

Before any disposition was made of these letters by the censorship stations photostatic copies were obtained for the use of the investigative staff of the case at issue.

Arrangements were made to have Censorship make certain studies or collect certain data or particular types of mail going to and from certain countries. A study was made of the volume and dollar value of travelers checks coming into the United States from blocked countries in Europe. All United States cable traffic with North Africa in 1942 was studied in order to obtain therefrom information of value in establishing a policy with respect to that area. A censorship study revealed that a black market dealing in Chinese and U. S. currency was flourishing at Calcutta, India, through which indirect remittances could be effected from the United States to China in violation of the freezing controls. This problem was studied by the Licensing Division in conjunction with the Censorship Relations Section and as a result thereof all communications through which such black market operations had been effected were condemned and communications relating to remittances addressed to India for subsequent transmittal to China were returned to the sender.

Foreign Funds Control utilized Censorship facilities in carrying out certain programs of Foreign Funds Control. For example, Censorship officers would often return communications to senders with advice that Treasury license was required; forms were inserted in certain incoming communications to advise the addressee that Treasury license was necessary to carry out a transaction based on the information contained in the communication.

The Censorship functions of the Control involved, furthermore, the establishment with Censorship of programs by which Foreign Funds Control policy was enforced or controlled. The postal communications were referred directly to Foreign Funds Control for recommended treatment, while action on cables to be taken by Censorship was recommended by a member of the Censorship Relations Section who spent part of each day consulting with cable censorship officers. Communications which affected financial or commercial transactions, communications containing powers of attorney or other instructions or authorizations to dispose of these, communications containing remittances, communications containing information which served as a basis of a subsequent transaction are examples of the communications which were handled by Censorship in cooperation with members of the staff of Foreign Funds Control to insure compliance with Foreign Funds Control problems.

A further example of the manner in which Censorship cooperated with Foreign Funds Control in implementing its enforcement programs is evidenced by the manner in which the Censorship facilities were used to implement the controls policy with respect to special blocked nationals, a program which will be described below. This special blocked national concept, as will be described more fully below, was a middle of the course action between proclaim listing a person and ad hoc blocking such person. A number of persons were made special blocked nationals and Censorship agreed to perform the following in view of the facilities available to them. (1) All special blocked nationals were placed on the Censorship watch list; (2) incoming commercial communications in which

special blocked nationals had an interest were passed but submissions were made for the benefit of the Treasury; (3) when checks in which such nationals had an interest were sent to this country to persons other than established banks the communications were "held and referred". The censor acted on instructions from the Chief Postal Censor who obtained the recommendations of Foreign Funds Control. (4) Outgoing mail to special blocked nationals were returned to sender with advice that a special license was required because of the interest of a special blocked national in such communication.

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The close cooperation between Treasury/^{and}the Office of Censorship was greatly facilitated by agreements worked out between the Office of Censorship and Foreign Funds Control. The most important of these agreements was the one under which it was agreed that in its regulations Censorship would adopt Foreign Funds Control definitions of "enemy national" and "enemy territory". Originally, the enforcement of Section 3(c) of the Trading with the enemy Act, relating to trade and communications, was reposed in the Secretary of the Treasury pursuant to Executive Order 2729 of October 12, 1917. On December 11, 1941, T. D. Regulation 50525 was issued dealing with controls relating to the bringing into or taking out of the United States letters and other tangible forms of communications outside the mails. Under these regulations persons arriving in the United States from any foreign country or departing from the United States for any foreign country were required to declare to Customs any letter or other tangible communication carried on his person or in his baggage. Provision was made for the issuance of licenses by Customs for taking or

sending of any letter or other tangible form of communication otherwise than in the regular course of mail provided such letter, etc. was not intended for or to be delivered to an "enemy or ally of our enemy". T.D. 50525 was amended by T.D. 50529 on December 15, 1941 to provide that wherever "an enemy or ally of an enemy" were used they shall mean "enemy" or "ally of enemy" as defined in Section 2 of the Trading with the enemy Act. On December 24, 1941, with the approval of the President, the Secretary issued T.D. 50536 whereby he designated the Office of Censorship to act as the agency of the Secretary of the Treasury to administer the authority vested in the Secretary by Executive Order No. 2729-A, relative to the sending, taking or transmitting or attempting to send, take or transmit out of the United States, and to issue licenses and exemptions as the said Office may from time to time prescribe, to send, take or transmit out of the United States any form of communication intended for or to be delivered directly or indirectly, to an enemy or ally of enemy. By the same T.D. the Bureau of Customs was designated to administer and issue licenses (except licenses to send, take or transmit communications intended for or to be delivered to an enemy or ally of enemy) in respect to the authority vested in the Secretary of the Treasury under Executive Order No. 2729A relative to the taking out of or bringing into the United States of any letters or other writing or tangible form of communication except in the regular course of the mails. Thus, originally the control over communications was divided between Customs Bureau of the Treasury Department and the Office of Censorship.

This close cooperation and coordination of activities between Foreign Funds Control and the Office of Censorship is reflected in the issuance by the Office of Censorship of Communications Ruling No. 1 which incorporated the definition of enemy as set forth by Foreign Funds Control in its General Ruling No. 11. In fact, Communications Ruling No. 1 was issued simultaneously with the Treasury's issuing General Ruling No. 11. Before discussing the implications of Communications Ruling No. 1 and its relationship to General Ruling No. 11 it might be well to focus at this point on a discussion of General Ruling No. 11 and its implications.

At the outset, it is important to refer to an earlier discussion on the relationship between Section 5(b) of the Trading with the enemy Act and Section 3(a) of the same act. It was pointed out at that time that Section 3(a) of the Trading with the enemy Act came into effect with the declaration of war and that to a substantial extent the provisions of Section 3(a) overlap the provisions of Section 5(b) in the freezing control. To avoid interference by having a dual licensing system a general license was issued by the President under Section 3(a) which provided that if a transaction was licensed under Executive Order 8389 that it also constituted a license under Section 3(a). It will be further recalled that Section 3(a) of the Trading with the enemy Act defined the term "enemy" in some respects too broadly and in other respects too narrowly. To meet the objection that Section 3(a) was too broad, General License 53 was issued carving out the groups of persons in Latin America with whom persons in the United States could trade. On the other hand, Section 3(a)

was too limited in that it did not cover persons on the Proclaimed List who this Government considered to be enemies. Accordingly, General Ruling No. 11 was issued in part to meet this latter objective. It modified the old Section 3(a) restrictions against trade and communications under wartime conditions by substituting the new concept "enemy national" for the old concept "enemy" and "ally of enemy". The term "enemy national" as defined in this new general ruling included persons in (a) "enemy territory"; (b) persons whose names appear on the Proclaimed List or any persons acting for such persons on the Proclaimed List; and (c) representatives or agents of the Governments of Germany, Italy, Japan, Hungary, Bulgaria and Roumania, whether situated within or without enemy territory.

At the time General Ruling No. 11 was being drafted it was recognized that although Section 3(a) of the Trading with the enemy Act dealt with trading with the enemy and should be considered in connection with the drafting of General Ruling No. 11 consideration should also be given to Section 3(c) of the Trading with the enemy Act which dealt with communications with the enemy and among other things made it a crime for anyone to send communications to any enemy as defined in the Act or even to drop in the mailbox any such letter without a license. To meet this provision the Office of Censorship accordingly would have had to set up a licensing procedure so that persons might apply to mail a letter. This would have had the effect of establishing a second licensing system for communications based on the concept of enemy as defined in Section 3(c) and which would have been inconsistent with the definition of enemy which

was modified by Foreign Funds Control in General Ruling No. 11. It was the Treasury view that this result should be avoided and that so far as commercial communications were concerned there should be an integration of Censorship problems with the freezing control problems and that what was regarded as enemy for purposes of trade should also be regarded as enemy for purposes of mail. Accordingly, Communications Ruling No. 1 was issued by the Office of Censorship simultaneously with the Treasury's issuance of General Ruling No. 11 and incorporated the terms and definitions that Treasury had formulated in General Ruling No. 11 for "enemy", "national" and "enemy territory". This is the most striking example of the synchronization of actions between Censorship and Foreign Funds Control.

(b) Handling Censorship Intercepts, etc. - The Flexoline

Early in the war it became apparent that an adequate enforcement program required full utilization of all the information available to the Control with respect to persons and enterprises. It will be recalled that the Control was continuously serviced by all the Departments of this Government and by the British Government with various types of information with respect to persons who might come within the jurisdiction of the Control.

Subsequently, as the relationship between the Office of Censorship and Foreign Funds Control were coordinated, the thousands of censorship intercepts referred to the Control provided valuable financial intelligence. Adequate use of this information required careful handling. Thus, to properly integrate these data with all other information being received by the Control, it established the flexoline system which included the names of all persons and enterprises about which the Control had information. Thus, through the Flexoline a key was provided whereby the information collected with respect to these persons and enterprises from the many sources could be fully utilized. Before action was taken on any application, for example, the Flexoline was checked to determine whether there was any information in the files pertaining to any person named in the application. Relevant information was attached to the application and was automatically referred with the application to the reviewer who could act on the application with full knowledge of all relevant facts available to the Control.

(c) Diplomatic Pouch

The Control canvassed with the Department of State and the Office of Censorship the problems created in wartime by the existence of the diplomatic pouch. The Control's interest in the subject was expressed and illustrated

by the citation of certain cases in which the French had used the pouch to convey commercial and strategic information into and out of the United States without benefit of censorship. Examples were given showing how the pouch had been used to evade the currency control.

Despite general agreement that such abuses should be terminated, the State Department maintained the uncompromising position that the inviolability of the diplomatic pouch must be secured at all cost. The assertedly inestimable value of our Berne pouch was so great, they insisted, that it was imperative that no action be taken by this government which might invite retaliatory measures against our pouch. Although the War Department agreed with the Treasury view the Joint Chiefs of Staff felt that nothing could be done to affect the handling of the pouch at this time.

5. Licensing Operations

It has already been indicated that the licensing operations of the Control was the basic enforcement technique of the Control. It was the direct operation through which the changing objectives of the Control were implemented. It will be

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recalled that when the Control, for example, had as its primary objective the protection of the assets of the over-run countries, applications for licenses could be and were treated on a geographic basis since the status of the area and the protection of its assets were of primary import. In contrast, when the whole world was frozen in June, 1941, and when the objectives of the Control changed from benevolent protection to aggressive and positive economic and financial warfare the applications for licenses were evaluated in the light of "Will a particular application, if granted, hurt the enemy as much as possible and help our friends." Consideration was thus given to the type of transaction involved and consequences of approval and denial thereof. Accordingly, at this time, and for a period of almost a year and a half during the war the Licensing Division was set up on a type of transaction basis and programs of economic warfare were implemented through licensing policies as applied to various types of transactions involving such things as trade, security imports, currency imports, business enterprises, etc. Subsequently, when we began to occupy former enemy controlled areas, special consideration was given to applications involving these specific areas. Thus, a special section was established early in 1943, to handle applications involving liberated areas, where consideration to applications was made in terms of the financial, political and economic elements in the area.

Initially, it will be recalled, the Control developed policy on the basis of its action on individual applications. In other words policies were developed incidental to the licensing problems presented to the Control in the form of applications. By the time December, 1941, arrived we were in a position of having anticipated programs and policies, and continued to do so during the entire war period. As a result, licensing operations became the technique through which

these programs and policies were implemented.

(a) Development of licensing policy.

(i) Technique of blanket licenses.

It has already been indicated that continuous efforts were made by the Control to carve out areas which did not require specific licenses and thus alleviate administrative burden on the Control/at the same time facilitate normal business operations. In this connection the technique of the general licensing system is outstanding. However, another aspect of the licensing system which deserves comment and constituted a sound step in reducing action on specific licenses is the blanket licensing technique.

The procedure in issuing these licenses was the same for issuing specific licenses for individual transactions. They could either be initiated in Washington or by the Federal Reserve Banks, depending upon the type of problem involved. The blanket license authorized a series of similar transactions over a period of time or in some cases without limitation as to time. Thus, we avoided the necessity of having applicants file and the Control consider a large number of applications for individual transactions of a similar nature. An example of the use of the blanket license technique was an authorization for banks or warehouses to pay storage charges with respect to goods held in this country and owned by blocked nationals. As a result, a number of blanket licenses were issued to the principal banks who held large amounts of such goods for account of blocked national customers in foreign countries and to warehousement, who held such goods, authorizing the charging of the account of the owner for the normal storage charges. Another example of the blanket license was the one issued to the principal New York banks in respect to collection of certain types of coupons, a type

for which we would have authorized collection if individual applications were submitted.

Still another example of this type of licensing was developed later in the Control and were issued to certain blocked enterprises in this country engaging in foreign trade. In the initial period a very rigid control was exercised over such trade requiring the blocked enterprises here to file individual applications. Initially, this enabled the Control to inspect and scrutinize each transaction and to obtain some knowledge of the type of business being effected; the type of people managing the operation and whether the trade was useful, beneficial and unobjectionable from our point of view. After a substantial period of experience it was determined that those blocked enterprises with whom we had had substantial experience and whom we were confident would maintain an adequate standard of conduct in their trading operations with foreign countries could operate under blanket licenses.

In March, 1943, a study of confidential documents and licenses issued pursuant to specific applications was made with a view towards issuing to domestic banks and banking institutions blanket licenses authorizing the effecting of particular types of transactions in those instances in which the banks or banking institutions had a sufficient volume of such types of transactions to warrant the issuance of blanket licenses. Incident to this program and after studying approximately 500 confidential documents, 120 obsolete documents were revoked, 91 new documents were issued and 32 documents were amended. Blanket licenses were issued covering 68 different categories of transactions.

As a result of the issuance of these blanket licenses the number of applications filed with the New York Federal Reserve Bank alone declined from

10,853 in March 1943 to 6,746 in November, a reduction of 4,105 specific applications.

(ii) Other Techniques.

Implementation through the licensing technique took various forms. To effect some policies a delaying action was taken on applications. For example, in implementing the currency control program we delayed action on many currency import applications. First, applications were permitted to accumulate; then action was taken which was neither affirmative or negative. New applications were filed, discussed, etc., until the ultimate affirmative or negative action could be deferred for many months.

Of course, the straight denial action on applications was taken. For example, this was the policy followed in the security program when the amendment to General License No. 28 was issued which provided that no coupon, if detached from the relative bonds, could be collected under General License No. 28. By Circular No. 8A the Federal Reserve Banks were advised to deny specific applications for licenses to collect such coupons unless the coupons had come from a country which had broken off relations with the Axis. The same technique was used in connection with transfers between accounts and sub-accounts in the same names. Consistent denial action was taken on applications for specific licenses for transactions of that kind in respect to the four neutrals. On the other hand, when we received an application which requested a transfer between an account and a sub-account in the name of a Chinese bank, for instance, the transaction was licensed.

The licensing technique was used to assist in securing compliance with the freezing control. The granting of a withholding approval of application, the granting of only a qualified and restricted approval, of factual trans-

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actions were applied to firms about whose transactions/^{we}were in doubt, about which we were undecided as to their beneficial effect, or where the firms did not act in a manner considered in the best interest of this country. Sub-licensing action was only taken after close collaboration with the Legal and Enforcement Divisions.

(b) Examples of Licensing Policy.

(1) American corporations in neutrals.

An example of how licensing operations effectively assisted in carrying out a policy decision by the Control is evidenced in the way we treated applications involving the sale of American corporations in European neutrals. The problem was canvassed of permitting the sale of interests in corporations organized under the laws of European neutral countries. It was determined that our general policy in respect to such sales would be to approve in those instances where the holdings represented an insignificant portion of the capitalization and were held for speculative or investment purposes. Cases involving substantial or controlling interest would be denied. With regard to the latter, our position was that (1) we did not wish to encourage the sale of American interests abroad at what were likely to be knock-down prices; (2) we did not wish to release American control (and the control of this Government) over these corporations and thereby place them in the position where they might have operated outside the scope of our Trading with the Enemy restrictions to the benefit of the enemy country; and (3) we did not wish to place these corporations in a position where they could have been purchased with looted Axis assets and used to further Axis economic penetration.

(ii) Relief Program

The extent to which Foreign Funds Control, first alone and then as a complement to the War Refugee Board, adopted a positive program of licensing to effect an objective is represented by our operations in connection with the relief of refugees from Nazi aggression.

The first attempt to resolve the problem of establishing a licensing policy with respect to remittances to non-enemy areas for the purpose of providing funds for getting persons out of enemy or enemy occupied areas was made in the latter part of 1942. Thereafter, we approved applications for licenses to effect remittances in reasonable amounts to neutral areas on behalf of prospective emigrants from enemy territory. Licenses so issued did not include a waiver of General Ruling No. 11 and therefore could not be construed as authorizing any transaction involving direct or indirect trade or communication with enemy territory. Communications with persons in non-enemy territory relating to such remittances which did not in themselves constitute a transaction did not require a Treasury license.

During 1943, we were receiving reports of the character of the German treatment of refugees, particularly Jews, throughout the areas under their control. In August, 1943, for example, we had received cables from Bern indicating the desperate plight of Jewish children in France: approximately 4,000 children ranging from 2 to 14 years of age were taken from their parents in France and deported to undisclosed destinations in windowless box cars, without food or water, it was understood that approximately one-half of these children were then in the Italian occupied part of Southern France and that local financial means were inadequate to properly take care of these children.

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It appeared that a paramount restriction upon operations to provide financial means, etc., for these children arose from the limitations upon the ability of relief organizations to obtain working funds in the areas. One of these limitations resulted from the government's blanket prohibition of financial transactions involving trade or communication with persons in enemy territory.

In view of the broad humanitarian considerations involved at that time we re-examined our general trading with the enemy policy in order to determine whether and to what extent exceptions could be made to permit operations designed to bring relief to particularly oppressed groups in enemy territory. The important considerations appeared to be the following: (a) there were a number of organizations not subject to our jurisdiction based in England or neutral European countries which were conducting operations in enemy territory through underground channels and which had been successful in financing such operations without benefit to the enemy. Such groups generally operated under the close supervision of one of the United Nations and appeared to be conscious of the necessity of not permitting operations which would benefit the enemy. (b) There were certain organizations in the United States which had the facilities and contacts for operating in enemy territory and which could conduct successful relief operations within such territory without benefit to the enemy if authorized to do so. (c) We had sufficient experience in administering our Trading with the Enemy Controls to be able to permit certain well defined groups to conduct limited types of relief operations in enemy territory subject to appropriate safeguards designed to prevent benefit to the enemy without jeopardizing our basic

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position with respect to trade or communication with enemy territory.

(d) In view of the policy of the enemy to annihilate certain minority groups either by slaughter or starvation, operations to bring relief to such groups would have the effect of benefitting the Axis and furthering a fundamental objective of the United Nations.

In the light of these considerations it was then believed that the Treasury should permit certain responsible groups to enter into arrangements to bring some relief to groups in enemy territory subject to the following safeguards: (a) relief organization was required to be responsible and able to demonstrate that it had facilities and contacts to operate in enemy territory; (b) organization was required to conduct its operations in such a manner as to insure that no foreign exchange or other substantial benefit would accrue to the enemy; (c) the entire operation was placed under the scrutiny of our Mission in an appropriate neutral country; and (d) any local currency or credits required for such program was required to be obtained from acceptable sources not connected with enemy interests.

Initially, this licensing policy which was approved by the Secretary was applied on a case by case basis to permit appropriate operations in accordance with the above. Gradually, this licensing policy was further liberalized where it was found that such liberalization was the only means of saving the lives of the millions of victims of Nazi persecution.

Foreign Funds Control authorized the Legation in Bern to issue to the World Jewish Congress a license permitting that organization, notwithstanding General Ruling No. 11, to communicate with enemy territory and to engage in certain financial transactions provided local currency could be obtained under either of the following two methods: The first contemplated the purchase

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of currency or exchange of the country in which the operations are to be effected from persons in Switzerland who are considered reasonably certain to have held such currency or exchange since prior to the freezing of such country by the United States, or to have since acquired such currency or exchange in such manner as may not have benefitted the enemy and reimbursement was authorized in Swiss francs at the prevailing unofficial rates of exchange in Switzerland. The second method permitted the acquisition of local currencies or exchange from persons in enemy or enemy-occupied territories for which reimbursement was not to be made until after the war. Under this method provision was made for the establishment of blocked accounts, either on the books of the operating organization or in a bank in the United States.

Subsequently, in January, the above license was amended to permit a third method for acquiring local currencies to assist in the evacuation of victims of Nazi aggression. The third method which might be resorted to "if the first two were not feasible", permitted the acquisition of currency or exchange from persons in enemy or enemy-occupied territory against payment in free currency rates. This liberal feature was adopted after clearance throughout the interested offices of the Treasury and other Departments of the government. At the same time the license was issued providing for the third method, the President signed an Executive Order establishing the War Refugee Board, which was given the responsibility for operations to assist persons in occupied territories in imminent danger of death. Close relationship between the War Refugee Board and Foreign Funds Control followed as a consequence of the complementary nature of their responsibilities, and Foreign Funds Control licensed the financial operations established by the War Refugee Board to further its program.

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(iii) Business Enterprises

The licensing policy, with respect to firms doing business in the United States in which there was a blocked interest, was at the outset a restrictive one, although every effort was made not to interfere unduly with their operations. At such time as a study was completed for a particular firm, the operating license was amended in accordance with the type of information which was developed. These studies were very exhaustive and frequently served as the basis for vesting by the Office of Alien Property. On the other hand, the studies also produced information showing that many of the firms were satisfactory and could be granted more liberal operating licenses. The liberalizing of our controls in this respect developed through various stages and culminated with our granting, with certain few exceptions, such as holding companies, to the satisfactory - i.e., non-enemy - firms, a license which, in effect, released their assets from our controls, leaving as blocked only the ownership interest in the firm or the accounts which were owned by blocked nationals. Of course, this licensing policy served the two-fold purpose of permitting the blocked firms to operate freely and reduced the administrative workload to the extent that a very small number of cases have to be reviewed on a specific basis.

(iv) Estates and Trusts

The number of blocked trusts owning property in the United States was considerable. After a review was made of a number of the cases, it was seen that a large number of the trusts were being administered by United States banks or trust companies. Since, in the final analysis, the effectiveness of our controls rested in no small measure on the cooperation of the banks and trust companies in blocking accounts and property, it was felt that where such

persons were acting as trustees of a trust, we could issue a broad license for the administration of the trust. Accordingly, General License No. 30 was issued which permitted banks and trust companies incorporated under the laws of the United States or of any state, territory, or district of the United States, or any private bank subject to supervision and examination under the banking laws of the United States, acting as trustees of any trust administered in the United States, to effect all transactions incident to the administration of the trust except where a transaction was to be effected on instructions of a blocked national. It should be noted that the license only applied to existing trusts and it was not our policy to permit the establishment of new trusts as it was known that trusts were a favored device for concealing ownership of assets. While the license restricted the payment of distributive shares of principal or income to persons who were not blocked nationals, we issued a ruling that such payments to blocked nationals could be made under the terms of General License No. 1. We granted, on the basis of special applications, the privileges of General License No. 30 to those pre-freezing trusts which were not entitled to the General License and which were being satisfactorily administered. The residue of cases which were kept on a restrictive licensing basis were very few.

