

The Foreign Exchange Business of the Australian Trading Banks^(*)

Dealing in exchange and providing credit for Australia's overseas trade has from very until the First World War, the Australian trading banks' business. The English banks in Australia, with their advantage of a London office and ample London funds, were first in the field, but by the middle of the nineteenth century several of the Colonial banks had opened a London agency and compared effectively for foreign exchange business (1). Until the First World War, the Australian banks enjoyed a virtual monopoly of exchange dealings between Australia and London. Their London offices, together with those of the other Imperial and Foreign Banks and the London merchant banks, constituted the London foreign exchange market. From 1905 onwards, and particularly after the First World War, the large English clearing banks entered the field and gradually assumed some share in the provision of exchange facilities for trade between Australia and the United Kingdom (2). But the Australian trading banks retain most of Australia's foreign exchange business, and provide much of the finance, for Australian imports as well as exports to all parts of the world. In the last thirty years, they have made themselves increasingly independent of London bank intermediaries for foreign (as contrasted with sterling) exchange business, by developing

direct correspondent relations with banks in most foreign countries. Since World War II, exchange control has still further strengthened their position by eliminating all legal competition for any «outside market» within Australia which earlier had at times made inroads into their business (3).

While exchange control has confirmed the trading banks' monopoly of Australian foreign exchange business, it has deprived them of all but the last vestiges of an equally important function of which they were in sole charge until the nineteen-thirties, the conduct of Australian foreign exchange policy. Before 1914, and again in the twenties, the trading banks operated a sterling exchange standard, with the twin objectives of maintaining balance of payments equilibrium and a stable exchange rate by agreement from time to time, but by adjusting domestic credit, when necessary, to changes in their London funds, they were able to keep the sterling exchange rate generally close to par (4). They lost control of the exchange rate in 1931 when the Central Bank asserted its authority in this field, and under the Banking Act of 1945 surrendered to the Central Bank what responsibility they had formerly exercised for the maintenance of balance of payments equilibrium. To-day, responsibility for external as well as domestic monetary policy lies formally entirely with the Commonwealth

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(1) See S. J. BUTLIN, *Foundations of the Australian Monetary System, 1788-1851*, Ch. 13.

(2) Cf. T. BALOGH, *Studies in Financial Organization*, Chs. 14, 15.

(3) The Commonwealth Bank has power to permit exchange transactions with persons other than banks, but such consent is so rare as to be negligible.

(4) For accounts of the operation of the pre-1930 sterling exchange standard in Australia, see Royal Commission, *Report*, Ch. 2; A. H. TOCKER, *The Monetary Standards of New Zealand and Australia*, «Economic Journal», December 1924; R. WILSON and K. S. ISLES, *Australian Monetary Policy*, «Economic Record», May, November 1931, December 1932.

Bank. In practice, the activities of the trading banks continue to affect the external as well as internal balance of the Australian economy, if only because the two problems continuously interact.

In this article, therefore, we shall be mainly concerned with the trading banks' foreign exchange business, rather than with foreign exchange policy. But we shall return, towards the end, to those aspects of the trading banks' operations which directly, or through their effects on domestic monetary conditions, affect Australia's balance of payments and exchange rate.

Foreign Exchange Business.

Under exchange control regulations, all foreign exchange business in Australia is a monopoly of the Central Bank. But this is a legal formality. The Central Bank has appointed the trading banks as its agents, with the result that they handle all exchange business as before, though they now also carry responsibility for ensuring that exchange control regulations are observed.

All Australian cheque-paying banks provide foreign exchange facilities. But except for such business (mostly with their own countries) as is carried on by the three foreign bank branches, and Government exchange business which is handled by the Central Bank, all foreign exchange business is in the hands of the eight major trading banks, including (to an increasing extent in recent years) the Commonwealth Trading Bank (5). Most of the business is conducted at the main capital city branches in Australia, the foreign exchange (or « overseas » or « bill ») departments of the main city offices and one or more bill officers at the more important other branches, and by the banks' London offices which, as London exchange bankers, play a

(5) The State Bank of South Australia does a substantial amount of export exchange business, chiefly for the fruit-growers' co-operatives of the State. It negotiates export bills, but the Commonwealth Trading Bank acts as its agent in London and re-discounts after-sight bills for the State Bank.

major role in the finance of Australian overseas trade and payments. The role of the banks' London offices in the United Kingdom is filled in other parts of the world by oversea banks acting as agent banks for the Australian trading banks. With the increasing use of the Australian pound in trade payments in the post-war years, foreign banks have, in their turn, adopted the practice of keeping £A balances with Australian banks as their agents in this country.

