along the lines recommended. Annexes to this agreement cover the debts of the Reich and other German public agencies, debts resulting from private capital transactions, the so-called "standstill debts," or short term loans in default, and certain other types of debts. The recommended terms of settlement are indicated in table III.

DEBT AGREEMENT

*German prewar external
as of Dec. 31, 1960, as*

Public	
1. Debt of Federal Government:	
a. Duesen, Young, Kruege	
b. Other	
Total, Federal Govern	
2. Bonds of Laender and municipal	
Total, public	
3. Private prewar debts:	
1. Bonded debts	
2. Standstill debts	
3. Miscellaneous and com	
Total, private	
Total	

Mar. 1, 1933.

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I. GERMAN DEBT SETTLEMENT

German prewar external debt, by major categories, principal, and accrued interest, as of Dec. 31, 1950, as adjusted in International Conference on German Debts

[In million dollars]

Public prewar debts	Principal	Accrued interest	Total
1. Debt of Federal Government:			
a. Dawes, Young, Krugger loans.....	310.6	35.0	477.6
b. Other.....	232.0	18.6	290.5
Total, Federal Government.....	542.6	104.6	728.1
2. Bonds of Länder and municipalities.....	51.7	20.4	72.1
Total, public.....	594.3	125.0	800.2
3. Private prewar debts:			
1. Bonded debts.....	152.9	75.8	228.8
2. Standstill debts.....	82.8	44.3	137.1
3. Miscellaneous and commercial.....	378.3	95.2	471.5
Total, private.....	614.0	215.3	837.4
Total.....	1,208.3	340.3	1,837.6

Mar. 1, 1953.

II. GERMAN DEBT SETTLEMENT
Major country holdings of German prewar external debt¹

(Principal plus accrued interest—in million dollars)

	Total	United States		United Kingdom		France		Switzerland		Other	
		Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Pre-1945 public debt:											
Debt of Federal Republic:											
Dawes loan.....	115.7	50.8	32	28.8	26	7.2	6	6.5	5	12.4	11
Young loan.....	211.8	72.1	33	40.8	20	112.8	36	16.5	5	48.3	16
Other.....	300.5	123.8	41	28.3	9	.2		13.4	4	134.3	45
Debt of Lander municipalities.....	72.1	28.9	41	14.7	20			11.8	10	17.3	23
Pre-1945 private debt:											
Corporate bonded debt.....	228.8	126.4	55	44.0	20	(0)		49.0	21	8.5	4
Stadtil debt.....	137.1	34.4	25	78.3	55			28.4	19		
Miscellaneous and commercial debts.....	471.5	98.4	21	58.1	12	17.7	4	118.5	25	180.8	38
Total.....	1,637.6	546.6	33	310.5	19	137.9	8	240.0	15	402.6	24

¹ Bonded debt by currency of issue, nonbonded debt by residence of creditor. ² Neg.
³ Includes \$27.5 million to be paid in settlement of Mixed Claims Commission awards. Mar. 1, 1953.

III. GERMAN PREWAR DEBTS
Terms of settlement reached at International Conference on German Debts, London, 1952

Category	Principal	Interest arrears	Future interest rate	Amortization	Maturity date
Dawes loans:					
United States tranche.....	Unchanged.....	Recalculated at new interest rate; funded at 3 percent for 20 years; 2 percent amortization after 1958; interest 1945-52 postponed until reamortization.	Reduced from 7 to 5½ percent	3 percent beginning Apr. 1, 1955.	1969.
Other tranches.....	do.....	do.....	Reduced from 7 to 6 percent.	2 percent beginning Apr. 1, 1955.	1969.
Young Loan:					

United States tranche.....	do.....	Recalculated at 4½ percent; funded at 3 percent for 20 years; 1 percent amortization after 1958; interest 1946-52 postponed until reamortization.	Reduced from 5½ to 5 percent.	1 percent beginning Apr. 1, 1960.	1980.
Other tranches.....	Principal to be computed on dollar clause basis.	do.....	Reduced from 5½ to 4½ percent.	do.....	1980.
Kreuger Match loan.....	do.....	Recalculated at 4 percent; funded at 3 percent for 20 years; 1 percent amortization after 1958; interest 1946-52 postponed until reamortization.	Reduced from 6 to 4 percent.	1½ percent beginning Apr. 1, 1958.	1994.
Bonds issued or guaranteed by Lander or municipalities.....	Unchanged.....	¾ of arrears recalculated at new interest rate to be funded.	¾ of old contractual rate unless rate was less than 4 percent.	1 percent beginning Apr. 1, 1960; 20 years beginning Apr. 1, 1960.	20 years from existing maturity.