As in the case of trusts, the determining factor in granting a broad license for the administration of estates, was the presence of a person whose responsibility in connection with the administration would be unquestionable. Of course, that person was the court. Accordingly, we issued General License No. 30A which permitted the complete administration of estates in which there was a blocked interest, and which met one of three conditions, namely,

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that the decedent was not a national of a blocked country at the time of his death; the decedent was only considered a blocked national by reason of his employment in a blocked country by the United States Government, or the gross value of the assets of the estate in the United States did not exceed \$5,000. Since, when a decedent died in an occupied country, we could not be certain as to the circumstances surrounding his death, we did not wish to permit any distribution of such an estate. However, we recognized that certain limited acts in the administration of such estates would have to be authorized and for this purpose, paragraph (2) of General License No. 30A was included.

As the occupied countries were liberated and communications were reopened, we liberalized our policy by granting, on a specific license basis, the privileges of General License No. 30A to estates where the decedent was a blocked national but a non-enemy. This change in policy was, of course, based on the fact that documents could be submitted in support of ownership of property and in support of heirship when communications were resumed. With the issuance of General License No. 95, this policy was discontinued and the applicant was required to obtain a certification as provided for in the General License.

(v) Creditors' Claims.

It was well known that the Axis powers had been pursuing a policy of looting overrun countries and by duress and coercion obtaining documents purporting to transfer rights to foreign assets in the United States. "Title" was secured by the enemy in many and different ways and the documents created or acquired to give apparent legal validity to any transaction were varied in character to fit the peculiar circumstances of each case. They included trans-

fer and payment, orders, drafts, acknowledgement of indebtedness, assignments and powers of attorney. It was not possible for the Control to differentiate between those documents voluntarily executed and those acquired by the enemy's technique of waging war. The disruption of communication facilities before the war and the cessation of all forms of communication thereafter made investigation of the validity of the documents presented virtually impossible. Since the Control could in few cases be assured of the property of the transfer it felt compelled to keep all blocked property immobilized until normal conditions were restored. It was recognized that the policy in some instances required bona fide claimants to forego payment of their claims at this time. However, the evils which were prevented by a general immobilization of these assets was considered as clearly outweighing any limitations on bona fide transactions.

The preservation of blocked assets until the end of the war was necessary in order to adequately protect American claimants. During the war it was impossible to determine the full nature and extent of the losses which were suffered by this country and its citizens. To authorize the release of foreign funds in order to pay the claim of one creditor in the absence of knowledge of the foreign debtor's financial condition or what that may be might well turn out to be prejudicial to other Americans. Some of the claims presented arose in foreign countries where the claimant then resided and where in the normal course the claim would have been paid. Obviously, the enforcement of a few claims of this large class would give an advantage over the greater number of equally meritorious claims.

(vi) Official Funds

In the case of official funds, new problems arose as areas became liberated. Some of the occupied countries had substantial amounts of funds in

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this country to which the governments-in-exile had access. In other cases special arrangements were required to be made for the protection of banks and depositories before representatives of newly established governments could be permitted to draw on government funds in this country. In other countries, governments were faced with a shortage of assets needed for necessary operations.

Through representatives in North Africa and the licensing control over French funds in this country, the Treasury Department was able to insure that the limited dollar resources were utilized for the most immediate needs of the area. For example, Foreign Funds influenced the French to discard a plan for financing in dollars certain necessary expenditures in Portugal and Spain, thus relieving the strain on the North African dollar position. This was effected through a so-called notification procedure which worked as follows:

(a) If the Banque de l'Algerie, for example, desired to make a payment of \$10,000 from the account of the Banque de l'Algerie (for the account of the French Treasury in Africa), the Federal Reserve Bank of New York notified the Treasury immediately as to the amount, nature, purpose and persons involved with respect to such payment order.

(b) If the Treasury did not have any information available indicating that the transaction should not be consummated, then the Treasury immediately notified the Federal Reserve Bank of New York and the payment order was effected.

(c) If the Treasury did not notify the Federal Reserve Bank of New York within 10 days after notification was received that it approved or disapproved the transaction, the transaction was effected without the

express approval of the Treasury. It should be noted that this was the exceptional case inasmuch as normally the Treasury notified the Federal Reserve Bank immediately with respect to its view of the transaction.

(d) If the Treasury had information available to it indicating that the transaction was detrimental to the joint objectives of both the French African authorities and the American authorities, it notified the Federal Reserve Bank of New York within 10 days after the receipt of the notification that it disapproved of the transaction. In such cases the transaction could not be consummated.

At the same time it was arranged for the British Government to make sterling credits available to the French for this purpose.

In the case of Italy, which did not have access to any pre-liberation balances and which was therefore without foreign exchange resources, special arrangements were made enabling the acquisition of foreign exchange and its use for certain vitally needed expenditures. Prior to the war, an important source of Italian foreign exchange was the voluminous remittances made to persons in Italy by friends and relatives in the United States. As soon as conditions in the theater permitted, a procedure was worked out for the resumption of foreign personal remittances. Under the procedure dollars remitted from the United States went into a special "post liberation account" which remained blocked in this country and the corresponding value of lire was paid to the beneficiary in Italy. The dollars so acquired in the post liberation accounts were available subject to the Control's licensing powers to meet certain Italian expenditures without cost to this government or the United Nations.

(vii) Remittances from Swiss Omnibus Accounts.

A further example of the processes of developing licensing policy is evident by our policy with respect to remittances from Swiss omnibus accounts. After we had investigated the Swiss banks and discovered the methods of their banking operations which included operations through omnibus accounts it was our policy to deny applications to debit blocked omnibus cash accounts maintained by Swiss banks with domestic banks in order to effect remittances outside the United States. During the latter part of 1944, we reviewed this policy on the basis of a study of a group of applications involving this issue which were forwarded to Washington. It was decided on the basis of a review of these applications, that licenses to effect transactions of this character would depend upon satisfactory demonstration of ownership of specific assets. It was found that in the cases which fell into the following four categories action could be taken on these categories of cases if the following conditions obtained:

- (a) Dollar accounts established by the remitter with a Swiss bank prior to April 8, 1940.

As a minimum it would be necessary to submit (i) satisfactory documentary proof respecting the name, address, citizenship, and nationality of each owner of the dollar account since April 8, 1940 and the balance in the account on April 8, 1940 and at present, or (ii) in the alternative, a certification of the facts of ownership executed by the Swiss bank in the form used where securities were released from an omnibus account to the beneficial owner. It was agreed that applications should not be granted to remit funds in excess of the balance in the account of April 8, 1940 unless satisfactory documentary proof was furnished respecting the source of the funds which were used to acquire the additional dollars after that date.

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- (b) Dollar accounts established by the remitter with a Swiss bank after April 8, 1940.

In these cases as a minimum it was necessary to submit (i) satisfactory proof respecting the source of the funds used to open the account, the date the account was opened, ownership of the account since such date and the balance in the account on such date and at the present, or (ii) in the alternative, a certification of the facts of ownership executed by the Swiss bank.

- (c) The remitter paid value to a Swiss bank for remittance in dollars from dollars belonging solely to Swiss banks at all times on and since April 8, 1940, but maintains no dollar account.

After full information was obtained concerning the purpose of the transaction the name, address, citizenship and nationality of the remitter and of the person receiving the remittance, the relationship between the parties and the necessity for making the remittance through dollar channels, such transactions could be approved if they appeared to be bona fide and not contrary to remittance policy.

- (d) Dollar accounts representing income received on, or the proceeds of sales of securities in the account.

It was decided that the applications in this group would not be granted unless satisfactory documentary proof was submitted respecting the ownership of securities from which the particular funds were derived since April 8, 1940 or the date that such securities were received into the omnibus account, whichever was later, or, in the alternative, appropriate certification of the facts of ownership executed by the Swiss bank.

- (c) Publicity to Licensing Policy.

- (i) Before Administrative Procedures Act.

Throughout practically the entire history of Foreign Funds Control no substantive reason was given to an applicant if his application were denied. Fr

time to time in informal conferences with applicants the reasons underlying denial may have been given. However, this practice was the exception rather than the rule, since it was felt that a great many of the decisions involved the basic foreign financial policy of this government which could not be disclosed to the public.

However, in the middle of 1943, some thought was given to the issuance of a statement which would give the public some clue as to the considerations involved in acting on applications involving blocked assets. The statement was never issued. However, it did provide us with an opportunity for re-examining our licensing policy. In this connection it was found that conservation of blocked assets continued to be a primary concern to the Control and that no transfer, release or other disposition thereof would in general be permitted. Exceptions were made only in special cases, such as payments required for the preservation of assets, for the satisfaction of liens clearly established prior to the date the assets involved were blocked and for the necessary support of persons in the United States and to effect transactions in aid of the war effort.

(ii) After Administrative Procedures Act.

With the passage of the Administrative Procedures Act of June 11, 1946 (Public Law No. 404) it was required that any denial or other adverse action with respect to any application should be accompanied by a statement of the procedural or other grounds for that action. At that time Foreign Funds Control set up the following series of reasons which might be given in connection with the denial of an application:

Applications for license to effect transactions which may be effected under outstanding General Licenses. No action is being taken on your application since it appears that the transaction(s) in question may be effected under (appropriate license number to be inserted), which has been issued by the Treasury Department.

Transactions affecting property in which nationals of countries specified in General License 95 have an interest. No action is being taken on your application since it appears that this transaction may be effected after certification pursuant to General License No. 95.

Transactions affecting property in which nationals of blocked countries, other than enemy, not specified in General License No. 95 have an interest. Your application is denied for the reason that transactions of this nature are not presently being authorized pending the establishment of a general defrosting program with respect to the blocked country involved.

Transactions in connection with assets which have been certified under General License No. 95. No action is being taken on your application since it appears that a license is not required in view of the unblocking of the account involved by certification under General License No. 95.

Applications which are denied for lack of sufficient information. Your application is denied for the reason that the following essential information has not been submitted for consideration; (Specifically refer to information required.) This application will be reconsidered upon submission of the information described above.

Applications on which it appears that no license is necessary.

No action is being taken on your application since it appears that the transaction is not subject to the Order.

Applications for blanket licenses. No action is being taken on your application since the need for a blanket license has not been established. You are advised, however, that consideration will be given to applications for specific licenses as needed.

Transactions with Germany and Japan. Your application is denied for the reason that transactions of this type are not consistent with present policy of this government with respect to the occupation of (Germany or Japan).

Applications involving enemy property. Your application is denied for the reason that it involved property in which there appears to be a (German, Japanese, Bulgarian, Hungarian, Rumanian, Italian) interest, the disposition of which is subject to determination of over-all governmental policy.

Applications on which the specific approval of the Alien Property Custodian is required. (a) Your application is denied for the reason that it was not accompanied by evidence of the consent of the Alien Property Custodian to the transaction.

Upon submission of such consent the application will be reconsidered.

(b) Your application is denied for the reason that the consent of the Alien Property Custodian, which is essential to the approval of the transaction, has been refused.

Applications in connection with trade in puts, calls, straddles, and other options for blocked accounts. Your application is denied for the reason that the consummation of the transaction involved would require a further license, the appropriateness of which can not be determined at the present time.

Applications to effect certain remittances in free Swiss francs. Your application is denied for the reason that it is contrary to policy to permit remittances to Switzerland except by payment of dollars into a blocked account of a banking institution located in Switzerland.

Applications for payment of checks, drafts, etc., subject to General Ruling No. 5A. Your application is denied and you are referred to paragraph 2(a) of General Ruling No. 5A. Alternatively, a new application will be considered, if accompanied by evidence that the instrument was not issued or transferred under duress, or otherwise looted by the aggressor nations.

Applications to grant Generally Licensed National status to holding companies, insurance companies, etc., organized in the United States, excepting companies which are neutral controlled. Your application is denied for the reason that it is not in accordance with the policy of the Treasury Department to grant Generally Licensed National status to a company which may be holding assets for the account of other blocked nationals.

Applications for the release of detached coupons impounded under General Ruling No. 5. Your application is denied and you are informed that consideration will be given to the (release, collection, payment) of such coupons after the bonds to which they relate have been imported into this country pursuant to the provisions of General Ruling No. 5.

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D. ENFORCEMENT PROGRAM IN LATIN AMERICA

1. Inter-American Conference on Economic and Financial Controls (July, 1942).

It is not intended here to detail the economic warfare measures undertaken by the Latin American countries to further the Allied war effort; nor is it intended here to detail the extent to which this Government sought and obtained the cooperation of these countries to further the Allied economic and financial warfare program. The object of this discussion is to describe the operations of Foreign Funds Control insofar as they affected financial operations in the Latin American countries.

Immediately after Pearl Harbor it was recognized by this Government that it was essential to secure the complete support to the Allied war effort from the Latin American countries. To this end a conference of the Foreign Ministers of the American Republics was called on January 15, 1942 who affirmed "unanimous solidarity with the nations so brusquely attacked" and determined to develop a course of action "to assure the security and protection of our people."

Thereafter, in July, 1942, a further conference was held in Washington on economic and financial control measures to be adopted by the Latin American countries. At this meeting officials of Foreign Funds Control played a major role. The following resolutions were adopted by these conferences with a view

synchronizing Latin American financial controls with those being carried on by this Government, primarily Foreign Funds Control.

(.) That the Governments of the American Republics, pursuant to Resolution V of the Third Meeting of the Ministers of Foreign Affairs of the American Republics, held at Rio de Janeiro, adopt and put into effect as soon as possible, effective measures to achieve the following purposes:

(a) To block effectively the use, transmission or transfer of funds, securities and property within the American Republics now held by nations which have committed acts of aggression against the American Continent, or subsequently acquired for their account, as well as the funds, securities and property now held by a real or juridical person within such aggressor nations or in the territories dominated by them, or subsequently acquired for the account of such persons.

(b) To prevent any real or juridical person within the jurisdiction of an American Republic from engaging in any financial or commercial transaction which involves the exportation of any property of any nature whatsoever, the remittance of any funds, or orders or instructions to persons under the jurisdiction of aggressor nations or those dominated by them, whether such exportation or remittance be made, or such orders or instructions be given, directly or indirectly.

There shall be excepted remittances (i) for living expenses of citizens of such American Republic residing within the aggressor nations or in the territories dominated by them, and (ii) for the expenses of representing the governmental interests of such American Republics in the aggressor nations or in the territories dominated by them, including the care and safeguarding of the property of the Governments of such American Republics. The

said payments can only be made directly by the Government of the respective American Republic, or through the Government representing its interests in such aggressor nations, or in the territories dominated by them.

(c) To prevent any real or juridical person within the jurisdiction of an American Republic from engaging in any financial or commercial transaction which involves the importation of any property of any nature whatsoever or the receipt of any funds, or the acting upon any order or instruction from any person within the jurisdiction of the aggressor nations or nations dominated by them, whether such importation, receipt of funds, or compliance with such order or instruction be made directly or indirectly.

There shall be excepted the remittances which each Government in its discretion may authorize (i) for living expenses of citizens of such aggressor nations or nations dominated by them, residing within the American Republics, and (ii) for expenses for representing the governmental interests of the aggressor nations or nations dominated by them, in the American Republics, including the care and safeguarding of the property of the governments of said aggressor nations or the nations dominated by them.

Except in cases of effective reciprocity, the exceptional payments referred to in the preceding paragraph shall in no case be made out of blocked funds or other assets which the aggressor nations or the nations dominated by them may have in the American Republics, but shall only be made out of unblocked funds of foreign ownership originating in territory outside the American Republics. Remittances for said payments shall be received only directly by the Government of the respective American Republic, or through the inter-

mediary of the government which represents in such American Republic the interests of said aggressor nations or of nations dominated by them.

(2) That the Governments of the American Republics, in addition to cutting off all financial and commercial transactions with the aggressor nations and the nations dominated by them, adopt as soon as possible, endeavoring not to cause unnecessary damage to neutral nations, appropriate measures with respect to their financial and commercial relationships with all of the other nations outside the Western Hemisphere, in order to:

(a) Supervise adequately the funds and property within their respective jurisdictions now held or hereafter acquired by or for such other nations outside the Western Hemisphere or real or juridical persons within such nations, except those nations which have cut off commercial and financial transactions with the aggressor nations.

(b) Prevent any real or juridical person within the jurisdiction of such American Republic from engaging in any commercial or financial transaction which involves the exportation or importation of any property of any nature whatsoever to or from nations outside the Western Hemisphere, or the remittance of funds to or from any person in such other nations outside the Western Hemisphere, when such exportation, importation or remittance is of benefit to the aggressor nations or to nations dominated by them.

(c) Prevent all transactions between the American Republics and nations outside the Western Hemisphere involving any real or juridical person within any nation outside the Western Hemisphere whose activities are deemed by the respective American Republic concerned to be inimical to the security of the Western Hemisphere.

(3) That, to prevent financial and commercial transactions which are of benefit to any of the nations which have committed acts of aggression against the American Continent, and transactions undertaken by any real or juridical person within the American Republics whose activities are inimical to the security of the Western Hemisphere, the Governments of the American Republics adopt, as soon as possible, measures to:

(a) Establish between the American Republics an interchange of information with respect to commercial and financial transactions undertaken with real or juridical persons within other American Republics so that each nation, within its jurisdiction and in the exercise of its own authority, may prevent any transaction which would benefit the aggressor nations, the nations dominated by them, or persons whose activities are inimical to the security of the American Continent.

(b) Prevent any transaction, subject to the jurisdiction of an American Republic, undertaken by real or juridical persons within nations outside the Western Hemisphere which have not cut off commercial and financial transactions with the aggressor nations, involving the monetary unit of another American Republic; except transactions which, together with the report necessary to establish its nature, are undertaken through a bank of the American Republic whose monetary unit is involved in the transaction.

(c) Prevent any transaction, subject to the jurisdiction of an American Republic, involving real or juridical persons within nations outside the Western Hemisphere which have not cut off commercial and financial relations with the aggressor nations, and real or juridical persons within another American Republic, unless such transactions are performed with the approval of the latter Republic.

(4) That the Governments of the American Republics, in order to prevent transactions in securities for the benefit of the aggressor nations, adopt appropriate measures to:

(a) Establish a precautionary blocking of securities which directly or indirectly are imported into the American Republics from countries outside the Western Hemisphere, as well as their coupons, interests, and dividends, until it is determined that the aggressor nations, or the nations dominated by them, or persons within such nations, have not or have not had any interest in them since the beginning of the present emergency.

Non-bearer securities imported into American nations from countries outside the Western Hemisphere after the beginning of the present emergency, likewise may be subjected to precautionary blocking.

(b) To supervise transactions of any nature whatsoever by persons within an American Republic in securities, or interests therein, which are located outside the Western Hemisphere, so as to prevent transactions in which persons in aggressor nations or nations dominated by them have an interest or have had an interest since the beginning of the present emergency; or those from which they may derive some benefit direct or indirect.

(c) Require registration, or adopt any other appropriate measures, in order to determine if any person within the aggressor nations or the nations dominated by them, has any interest in securities issued or payable in any of the American Republics.

(5) (a) That the application of the economic and financial controls of the Governments of the American Republics, during the present emergency, should have as one of its objectives the control of the property and transactions of all persons, real or juridical, residing or situated within their respective

jurisdictions, regardless of nationality, who by their conduct are known to be, or to have been, engaging in activities inimical to the security of the Western Hemisphere.

(b) That each of the Governments of the American Republics, through the application of its economic and financial controls, eliminate from the economic life of the respective country all undesirable influence and activity of those persons, real or juridical, residing or situated within the American Republics, who are known to be , or to have been, engaging in activities inimical to the security of the Western Hemisphere.

(6) (a) That the Governments of the American Republics that have not already done so adopt, in accordance with their constitutional principles, measures to carry out the effective blocking of assets belonging to real or juridical persons, whatever may be their nationality, when these persons are deemed by the respective Government to act in a manner contrary to the security or the national economies of the American Republics; these measures shall not exclude other measures which may be taken by the Governments with regard to commercial, industrial, agricultural, financial or other enterprises, which measures are recommended elsewhere.

(b) That blocking shall include all cash, securities, income or other assets of any other kind, including the proceeds of the sale or liquidation of assets or firms.

(c) That blocked assets may not be disposed of without the authorization of the respective Government or agencies. Any transaction contrary to these provisions shall be null and void.

(d) That all blocked cash or securities shall be deposited in the central bank or in approved banks, or in appropriate organizations, subject to

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provisions adopted by the respective government.

(e) That the Governments shall not permit disposal of blocked assets if such action benefits, directly or indirectly, the interests of the aggressor nations or the nations dominated by them, whether such disposal takes place in the country in which the transaction originates or in any other country affected by the operation; or if such action is contrary to the fundamental purpose expressed in the first paragraph of this recommendation.

(f) That the Governments may authorize the disposal of blocked funds when the applicant proves that such funds are essential to his subsistence and that of his family; but such authorization shall not exceed the maximum periodical amount fixed by the respective government.

(7) That, in accordance with the constitutional procedure of each country, all necessary measures be adopted as soon as possible, in order to eliminate from the commercial, agricultural, industrial and financial life of the American Republics, all influence of governments, nations, and persons within such nations who, through natural or juridical persons or by any other means are, in the opinion of the respective Government, acting against the political and economic independence or security of such Republics, and that to this end the following measures be adopted:

(a) The business, properties and rights of any real or juridical person included within the terms of the foregoing paragraph, whatever their nationality, shall be the object of forced transfer or total liquidation; and, if this should not be convenient in the opinion of the Government of each country, they shall be the object of blocking, occupation or intervention in order to give effect to the purposes of this recommendation.

(b) The officers and employees of any real or juridical persons, whose actions may be contrary to the purposes set forth in paragraph 1 of this recommendation, shall be removed from their positions and the severance payments to which they may be entitled shall be blocked; and the salaries and other remuneration of those who temporarily continue in service shall be limited and supervised, in order to comply with the aforementioned purposes.

(c) The contracts of such real or juridical persons which may be directly or indirectly contrary to the purposes set forth in the first paragraph of this recommendation, shall be rescinded; and in applying the measures set forth in paragraph (a), the contracts entered into by them and the concessions granted to them for the exploitation of natural resources and public services, such as land, mines, water rights, transportation and other similar activities, may also be considered rescinded and without effect.

(d) The following shall be effectively blocked in accordance with the regulations pertaining to blocking: the proceeds of the sale of transferred properties and rights; the profits accruing from intervened or supervised businesses; and the funds derived from total liquidations.

