

DECLASSIFIED
Authority NND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File CONF. 800 GENERAL 1941
Box # 1

COPY FOR MR. LEWIS

TELEGRAM SENT

To: Department

Date: August 13, 7 p.m., 1942

No.: 3731

DECLASSIFIED AND RELEASED

Code: ~~Confidential~~

Charged to:

CPG 1-1142

Authority

By

NARS, Date



PARAPHRASE

765006
JOB
4/18

Commercial banks have been notified by the Swiss National Bank that, effective August 5, the Swiss National Bank suspended the sale of gold coins as a measure to prevent the depletion of gold stocks, but that private banks may continue to deal in gold coins. Since the 26th of June the price of gold coins in Swiss francs increased nine to eleven percent. Thus, eagles quoted at Swiss francs 8.55 on June 26 increased to 9.70 on August 12th. Swiss 20franc gold coins increased from 30.90 to 34.50; sovereigns from 40.25 to 44 during the same period. The price of gold bars remained practically constant during that period at 4970 Swiss francs per kilo and is now stabilized at that rate. The upward movement of gold coins is interpreted as a sign of fear of inflation.

HARRISON

CBD/nrm

551
S W 1 9 2 6 1 1 6 1 9 4 2

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By KG NARA Date 1/22/00

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Re: Rise in price of gold in Swiss currency.

On July 27th Mr. Rossy of Banque Nationale Suisse told me gold reserve had been depleted SFr. 80,000,000 since beginning of 1942 through sales to individuals chiefly, indicating apprehension of inflation. This was called to Washington July 28, 42.

CRB

~~OK~~
F.C.D.
Have you called this?
2/16

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By **KG** NARA Date **1/22/00**

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Nouvelles financières

La vente des pièces d'or suspendue

Depuis mercredi, la Banque nationale a suspendu la vente des pièces d'or. L'annonce de cette nouvelle a provoqué immédiatement une hausse des pièces encore en circulation et on a vu le prix de la pièce de 20 fr. monter jusqu'à 32 fr.

Notre institut d'émission va interdire, par ailleurs, l'exportation des pièces d'or suisses. Le prix du lingot d'or serait fixé à 4970 fr. (plus 2 % d'impôt sur le chiffre d'affaires) le kg.

La Liberté, Aug 8, 1942

in Swiss currency.

y of Banque Nationale Suisse told me gold eted SFr.80,000,000 since beginning of 1942

viduals chiefly, indicating apprehension of cabled to Washington July 28, 42.

~~JK~~
J.C.D.
Hampton Cabled this?
JK

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J. C. C. C. C.
C. A. R. R.

August 11, 1942.

Mr. HUDDLE,-

You will recall my memo. regarding increase in price of gold coins in Switzerland.

In Zurich I saw an official of the Swiss National Bank. He stated in this regard that the Bank wished to raise the price of Swiss gold in relation to Swiss paper currency by about 10-percent, viz, from around 31 to 34 francs for a 20 franc gold piece; the reason back of this desire I was not able to ascertain.

In the meantime, US gold was quoted as high as 9.70 swiss francs to the dollar as compared with as low as 8.40 some weeks ago.

LMH
 Landreth M. HN.

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*Minister ~~Di-Enco~~
CA-OR*

August 7, 1942.

Mr. HUDDLE,

There has been a noticeable increase during the past few weeks in the price of gold in relation to Swiss currency. The following quotations are revealing:

	<u>June 26.</u>	<u>August 6.</u>	<u>increase</u>	
US \$	8.40-8.55	9.05-9.25	.55	Sw fcs.
Swiss	30.70-30.90	32.75-33.25	2.05	
Bars	49.30	49.50	no change	

The increase appears to be only in currency as price of gold bars has not changed. Implication is that there is a heavy demand for ~~gold~~ gold currency of all countries. Similar price increases are reported for French, Italian and British gold coins.

JMA

Landreth M. Hn.

*551
SWITZERLAND*

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Economic and Financial Development,
 From American Legation,
 Bern, Switzerland.

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iron) to Switzerland and that the German clearing overdraft will consequently rise perhaps to about 400,000,000 by the end of October.

