



Treaty Series No. 1 (1957)

# Exchange of Notes and Memorandum of Understanding

between the Government of the  
United Kingdom of Great Britain and Northern Ireland  
and the Government of Indonesia

relating to arrangements for the Export of Cotton Yarn  
and/or Textiles from the United Kingdom to  
Indonesia and the acceptance in the United Kingdom  
of Raw Cotton, together with an Exchange of Notes  
and Memorandum of Understanding between the  
Government of Hong Kong and the Government  
of Indonesia on the same subject

Djakarta, July 2, 1956

*Presented by the Secretary of State for Foreign Affairs to Parliament  
by Command of Her Majesty  
January 1957*

LONDON  
HER MAJESTY'S STATIONERY OFFICE

EIGHTPENCE NET

**EXCHANGE OF NOTES AND MEMORANDUM OF UNDER-  
STANDING BETWEEN THE GOVERNMENT OF THE UNITED  
KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND  
AND THE GOVERNMENT OF INDONESIA RELATING TO  
ARRANGEMENTS FOR THE EXPORT OF COTTON YARN  
AND/OR TEXTILES FROM THE UNITED KINGDOM TO  
INDONESIA AND THE ACCEPTANCE IN THE UNITED  
KINGDOM OF RAW COTTON, TOGETHER WITH AN  
EXCHANGE OF NOTES AND MEMORANDUM OF UNDER-  
STANDING BETWEEN THE GOVERNMENT OF HONG KONG  
AND THE GOVERNMENT OF INDONESIA ON THE SAME  
SUBJECT**

*Djakarta, July 2, 1956*

No. 1 (a)

*Her Majesty's Chargé d'Affaires ad interim at Djakarta to the  
Secretary-General of the Indonesian Ministry of Foreign Affairs*

Sir,

*British Embassy, Djakarta, July 2, 1956.*

I have the honour to refer to discussions which have taken place between representatives of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Republic of Indonesia relating to arrangements for the export of cotton yarn and/or textiles from the United Kingdom to the Republic of Indonesia and for the acceptance in the United Kingdom of raw cotton subject to the issuing by the Government of the United States of America to the Government of the Republic of Indonesia of a purchase authorisation for such raw cotton pursuant to Title I of the United States Agricultural Trade Development and Assistance Act of 1954.

2. Certain understandings reached during those discussions are set out in the Memorandum which is annexed to this letter.

3. I now have the honour to inform you that the understandings set out in that Memorandum are acceptable to the Government of the United Kingdom of Great Britain and Northern Ireland, and to propose that, if they are also acceptable to the Government of the Republic of Indonesia, the present letter and Memorandum annexed thereto, together with your reply in that sense, should be regarded as constituting an Agreement between the two Governments in this matter which shall enter into force on this day's date.

Please accept, &c.

R. M. SANER.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE REPUBLIC OF INDONESIA AND THE GOVERNMENT OF THE UNITED KINGDOM FOR THE SUPPLY OF COTTON TEXTILES TO INDONESIA AGAINST RAW COTTON TO BE OBTAINED BY THE UNITED KINGDOM FROM THE UNITED STATES OF AMERICA UNDER THE UNITED STATES P.L. 480 PROGRAMME

The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as "The Government of the United Kingdom") and the Government of the Republic of Indonesia (hereinafter referred to as "The Government of Indonesia") desiring to make arrangements for the export of cotton yarn and/or textiles of the value of U.S. dollars 3 million from the United Kingdom to Indonesia and for the acceptance in the United Kingdom of raw cotton of equivalent value in anticipation of and subject to the Government of the United States of America issuing to the Government of Indonesia a purchase authorisation (hereinafter called "PA") for such raw cotton pursuant to Title I, United States Public Law 480, 83rd Congress, have reached an understanding as follows:—

*I.—Government of the United Kingdom*

A. Will arrange the export of cotton yarn (including sewing thread) and/or textiles of United Kingdom manufacture of the total value of U.S. dollars 3 million, of which U.S. dollars 2 million shall be cotton piece-goods and U.S. dollars 1 million cotton yarn. This undertaking shall be conditional upon the conclusion of satisfactory commercial contracts between exporters in the United Kingdom and importers in Indonesia of a total value of up to U.S. dollars 3 million.

