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CHAPTER VI

TERMINATION OF BLOCKING CONTROLS - NOVEMBER, 1944 to APRIL, 1945

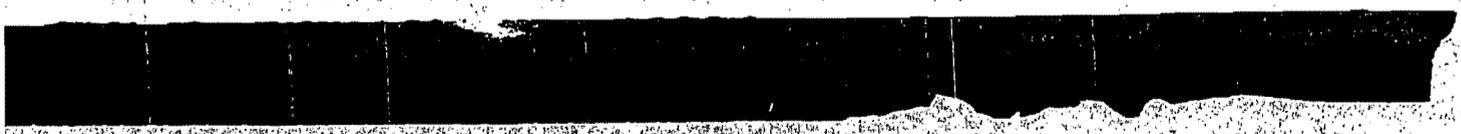
As soon as military and political considerations permitted, Foreign Funds Control proceeded with the development and execution of an orderly program for unfreezing blocked assets and for terminating its wartime controls.

In anticipation of these developments, Foreign Funds Control began to focus on the development of a program for releasing blocked assets almost a year and a half before the termination of hostilities. In the latter part of 1945, a working staff was established to develop an appropriate defrosting procedure which would be available for application as soon as the war situation permitted. It was never the intention of Treasury officials to keep these controls beyond the period when they were absolutely essential for achieving the objectives for which they were originally established. However, in this connection the following considerations were of primary concern in connection with any defrosting operation to be adopted:

- (1) protection of American creditors deprived during the war period of their normal recourse against foreign debtors; (2) protection of American financial institutions against adverse claims resulting from conflicts over ownership or control of foreign companies, doubtful validity of transfers of property under enemy occupation, payment orders executed under duress and other consequences of the confused commercial and financial situation emerging from the war; (3) insuring against concealment or release of enemy assets held through non-enemy financial institutions; and (4) prevention of the completion of transactions effected under duress or for the benefit of the enemy.

Moreover, it was recognized that the stages at which the funds of countries could be safely unblocked varied in accordance with both the original objectives for

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freezing the assets and the steps their governments were prepared to take for implementing our program for terminating the freezing control. It will be recalled, that in the case of the occupied areas, the freezing control was a protective measure designed to prevent the Axis from capitalizing on acts of aggression and to protect American institutions from adverse claims. In the case of the neutrals their assets in this country were blocked as an act of defense to make certain that their facilities would not be used to benefit the Axis or to harm the United States. Although the following discussion might indicate that each of the major steps, taken in connection with the removal of wartime controls, was effected chronologically, which to some extent is true, many of the steps took place simultaneously.

A. Re-opening Communications.

The first step in the process of defrosting funds in this country and the re-establishment of normal financial relationships with the outside world was the reopening of communications between the United States and the outside world. It will be recalled that during the war the Treasury prohibited all trade and business communication between the United States and the countries occupied by the enemy.

Before communications were permitted to be resumed between the United States on the one hand and the respective liberated area on the other hand, Foreign Funds Control required that there be adequate machinery established in the liberated area to ensure that instructions emanating from the liberated area did not order transactions which would permit (a) the completion of payments, transfers, withdrawals, or other transactions effected under duress, compulsion, or other unlawful means during the period of occupation; (b) the recognition of changes of ownership.

powers of attorney, changes in signing authority, or the consummation or validation of other transactions effected under duress and compulsion even though ostensibly legalized by enemy decrees; and (c) the dissipation or hiding of funds owned by or cloaked for enemy interests or persons collaborating with them, or the completion of any other transactions benefiting such persons. Initially, these assurances were obtained from the allied military authorities operating within the area.

As soon as ^{these} conditions obtained the area was removed from General Ruling No. 11 and personal and family messages were permitted. Gradually, business communications limited to the exchange of facts, the effecting of support remittances and the protection and maintenance of property were authorized. Licenses were issued authorizing debits to the dollar account of generally licensed nationals for remittances to a liberated area for the upkeep of their property in such area. A number of licenses were issued, even before transactional communications were permitted in an over-all basis authorizing the transmission of powers of attorney to the liberated areas by other than American interests. These licenses required that the powers of attorney or communication contain a statement that the person acting thereunder was not authorized to (a) engage in any transaction which, directly or indirectly, involved trade or communication with an enemy national as defined in General Ruling No. 11 and (b) confirm, ratify or otherwise approve of any action, transaction or course of conduct which took place in the formerly occupied enemy territory during the period of enemy occupation or in any enemy territory as defined in General Ruling No. 11.

The first country thus treated was France, in November, 1944. However, we specified at that time that this action could not in any way be construed as meaning that Foreign Funds Control approved or disapproved of any act or transaction

engaged in by subsidiary companies in France. Accordingly, we advised the important American companies with French subsidiaries that the Treasury attached great importance to the standard of conduct to be followed by American companies located in the liberated countries in handling such matters as collaboration and other activities which were repugnant to the French and American Governments. Similar procedures were adopted by the Control for other liberated countries at the appropriate time.

In October, 1944, it was recognized that military considerations permitted the reopening of communications between the United States and Italy. On the other hand Italy was still enemy territory according to General Ruling No. 11. Since it did not seem propitious at this time to remove Italy from General Ruling No. 11 or as will be later seen, the other satellite countries, Public Circular No. 25 was issued. Specifically as applied to Italy, it provided that communications of a business, financial or commercial nature, which were in business or financial transactions could be transmitted to or from Italy without Treasury license notwithstanding General Ruling No. 11. Gradually, the provisions of this circular were made available to the other satellite countries.

In May, 1945, with the end of war in Europe, it was recognized that the pressure to resume communications with the recently liberated areas would be very great. Furthermore, it was recognized that the retention of such countries within a definition of "enemy territory" based upon their control or occupation by Germany was no longer appropriate in view of the complete collapse of Germany. Accordingly, General Ruling No. 11 was amended whereby all the remaining countries of Europe, except those against which the United States had declared war (to whom Public Circular No. 25 was applicable) were deleted from the definition of "enemy territory".

While this action removed the legal restrictions on certain communications with the liberated countries involved, and on transactions authorized under General Licenses 32, 33 (remittances), 72A (re filing and prosecution of applications for blocked foreign patents, trademarks and copyrights) and 89 (exportation of powers of attorney), it did not coincide with the actual resumption of communications with all the countries involved. This depended on the rapidity with which the governments in liberated areas were able to establish the internal controls described above to prevent the completion of transactions inconsistent with United States objectives which were described above.

B. Payment of Creditors Claims

In March, 1945, before any steps were taken with respect to the defrosting of blocked assets, but following the reopening of the channels of communication, American creditors and financial institutions were publicly informed that they should take such steps as they considered necessary to assert and enforce their claims against the blocked assets of their debtors. Prior to that time, the payment of such obligations had been prevented under the freezing. In this connection Foreign Funds Control indicated that it was prepared to grant licenses for payments from blocked accounts in this country to creditors of business organizations and individuals in liberated areas. Creditors were advised that applications should be supported by payment instructions or other acknowledgments by the debtor executed subsequent to the deletion of the debtor's country from General Ruling No. 11 or, if the claim was based on a court judgment, by evidence that the debtor received actual notice of the proceedings and had a reasonable opportunity to appear. If the applications were not supported by the necessary evidence, the applicant was advised to submit the case for re-consideration when he had obtained

either the payment instruction or proof that the debtor received actual notice of the action against him and had reasonable opportunity to appear. The claim of a non-resident foreigner supported by a judgment was given the same consideration as that of a creditor residing in the United States. Initially, no active consideration was given the non-judgment claim of a non-resident foreigner, despite the fact that it was supported by a payment order.

C. Current Transactions

1. Trade and Remittance Licenses

It was our policy not to permit debits to pre-liberation assets pending the adoption of a defrosting program for a particular country. However, while negotiations were proceeding for the working out of such a program with respect to France, for example, a number of applications for licenses had accumulated which involved debits to these accounts. A study of these applications resulted in the decision that we could take favorable action on the following types of transactions: (a) Debits to accounts in the names of individuals in France for the purpose of effecting remittances to such individuals in excess of the amount allowed by General License No. 32, or for the purpose of effecting payments to persons in the United States. In general, these remittances and payments were for living expenses and were based upon instructions emanating from France since November 4, 1944. (b) The completion of remittances from France to persons in the United States through ordinary banking channels which originated after the blocking of France but prior to the date the area from which the remittances originates was occupied by the enemy. (c) Transfers of accounts in the names of personal holding companies incorporated in France to the beneficial owners of such companies if all the beneficial owners were in the United States, or in other non-blocked countries.