Italian Clearing. On July 22 the Italian overdraft on the clearing reached 89,200,000 francs and it is expected that the "ceiling" (125,000,000 francs) will have been reached by the end of October. Then will become urgent the question of additional credit facilities to Italy. The Swiss succeeded in side-stepping during the recent negotiations the matter of an additional credit to Italy over and above the "ordinary" one contained in the officially established overdraft limit of 125,000,000 francs. However, the Swiss have no illusions about the situation that will arise this autumn in view of the steady decline in merchandise available for export to Switzerland from Italy.

(5) FEDERAL FINANCE

The Treasury had a striking success in marketing its new loan in June* and has ample funds until autumn, barring unexpected events.

(6) PRICES

It is expected that retail prices will start upward again in the autumn to a degree that will create probably more social tension than heretofore during similar price evolutions. The wages and salaries committee of the Federal Department of Public Economy has worked out and made public a table for supplements which might justly be added to wages and salaries under given price advances. This table will probably serve as a norm for discussions this autumn between employers and employees on subject of adjustments of wages and salaries to meet the eventual new wave of price increases.

File No. 851

WMC/mws

Original and seven copies
 to the Department

Copy to American Consulate General,
 Zurich

*Page 3 of Legation's "Economic and Financial Developments" report of May 28, 1942.

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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(2) GOLD

(a) Stocks

National Bank. The periodic reports of the National Bank indicate only a very unimportant net change between May 15 and July 15 in either the gold holdings or holdings abroad of foreign exchange valid as bank note coverage. The only fact worth noting is that they both declined slightly simultaneously, whereas in previous periods their movements had generally been opposed.

National Bank Holdings
 (Million francs)

<u>End of:</u>	<u>Gold</u>	<u>Foreign exchange abroad*</u>
December, 1939	2,262	360
July, 1940	2,114	488
June 23, 1941	2,292	1,304
May 15, 1942	3,446	124
July 15, 1942	3,440	112

*Dollars at New York

Between May 15 and July¹⁵ the German Reichsbank sold only about 12 to 15 million Swiss francs of gold to the Swiss National Bank. The Reichsbank used the proceeds therefrom to increase somewhat its growing account at the National Bank**, to increase the likewise still growing account of the Swedish National Bank at the Swiss National Bank and to buy small quantities of escudos from other Swiss banks. The Swiss National Bank expects to receive shortly 700 kilos of gold pieces, mostly Napoleons, from the Bank of France, the proceeds of which will be used to satisfy French obligations here.

(3) SILVER

The Swiss National Bank is purchasing about 25 tons net of silver in the form of French coins (former 10 and 20 franc pieces). Price is about 70 Swiss francs per kilo. The Swiss still need about 20 to 30 tons of tin alloy for small coins.

(4) FOREIGN LOANS

German Clearing. Total May imports from Germany were high at 66,000,000 Swiss francs and remained at about that level during June. So far as is known deliveries in early July were at a satisfactory level. Consequently the German overdraft on the clearing rose between May 20 and July 22 by only 22,000,000 francs to 207,000,000 francs. The Swiss anticipate Germany will, by the beginning of autumn, experience new difficulties in making deliveries of merchandise (chiefly coal and iron)

**Pages 4 and 5 of Legation's "Economic and Financial Developments" report of April 25, 1942.

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 Box 41

Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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Strictly Confidential

(1) FOREIGN EXCHANGE

Bank Notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941:

Nominal Rate in Swiss Francs for
Notes of large Denominations

<u>1941</u>	<u>Rome</u> (100 lire)	<u>London</u> (£1)	<u>Lyon</u> (100 frs.)	<u>Berlin</u> (100 Rm)	<u>New York</u> (\$1.00)
Feb. 28	11.75	8.00	2.775	50.5	?
March 21	12.65	7.55	<u>3.80</u>	54.5	?
Apr. 29	12.775	7.425	3.575	<u>61.5</u>	4.22
May 6	<u>13.125</u>	6.925	3.625	60.5	4.255
July 2	10.30	6.575	3.15	52.0	<u>4.52</u>
Sept. 12	8.30	<u>8.575</u>	2.575	42.5	3.95
<u>1942</u>					
May 5	5.30	5.55	<u>1.60</u>	33.0	<u>2.075</u>
May 12	5.325	<u>5.25</u>	<u>1.75</u>	32.0	<u>2.255</u>
June 1	<u>5.05</u>	<u>5.50</u>	1.67	28.5	<u>2.475</u>
June 10	<u>5.05</u>	6.35	1.68	<u>25.5</u>	2.53
July 15	5.35	5.925	1.83	30.0	2.68

There is nothing new of importance to report concerning the market for bank notes other than that it varies following the respective political fortunes of the country whose notes are traded.