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United States tranches.....	do.....	Reamortized at 4½ percent; funded at 3 percent for 20 years; 1 percent amortization after 1954; interest 1945-52 postponed until reunification.	Reduced from 6¼ to 5 percent.	1 percent beginning Apr. 1, 1955.	1960.
Other tranches.....	Principal to be computed on dollar clause basis, do.....	do.....	Reduced from 5½ to 4¼ percent.	do.....	1960.
Kreuzer Match loans.....	do.....	Reamortized at 4 percent; funded at 3 percent for 20 years; 1 percent amortization after 1955; interest 1945-62 postponed until reunification.	Reduced from 6 to 4 percent.	1½ percent beginning Apr. 1, 1958.	1964.
Bonds issued or guaranteed by Länder or municipalities.....	Unchanged.....	¾ of arrears payable dated at new interest rate to be funded.	¾ of old contractual rate unless rate was less than 4 percent.	1 percent beginning Apr. 1, 1958; 20 years beginning Apr. 1, 1968.	20 years from existing maturity date.
Bonds of German corporations.....	do.....	¾ of arrears to be funded.....	¾ of original contractual rate, with minimum of 4 percent.	1 percent beginning January 1958.	30 to 25 years from existing date.
State still debts.....	do.....	Arrears calculated at 4 percent to be added to principal.	In accordance current banking charges.	None except 3 percent per quarter new credits.	Can be renegotiated at end of year.
Commercial and miscellaneous debts:					
Trade debts.....	do.....	¾ of arrears to be added to principal.....	When payable, ¾ of contractual rate with 4 percent minimum to accrue beginning Jan. 1, 1955.	On all types creditors may option for immediate payment in deutschemark; ¼ immediate; balance in 10 equal annuities.	1963.
Salaries, wages, etc.....	do.....	do.....	Not normally payable.	1 equal annuities.....	1957.
Other commercial.....	do.....	do.....	When payable, ¾ of contractual rate with 4 percent minimum, to accrue beginning Jan. 1, 1955.	10 equal annuities.....	1957.
Financial debts.....	do.....	do.....	¾ of contractual rate with 4 percent minimum.	3 percent beginning Jan. 1, 1958; 8 percent beginning Jan. 1, 1963; 16 percent thereafter.	1970.

¹ In case of gold clauses, principal to be calculated on dollar clause basis, Mar. 1, 1953.

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Table II above shows that the total principal amount of German debts covered by this agreement is estimated to be \$1,637.6 million, of which \$546.6 million is estimated to be payable in dollars.

II. THE AGREEMENT BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY SETTLING CLAIMS FOR UNITED STATES POSTWAR ECONOMIC ASSISTANCE (EX. E)

This agreement notes that the United States, since the war through June 30, 1951, has furnished Germany, under the appropriations for government and relief in occupied areas (GARIOA) and the ECA program, assistance in the amount of \$3,013,974,677. It also notes that it is the policy of the United States to adjust claims for reimbursement of this amount "on a basis generally similar to that established for the other free nations of Europe." The agreement then reduces the amount of this claim from \$3 billion to \$1 billion, calls for payments over a 35-year period, and fixes the rate of interest on the unpaid principal at 2 1/2 percent per annum.

This agreement is discussed in more detail at page 224 of the President's message transmitting the agreements to the Senate (Ex. D, E, F, and G).

The table which follows gives a breakdown of the types of postwar aid given to Germany by the United States.