(e) The alienation, in any form, of the said properties and rights in accordance with paragraph (a), can only be made to nationals of the respective country or to juridical persons formed by them. In the establishment of the conditions of these acquisitions or in the selection of the buyers, the Government of the country in which the transaction takes place shall not permit any direct or indirect participation by any real or juridical person whose activities are deemed contrary to the principles set forth in the first paragraph of this recommendation.

Each country shall designate one or more organizations to be in charge of the administration of the aforementioned measures.

The American Republics shall maintain an exchange of information on the measures adopted pursuant to this recommendation.

(8) That the Governments of the American Republics lend each other the greatest measure of cooperation in the formulation and application of systems and procedures which will facilitate placing in effect, within their jurisdictions and in the exercise of their authority, Recommendations 5 and 6 adopted by the Third Meeting of the Ministers of Foreign Affairs of the American Republics, the consequent recommendations adopted by this Conference, and measures which have been or may be taken by the Governments of the American Republics.

That in consequence the aforesaid Governments endeavor to establish an interchange of information and consultation which will afford knowledge of the experience acquired by each one of them.

2. Implementation of Inter-American Conference Resolutions.

To work with the Latin American Republics in securing the implementation of these resolutions, Foreign Funds Control set up a specific operating section. After certain experimental organizational developments in the administration of this section it was transferred to the Enforcement Division. It was known as the Inter-American Control Section. It was sub-divided into four units: Latin American Controls Unit; Proclaimed List Committee Unit; Foreign Investigative or Enforcement Unit; and the Diversion Unit.

The Latin American Controls Unit as the name implies was charged with the responsibility of studying the control measures established in the Latin American countries to implement their commitments during the July 1942 conference and to

evaluate their adequacy and their operations. In connection with the operations of this unit, representatives of the Treasury were sent to certain of the Latin American countries to make "on the spot" studies of their controls and advise with respect to certain technicalities with which Foreign Funds Control personnel was familiar by virtue of their operation in this deal since 1940. This section operated very closely with the Department of State which actually maintained the direct liaison with the governments of the Latin American countries.

As a complement to our currency control program, Foreign Funds Control attempted to get the various Latin American countries to assist us in achieving the destruction of the foreign markets for looted currency by adopting adequate controls of their own. To this end programs of currency control were proposed to the various Latin American governments in June, 1942. By September, 1942, all the American Republics had regulations intended to implement our currency program. The administration of these regulations by these countries was never adequate despite the continuous prodding by the United States Government.

In August, 1942, we concluded negotiations with the Mexican government as a result of which the Mexicans adopted a dollar currency control strongly implementing our own program. A decree promulgated by the Mexican Government on August 14, 1942, prohibited all transactions in dollar currency except coins and bills of \$2 denomination (of which denomination little or none was believed to be held by the Axis) and transactions undertaken by the Bank of Mexico itself. All dollar currency except \$2 bills was ordered to be surrendered to the Bank of Mexico, which was authorized to purchase such currency in amounts up to \$250 without investigation as to origin and amounts beyond that figure up to \$1,000 provided that in such cases the origin of the currency was investigated by a responsible official of the Bank.

Larger amounts were not to be purchased outright but simply forwarded to the United States on a collection basis. Such currency, when not released because of uncertain or unsatisfactory origin, was held in blocked accounts within the United States.

In addition, continuous efforts were made on the part of our government to secure the sympathetic administration by the Latin American countries of their measures designed to expurgate Axis influence from their countries; to encourage them to take some of the strong measures required to liquidate enemy controlled enterprises and to reorganize them and to remove undesirable personnel.

The Control made monthly studies of the progress made by the Latin American countries in connection with its implementation of the Inter-American Resolutions. These reports provided a basis for determining program of actions to be taken by this government with respect to the Latin American countries. Specifically, it furnished the basis upon which this government determined to lift names from the Proclaimed List relying on the cooperation of the Latin American countries to police their own economic warfare program. By the same token, this government was provided, through these monthly studies, with the facts upon which it could base its so-called Argentine program which will be described below.

3. Proclaimed List Program.

The second major operation in the Latin American field related to Proclaimed List activities. It was indicated above that "The Proclaimed List of Certain Blocked Nationals" was authorized by the President on July 17, 1941 and contained the names of individuals and firms within the other American Republics whose activities were deemed inimical to the defense of the hemisphere.

It was recognized that in the preparation of such a list that every caution was required to be taken to prevent injustices. To this end the United

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States Government gave great care and attention. A Proclaimed List Committee was created, consisting of representatives of the Secretaries of State, Treasury and Commerce, the Attorney General, a representative of the Foreign Economic Administration and the Coordinator of Inter-American Affairs. In addition to the above representatives who had voting rights, representatives of the Alien Property Custodian and of the British and Canadian Governments sat in the Committee but had no voting rights. This Committee met bi-weekly and considered every recommendation for addition to the Proclaimed List very carefully. Before a name was added diplomatic and consular representatives in the field made a thorough investigation. If the investigation definitely disclosed facts showing that the person investigated was engaged in an activity inimical to the security of the hemisphere, that evidence, together with the recommendation for inclusion, was transmitted to Washington for consideration. The evidence supporting the recommendation was carefully scrutinized by the Proclaimed List Committee and only upon the unanimous vote of that Committee was the name added to the List. As an added precaution, and to prevent injustices, before the name was actually added to the list the proposed action was cabled to the Mission in the field for confirmation. The List was published periodically by the Secretary of State, acting in conjunction with the other members of the Committee.

Although every precaution was taken to insure that no wrong doing was effected by adding a wrong person to the List, as in every operation of this magnitude, mistakes were made. Where it was discovered that a name had been mistakenly included on the List, it was deleted promptly. This Government was exceedingly anxious to rectify such mistakes and, in furtherance of this policy, was at all times willing to consider, with the Governments of the other American republics, the reason for inclusion on the List of any firm or individual situated

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or resident within the territory of such republic. It is interesting to note that the controls of eight of the other American Republics were made to apply to persons named on the Proclaimed List.

Although the Proclaimed List included not only names of persons in Latin America, but also in the European neutrals and the Middle East, the Proclaimed List Committee treated only with additions of names of persons in the Western Hemisphere. The Eastern Hemisphere list was made up by a Committee in London known as the British Black List Committee on which a representative of the State Department sat as a non-voting member. The British list of enemies comparable to the Proclaimed List was known as the "Statutory List."

Deletions were effected only when satisfactory undertakings were secured from the person or firm which might deal with any of the following: (a) assuring future good behavior; (b) a recognition of the enterprise to eradicate the Axis interest; (c) a retirement of the undesirable elements in the firm; (d) a discontinuance of practices inimical to the Allied war effort; or (e) a liquidation of the enterprise itself. These formulae for these undertakings were frequently developed by the Proclaimed List Committee and sent down to the mission for approval. In some cases the missions recommended the formulae which were referred to Washington for approval and clearance.

The active operation of Foreign Funds Control in connection with Proclaimed List problems actually commenced after Pearl Harbor.

On December 9, 1941, just two days after Pearl Harbor, the Proclaimed List authorities issued a supplement adding 505 Japanese names to the Proclaimed List.

On January 14, 1942, a supplement was issued which for the first time added to the Proclaimed List names of persons in the Eastern Hemisphere. A total of 1,624 persons and firms in the Eastern Hemisphere was indicated in this

supplement for addition to the List. From this time on the British and United States authorities cooperated very closely in the issuance of their respective lists and the two lists became and remained virtually identical until their termination.

Dealings between United States concerns and persons included on the Proclaimed List were prohibited except pursuant to a license issued by Foreign Funds Control. The licensing policy was determined solely in accordance with the basic objectives of our program of economic and financial warfare against the Axis, i.e., the curtailment and elimination of the activity and influence of such persons insofar as that activity and influence was inimical to hemisphere defense. Where it would have proven harmful to the economy of a neighboring country to stop all business of a listed firm with the United States, cooperative arrangements were worked out by which transactions were permitted so far as they were brought under its control and benefitted only our mutual interest.

In many cases firms in the United States had orders for the manufacture of special products for firms in the other American Republics which were included in the Proclaimed List prior to delivery of the product. The Treasury denied licenses to permit the delivery of such products since it could not permit products going into unfriendly hands merely to protect a United States firm which had contracted in good faith. Many of such cases caused extreme hardship to United States concerns. One firm was denied a license in a case where it had worked for months on a special order of value only to the ordering firm which was placed on the Proclaimed List shortly before the date specified for delivery. The United States firm had its capital involved in that one order to such an extent that its very existence was jeopardized if delivery of the product to the Proclaimed List firm were not permitted. However, it was clear that the only ill effect in the American

Republic concerned would be to the Proclaimed List firm and not to the country in which such firm was situated. Accordingly, the license application for the completion of the transaction was denied.

Foreign Funds Control formulated a standard of conduct to guide American firms in their operations in the Latin American and neutral countries. This was incorporated in Public Circular No. 18 (applying to American business operations in Latin America) and 18A (applying to American business operations in the neutrals). The important features of the standard of conduct thus set up were as follows:

(a) American controlled concerns operating in Latin America and the neutral countries were prohibited from having any financial, business, trade or other commercial dealings with persons or firms within enemy territory. Thus, a Latin American or neutral branch of a New York corporation would not deal except under license with a firm situated within Germany, Italy or Japan or within any territory controlled or occupied by such countries.

(b) American controlled concerns operating in Latin America or the neutral countries could not deal except under license with persons or firms on the Proclaimed List or any person or firm acting for a Proclaimed Listed firm.

It might be appropriate to refer here to the Corn Products Refining Co. case which involved flagrant violations of the Proclaimed List by Corn Products Refining Company's wholly-owned subsidiary in Argentina. More than 100 transactions involving sales to and purchases from Proclaimed List firms were disclosed. An investigation made by the Embassy disclosed that the manager of the subsidiary, an American citizen, had talked against the Proclaimed List and that his general attitude had not been satisfactory. The activities of the Argentine subsidiary was known in that country and in addition to the direct violations by the subsidiary it

had the effect of weakening the position of the Embassy vis-a-vis Argentine firms. In addition to the trade carried on with enemy nationals, attempts to conceal the firm's activities were noted by its transfer of banking relations from American banks to Argentine banks which made it more difficult for the Embassy to uncover evidence of violations. As a result of the findings by the Embassy, Corn Products' subsidiary in Argentina, Refinerias de Maiz S. de R.L., was placed on the Proclaimed List as was the manager, Frank Salzer. The latter was thereafter discharged by Corn Products Refining Company.

Although officials of this company contended that supervision of its subsidiary was limited to that of financial policy, it was discovered on investigation that Corn Product's relations with all of its Latin American subsidiaries involved far greater control than merely acting in an advisory capacity as to financial policy. It appeared that this company did not insist upon compliance with the provisions of the Executive Order even when it was certain that the Order was being violated.

The Refinerias de Maiz was subsequently deleted from the Proclaimed List when changes had been effected which satisfied the Embassy that this company would comply with the standard of conduct expected of American firms.

Our activities in securing the compliance of a foreign-owned subsidiary of an American company with the Trading with the Enemy restrictions was further represented by our activities in connection with the Swedish subsidiary of the Gillette Safety Razor Company. In December, 1941, the Swedish company entered into a contract with the German subsidiary of Gillette to import approximately 8,000,000 blades from Germany. In the spring of 1942, Gillette, on behalf of the Swedish subsidiary, applied for a license to continue the importation of blades from Germany. Treasury denied this application. However, despite the Treasury denial,

the Swedish subsidiary of Gillette between the spring of 1942 and March 1943 continued to import blades from Germany pursuant to the 1941 contract. In March, 1943, the Swedish subsidiary applied to the Treasury through our Legation for a license to remove 1,000,000 blades which were in the free port of Stockholm and which had arrived from Germany pursuant to the 1941 contract. In connection with the consideration of the application certain information was requested from the Chairman of the Board of the Swedish subsidiary. He refused to furnish the Legation with this information relying on the Swedish War Trade Law which prohibited the release of trade information to foreign powers. Eventually, fragmentary information was furnished us after the Swedish subsidiary had received specific instructions from its American parent. In August, 1943, Treasury denied this application. Gillette thereupon instructed its Swedish subsidiary not only to cancel the remaining commitment under the 1941 contract but also not to remove the 1,000,000 blades from the free port of Stockholm. In December, 1943, our Legation in Stockholm reported to us that information furnished to it by the Swedish company disclosed that the Swedish company had removed, despite our denial of the application and despite instructions from Gillette, not only 1,000,000 blades but an additional 625,000 blades apparently imported into Stockholm in further compliance with the 1941 contract. These German blades were removed by the Swedish subsidiary in preference to American blades which were available in the free port of Stockholm. Foreign Funds Control in collaboration with State Department accomplished the removal from the Swedish subsidiary those persons in the management of the company responsible for the violations and replaced them with persons satisfactory to the Legation and the Department. In addition, Gillette, the American parent, was directed to instruct the Swedish firm to delay payment to the German firm for the blades already imported even if this would involve a suit against the Swedish subsidiary.

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It was the consistent position of the U. S. Government to continue the Proclaimed List into the post-hostilities period. In fact, in September, 1944, both the U. S. and British Governments issued public statements to the effect that, inter alia, the Proclaimed and Statutory Lists would be continued for an indefinite period after the cessation of hostilities, although "the complete or virtual withdrawal of the lists will be possible at an early date with respect to those countries where adequate controls have been established and Axis spearhead firms have been eliminated." In the spring of 1945 and just before V-E Day the British reneged on this commitment by strongly opposing the extension of the published list after V-E Day except for a very small "hard core" list, on the grounds that: (1) the lists were serious barriers to the trade which Britain vitally needed to attain financial stability; and (2) small lists were easier to administer. On the other hand the Proclaimed List Committee proposed the adoption of the following policy: (1) the Proclaimed and Statutory Lists should be retained for at least one year in the post-hostilities period as sizeable and active trade lists except where the Lists were withdrawn or substantially reduced in Latin American countries as a result of the institution of effective replacement programs; and (2) the Lists should, however, be gradually reduced after V-E Day to the extent of eliminating the least serious offenders.

In order to reconcile the British and American positions, the following compromise was agreed upon:

(1) Western Hemisphere - The Lists would be completely or virtually withdrawn as soon as possible for those Latin American countries which completed effective replacement programs to eliminate Axis spearhead firms. Mexico, Brazil, Chile, Ecuador, and the Central American countries had made substantial progress

in this respect. The Lists would be retained virtually intact in the non-cooperative countries (Argentina, Bolivia, Colombia, Paraguay and Uruguay), until they had completed adequate replacement programs or until the Lists were completely abolished for both hemispheres.

(2) Eastern Hemisphere - The lists were to be categorized into "minor", "intermediate" and "hard core" cases. The "minor" offenders were to be deleted one month after V-E Day, the "intermediate" cases 4 months thereafter and the "hard core" cases (Axis-owned firms and serious offenders) were to remain listed until the Lists were abolished.

4. Argentine Program

Argentina was the most outstanding example of the country which was slow in taking any definite steps in this direction and as will be seen below was the one country with respect to which Foreign Funds Control was compelled to continuously urge the freezing of its funds in the United States as a possible sanction to secure its complete cooperation in the allied war effort.

The first recommendation to extend the freezing control to Argentina was made by the Treasury in May 1942 even prior to the July conference because of the evidence which the Treasury had obtained with respect to Argentine collaboration with the enemy from Pearl Harbor to that date. It was found after some study that Argentina was being actively used by the enemy to undermine our active program of economic warfare. The Argentine government did nothing to prevent Argentina from becoming a refuge for Axis funds. In the weeks preceeding our extension of the freezing control to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. Moreover, because of the absence of effective legislation and enforcement in Argentina it became an ideal environment for setting up financial institutions.

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particularly holding companies, which cloaked Axis operations. It was discovered also during this period that Argentina was contributing to the enemy by the export of strategic materials through the European neutrals. Despite the efforts that were made to prevent Germany from realizing on the currency looted from invaded countries the Axis had succeeded in realizing some benefit from this alien property by disposing of it through Argentina. For example, in the first quarter of 1942 direct imports of currency from Europe into the States was completely stopped. In the same period, Argentina sent to this country \$1,125,000 in dollar currency. Actually, Argentina adopted no measures by May, 1942 to even carry out the recommendations of the Rio Conference of January 1942, recommending the severance of diplomatic, commercial and financial relations with the Axis.

Despite the indictment against Argentina in May, 1942, prepared by the Treasury, it was considered politically inadvisable to extend the freezing control to Argentina. Argentina participated in the July, 1942, Inter-American Conference. It subscribed to the resolutions. Foreign Funds Control continued to watch the operations of Argentina on the economic and financial front to determine the extent to which she was complying with these resolutions. Her continuous answer was non-activity, despite the passage of ideal legislation to meet these problems. As a compromise to extending the freezing control to Argentina, two representatives of the State Department were sent to Argentina to make an "on the spot" investigation of Argentine activities. In October, 1942, they reported that no substantial control was exercised over internal operations of pro-Axis enterprises and although an adequate legal and administrative authority for the control of international transactions existed the Control mechanism was administered in such a way as to permit the remittances to benefit the enemy. However, the State Department was

not willing at this time to recommend the freezing of Argentina but instead recommended the following program which was immediately adopted by the Treasury Department:

1. Subject to ad hoc blocking individuals in Argentina who were closely connected with firms on the Proclaimed List and data concerning persons and firms in Argentina who have been on the edge of the Proclaimed List should be reexamined with a view toward listing or ad hoc blocking. This recommendation for ad hoc blocking persons in Argentina was immediately adopted by Foreign Funds Control, and persons in Argentina blocked on this basis were designated as special blocked nationals. It will be shown later how this technique was applied to persons in countries other than Argentina.

Among the first to be recommended by the Treasury for this so-called special blocking in October, 1942, were the two principal banks in Argentina: Banco de la Provincia and Banco de la Nacion. It was contended that these two banks, one of which was wholly owned and the other half owned by the Argentine government, were the primary channels through which the financial transactions with the enemy were being effected, and that they rendered financial support to firms placed on the Proclaimed List. Although this recommendation went forth to the State Department in October, 1942, it was actually one year before this action could be taken and was approved by the State Department. Such action was not taken until November, 1943.

At the same time that this action was taken with respect to the banks, this Government pursued a policy of not permitting the shipment of gold from the United States to Argentina.

In the meantime, Foreign Funds Control continued to see in Argentina a threat to the Allied war effort. It was not until January, 1943 that the State

Department was actually prepared to agree with the Treasury recommendation that the freezing control be extended to Argentina. In fact, documents were prepared and signed by the President authorizing this action on January 22, 1943. However, almost one hour before the action was to be taken and announced by the White House, the proposed freeze of Argentina was "called off" for political reasons which were not divulged to Treasury officials. Apparently, however, the threat of this action caused the Argentine government to immediately announce a break in relations with the Axis. Although it assured this Government thereafter that it would take steps to implement the financial economic warfare program incorporated in its legislation, there were some in the Treasury and State Departments who continued to question the good faith of the Argentines in this connection.

It will be recalled that as late as February, 1946, the State Department issued an indictment against the Argentine relationship with the Axis with a view to defeating the Peron government. However, efforts were unsuccessful in this connection and since then every effort has been made to establish amicable relations with Argentina. It is not intended here to elaborate further on the relationship between Argentina and this Government during the war and the above is merely referred to as an example of the extent to which Foreign Funds Control watched the Latin American situation and made recommendations with respect to programs which should be carried out by the Latin American countries and how failure to secure any cooperation in this connection from Argentina almost caused this Government to freeze Argentine funds in the United States.

5. Special Blocked National Program.

In addition to participating in Proclaimed List problems, Foreign Funds Control was primarily responsible for the maintenance, extension and policing of the so-called Schedule of Blocked Nationals.

It will be recalled that in discussing the Treasury participation in the Argentine problem reference was made to the fact that the State Department approved our proceeding with an ad hoc blocking program with respect to persons and firms in Argentina. Such persons made up the beginning of the so-called "Schedule of Certain Blocked Nationals". Subsequently, the use of this blocking technique was extended to persons and business enterprises in all the Latin American countries. It was applied to persons who fell into any of three categories:

(1) Persons recommended for the Proclaimed List, whose inclusion on the List would be delayed to such an extent that some immediate action was required to control its funds or its financial activities in this country.

(2) Persons whose activities would ordinarily make them eligible for Proclaimed List action but who could not be included on the List for political or other local reasons.

(3) Persons who were strongly suspected of engaging in undesirable activities or who were under investigation by our Mission and where it was probable they had accounts in the United States or might be using its commercial channels.

The list was not a public list in the sense of the Proclaimed List. However, it was circulated to the principal foreign trade houses in this country subject to instructions not to forward the lists to their branches or correspondents abroad. It constituted one of the watch lists for censorship. It likewise constituted a watch list for persons in the government who were charged with the responsibility of issuing export and import licenses. American firms were not, of course, obliged to observe the standard of conduct in local dealings with

special blocked nationals, since they were not expected to know who they were. The Control's action, applied only to transactions which touched the United States. In those cases the Control's policy was practically as drastic as it was in Proclaimed List cases.

It is important to indicate in connection with this discussion of special blocked nationals that the blocking action was applied with respect to persons who had no funds in this country, but who were likely to use our financial facilities. In this way transactions were caught "on the wing". For example, we had one case in which a check came up to this country drawn in favor of a special blocked national and was presented and "bounced" since there were no funds in the account. The check was then sent back to the presenting bank in New York to apply for permission to return the check to Latin America. Permission was denied; instead the New York bank called the Philadelphia bank and said "Let us know when there are some funds in this account." In about a week or so funds were deposited to the account of the drawer of the check. The check was then presented, payment made, and the funds deposited in a General Ruling No. 6 account in the name of the special blocked national.

6. Foreign Payment Plan

A further step in the direction of controlling Latin American financial operations even though unblocked areas were involved, is represented by the so-called Foreign Payment Control Program. Actually, this program was initiated by the Enforcement Group of the New York Federal Reserve Banks.

Essentially, it involved the policing of all foreign accounts. Eight of the larger commercial banks doing a foreign business voluntarily participated in the program in cooperation with the New York Federal Reserve Bank. These banks

recorded, in the name of the beneficiary of the payment, all payments to the debits of unblocked accounts domiciled outside of the United States, with the exception of those domiciled in the British Empire and Iceland. These banks were requested to report to the New York Federal Reserve Bank details with respect to those foreign payments where single payments were of sufficient size or where payments to any beneficiary became repetitive. From the weekly list of beneficiaries submitted by the banks the Federal Reserve Bank of New York compiled and maintained an alphabetical card record of beneficiaries. All the names were checked by the New York Federal against all information available in connection with Foreign Funds Control operations. Where unfavorable information was found the reporting banks were requested to supply detailed information with respect to all transactions in which any such person participated.