Handelsspermarken. The exchange rate of this German money of restricted use continues to reflect Swiss opinion as to German fortunes. It dipped sharply in early June only to recover after the fall of Tobruk to the level maintained between March and May.

100 "Handelsspermarken" in Swiss Francs
 (Monthly averages unless otherwise stated)

<u>1939</u>	<u>Low</u>	<u>High</u>
Jan.-July inclusive	17.04	--
September	--	18.81
	6.67	
<u>1939-1940</u>		
November-February	13.34	--
		15.62
<u>1940</u>		
May		8.56
December		38.02
<u>1942</u>		
January		15.78
April		21.23
June		18.20
July 7		21.00
July 25		21.00

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Box # 1

REQUIRED REPORT

(Reference: Department's instruction No. 1100 of July 31, 1941, file No. 102.81-5024)

ECONOMIC AND FINANCIAL DEVELOPMENTS

(Background Report for period from May 15 to July 15, 1942)

STRICTLY CONFIDENTIAL

From:

W. M. Chase
W. M. Chase, Secretary of Legation

Bern, Switzerland. Date of completion: July 30, 1942

Date of mailing: August 1, 1942

Approved:

Leland Harrison
American Minister

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By KG NARA Date 1/27/00	File 800 GENERAL 194
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Economic and Financial Development,
From American Legation,
Bern, Switzerland.

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period March 15 to April 15, started downward again after April 20 and by May 15 had not apparently yet reached the bottom of the movement.

(3) FOREIGN LOANS

German clearing. As imports from Germany continued on a curtailed basis during the period under review and as the delay in payment out of the clearing to holders of Swiss exporters' credit bills continued above ninety days, the German overdraft on the clearing rose again. The increase was 15 million francs between April 17 and May 20 and the total overdraft on the latter date was about 185 million francs. A careful appraisal, just completed, places the total value of credit bills likely to mature under the ninety-day waiting period arrangement at about 300,000,000 francs; thus, if Germany delivered nothing more to Switzerland after May 20, the clearing overdraft would rise to about 485,000,000 francs by August 20. Since such a radical cessation of German exports has not yet taken place, the rise in the overdraft will be more moderate and is not expected to reach the 500,000,000 franc mark until sometime near the end of this year. The Germans blame their inability to deliver the contracted amounts of merchandise to Switzerland on a lack of means of transport and tell the Swiss that if they want their merchandise they should "come and get it".* Should Germany eventually collapse in defeat, the Swiss would regard their loss on the 500,000,000 franc clearing overdraft as a "contribution à fonds perdu" (capital contribution) by the Swiss Government to a project which prevented either general unemployment during a critical year or more, or, what would be equally undesirable, German demands that Swiss labor migrate to Germany.

Italian clearing. Between April 17 and May 20 the Italian overdraft on the clearing rose from 68 to 75.2 million francs. As it appears that Italy also is faced with the impossibility of maintaining its exports to Switzerland, the Swiss authorities are envisaging an Italian request that the present overdraft ceiling of 125 million francs be raised. Thus far no demand has been made.

(4) FEDERAL FINANCE

During early June the Federal Treasury will borrow on long term nearly 400,000,000 francs. Subscriptions in the amount of at least that amount are expected and may reach 450,000,000 francs; the amount subscribed in excess of something short of 400 millions will not be accepted. As there are no conversions to be made, the entire subscription will accrue as new money to the Treasury, which will then have no need to come to the market again until the end of the summer.

File No. 851
WMC/mws
Original and seven copies to the Department
Copy to American Consulate General, Zurich

*Legation's strictly confidential telegram No. 2243 of May 23, 1942.