United States postwar aid to the Federal Republic of Germany, from date of initial entry of United States forces into Germany to June 30, 1951

[Millions of dollars]	
Gross aid:	
Pre-GARIOA (government and relief in occupied areas).....	276.2
GARIOA.....	1,584.5
ECA and related aid.....	1,540.7
	3,361.4
Gross aid exclusive of surplus property obligations.....	3,361.4
Deductions for credits to United States, including 5-percent counterpart.....	337.4
	3,024.0
Net aid exclusive of surplus property obligations.....	3,014.0

III. AGREEMENT BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY RELATING TO AWARDS MADE BY THE MIXED CLAIMS COMMISSION, UNITED STATES AND GERMANY (EX. F)

In 1930 an agreement between the United States and Germany recognized the indebtedness of Germany to American claimants who suffered damage as the result of German actions in the United States prior to and during World War I. Shortly after this agreement was reached, the German Government defaulted upon its payments. The present agreement sets forth the obligation of the Federal Republic to pay to the United States \$27,500,000 on behalf of American nationals. The agreement also sets forth the schedule of payments.

IV. AGREEMENT BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY CONCERNING THE VALIDATION OF GERMAN DOLLAR BONDS (EX. G)

In order to be sure that German dollar bonds which may have been unlawfully acquired (the Soviets apparently looted large quantities of such bonds at the time of their occupation of Berlin in 1945) will not benefit by the terms of the settlement covered by the afore-

DEBT AGREEMENT

mentioned agreement states that no bond is payable unless it has been established by an executive act in 1953. That executive information. The fully effective with

Surplus property namely, that between the Federal Republic of Germany and the United States. This agreement is based on the authority of the Executive Act of 1949, an agreement on surplus property of the United States in the amount of 50 semiannual interest at the rate of payment of some dollars.

Office of Foreign Liquidation
 European Command,
 Surplus property (specification)

Total.....
 Deduction for prepayment

Total.....
 Subject to adjustment for

This executive act is the President's message

During the 1920s credit, sold a large number of bonds were sold in the Dawes loan of 1924. A number of lesser (United States loan of 1923 million) as did corporations and private and public utilities. Payments were purchased

During the depression operations were suspended. power, the German exchange transfer

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mentioned agreement on German external debts, this agreement states that no bond or other evidence of indebtedness will be enforceable unless it has been validated in accordance with the procedures established by an executive agreement signed at Bonn on February 27, 1953. That executive agreement is transmitted to the Senate for its information. The executive agreement could not, of course, be fully effective without ratification of the pending agreements.

Surplus property.—One other agreement should be mentioned, namely, that between the United States of America and the Federal Republic of Germany regarding the settlement of surplus property furnished Germany, transmitted to the Senate for its information. This agreement is in the nature of an executive agreement, concluded under the authority of the Federal Property and Administrative Services Act of 1949, and will come into effect when the German external-debt agreement referred to above becomes effective. The executive agreement on surplus property fixes German indebtedness to the United States in the amount of \$203,000,000. This amount is to be paid in 50 semiannual installments beginning in 1958 and is to draw interest at the rate of 2% percent. Provision is also made for the payment of some of the amounts due in deutschmarks instead of dollars.

Surplus property obligations of Germany
 (In million dollars)

Office of Foreign Liquidation Commission (OFLC)	80.7
European Command, U. S. Army (EUCOM) sales	91.6
Surplus property (special goods to increase coal production and distribution)	58.6
Total	216.9
Deduction for prepayments and reacquisitions	13.9
Total	203.0

¹ Subject to adjustment for 50-party claims. See art. VIII, surplus property agreement.

This executive agreement is discussed in more detail at page 234 of the President's message transmitting the agreements to the Senate.

BACKGROUND OF AGREEMENTS

During the 1920's the German Government, in need of foreign credit, sold a large volume of German bonds abroad. Many of these bonds were sold in the United States, the principal loans being the Dawes loan of 1924 and the Young loan of 1930. In addition, a number of lesser German governmental units sought financing in the United States (loans to German states and municipalities totaled \$344 million) as did certain German private groups such as business corporations and private borrowers (total, \$908 million), banks, churches, and public utilities (total, \$430 million). Many of these credit instruments were purchased by private American investors.