Foreign exchange business comprises a great variety of activities. They may be listed briefly under four main heads: (a) the purchase and sale of foreign exchange, both spot and forward; (b) the provision of credit for the finance of oversea trade; (c) assistance to traders in financing transactions by guarantees and collection of trade debts; and (d) various services such as trade information, introductions, assistance with exchange control formalities, foreign travel, etc.

(a) Since all transactions which enter into Australia's balance of international payments on current or capital account (with minor exceptions such as undistributed profits of foreign-owned companies) involve the purchase or sale of £A for oversea currencies, a major part of the banks' foreign exchange business consists simply of the corresponding sales and purchases. The banks buy foreign exchange from exporters and other Australian residents who earn or receive it and sell foreign exchange to importers and others who have to make payments abroad.

The purchase of foreign exchange by a bank may take the form of purchase of foreign notes or coin over the counter from an oversea visitor in Australia or, much more commonly, or a telegraphic or mail transfer to an Australian customer by an oversea debtor, in which case the bank credits the Australian customer's account with the £A equivalent of the remittance while its own sterling (or other foreign currency) balance with the sender's bank abroad is credited by the amount of the remittance in the oversea currency. In the case of trade payments for

Australian exports, it will usually take the form of purchase by the bank of a title to payment in oversea currency, most commonly in the form of a bill drawn by the Australian exporter on the oversea importer or the latter's bank. In technical jargon, the Australian bank « discounts » or « negotiates » the export bill, pays the £A proceeds to the exporter, and receives payment from the drawee in foreign exchange. Sales of foreign exchange to importers of other Australian residents usually consist, formally or in effect, of sale of telegraphic or mail transfers or bank drafts, either for remittances or in settlement of bills drawn on importers and presented to them for payment by the bank.

Besides buying and selling foreign exchange for immediate delivery (« spot »), the Australian trading banks also provide forward facilities, enabling customers to buy or sell foreign exchange for future delivery at a rate of exchange fixed in advance and thus relieving them of any exchange risk.

(b) The Australian trading banks themselves supply the larger part of the credit required to finance Australia's oversea trade. Shipment of Australian exports and imports takes time, longer on the average than in the case of most other countries. Australian exporters usually want payment on (or even before) shipment, while the oversea importer may have difficulty in paying until he has received the goods or even until he has disposed of them. The Australian banks frequently provide pre-shipment finance by overdraft, and they supply credit for finance during shipment and often for some weeks after arrival of the goods in oversea ports, by discounting, and usually holding to maturity, export bills drawn for periods up to 90 or occasionally 120 days after sight. For the finance of Australian imports during and after shipment, much of the finance is also provided by the Australian banks, either by their London offices discounting bills drawn on the Australian importer by oversea supplies or by arranging for the oversea supplier to draw bills directly on the London office of the

bank which meets the bills at once and obtains subsequent reimbursement by the importer in Australia. Importers, of course, also finance stocks for sale by overdrafts, but this form of accommodation does not concern the foreign exchange department of the bank.

(c) Besides themselves supplying credit for the finance of foreign trade, the Australian banks assist traders in various ways by assuming contingent liabilities for trade debts incurred by Australian and oversea importers. The chief method is the letter of credit. More often than not, foreign trade bills are drawn under letter of credit opened by the importer's bank with a bank in the exporting country and authorising the exporter to draw bills on the importer or on the opening bank's office or agent in the exporting country. In opening a letter of credit, the opening bank guarantees payment of bills (properly drawn in terms of the credit) and thus lends the importer its own impeccable credit standing. A large proportion of Australian imports are financed under letters of credit opened by Australian trading banks with their London offices or with oversea banks. The Australian banks, in turn, act as advising banks for letters of credit opened by oversea banks in favour of exports in particular, the London offices of the Australian banks frequently act as the opening banks on behalf of British importers. Another service provided by the Australian banks is to handle trade bills for collection, in which case the bank assumes no responsibility and its credit is not involved.