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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(2) GOLD

(a) Stocks

National Bank. Although the periodic statements of the National Bank indicate only very small net changes between April 15 and May 15 in the gold and dollar foreign exchange items, the Bank had several transactions of normal proportions during that period. The net acquisition of gold was only about 4 million francs, but gross receipts were much larger, perhaps a million from the Bank of France and about 15 millions from the German Reichsbank. Outgo consisted of about 5 millions to Portugal (about a thousand kilograms per week) and some 6 or 7 millions to the internal market. The latter's purchases were chiefly Swiss twenty-franc and sovereign pieces and joined its already sizeable acquisitions, some 46,000,000 francs, since the beginning of January.*

It is known that during the period April 15 to May 15 the Portuguese National Bank became still more reluctant to sell escudos to Swiss banks and that the limit of 10,000 per day per bank reported a month ago by the Legation* has been reduced and that fewer exceptions to the limit are made now than formerly. The Portuguese apparently for some time have been endeavoring to discourage the purchase of escudos by Swiss banks for German account and it is known here that a Reichsbank representative went to Lisbon during the past month, perhaps to arrange for more direct purchases of escudos.

<u>End of:</u>	<u>National Bank Holdings</u> (Million francs)		<u>Foreign exchange abroad**</u>
	<u>Gold</u>		
December, 1939	2,262		360
July, 1940	2,114		488
June 23, 1941	2,292		1,304
April 15, 1942	3,442		126
May 15, 1942	3,446		124

**Dollars at New York

That the Bank of France has been selling gold to Portugal, as reported to the Legation by the Consulate at Basel, is considered here as likely. It is known here that about the middle of May or shortly thereafter Carriguel, a high functionary of the Bank of France, went to Lisbon. Such sales of gold might have been made to acquire escudos to pay for merchandise. Whether that merchandise would have been bought actually for Germany but billed to France cannot be said, but is possible.

(b) Prices

During the period under review prices of bars and Swiss franc pieces remained unchanged. Prices of eagles, after having declined almost imperceptibly during the

period

*Page 5 of Legation's "Economic and Financial Developments" report of April 25, 1942.

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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Strictly Confidential

(1) FOREIGN EXCHANGE

(a) General

Bank notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941:

Nominal rate in Swiss francs for notes of large denominations

<u>1941</u>	<u>Rome</u> (100 lire)	<u>London</u> (£1)	<u>Lyon</u> (100 frs.)	<u>Berlin</u> (100 Rm)	<u>New York</u> (\$1.00)
Feb. 28	11.75	8.00	2.775	50.5	?
March 21	12.65	7.55	3.80	54.5	?
April 29	12.775	7.425	3.575	61.5	4.22
May 6	13.125	6.925	3.625	60.5	4.255
July 2	10.30	6.575	3.15	52.0	4.52
Sept. 12	8.30	6.575	2.575	42.5	3.95
Oct. 3	6.85	8.15	2.575	30.0	4.075
<u>1942</u>					
May 5	5.30	5.55	1.60	33.0	2.075
May 15	5.25	5.25	1.75	32.25	2.325

Aside from continued decline of the lira, certain quantities of which are smuggled here by Italians fearing depreciation of their currency, there has been no event of importance to report. There is still no evidence of increased smuggling of Reichsmark notes from Germany. Sterling continued to give ground parallel with the dollar until May 5, after which the dollar recovered somewhat, but sterling continued to decline. Dollar bank notes at 2.075 offered an attractive bargain and it is possible that some demand therefor may have developed for shipment to countries where they could be sold at a profit.

Handelssperrmarken. The barometer of German fortunes which the exchange rate of this money provides turned slightly downward after mid-April.

100 "Handelssperrmarken" in Swiss francs
 (Monthly averages unless otherwise stated)

<u>1939</u>	<u>Low</u>	<u>High</u>
Jan.-July inclusive	17.04	18.81
September		6.67
<u>1939-1940</u>		
November-February	13.54	15.62
<u>1940</u>		
May		8.56
December		38.02
<u>1942</u>		
January		15.78
March		20.48
April 16		22.50
May 12		21.00

(2) GOLD

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~~CA~~
DL

REQUIRED REPORT

(Reference: Department's instruction No. 1100 of July 31, 1941, file No. 102.81-5024)

ECONOMIC AND FINANCIAL DEVELOPMENTS

(Background Report for period from April 15 to May 15, 1942)