During the depression of the 1930's payments upon most of these loans were defaulted and the bonds fell in value. Commercial credit operations were blocked. In 1933, following the rise of Hitler to power, the German Government in the process of restricting foreign-exchange transfers established a conversion office for foreign debts

Authority NND 29578
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into which private German debtors made payment. The German Government then offered various types of payments to creditors in foreign countries; some of which were accepted but most of which were rejected. German currency manipulations continued until the outbreak of the war, in a manner particularly discriminatory against American creditors.

At the end of the war, the situation in Germany was such that it was impossible to make collections on any of these debts. Since 1948, however, with the help of the United States Government, economic recovery in Western Germany has been substantial. As a result, American economic aid has been gradually reduced and the capacity of the German Government and German private debtors to make payments abroad has been increased.

Since the summer of 1951 a Tripartite Commission on German Debts, representing the United States, the United Kingdom and, France, has been carrying on negotiations looking toward the settlement of Germany's external debt.

By December 1951 such progress had been made in agreement upon the principles by which settlement might be made that an International Conference on German Debts was scheduled to meet in London in February 1952. The United States was represented at this Conference by Ambassador Warren Lee Pierson, who was accompanied by a group of private individuals representing major creditor organizations in the United States.

RELATIONSHIP BETWEEN UNITED STATES GOVERNMENT AND PRIVATE CREDITORS

Postwar shortage of foreign exchange in Germany made it essential for the occupying powers to exercise control over transfers of foreign exchange from Germany to creditors in other countries. This meant that if a private debtor in Germany wanted to reestablish his credit with a bank in the United States (for example) by paying off old indebtedness, he was not able to do so without the consent of the allied authorities. It was realized by the governments concerned that transfers of exchange abroad for servicing one class of debts could not be authorized without at the same time prejudicing creditors of other types. The result was that the Governments of the United States, France, and the United Kingdom found it necessary to attempt to bring private creditors into some type of workable relationship with German debtors upon a basis of payments which could be sanctioned by the occupying powers.

So far as the United States is concerned, the United States Government has a duty to protect the interests of American citizens doing business abroad. Thus, the Department of State, which took the lead for this Government in negotiating the debt settlement, found it necessary to encourage the creation of private groups to represent various groups of American creditors. The following memorandum from the Department of State describes the groups which were formed and indicates the way in which they received payment for their services.

DEPARTMENT OF STATE,
June 18, 1953.

Memorandum.
Subject: Compensation arrangements for creditor representatives at the London Conference on German Debts.

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I. INTRODUCTION

The creditor representatives fall into three general classes. In the first class are those representatives of a relatively small and identifiable group of creditors. In this class were the American Committee for Standstill Creditors, representing 13 banks holding claims for debts suspended by the moratorium in the early 1930's. Similarly the Committee for the Mixed Claim Awardholders acted in the interest of approximately 175 individuals and corporations.

The second group included the two organizations that spoke for bondholders. One of these organizations is the Foreign Bondholders Protective Council. The other is the United States Committee for German Corporate Dollar Bonds. Both of these committees are recognized by the Department as acting in the interest of bondholders, but they do not act in a strictly representative capacity since they were not nominated or elected by the bondholders themselves.

The third category was the representation for the commercial and miscellaneous debts. In this case the Department, after unsuccessfully attempting to find an organization willing to represent this group of debts, finally was obliged to ask a prominent businessman to act in a personal capacity as an adviser.

The financial arrangements for each of these groups are different. They are outlined below.

II. FINANCIAL ARRANGEMENTS SUPERVISED BY THE UNITED STATES GOVERNMENT

A. *The Foreign Bondholders Protective Council, Inc.*

The Foreign Bondholders Protective Council, Inc., was organized in 1933 at the invitation of the United States Government for the purpose of protecting the interests of American holders of foreign public dollar bonds issued or guaranteed by foreign governments or political subdivisions thereof. It is a private, independent, nonprofit organization. The council has had the full support of the Department of State since its organization, without impairment of its independent status. The council has recently passed through an unusually active period, having negotiated settlements on the defaulted bond issues of Japan, Peru, Costa Rica, Italy, Chile, Colombia, in addition to the Federal Republic of Germany. In these negotiations the council acted as the spokesman for American bondholders, and recommended their acceptance of the settlement arrangements.