B. Will arrange for the acceptance of raw cotton made available to the Government of Indonesia by the United States under P.L. 480 in full payment for the yarn and/or textiles exported to Indonesia.

C. Will arrange for the acceptance of delivery of the raw cotton under the PA within eight months after the date of the issue of the PA or such extended period as may be agreed (see paragraph II F below).

D. Will not import raw cotton unless letters of credit for yarn and/or textiles of equivalent value have been opened, and will inform the Government of Indonesia from time to time of the credits opened for raw cotton and of the shipment of yarn and/or textiles.

E. Will arrange that the raw cotton shall be imported under the applicable regulations of the United States Department of Agriculture.

F. Recognises that the raw cotton imported from the United States under this programme will be in addition to cotton that would otherwise be imported from the United States and countries friendly to the United States and that it will not result in increased availability of cotton or cotton yarn and/or textiles to countries unfriendly to the United States of America.

G. Accepts that claims in respect of deficiency in quantity or quality of the yarn and/or textiles shall be settled by negotiation between exporters in the United Kingdom and importers in Indonesia in accordance with the normal commercial practice, and that any deficiency in quantity or quality

will be made good by additional supplies of yarn and/or textiles or, failing that, by reimbursement in United States dollars in favour of the Government of Indonesia.

H. Will arrange that all yarn and/or textiles to be exported to Indonesia under the terms of this Memorandum shall be shipped within six-months after the issue of the PA for raw cotton.

J. If, after three months from the date of issue of the PA for raw cotton, contracts for the supply of yarn and/or textiles have not been concluded between importers in Indonesia and exporters in the United Kingdom to a minimum of U.S. dollars 750,000, accepts that the Government of Indonesia may, after informing the Government of the United Kingdom, be released from its undertaking under paragraph I B below in respect of the balance of the total specified in that paragraph.

K. In the event that the Government of Indonesia is prepared to suspend its right under the preceding paragraph for an additional period of one month, accepts that the Government of Indonesia may specify a further minimum value of contracts which shall be concluded within the additional one month.

## II.—Government of Indonesia

A. Will transfer to the Government of the United Kingdom the authority to sub-authorise the PA for raw cotton immediately this is received.

B. Will arrange for the import of cotton yarn and/or textiles to a total value of U.S. dollars 3 million and will issue licences to eligible importers in Indonesia up to this total. All licences shall be issued within thirty days of application by importers on the basis of the rate of exchange U.S. dollars 2.80 = £1 = Indonesian rupiahs 31.92.

C. Will ensure that importers in Indonesia make payment for the yarn and/or textiles by means of letters of credit in sterling issued in favour of the United Kingdom exporter, as provided for in the annexed Procedure; and will inform the Government of the United Kingdom from time to time of the opening of such letters of credit.

D. Will be solely responsible for the deposit to the account of the Government of the United States of the rupiah equivalent of United States dollar disbursements as required under the Surplus Agricultural Commodities Agreement between Indonesia and the United States and the PA.

E. Recognises that the yarn and/or textiles imported hereunder will be in addition to the yarn and/or textiles that would otherwise be imported from the United States and countries friendly to the United States.

F. In the event that fulfilment of the arrangement in paragraph I C is prevented by some occurrence over which the Government of the United Kingdom has no control (for example, a movement in world cotton prices rendering the price of United States cotton for export uncompetitive) will recommend to the Government of the United States a reasonable extension of the PA for the raw cotton.

## III.

A. This Memorandum shall be submitted to the Government of the United States on the understanding that the provisions hereof shall form a part of the application of the Government of Indonesia for the PA.