STRICTLY CONFIDENTIAL

PSI SWITZERLAND

From: W. M. Chase, Secretary of Legation

Bern, Switzerland. Date of completion: May 28, 1942

Date of mailing: May 29, 1942

Approved:

Leland Harrison
American Minister

A true copy
of the signed
original: ms

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Authority NND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File CONF GENERAL 194
Box # 1

To Mr. Reagan April 3

Econ. and Financial Javel.
March 27

Reform of Swiss Fed. Finance
& Tax on Cap. Income at the same
March 26

651
SWITZERLAND

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Authority <u>NND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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National Bank has begun shipment of 10,000 kilograms of gold to Portugal at the rate of about 1,000 kilograms every two weeks; this amount corresponds to that for the transfer of which, to Portuguese account, the National Bank asked for, but failed to receive, authority from our Treasury Department. It is said that Germany does not ship gold directly to Portugal, because it would be necessary to accompany it across occupied France and Spain. Germany apparently finds it less burdensome to ship it to Switzerland than to Portugal for sale. The Portuguese, themselves, prefer apparently to have no direct gold dealings with the Germans. Swiss private banks bought in the period under review gold pieces in Spain against bars, being able to sell the pieces here at a profit. During about a month's time (February 10 to March 10) the Swiss National Bank succeeded in selling on the domestic market about 2 million francs of gold pieces. That market is not without limit, but if supplied gradually willingly absorbs the offer, as is proved by the only very slightly depressed prices despite the offer.

Domestic. The domestic demand for gold during the period under review was unimportant.

(c) Prices.

Bid prices for gold bars tended slightly upward shortly after February 15, advancing from 4,915 francs to 4,930 francs per kilogram by February 20, where the price remained stable until March 15. The price at which gold was offered reacted slightly to this advance, and, beginning about February 27, advanced from 4,955 francs to 4,960 francs per kilogram. Prices for eagles eased ever so slightly, probably as a result of the increased offer from foreign sources (see above); on February 13 bid and offer prices for eagles were 8.70 and 8.85 respectively, whereas on March 16 they were 8.60 and 8.70 respectively, with the trend still slowly, but slightly, downward. The prices of Swiss gold pieces remained unchanged at 30.70 bid and 30.90 offered.

(3) FOREIGN LOANS.

German clearing. Through March 10 there was no change in the German overdraft (about 150 million francs) on the Swiss-German clearing. During the two weeks preceding February 26, German merchandise deliveries to Switzerland decreased somewhat, but between that date and March 11 tended upward again toward normal, so that probably no noteworthy change in the amount of the German overdraft has yet been inaugurated.

Italian clearing. Through March 10 there was no important change in the Italian overdraft on the Swiss-Italian clearing, the amount owed by Italy being then about 69 million francs, or slightly less than a month earlier. The interrupted Italian-Swiss negotiations may be resumed toward the middle of April, at which time Italy may present serious proposals for raising the ceiling of its permitted overdraft on the clearing.

(4) FEDERAL FINANCE.

Following the conversion loan described in the Legation's last report the Federal Treasury had about 100,000,000 francs cash on deposit at the National Bank, which, together with the usual short term borrowing possibilities at the Bank, will suffice, to carry the Confederation until April 15th at least without further market operations.

File No. 851.
 WMC/neg

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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(b) Blocked dollars.

Duttweiler, dynamic Swiss politician and business man*, has now interested himself in the project to use dollars blocked in private accounts to purchase stocks of American raw materials for post-war delivery. To this end he has been endeavoring to form a consortium of interested Swiss. The Swiss Government apparently has no hand in this venture.

In discussing the National Bank's application made last November to transfer 4,500,000 dollars from its blocked account to that of the Spanish central bank, the Bern Director of the Bank declared that it had been "very helpful" in buying dollars, having bought 15 millions of them since June 14, 1941, from Bank of England against Swiss francs, and another 720,000 of them from various allied and Latin-American diplomatic and consular establishments and even from the Vatican; furthermore, in early March it had purchased an additional 40,000 dollars from Brazilian Legation here.**

(2) GOLD.

(a) Stocks.