Since 1943 the council has financed itself by small deductions made from the first cash payments made under a debt settlement by bondholders who elect to accept an offer of settlement negotiated and recommended by the council. The amount is \$1.25 per \$1,000 bond. However, in view of the extended negotiations carried on in London, out-of-pocket expenses connected with the London Conference are to be paid by the German Government and German debtor entities. The amount requested includes transportation expenses, legal fees, and living expenses incurred in London; no officers' salaries or staff salaries or expenses usually assumed by the council are to be reimbursed by the German debtors. There is no contingent fee involved as respects any of the debt arrangements negotiated by the council.

In 1937 a Board of Visitors was established, consisting of the Secretary of State and the Chairman of the Securities and Exchange Commission, or their representatives, to examine periodically the internal financial operations of the council. It was announced at that time that the Board would scrutinize requests made by the council for funds from foreign countries and from American bondholders in connection with debt readjustment plans negotiated by the council. It was also understood that the Board of Visitors would examine and consult from time to time concerning other sources of income and all the expenses and disbursements of the council. Pursuant to this arrangement, the Board of Visitors has met with the council from time to time and the Department of State has been kept fully informed of the council's finances.

B. *The United States Committee for German Corporate Dollar Bonds*

The United States Committee for German Corporate Dollar Bonds was initially formed at the invitation of the Department of State to participate in the German-debt-settlement negotiations on behalf of the holders of nonguaranteed German corporate dollar bonds. It is a nonprofit, private, independent organization whose decisions and recommendations to bondholders are not subject to governmental review or approval.

The agreement governing German corporate bonds adopted at the London Conference provided that the creditors' representatives which participated in the

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Conference would undertake, subject to the approval of their respective governments, to represent the bondholders in the negotiation of individual offers of settlement by the German debtors, which offers it would recommend to bondholders.

Pursuant to this provision the Secretary of State, in a letter dated September 26, 1952, invited the United States Committee for German Corporate Dollar Bonds to continue to act on behalf of the holders of German corporate dollar bonds. In his letter, the Secretary noted that provision had been made for reimbursement of the expenses and the payment of reasonable compensation to the corporate bondholders representatives by the German obligors. The Secretary expressed no objection to such an arrangement, but suggested that, in order to protect the committee and the Government from any possible charge that the expenses and compensation are unreasonable, such expenses and compensation be reviewed by the Department from time to time. Under this arrangement, and in consultation with the Securities and Exchange Commission, the Department reviewed the financial statement to be submitted by the committee to the appropriate German authorities last fall for the period February 28 through July 31, 1952. The Department is currently reviewing a further financial statement covering the period from August 1, 1952, through February 28, 1953. There are no arrangements of any kind for fees to be paid on a contingent basis.

III. FINANCIAL ARRANGEMENTS WORKED OUT INDEPENDENT OF UNITED STATES GOVERNMENT SUPERVISION

A. The American Committee for Standstill Creditors of Germany

This committee is formed by 13 American banks holding standstill claims against Germany. The representatives on the committee are officials of the banks who serve on the committee without compensation, except insofar as they are salaried officers of their own banks. The committee handles its own finances without supervision by the United States Government. It is our information that there are no contingent fees involved in its operation.

B. The American Awardholders Committee

This committee was organized at the suggestion of the Treasury Department in 1952. It is composed of the larger number of the 175 individual and corporate awardholders all of whom had been notified of the settlement proceedings, and had been invited to join in selecting representation at the conference. The expenses of the committee were guaranteed by a group of the larger awardholders. We are informed that the representatives designated by the committee operated on the basis of a fixed fee and not a contingent fee.

C. Miscellaneous and commercial claims

Mr. Gordon Michler, Chairman of the German Committee of the National Foreign Trade Council, attended the conference in connection with commercial and miscellaneous claims. He acted in a personal capacity, accepting this assignment at the urgent solicitation of the Department of State. He was selected for this purpose because of his experience and reputation in the field of foreign trade. Mr. Michler did not receive any compensation from any outside source (apart from his own company) by reason of this service. We are informed that no contingent fees of any description were involved in his service.