Subsequently, general licenses were issued to France and Belgium, the first occupied countries to be liberated, authorizing private trade and certain other current transactions between France and Belgium on the one hand and the United States, South and Central America and the British Empire on the other. In these areas there were certain financial institutions, business enterprises and individuals which we suspected or knew to be enemy-owned or controlled or to have actively collaborated with the enemy during occupation. With the concurrence of the State Department such organizations were designated as special blocked nationals. As such, they were excluded from the most important general licenses. In the case of banks certain additional steps were taken to prevent them from participating in the resumption of trade and financial relationships with the United States until they had been thoroughly investigated by the local authorities and their status clarified to the Treasury's satisfaction.

In addition, before private trade with France had even commenced we licensed a few specific cases in which applicants wished to remit to France for the purchase of such materials as essential oils, watch makers' tools, wines, books and periodicals. In each case we indicated to the licensee that he should consult with the Foreign Economic Administration with regard to the resumption of private trade with France. Our licenses covered only the opening of letters of credit or the sending of remittances. In February, 1945, we decided to permit the payments of small debts owing five commercial companies to individuals or companies in France for merchandise received or services rendered before the German occupation of France. Approvals were confined to cases where the amount did not involve more than \$500.

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

In the fall of 1945 the Control began to give some thought to lifting its control over all current transactions between the United States and the liberated areas of Europe. The following were the factors motivating the Control's thinking along the lines of issuing a general license to permit

current transactions, etc., to be freely effected without reference to a Treasury license:

(a) The Treasury would be removed from the position of having to pass on the multiplicity of transactions with specified blocked countries which people in the United States wished to undertake since the termination of hostilities. For example, the value of applications being filed in 1945 were 35 percent higher than in the previous year.

In addition we received an increasing flow of congressional and other letters inquiring why it was necessary, since the termination of hostilities, for persons to obtain Treasury licenses for current transactions and complaining about the delays that were unavoidable under a system which required that specific applications be filed, passed on and licenses issued.

(b) The license would avoid the delay which would otherwise be involved if we tied the lifting of restrictions on current transactions with the conclusion of defrosting negotiations with all the various countries.

(c) The interest of this government in enemy assets now held in the United States directly or through cloaks in third countries was protected, since debits to existing blocked accounts were not to be permitted under this license.

Of course the issuance of this license meant that Foreign Funds Control no longer used its controls to support the exchange controls of blocked countries over their currently accruing dollar resources.

In the first instance the bankers objected to the issuance of this general license on two principal counts: (a) the license might

result in additional work for the banks, since they might have to set up a new account for practically all their depositors located in blocked countries. This might follow from the fact that the license would permit the free use of property accruing after the date of the license but would not permit the use of property blocked on the date of the issuance of that license; and (b) they were afraid that in the process of keeping two accounts for their customers mistakes might occur, with the result that property which should be credited to the old blocked account might actually be credited to the new account and vice versa. They were concerned that mistakes on their part might result in adverse suits from customers or in failure to comply with the freezing regulations.

The banks were advised, in answer to their objections that persons in the United States holding blocked property which could be transferred to a domestic bank under, for example, General License No. 1, provided the property were placed in a blocked country, would be responsible for correctly advising the domestic bank receiving the property of the fact that the property had to be placed in an old account rather than in the new free account. It was pointed out that as a result, domestic banks receiving funds from other persons for credit to the account of persons within countries to which the new license would apply might assume, unless they were notified to the contrary by the person in the United States transferring the funds, that the funds could be credited to a new free account. Thus, the responsibility was placed on the person holding the blocked property.

The banks also inquired whether under the proposed license they would be expected to screen the beneficiaries of trade transactions and remittance transactions to determine whether the beneficiary has a legal entity which, although located in a country to which the license would apply, might be a national of Germany or Japan and, therefore, be excluded from the benefits of the new license. The same question arose with respect to individuals in such countries who might be excluded from the license by virtue of being nationals of Germany or Japan who had been within enemy or enemy-occupied territory. The banks were advised that in view of the provisions of the license which authorized transactions which could be effected under General License No. 53 if these countries were members of the generally licensed trade area so long as no debit to a blocked account was involved it was unnecessary for them to screen trade and remittance transactions with these countries for this purpose. General License No. 53, it will be recalled, permitted trade and remittance transactions involving non-blocked funds with blocked nationals, including nationals of Germany and Japan in the generally licensed trade area, except Proclaimed List nationals and Special Blocked Nationals. It follows that the same thing would be true with respect to trade and remittance transactions with countries included in the license insofar as non-blocked funds were concerned.

In December, 1945, General License No. 94 was issued which removed all freezing controls over current transactions with all blocked countries and their nationals except Germany, Japan, Portugal, Spain, Sweden, Switzerland, Liechtenstein and Tangiers.

Specifically, General License No. 94 provided that powers of attorney, proxies, and other instructions relating to property located in specific blocked countries, checks, drafts, securities, bills of lading and other financial and commercial documents could be freely sent to any such countries. Trade transactions between the United States and the specified blocked countries or between these countries could be freely financed through United States banking facilities, except where debits to existing blocked accounts were involved. No blocking restrictions were to be applicable to currently accruing dollar exchanges. Central banks in the specified blocked countries could freely buy and sell dollar exchanges and dollars sold by them could be freely used by their nationals for purchases and other payments. Property belonging to individuals who were nationals of specified blocked countries, but were not in blocked countries, i.e., were in the United States, British Empire, South America, etc. would be immediately unblocked. Thus, Americans could engage in financial and commercial transactions with persons covered by General License No. 94 as freely as with persons in Great Britain and Canada, as well as with persons in the other countries of the Western Hemisphere. The neutrals were excluded from the privileges of this general license at the time of its original issuance because they had not yet taken effective action to search out, immobilize and control all enemy assets within their jurisdiction and had not yet agreed to a solution concerning the disposition of these assets.

In addition, General License No. 94 removed many of the restrictions imposed on security transactions, although securities which were blocked on the date of the license continued to be blocked. The following important changes were made:

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(1) Securities which bore the stamp of any of the licensed countries were no longer subject to section 2(a)(1) of the Order, thereby lifting the requirement for attachment of TFEI-2 to such securities. General Ruling No. 5 continued to control their importation.

(2) Public Circular No. 6 became inapplicable to countries licensed under General License No. 94 since the circular in effect provided that licenses issued for redemption, or purchase for sinking fund purposes, or other purchases for blocked accounts of securities issued by blocked countries or corporations organized under the laws of blocked countries required that TFEI-2 be attached to any securities acquired.

(3) Securities registered in the names of nationals of the licensed countries were no longer subject to General Ruling No. 3, thereby permitting dealings under the blanket securities licenses, General License No. 4, and other general licenses containing restrictions on dealings in securities registered in the name of nationals of blocked countries.

(4) The securities accounts of financial institutions located in the licensed countries were no longer subject to General Ruling No. 17. Transactions could, therefore, be effected under existing blanket or general licenses without identification or certification by the foreign financial institutions. However, such assets were to remain blocked until certified pursuant to defrosting licenses. Since the defrosting licenses made no provisions for the certification of funds held in General Ruling No. 6 accounts, Federal Reserve Banks were instructed to authorize the transfer of all funds or securities held in such General

Ruling No. 6 accounts which were established pursuant to General Ruling No. 17 to the account to which such assets would normally have been credited. Such assets were to be regarded as blocked under paragraph (1) of General License No. 94.

(5) Public Circular No. 14 was no longer applicable to nationals of licensed countries, thereby permitting such persons to acquire the stock of any corporation regardless of the percentage of outstanding securities they may hold.

Subsequent to the issuance of General License No. 94 banks were advised by Foreign Funds Control that balances which accrued to the countries and nationals thereof that were licensed under General License No. 94 since the liberation of such countries could be regarded as property in which no blocked country or national thereof had an interest, provided such balances accrued pursuant to licenses authorizing current transactions.

In November, 1946, and April, 1947, after agreements on these issued had been secured, the privileges of General License No. 94 were extended to Switzerland, Liechtenstein and Sweden respectively.