B. The Government of the United States will not be expected to provide for final shipment of raw cotton of lesser value than U.S. dollars 1,000. Any residual amount below U.S. dollars 1,000 by which the value of the raw cotton shipped, taking into account adjustment refunds made, is less than the total value of the yarn and/or textiles supplied, shall be settled through payment by the Government of Indonesia to the Government of the United Kingdom, or its nominee, in sterling.

C. Commercial contracts for the delivery of the yarn and/or textiles shall be made on terms to be negotiated between exporters in the United Kingdom and importers in Indonesia.

D. The annexed "Procedure" shall be regarded as part of this Memorandum.

## ANNEX

### Procedure

#### A.—*For Yarn and/or Textiles that will be Imported by Indonesia*

1. The Government of Indonesia will issue import licences for the yarn and/or textiles.

2. Importers in Indonesia will place orders for the yarn and/or textiles with exporters in the United Kingdom and will open sterling letters of credit in favour of the exporters to cover the purchases on a cost and freight basis within two weeks after confirmation of orders. These sterling letters of credit, which will be irrevocable, will be opened by the Bank Indonesia and advised through the Chartered Bank of India, Australia and China, Manchester (hereinafter referred to as the Chartered Bank).

3. Exporters in the United Kingdom will ship the yarn and/or textiles and draw drafts against the sterling letters of credit.

4. The Chartered Bank will forward sterling drafts with shipping documents covering the yarn and/or textiles to the Bank Indonesia, which will credit the sterling proceeds to a sterling Escrow Account kept in Djakarta in the name of the Chartered Bank, Manchester.

5. The Bank Indonesia will collect the drafts drawn under the sterling letters of credit and will deposit the amounts in the Escrow Account in accordance with the instructions of the Chartered Bank.

6. The sterling in the Escrow Account will be used only to credit later the special United States Account under the Indonesian P.L. 480 programme.

#### B.—*For United States Cotton that will be Imported by the United Kingdom*

1. The United States Department of Agriculture (Commodity Credit Corporation) will issue letters of commitment to United States banks in respect of the dollar letters of credit to be opened under the PA in favour of United States shippers of cotton.

2. After the Government of Indonesia has transferred the PA to the United Kingdom, the Government of the United Kingdom will nominate firms as its agents to sub-authorise procurement of the cotton under the PA.

3. Importers in the United Kingdom will place orders for the cotton and open dollar letters of credit under the provisions of the letters of commitment issued by USDA (CCC).

4. United States exporters will ship the cotton and draw drafts under the dollar letters of credit.

5. United States banks will accept drafts and pay the United States exporters in dollars.

6. United States banks will draw dollar drafts on USDA (CCC) and collect dollars and will forward title documents to the Chartered Bank.

7. The Chartered Bank will request the Bank Indonesia to transfer an equivalent amount of sterling from the sterling Escrow Account in the Bank Indonesia to the special United States Account in Djakarta.

8. The Bank Indonesia :—

- (i) will debit the sterling Escrow Account of the Chartered Bank in amounts equivalent to the dollar drafts at the rate of exchange specified in paragraph II B of the Memorandum;
- (ii) will credit the special United States Account with equivalent amounts of rupiahs.

No. 1 (b)

*The Secretary-General of the Indonesian Ministry of Foreign Affairs to Her Majesty's Chargé d'Affaires ad interim at Djakarta*

*Kementerian Luar Negeri  
Republik Indonesia,*

Sir,

*Djakarta, July 2, 1956.*

I have the honour to acknowledge the receipt of your Note of to-day's date enclosing a copy of a Memorandum in which are set out the understandings reached between representatives of the Government of the Republic of Indonesia and the Government of the United Kingdom of Great Britain and Northern Ireland relating to arrangements for the export of cotton textiles and/or yarns from the United Kingdom to the Republic of Indonesia and for the acceptance in the United Kingdom of raw cotton subject to the issuing by the Government of the United States of America to the Government of the Republic of Indonesia of a purchase authorisation for such raw cotton pursuant to Title I of the United States Agricultural Trade Development and Assistance Act of 1954.