NEGOTIATION OF THE AGREEMENTS

The representatives of 28 creditor countries as well as representatives of private creditor groups (including those mentioned above) convened in London on February 28, 1952, in an international conference to deal with the prewar debts. This conference is described in some detail at page 11, and following, of the message from the President of the United States transmitting the pending agreements to the Congress. It led to the agreements which are now before the Senate.

DEBT AGREEMENTS

RELATIONSHIP BETWEEN

The Committee on postwar economic assistance and the prewar private debtors who noted that the war economic assistance approximately \$3 billion creditors for their prewar debts not been written down, although the time over against Germany by France had written to the United Kingdom:

Since it is likely that we will be able to support external debts, the United States Government is not to be private loans. The effect of this would be to had put up money for payments to private

Representatives of the United States Government organized that this was that total claims against Germany to pay, that the German Government a substantially larger States than other European States assistance and which to private American claims was in accord with Economic Cooperative Executive branch not the German Government prewar debts unless a was able to determine prewar and the postwar economic assistance claims for postwar assistance might "be reduced a established for the other

The executive branch voluntary agreement unless it had made it agreement on its prewar debts the effect of restoring

A table showing European countries, with Germany for postwar

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RELATIONSHIP BETWEEN PREWAR PRIVATE DEBTS AND POSTWAR GOVERNMENT ASSISTANCE

The Committee on Foreign Relations during its hearings carefully inquired into the relationship between the settlement of Government postwar economic assistance given to Germany by the United States and the prewar private debts. Some concern was evidenced by members who noted that the claims of the American Government for postwar economic assistance to Germany had been written down from approximately \$3 billion to \$1 billion, while the claims of private creditors for their prewar claims against the German Government had not been written down so far as the principal of the debts was concerned; although there had been reductions in interest rates and extensions of time over which the debts might be paid. Moreover, it was noted that the United States had written down its postwar claims against Germany by about 66 percent while the United Kingdom and France had written down their claims by about 25 percent, although the United Kingdom and France waived interest payments.

Since it is likely that over the next decade the German economy will be able to support only limited amounts of payments to service external debts, the effect of writing down the claim of the United States Government is to make it possible thereby to service the prewar private loans. The thought was expressed in the committee that the effect of this writedown was to make the American taxpayer who had put up money for postwar economic assistance bear the burden of payments to private American creditors.

Representatives of the executive branch of the Government recognized that this was the case. They took the position, however, that total claims against Germany were clearly beyond its capacity to pay, that the German Government should not be expected to repay a substantially larger proportion of its postwar debts to the United States than other European countries which had received American assistance and which, incidentally, continued to service their debts to private American creditors, and that reduction in these postwar claims was in accordance with the procedures and standards of the Economic Cooperation Act of 1948, as amended. Moreover, the executive branch noted that it would have been impossible to induce the German Government to approve any approach to settlement of prewar debts unless and until it knew the size of its postwar debt and was able to determine its capacity to make payments on both the prewar and the postwar debt. The agreement relating to postwar economic assistance states the policy of the United States "to adjust" claims for postwar assistance to the Federal Republic so that they might "be reduced and placed on a basis generally similar to that established for the other free nations of Europe."

The executive branch further stated it would not have obtained a voluntary agreement to make payment on the postwar obligations unless it had made it possible for the Germans to work out an arrangement on its prewar debt, acceptable to its creditors, which would have the effect of restoring its credit.

A table showing the ratio between loans and grants to other European countries, as contrasted with the settlement being made with Germany for postwar economic assistance, follows:

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DISTRIBUTION OF GERMAN DOLLAR BONDS IN THE UNITED STATES

The best information available indicates that there are presently outstanding German dollar bonds, both governmental and private, totaling \$287.2 million including accrued interest. It is not possible to determine accurately the distribution or the size of the individual holdings of these bonds. There are, however, several sources of information on the subject which are considered reliable and they clearly indicate that the dollar bonds are widely distributed throughout the United States and that the size of the holdings are relatively small.