The extension of the privileges of General License No. 94 to Germany and Japan was effected in March, 1947. By that time the military authorities in this area indicated that they were prepared to exercise the necessary controls concerning financial and commercial business dealings with Germany and Japan so that it no longer was necessary to apply the restriction imposed by the Trading with the enemy Act. Even before that date, however, steps were taken by the Treasury to lift some of

the restrictions on current transactions as they applied to Germany and Japan. Authorization was issued permitting resumption of postal communications between Germany and Japan as soon as the occupying powers advised that it had appropriate censorship facilities. An appropriate license was issued under the Trading with the enemy Act permitting businessmen to visit Germany to inspect their properties subject to conditions laid down by the Departments of State and War. Certain American concerns, especially news service, film and publication companies were licensed to engage in private operations in Germany upon advice from the State and War Departments that their operations were in accord with occupation policies. Before May, 1946, licenses were issued under the Trading with the enemy Act to permit certain relief operations in Germany and Japan. Subsequent to May, 1946, the Trading with the enemy Act was amended so that licenses were no longer required under the Act for relief operations in these enemy countries.

It is important to indicate at this point that in the administration of the controls as they were applied to Germany and Japan, Foreign Funds Control was guided by the policy determined by the State and War Departments. Under Presidential directive of August 1945, State Department had the responsibility for determining the policy with respect to Germany and Japan and the War Department had the responsibility for the administration of such policy. The Treasury Department rendered technical financial assistance when requested by State and War Departments. It was always the position of the Treasury Department, after the issuance of this directive, that the Treasury be prepared to remove any or all of

its controls over current dealings with persons in Germany and Japan whenever the State and War Departments advised that they considered it in the national interest to do so.

Funds accruing as a result of current transactions permitted pursuant to General License No. 94 were free and were available for resuming current financial relationships between the U.S. on the one hand and the outside blocked territory on the other. In the case of Japan and Germany, the assets accruing as a result of current transactions were disposed of in accordance with the directives from the Allied Military Authorities in those areas. Thus, it was hoped that the resumption of trade relations between the U.S. and these enemy areas under Allied military supervision would provide funds in the U.S. to assist U.S. in the costs required for rebuilding the enemy areas in accordance with Allied security objectives.

It might be well here to review briefly the procedure followed by Foreign Funds Control in reopening current transactions and operations between the U.S. on the one hand and Italy and Sicily on the other hand. It will be recalled that Sicily was the first of these two countries to be liberated and thus was prepared, before Italy, to reopen current transactions with the outside world. The first step in this connection, after reopening communications was the permission of living expense remittances to Sicily.

On February 7, 1944, living expense remittances to Americans in Sicily were authorized by the issuance of General License No. 32A. The Bank of Sicily was utilized in effecting the lire payments to the

beneficiaries. Although the dollars were credited to a blocked account in the name of the Bank of Sicily (Account AF), the dollars were actually held by the Bank of Sicily for the account of the Allied Military Finance Authorities (AMFA). AMFA and the Treasury Department exercised full control over the disposition of the dollars. Correspondent banks in the United States for the Bank of Sicily were chosen by the Bank of Sicily and all communications between the Bank of Sicily and the correspondent banks were channelled through a special APO number and routed through AMFA and were subject to its control.

Support remittances from countries other than the United States or the United Kingdom to Sicily were channelled through the United States or United Kingdom and individuals, wherever located, could remit funds through domestic banks. Circular instructions were sent to U.S. Diplomatic Missions in the other American republics so that the U.S. Missions were in a position to advise interested persons of the facilities which existed for remitting funds to Sicily through the United States. Subsequently on March 30, 1944, the authorizations with respect to remittances to Sicily were extended to Sardinia and other provinces on the Italian mainland. Gradually, as the war security permitted, General License No. 32A was extended to the rest of Italy. In addition, the amount of the remittances were increased. Gradually the purposes for which remittances could be made were increased. The one restriction which remained was that no such remittances could be made from pre-liberation blocked Italian accounts.

All funds thus accruing in the post-liberation accounts for Italy were used to meet essential import needs of Italy, essential Italian

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diplomatic, consular and military expenses, and the expenses of operating Italian ships in neutral waters. Gradual relaxation over the treatment of the post-liberation Italian accounts were effected in October, 1945. The dollars in post-liberation blocked accounts of Italian banks were released from our controls. In this connection it was made clear to the Italian government that we took this action with the understanding that the Italian Government was responsible for husbanding her dollar resources and that such dollars could not be used to settle pre-Armistice dollar debts to the neutrals without the approval of the Allied Commission in Italy.

D. Defrosting Process

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

Very soon after liberation and before the procedure could be applied for defrosting all the funds belonging to a foreign country and its nationals, the various governments were authorized to use with relative freedom their public assets in the United States, including the funds of their central banks, for official purposes and for the purchase of merchandise for shipment to the liberated country .

In this connection it might be useful to describe the procedure followed before a foreign government is permitted to utilize its public funds in this country held with a Federal Reserve Bank. Section 25(b) of the Federal Reserve Act which sets up this procedure was designed to protect the Federal Reserve Bank of New York against conflicting claims to central bank and government accounts of foreign countries. Specifically, the certification procedure, set forth in section 25(b) of the Federal Reserve Act, operated as

follows: The recognized representative of the foreign government in this country certified to the Secretary of State that certain designated persons were authorized to make transfers and withdrawals from described official property at the Federal Reserve Bank of New York. When the State Department was satisfied that it had satisfactory documentary proof of the statements made in the certification and was also satisfied with the political desirability of issuing its certification to the Federal Reserve Bank, the Treasury Department, i.e., Foreign Funds Control, was requested to notify the State Department that the necessary licenses to permit the operation of the described accounts had been issued. Such a notification, together with copies of the appropriate licenses, were sent to the State Department. The State Department notified the Federal Reserve Bank that it had received all the necessary documents and that it had been notified of the issuance of the appropriate licenses by the Treasury Department, and certified that the Bank was authorized under Section 25(b) to permit transfers and withdrawals from the described property upon orders received from persons named in the certification.

Funds accruing from remittances and other current transactions were permitted to be transferred to the central bank accounts and freely used. Licenses were issued, for example, to the French and Belgian Embassies permitting them to certify to any banking institution in the U.S. the accounts of any agency of their respective governments, and the banking institution involved was thereby authorized to treat the account as that of a generally licensed national and to make all payments, transfers, and withdrawals therefrom, including payments or transfers to

blocked countries or blocked nationals. The only restrictive clause in these licenses, as originally issued, was the provision that before any payment or transfer in excess of \$25,000 was made for any foreign account (except for transactions by agencies of the respective governments incident to trade between Belgium and France and their possessions and the United States and countries within the generally licensed trade area, and except for payments or transfers from a banking institution within the United States for credit to a French or Belgian account) the Treasury was satisfied of the contemplated transaction and did not disapprove within a ten-day period.

2. Licenses for use by officials, etc.

As a preliminary step in assisting liberated governments get under way it was important to establish some procedure to facilitate the use of official funds in this country as well as to provide funds for the use of officials operating on behalf of the Government in the United States. To take France as an example, the following are, in general, the steps taken in this connection.

Immediately after the opening of communications between France and the United States a license was issued permitting the free use of French official funds held by the Federal Reserve Bank for the Bank of France, subject merely to the proviso that the control be modified and given an opportunity to pass upon any transfer in excess of \$25,000 for the foreign account. This license permitted all payments, transfers and withdrawals, subject merely to the provision that we be notified of and given an opportunity to pass on any transfer in excess of \$25,000 for foreign accounts other than the French account.

Gradually, it became apparent that a large number of French Government agencies were operating in the United States, which maintained separate bank accounts and which required individual licensing. Accordingly, in the spring of 1945 we evolved a new type of license which would avoid the issuance of specific licenses over the accounts of these agencies. This license, issued to the French Embassy, permitted it to certify to any banking institution in the United States the accounts of any agency of the French Government and the banking institution involved was thereby authorized to treat the account as that of a generally licensed national and to make all payments, transfers, and withdrawals therefrom including payments or transfers to blocked countries or blocked nationals. The only restrictive clause in this license was the provision that before any payment or transfer in excess of \$25,000 was made for any foreign account (except for transactions by agencies of the French Government incident to trade between France and its possessions and the United States and countries within the generally licensed trade area and except for payments or transfers from a banking institution within the United States for credit to a French account), the Treasury was notified of the contemplated transaction and did not disprove within a 10-day period.