(d) Finally, foreign exchange business includes a variety of activities incidental to the three main classes, such as preparation and handling of documents attached to bills, care of exchange control and licensing formalities required for customers' transactions, confirmation of letters of credit, the carrying of accounts (including provision of temporary overdrafts) for oversea banks and other firms, and services to traders and other customers, such as attention to trade inquiries, furnishing of reports on local and oversea firms, selection of agents and travel facilities.

Finance of Exports.

Over ninety per cent. of Australian exports consist of primary products, wool, wheat and other grains, meat, dairy products, sugar, fruit and base metals. Wool has in recent years accounted for about half the total. About two-fifths of all exports go to the United Kingdom, one-quarter to Continental Europe, one-tenth to the U.S.A. and Canada, most of the rest to New Zealand, and to India, Japan and the countries of South-East Asia. For much the greater part of Australia's trade, exports as well as imports, sterling continues to be the currency in which contracts are expressed and payments made. The only significant exceptions are a small part of Australian trade with the countries of Western Europe which is financed in their currencies, some exports to the United States and Canada which are financed in dollars, and a small but increasing portion of trade with S.E. Asia for which the Australian pound is coming into use as an international means of payment.

The main method of financing Australian exports remains the bill on London. Typically, the Australian exporter draws a sterling bill on the oversea importer and sells it to his bank which pays him immediately in £A and receives payment in sterling from the importer on the due date. But this states merely the central feature of a method of payment to which there are numerous variations and several alternatives. The bill may be for payment at sight or at a « usance » or « term » of 30, 60 or 90 days after sight. It may or may not be drawn under a letter of credit — and here again there is a variety of letters of credit. It may be drawn on the importer or on his oversea bank. The bank which buys the bill may hold it to maturity or rediscount it in the London money market. Instead of selling the bill to the bank, the exporter may merely hand it to his bank for collection. Again, no bill may be involved at all. The oversea importer may pay by TT remittance before or after shipment. Or goods may be shipped on consignment at the ex-

porter's risk for sale overseas — in which case the Australian bank may provide finance by ordinary overdraft. Which of all these methods is used will depend on the convenience of the exporter or importer, their relative bargaining power, their credit standing with each other and their banks, their liquidity and need for credit, the nature of the exchange risk at the time, as well as on custom and tradition in the trade and, in some respects, on exchange control regulations.

The most widely used method of Australian export finance is the bill on London drawn under an irrevocable documentary letter of credit, opened by an oversea bank on behalf of the oversea importer in favour of the Australian exporter. The point of the letter of credit is that the opening bank guarantees payment for bills properly drawn in the precise terms of the credit (which specifies the quantity and nature of goods ordered and all relevant conditions of shipment and payment). A bill drawn under an irrevocable letter of credit (revocable letters of credit, which can be cancelled or amended until goods are shipped and documents presented under them, are not common in Australian practice) therefore carries the security, not merely of the traders' names and the shipping documents giving title to the goods, but also the far better security of the oversea bank's guarantee. Naturally, such bills are much more readily negotiated by banks than bills which leave them, in the event of default by the importer, only with recourse to the exporter or disposal of the goods. If the exporter is in any doubt about having his bills negotiated under the oversea bank's guarantee, he can ask his own bank to « confirm » the credit, that is, to promise to honour bills drawn in the stipulated terms, before he buys the goods or prepares them for shipment. While American exporters frequently request confirmation, Australian banks are not often asked to confirm credits since the oversea opening banks are generally well known to the Australian exporters.

Documentary letters of credit have been in use for many decades for certain exports from Australia, particularly for wool which, at least before the last war, was almost entirely financed by this means. The reason has been that the wool brokers who buy wool at auction are, or were, mostly individuals or small firms operating on a commission basis with relatively little capital. They therefore needed the backing of letters of credit established by their oversea principals to obtain cash promptly after shipment for further purchases at auction. Since World War II, the use of letters of credit has increased greatly. The emergence of many new firms has made the additional security seem desirable and, in a seller's market, exporters have been able to insist on more exacting conditions of payment. But the main factor has been the ubiquity of exchange and trade controls. To the exporter, the letter of credit has the great advantage that it is evidence that the importer has satisfied all licensing and exchange control requirements and that he need fear no obstacles to payment on this score.