The Senate Committee on Finance conducted hearings from December 18, 1931, to February 10, 1932, on the sale of foreign bonds and securities in the United States.¹ According to information brought out at these hearings, the dollar issues of the Dawes and Young loans were marketed in the United States by about 150 banks and over 1,000 securities dealers. The hearings further disclosed that of 40 representative German dollar bond issues with a par value of \$152 million there were 37,100 separate sales averaging \$4,100 each.

In 1943 the Treasury Department conducted a census of American-owned foreign assets, including dollar bonds. This census was not complete and only \$83.4 million par value of German dollar bonds were reported.² There were, however, 25,409 separate reports filed averaging \$3,700. Of these reports, 21,366 were submitted by individuals for a total of \$56.6 million; 2,575 by estates and trusts for a total of \$9 million; 1,457 by business concerns for a total of \$17.7 million; and 11 by nonprofit organizations for a total of \$45,000. The attached table reflects the geographical distribution of the reports submitted by individuals.

On December 9, 1941, the securities exchanges in the United States, at the request of the Securities and Exchange Commission, suspended dealings in listed securities of German origin. Over-the-counter brokers and dealers were likewise requested to refrain from effecting transactions in such securities. The suspension continues and the Securities and Exchange Commission considers that it cannot withdraw its request until measures have been taken which will ensure that the looted bonds do not find a market in the United States. It is not believed, therefore, that there has been any appreciable change in ownership of German dollar bonds since the outbreak of World War II.

The Foreign Bondholders Protective Council in the spring of 1952 made an analysis of over 7,000 inquiries it had received regarding German dollar bonds. This analysis indicated that the pattern of small individual holdings reflected in the Treasury survey has continued.

Distribution of German dollar bonds held by individuals reported in the 1943 Treasury census

State	Number of reports	State	Number of reports	State	Number of reports
Alabama.....	72	Massachusetts.....	909	Rhode Island.....	129
Arizona.....	28	Michigan.....	613	South Carolina.....	42
Arkansas.....	15	Minnesota.....	616	South Dakota.....	28
California.....	1,158	Mississippi.....	70	Tennessee.....	141
Colorado.....	127	Missouri.....	1,158	Texas.....	178
Connecticut.....	208	Montana.....	62	Texas.....	22
Delaware.....	34	Nebraska.....	305	Vermont.....	67
District of Columbia.....	154	Nevada.....	8	Virginia.....	108
Florida.....	289	New Hampshire.....	48	Washington.....	214
Georgia.....	131	New Jersey.....	1,597	West Virginia.....	31
Idaho.....	18	New Mexico.....	9	Wisconsin.....	1,076
Illinois.....	2,377	New York.....	5,746	Wyoming.....	27
Indiana.....	104	North Carolina.....	41	Hawaii.....	7
Iowa.....	338	North Dakota.....	83	Puerto Rico.....	4
Kansas.....	138	Ohio.....	357	Alaska.....	8
Kentucky.....	217	Oklahoma.....	101	Other locations.....	128
Louisiana.....	112	Oregon.....	235		
Maine.....	212	Pennsylvania.....	1,548	Total.....	21,366
Maryland.....	395				

¹ Hearings before the Committee on Finance, U. S. Senate, 72d Cong., 1st sess., pursuant to S. Res. 19, sale of foreign bonds and securities in the United States, pp. 182, 965, and 918.

² U. S. Treasury Department, Census of American-Owned Assets in Foreign Countries, 1947.

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OBJECTION TO PROVISIONS RELATING TO REICHSMARK BONDS OF CONVERSION OFFICE FOR GERMAN FOREIGN DEBTS

The committee heard testimony in objection to paragraph 4 (g) of section A, annex I, to the agreement on German external debts which provides that "Reichsmark bonds and scrip will be converted into deutschemark at the rate of 10:1." Objection to this section was voiced by one witness holding bonds originally payable in reichsmarks issued by the Conversion Office for German Foreign Debts. The witness stated that conversion of such bonds at the rate of 10:1 discriminated against these claimants. He suggested that these bonds, though payable in reichsmarks, were issued under such circumstances as to warrant their treatment as goldmark obligations impressed with a specific foreign character, and thus that they should be paid at the rate of 1 reichsmark to 1 deutschemark, and should not suffer devaluation in the ratio of 10:1, the rate under the currency reform legislation of 1948 enacted by the allied occupation authorities.