The New York Federal served as a pivotal point for evaluating the information submitted by the 8 participating banks. The questionable cases were referred to Washington for action. In some instances the suspicious payments required further investigation in one of the Latin American countries. In such cases the Control sent what was called a "Treasury Investigative Report" to the particular country involved setting forth all available information with respect to the transaction at issue and the personalities involved and describing the field for investigation. In other cases, the information concerning suspicious or unexplained payments or transactions involving persons in foreign countries did not seem to warrant investigation; however, it might have seemed desirable that the information be sent to the appropriate mission, which, with its knowledge of the persons involved and because of its general knowledge of the business activities in its respective country might be able to evaluate the significance of such facts. Accordingly, such information was sent on and were entitled

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"Treasury Enforcement References." The missions were requested to report any additional information developed or in its possession which might indicate violations of this Government's controls or was of such character that it might be helpful to Foreign Funds Control.

As a result of the operations of this program many persons were "specially blocked" some were placed on the Proclaimed List; some were "ad hoc" blocked after an investigation of the status of persons involved in the suspicious payments.

E. ENFORCEMENT PROGRAM IN EUROPE

1. Activity in connection with Liberated Areas.

The Treasury, by virtue of its position as a financial department of this Government and its specialized knowledge and experience in banking, taxation and other financial matters, participated in and discharged broad responsibilities with respect to the operations necessary to the liberation of the occupied countries and the defeat of the enemy. The vital importance of control of financial transactions represented by the activities of Foreign Funds Control has already been indicated. The same specialized knowledge which was used in the freezing control program to frustrate the enemy was applied to insure the success of the financial operations supporting our own armies. The following discussion will give some idea of these responsibilities.

One of the fundamental problems was that of furnishing our invasion forces with adequate supplies of acceptable currencies to be used in the theater of war. Unlike the armies of the aggressor nations, our armies were not expected to acquire by loot and plunder the necessary materials for effective military operations. In determining the types of currency to be used in various theaters, attention was given not only to military considerations but also to other important

factors such as the geographic location and the political belligerent status of the country in which the military operation was being conducted. In North Africa and in the early days of the Sicilian operations, the United States forces used the "yellow seal" dollar; which was a regular U. S. silver certificate with a distinctive yellow seal. This distinctive mark was adopted in order to make such currency readily identifiable, thus enabling our forces to prevent the influx into the area of regular dollar currency already in the hands of the enemy. The distinctive mark also would have permitted isolation of this currency as the enemy had subsequently gained control of the area in which it was used. In Italy, our Allied forces used the Allied military lire, which was made legal tender interchangeable at par with the local lire currency. In areas like Belgium, Italy and Norway, our troops were provided with currency by the recognized governments in exile. A special Hawaiian series of dollars was used by the Navy in such places as Guam, the Gilberts and the Japanese Mandate Islands. In addition to these considerations, the currency program adopted was required to be capable of coping with currency manipulations of the enemy. For example, in Sicily, the enemy adopted a scorched earth policy and withdrew or destroyed the currency stocks, thus depriving the area of a circulating media. On the other hand, in Tunisia the enemy attempted to cause maximum difficulties by flooding the area with excess quantities of currency.

Once decision was made as to the type of currency to be used it was evident that the different considerations leading to the choice of the currency gave rise to important differences in the manner in which the accounts were kept and the control which was placed over its issue, etc. The Treasury advised the military authorities in connection with the accounting procedures necessary to the ultimate adjustment of financial matters arising from military operations in a theater of war.

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Once the type and amount of currency needed by our armed forces had been determined, a decision was required to be made as to the rate it would be exchanged for local currency circulating within the area.

In addition to making decisions such as those already indicated, other important preparations were made. All financial and economic intelligence obtainable with respect to the areas to be occupied were analyzed. Detailed reports were prepared on the principal banks and industrial combines for the following countries: France, Holland, Italy, Belgium, Yugoslavia, Czechoslovakia, Norway, and Luxembourg. The study of the banking and industrial institutions required not only an investigation of all available sources in Washington, but also in the field. The Control had a staff of experienced investigators in New York analyzing the records of some of the larger banks in New York to obtain information with respect to foreign institutions in enemy controlled areas which may have been represented by these American banks. As a result of examining the credit files, for example, of French banks in New York, it was discovered that one of the banks which had been attempting to represent the North African authorities subsequent to our re-occupation, was one of the principal collaborationist institutions. This particular bank, it was discovered, had been reorganized in 1932 through the assistance of Laval, the Prime Minister, who facilitated the contribution of French Government funds to the bank. Laval designated as manager of the bank a friend and close associate who since 1935 had been sponsoring active and friendly cooperation in Germany and had been hobnobbing with German industrialists. In addition to these financial intelligence/studies, reports were prepared analyzing the laws and regulations under which financial institutions operated, both prior to and insofar as possible during the occupation.

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Treasury representatives in North Africa devoted much time to securing by the French of economic warfare measures for the whole of North Africa parallel to the financial property controls exercised in the United States with the following primary objectives in mind: (a) elimination from the economic and financial fields all control and influence of persons whose activities were known to be or likely to be inimical to the successful prosecution of the war by the Allies; (b) the employment of all measures necessary to prevent any further benefits of any kind emanating from the area to the enemy; (c) addition of the French African area to the powerful chain of nations whose economic and financial resources were mobilized in the struggle against the Axis.

Under the encouragement of the Treasury officials, Darlan, on December 14, 1942, as High Commissioner of French North Africa, issued a resolution creating the Direction Du Blocus (Division for the Management of the Blockade) under the Secretary of Foreign Affairs, to have charge of the conduct of economic warfare. The functions of the Director of Blocus were the same as those provided for the Minister of Blocus in the Metropolitan French law of 1939 and comprised (a) control of all bank accounts and funds; (b) control of commercial transactions; (c) control of censorship and (d) administration of enemy property and elimination of enemy influence over French affairs. The French North African authorities, pursuant to this authorization, proceeded immediately with a program similar to the freezing control programs being exercised in the States by Foreign Funds Control. Accounts and funds of enemies were blocked, persons whose names appeared on a special list were blocked, and no activities could take place with respect to these blocked accounts without permission of the Exchange Office. Under the continuous encouragement of the Treasury representatives, the French instituted

a comprehensive program of international financial and property controls. However, in these efforts they were constantly met by the reluctance of the French to break away from their traditional sequestration procedure and their hesitancy to take any measures which might penalize Frenchmen.

In connection with the administration of the French North African economic warfare measures, the Treasury representatives played a very dominant ^{not} role/only as evidenced by their attempts to secure the adoption of adequate measures, but in their making available to the Hocus authorities all financial intelligence information available to the staff of Foreign Funds Control. We were continuously cognizant of the fact, not only in connection with North Africa but in all the areas subsequently liberated, that we must afford every assistance to the liberated governments who for many years had been operating in exile and could not have available to them information with respect to all the damage done to their respective countries, particularly on the financial and economic fronts.

It is appropriate to point out at this point also that we took steps to proceed with the unblocking of the assets of liberated countries only after we were assured that each of these countries had adopted adequate economic and financial control measures to eradicate enemy interest within their jurisdictions. In this connection we supplied each of the governments with all information available to us to assist them in this project. The eradication of enemy interest within their respective countries was an important prerequisite to securing the defrosting of their funds in the United States as will be indicated below, in order to insure that none of the assets in the United States held in the name of these countries or in the name of their nationals could reach the hands of enemies. Moreover, it was important that these liberated countries act with us in a uniform program to eradicate German and Japanese influence which had so notoriously penetrated many

of the Western European countries as well as the United States in preparation for World War II.

2. Participation in the Financial Investigations and Establishing the Financial Controls in Germany.

Early in the spring of 1945 the Treasury Department was urgently requested to give technical assistance to the Army in conducting its financial investigations within Germany and to assist in the establishing of financial controls. In view of the unique opportunity which German capitulation afforded to obtain valuable information from the files and records and the top personnel of the German industrial and financial enterprises, it was decided that the Treasury would assemble a group of people equipped for this work and that Mr. Schmidt, Director of Foreign Funds Control, should proceed to Germany to assist in getting these operations under way.

In May, Mr. Schmidt and approximately 30 people proceeded to Frankfurt where they were able to begin their investigations almost immediately after VE-Day.

Some idea of the type of work done can be gathered from the following brief comments with respect to the work that was done during the six weeks from the middle of May to the end of June, 1945:

(a) The I. G. Farben case.

Most of the files of the head administrative branch, including the private files of many of the top men in I. G. Farben, are in the possession of the financial investigative group. Among the more striking of the materials already uncovered have been

- (1) the plan followed by I. G. Farben in 1939 to camouflage more effectively I. G. Farben in the Swiss Company, I. G. Chemie, and the General Aniline Film Corporation — a \$60 million American chemical combine

owned through I. G. Chemie. These findings give strong support to this Government's action in vesting General Aniline Film Corporation.

(ii) A secret list of 701 enterprises (both within Germany and throughout the world) in which I. G. Farben has an interest. This list indicates the nature and extent of I. G. Farben's interest in each company and the intermediary through which the interest is held. This list will be invaluable in uncovering Farben industries, hitherto effectively camouflaged, located throughout the world.

(iii) Minutes of top directors' meetings in which important policies and plans of I. G. Farben were discussed. Among the subjects to which such papers relate are: I.G. Farben's plan for postwar Europe on the assumption of German victory; a plan to "break up" I. G. Farben into three or four different companies should circumstances require that I. G. Farben be dissolved; consideration of the effectiveness of the American economic warfare program in Latin America; etc.

(b) Robert Bosch of Stuttgart.

In this case we have been able to prove conclusively that important Swedish interests (Stockholm's Enskilda Bank, which is controlled by the Wallenbergs), which acquired the American Bosch Company from the Dutch Bank Mendellsohn and Company in 1932, were acting for

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Robert Bosch of Stuttgart and have been serving as a cloak for these German interests since that time. These findings support the vesting of the American Bosch Company by the United States Government, which has been strongly protested by the Swedish Government. It also demonstrates the ineffectiveness of the present Swedish controls and, if properly used, should serve as a strong lever to force Sweden to adopt an effective program.

(c) The German Rayon Cartel.

We have already uncovered valuable information concerning the control of a Dutch holding company which controls much of the world's rayon industries. Should we be able to establish a substantial German interest in the Dutch holding company, the vesting by the A.P.C. of three large American companies would be in order. Evidences being uncovered in Germany, as of the end of June, pointed to a substantial German control of the Dutch company.

(d) The German Steel Cartel.

Important files of the German Steel Cartel were found about the middle of June. Included in these files were top policy correspondence with the United States and Latin America relating to steps taken to camouflaging German interest in American concerns and to protect the Latin American market for the German Steel industry during the war.

(e) The German Ball Bearing Trust.

The same Swedish interests which were camouflaging for the Germans in the American Bosch case exercise control over Swedish S.K.F., which ostensibly owns the German Ball Bearing Combine. Information obtained in this country leads us to suspect that the Germans have substantial

control over S.K.F. Sweden which controls the S.K.F. industry throughout the world. Investigation of this case was just beginning late in June.

(f) The Ford Company of Cologne.

Information obtained in the records of the Ford Company showed the manner in which the German Government caused American interests, such as Ford of Dearborn, to help supply the German Government with critical materials in 1938 and 1939. Also discovered was the fact that: the Directed was an ardent and active Nazi decorated for his services to the Nazi party; Ford of Cologne, in April 1939, contributed to the birthday fund being raised by the Nazi Party for Hitler's 50th birthday; Ford, in order to Germanize the company, sold 40% of the stock of the company to hand-picked German industries at half the market value, of which I. G. Farben received the largest share.

The foregoing was accomplished by a comparatively small staff with very primitive operating facilities. Additional professional and stenographic personnel were sent to Germany as it was expected that much other information of great importance could be uncovered.

In addition to the assisting of these investigation, the staff, under the direction of Mr. Schmidt, assisted in developing controls to be established in Germany with respect to all foreign assets of Germans and for administering an internal blocking control.

Treasury participated actively in the German investigative program for approximately six months after which time the War Department took over complete responsibility for this job. Those of the Treasury personnel already in Germany could remain in Germany and be transferred to the War Department payroll.

In December, 1945, Treasury personnel commenced to return to the States. Those who remained in Germany became War Department employees. The State and War

Departments were now responsible for all policies for Germany and Treasury's role in this connection under the Trading with the enemy Act as applied to Germany was determined by the State and War Departments.

3. Participation in Program re Looted Property and German External Assets.

It has already been shown how the securities, art and currency control programs of the Control were the specific measures adopted to strike at the enemy looting tactics. It was always an objective of Foreign Funds Control to defeat the measure of Nazi looting. In fact that very act of freezing the funds of over-run countries was directed towards nullifying the Nazi attempts to acquire control of the assets of these over-run countries.

In January, 1943, this Government went on formal record in support of this aspect of the Treasury program and issued a formal declaration "Regarding Forced Transfers of Property in Enemy-Controlled Territory", to which all the Allied governments subscribed. The Declaration of January 5, 1943 issued in this connection provided as follows:

The Union of South Africa, the United States of America, Australia, Belgium, Canada, China, the Czechoslovak Republic, the United Kingdom of Great Britain and Northern Ireland, the Union of Soviet Socialist Republics, Greece, India, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Yugoslavia, and the French National Committee.

"Hereby issue a formal warning to all concerned, and in particular to persons in neutral countries, that they intend to do their utmost to defeat the methods of dispossession practiced by the governments with which they

are at war against the countries and peoples who have been so wantonly assaulted and despoiled.

"Accordingly the governments making this declaration and the French National Committee reserve all their rights to declare invalid any transfers of, or dealings with, property, rights and interests of any description whatsoever which are, or have been situated in the territories which have come under the occupation or control, direct or indirect, of the governments with which they are at war or which belong or have belonged, to persons, including juridical persons, residents in such territories. This warning applied whether such transfers or dealings have taken the form of open looting or plunder, or of transactions apparently legal in form, even when they purport to be voluntarily effected.

"The governments making this declaration and the French National Committee solemnly record their solidarity in this matter."

Subsequently, on February 22, 1944, the United States, United Kingdom and Union of Soviet Socialist Republics issued a special declaration with respect to "Gold Purchases" - not to recognize transfers of looted gold and not to purchase gold from the neutrals which acquired such gold from the Axis powers. Specifically, the Declaration on Gold Purchases provided as follows:

"On January 5, 1943, the United States and certain others of the United Nations issued a warning to all concerned, and in particular to persons in neutral countries, that they intend to do their utmost to defeat the methods of dispossession practiced by the governments with which they are at war against the countries and peoples who have been so wantonly assaulted and despoiled. Furthermore, it has been announced many times that one of the purposes of the financial and property controls

of the United States Government is to prevent the liquidation in the United States of assets looted by the Axis through duress and conquest.

One of the particular methods of dispossession practiced by the Axis powers has been the illegal seizure of large amounts of gold belonging to the nations they have occupied and plundered. The Axis powers have purported to sell such looted gold to various countries which continue to maintain diplomatic and commercial relations with the Axis, such gold thereby providing an important source of foreign exchange to the Axis and enabling the Axis to obtain much-needed imports from these countries.

"The United States Treasury has already taken measures designed to protect the assets of the invaded countries and to prevent the Axis from disposing of looted currencies, securities, and other looted assets on the world market. Similarly, the United States Government cannot in any way condone the policy of systematic plundering adopted by the Axis or participate in any way directly or indirectly in the unlawful disposition of looted gold.

"In view of the foregoing facts and considerations, the United States Government formally declares that it does not and will not recognize the transference of title to the looted gold which the Axis at any time holds or has disposed of in world markets. It further declares that it will be the policy of the United States Treasury not to buy any gold presently located outside of the territorial limits of the United States from any country which has not broken relations with the Axis, or from any country which after the date of this announcement acquires gold from any country which has not broken relations with the Axis, unless and until the United States Treasury is fully satisfied that such gold is not gold which was acquired directly or indirectly from the Axis powers or is not gold which any such country has

been or is enabled to release as a result of the acquisition of gold directly or indirectly from the Axis powers."

These two declarations were directed primarily towards the neutrals since they were the only countries who continued to do business with both sides during the war. In fact, in August, 1944, the following specific request was addressed to the neutrals in connection with the gold policy:

"On its own behalf — government will not acquire any interest in or receive for deposit gold in which any person in Germany and associated countries, or occupied territories, has an interest, and the receipt or acquisition of such gold or of any interest in such gold by persons or entities with — jurisdiction including the — national bank, will be forbidden by the — government. Moreover it will not permit the importation into ——— for safekeeping or for storage in bond, gold in which any individual in Germany and associated countries or occupied territories has an interest, nor will the government of ---- allow its currency or other currencies to be made available on behalf of, or to, any such persons as described in foregoing for or against gold held in ----- already."

In August, 1944, the 44 nations represented at the Bretton Woods Conference adopted Resolution VI, which not only was directed to the problem of German external assets, but to the problem of looted property including looted gold. Resolution VI read as follows:

"Whereas, in anticipation of their impending defeat, enemy leaders, enemy nationals, and their collaborators are transferring assets to and through neutral countries in order to conceal them and to perpetuate their influence, power, and ability to plan future aggrandizement and world domination, thus jeopardizing the efforts of the United Nations to establish

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and permanently maintain peaceful international relations;

"Whereas, enemy countries and their nationals have taken the property of occupied countries and their nationals by open looting and plunder, by forcing transfers under duress, as well as by subtle and complex devices, often operated through the agency of their puppet governments, to give the cloak of legality to their robbery and to secure ownership and control of enterprises in the postwar period;

"Whereas, enemy countries and their nationals have also, through sales and other methods of transfer, run the chain of their ownership and control through occupied and neutral countries, thus making the problem of disclosure and disentanglement one of international character;

Whereas, the United Nations have declared their intention to do their utmost to defeat the methods of dispossession practiced by the enemy, have reserved their right to declare invalid any transfers of property belonging to persons within occupied territory, and have taken measures to protect and safeguard property, within their respective jurisdictions, owned by occupied countries and their nationals, as well as to prevent the disposal of looted property in United Nations markets; therefore

"The United Nations Monetary and Financial Conference

1. Takes note of and fully supports steps taken by the United Nations for the purpose of:

- (a) Uncovering, segregating, controlling, and making appropriate disposition of enemy assets;
- (b) Preventing the liquidation of property looted by the enemy, locating and tracing ownership and control of such looted property, and taking appropriate measures with a view to restoration to its lawful owners;

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2. Recommends:

That all Governments of countries represented at this Conference take action consistent with their relations with the countries at war to call upon the Governments of neutral countries

(a) To take immediate measures to prevent any disposition or transfer within territories subject to their jurisdiction of any

(1) Assets belonging to the Government or any individuals or institutions within those United Nations occupied by the enemy; and

(2) Looted gold, currency, art objects, securities, other evidences of ownership in financial or business enterprises and of other assets looted by the enemy; as well as to uncover, segregate and hold at the disposition of the post-liberation authorities in the appropriate country any such assets within territory subject to their jurisdiction;

(b) To take immediate measures to prevent the concealment by fraudulent means or otherwise within countries subject to their jurisdiction of any

(1) Assets belonging to, or alleged to belong to, the Government of any individuals or institutions within enemy countries;

(2) Assets belonging to, or alleged to belong to, enemy leaders, their associates and collaborators; and

to facilitate their ultimate delivery to the post-armistice authorities.

None of the neutral countries had adopted any of these resolutions by the time hostilities ceased. In fact, in February, 1945, a special mission, the so-called Currie Mission, consisting of the U.S., U.K. and French repre-

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sentatives was sent to Switzerland to secure, among other things, a commitment on this gold policy.

The following results were achieved by the Currie Mission:

(a) Switzerland Froze all German Assets.

On February 16, 1945, the Swiss Federal Government issued a decree freezing all assets in Switzerland of Germans and persons in German -occupied territory.

Significantly, Berlin, immediately after the issuance of this decree, recalled home the economic mission which it had sent to negotiate with the Swiss.

(b) Switzerland Agreed to Take Other Freezing Action.

The Swiss Government agreed to tighten certain already existent freezing controls and, upon the receipt of instructions from us, to freeze the assets of Japan, Finland, Rumania, and Bulgaria. The freezing of Finland, Bulgaria, and Rumania was postponed in order that we might first clear such action with the Russians, inasmuch as the Russian Government did not participate in the negotiations. It was decided by us to postpone the freezing of Japan for reasons which I will be glad to explain orally.

In this connection, the Swiss Government also declared in writing that it will "prevent the concealment, disposing of, or dissipation of assets of persons falling under the various blocking decrees issued by the Swiss Government in the past or which it will enact in the future or the execution of transactions for or on behalf of such persons designed to elude or evade such controls as are now in effect in in Switzerland or hereafter established."

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(a) Swiss Black Markets in Dollars and Other Foreign Currencies Have Been Eliminated.

The Swiss, by decree of March 3, 1945, have prohibited the importation, exportation, and all trading within Switzerland in the currency of any foreign country. This measure stops all black market dealings in dollars, sterling, francs, etc. and prevents Germans from continuing to sell in Switzerland currencies they have taken from occupied countries.

(b) Swiss Stopped Purchasing Gold from Germany for Ordinary Financial Operations.

The Swiss Government has agreed to cease purchasing any more gold from Germany except to provide funds for German diplomatic expenses in Switzerland, care of German prisoners of war, and payments to the American Red Cross. As a result of this step, payments made by Germans to persons in Switzerland, including payments to stand-still creditors, will cease, since the Germans were acquiring Swiss francs with which to make such payments by the sale of gold.

In this connection you will be interested to learn that Mr. Weber, President of the Swiss National Bank, made the observation to me that he supposed we did not realize it, but by forcing the Swiss Government to cease purchasing gold from Germany we were effectively killing the Bank for International Settlements. He explained that the chief asset of the BIS was a claim against Germany and that the only way in which this claim was being liquidated was by the use of German gold.

(2) Swiss Commitment to Take a Census of Foreign Assets Emasculates Swiss Banking Secrecy.

The Swiss Government agreed to take a census of all assets held in or through Switzerland by nationals of all countries now or hereafter subject to Swiss freezing decrees. This means a census of the assets of all European countries other than Sweden, Spain, Portugal, and Turkey. In agreeing to take this census, the Swiss recognize that for the first time in Swiss history all banks, lawyers, holding companies, etc., will be forced to disclose to the Swiss Government the names of the true owners of assets being held through Switzerland. This commitment was obtained with great difficulty and only because the American delegation was adamant.

(3) Foundation Laid for Securing Swiss Cooperation in Post-War Allied Control of German External Assets.

The Swiss Government is now committed not to release German blocked assets without first consulting the postwar Allied Military Government of Germany. This result was achieved by pressing the Swiss to agree not to relax any of its freezing controls without consulting the government of the blocked country. In addition to its importance in the German program, the commitment will be very helpful to the postwar financial programs of the liberated countries.

(4) Switzerland to Assist in Restoration of Looted Property.