With a view to facilitating the operation of the accounts of the officials of the Provisional French Government upon their return to France, we authorized the French Embassy to certify to domestic banks that they could treat the accounts of French officials and/or their wives as the accounts of generally licensed nationals irrespective of the whereabouts of such persons. Significantly, this license imposed upon the French Embassy the obligation of notifying the appropriate bank of the termination of such status should an official whose account was so certified terminate his service with the government.

3. Certification Procedure - General License No. 95.

From time to time from November, 1943, the Governments of the various western European countries raised with Treasury officials the question of releasing their blocked assets in the United States. Obviously, however no steps could be taken in this direction before the liberation of the area from the area; before facilities had been re-established for normal communication; before financial channels had been opened between the U.S. and the area; before adequate controls had been established by the governments of the respective areas to insure that accomplishment of the basic objectives, outlined above, as pre-requisites to effecting the defrosting of blocked assets.

Early in 1945, we were able to commence working out the defrosting machinery with the liberated government. The procedure envisaged the issuance of a general license under which blocked property in the United States could be released upon the certification by an official agency of the foreign government that such property was owned by its nationals on the date when the freezing controls were made applicable to such country. Thereby, responsibility was placed on the foreign government for investigating the real ownership of the

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blocked property involved as a condition precedent to making this general license available to a liberated country. The government of the particular country was required to give suitable assurances to the Secretary of the Treasury that (1) the government would assume the responsibility for carrying out the procedure provided for by the license and that no property would be certified until its ownership had been investigated; (2) no transaction would be effected or authorized under the license if such transaction would either facilitate the completion of transactions which might further the interests of an enemy or of persons acting on behalf of an enemy, or if such transaction would change the status of blocked property in the United States in which an enemy had a direct or indirect interest; (3) the government would in cases where there were more than one nationality interest in a blocked assets, obtain assurances from the other country that the interest of its national in such property was not held for or on behalf of an enemy; (4) where enemy property was inadvertently certified under the license it would be restored to the extent that such property or its equivalent were found in the assets of the acquirer or of the original owner; (5) the government would cooperate with the U.S. Government with a view to investigating and controlling all German assets within their respective jurisdictions to deprive war criminals and potential leaders of the enemy underground of means of existing and of jeopardizing the peace; (6) the government would so administer its exchange controls to permit its nationals to pay its dollar obligations to American creditors and would not in any way discriminate against American nationals holding assets in the foreign country.

The first country to which the general defrosting license was made applicable was France in October, 1945. By that time the following ad hoc steps had been taken with respect to French assets in the U.S.; ^{French} public funds had been freed; limited remittances were allowed. Thereafter, limited use of pre-liberation assets were permitted; debits to accounts in the names of individuals in France for the purpose of effecting remittances to such individuals in amounts in excess of the amount allowed under General License No. 32 or for the purpose of effecting payments to persons in the U.S.; the completion of remittances from France to persons in the United States through ordinary banking channels which originated after the blocking of France but prior to the time the area from which these remittances originated was occupied by the enemy; transfers of accounts in the names of personal holding companies if all the beneficial owners were in the United States or in other non-blocked countries.

The provisions of the French defrosting license (General License No. 92) made provision not only for the defrosting procedure, but also for the removal of Treasury restrictions on all current transactions with France. It will be recalled that General License No. 94 with respect to current transactions was not issued until December, 1945. In addition, it had the effect of automatically freeing the accounts of all Frenchmen who were outside of France and not in a blocked country on the date the license became applicable to France.

After the machinery for unblocking France was established the Control proceeded more rapidly with the defrosting of the other liberated areas and improvements and refinements were made as the staff acquired more experience with the operation of this machinery and as world conditions permitted greater relaxation. For example, after Belgium was given a defrosting general license

(General License No. 93) in November, 1945, which was similar to the French general license (General License No. 94), it was found that current transactions between the U.S. and the rest of the world could be permitted without waiting on the establishment of a defrosting machinery for each of the countries. Thus, it will be recalled that on December 9, 1945, General License No. 94 was issued, providing for such current transactions and subject, it will be recalled, to certain country exceptions. Subsequently, on December 29, 1945, General License No. 95 was issued which became the basic defrosting license for all liberated countries entitled to use the certification procedure as negotiations were completed with these countries. It was made applicable to France and Belgium since it was broader in some respects than the defrosting licenses already issued for these countries. Accordingly, the old licenses, General Licenses Nos. 92 and 93, were revoked, but certifications already made under them remained fully effective.

General License No. 95 became applicable to Norway and Finland on December 29, 1945; to the Netherlands, February 13, 1946; to Czechoslovakia and Luxembourg on April 26, 1946; to Denmark, June 14, 1946; to Greece, October 15, 1946; to Switzerland and Liechtenstein, November 30, 1946; to Poland, January 7, 1947; to Austria, January 16, 1947 and to Sweden, March 28, 1947. The defrosting negotiations with these countries took place both in Washington and in the respective countries.

In connection with the defrosting of blocked assets in the U.S. it was important that no assets be freed with respect to which there were an outstanding tax liability to the U.S. To avoid this consequence the Bureau of Internal Revenue prepared a list of foreign nationals who were tax delinquents, prepared by country stating the name of the person and an amount which represents

approximately twice the tax liability of such persons. The list was referred to each country with an indication that the accounts of these persons were not to be certified until the U.S. tax claim was satisfied.

Adjustments were made in the individual letters of assurances as a result of different problems and considerations peculiar to a particular country. The basic objectives and principles, however, were the same in all the letters. Naturally, as we proceeded with the individual negotiations, we discovered certain problems which required new rulings. As they were developed they were made uniform for all the countries. The following are examples of some of the refinements effected.

The need by the French Government for American dollars was acute. The French Government was mobilizing all French dollar assets in the United States. Accordingly, Foreign Funds Control permitted, through the issuance of blanket licenses, the French Government to mobilize all dollar securities held in the United States for the blocked accounts of residents of France prior to being certified under General License No. 95 on the understanding that appropriate investigation would be made in the course of all uncertified securities transferred to the Bank of France, before any francs were paid to the French owners. The French Government agreed to make the equivalent in dollars of any securities in which an enemy had an interest available for disposition under whatever conflicting custodian agreement was reached.

The defrosting program was subsequently expanded to permit for the certification of dollar securities located within the liberated countries. The defrosting license was amended to include a waiver of Section 2A of the Order and of General Ruling No. 5 with respect to any security to which a government certification was attached. There thus was permitted to be imported into the U.S. any such security and it was effectively removed, after its

arrival in the U.S., from all restrictions imposed on the importation of securities. The collection of income on registered securities was also permitted by the sending of a certification to the person with whom the security was registered and to the bank holding any income which have previously been paid.

In connection with this provision for the certification of securities, the liberated countries were requested to give assurances, separate from the basic letter of assurances that they would undertake prompt investigations of the ownership of all American securities located in those countries. Further, they agreed to attach certifications to all such securities eligible under the license and to segregate for further disposition all other securities, advising Treasury of any securities in which there was reasonable cause to believe an enemy interest existed.

To further expedite the unblocking of property under the certification program we dispensed with the sub-certification requirement with respect to property held by a resident of one General License No. 95 country through a depository in another such country. Property so held could thereafter be certified directly by the certifying agent of the former country although for administrative reasons such certifications were to be forwarded through the financial institution in the latter country.

A modification was effected with respect to the certification of corporations. Certifications under General License No. 95 regarding organizations outside of the certifying country needed only to cover interests held by nationals of that country. Previously we required certification of the whole ownership of such organizations.

To make it clear that a person, for example, residing in Switzerland could not have his assets here unblocked without certification merely by taking up residence in a liberated country after a defrosting license had been issued to the latter country, paragraph 1(b)(1) of the defrosting license was amended to make it clear that it concerned property blocked because of the interest not only of persons located in the country to which the license was issued but also of persons located in any other blocked country.

In the defrosting discussion held with the Dutch they raised a question as to whether they could certify property in which an enemy acquired an interest subsequent to our freeing Dutch assets in the U.S. Actually, in the French and Belgian defrosting procedures it was provided that these governments could not certify property in which the enemy acquired an interest after our effective freeing date for these countries. In effect, therefore, we were recognizing as valid enemy acquisition after occupation which was inconsistent with the declaration of January 5, 1943 with respect to forced property transfers. The apparent inconsistency raised by the Dutch caused us to rule that enemy "interests" acquired during occupation could be disregarded and that property so affected could be certified under the defrosting license. The French and Belgians were thereafter advised of this ruling.