This subject was explored at some length in the hearings. The committee did not believe, however, that a reservation should be taken on this point as suggested. There was no showing that the witness spoke for any substantial group of Americans who hold bonds payable in reichsmarks. Inquiries made in Bonn indicated that negligible quantities of these bonds are held in the United States, most of them having been issued in Holland, the United Kingdom, Sweden, and Switzerland. Moreover, even if there were many Americans holding such bonds, the committee was impressed by the fact that they were payable in reichsmarks and not in dollars.

The committee was impressed with the statement on this matter submitted by the Department of State, which appears in the hearings, and particularly by the following statement:

With regard to Mr. Kaufman's point relating to the equities of the situation it must be remembered that reichsmark bonds of the Konversionskasse were payable in German currency in Germany and, moreover, were issued in respect to debts payable originally in reichsmarks. Since other debts payable in reichsmarks are being settled on a 10-to-1 basis in the debt settlement, not only is it equitable that the reichsmark bonds of the Konversionskasse should be settled on the same basis, but to settle them on the basis proposed by Mr. Kaufman would be according them an unwarranted preference. Moreover, the one feature of these bonds which distinguishes them from other reichsmark debts, i. e., the convertibility into foreign exchange of mark payments on the bonds, is maintained in the debt agreement.

RELATIONSHIP BETWEEN CONTRACTUAL AGREEMENTS AND DEBT SETTLEMENT

It will be recalled that last session the Senate gave its advice and consent to the ratification of the so-called "contractual agreements" with Germany. (See Ex. Rept. No. 16, 82d Cong., 2d sess., especially p. 27.) In chapter 8 of the convention on the settlement of matters arising out of the war and the occupation (see Ex. Q and R, 82d Cong., 2d sess.), Germany reaffirmed its liability for the prewar German debt and postwar economic assistance. While the contractual agreements have not yet entered into effect (not having been approved either by Germany or France), the pending agreements may enter into effect immediately upon ratification. At such time as they enter into force, the powers of the Allied High Commission under the oc-

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cupation statute, respecting claims against Germany, will be terminated and the German Government has been so informed. The effect of the debt agreements coming into force will be to fulfill the terms of chapter 8 of the above-mentioned contractual agreement.

CONSEQUENCES OF FAILURE TO RATIFY

If these agreements were not to come into effect, testimony before the committee indicates an expectation that considerable chaos might ensue. Private creditors would undoubtedly band together in order to negotiate settlements directly with the German Government or with debtor groups in Germany. Some creditors in the United States in a position to extend new credit to Germany would be in a good position to force advantageous settlements upon their debtors. Other American creditors would be virtually powerless to negotiate settlements.

During such a period of competition between American creditors and between American creditors and those in other countries, German recovery would undoubtedly be retarded while it sought to establish its credit rating in the international financial market.

ADVANTAGES OF THE AGREEMENTS

The principal advantage to the United States Government in the conclusion of these agreements will be the assistance they will give to building a strong German economy. So long as a healthy Germany is of interest to the United States in its desire to prevent conditions in Europe giving rise to Communist threats, a sound German economy is necessary.

The principal advantages of the agreements to private creditors are manifest. Once the bonds have been validated, there will be a market for them. Evidence before the committee, which is reproduced in the printed hearings, indicates that German dollar bonds are widely held in the United States and many American citizens will benefit when the bonds become salable.

CONCLUSION

Although the Committee on Foreign Relations is not satisfied that these agreements establish what might be described as full justice, it does feel that under the circumstances they represent the best kind of settlement which can be made at this time in the interests not only of the United States as a whole but in the interests of thousands of American citizens who invested their savings in Germany. It hopes that the Senate will give its advice and consent at an early date to the ratification of these agreements.

Ever since the end of the war this committee, in its desire to strengthen the forces of democracy in the world, has repeatedly urged that every opportunity should be given Germany to rebuild its shattered economy and assume an equal place in the family of nations. The committee believes that these agreements constitute a significant step toward that goal.



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