2. You informed me that the understandings set forth in that Memorandum are acceptable to the Government of the United Kingdom.

3. In reply I have the honour to inform you that the understandings set out in that Memorandum are also acceptable to the Government of the Republic of Indonesia and that they agree with your proposal that your Note and the Memorandum annexed thereto, together with this reply, should be regarded as constituting an Agreement between the two Governments in this matter which shall enter into force on this day's date.

I avail, &c.

SUBANDRIO.

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No. 2 (a)

*Her Majesty's Chargé d'Affaires ad interim at Djakarta to the Secretary-General of the Indonesian Ministry of Foreign Affairs*

*British Embassy,*

Sir,

*Djakarta, July 2, 1956.*

I have the honour to refer to discussions which have taken place between representatives of the Government of Hong Kong and the Government of the Republic of Indonesia relating to arrangements for the export of cotton

1  
yarn and/or textiles from Hong Kong to the Republic of Indonesia and for the acceptance in Hong Kong of raw cotton subject to the issuing by the Government of the United States of America to the Government of the Republic of Indonesia of a purchase authorisation for such raw cotton pursuant to Title I of the United States Agricultural Trade Development and Assistance Act of 1954.

2. Certain understandings reached during these discussions are set out in the Memorandum which is annexed to this letter.

3. I now have the honour to inform you that the understandings set out in that Memorandum are acceptable to the Government of Hong Kong, and to propose that, if they are also acceptable to the Government of the Republic of Indonesia, the present letter and Memorandum annexed thereto, together with your reply in that sense, should be regarded as constituting an Agreement between the two Governments in this matter which shall enter into force on this day's date.

Please accept, Sir, &c.

R. M. SANER.

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF THE REPUBLIC OF INDONESIA AND THE GOVERNMENT OF HONG KONG FOR THE SUPPLY OF COTTON TEXTILES TO INDONESIA AGAINST RAW COTTON TO BE OBTAINED BY HONG KONG FROM THE UNITED STATES OF AMERICA UNDER THE UNITED STATES P.L. 480 PROGRAMME

The Government of Hong Kong and the Government of the Republic of Indonesia (hereinafter referred to as "The Government of Indonesia") desiring to make arrangements for the export of cotton yarn and/or textiles of the value of U.S. dollars 3.5 million from Hong Kong to Indonesia and for the acceptance in Hong Kong of raw cotton of equivalent value in anticipation of and subject to the Government of the United States of America issuing to the Government of Indonesia a purchase authorisation (hereinafter called "PA") for such raw cotton pursuant to Title I, United States Public Law 480, 83rd Congress, have reached an understanding as follows:—

1.—*Government of Hong Kong*

A. Will arrange the export of cotton yarn including sewing thread and/or textiles of Hong Kong manufacture of the total value of U.S. dollars 3.5 million. This undertaking shall be conditional upon the conclusion of satisfactory commercial contracts between exporters in Hong Kong and importers in Indonesia of a total value of up to U.S. dollars 3.5 million.

B. Will arrange for the acceptance of raw cotton made available to the Government of Indonesia by the United States under P.L. 480 in full payment for the yarn and/or textiles exported to Indonesia.

C. Will arrange for acceptance of delivery of the raw cotton under the PA within eight months after the date of the issue of the PA or such extended period as may be agreed (see paragraph II F below).

D. Will not import raw cotton unless letters of credit for yarn and/or textiles of equivalent value have been opened, and will inform the Government of Indonesia from time to time of the credits opened for raw cotton and of the shipment of yarn and/or textiles.

E. Will arrange that the raw cotton shall be imported under the applicable regulations of the United States Department of Agriculture.