The business of establishing letters of credit on behalf of oversea buyers of Australian exports is generally in the hands of the English clearing banks in the United Kingdom and foreign banks in other countries. But the Australian trading banks play a substantial part even in this aspect of the finance of Australian trade. Their London offices have for many years been used as opening bankers by many British importers, chiefly of wool, whose other banking business is done by English banks. The practice is frowned on by the English banks as doubtfully proper competition and a cause of that bane of bankers, « split borrowing ». It has indeed its dubious aspect since it means, in effect, that the Australian bank has no other bank's guarantee and cannot readily rediscount bills drawn under such inter-branch credits. But it often suits the British importer whom the Australian banks charge no commission unless the credit is confirmed and who may often have exhausted the credit his own bank

is prepared to extend to him without additional security. The Australian banks, in their turn, eagerly compete for the custom of British importers, as an indirect method of promoting their valuable wool exchange business.

The functions of the Australian offices of the trading banks in connection with export credits consist in advising the Australian exporter of the terms of the credit as cabled to them by the opening bank, to confirm the credit if requested, and to see that bills drawn under the credit conform in every detail to the terms set out. Their main part in the finance of exports, however, is the discounting of export bills drawn under credits.

According to the terms desired by the importer and specified in the letter of credit, the exporter will draw his bill at sight, or at a term of 30, 60 or 90 days after sight. Within limits imposed by British exchange control, English and Continental banks are prepared to open credits for as long as 120 days. But credits opened by London offices of the Australian banks have by agreement been limited to 90 days after sight. The oversea importer may be content with a sight credit if he can obtain « re-finance » at home; he can do so by drawing a usance bill on his own bank, discounting it after acceptance with a discount house and using the proceeds to meet the sight bill drawn by the Australian exporter.

Since the exporter obtains payment as soon as he discounts the bill, it is the negotiating Australian bank which provides the credit for the period for which it holds the bill. It charges interest (« discount ») to the exporter in the rate of exchange at which it negotiates the bill, its buying rate being lower by the amount of interest the longer the term of the bill. The exporter, of course, will normally allow for interest, as well as insurance, freight and other costs of shipment, in making out his invoice and the corresponding face value of the bill.

Australian export bills under letter of credit are usually drawn on the oversea

opening bank, rather than on the importer, and it is to the opening bank that the Australian negotiating bank sends the bill with documents by air or sea mail for acceptance and payment. This, at any rate, is the normal procedure with the great majority of export credits which are expressed in sterling. For credits in other currencies, chiefly U.S. dollars, the Australian negotiating bank usually obtains reimbursement directly by the opening bank crediting the Australian bank's account with itself. In the case of Australian currency credits from Eastern countries, the Australian bank is usually asked to debit payments to the oversea bank's Australian currency account with itself. These accounts are replenished from time to time by the oversea banks, either from proceeds of collections on Australia or, more often, by sale to the Australian bank of sterling or other foreign exchange for Australian pounds.

Since the Australian bank is guaranteed payment by the oversea bank — and it will negotiate bills under letter of credit only if it is sure of the good standing of the opening bank — it has no objection to the opening bank delivering the documents to the importer upon acceptance. This enables the oversea importer to obtain control of the goods from the shipping company, even though the negotiating bank may have to wait for the money for another month or two. Accepted usance bills are normally held by the London offices of the Australian banks (or by correspondent banks on behalf of the Australian banks in other countries) until maturity. They serve the banks as a convenient short-term investment for London funds. But sterling bills under letter of credit, which necessarily carry the names of two banks, can be re-discounted with London discount houses; similarly dollar bills under credits can be re-discounted in the U.S.A. or Canada, as the case may be. The Australian banks at times take advantage of this facility when they are short of London funds. Some of them have been known to re-discount bills and sell the proceeds imme-

diately to the Commonwealth Bank, as a means of replenishing their Australian cash reserves when their domestic liquidity was under severe pressure.

Export finance under letter of credit is not confined to finance during shipment. Letters of credit in favour of Australian wool exporters (and occasionally exporters of timber and some other commodities) may include a « red ink clause ». This authorises the Australian bank to extend pre-shipment finance by overdraft to the exporter to enable him to cover the short period between purchase of the wool at auction in Australia and preparation of the documents and wool for shipment. This pre-shipment finance, of course, differs from other overdraft accommodation which Australian banks provide to producers and traders of goods intended for export only in of pre-shipment finance under red ink clause credits are guaranteed by the opening bank overseas, and therefore generally require no other security, and that they are usually only for periods of a few days or weeks. The use of pre-shipment finance under red ink clause used to be common in the wool trade, but is declining to-day when wool exporters are more often independent concerns shipping on their own account, rather than merely representatives of oversea principals.