The Swiss Government made a general commitment on its own behalf and that of the Principality of Lichtenstein to prevent the territory of Switzerland and Lichtenstein from being used "for the

disposal, concealment, or reception of assets which may have been taken illegally or under duress during the war" and that "every facility will be given to the dispossessed owners to claim in Switzerland and Lichtenstein their assets found there."

In return for the foregoing, we gave nothing to the Swiss.

This achievement was made possible only because Mr. Currie was willing to throw his full weight behind this aspect of the negotiations and to take the position that action by the Swiss in this sphere was a sine qua non of any trade agreement between Switzerland and the Allied countries represented.

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In these negotiations, /well as in all the negotiations looking toward the original gold declaration, Bretton Woods Resolution VI, and subsequent developments, representatives of Foreign Funds Control played a dominant role, although the actual negotiations with the neutral governments with respect to German external assets and looted gold were the prime responsibility of the State Department. Accordingly, it is considered appropriate here to review the history of the negotiations with the Swiss and Swedish governments which were conducted in Washington in the spring and early summer of 1946.

(a) Swiss Negotiations.

The importance with which the Allied Governments viewed German external assets, especially in the neutral countries, was emphasized in the Potsdam Declaration of August 2, 1945, issued by the governments of the United States, United Kingdom, and Union of Soviet Socialist Republics. Articles 3 and 4 of this Declaration provided that the Allied Control Council for Germany should exercise control over and have the power to dispose of

German external assets not already under the control of the United Nations. In addition to allocating the disposition of German external assets, the Potsdam Declaration provided that the United States, United Kingdom, and other appropriate members of the United Nations, exclusive of the Union of Soviet Socialist Republics, would derive reparation payments from German external assets in neutral countries.

On October 30, 1945, pursuant to the Potsdam Declaration, the Allied Control Council for Germany issued Law No. 5. One of the primary objectives of this vesting decree was to promote "international peace and collective security by the elimination of the German war potential."

In February 1946, the Swiss Government was invited to send a delegation to the United States to discuss with representatives of the Governments of the United States, United Kingdom, and France, questions arising out of Law No. 5 as it related to German external assets in Switzerland and the Principality of Liechtenstein. The representatives of the United States, United Kingdom, and France were also acting on behalf of the governments of Albania, Australia, Belgium, Canada, Denmark, Egypt, Greece, India, Luxembourg, Norway, New Zealand, the Netherlands, Czechoslovakia, Union of South Africa, and Yugoslavia.

The Swiss Foreign Office was advised informally that the discussions in Washington would deal with: (1) the marshalling and liquidation of German assets in Switzerland and the utilization of the proceeds from the liquidation for reparation purposes; (2) procedures for the return to rightful owners of looted property, including gold looted by the Germans which might have found its way into Switzerland. In addition, the Allied Governments

indicated that after these basic objectives had been attained they would take up with the Swiss Delegation questions relating to the Proclaimed and Statutory Lists, the status of Swiss assets blocked in the United States and other Allied Nations, and Swiss claims against Germany.

In February, 1946, Mr. Randolph Paul was designated Special Assistant to the President in charge of the Allied-Swiss negotiations for the United States Government. For two years during the war Mr. Paul was General Counsel of the Treasury Department and Acting Secretary of the Treasury in charge of Foreign Funds Control. Mr. Paul was chiefly assisted in the negotiations by representatives of the State Department including, among others, Mr. Seymour J. Rubin, Deputy Director of the Office of Economic Security Controls; and by representatives of the Treasury Department including Mr. Orvis A. Schmidt, Director of Foreign Funds Control; Mr. Joseph B. Friedman, Assistant General Counsel; Mr. James H. Mann, Treasury Representative, American Legation, Bern; Mr. Melville E. Locker, staff member of the General Counsel's Office of the Treasury; and Mrs. Rella R. Schwartz, Chief of Enforcement Division, Foreign Funds Control.

Mr. F. W. McCombe, Chief of Charitable Institutions, was head of the delegation from the United Kingdom. Mr. McCombe, who had been in the British Embassy in Washington during the greater part of the war, working on economic warfare problems, was assisted by Mr. Albert Frost of the British Embassy in Washington.

Mr. Paul Chargueraud was head of the delegation from France. He was Director of the Blocus Division of the Foreign Office and served as French representative on the Currie Mission. Mr. Chargueraud was assisted by M. Emile Guionin of Blocus, and Messrs. Marcel Vaidie and Bernard Peyrot.

des Bâchons of the French Embassy in Bern.

Mr. Walter Stucki, Chief of the Division of Foreign Affairs, Federal Political Department, was head of the Swiss Delegation. Mr. Stucki was assisted by M. Eberhard Ernst Reinhardt, Chief of Federal Administration of Finance; M. Alfred Hirs, Director General, member of Directorate, of Swiss National Bank, M. Max Schwab, Director, Chairman of Board, Swiss Office of Compensation; Professor Dietrich Schindler, Legal Consultant, Federal Political Department; M. Reinhardt Bohl, Chief of Claims and Foreign Interests Section, Federal Political Department; and a group of technical experts. Professor William Rappard was adviser to the Delegation.

The Allied-Swiss negotiations were conducted in Washington. The first plenary session was held on March 18, 1942. In his opening statement Mr. Paul advised the Swiss that:

(i) The dual objectives of the negotiations were to eliminate the German war potential in Switzerland, and to make all German assets in Switzerland available for reparations.

(ii) The Allies in no way questioned the principle of neutrality and were fully cognizant of Switzerland's difficult position during the war.

(iii) The Allies sought complete cooperation of the Swiss in making German property and German assets available for reparation and reconstruction in such a manner as to eliminate the use of German assets in Switzerland for future war or aggression. In no way was neutral property nor assets of Switzerland or her nationals encompassed within the Allied objectives.

Mr. Stucki, in his opening remarks stated that:

(i) Switzerland's war record during the war years was above reproach.

(ii) Switzerland had long opposed Nazism.

(iii) The Swiss opposed application of Law No. 5 to Switzerland as an act in contravention of Swiss sovereignty. If the Hitler Government had made such a request of Switzerland before the outbreak of the war, or during the war, the Swiss Government would not have honored it. The legal status of the Allied Control Council in Germany was no different than the legal status of the Hitler Government of Germany.

(iv) Under the Swiss constitution the Swiss had no right to expropriate any assets in Switzerland nor to hand them over to a third party. Looted property, however, could be returned to lawful owners.

(v) If it were possible to find a solution that would take into account national and international law, as viewed by the Swiss Government, the Swiss "would be most happy and very ready to cooperate with all good will toward this realization."

During the first week of negotiations the Swiss dealt almost exclusively with their view of the legal obstacles to the application of Law No. 5 to Switzerland. On March 19, the Allied Delegations set forth their views on this legal question in a memorandum to the Swiss as follows:

(1) The Allied Control Council for Germany constituted the present de facto government of Germany.

(ii) The only legal act necessary on behalf of the Swiss Government was recognition of the binding effect of Law No. 5 in Switzerland under accepted principles of comity and international law.

(iii) The Swiss fear that bona fide refugees from Germany would be covered by the terms of Law No. 5 was unjustified. Article 3 of Law No. 5 made the law applicable only to assets owned by German nationals who enjoyed full rights of German citizenship under Reich law at any time since September 1, 1933, and who at any time since that date had been in the territory then under control of the Reich Government. Accordingly, bona fide refugees in Switzerland who were deprived of their citizenship by the Nuremberg laws, or political refugees whom the German Government might have deprived of their citizenship, were specifically excluded from the effects of Law No. 5.

(iv) Law No. 5 did not request the Swiss Government to give extra-territorial effect to a confiscatory law. It provided that the question of compensation to Germans whose property was covered by the decree was a matter to be settled by the Allied Control Council. In this connection, it was the intention of the governments of the Allied Delegations to recommend to the Allied Control Council that compensation in reichsmarks be paid to persons affected by Law No. 5. Moreover, by virtue of the current importation of foodstuffs into Germany by the Allied Nations, over-all compensation to Germany was in effect being made.

(v) The implementation of Law No. 5 by the Swiss would not violate the principles of neutrality. International law encouraged recognition in any jurisdiction of a duly authorized government and of

the laws of a foreign government. Reference was made to the action of the United States Government in connection with the decrees issued in 1940 by the Royal Netherlands Government-in-exile and the Norwegian Government.

(vi) The Swiss had no basis upon which to make an analogy between the Hitler regime and the Allied Control Council. Account must be taken not only of the character of the government now making the request, but also the use to which the Allied Control Council intended to put the assets.

On March 21, the Swiss submitted the following proposal:

(i) The Swiss Government would, through appropriate measures, liquidate all property in Switzerland owned by Germans in Germany.

(ii) The assets derived from the liquidation would be earmarked for Swiss claims against Germans in Germany.

(iii) To provide the Swiss with a legal basis for effecting this plan, the Allied Control Council should assume the liability to collect in reichsmarks debts owing to Swiss nationals by Germans in Germany. These reichsmarks would be devoted to compensating Germans whose property or assets in Switzerland were liquidated pursuant to the Swiss proposal.

The Allied Delegations refused to accept the Swiss proposal. In a memorandum on March 22, their objections were summarized as follows:

(i) The Swiss proposal requested the Allies to direct their objectives to the single purpose of making the Allied Control Council a collection agency for the sole benefit of the Swiss claimants against a bankrupt Germany, even including those claimants whose claims arose through

assisting Germany during the war.

(ii) The Swiss proposal ignored all aspects of the security objective. It indicated no willingness to provide for Allied-Swiss cooperation to realize this objective.

(iii) Implicit in the Swiss proposal was a recognition that there were no constitutional difficulties involved in Swiss liquidation of German assets in Switzerland, which could not be overcome if compensation in reichsmarks were paid to German owners and creditors whose property was covered by Law No. 5.

In the same memorandum the Allied Delegations outlined a plan to further constructive discussion of the problems, proposing that:

(i) German assets as defined in Law No. 5 should be liquidated by an agency to be designated by common agreement between the Swiss Government and the three Allied Governments.

(ii) Proceeds of liquidation should be deposited in a special account in the Swiss National Bank.

(iii) The sum so deposited should be transferred to the three Allied Governments on their request, subject to deductions of proper Swiss collection expenses.

(iv) Agreement on the above should become effective at the time that the proper Allied authorities provided compensation in reichsmarks to Germans whose property would be liquidated, with the exception of war criminals, etc.

The Swiss reaction to this Allied proposal indicated that the reasons for the Swiss failure to comply with the Allied requests were reasons of expediency and not of law. The Swiss immediately agreed to waive their

claims against Germany arising out of advances made by Switzerland to Germany during the course of the war. They intimated, however, that other Swiss claims would entirely exhaust any funds which might arise out of liquidation of German property in Switzerland. In the light of the Allied memorandum, they indicated that they could not accept the Allied proposal, but would look to international arbitration for the solution of the problem.

In a subsequent memorandum of March 26, the Swiss pointed out that:

(i) They would be willing to keep the Allied Governments fully advised of measures taken by the Swiss in ferreting out German assets, although they would not permit administrative activities of foreign officials on Swiss soil.

(ii) The only manner in which German assets in Switzerland could be liquidated and turned over to the Allied Control Council would be for the Allies to turn over Swiss assets in Germany to Switzerland on the basis of a "capital clearing."

(iii) In no event could the Swiss enter into an agreement which would provide for German assets in Switzerland to be devoted to reparations. They considered that participation in such a program would be contrary to all principles of neutrality.

On March 25, it was agreed that progress of the negotiations would be improved if committees were established to deal with particular problems. Three committees were therefore established: (1) a Committee on Procedures, to determine procedures for liquidating German assets in Switzerland; (2) a Committee on Claims, to consider Swiss claims against Germany; and (3) a Committee on Gold, to discuss principally the status and treatment of

the looted gold in Switzerland. Several meetings of these committees were held during the week of March 25.

The activities of the committees and further over-all discussions were unexpectedly suspended because of Mr. Stucki's departure for Switzerland on March 31 to report to his government and receive new instructions.

On March 29, prior to Mr. Stucki's return to Switzerland, the Allies summed up their position in a memorandum stating that:

(i) The word "reparations" was apparently being misunderstood by the Swiss. The Swiss were not being asked to participate in a punitive program, but rather in a program of reconstructing the damage and losses suffered during the war. The Allies recognized that Swiss nationals suffered losses, but the Allied losses were more extensive in character and included damages directly attributable to the war, from which the Swiss had escaped.

(ii) To remove any criticism that they were attempting to invade Swiss sovereignty, the Allies proposed that the liquidation of German interests be handled by a Swiss agency which would cooperate with a joint Swiss-Allied commission. Disputed questions were to be referred to arbitration.

(iii) The Allies could not recognize the various categories of Swiss claims against Germany. They proposed that the only way Switzerland could now secure any compensation for her claims was to agree to settle the matter with the Allies on a basis consistent with Germany's status as a bankrupt nation.

(iv) The Allies were prepared to agree to "retrocede" to Switzerland a percentage of the proceeds resulting from the liquidation of

German assets in Switzerland.

(v) The first \$85,000,000 collected from the liquidation of German assets was to be turned over to the Inter-Governmental Committee on Refugees, in accordance with the Paris Reparation Agreement, to be devoted to the relief of non-repatriable victims of Nazi action.

(vi) The Swiss regulations and public declarations with respect to looted property should be applied to gold. At least \$800,000,000 worth of gold transferred by Germany during the war to institutions in Switzerland was loot.

Subsequently, on March 31, a supplemental memorandum was presented to Mr. Stucki. It included technical facts with respect to looted gold in Switzerland. After discounting certain classes of Swiss claims against Germany such as, for example, the German deficit in the Swiss-German clearing, the memorandum proposed the allocation to Switzerland of 20 percent of the proceeds of liquidation of German assets in Switzerland plus a 2 percent collection fee.

Mr. Stucki returned to Washington from Switzerland on April 2. He first communicated with the Allied Delegations on April 11 in a letter which summed up the current Swiss position on the issues being negotiated:

(i) The Swiss Government did not recognize that Law No. 5 gave the Allies any legal claim for the surrender of German assets in Switzerland.

(ii) The Swiss considered inequitable the Allied proposal that Switzerland participate to the extent of 20 percent in the proceeds of liquidated assets. They again recommended that the issue be submitted to an international court of arbitration.

(iii) The Swiss characterized as incorrect the Allied estimates and conclusions with respect to looted gold in Switzerland. The Swiss National Bank was innocent in connection with its purchases of gold from the Germans during the war. The question of restoring possibly looted gold to the legitimate owners could only be decided by the Swiss Federal Tribunal.

(iv) Despite the above, the Swiss Government was willing to cede to the Allies, for the rehabilitation and reconstruction of Europe, a percentage of the proceeds of the assets liquidated in Switzerland belonging to Germans residing in Germany. In addition, the Swiss Government agreed to submit to the Swiss Parliament a proposal to make available to the Allies a part of the gold which the Swiss National Bank acquired from Germany after February 23, 1944, the date on which Switzerland received notice of the Declaration on Gold Purchases. These Swiss concessions, however, were contingent upon the unblocking of Swiss assets in the United States and the termination of continued discriminations against Switzerland.

On April 12, on behalf of the Allied Delegations, Mr. Paul replied to Mr. Stucki's letter of April 11, pointing out that:

(i) German assets in Switzerland were German assets and not Swiss assets. The present government of Germany had the right to immobilize the foreign assets of persons and institutions subject to German jurisdiction.

(ii) Referring the matter to arbitration would not provide the practical measures for meeting with the problems at issue. It would merely cause a deterioration of German assets which had to be liquidated,

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and possibly prolong measures which the Allies would be required to maintain to insure that no German assets failed to be uncovered.

(iii) The requirement that the Swiss agree to make a portion of the proceeds, derived from the liquidation of German assets, available to the Allied Governments was not one of law, as the Swiss Delegation itself had already conceded, but one of expediency to be decided as a political act by the Swiss Government itself.

(iv) The United States Government agreed that upon the successful conclusion of the present negotiations with Switzerland, it was prepared to discuss procedures for the unfreezing of legitimate Swiss assets in the United States. The Allied Delegations agreed to examine further the economic controls which might be presently affecting Switzerland. Those controls were matters of domestic law. Each country had the right to forbid its nationals to have financial or commercial dealings with persons who gave aid and comfort to the enemy.

(v) To assist in the speedy resolution of the questions at issue, the Allied Delegations recommended that drafting committees be set up to work out appropriate agreements.

On April 17, Mr. Stucki replied to Mr. Paul's letter of April 12 indicating that:

(1) The Swiss were willing for the present to waive further legal discussions, but that they might feel obliged to return to their proposal for arbitration of the main issues.

(ii) They had never maintained that German assets in Switzerland were Swiss and not German.

(iii) They could in no way admit that foreign assets should be liberated without parallel repatriation of Swiss assets in the corresponding countries.

(iv) They considered that they had been discriminated against by the continued application of the freezing control to Swiss assets in the United States and by the continued application of the Statutory and Proclaimed Lists.

(v) They were willing to proceed immediately with the drafting of an agreement along general lines, but preferred that all technical points be negotiated and concluded in Switzerland.

It will be recalled that in a memorandum of March 31 the Allied Delegations furnished the Swiss with certain facts upon which the Allies based their conclusion that at least a minimum of \$200,000,000 worth of gold looted by Germany was transferred to Switzerland during the course of the war. On April 4, in Mr. Stucki's absence from Washington, Professor Rappard, Special Advisor to the Swiss Delegation, addressed a letter to Mr. Paul requesting further detailed information on the question of looted gold in Switzerland.

In a letter of April 9, Mr. Paul replied to Professor Rappard, Mr. Paul did not answer specific questions raised by Professor Rappard, but he pointed out that:

(1) None of the information requested by the Swiss Delegation with respect to the gold problem had any relevance to the acceptance by the Swiss of the principle advocated by the Allied Delegations that the Swiss should restore to the Allies looted gold which was acquired from Germany.

(ii) The Allied Delegations considered as looted gold all gold acquired by Germany under conditions such as those set forth in the United Nations Declaration of January 5, 1943.

(iii) In the event Switzerland agreed to restore looted gold to the Allies, appropriate arrangements could be made for the protection of the Swiss Government.

On April 13, the Swiss Delegation submitted a memorandum on the looted gold problem to the Allied Delegations. This memorandum, among other things, stated that:

(i) The Swiss estimated the legitimate pre-war gold reserves of Germany at \$450,000,000 (1,500,000,000 Swiss francs). This figure was to be contrasted with the Allied estimate of \$160,000,000 as the legitimate pre-war gold reserves of Germany.

(ii) Switzerland transferred a considerable portion of the gold she received from Germany to third parties.

(iii) Switzerland did not have concrete information on the German looting of gold.

(iv) The Swiss did not consider that the Belgian gold they purchased from the Reichsbank was looted gold.

On April 17, 1945, the Allied Delegations submitted to the Swiss Delegation comments on the Swiss memorandum of April 13. The Allied memorandum reiterated the view, expressed in Mr. Paul's letter of April 9, that Switzerland must accept the principle of turning over to the Allies looted gold which the Swiss had accepted during the war, and further noted that:

(1) The Swiss estimate of the legitimate pre-war gold reserves of Germany was incorrect.

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(ii) Switzerland was responsible for all gold shipped to her from Germany. The fact that some of this gold may have been sold to third parties did not relieve the Swiss of their responsibility.

(iii) Switzerland could not plead that she was ignorant of the looting tactics of the Germans. The neutrals were on notice as early as January 5, 1945, of Allied concern with German looting of property and what constituted looted property. The Allies could not accept the date February 23, 1944, as the definitive date for determining what constituted looted gold.

(iv) The Allies could not accept the Swiss view that the Belgian gold was not looted.

On April 20 the Swiss Delegation replied to the Allied memorandum of April 17, in a note setting forth that:

(i) The statements and figures in their memorandum of April 13 were correct.

(ii) Swiss purchases of gold during the war conformed to the laws of neutrality.

(iii) The Czechoslovakian and Austrian gold could not be considered as looted gold, since the Allies themselves did not question those acquisitions when they were made.

(iv) Neither the date February 23, 1944, nor any other date was decisive as to whether Switzerland should surrender gold.

(v) Switzerland could never recognize the Belgian gold which it purchased as looted gold.

(vi) The Swiss Delegation was under instructions to state "finally and categorically" that neither the Federal Council nor the Swiss

National Bank had a legal or moral obligation to restore gold to the Allied countries. If the Allies rejected the Swiss offer, i.e., their verbal offer of \$25 billion of gold as a contribution for the reconstruction of Europe, then the matter would have to be referred to a Swiss tribunal.

On April 23 the Allied Delegations replied that under the circumstances set out in the Swiss note they could not accept the statements made by the Swiss Delegation in its memorandum of April 20, and that they considered no Swiss tribunal competent to decide the issue.

In discussing this memorandum with the Swiss Delegation, the Allied negotiators stated that Switzerland was liable to restore to the Allies approximately \$130,000,000 in gold. The Allied records revealed that at least this amount of the Belgian gold, which was looted from France by the Germans, was transferred by Germany to Switzerland during the war.

On April 24 Mr. Stucki, replying to the Allied note of April 23, insisted that the Swiss courts were competent to consider the issue. In addition, he stated that the figure (\$130,000,000) lay beyond every possibility of the Swiss Government and the Parliament. In this connection he referred again to his earlier proposal which in effect indicated that the Swiss Government might be willing to recommend to the Swiss Parliament that it approve a voluntary gold contribution to the Allies for rehabilitation purposes.

On April 17, 1946, the Swiss Delegation submitted a memorandum to the Allied Delegations requesting withdrawal of the Proclaimed and Statutory Lists and List of Enemies (Black List) in the light of the following:

(i) The lists were injurious to the Swiss economy. Maintenance of the lists would undoubtedly increase unemployment and might provoke political and social unrest.

(ii) The Swiss Government, throughout the war, strictly conformed to international law, including the Hague Convention, and required of all its nationals strict observance of commercial treaties concluded between Switzerland and the Allies, including those which limited Swiss freedom of trade. Swiss nationals acted within the framework of Swiss legislation, even if they did contribute through exportations to the German war effort.

(iii) From 1940-1944, the export of war materials to Germany admittedly increased. However, shortly after the outbreak of war, at the urgent request of the British and French Governments, Switzerland suspended its regulations prohibiting the export of arms and munitions. As a neutral, Switzerland could not suspend its Arms Embargo with respect to the Allies and maintain it with Germany.

(iv) The procedure of listing individuals and firms, because of their relation with Swiss nationals already listed, was irreconcilable with Swiss sovereignty.

(v) The "black lists" had lost their reason for existence with the end of the war. During hostilities, they were incompatible with international law; today they constituted an unjustifiable violation of these principles.