We took the position for defrosting purposes that persons holding dollar accounts with banking institutions in the liberated countries had a corresponding interest in the cash accounts maintained here by such institutions. It was intended, that even though the institution itself were eligible for certification under the defrosting license its accounts could be certified only as investigation of the ownership and control of the dollar accounts was completed. To avoid undue delays in making their cash accounts here available

to the institutions and to provide for the situation wherein the institutions do not maintain 100 percent coverage for their dollar accounts, it was decided to accept an alternative procedure. This procedure, in effect, allowed each banking institution to make an estimate of the amount of dollar accounts on its books in which there might be an enemy interest and to give a guarantee to its government that if the estimate was less than the total amount of dollar deposits in which there actually was a direct or indirect enemy interest, the institution would make up the difference in dollars. When these two requirements were met certification was allowed with respect to that part of the cash which was in excess of the estimate. Disbursements were not to be made by the institutions from the customers' accounts on their books until after the ownership and control of such accounts were investigated. If in any instance the amount of dollar deposits actually held for enemy accounts turned out to be greater than the amount estimated the government of the liberated country was to make certain that the dollars necessary to cover the difference was provided.

A further variation of this basic principal was evidenced by our treatment of income accruing on Dutch administration certificates. We permitted the Dutch authorities to certify the accrued income of Dutch administration certificates which represent United States dollar securities for transfer to the Netherlandsche Bank, on the understanding that the guilder equivalent would not be paid to any holder of such securities until the Netherlands authorities had investigated their ownership. In addition, the Dutch authorities were requested to refrain from certifying a portion of the certificates in order to retain dollars in an amount sufficient to cover securities in which there was likely to be an enemy interest. Moreover, the Dutch were required

to guarantee that dollars necessary to cover any deficit would be made available if those securities in which an enemy interest existed constituted a portion larger than was originally estimated.

Where dollar assets are held by blocked nationals in the U.S. through the U.K. our freezing controls with respect to such assets were terminated automatically upon receipt of a certification from a U.K. bank that the account had been released by the U.K. Custodian, without requiring certification under General License No. 95. This conclusion was reached after we were assured by the British that their unblocking arrangements with the liberated countries afforded us a sufficient safeguard against the release of any assets in which there may be an enemy interest. In this connection the British agreed to advise us of any dollar assets held through the U.K. in which an enemy interest was found and to reserve such assets for conflicting custodian agreement.

In connection with the defrosting of the Netherlands and Luxembourg the question was raised as to whether existing dollar assets of General Banking No. 11A banks which represented cover for non-enemy customers' dollar accounts could be certified notwithstanding the fact that a bank's own funds were obviously ineligible for certification by reason of pre-war enemy ownership or control. Certification of these accounts were permitted upon receipt of appropriate assurances from the government involved. The following are some of the further refinements in the certification procedure which were put into effect following the defrosting discussions with the Swiss:

(a) corporations blocked as Swiss which were organized in a non-blocked country, the certification of the entire amount could be made by the Swiss Compensation Office in the same manner as certifications of corporations

organized in Switzerland; (b) property held through financial institutions in Switzerland which were not entitled to certification under General License No. 95 because of ownership or control by persons subject to General Ruling No. 11A, certifications may be issued with respect to that portion of its accounts which represent property held for persons who were eligible for certification provided that assurances were given by the Swiss that a sufficient amount of assets would remain uncertified to cover fully the property held by the institution for its own account and for the account of persons not entitled to certification. Certification could also be issued on the basis of such assurances with respect to financial institutions in Switzerland which, by virtue of the interest of persons not resident in Switzerland or Liechtenstein, are also nationals of another foreign country designated in the Order as defined in General License No. 95 if, in the opinion of the Treasury Representative in Switzerland, the certification of the institution itself would be unduly delayed under paragraph 4 of the letters of assurances; and (c) certifications need only to relate to the beneficial ownership of property in an account since the date when the property came into the account or when the account was blocked, whichever was later. These requirements were immediately communicated to the other so-called 95 countries.

Actually, despite the institution of the certification procedure for unblocking frozen assets the staff of the Control was continuously faced with requests for unblocking assets outside of certification. In some cases Treasury action on these cases would have avoided subjecting the assets to the foreign exchange decrees of foreign countries; to their taxation; to the effects of the mobilization drives of these foreign countries. Consistently,

Treasury withstood these pressures since it was conscious of the fact that only the country where the blocked national resided could exercise jurisdiction over him in connection with the investigation required before release of his assets could be obtained. Local investigations were basic to the certification procedure, even though as a secondary result foreign governments thus were able to secure information with respect to assets of their nationals held in the U.S. and thus mobilize them to strengthen their dollar exchange position. It was virtually impossible for the Treasury Department to attempt to ascertain the real ownership of property held by residents of foreign countries. This arises from the fact that this government is unable to conduct investigations in sovereign foreign countries to verify the accuracy of statements and affidavits submitted to it. The foreign government of which the person is a resident is the only government in a position to verify the accuracy of statements and affidavits submitted to it. Although it was never the intention of Foreign Funds Control to establish the certification procedure to assist foreign governments in mobilizing their foreign assets, Foreign Funds Control did not countenance schemes which would have required a sacrifice of our objectives -- to discover enemy assets held in the U.S. in the names of nationals of the liberated countries -- in order to assist these foreign nationals to avoid the regulations of their own governments. Moreover, the fact that the certification procedure had additional benefits was all the more justification for sustaining that procedure, particularly since these benefits actually might redound to our own nationals. For example, the certification procedure enabled this government to obtain information with respect to every asset in the U.S., which constituted a source of reparations for the U.S. Secondly, to the extent that foreign

governments were enabled to mobilize their dollar assets in this country, to that extent was the burden on the American tax payer for relief and rehabilitation of these countries devised.

It goes without saying that Foreign Funds Control did not expect and did not contemplate that through the certification procedure nationals of blocked countries would be subjected to onerous penalties for failure to declare their foreign assets to their respective governments. In fact, in discussions held with representatives of these governments, the Control made every effort to secure a relaxation of these penalty provisions which appeared out of line with standards which would ordinarily have been applied under the circumstances. Although France never revoked these penalty provisions from the book, it made ad hoc relaxations.

4. Unblocking outside Certification.

(a) Country Basis

Foreign Funds Control completed unblocking the assets of residents of countries through which little or no cloaking of German or Japanese assets were effected. The following are the countries whose assets were unblocked on this basis: Albania, China, Formosa, Hong Kong, Korea, Lebanon, Philippines, Siam and Syria.

(b) Specific Categories by Special License.

(1) American Citizens in Blocked Countries.

~~fit~~ One of the first questions which arose following the establishment of the certification procedure was its applicability to release of assets belonging to United States citizens in France and of businesses in France, owned by persons in the U.S. It was decided that Foreign Funds Control should act on applications involving assets of United States nationals. Applications for the unblocking of such assets were required

to state that no person other than the owner had an interest in the property at any time on or since the effective date of the Order, or, if the property was acquired after that date, details with respect to the acquisition.

(ii) Victims of Nazi Persecution.

Bona fide refugees from Germany and Japan who were not residing in Germany, Japan, Italy, Rumania or Bulgaria were able to secure the release of their property in the United States from the special blocking restrictions imposed by reason of their German or Japanese nationality by applying directly to the Treasury Department. Applications were required to be supplemented by affidavits or statements by responsible organizations which proved indirectly that these refugees did not act in a manner inimical to the Allied war effort. The policy of action on these applications was in line with legislation permitting the Office of Alien Property to return vested property belonging to victims of Nazi persecution.

(iii) Religious Organizations.

To provide for the unblocking of property of religious organizations in all blocked countries, including those in Germany, Japan, Italy and the satellites, Foreign Funds Control acted on applications involving the unblocking of their funds in the U.S. It was clear that the Office of the Alien Property would not vest the assets of such organizations even if located in enemy territory; in addition, it was not deemed appropriate or necessary to require such organizations in the liberated or neutral countries to use the certification procedure.

(iv) Bona Fide Emigrants from Blocked Countries.