While the sterling bill under letter of credit can be regarded as the standard method of finance of Australian exports, it probably does not cover much more than half the total. Australian banks still negotiate a substantial volume of sight and term bills not under letter of credit. Since these carry no oversea bank's guarantee, they are accepted for negotiation only where the exporter's credit with the bank is good, and a full set of documents, bill of lading, insurance policy, etc., will usually be required and held until the bill is paid. Where the exporter is himself in a position to extend credit to the importer, he will often save himself the bank's charges for negotiation and hand his bills to the bank on a collection basis only.

Again, a fair part of Australian export finance is on a cash basis. This applies, for instance, to exports shipped by connection or agents of overseas firms in Australia, where funds are usually remitted to Australia by TT before or after shipment. In the post-war seller's market, and particularly when an appreciation of £A was expected, a good deal of wool export and some wheat and flour was pre-paid. Metals are frequently shipped abroad for sale there; in this case, too, no Australian bank credit is directly involved, though the mining company may, of course, be getting ordinary overdraft accommodation, and the foreign exchange proceeds will pass, like all other exchange dealings, through the hands of an Australian bank.

Another considerable though diminishing portion of Australian export trade, in the finance of which the private trading banks have little or no share, is the export of commodities handled by Government marketing boards, such as wheat and flour, eggs and dairy products. The Commonwealth marketing boards handle almost all wheat exports, and all egg and dairy product exports, without intervention of private traders. They bank with the Rural Credits Department of the Commonwealth (Central) Bank, but their export finance transactions are handled on behalf of the Central Bank by the Commonwealth Trading Bank. In the case of wheat, finance mostly takes the form of bills drawn on oversea buyers under letter of credit; in the case of eggs and dairy products, the usual procedure is sale on consignment and cash remittance, finance during shipment being obtained on overdraft from the Rural Credits Department. Flour is mostly sold through private merchants and financed like other private exports.

Finance of Imports.

Most of what has been said about the finance of Australian exports applies, *mutatis mutandis*, also to the finance of Australian

imports. But there are a number of special features that need to be explained.

Australia's imports consist mainly of industrial products at various stages of manufacture. Nearly onehalf have in recent years come from the United Kingdom, 15-20% from the U.S.A. and Canada, about 12% from Continental Europe, and most of the rest from New Zealand and Eastern countries. As in the case of exports, all imports from the United Kingdom and the greater part of the remainder are payable in sterling, the exceptions being dollar imports, some imports from Continental countries financed in their currencies, and some from S.E. Asia financed in Australian pounds.

As with exports, payment is now more often than not by sterling bill drawn under letter of credit although, even more so than with exports, this is mainly a development since World War II. The import letter of credit is, of course, opened at the request of the Australian importer by his Australian bank in favour of the oversea supplier and provides for drawings by the supplier either on the Australian bank's London office (or foreign agent bank) or on the importer. The oversea exporter can, and usually does, obtain payment as soon as he has placed the goods on board ship. The Australian importer can, if he wishes, defer payment until the arrival of the goods in Australia or even longer. A large part of the finance required is supplied by the Australian banks, though oversea banks and discount houses also share in it.

Before the last war, letters of credit opened by Australian banks on behalf of Australian importers usually provided for drawings on the importer, generally at sight, though importers who had established the practice over the years were able to obtain credits providing for usance drawings. The normal practice was for the bills to be concerted into £A at the (London on Australia buying) rate of exchange ruling on the date of negotiation (payment to the exporter) in London. In the post-war years, the widespread expectation of an appre-

ciation of the Australian pound led to a general demand by Australian importers to defer payment for imports, and conversion of bills in £A, as long as possible, in the hope that they might benefit from any appreciation of £A which might take place before payment was due. The Australian banks met this demand by developing special facilities for deferment of conversion. Whith the deterioration in the Australian balance of payments since 1951, the expectation of an appreciation has disappeared, if not given way to fears of depreciation. Importers have been content with, or even enxious for, immediate conversion of their liabilities into £A. But the habit of deferred payment established in the post-war years persists, and the credit facilities provided by the banks for the finance of imports are used much more extensively than before the war.