Subsequent to April 17 the Swiss and Allied Delegations proceeded with the drafting of a proposed agreement, and on April 17 and 18 the Delegations exchanged preliminary draft accords. However, the negotiations and further

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work by the Drafting Committee were interrupted on April 23 due to a difficulty in arriving at a decision on two basic points: (1) the percentage of German assets which the Swiss should receive in satisfaction of their claims against Germany; and (2) the amount of gold which Switzerland should restore to the Allied nations as a result of her acquisitions of looted gold from Germany during the war. This interruption was confirmed by an exchange of letters between Mr. Paul and Mr. Stucki.

Between April 23 and May 2, Mr. Stucki had no contact with the Allied Delegations. However, during this period Mr. Bruggmann, the Swiss Minister to the United States, conferred at various times with Mr. Paul; Assistant Secretary of State Clayton; Secretary of the Treasury Vinson; and officers of the Department of Justice, looking toward a settlement of the Swiss-Allied negotiations.

During this period Mr. Bruggmann addressed a letter to Mr. Clayton reiterating the Swiss views on the Belgian gold question.

On May 2, Mr. Clayton replied to Mr. Bruggmann's letter, pointing out that the information in Mr. Bruggmann's letter had already been given to the Allied Delegations by the Swiss Delegation. Furthermore, Mr. Clayton re-affirmed the right of the Allied Governments to question the validity of Swiss rights to property acquired from Germans which the Germans had requisitioned from other countries.

Between April 23 and May 2, the Allied Delegations gave further study to the Swiss observations concerning the amount of looted gold for which Switzerland was liable. The Allied Delegations concluded that for purposes of these negotiations they might exclude Austrian gold from the category

of looted gold. On this basis the Allied Delegations revised downward their estimates of the amount of looted gold transferred to Switzerland. However, the Swiss Delegation took the position that Switzerland could not be held liable to restore the entire amount of looted gold which was transferred from Germany to Switzerland, since a portion of this amount was merely deposited in Switzerland and subsequently transferred from Switzerland to third countries pursuant to orders of the Reichsbank, as depositor. The Swiss admitted, however, that they had purchased \$88 million of gold traceable originally to Belgium from Germany during the war. But in no event would they concede that they were liable to restore this amount of gold to the Allies.

On May 2, Mr. Stuckel re-entered the negotiations and proposed to meet the two basic points at issue as follows: A 50-50 split on the proceeds of the German assets in Switzerland and a payment of 250 million Swiss francs, or approximately \$59.14 million, in settlement of the gold question. In view of the fact that this proposition was made to the Allied Delegations as the final offer of the Swiss Government, the matter was referred by Mr. Paul, for the United States Delegation, to the Secretaries of State and Treasury for their recommendations and by the British and French negotiators to their respective governments. Mr. Paul also sought the advice of Senator Kilgore, Chairman of the Sub-committee on War Mobilization of the Senate Committee on Military Affairs.

Secretary of the Treasury Vinson, Assistant Secretary of State Clayton, and Senator Kilgore were each of the view that the United States Government should accept the Swiss offer. They did not believe that an agreement with the Swiss, which would secure wholehearted support by the

Swiss of the Allied economic security objective, should be jeopardized for the sake of a few more dollars. Moreover, to obtain a few more dollars it would be necessary to continue wartime restrictions at a time when antagonism was increasing everywhere against such controls. The French and British Governments apparently shared the same views, since the Delegations of those governments were authorized to accept the Swiss offer. The French Delegation attached to its acceptance the condition that Italy and Austria should not share in the gold received from Switzerland. After consultation, the Delegations of the United States and the United Kingdom accepted this condition, on the proviso that Italian and Austrian rights should in no way be jeopardized in the final understanding.

In view of these recommendations, on May 21, Mr. Paul delivered a note to Mr. Stucki accepting the Swiss offer of one-half of the proceeds of the liquidated German assets and 250,000,000 Swiss francs in settlement of the gold claims of the governments for whom the Allied Delegations were acting. In accepting the offer the Allied Delegations stated that:

(i) The Swiss should permit the Allies to draw advances immediately to be devoted to the rehabilitation and resettlement of non-repatriable victims of German actions.

(ii) Property within Switzerland of victims of Nazi action, who had since died and left no heirs, was to be put at the sole disposal of the Allied Governments.

(iii) Official German property to which the Allies took title by virtue of the Act of Surrender was not subject to the 50-50 division which would be applied to other German assets to be liquidated pursuant to the proposed agreement with the Swiss.

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(iv) They assumed that the Swiss Government would submit to the Allies detailed information covering gold deposited by Germany in Switzerland for transfer to other countries, and would furnish the Allies with other information to assist them in tracing gold which might have been looted by the Germans.

On May 22, Mr. Stucki replied to Mr. Paul, acknowledging acceptance by the Allies of the final Swiss offer. In this letter he made the following additional points, some of which raised further questions to be resolved in the negotiations:

(1) The Swiss disagreed with the Allied definition of the German assets subject to the agreement.

It will be recalled that in Mr. Stucki's letter to Mr. Paul, dated April 11, Mr. Stucki stated that the Swiss Government was willing to cede to the Allies a percentage of the proceeds of the assets liquidated in Switzerland belonging to Germans residing in Germany. The scope of the German property which the Swiss intended to cover by their proposal differed from the scope of German property as defined by the Allies. In the first Allied draft accord of April 17, the "German property", which was the subject of discussion, included not only all property owned or controlled by Germans residing in Germany, but also "all property owned or controlled by any person of German nationality outside of Germany, including Switzerland." The latter expression was to apply to persons who had enjoyed full rights of German citizenship under Reich law at any time since September 1, 1933, and who at any time since September 1, 1939, had been in any territory under the control of the Reich Government, but it was not to apply to

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citizens of any country annexed by Germany since September 31, 1937. The expression was also to include any persons who the four Governments agreed should be repatriated to Germany because of their activities on behalf of the Third Reich. It was not to apply to the property of bona fide German refugees.

(ii) Further details would have to be discussed with respect to the type of additional gold information the Swiss were to furnish the Allied Governments.

(iii) Switzerland was prepared to make certain advances to the Allies from the account of their share in the liquidation proceeds to be used immediately for the rehabilitation of victims of Nazi action.

(iv) The Swiss reserved comment on the Allied proposal that the property within Switzerland of victims of Nazi action, who had since died and left no heirs, be placed at the sole disposal of the Allied Governments.

(v) Switzerland disagreed with the opinion that the Allies acquired title to official German property in Switzerland as a result of the Act of Surrender.

On May 26, 1946, the final agreement with the Swiss was signed. It consisted of an Accord, an Annex, a gentlemen's agreement, and an exchange of letters between the Swiss Delegation and the Allied Delegation. The Accord provided that:

(1) German property covered by agreement. The Swiss Compensation Office would investigate and liquidate all property in Switzerland which was (a) owned or controlled by Germans in Germany; and (b) owned or controlled by persons of German nationality who were to be repatriated.

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(ii) Compensation to owners of liquidated property. Germans whose property was liquidated would have a right to compensation in German money. Switzerland would furnish out of funds available to it in Germany one-half of the German money necessary for this purpose.

(iii) Joint Commission. The Swiss Compensation Office would investigate and liquidate German property in cooperation with a Joint Commission composed of representatives of the United States, British, French and Swiss Governments. Decisions of the Swiss Compensation Office were to be subject to review on request of the Joint Commission as well as private persons.

(iv) Apportionment of Liquidated German Assets. The proceeds of the liquidated German property should be divided on a 50-50 basis by the Swiss and Allied Governments. The Swiss Government would bear the cost of administration and liquidation of German property.

(v) Swiss Contribution to Allied Gold Pool. The Swiss Government would make available to the three Allied Governments 250 million Swiss francs payable on demand in gold in New York. In return the Allied Governments agreed to waive in their name and in the name of their banks of issue all claims against the Swiss Government and the Swiss National Bank in connection with gold acquired during the war from Germany by Switzerland.

(vi) Removal of Economic Restrictions on Switzerland. The United States Government would unblock Swiss assets in accordance with procedures to be established immediately.

The Allied Government would discontinue without delay the "black lists" as they applied to Switzerland.

(vii) Interpretation of Accord. Differences of opinion with regard to the interpretation of the Accord might be settled by arbitration.

(viii) Effective Date of Accord and Annex. The effective date of Accord and Annex was to be the date on which the Accord and Annex were approved by the Swiss Parliament.

The Annex elaborated on the matters covered by the Accord, defining in greater detail (a) the procedures to be employed by the Swiss Compensation Office in cooperation with the Joint Commission in uncovering and liquidating German property in Switzerland, (b) the method for compensating owners of liquidated property; (c) organization and functions of the Joint Commission; (d) conditions under which German property would be sold; (e) methods for arbitrating differences between the Swiss Compensation Office and the Joint Commission. In addition the Annex provided that:

(1) Financial Assistance to Non-Repatriable Persons. The three Allied Governments might draw immediately up to 50 million Swiss francs upon the proceeds of liquidation against their share of liquidated German property. This advance was to be devoted, through the Inter-Governmental Committee on Refugees, to the rehabilitation and resettlement of non-repatriable victims of German action.

(2) Patents, Trademarks, and Copyrights. Pending multi-lateral arrangements, no German-owned patent in Switzerland should be sold or transferred without the concurrence of the Swiss Compensation Office and the Joint Commission. Moreover, no German-owned trademark or copyright should be sold without the concurrency of the same authorities.

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(3) Property of the German State. The provisions in the Accord and Annex did not cover property of the German State in Switzerland, including property of the Reichsbank and the German railroads. Under the Gentlemen's Agreement there was an understanding that: (a) the Swiss Compensation Office would dismiss personnel, regardless of position, from business enterprises to be liquidated, if the Swiss Compensation Office and the Joint Commission agreed that these employees were a threat to security objectives; and (b) Allied personnel would be available to assist in some of the investigations to be conducted by the Swiss Compensation Office.

In their letters to Mr. Stucki the Allies:

(i) Agreed to furnish the Swiss Government before January 1, 1946, lists of persons of German nationality who were neither residents of Switzerland nor domiciled in Germany, whose property would remain blocked pending their repatriation or the decision of the competent government against their repatriation.

(ii) Suggested that a simple and inexpensive procedure be established for the restitution of property taken from victims of German exploitation.

(iii) Reserved (a) the rights which they claimed over property of the German State in Switzerland, and (b) the right to request the Swiss Government to reconsider the provision of the Accord by which sums payable through the German-Swiss clearing were not to be regarded as German property.

In his several letters to the Allies Mr. Stucki:

(i) Asked special protection of Swiss interests and property in the territories in which the three Allied Governments exercised supreme authority.

(ii) Stated that the Swiss Government would examine (a) the question of taking appropriate steps to insure that unsecured creditors of Germans whose property was to be liquidated should not be paid from the proceeds of liquidation, and (b) the matter of putting the proceeds of property in Switzerland of heirless victims of German aggression at the disposal of the Allies for relief and rehabilitation purposes.

Swedish Negotiations

The negotiations opened in Washington on May 29, 1946. Representatives for the Swedish Government were Justice Emil Sandstrom; Mr. Gronwall; Leif de Balfrage, Commercial Counselor, Swedish Legation, Washington; and Mr. Tore Millquist as Secretary of the Swedish Delegation. Mr. Hagloff was unable to attend.

The French Delegation was headed by Mr. Christian Valensi, Financial Counselor, French Embassy. Mr. Valensi had as his assistants: Mr. Jacques DeBresson, Inspector of French Treasury; Mr. Ernest Castan, Commercial Attache, French Embassy, Washington, Mr. Paul Blanc, Assistant to the Financial Counselor, French Embassy, Washington; and Mr. Marcel Flory, First Secretary, French Embassy, Washington.

The British Delegation consisted of Mr. Francis W. McCombe as Chief of the delegation and Mr. Albert Frost of the British Embassy, Washington, as Assistant.

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The American Delegation was headed by Mr. Seymour J. Rubin, Deputy Director of the Office of Economic Security Policy, Department of State, and consisted of the following representatives of the State Department: Mr. Walter S. Surrey, Chief of the Division of Economic Security Controls, Mr. William C. Trimble, Assistant Chief, Northern European Division, and the following representatives of the Treasury Department: Mr. Orvis A. Schmidt, Director, Foreign Funds Control, and Mrs. Rella R. Shwartz, Chief Enforcement Division, Foreign Funds Control.

The opening meeting consisted of the exchange of formal statements by the representatives of the various delegations. Mr. William L. Clayton, Assistant Secretary for Economic Affairs, Department of State, opened the meeting with a brief statement in which he welcomed the Swedish delegation and expressed the opinion that the fundamental issues before the delegations would be solved in a harmonious fashion. Mr. Clayton made it clear that there was no intention in these discussions to attack the role of Sweden as a neutral and urged upon the delegations the importance of concentrating on the large issues -- the claim of innocent victims of a war of aggression to compensation from the holdings of the aggressor nation and the obtaining of security and peace.

Mr. Rubin, in his opening remarks briefly touched upon the authority of the Allied Delegations as derived from the vesting decree of the Allied Control Council, the Paris Reparation Conference, and of the moral basis for the claim of the Allies. He also pointed out that upon the satisfactory completion of the discussions on the issue of German external assets, the Allied delegations would be prepared to discuss and agree upon the termination of such economic controls as were still in existence.

Mr. McCombe, Chief of the British delegation, briefly supported the statements made by Mr. Clayton and Mr. Rubin, as also did Mr. Valensi of the French delegation.

Justice Sandstrom, in his opening address, pointed out that the Swedish Government considered itself to be in full accord with the primary objectives of the negotiations, which he termed to be the "external security" objective and the giving of assistance toward the reconstruction of devastated areas. He briefly summarized the Swedish Government's record of identifying and controlling German external assets in order to contribute its part to the attainment of world security. With respect to the reconstruction of devastated areas, he referred to the contributions Sweden had already made to liberated countries and referred also to the fact that the Swedish Government considered that the proceeds realized from the liquidation of German assets would be insignificant in proportion to the sums which Sweden had already contributed. He summarized the Swedish position on the "Black Lists" and on Swedish assets in Germany.

At the next meeting of the delegations, the Chief of the Allied delegations presented the Allied position with respect to their claim of title to and control of German assets in Sweden. Briefly, this position was that by reason of the surrender terms and Law No. 5, the Allied Control Council had attained full title to and control of German external assets. The vesting decree was analogized to similar decrees which had been issued by various Allied governments during the war, and it was pointed out that with respect to such decrees, this government and other Allied governments had given full extraterritorial effect to such laws. The Allies also stressed the moral claim which justified the turning over of the external assets to the Allies for purposes of relief and rehabilitation.

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The Swedish negotiator stated the view of the Swedish Government was strongly opposed to any recognition of Law No. 5, and that Law No. 5, in effect, constituted an invasion of Swedish sovereignty. Justice Sandstrom declared that the Swedish Government did not intend to contest the purpose of Law No. 5 or the identity of the issuing authority, but that for the time being he would limit his government's position to its refusal to recognize that Law No. 5 could have any extra-territorial effect. He attempted to distinguish the precedents furnished by the Allies.

At subsequent meetings continued discussion was given to the legal issues involved in the issuance and recognition of Law No. 5. In the interest of going forward with the discussions, the Allied representatives made strong efforts to draw away from the legal issue and urge upon the Swedish delegation the importance of viewing the question from the practical and moral side. They stressed the fact that an agreement could be reached on the disposition of the German external assets without in any way jeopardizing the legal position of the Allies or the Swedish Government. They urged upon the Swedish Government the urgency of applying the proceeds arising from the liquidation of German external assets to the relief and rehabilitation of devastated and depleted economies. The Swedish delegation continued to press its legal views on the Allied delegations, but it was finally agreed that while each side would reserve its legal position, it would be more profitable to take up the specific items before the delegations in order to determine whether jeopardizing the legal position of either the Allies or the Swedish Government.

During the course of the subsequent discussions, the Swedish delegation presented various statements concerning the operation of the Foreign Capital Control Office. The Swedish delegation stated the great care which the

Swedish officials had taken to uncover and identify German assets and to exercise a rigid control over them; the extensive and satisfactory cooperation which existed between the Allied missions and the Swedish officials; the census which the Swedish Government had instituted and the supplementary investigations made pursuant to information obtained from the census and from other sources. The Allied delegations expressed their appreciation to the Swedish Government for its activities in this field and their confidence in the manner in which the Swedish Government was administering its controls. However, the Allied representatives observed that the Swedish authorities had not yet instituted any liquidation proceedings and that consequently there was no procedure governing the methods by which the Swedish authorities would liquidate German interests, nor the extent of consultation that would take place between the Swedish and the Allied representatives. Reference was made to the procedure established under the terms of the Accord entered into by the Allies and Switzerland whereby a joint commission had been established, consisting of representatives of the Allied and Swiss Governments, which commission was empowered to supervise a Swiss agency in the liquidation and disposition of German assets.

The Swedish authorities stated that they saw no difficulty in applying to the liquidation and disposition of German assets the consultative procedures already established for the identifying and marshalling of such assets. They stated, however, that the Swedish Government would consider the establishment of a joint commission as proof of an attitude of distrust on the part of the Allies of the effectiveness of the Swedish administration. They made it very clear that their instructions prohibited the concluding of any formal arrangements which would give the Allies a control or voice in the Swedish administration of German assets.

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In rejoinder, the Allied representatives stated that the establishment of a joint commission or any similar arrangements was not intended to imply any criticism of the Swedish administration of German assets nor any lack of trust of the effectiveness of such administration. However, the Swedish delegation was reminded that the Allies had laid claim to the title to and control of German assets; that while they had agreed to work out the discussions so that the legal position of both sides could be protected, this did not mean that they could relinquish all the resulting effects derived from the Allied position. They emphasized the importance of mutual cooperation in the liquidation of German external assets, the need for full exchange of information, ideas, and opinions, and the desirability of regulating this exchange in a manner that would avoid future misunderstandings by either party to the discussions. The Allies pointed out that certainly the Swedish Government could find no objection to the submission of disputes to arbitration as had been provided for in the Swiss Accord. Arbitration could not be considered an invasion of Swedish sovereignty, but would merely be in conformity with international practice, and would provide a means for avoiding unnecessary friction between the Allies and Sweden.

The Swedish representatives strongly opposed any proceeding which would include the submission of disposition to arbitration, emphasizing that the Swedish instructions made it clear that they could not agree to any procedure which would derogate from the claim that the administration of the Safehaven program in Sweden was entirely a question for the Swedish authorities. They pointed out that an arbitration clause would necessarily mean that Sweden

recognized the right of the Allies to have some voice in and control over the administration of German external assets in Sweden. The matter was argued extensively along the above lines. It was finally agreed that in the interest of expediting the negotiations, it would be preferable to discuss other items on the agenda, and subsequently revert to those matters upon which a satisfactory agreement had not been reached.

The Swedish authorities at the meeting of June 4 presented a specification of German assets in Sweden. This specification did not take into account the value of patents, contractual rights and other intangible property. The Swedish statement was based on the census returns as well as the results of special investigations made by the Swedish authorities. The total face value on all German assets in Sweden, according to the Swedish authorities, was \$107,700,000. The Swedes estimated that the return which would be realized by the forced liquidation of these assets would equal approximately \$92,500,000. The difference between the face value and the estimated value to be realized from liquidation was satisfactorily explained by the Swedes as a result of deterioration of certain assets, use of certain funds for living expenses of Germans in Sweden, for payment of current obligations, and similar reasons. The Swedes emphasized that their estimates were not to be considered as final, that they were subject to change on basis of current and future investigations. However, they stressed their opinion that the investigations would not uncover any large additional amounts of German assets in Sweden, as opinion shared by the representative of the American Legation in Stockholm.

The care with which the specifications had been drawn up and the detailed explanation given by the Swedish delegation demonstrated the

satisfactory administration being given to this problem by the Swedish authorities. The Allies pointed out, however, that the Swedish figures did not take into account German assets which may be located outside of Sweden but held through Sweden. They indicated that while these accounts could not form a part of the Swedish administration of the liquidation of German assets, it would nevertheless be essential for the Swedish authorities to give full information concerning such holdings in order that the Allies might obtain the liquidation of the assets in those countries in which they are physically located. The Swedish authorities initially resisted any such action on the ground that Sweden could not be held responsible for the liquidation of assets over which they had no control. At a subsequent meeting, however, they yielded to the Allied position that while they did not have physical control over such assets, they necessarily had control over the information as to the holder of the assets and control over any action the holder of the assets might attempt to take.

In order to expedite the progress of the negotiations the Allied authorities presented to the Swedish delegation on June 5 an outline of the proposed accord. Briefly this Accord provided for the Foreign Capital Control Office to uncover, take into possession and liquidate German property. The Allies agreed that provision would be made in Germany for suitable compensation to those persons whose property was so liquidated. The proposed Accord provided for the continuation and extension of the joint consultative procedure already established; for the reciprocal exchange of all information relative to German property and sales of German property which would be made by the Swedish authorities; for agreement with the Allies on the terms of the sales, the desirability of the purchaser and the sale price.

Provision was made for prohibiting the satisfaction of liens arising out of transactions occurring after August 25, 1939 unless the claimant could prove the bona fides of his claim. The satisfaction of all unsecured claims was prohibited. The FCCO was required to remove undesirable persons from firms under its control. Provision was made for submission of disputes between the FCCO and the Allies to an umpire, to be agreed upon between the four governments.

In commenting upon this proposed Accord, Justice Sandstrom pointed out that the satisfactory administration of German assets was established by Swedish legislation, and that the Swedes could not in these discussions alter such legislation so as to provide for Allied participation in the administration of the program. Justice Sandstrom urged upon the Allies the fact that procedures already exist for the exchange of information and that it would not be necessary to formalize these procedures by a written Accord. He argued that a formal agreement providing for such a procedure might be disapproved by the Riksdag, and further that such an agreement might contain terms which would later be subject to misinterpretation. In short, the Swedish position was that the Accord should provide nothing with respect to the administration of German external assets or the establishment of consultative procedures with respect to such administration. Justice Sandstrom urged that these matters be left to what he termed the existent "Gentlemen's agreement". The Swedish negotiators insisted that the draft Accord could not serve as a basis for agreement and suggested that it might be more profitable to continue the discussions by covering the various items on the agenda. The Allies suggested that it might be profitable to discuss next, the ultimate disposition which would be made of the German assets, and to arrive

at an agreement on what share would go to the Allies and what share would go to the Swedish Government. However, Justice Sandstrom consistently refused to discuss this point until all other questions had been covered.

At subsequent sessions the negotiators discussed at considerable length the various points included in the agenda:

(i) The Allies explained that their claim to all German official and parastatal property was based on the terms of surrender and the position of the Allies as the de facto Government of Germany. Justice Sandstrom stated that the Swedish Government would not recognize the Allied Control Council as the de facto government in Germany and would not consider that the surrender documents constituted anything more than the surrender of the German army. He insisted that his instructions prohibited him from agreeing to the turning over of German official property to the Allies.