F. Recognises that the raw cotton imported from the United States under this programme will be in addition to cotton that would otherwise be imported from the United States and countries friendly to the United States and that it will not result in increased availability of cotton or cotton yarn and/or textiles to countries unfriendly to the United States of America.

G. Accepts that claims in respect of deficiency in quantity or quality of the yarn and/or textiles shall be settled by negotiation between exporters in Hong Kong and importers in Indonesia in accordance with the normal commercial practice, and that any deficiency in quality or quantity will be made good by additional supplies of yarn and/or textiles or, failing that, by reimbursement in United States dollars in favour of the Government of Indonesia.

H. Will arrange that all yarn and/or textiles to be exported to Indonesia under the terms of this Memorandum shall be shipped within six months after the issue of the PA for raw cotton.

J. If, after three months from the date of issue of the PA for raw cotton, contracts for the supply of yarn and/or textiles have not been concluded between importers in Indonesia and exporters in Hong Kong to a minimum of U.S. dollars 875,000, accepts that the Government of Indonesia may, after informing the Government of Hong Kong, be released from its undertaking under paragraph II B below in respect of the balance of the total specified in that paragraph.

K. In the event that the Government of Indonesia is prepared to suspend its right under the preceding paragraph for an additional period of one month, accepts that the Government of Indonesia may specify a further minimum value of contracts which shall be concluded within the additional one month.

## II.—*Government of Indonesia*

A. Will transfer to the Government of Hong Kong the authority to sub-authorise the PA for raw cotton immediately this is received.

B. Will arrange for the import of cotton yarn and/or textiles to a total value of U.S. dollars 3.5 million and will issue licences to eligible importers in Indonesia up to this total. All licences shall be issued within thirty days of application by importers on the basis of the rate of exchange U.S. dollar 0.155=Hong Kong dollar 1=Indonesian rupiahs 1.99.

C. Will ensure that importers in Indonesia make payment for the yarn and/or textiles by means of letters of credit in Hong Kong dollars issued in favour of the Hong Kong exporter, as provided for in the annexed Procedure; and will inform the Government of Hong Kong from time to time of the opening of such letters of credit.

D. Will be solely responsible for the deposit to the account of the Government of the United States of the rupiah equivalent of United States dollar disbursements as required under the Surplus Agricultural Commodities Agreement between Indonesia and the United States and the PA.

E. Recognises that the yarn and/or textiles imported hereunder will be in addition to the yarn and/or textiles that would otherwise be imported from the United States and countries friendly to the United States.

F. In the event that fulfilment of the arrangement in paragraph I C is prevented by some occurrence over which the Government of Hong Kong has no control (for example, a movement in world cotton prices rendering the price of United States cotton for export uncompetitive) will recommend to the Government of the United States a reasonable extension of the PA for the raw cotton.

## III.

A. This Memorandum shall be submitted to the Government of the United States on the understanding that the provisions hereof shall form a part of the application of the Government of Indonesia for the PA.

B. The Government of the United States will not be expected to provide for final shipment of raw cotton or lesser value than U.S. dollars 1,000. Any residual amount below U.S. dollars 1,000 by which the value of the raw cotton shipped, taking into account adjustment refunds made, is less than

the total value of the yarn and/or textiles supplied, shall be settled through payment by the Government of Indonesia to the Government of Hong Kong, or its nominee, in Hong Kong dollars.

C. Commercial contracts for the delivery of the yarn and/or textiles shall be made on terms to be negotiated between exporters in Hong Kong and importers in Indonesia.

D. The annexed "Procedure" shall be regarded as part of this Memorandum.

## ANNEX

### Procedure

#### *A.—For Yarn and/or Textiles that will be Imported by Indonesia*

1. The Government of Indonesia will issue import licences for the yarn and/or textiles.

2. Importers in Indonesia will place orders for the yarn and/or textiles with exporters in Hong Kong and will open letters of credit in Hong Kong dollars in favour of the exporters to cover the purchases on a cost and freight basis within two weeks after confirmation of orders. These letters of credit in Hong Kong dollars, which will be irrevocable, will be opened by the Bank Indonesia and advised through the Hongkong and Shanghai Banking Corporation, Hong Kong.