The Control also acted on unblocking requests of persons who were not in blocked areas, or who were in the U.S. with the intention of remaining in the U.S. Initially, we relied for our guide in this connection on whether the person was in the U.S. on a permanent immigration visa. Thereafter, fact situations were presented to the Control where there was an absence of the permanent immigration visa factor, but there were present other factors which evidenced bona fide intention to remain in the U.S., or, at least, not to return to the blocked area. Accordingly, a questionnaire was prepared to be answered by such persons, and the replies determined our action or non-action on the unblocking request.

(v) Bona Fide Refugees in Blocked Countries.

It was found, early in our experience with the defrosting operation that there were many refugees from Nazi persecution in Europe who deserved special attention as regards their blocked property in the U.S. These persons, were the so-called General Ruling 11A cases. In April, 1946, we indicated that we would unblock the accounts of such persons on an ad hoc basis, provided they were not in Germany, Japan, Italy, Bulgaria, Hungary and Rumania. Each application was required to be accompanied by an affidavit from our Consular and/or diplomatic office in the area, giving all relevant information respecting the bona fides of the person as a refugee from Nazi persecution.

(vi) Blocked Business Enterprises in U.S.

Initially, generally licensed national status was given to blocked business enterprises in the United States where control of such

enterprises was not held by persons residing in the liberated countries. Firms controlled from the liberated areas were granted broad business operating licenses (RFE-3). Subsequently, it was felt that generally licensed national status could be granted to all eligible enterprises organized in the United States regardless of the fact that the controlling interest may have been held in a blocked country. With respect to the neutrals, however, generally licensed national status was initially granted only to those enterprises, the majority control of which was held by persons who were not blocked nationals. Excepted from this program were the holding companies.

(vii) Personal Holding Companies.

During the war assets held in the manner of personal holding companies to individuals who claimed to be the beneficial owner of the assets were not released unless we received documentary proof not only of the shares of the holding company but also of the particular assets which were to be released. In addition, we required that documentary evidence be established indicating that no person other than the individual or individuals requesting the release of the assets had any claims against the holding company or its assets. These requirements were established primarily to guard against the release of assets which, although claimed by non-enemies, might have been beneficially owned by an enemy and to protect the interests of other claimants to these assets who might not have been able to protect their own interests due to the lack of communications between the United States and enemy-occupied territories.

There were many of such personal holding company cases where the assets were held in the names of holding companies organized under the laws

of one of the liberated countries, particularly Luxembourg. The individual who claimed the assets usually resided in countries other than those in which the holding companies were organized. The request was usually to release the assets into an account in the name of the individual or individuals concerned. These persons usually were unable to document their cases in accordance with the above-described standard primarily because these companies were established to conceal assets from the Germans and complete documentary proof of ownership was seldom available. In all cases, however, the applicant could submit letters and various affidavits which tended to establish their ownership of the assets in question and to exclude the likelihood of there being any enemy interest therein.

While it was recognized that during the war there might have been legitimate reasons for not releasing such assets except in well documented cases, it was questionable whether these standards should be required after the cessation of hostilities. Accordingly, it was agreed that except in cases where the applicant was a resident in the liberated country in which the holding company was organized, action on these holding company cases should be taken by the Control without waiting for the conclusion of defreezing agreements. Where the applicant was a blocked national the assets would not be unblocked. These personal holding company cases were brought to the attention of Internal Revenue before the assets were released, since such cases were likely to be outstanding tax evasion cases.

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

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To expedite the certification procedure and to simplify the unblocking of the remaining countries, Foreign Funds Control, in July of 1947, developed a program to permit the immediate unblocking of certain categories of assets in which there was no likelihood of any substantial enemy interest. A general license was issued unblocking (a) accounts under \$10,000; (b) interests in estates and trusts created by non-blocked persons in the U.S. or in the generally licensed trade area; and (c) property paid or distributed from any trust or estate pursuant to Treasury license. There was excepted from license accounts in which the following categories of persons had an interest: (a) any German or Japanese person subject to General Ruling No. 11A; (b) any individual who was a citizen of Bulgaria, Hungary or Roumania residing in one of those countries or in Germany or Japan; and (c) any corporation, partnership or other organization organized under the law of or having its principal place of business in Hungary, Bulgaria or Roumania.

(c) Specific Categories by Blanket Action.

(1) Proclaimed List Nationals.

It will be recalled that in the discussion above pertaining to the Proclaimed List it was determined that the Proclaimed List would be retained in the post-hostilities period. To this end, a program was set forth whereby the minor and so-called intermediate offenders would be deleted from time to time after the termination of hostilities, but that the major offenders would be retained on the List for some indeterminate period. As one would suspect, the pressures to remove the List following the termination of hostilities increased in tempo. Moreover, the British

were strong supporters for early termination of the List. In the light of the overwhelming public clamor for the termination of wartime controls as rapidly as possible, it was impossible to maintain the List for more than a year after the termination of hostilities.

On July 8, 1946, the Proclaimed List of Certain Blocked Nationals was terminated and our blocking controls over these persons were lifted. This action was taken on a blanket basis without reference to the merit of the cases, but was done in line with a fixed policy between our government and the British Government to terminate the wartime controls as soon as practicable.

(ii) Special Blocked Nationals.

It will be recalled that this schedule was set up to control the use of U.S. financial facilities by persons who were being considered for inclusion on the Proclaimed List who for policy or other reasons could not be included thereon. This schedule was terminated simultaneously with the termination of the Proclaimed List on July 8, 1946.

(iii) Persons Blocked on an Ad Hoc Basis.

It will be recalled that during the war a number of persons in the U.S. were subject, on specific direction of the Secretary of the Treasury, to blocking restrictions for security reasons. Included in this group were persons who had been convicted of espionage and sabotage, persons who had aided and abetted German economic penetration in this country, and persons who were suspected of holding funds for or acting on behalf of the enemy.

It will be recalled in the earlier discussion of the ad hoc blocking problem, that continuous efforts were made to reduce the list

with a view to deleting those persons over whom control was not justified in the light of changing war conditions. After VJ-Day this program of releasing persons on an ad hoc basis received increased impetus. However, for the most part the deletions from the List were made on an ad hoc examination of the facts to determine whether the reason for the original ad hoc blocking was still appropriate for the continuance of the action in the post-hostilities period.

However, after the Proclaimed List and Special Blocked National List had been lifted on a blanket basis, and after an increased awareness of the continuation of wartime controls was unjustifiable in the light of current events to restore normal relations as soon as possible, it was determined that the time was appropriate to reconsider the blanket lifting of persons on the ad hoc blocked list. On August 15, 1946, we unblocked on a blanket basis without reference to the merit of the cases practically all persons in this category with the concurrence of the Department of Justice and the Alien Property Custodian. Only a small number of cases (not more than 30) remained blocked on the specific request of the Alien Property Custodian, Justice Department, War Department, and the Internal Revenue Division of the Treasury.

5. Program for Final Resolution of Blocked Property Program.

In January, 1947, the Control considered various alternatives looking toward the ultimate disposition of property in blocked accounts which were not released through the certification procedure of General License No. 95 or otherwise unblocked. Four alternatives seemed available and will be discussed below:

- (a) Continue the blocking controls for an indeterminate length of time into the future with a view to gradually eliminating licenses permitting

withdrawals from or conversions in form of the property involved, thereby tending to force the owners to obtain the release of the property through certification.

The principal merit of this alternative was that it would postpone the basic issue and perhaps reduce the size of the ultimate problem, depending on the number of persons who finally decided to request certification.

The disadvantages to this program seemed many. It implied a long extended use of our war powers which would be increasingly obnoxious to the Congress as well as to the banking institutions which have had to comply with our regulations. In the meantime the alleged owners of the property would bring increased pressures on us to unblock the property or at least to permit new uses of the property without consulting their governments.

This alternative was immediately rejected.

(b) To take a new census of uncertified assets and turn the information obtained over to the foreign governments concerned. This provided for maximum certification and at the same time to assist those countries in mobilizing the dollar assets of their nationals. Under this alternative it was considered that a public circular would be issued. Reports would be required (with perhaps a \$5,000 exemption) of all property held by persons in the U.S. in which there was an interest of a country designated in General License No. 95, or a resident thereof and which had not been certified or otherwise unblocked. It would be made clear that the information so obtained was intended to be used in any way the Treasury Department saw fit for determining the true ownership of the property involved and its ultimate disposition.