(ii) The negotiators then turned to the question of looted gold. The Allies explained their position that German legitimate gold reserves at the time of the outbreak of the war had necessarily been exhausted by 1943, and that consequently any transactions in gold by the Germans after that date must have been transactions in looted gold. The Allies pointed out that it was possible that in early 1943 the Germans may still have held certain gold which derived from the German gold reserve at the outbreak of the war, but that such holdings could not be made possible because of their acquisition of looted gold. Thus if Germany had not engaged in such lootings, they would have exhausted their gold holdings by early 1943. Therefore, the Allies argued that any Swedish acquisitions of gold from Germany after 1943 must be considered as acquisitions of

looted gold, and therefore should be returned to the Allies for appropriate distribution to the countries from which gold had been looted by the Germans. The Allies stated that they had detailed evidence on Belgian gold held by the Bank of France, which had been looted by the Germans, melted and subsequently sold by the Germans as German gold. They agreed to give the Swedish authorities full details on the numbers of the bars of such gold. They pointed out, however, that full records on all German gold lootings and transactions were not available, and that consequently one could only do justice by relying on the valid assumption that all acquisitions of gold from Germany after early 1943 were acquisitions of looted gold.

Justice Sandstrom stated that Sweden was committed to the policy of restituting proven loot, including gold, and that Sweden was prepared to give full information of its gold transactions in an effort to distinguish between looted gold and legally transferred gold. He pointed out that the Swedish authorities had German assurances that no looted gold was being sold to them after January 5, 1943, the date of the Allied Declaration on Axis Acts of Dispossession. However, he added clearly that some of the gold acquired by Sweden from the Reichsbank depot in Switzerland may have contained looted gold. He stated that the Swedish position was that they would return gold proven to be looted, but that they could not accept the Allied position on the depletion of German gold reserves. He stated that even if Germany had found it possible to transfer gold to Sweden legally after January 5, 1943, only because it had built up its gold supply by lootings, the Swedish Government could not be made responsible to return gold purchased after that

date which in fact was not looted gold. He referred to the War Trade Agreement of 1943 entered into between Sweden on the one hand and the United States and Great Britain on the other under which Sweden was required to accept gold in payment for goods purchased by Germany from Sweden. Subsequently, Sandstrom submitted statement on Swedish acquisition of gold from the German Reichsbank depot in Switzerland and from the Swiss National Bank showing the subsequent disposal of such gold. The Swedish figures are enclosed herewith.

The Swedish figures included certain looted gold which had been acquired by them but subsequently sold to the Swiss. The Allies pointed out that it was necessary to hold the first purchaser responsible since otherwise the Allies would not be in a position to engage in gold transactions with any country until they had not only checked into their gold acquisitions from Germany, but also their acquisitions from other countries which had engaged in gold transactions with Germany. Initially, the Swedish delegation opposed this position, but ultimately agreed to conform with this doctrine. On their part, the Allies withdrew from their position that all gold acquired after January 5, 1943 must be restituted, since the Swedish documents revealed not only that little would be gained by following this line of approach but also that no, if any, appreciable amounts would result therefrom. It was agreed that the Swedes would retribute Belgian gold obtained from the Swiss National Bank and acquisitions of gold obtained from the German Reichsbank. In effect, the Swedish Government agreed to return amounts estimated now as 7,155.32664 kg. of fine gold, which is the quantity of gold derived from the Bank of Belgium, initially acquired by Sweden and regardless of the subsequent disposition made of such gold by the Swedish Riksbank.

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The Swedish delegation subsequently stated that Sweden would have a claim against Germany for the amount of gold which they had to restitute in view of the German Government's guarantee that they would not transfer looted gold to Sweden. They stated that this offset would be made against the Reichsbank account with the Swedish Riksbank and would total approximately 35 million krona. The Allied delegation requested a postponement of the discussion of this point until the entire question of the disposition of German assets could be taken up, but they emphatically rejected the Swedish claim.

(iii) The Swedish delegation next raised the question of the "Black Lists". Justice Sandstrom reiterated the Swedish Government's often stated objections to the "Black Lists". Principally these objections were that the listing procedures interfered with internal Swedish trade; that the procedures involved the supplying of information for listing procedures from Swedish sources; that Swedish legislation prohibits the dispensing of commercial intelligence by Swedish nationals; that the listing procedure is stringly opposed by Swedish public opinion; and that the Lists are punitive and represent quasi juridical action without the usual protection of democratic procedure. Justice Sandstrom stated that the Swedish opposition to the Lists arose primarily from their continuation since the war. In reply the Allied negotiators reviewed the basis for the institution of the Lists and the necessity for continuing them in the post-war period. They clearly pointed out that the Lists are not a disguised sanction; that the Allies were anxious to terminate the Lists, but that they were necessarily interrelated with Safehaven objectives and thus that their termination depended upon action aimed

at achieving those objectives. The Allies made it clear to the Swedish delegation that they were prepared to remove the Lists once it appeared that the Safehaven objectives would be realized.

(iv) On the question of German patents in Sweden, Justice Sandstrom gave a detailed explanation of the basis for the large amount of German patents filed in Sweden. He pointed out that the examination accorded patent applications in Sweden is generally recognized as being of a high caliber and that consequently during the war German firms were anxious to obtain such examination, which could not be obtained from the German Patent Office. Moreover, he pointed out that during the war there was naturally a more rapid development of industrial techniques and that this partly accounted for the increase in German patent applications. He stated that German patents are now frozen in Sweden. Justice Sandstrom advised that he could not agree to any change in this situation without further instructions from Stockholm.

The Allied negotiator stated that the Allied Governments were anxious to make German patents, wherever located, freely available to the nationals of all countries other than ex-enemy countries. They referred to the fact that a conference on this question was to be held shortly in London, and that it was intended to invite Sweden to adhere to such principles as might be adopted by that conference. The Allies pointed out that Sweden would obviously gain from entering into such an agreement since its nationals would have made available to them German patents in the Allied countries. Justice Sandstrom stated his agreement with the objectives of the program and his belief that Sweden would adhere to such a policy, but naturally reserved his Government's position pending the formal submission of the result of the Patent Conference.

(v) A brief discussion was also held on the question of trademarks in which the Allied negotiator explained that the intent of the Allies was to eliminate German trademarks wherever they exist insofar as they represent spearheads of German economic penetration and in the public mind are associated with Germany. The Swedish delegation signified general agreement with the administration of such a plan, but pointed out that implementation naturally depended on a case by case consideration and on the results of subsequent discussions among the Allies on the general trademark policy.

(vi) A brief discussion was held on the question of repatriation, during which the Allies expressed their appreciation for Sweden's past action and urged that the outstanding cases be disposed of expeditiously. The Swedish negotiators stated that the Allies could expect a continuation of the Swedish policy of repatriating obnoxious Germans in Sweden. Such delays as had occurred, they explained, arose out of the necessity of Sweden's granting, as a democratic country, a full investigation and hearing to those persons who were being considered for repatriation.

(vii) The Allies referred to the fact that the Swedish Government had never authorized the Allies to obtain the records of the German Chamber of Commerce. The German Chamber of Commerce had been financed two-thirds of funds provided from Germany and consequently the Allies considered it to be German official property. They therefore concluded that the files of the German Chamber of Commerce should be made available to the Allies in the same manner as had been the files of the German Legation. The Swedish delegation replied that the German Chamber of Commerce was a Swedish organization, that its membership consisted in large part of Swedish nationals, and

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that these nationals had provided funds to the Chamber of Commerce. They therefore rejected the argument that it was to be considered official German property, but agreed to make available that part of the files of the German Chamber of Commerce in Sweden as would be of direct interest to the Allies in the Safehaven program.

(viii) The Allied negotiators requested the Swedish delegation to obtain its government's cooperation in the development of a procedure for investigation of the source of looted securities which may be found in Sweden. They suggested that such investigations might be made on the basis of lists of securities looted by the Germans, which lists would be compiled by the governments of the countries from which the securities had been looted. The Swedish Government would be in a position to examine all transactions in the Swedish market in order to discover any securities so listed. The Swedish delegation agreed that any complete plan for the administration of a search for looted securities would be given sympathetic consideration.

At this point the negotiators had covered all items on the agenda, although agreement had not been reached on many of them. However, it was believed appropriate at this time to discuss the question of the ultimate disposition of German assets in Sweden. The Allies pointed out that apart from any legal consideration that may be involved in the disposition of the proceeds obtained from the liquidation of German assets, the Allied countries had a moral claim to these assets in order that they could be applied to the relief and rehabilitation of devastated and depleted areas. They stated that while they recognized that Sweden had claims against

Germany, they felt certain that Sweden would not want to realize a larger percentage of its claims than would be realized by those countries which had suffered so much. The devotion of these assets to relief and rehabilitation was considered by the Allies to be consistent with Sweden's policy of giving aid and relief to the liberated and Allied countries.

The Swedish delegation reiterated its position that it would not accept the Allied legal claim. They emphasized that they recognized the Allied moral claim but pointed out that Sweden had already contributed extensively to the relief and rehabilitation of devastated areas. In this connection the Swedish delegation submitted a summary of Sweden's contributions to reconstruction and relief. The Swedish delegation also pointed out that Sweden could not transfer any of the proceeds from Sweden, but that whatever amount would be made available to the Allies would have to be used within Sweden for the purchase of goods, subject to supply limitations. Justice Sandstrom therefore recommended that Sweden would, consistent with its legal position, write off a small part of Sweden's export credits to certain liberated countries designated by Sweden, but that such writing off would not involve the utilization of the proceeds of liquidation of German assets; rather it would be a further contribution by Sweden. With respect to the German assets, he proposed that Sweden would use these assets to off-set claims of Swedish creditors against Germany and would retain the balance after such off-set in a blocked account to be dealt with by subsequent negotiations with a future reconstituted German Government. Although initially no statement was made on the sum to be paid out of the German assets to satisfy Swedish claims against Germany, Justice Sandstrom subsequently stated that out of the total

of German assets in Sweden, 228 million kronor would be paid into the clearing to satisfy Swedish claims, leaving a balance estimated at approximately 150 million kronor. Justice Sandstrom subsequently made known that Sweden would contribute under this proposal one million Swedish kronor to the liberated countries.

The Allied delegation rejected this proposal in toto. They pointed out that while the Swedish proposal gave full consideration to the Swedish legal views, it gave no consideration to the Allied legal or moral arguments. They stated that the reservation of a sum in a blocked account to be disposed of at a future date in agreement with a reconstituted German Government is directly contrary to the security objectives of these negotiations with which the Swedish Government had declared itself in full sympathy. The Allies also pointed out that the Swedish offer to contribute to the relief and rehabilitation of devastated countries by writing off certain export credits left the decision entirely to the Swedish Government as to which countries were to receive such contributions. In effect this meant that the Swedish Government would take over the reparation responsibilities assigned to the Inter-Allied Reparation Agency.

In order to prevent a breakdown of the negotiations, the Allies proposed that a sum be handed over to the three Allied Governments acting as trustees for the countries signatory to the Paris Reparation Agreement to be used for reconstruction and rehabilitation, but with due regard to their existing international obligations and commitments. In effect this would mean that the allocation function would be turned over to the

Inter-Allied Reparations Agency by the three Allied Governments who would use their influence in order to assure that countries with which Sweden did not have or contemplate trade relationship would not be compensated out of Swedish kronor under the IARA allocation procedure. Justice Sandstrom believed that this arrangement or one along these lines would be satisfactory.

The Allies subsequently proposed that the Swedish Government contribute 50 million kronor for the assistance of non-repatriable victims of German aggression, 75 million kronor to "reconstruction", and that the excess above the amount needed to balance the Swedish-German clearing, i.e., 150 million kronor, be placed at the disposal of the Allies, as trustees, for rehabilitation and reconstruction of devastated areas in consideration and recognition of advances of the Allies for the support of a minimal German economy. The inclusion of the phrase "support of a minimal German economy" was designed to satisfy the Swedish legal position that these funds were related to Germany and the German economy. It was stated to the Swedish delegation that the 75 million kronor and the 150 million kronor would be distributed by IARA, but that the three Allied Governments would make every effort to insure that the allocations would be made only to countries having trade relations with Sweden, and that the Swedish Government would be free to work out with those countries the problem of use of the funds so allocated to them. In this way, Sweden would be in a position to obtain those countries' agreement to use the proceeds to write off existing or future trade credits.

The Swedish delegation pointed out that in effect the Allies were seeking to obtain the equivalent of three-fourths of the proceeds realized from the liquidation of German assets in Sweden, whereas the Allies had obtained only 50 percent of the assets in Switzerland. The Allies replied that the Swedes themselves had asked that the Swiss Agreement not be used as a basis of a Swedish accord. Justice Sandstrom advised that it would be necessary to clear the Allied proposal with his government and suggested the possibility of temporarily terminating the negotiations in order that he could personally report to his government. The Allies urged upon him the importance of reaching an accord as soon as possible and suggested that it would be preferable for the delegations to continue to work on these problems without interruption. Subsequently, Justice Sandstrom recommended that the 150 million kronor balance obtained from the liquidation of German assets in Sweden be used for the purchase of goods in Sweden for Germany, subject to agreement between Sweden and the representatives of the three Allied zones in Germany as to the types of goods which would be available. He made it clear that the use of these goods would be unconditional, subject only to supply limitations. He also indicated that the funds could be made available immediately and that the Swedish Government would be prepared to hold discussions concerning their immediate use as soon as it was desired.

In considering this offer the Allied representatives had the basic problem of determining whether the Swedish offer could be integrated with the Paris Reparation Agreement. Apart from the 50 million kronor to be allocated to the Inter-Governmental Committee on Refugees for the re-

habilitation and resettlement of non-repatriable victims of German action, the Swedish offer left a balance of 225 million kronor to be disposed of pursuant to the Paris Agreement. Under the percentages agreed to at the Paris Reparation Conference, this would give the US and the UK each approximately 63 million kronor. The French share would total approximately 36 million kronor. The total therefore of the US, UK and French shares would equal 162 million kronor. It would therefore be possible for the French, US and UK to absorb the 150 million kronor allocated for the purchase of goods for Germany as a part of their share, leaving the 75 million kronor to be distributed to the other governments signatory to the Paris Reparations Agreement, with a total of 12 million kronor to go to the US, UK, and France to complete their reparation share. The French, however, pointed out that because of the self-supporting nature of the French Zone, they were anxious to keep to a minimum the amount they obtained for purchase of goods for the French Zone. This would require the US, and the UK to take their entire share out of the funds allocated for the purchase of goods for Germany. The desirability of this was reviewed with the interested officers in the Department and in other government agencies, and it was finally agreed with the French and subsequently with the British, that this procedure would be satisfactory.

The Swedish negotiators were therefore advised that the Allies could accept their offer but that in accepting it they wanted it clearly understood that the Allies were treating both the 75 million kronor contribution to the IARA, and the 150 million out of the proceeds obtained from the liquidation of German assets, as funds to be allocated by

the IARA. It was to be understood, however, that the US and the UK would draw their entire reparation share out of the 150 million to be used for the purchase of goods for Germany. It was also agreed, at the request of the Swedish delegation, that the US, UK and France would use their best efforts to insure that the IARA would not allocate any part of the 75 million kronor to Yugoslavia, with whom the Swedish Government does not presently have trade relations, and that the allocation among the remaining countries would be coordinated as best possible with the desires of the Swedish authorities. However, the Allies emphasized that the final decision on distribution of the 75 million kronor would have to remain with the IARA.

With agreement reached on the question of the distribution of the assets, the negotiators proceeded to the drafting of an accord. The Swedish delegation made it clear that they had exceeded the terms of their instructions in the agreements already reached with the Allied representatives, and that the proposed accord, once completed, would have to be referred to Stockholm. They pointed out the necessity of drafting the accord in such manner as not to antagonize the Swedish Government and not to endanger its acceptability to the Swedish Riksdag. In the drafting of the proposed accord, which was completed on July 3, 1945, the following salient points arose:

(1) With reference to the economic security provisions of the program, it was necessary that the accord spell out in only very brief terms the participation of the Allies in the administration and liquidation of German property in Sweden. This was accomplished by providing that the

procedure already informally established as a means of exchanging information between the FOCO and the Allied missions in Stockholm would be continued and that all relevant information concerning the progress of liquidation would be supplied by the Swedish authorities. Reference was made to the world security interests, to the promotion of freedom of trade, and to the avoidance of sales to "cloaks". Sales were to be made to non-German nationals and wherever possible they were to be public sales. Persons considered dangerous from the point of view of security were to be removed from German-controlled enterprises. Provision was made for protecting the interests, direct or indirect, of persons of non-German nationality. Liens against German property, arising after August, 1939, were to be presumed invalid unless proven otherwise, and unsecured claims against persons in Germany whose property in Sweden was to be liquidated were not to be satisfied out of such property.

(ii) It was agreed that the Government of Sweden would sympathetically examine the question of the disposition of German official property in consultation with the representatives of the three Allied governments, and similar treatment was to be accorded the physical property in Sweden of the German State Railways.

(iii) The Swedish Government agreed to restitute all gold acquired by Sweden and proved to have been taken by the Germans from occupied countries, with the provision that any claims of the occupied countries or their banks of issue not presented before July 1, 1947, would be barred. The Allies agreed to hold the Swedish Government harmless from any claims derived from transfers from the Swedish Riksbank to third countries of gold to be restituted according to the above declaration.

(iv) The terms of the accord covering the distribution of the proceeds of liquidation followed the lines of the agreement previously reached. Fifty million kronor was to be contributed by the Swedish Government to the Inter-Governmental Committee on Refugees for the use of rehabilitation and resettlement of Nazi victims of German action, and 75 million kronor was to be contributed to the relief and rehabilitation of the countries party to the Paris Reparations Agreement. The drafting of this provision was extremely difficult since the Swedish authorities wished to have the 75 million kronor a contribution, while the Allies were insistent that the distribution of the 75 million kronor would have to be undertaken by the IARA. It was agreed, however, that there would be consultation between the Swedish Government and each of the countries which took credit for any part of the 75 million kronor.

With respect to the 150 million balance left from the distribution of the proceeds of the German assets in Sweden, after clearing against Swedish claims, the British representative advised that his government would not agree to any provision which would restrict the use of these funds to the purchase of goods in Sweden for the German economy. It was therefore agreed that for the purpose of preventing disease and unrest in Germany and towards the relief of the current burden of the Allies, the sum of 150 million kronor would be made available in a special account with the Swedish Riksbank for the purchase and delivery of goods to the American, British and French Zones, but that recognition would be given to the principle of multilateral trade and to the right to use these funds for the purchase of goods in countries other than Sweden.

(v) The Allies agreed to indemnify in Germany any Germans affected by the liquidation of property in Sweden.

(vi) A provision was included defining the German property to be dealt with under the proposed understanding, which definition included all property owned or controlled, directly or indirectly, by any person or legal entity of German nationality inside of Germany or subject to repatriation to Germany, other than persons who have not, since September 1, 1939, enjoyed full rights of German citizenship, or persons who were, by Nazi action, substantially deprived of liberty on political, racial, or religious grounds.

(vii) It was provided that questions of common interest relating to the understanding of differences would be submitted to an umpire, which procedure was to be the exclusive method of determining matters of disagreement relating to this understanding. The inclusion of this provision was difficult, since the Swedish delegation considered that any arbitration proceedings was in derogation of their position that the administration of the program was to be entirely a Swedish responsibility. Moreover, the Allied delegations refused to apply the arbitration provision to the question of non-discriminatory protection of Swedish property in Germany, since clearly the Allies could not bind the Allied Control Council and the IARA to submit to arbitration a question involving their functions and activities. The Swedish delegation finally agreed, however, not to apply the arbitration provision to that clause of the accord.

(viii) The Swedish delegation pressed for a guarantee that the Allied governments would compensate Swedish owners of property in Germany

in Swedish kronor for any assets removed by the Allies under the reparation program or for other purposes. The Allied delegations refused to accept this principle but agreed that compensation would be paid to the same extent as was provided for nationals of Allied countries whose property was removed. The Swedish delegation insisted that the Allied position on Swedish property in Germany was inconsistent with their position on German property in Sweden to which they claimed title, and for the liquidation of which they had demanded the proceeds. The Allies replied that the two cases were not at all identical; that in the one case the Swedes were liquidating all German interests in and title to property in Sweden, and that the owner was therefore entitled to equitable compensation, whereas in the case of the removals of property from Germany, owned by Swedish nationals, only a part of the assets were being removed and no change was being made in the title of the owner. The Allies pointed out that their action in Germany was no different than the normal governmental requisitioning of supplies of a going concern and that under well-established principles of international law, it was only necessary to pay compensation in local currency on a non-discriminatory basis for the assets so removed. The language finally agreed upon in this draft provided that it was the intention of the Allied governments to give non-discriminatory protection to the property in Germany of friendly foreign nationals and to give due consideration to the principles of equitable compensation for removals of properties from the zones of Germany occupied by the three Allied governments. The Allies also agreed to make arrangements for the admittance of an official Swedish delegation to visit the zones of Germany occupied by the military zones of the three Allied governments to

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inspect property of corporations in which Swedish nationals had a substantial interest or which were directly owned by Swedish nationals.

(ix) The Allies agreed to eliminate the "black List" and the United States agreed that it would at the earliest possible date unblock Swedish holdings in the United States pursuant to a procedure to be worked out by the officials of the United States and Sweden. The Allies privately agreed with Justice Sandstrom not to delay the removal of the Black List until the agreement was ratified by the Swedish Riksdag. This was made necessary on the Allied side by the US-UK agreement to remove the lists on July 8, 1946. With respect to unblocking US assets in the United States, the Swedish delegation expressed the strong hope that these assets could be unblocked prior to the ratification of the agreement by the Swedish Riksdag, observing that this would be of substantial assistance in obtaining such ratification.

(x) The draft accord provided that the Swedish Government would not sell or transfer German-owned patents in Sweden, pending its participation in such arrangements as may be agreed to among the Allied Governments. A similar provision was included with respect to German trademarks and copyrights.

(xi) The accord provided that it would take effect upon its approval by the Swedish Riksdag.

Considerable difficulty had been experienced in the drafting of this Accord, since the Swedish delegation carefully reviewed each phase in the proposed Accord and insisted that there should be no language within the Accord which could in any way be construed as inconsistent with the

Swedish legal position. In view of the fact that the Swedish Government considered its contribution of 50 million and 75 million kronor respectively as contributions unrelated to German external assets, while the Allies necessarily considered these sums as being, in reality, derived from the proceeds of the liquidation of German assets in Sweden to be distributed by the IARA, the problem of finding language to satisfy both these views was not easy. In many instances difficulties of language directly affected substantive issues. Unlike the drafting of the Swiss Accord, where the Swiss did not too carefully consider the exact language employed in the terms of the Accord, the Swedes were prone to question almost every phrase. Finally, the proposed Accord was agreed to among the delegations and on July 3, 1946 it was referred to Stockholm by the Swedish delegation.