Import letters of credit are of two main types, « negotiation credits » and « London acceptance credits ». The traditional negotiation credits authorise the oversea exporter to draw on the Australian importer at sight or up to 90 days after sight. The exporter can sell the bill drawn under the credit to the London office or oversea agent of the Australian opening bank on presentation of documents. He is paid the face value of the bill in sterling. The London office converts the bill at its London on Australia buying rate of exchange at the date of negotiation and sends the bill and documents to Australia (usually by air mail to ensure that they arrive in Australia ahead of the goods) where the bill is presented for payment or acceptance by the importer. On the due date, the amount owing by the importer is debited to his account, the Australian office of the bank at the same time crediting its London office by the amount in its inter-branch accounts.

To meet the demand for deferment of conversion in £A, a variant of negotiation credits was widely used in the years 1948-51, called « interest clause credits ». They provided for payment by the importer at the

conversion rate (Australia on London selling rate) current at the date of payment by the importer in Australia, the importer being charged interest (at somewhat above overdraft rate) for the period between payment by the bank to the exporter in London and reimbursement by the importer in Australia. These credits were originally available for drawings by Continental as well as British exporters and for usance drawings up to 60 days sight. At the request of the Commonwealth Bank, anxious to limit speculation on an appreciation of £A, they were, in August 1951, restricted to sight drawings by British exporters. Since the appreciation scare ended, these credits have fallen into disuse.

« London acceptance credits » provided a convenient alternative to interest clause credits. They authorise the British exporter to draw on the London office of the Australian opening bank, either at sight or up to 90 or even 120 days (in 1951 limited to 60 days) after sight. In the case of sight drawings, the London office pays the exporter's bill on presentation of documents. In the case of usance drawings, the exporter presents the bill to the London office for acceptance and can then get house. In practice, British exporters frequently expect the accepting office in London to discount the bill as well, and this demand is generally met, even though such bills, discounted by the Australian bank under its own credit, can, for prestige reasons, not very well be re-discounted in the London market in the event of the bank finding itself short of sterling.

Bills drawn under acceptance credits are not sent to Australia but retained by the London office which merely forwards shipping documents for delivery to the importer. Some banks permits the Australian importer to defer payment, not only under usance drawings, but even under sight drawings for a maximum period which roughly corresponds to the time it will take the goods to reach Australia. (Deferment of payment of sight bills has become common with the

increasing use of air mail; when sea mail was used, the bill and documents did not in any case arrive before the goods and the importer could be expected to meet the bill at sight). Conversion into £A (at the current Australia on London selling rate) does not take place until the date of payment by the importer in Australia. The importer's account is debited by the amount of his liability on the due date; if the importer, for any reason, asks for a further extension of credit, he must give an undertaking that the exchange rate ruling on the maximum deferment date shall apply to the transaction. The importer is charged interest at overdraft rate for the period for which the bank is out of funds on the transaction.

London acceptance credits are confined to imports from the United Kingdom and Ireland. But similar credits are available for imports from other countries where the contract provides for payment in sterling (« foreign documentary credits in sterling » or « Eastern credits ») and for payment in dollars or other foreign currencies (« foreign documentary credits in foreign currency »). The former provide for drawings on the London office of the Australian bank, the latter for drawings on the Australian bank's agent bank in the exporter's country.

Wherever imports are financed under letter of credit, the initiative in arranging for bank finance lies with the Australian importer. But it is still common for the oversea exporter to take the initiative by drawing a sight or term bill on the importer without authority under letter of credit. If the exporter's standing is good he may be able to get his own bank to negotiate his bills. More often, British exporters request the London offices of the Australian banks to negotiate bills on Australian importers, generally selecting the bank where the importer keeps his accounts. If the Australian bank's London office is prepared to buy a bill not under letter of credit, the subsequent procedure is similar to that with bills drawn under credits. Even

with bills drawn not under credits, it is customary for the Australian banks, with the consent of the drawer of the bill, to surrender shipping documents to the importer in acceptance of usance bills; but since the bank thereby relinquishes the security of the goods, it can afford to do so only if it is assured of the financial standing, not only of the importer, but also of the oversea exporter on whom it has to rely for recourse if the importer should default. Bills are sometimes drawn at sight with the provision that drawees may have the option of accepting them at a usance at the discretion of the Australian office of the negotiating bank or on instruction from the drawer's representative in Australia.