Under the program it was considered that the foreign governments to which the census information would be made available would be expected to give advance public notice that they were to receive such information. In this way it was hoped to encourage further voluntary reporting of U.S. assets and thus reduce the volume of property remaining uncertified. It was contemplated that to avoid undue criticism the foreign governments would be prevailed upon through the State Department to exempt from the full force of their own laws with respect to undeclared assets those persons who voluntarily reported their assets during the interim period. Once the information would have been given to the foreign governments we would have been in a better position to press them to take the initiative in investigating the ownership of the property and to inform the Treasury Department after a given period of time of the status of all the property which had been reported to them.

Under this program enemy property otherwise undisclosed would have been identified for vesting, the blocked property would have been reduced to a minimum and we would have been furnished information concerning this property.

An interim aspect of the problem, it was recognized, would be its aid to the other governments in mobilizing their foreign assets. Thus, from an over-all U.S. governmental point of view a signal advantage of pursuing this program was that it would probably have resulted in ^alightened load for the U.S. taxpayers, since the procedure would have made available to those countries a means for controlling the dollar exchange of their nationals in this country and, thus, reduce the needs which we would have been required to supply directly or indirectly.

A collateral benefit to be obtained from such a program was the fact that we would be afforded with some statistical basis for praising the "masterless property" problem.

The principal difficulties with the program arose from the fact that the program would have resulted in our forcing the alleged owners of the assets squarely into the hands of his own government. Thus, forcing him to convert his dollar holdings into less valuable local currencies and possibly subjecting him to special penalties for having failed to declare his foreign holdings on time or to have paid taxes due on such holdings. Any such program would have encountered strong resistance from the U.S. financial community, not so much because of the reporting requirement, but because of the turning over of the information to foreign governments.

(c) To unblock unconditionally at some agreed upon time, without a certification procedure or any other preliminary action.

The desirability of such unblocking action would have been based generally speaking on two presumptions. First, that a significant amount of enemy property would have been disclosed as a result of the certification procedure, even though strengthened by a census program as outlined above. Second, that the conflicting custodian settlement would have adequately protected the interests of the U.S. in any enemy assets held here through a IARA country or since it was contemplated that similar arrangements would be made through a neutral country. The first presumption seemed to be largely a matter of opinion. However, an indication that enemy property was concealed among the blocked assets was the fact that during the period between June, 1946, and January, 1947 we had learned of the existence of at least \$2,000,000 of concealed enemy property in accounts previously blocked only as Dutch, Swiss, etc. With

respect to the second presumption involving a IARA settlement it appeared unlikely that final agreement would have been reached and it was certain that it would not have been implemented before the time to which our unblocking action would be required to be taken.

(d) To announce after a certain date that all uncertified property would be presumed to be enemy and to be subject to vesting by the Alien Property Custodian.

Under this program, after a reasonable time all blocked property would be turned over to the jurisdiction of the Alien Property Custodian who would vest such property on an ad hoc basis. In the meantime, the property would remain tightly blocked and practically all Treasury licenses would have been revoked. The release of the property from the jurisdiction of the Alien Property Custodian to any private individual would only be made after consultation with the Government. This was the only way under which we could be assured that there was no enemy property concealed in the remaining unblocked property under the jurisdiction of the Alien Property Custodian.

After consultation with the Departments of State and Justice the fourth alternative was adopted. Despite the opposition from the banking community, announcement was made in October, 1947, that on May 1 all property remaining blocked and with respect to which persons had not taken steps to secure certification under General License No. 95, was transferred to the Alien Property Custodian, was presumed to be enemy property and subject to vesting by that Office.

II. Removal of Other Special Wartime Control Programs.

1. Security control program.

It will be recalled that General Ruling No. 5, which controlled the importation of securities into the U.S. during the war and Section 2(a)2 of the Executive Order, which prohibited the acquisition by persons in the U.S. of securities physically located outside this country were directed toward defeating the looting methods of the Nazis as related to securities. Moreover, it will be recalled that the January 5 declaration of 1943, and Bretton Woods Resolution VI were likewise directed toward committing this government to a program whereby this country would be prevented from becoming a market for looted property, including securities.

By the middle of 1947, it was felt that the foreign governments had had ample opportunity to determine the securities which may have been looted from their nationals, thus permitting us to take certain positive steps which would on the one hand commit the free flow of securities between the U.S. and the rest of the world, while at the same time, preventing this country from becoming a market for looted securities.

By July 1947, we had received reports from all the countries on the securities which were looted from their nationals. This list included some 18,000 items of looted securities which were issued in the U.S. or which were payable in dollars. Accordingly, on July 15, 1947, an amendment was issued to General Ruling No. 5 which allowed the importation into the U.S. of all securities without license except the 18,000 items which were listed in a schedule issued as part of the amended ruling. Simultaneously, with the issuance of the amended ruling, instructions were given to the issuers and the paying or transfer agents of the scheduled securities not to pay or permit

transfers on their books of any such securities. The listed securities which are imported or refused payment or transfer were to be deposited with the Federal Reserve Bank of New York and the foreign person claiming to be the owner of the securities would thereby be given an opportunity to establish by ordinary legal processes his title, if any, to the securities. However, in order not to interfere with the rights of Americans who may be bona fide purchasers of these securities, the Treasury indicated that upon application clearly establishing such fact it would remove the securities from the list and permit it to be freely dealt with.

Simultaneously with the issuance of the amended General Ruling No. 5, Section 2(A) 2 of the Executive Order was lifted from all securities other than those appearing on the schedule and issued as part of the amendment to General Ruling No. 5.

Immediately thereafter, blanket licenses were issued to the banks authorizing them to release from General Ruling No. 5 accounts all securities which were not on the looted list, provided they knew that such securities had not been imported into the U.S. in violation of General Ruling No. 5.

2. Currency Control Program.

In December, 1944, there was initiated a program looking toward the resolution of a large number of currency items impounded pursuant to General Ruling No. 5 and the ultimate resolution of the entire problem, recognizing that the basis on which the release of currency had been denied in the past was consistent with the original purpose of our currency controls. It was felt nevertheless that in view of recent developments in Europe and the present situation in general, certain currency items could now be released without weakening our controls.

A schedule of about 90 previously denied applications was studied with the following general conclusions: (a) In general, the denials on applications involving amounts under \$1,000 with the exception of "false declaration" cases should now be re-vested in order to release the currency from General Ruling No. 5. (b) Applications involving amounts in excess of \$1,000 would be considered on an ad hoc basis by a small inter-office committee. No release would be made in this category until the names involved had been thoroughly checked against the Flexoline.

On January 15, 1946 the controls on the importation of currency from Mexico into the U.S., as well as General Ruling No. 14, which dealt with the exportation of currency from the U.S. to Mexico, were lifted. In the spring of 1946 we modified our import controls with respect to currency where the denominations were \$20 or less.

It will be recalled that the majority of the Latin American countries instituted controls over the importation, circulation and exportation of U.S. currencies to implement our controls. In August, 1946, when travel between the U.S. and these countries had increased, the American missions in most of the Latin American countries were confronted with American travellers who were unable to utilize the currency, or by local residents who had accepted the currency from travellers and were not able to effect conversion to local currencies. The situation was further complicated by the fact that a few Latin American countries had abrogated their decrees controlling U.S. currency and apparently many were lax in the enforcement of their decrees.

In view of the difficulties encountered by U.S. citizens travelling in Latin American countries the inequities of certain countries in enforcing their controls while others did not in the hope that we might be able to effect

a considerable relaxation of our controls over the importation of currency within the very near future, we advised the Department of State that the Treasury had no objection to the lifting of controls by the Latin American countries at that time. Such countries were at that time informed that our import controls on currency in denominations greater than \$20 remained in effect and that such currency would be impounded on importation into the U.S. and that, therefore, the sender should be in a position to reveal the origin of the currency and to prove that there was no enemy interest therein.

In April, 1947, import controls over currency were removed since by that time most of the important foreign countries in Europe in cooperation with Foreign Funds Control had taken steps to detect and segregate any U.S. currency within their borders in which there was an enemy interest.

It might be appropriate here to indicate that in October, 1944, the Treasury revoked the Hawaiian currency and securities program, thus bringing to an end the financial "scorched earth" program in Hawaii. This was in line with the Treasury policy of releasing wartime controls as soon as conditions permitted. With the line of invasion by then definitely removed, the precautionary measures prescribed by the regulations were no longer necessary. Thereafter, unperforated securities and ordinary U.S. currency could be marketed and circulated in Hawaii. Moreover, the revocation of the regulations did not affect the validity of perforated securities and the "Special Hawaiian" currency.