Much to the displeasure and strong disappointment of the Allied delegations, the Swedish Government cabled back very specific disagreements with the proposed Accord and recommended changes in language which directly affected substantive issues. Apparently, the Swedish delegation received very strong instructions from their government which criticized them for having exceeded the terms of their authority. It thus became difficult for the Swedish delegation to compromise on language which had been submitted to them by the Swedish Government, even in those cases where they were not aware of the basis for the Swedish instruction and proposed change in language. Consequently, the last week and a half of the negotiations were devoted to a discussion of detailed language changes which seriously went into substantive issues. It was most difficult for the Allies to deal with the Swedish delegation in view of their iron-clad instructions.

The principal difficulties which the Swedish Government had with the Accord were:

(i) The Swedish Government insisted that the distribution of the 75 million contribution was to be determined in the final instance by the Swedish Government. The government maintained that since this sum represented a contribution, they had the right, in so making such a contribution, to determine the recipients and the amounts to be allocated to the recipients.

(ii) The Swedish Government restricted the use of the 150 million to the purchase of goods for delivery to the German economy by eliminating any reference to multilateral trade and by restricting the use of such funds to the purchase of goods in Sweden only.

(iii) The Swedish Government could not agree to the arbitration provision since it admitted, in their view, a participation in the Swedish administration by the Allied governments. Moreover, they opposed the view that the arbitration provision not be made applicable to the question of the protection of Swedish property in Germany.

(iv) The Swedish Government could not agree to the provision that all relevant information regarding the progress of the liquidation should be supplied to the Allies. Moreover, it took the position that its present policy is not to allow liens unless they are in fact bona fides and that therefore no provision was necessary for this. The Swedish Government also objected to the provision covering the removal of undesirable persons and to any inclusion of a definition of German property. Their objective to a definition was based on the fact that the Swedish legislation adequately provided for such definition and any other definition might be

confusing and inconsistent with the terms of Swedish legislation.

(v) The Swedish Government maintained that under no circumstances could it agree to consider favorably the Allied claim to official German property in Sweden and requested that this provision be eliminated from the terms of the Accord.

(vi) The Swedish Government was not satisfied with the clause covering the protection of Swedish property in Germany.

(vii) The Swedish Government requested that in the unblocking of Swedish assets in the United States, Sweden be given most favored nation treatment. This was impossible, since in certain special cases, blocked assets were unblocked without any certification procedure. The Swedish Government also stated it would be satisfied with a provision giving Sweden the same terms as had been accorded Holland and Norway. This was also impossible, since the terms accorded those countries varied from each other, ^{and} in any event, Treasury applied a somewhat different procedure to neutrals from that applied to liberated countries.

Obviously, the Swedish objections raised considerable substantive difficulties. The discussions on these points were finally resolved in the manner set forth below.

The form of the agreement as finally reached was changed to a series of letters, some to be sent to Justice Sandstrom by the Chiefs of Allied delegations and others to be sent to the Chiefs of the Allied delegations by Justice Sandstrom. Although the form was not considered important, it should be noted that the use of this form permitted the Allies to obtain the inclusion of an arbitration provision.

(i) The first two documents exchanged were identical letters covering the basic understanding. The letters provided that the Swedish

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Government would eliminate all German interest in Sweden and that the procedure already informally established shall be continued as a means of exchanging information regarding the discovery and liquidation of German property. In this way, the consultative procedure was definitely made applicable to the liquidation of German property in Sweden. This letter also covered the disposition of the 150 million kronor and provided that to assist in the prevention of disease and unrest in Germany, this sum would be used to finance purchases in Sweden, or in any other market, of essential commodities for the German economy. The inclusion of the phrase "to assist in the prevention of disease and unrest" was insisted upon by the Allies so that it would be clear to the public that this sum of 150 million kronor was not being made available to the Germans in order to better their position in comparison to that of the liberated countries, but was only being applied to maintain a minimum standard of living in Germany consistent with the terms of the Potsdam Protocol. It is also to be noted that purchases in markets other than Sweden are authorized.

The indemnification of Germans whose property in Sweden is liquidated is also included in this document. The document further provides for the restitution of all looted gold by Sweden, along the same lines as the previous draft, as well as the Allied governments' undertaking to hold the Swedish Government harmless from any claims derived from transfers from the Swedish Riksdag to third countries of gold to be restituted. Divergencies on the interpretation and scope of the above provision may be referred to arbitration if the four governments do not otherwise agree. The inclusion of this provision protects the Allies with respect to any

important administrative actions by the Swedish Government and with respect to non-liquidation of property which the Allies consider to be German. This is accomplished by the fact that Article I of the letter provides that Sweden will eliminate German interests in Sweden, while the arbitration provision goes to the scope of this clause. Consequently, the Allies maintained that should the Swedish Government fail to treat as German property in Sweden which the Allies believe to be German, the question may be submitted to arbitration. The Allies made it clear to the Swedish Government, however, that they did not intend to use the arbitration clause unless absolutely necessary and to consider it only in cases of importance. The above clauses were agreed to by the Allies on behalf of the countries signatory to the Paris Reparations Agreement.

With reference to Swedish property in Germany, the provision gives non-discriminatory protection to such property and provides for compensation in local currency in the case of removals. Similarly, the letter does not change the provision of the previous draft covering the inspection of Swedish property in Germany by a Swedish delegation.

(ii) In a letter from Justice Sandstrom to the Chiefs of the Allied delegations the Swedish Government agrees that in the liquidation, sale or transfer of German property, due regard will be paid to world security interests; especially the interest of eliminating completely all forms of German control and economic interest, to the interest of the national economy and to the obtaining of the highest possible prices. This letter also provides that sales will be made to non-German nationals and when practicable, will be public sales.

With respect to the interest of non-German foreign nationals in such property, they are to be dealt with in the same manner as those of Swedish nationals. The FCCO is obligated to inquire into the nature of the liens and claims against German property, and particularly those which arose immediately prior to and after the outbreak of war.

German property is defined as including all property owned or controlled, directly or indirectly, by any person or legal entity of German nationality inside of Germany or subject to repatriation to Germany, other than persons whose case merits exceptional treatment. This broad definition was deemed by the Swedes to be consistent with the tenor of the definition included in the Swedish legislation, while the exclusion clause permits the Swedes administratively to exempt cases indirectly involving Swedish nationals or cases which merit special consideration for humanitarian reasons.

This letter is acknowledged by the Chiefs of the Allied delegations.

(iii) A letter from Justice Sandström to the Allied delegations provides that with respect to the paragraphs concerning the use of German assets in Sweden, the Swedish Government was able to make the engagement on the grounds that the proceeds of liquidation are German property and therefore may be used as payment for deliveries of commodities for Germany in conformity with the Swedish clearing legislation, provided compensation is given to the owner. The inclusion of this letter was made necessary by reason of the fact that the Swedish delegation was under instruction to make clear the Swedish legal position, i.e., it could make available these assets for such purpose only because they were legally entitled to do so under the terms of their agreement with Germany. In acknowledging

this letter the Allies stated their understanding that the Swedish statement does not affect the arrangements described in the basic document. The Swedish letter also sets forth the understanding that the Russian Government would have no claim to use the German assets in Sweden for the benefit of the Russian Zone, which is confirmed by the Allies in their letter of reply.

(iv) A memorandum signed only by the Chiefs of the Allied delegations states that the understanding reached with the Swedish delegation does not preclude the possibility that if the liquidation of German assets in Sweden yields more than the estimated 378 million kronor, the Allies may request the Swedish Government to dispose of such excess in a manner similar to that which it had agreed upon for the disposition of the 150 million kronor. This memorandum was shown to the Swedish delegation which expressed its concurrence.

While it is not expected that the liquidation of German assets in Sweden will yield substantially more than the estimated 378 million kronor, this memorandum was drafted in order to protect the Allies at some future date from acting in violation of the terms of the Accord; for if the liquidation should yield substantially more than 378 million kronor, the Allies would wish to lay claim to it.

(v) A letter from the Chiefs of the Allied delegations to Justice Sandstrom states that no future claims will be presented to Sweden by the Governments signatory to the Paris Reparation Agreement with regard to any gold acquired by Sweden from Germany and transferred to third countries prior to June 1, 1945. While the terms of this letter are, on the face,

limiting in effect, the Allies have not received any evidence of the existence of any such claims, and the inclusion of such a letter was necessary in view of the fact that the Swedish Government wishes to have a definite figure for their obligation in this respect. The letter is acknowledged by the Chiefs of the Allied delegations.

(vi) A letter from Justice Sandstrom states that the Swedish Government will contribute 50 million kronor to the Inter-Governmental Committee on Refugees and that it will use its best efforts to make the funds available as soon as possible and in such manner as to best carry out the aims of the Committee. This letter also states that the Swedish Government will make available 75 million kronor which they will allocate among countries party to the Paris Reparation Agreement; the decision on allocation to be made on the basis of exchanges of views with the Allies acting on behalf of such countries and with favorable consideration of their views. While this provision leaves the ultimate decision of the distribution of the 75 million kronor to the Swedish Government, it does provide for distribution to countries party to the Paris Reparation Agreement and with favorable consideration of the views of those countries. Therefore, while the Swedish Government maintains, on the face of the document, its right to make the final distribution, it is for all practical effect committed to follow the views of IARA. This letter acknowledged by the Allies.

(vii) A letter from the Chiefs of the Allied delegation to Justice Sandstrom reserves the Allied claim with respect to German official property in Sweden. This letter is acknowledged by Justice Sandstrom. Similarly,

a separate letter from the Chiefs of the Allied delegations sets forth the understanding that the Swedish Government will give favorable consideration to putting the rolling stock and accessories found in Sweden of the German State Railways at the disposal of the appropriate Allied authority, which understanding is confirmed by Justice Sandstrom in his letter of reply.

(viii) Other matters dealt with in the exchanges of letters are as follows:

(1) The Swedish Government agrees to take steps to uncover property held outside of Sweden by or through Swedish nationals and to make the information obtained from such investigations available to the Allies.

(2) The Allies express their appreciation to the Swedish Government for the procedures established for the restitution of property located in Sweden looted by the Germans, which provision the Swedish Government agrees to continue in force until July 1, 1947 unless the applicable legislation is extended. The Swedish Government also agrees to cooperate in locating looted securities.

(3) The Swedish Government expresses its intention to repatriate as soon as possible such Germans as are determined by Sweden to be obnoxious.

(4) The Swedish Government agrees not to dispose of German patents for three months except where, after notice to the Allies, this is made necessary. In this connection, the Allies point out the general policy expected to be followed with respect to German

trademarks and copyrights which the Swedish delegation agrees to bring to the attention of the Swedish Government.

(5) The Swedish delegation agrees to recommend to its Government to place at the disposal of the three Allied Governments the proceeds of property found in Sweden belonging to victims of Nazi action who have died without heirs.

(6) The Swedish Government agrees to disclose to the representatives of the Allies any information contained in the files of the German Chamber of Commerce which may be relevant to the objectives of the understanding.

(7) The Allies advised the Swedish delegation that in recognition of the understanding reached with respect to liquidation of German interests they had eliminated the "Black Lists" so far as Sweden or known Swedish nationals are concerned.

(8) On its own behalf the Chief of the delegation of the United States stated that the United States of America would unblock Swedish holdings according to procedures to be worked out by the officials of the two countries.

(9) The Allies also advised the Swedish Government that they have under consideration the subject of Swedish representation in Germany and expressed the hope that satisfactory arrangements could be worked out for the establishment of such representation.

In a memorandum written by the Chief of the United States delegation to the Chief of the French delegation, the United States Government on its own behalf and on behalf of the United Kingdom agrees that in the

distribution of the 75 million kronor, a sum of 12 million kronor will remain after the countries other than the UK and France have been allotted their full share and that this entire sum of 12 million kronor will be allocated to France. In return the amount which the UK and US are to receive from this sum is to be included in the shares which these two countries are to receive from the 150 million kronor referred to in the principal letter.

F. ENFORCEMENT PROGRAM IN U. S. TERRITORIES, ETC.

1. Establishment of Puerto Rico Office

In November, 1942, after the commencement of the North African campaign, it was feared by Foreign Funds Control that U.S. relations with Spain might deteriorate. As a result, a serious situation might develop in Puerto Rico where there were large Spanish holdings and where much of the economic life was dominated by Spanish interests.

At that time the Foreign Funds Control problems were handled in Puerto Rico by the Governor's Office. Since it was felt that the Control's problems could not be handled adequately by the Governor's office in the event of trouble with Spain, a group was sent from Washington to establish a Foreign Funds Control office in Puerto Rico, late in November, 1942, after clearance with the Department of the Interior. In general, it carried out the Control's program in line with directions from Washington which, for the most part, were similar to those applied to persons and enterprises in the United States. The Puerto Rico office was closed January, 1946.

2. Re-Establishment of Philippine Office

With the liberation of the Philippines, a Foreign Funds Control Office was established in Manila on May 25, 1945. This Office administered the

the freezing controls in the Philippines. The Treasury representative in charge of the Office advised and consulted with the Military Authorities with and/the Commonwealth Government in those financial and economic matters in which the Department had an interest.

In order to prevent persons who collaborated with the enemy from transferring their profits or assets which they held for the enemy out of the Philippines to safehaven, our office exercised a complete control over the export of currency, securities, checks and payment orders of all kinds. Arrangements were made with Censorship authorities to prevent the unauthorized export of any such items, whether by mail or cable, or by persons departing from the Philippines. These controls were also used to prevent the completion of transactions which were initiated under duress during enemy occupation.

With the reinstatement of the freezing controls in the Philippines, the property of nationals of blocked countries, such as Spain, Switzerland, China, France, etc., were blocked. In addition, of course, the assets in the continental United States of all persons in the Philippines have been blocked since the Japanese occupation.

The primary objective of our Philippine Office was to rapidly reopen channels for normal business and trade activities and release blocked assets for the rehabilitation of the Philippines, while at the same time preventing objectionable elements from benefiting. This was accomplished primarily through the licensing technique.

The Banking Division of the Philippine National Treasury was issued three blanket licenses covering transactions in connection with imports into the Philippines, living expense payments from individuals in the Philippines to individuals in other parts of the United States, and living expense with-

drawals by persons in the Philippines from their blocked accounts in this country. Commercial banks, prior to the resumption of their operations, were licensed to obtain the use of blocked funds for rehabilitation purposes and it was the stated policy of the Foreign Funds Office to coordinate its licensing of the banks with the granting of permits by the Commonwealth Bank Commissioner. Consonant with the aim of encouraging private trade, a number of licenses were issued authorizing individuals and concerns to purchase goods in the continental United States for shipment to the Philippines. Liberal operating licenses were granted to numerous blocked business enterprises in the Philippines, including several Swiss firms, such as Nestles Milk Products (Exports) Inc., which were in a better financial position than most locally owned firms to resume normal operations as an aid to the Philippine economy.

As commercial banks resumed operations, as shipping facilities became available, and as the economy of the Islands was restored, the licensing activities of the Office increased. This event was met by the issuance of blanket licenses.

It should be noted that special blocking controls were applied to collaborators after cases against them were developed by the staff of Foreign Funds Control in cooperation with the military authorities in the Philippines. The controls exercised over collaborationists were a temporary means of assisting the Commonwealth Government since the problem was ultimately and basically a Philippine Government problem.

In addition to administering the freezing regulations, the Staff of the Foreign Funds Control Office had the responsibility, as representatives

in the Philippine Islands of the Treasury Department of presenting the viewpoint of the Department on all matters within the sphere of its interests.

The Commonwealth Government was confronted with the task of rehabilitating its financial and banking systems, and of resolving the related problems that resulted from Japanese occupation. Although essentially a responsibility of that Government, it was natural both that the advice of the Treasury Department be sought and that the Department be concerned with the manner in which banking and currency matters were handled and with the decisions in respect to the validity of transactions effected under Japanese rule. Consequently, the Treasury representatives were consulted on all legislation prepared in connection with these problems and supplied the Commonwealth Government with information and advice on measures relating to the rehabilitation of banks; the redemption of emergency currencies, the abolition of the exchange standard fund and the legality of occupation transactions.

On August 31, 1946, some two months after the Philippines acquired independence, the Treasury controls in the Philippines were terminated. This action was based on a specific request of the Philippine Government which indicated that it had instituted its own controls and that further action by the Treasury was no longer required. At the time we terminated our Treasury controls in the Philippines, we unblocked virtually all Philippine assets in the United States. For some time thereafter we continued to block the assets of 25 persons who were believed to have collaborated with the Japanese during the Japanese occupation.

As a result of the termination of the Treasury controls with respect to the Philippines the Foreign Funds Control Office in the Philippines was closed. However, at the request of the Philippine Government the two Treasury

representatives in the Philippines continued to render technical advice from time to time.

G. CONCLUSION -- ADMINISTRATIVE MANAGEMENT

The prosecution of an aggressive economic warfare program obviously required an aggressively organized operating staff. It will be recalled that during the first year and a half of the Control's operations its organization was developed by a process of accretion -- groups were haphazardly established to treat with problems as they currently developed. The difficulties involved in handling the highly technical subject matter and in merely trying to remain abreast of the ever-increasing volume of operations were such that there was little or no opportunity for focussing upon problems of administrative management. No effort was made to evaluate functions on an over-all basis and thereafter to establish the organization to carry out such function. Moreover, no careful consideration was given to the requisite qualifications of personnel required. Thus, people were hired in the initial period because they may have worked in a bank; because they may have had facility with foreign language; because they may have had knowledge of foreign exchange and banking practices. Thus, just as the organization "just grew", so did personnel "just grow" without consideration to the actual needs of the Control.

With the inception of the war it was recognized that the administrative structure of Foreign Funds Control required immediate attention if the concrete problems of the Control were to be handled efficiently and effectively. To this end an executive officer, highly trained in administrative organization, was appointed to the staff of Foreign Funds Control to tackle the problem of creating a strong and well managed machine.

As a result of a series of organizational changes, each representing a refinement and clarification of preceding organizational structure, Foreign Funds Control

developed an organizational plan along sound functional lines which proved to be simple yet highly effective in operation. The licensing, enforcement, and administrative management service functions were carefully differentiated and full authority and responsibility were delegated to an Assistant Director in each field, responsible to a Director who was also an assistant to the Secretary. Since there were continuous changes within the sections and units within each division, directed towards improvement, and refinement, no attempt will be made here to discuss the functions of each section and unit within a division. Questions of internal jurisdiction were reduced to a minimum by the preparation and adoption of clear statements of function with respect to each operating unit. This permitted the Director of Foreign Funds Control to free himself from most of the details of the day to day operations so that his attention could be directed almost exclusively to problems on the policy level.

Consistently with this progress and improvement in the internal organization, Foreign Funds Control in September, 1942, was divorced from the Office of the Secretary and accorded separate administrative status comparable to other bureaus within the Treasury, of similar size and importance. The Director of the Control continued, however, to report to the Secretary through the General Counsel. In addition, following the establishment of Foreign Funds Control as a bureau, an administrative accounts unit was established taking over the entire functions of payroll preparation and accounting for the Foreign-Owned Property Control Appropriation.

Personnel was carefully recruited. With the objectives and functions of Foreign Funds Control now carefully crystallized, trained lawyers, economists and investigators were hired who were equipped to handle the technical problems of the Control. In addition, to safeguard against the loss of personnel to the armed services, Foreign Funds Control embarked on a carefully developed recruiting

program. Women were hired on a broad basis and given every opportunity to handle the highly technical problems. Top personnel of the Control visited some of the leading women's colleges in the country to talk to prospective graduates to acquaint them with and interest them in the operations of the Control. A group of these women came to Foreign Funds Control. Special Treasury programs were instituted to assist in acquainting them with the basic operations of the Control prior to assignment to a specific operation. In fact, the top staff of the Control devoted much time not only to this development of an in-Training program, but to participating directly in the execution of this program.

In recognition of the key position occupied by intermediate supervision in any organization a conscious effort was made to strengthen channels in Foreign Funds Control. Thus, one of the important advances in Foreign Funds Control administrative procedure was the adoption of a requirement that all appointments and other personnel actions be initiated by, or cleared with the operating supervisors concerned. This plan had immediate salutary effects in impressing upon each supervisory officer his responsibility for the general management as well as the production of his subordinates. Administration management conferences were instituted and were influential in improving supervision and supervisory relationships. Operational management conferences were held to which all professional staff members were invited, and where top staff members directed discussions relating to all the functional problems of the Control. These conferences assisted not only in acquainting all the professional personnel of the Control with the day-to-day operations in every section and unit of the Control, but with the top staff personalities. Moreover, daily luncheon conferences were held where the top staff and its chief assistants discussed immediate pressing cases, correlated activities between the divisions, and explored new policies and programs. Too often

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in large operating organizations the top staff is so isolated that it does not know its operating assistants who are the important, although too often ignored, "cogs in the wheel". By the same token, the operating assistants became acquainted with their so-called "top bosses" and were given an insight in the "reasons why" certain programs they were called upon to execute were adopted, others rejected, and still others modified.

With a full awareness of the relation between effective administrative management and effective operations the top staff, during the whole war period, continuously focussed on and re-examined the administrative organization of the Control with a view to inspiring organization, reducing operations to essentials. Flexibility in personnel management permitted constant reassignment of personnel to handle the most important current problems while at the same time the less important were either completely disregarded, or relegated to positions of unimportance requiring less personnel. As a result, economy in operations resulted without jeopardizing the accomplishment of primary objectives. Consistent with the progress of the war, staff was decreased gradually, operations were modified, emphasis was changed so that by the time VJ-Day arrived, Foreign Funds Control was in a position, as will be seen later, to make rapid progress in an orderly liquidation of its operations, while at the same time affording every protection to its employees.

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CHAPTER VI

Termination of Blocking Controls - November, 1944 to April, 1948

A. Re-opening Communications

B. Payment of Creditors Claims

C. Current Transactions

1. Trade and Remittance Licenses

2. Uncontrolled current transactions - General License No. 94.

D. Defrosting Process

1. Government Funds - Section 25(b) of the Federal Reserve Act.

2. Licenses for use by officials, etc.

3. Certification Procedure - General License No. 95

4. Unblocking outside Certification

(a) Country Basis

(b) Specific Categories by Special License

(i) American Citizens in Blocked Countries

(ii) Victims of Nazi Persecution

(iii) Religious Organizations

(iv) Bona Fide Emigrants from Blocked Countries

(v) Bona Fide Refugees in Blocked Countries.

(vi) Blocked Business Enterprises in U.S.

(vii) Personal Holding Companies

(viii) Small Accounts, Estates, Trusts, etc.

(c) Specific Categories by Blanket Action

(i) Proclaimed List Nationals

(ii) Special Blocked Nationals

(iii) Persons Blocked on an Ad Hoc Basis

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5. Program for Final Resolution of Blocked Property Program.
- E. Removal of Other Special Wartime Control Programs.
 1. Security Control Program
 2. Currency Control Program
 3. Checks and Draft Program
 4. Controls of Art Objects
- F. Conclusion - Winding up Administrative Organization

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