Normally, oversea exporters will draw bills payable « with exchange as per endorsement » which are converted into £A when negotiated overseas, corresponding to negotiation credits. In the post-war years, Australian importers frequently requested drawings of « English currency interest clause bills » (EIB's) which were payable at the selling rate of exchange Australia on London on the date of payment (plus interest), corresponding to interest clause credits. They were confined by agreement, in response to Central Bank wishes, to imports from the U.K. and Ireland. Like the corresponding credits, they have gone out of use with the reversal of expectations about likely changes in the Australian exchange rate.

Under the methods discussed so far, import finance is provided by banks — the Australian banks in all cases, except where the oversea exporter discounts his drafts with an oversea bank or discount house. But, as on the export side, trade credits and cash remittance look after a fair proportion of Australian imports. Oversea exporters who are sufficiently liquid to be able to grant credit to their customers will draw bills which they hand to banks on a collection basis only. These bills, which represent a relatively small part of the total, are presented by the banks to the importers in Australia for payment or

acceptance and are met on the due date by telegraphic or mail transfers (depending on the exporter's wishes) which the importers purchase from their banks at the relevant selling rate Australia on London (or the corresponding foreign currency rate).

Cash payment before or after shipment is the rule for imports by Australian subsidiaries of large overseas companies. This is an important category because it includes, among others, most oil imports, and imports of motor cars and parts for assembly by subsidiaries of overseas motor car manufacturing companies. Cash remittance is also usually employed by Australian firms, such as large department stores, which have their own buyes overseas and keep them in funds by periodic transfers.

Other Exchange Transactions.

Merchandise exports and imports are, of course, not the only overseas transactions. The Australian trading banks handle every day a multiplicity of other overseas financial transactions, payments for «invisibles» and capital transfers. But the mechanics of this part of their business is relatively simple and need not detain us long.

The most important «clean» transactions (that is, transactions not involving shipping documents), apart from cash settlement for commodity exports and imports, are for payment on account of invisible imports and exports, such as insurance premia, freights, royalties, and tourist expenditure; remittances of dividends and interest on international investments, immigrant remittances and other gifts; and capital transfers, such as purchases and sales of overseas securities, where these are permitted by exchange control, transfers of funds to subsidiaries or branches incidental to direct investments in other countries, and capital imported by immigrants.

Not all items recorded in the capital accounts of Australia's balance of payments reflect actual international financial transactions, and not all that do are handled for

customers by the trading banks. Undistributed profits of Australian companies owned by non-residents are notionally recorded as remitted to the overseas owners and re-invested in this country, but no foreign exchange transactions are involved. The same is true of capital imported by subsidiaries or branches of overseas concerns in the form of machinery and equipment. The Commonwealth (Central) Bank itself handles all overseas transactions of the Commonwealth Government and the four State Governments which bank with it. All Commonwealth expenditure abroad, whether for imports on Government account or for the maintenance of diplomatic missions, defence expenditure overseas, etc., is financed by cash remittance by the Commonwealth Bank to the account of Australia House with its London office or (for expenditure in North America) to the Australian Consul-General's account with the Commonwealth Bank's agent bank in New York. Similarly, all Commonwealth and State overseas loan transactions, interest payments and remittance of loan proceeds, are dealt with by the Commonwealth Bank. The only Government overseas business that passes through the hands of trading banks is the business of the two States (N.S.W. and Victoria) which bank with private trading banks. But virtually all other financial transactions between Australian residents and residents in other countries, in one form or another, give rise to exchange business for the trading banks.

The method of payment for most non-commercial transactions is by telegraphic or mail transfer or bank draft. The former is simply an order to pay money transmitted by a bank to its branch or agent by cable or air or sea mail. The remitter pays in local currency and leaves it to the bank to advise the payee and pay him in overseas currency. For small amounts, air mail is increasingly used, but for all large transactions where the cable charge is a minor item, TT still predominates. A bank draft is an order by the local bank to an overseas bank agent to pay the holder of the draft, the local bank advising

the drawee bank of its issue. A very familiar form of bank draft is the traveller's cheque which has largely superseded the circular letter of credit as the most popular means of financing travel expenditure. All such remittances, of course, represent sales or purchases of foreign exchange and are reflected in

changes in the Australian banks' sterling or foreign exchange balances held overseas or, to a much smaller extent, in the £A balances held by overseas banks with the Australian banks.

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(to be continued)