3. Exporters in Hong Kong will ship the yarn and/or textiles and draw drafts against the letters of credit in Hong Kong dollars.

4. The Hongkong and Shanghai Banking Corporation will forward drafts in Hong Kong dollars with shipping documents covering the yarn and/or textiles to the Bank Indonesia, which will credit the proceeds in Hong Kong dollars to an Escrow Account in Hong Kong dollars kept in Djakarta in the name of the Hongkong and Shanghai Banking Corporation, Hong Kong.

5. The Bank Indonesia will collect the drafts drawn under the letters of credit in Hong Kong dollars and will deposit the amounts in the Escrow Account in accordance with the instructions of the Hongkong and Shanghai Banking Corporation.

6. The Hong Kong dollars in the Escrow Account will be used only to credit later the special United States Account under the Indonesian P.L. 480 programme.

#### *B.—For United States Cotton that will be Imported by Hong Kong*

1. The United States Department of Agriculture (Commodity Credit Corporation) will issue letters of commitment to United States banks in respect of the United States dollar letters of credit to be opened under the PA in favour of United States shippers of cotton.

2. After the Government of Indonesia has transferred the PA to Hong Kong, the Government of Hong Kong will nominate firms as its agents to sub-authorise procurement of the cotton under the PA.

3. Importers in Hong Kong will place orders for the cotton and open United States dollar letters of credit under the provisions of the letters of commitment issued by U.S.D.A. (C.C.C.).

4. United States exporters will ship the cotton and draw drafts under the United States dollar letters of credit.

5. United States banks will accept drafts and pay the United States exporters in United States dollars.

6. United States banks will draw United States dollar drafts on U.S.D.A. (C.C.C.) and collect United States dollars and will forward title documents to the Hongkong and Shanghai Banking Corporation.

7. The Hongkong and Shanghai Banking Corporation will request the Bank Indonesia to transfer an equivalent amount of Hong Kong dollars from the Escrow Account in Hong Kong dollars in the Bank Indonesia to the special United States Account in Djakarta.

8. The Bank Indonesia :

- (i) will debit the Escrow Account in Hong Kong dollars of the Hongkong and Shanghai Banking Corporation amounts equivalent to the dollar drafts at the rate of exchange specified in paragraph II B of the Memorandum;
- (ii) will credit the special United States Account with equivalent amounts of rupiahs.

No. 2 (b)

*The Secretary-General of the Indonesian Ministry of Foreign Affairs to Her Majesty's Chargé d'Affaires ad interim at Djakarta*

*Kementerian Luar Negeri  
Republik Indonesia,  
Djakarta, July 2, 1956.*

Sir,

I have the honour to acknowledge the receipt of your Note of to-day's date enclosing a copy of a Memorandum in which are set out the understandings reached between representatives of the Government of the Republic of Indonesia and the Government of Hong Kong relating to arrangements for the export of cotton yarns from Hong Kong to the Republic of Indonesia and for the acceptance in Hong Kong of raw cotton subject to the issuing by the Government of the United States of America to the Government of the Republic of Indonesia of a purchase authorisation for such raw cotton pursuant to Title I of the United States Agricultural Trade Development and Assistance Act of 1954.

2. You informed me that the understandings set forth in that Memorandum are acceptable to the Government of Hong Kong.

3. In reply I have the honour to inform you that the understandings set out in that Memorandum are also acceptable to the Government of the Republic of Indonesia, and that they agree with your proposal that your Note and the Memorandum annexed thereto, together with this reply, should be regarded as constituting an Agreement between the two Governments in this matter which shall enter into force on this day's date.

I avail, &c.

SUBANDRIO.

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