3. Checks and Draft Program.

On August 19, 1947, General Ruling No. 5A, controlling the importation of checks and drafts into the U.S., was revoked.

4. Controls of Art Objects.

In November, 1945, an amendment was issued to Treasury Decision 51072 which was designed to relax the import control over art objects in view of the fact that the liberated countries by that time had had an opportunity to strengthen their own controls over the movement of art objects which might constitute loot. The amendment was also designed to facilitate the importation of goods which, though falling within the definition of art objects in Treasury Decision 51072, were, nevertheless, ordinary articles of freight which could not be considered as loot. The amended Treasury Decision required a Treasury license for the importation of only those art objects which, there was reasonable cause to believe, had been within Germany, Italy, Japan, Bulgaria, Hungary, Roumania, Turkey, Switzerland, Spain, Portugal, Sweden, Nire, Tangier or Argentina on or since March 12, 1938. However, the amended Treasury decision permitted the license-free importation of an art object from a country within the British Commonwealth of Nations regardless of the fact that the objects may have been in one of the countries mentioned above.

In June, 1946, Treasury Decision 51072, under which the importation of art objects was prohibited except pursuant to Treasury licenses, was revoked. The revocation of this prohibition was recommended by the American Commission for the Protection and Salvage of Artistic and Historic Monuments in War Areas. It was the Commission's view that the procedure was established for the purpose of determining the extent to which art objects looted or illegally obtained by the Axis powers might be imported into this country. On the basis of their experience they concluded that Axis-owned objects of art were for the most part held within Axis countries, and none of the applications received involved any questionable works.

F. Conclusion - Winding up Administrative Organization.

During the discussions in this history concerning the administrative organization of Foreign Funds Control, reference was made to the continuous process of examination of the organizational set-up of Foreign Funds Control looking toward improvement to provide for the most efficient operation. This implied not only a continuous re-valuation of the form of organization, but also of the operations themselves looking toward a discontinuance of those operations which were unproductive or which in comparison with other functions did not justify continued expenditure of public funds.

In this connection, it is important to point out that even before VE-Day Foreign Funds Control was economy minded. After the Bureau of the Budget had approved an appropriation request for Foreign Funds Control of \$2,750,000 for the fiscal year 1946, the Control itself re-examined its operations on the basis of new military developments and additional information received from its officials abroad and voluntarily requested the Budget Bureau that the estimate it had approved be cut by one-half million dollars. This act was so outstanding that it was commented on specifically on the House floor in connection with the discussions on the appropriation. Congressman Ludlow stated that "This very unusual action impressed our sub-committee as being a very praise-worthy move and we were hopeful that the good example might become a little more infectious through the government service."

Immediately following VJ-Day, the administrative staff of Foreign Funds Control focused specifically on the need for reducing the staff commensurate with the reduction in operations following the termination of hostilities. In February, 1946, Mr. Orvis Schmidt, then Director of Foreign Funds Control, invited all members of the Control to a meeting to discuss the future operations of the Control and the programs which would have to be followed in reducing the staff as rapidly as possible so that not only could we live within the appropriation granted to us by the Congress for the fiscal year 1946, but could be prepared to request smaller appropriations from the

Congress in the light of the possible completion of operations during the fiscal year 1947.

In this address, Mr. Schmidt reviewed the steps already taken by the Control looking toward a reduction in its operation cost. He said "We have already begun a concerted drive to cut costs. We have just completed a consolidation of our field work into the Federal Reserve Banks of New York, Chicago and San Francisco. This eliminates the expenses of nine Federal Reserve Banks and also made possible the issuance of General License No. 94 (December, 1945) which greatly reduced the number of applications received. We have closed the New York field investigative office. We have closed our office in Puerto Rico. We have stopped printing our own documents. The Analytic Unit has been eliminated. We have turned back costly I.B.M. equipment. The New York Federal Reserve Bank Office has moved back into the main building at a substantial saving. They are also reducing the size of their staff even though they are assuming the work of five other banks and Puerto Rico."

In this address, Mr. Schmidt indicated that further reductions would have to be made within the Washington office. The reduction in force panel was explained to the employees. However, before the reduction in force panel was to be applied this meeting had been called to permit employees to get a first-hand picture of the views of the top staff of the Control with respect to the necessity for reductions and to give the employees an opportunity to work out voluntary transfers to other agencies of the Treasury and the government before such move became compulsory and before the job situation in Washington became acute as a result of compulsory reductions in all wartime agencies which was soon done. To this extent a staff was set up in the Control to assist in working out the voluntary transfers.

In cooperation with the administrative staff of the main Treasury the personnel office took steps to insure that other agencies of the Treasury would first look to Foreign Funds Control to fill vacancies. The program was soon expanded into an active campaign of "selling" the qualifications of any persons in the Control who desired to take advantage of the program. In addition, top personnel of the Control solicited other agencies to find out where their vacancies were.

In taking this step in February, 1946, looking toward a rapid liquidation of the Control as soon as possible without awaiting Congressional recommendations in this connection, Foreign Funds Control took an outstanding step. In this connection, Mr. Schmidt, in his address of February, 1946, stated as follows: "In deciding to plan for the liquidation of Foreign Funds Control we had to wrestle with one of the big temptations of bureaucracy. As we all know, any agency whose job is nearing an end can think up at least 15 good reasons why it should continue in business. We might have done that. As a matter of fact there are some of us who believe that certain of the functions which we are performing ought to be performed in a peace time world. However, we decided that since we were created for specific wartime mission, we are going to stop when that mission is accomplished. We will not try to perpetuate ourselves in office or argue for additional appropriations. As public servants we must recognize that this is a fundamental obligation to the American people. When July 1, 1947 rolls around we want to be able to say that we, Foreign Funds Control, did a real job toward winning the war, that when the job was done we wound up the Control in a thoroughly creditable fashion and that we all were ready for the next tasks (whether in Treasury, some other agency, or in some private business) of building a great America in a peaceful world."

In connection with the request for the 1947 appropriation with the hope of completing operating during the fiscal year 1947, Mr. Schmidt, who appeared be-

fore the Sub-Committee on Appropriations in December, 1945, stated "I might say that we anticipate, a little sadly, that this will be the last time we will have to appear before you for an appropriation for Foreign Funds Control. We are making every effort to have the problems of Foreign Funds Control so well disposed of during the fiscal year 1947 that the maintenance of an operating organization to deal with residual problems will no longer be justified."

In line with this objective the Control concentrated from then on in a continuous effort to lifting wartime controls as rapidly as possible and releasing personnel as soon as they were no longer needed for the remaining operations.

In August, 1946, when government agencies customarily prepared their estimates for the Budget Bureau, and which requests for appropriations are made to the Congress for the fiscal year, 1948, it was recognized that there might be certain residual problems which would carry over into the fiscal year 1948. However, it was decided that since it was difficult to anticipate how many or the nature of these problems, no request would be made for a liquidating appropriation for the fiscal year 1948 at that time. Instead, it was considered preferable to wait until the latest date possible so that we would be fully cognizant of the real residual problems remaining and whether it was absolutely essential to request a liquidating appropriation. At the same time, continued economies were effected. The field operations were, during 1946, consolidated in the Federal Reserve Bank of New York. By January, 1947, the functions of the Control were being performed by a Washington staff of 150 people as compared with almost 300 on July 1, 1946. By June 30, it was anticipated that the staff would be further reduced to about 85 professional people and 40 clerks and stenographers.

By April, 1947, it became more clear that some appropriation would be required. Despite efforts to complete operations by July 1, 1947, certain problems/

remained which were beyond our control and which would require some attention during the fiscal year 1947. Accordingly, a request was made for a small appropriation of \$350,000. The Congress approved \$275,000. Foreign Funds Control began its 1948 fiscal year with ___ professionals and ___ clerks and stenographers in the Washington office and _____ professionals and ___ clerks in the New York Federal Reserve Bank.

In July, 1947, the small remaining Bureau of Foreign Funds Control was amalgamated into a new Office of International Finance. The Director of Foreign Funds Control became an Assistant Director of the new office. All licensing and enforcement problems remaining were consolidated under one person. Under the new plan it is hoped that by April, 1948, jurisdiction over the remaining blocked property presently administered by the Control would be transferred to the Office of Alien Property in the Department of Justice, and the operations of Foreign Funds Control as a separate unit of the Treasury will cease.

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