Between February 14 and March 14, the National Bank acquired about 183 million francs more gold, chiefly through further conversion of dollar exchange at New York, the total value of which declined in the same period by 170 million francs, as may be noted from the following table:

<u>End of:</u>	<u>National Bank</u>	
	<u>Gold</u>	<u>Foreign Exchange abroad***</u> (million francs)
December 1939	2,262	360
July 1940	2,114	488
June 23, 1941	2,292	1,304
February 14, 1942	3,123	433
March 14, 1942	3,306	263

(b) Movements.

International. During the month February 15 to March 15 the Banque de France sold here about 8 million francs of eagles, double eagles, and sovereigns in order to acquire Swiss francs wherewith to pay interest and amortization on official French certificates of indebtedness payable here. The Reichsbank also sold about 3 million francs of gold here, using most of the proceeds to buy escudos. The

National

* Page 3 of Legation's "Economic and Financial Developments" report of January 19, 1942.

** Legation's strictly confidential telegram No. 1008 of March 11, 1942.

*** Dollars at New York.

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Economic and Financial Developments,
From American Legation,
Bern, Switzerland.

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Strictly Confidential.

(1) FOREIGN EXCHANGE.

(a) General.

Bank notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941.

Nominal rate in Swiss francs for notes of large denominations

<u>1941</u>	<u>Rome</u> (100 Lire)	<u>London</u> (£1)	<u>Lyon</u> (100 Frs.)	<u>Berlin</u> (100 Rm.)	<u>New York</u> (\$1.00)
Febr. 28	11.75	8.00	2.775	50.5	?
Mar. 21	12.65	7.55	3.80	54.5	?
Apr. 29	12.775	7.425	3.575	61.5	4.22
May 6	13.125	6.925	3.625	60.5	4.255
July 2	10.30	6.575	3.15	52.0	4.52
July 22	8.60	6.40	3.10	51.0	4.235
Sept. 12	8.30	8.575	2.575	42.5	3.95
Oct. 3	6.85	8.15	2.575	30.0	4.075
Dec. 19	9.95	7.00	1.95	32.5	2.725
<u>1942</u>					
Jan. 22	6.10	6.90	1.725	33.25	2.95
Mar. 2	5.625	6.75	2.075	32.25	2.975
Mar. 13	5.95	6.75	2.00	33.25	2.985

On March 2 Lire touched a new low point, continuing to express the pessimistic Swiss appraisal of the Italian situation. The other currencies fluctuated to only an unimportant degree between mid-February and mid-March, although Sterling continued its downward trend.

Handelssperrmarken. This sensitive barometer of German military and political fortunes has fluctuated only slightly in price since mid-February; but the trend has been ever so slightly downward.

100 "Handelssperrmarken" in Swiss francs
(monthly averages unless otherwise stated)

	<u>Low</u>	<u>High</u>
<u>1939</u>		
Jan.-July incl.	17.04	-
September		6.67
<u>1939-1940</u>		
November-February	13.34	-
<u>1940</u>		
May		8.56
December		38.02
<u>1941</u>		
June		20.56
July		22.66
<u>1942</u>		
January 15		14.50
February 16		21.50
March 20		20.75

(b) Blocked

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REQUIRED REPORT.

(Reference: Department's Instruction No. 1100 of July 31, 1941,
File No. 102.81-5024).

ECONOMIC AND FINANCIAL DEVELOPMENTS.

(Background Report for period February 15, 1942, to March 15,
1942).

STRICTLY CONFIDENTIAL.

From: W. M. Chase, Secretary of Legation.

Bern, Switzerland. Date of completion: March 27, 1942.

Date of mailing: April 3, 1942.

Approved: For the Minister:

J. Klahr Huddle
Counselor of Legation.

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of the original
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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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bills rose consequently from between 59 and 62 days* to 90 and more days. The German overdraft on the clearing increased substantially, therefore, as was predicted two months ago*, from approximately 150 million francs on March 10 to 170 millions on April 17, after which there was a slight drop to 167.5 millions on April 21. National Bank officials anticipate a further large increase during the next two to four months because of expected continuing low receipts of merchandise from Germany; during that period it would not be surprising were the total to rise to about 250 million francs. It is not expected that the overdraft can rise substantially above the latter figure, because about three months hence the raw material stocks, which Germany has supplied Switzerland for conversion into finished products for re-export to Germany, will begin to be exhausted and exports to Germany consequently also will have to decrease until a new point of equilibrium on a basis of reduced mutual trade will have been reached. The Swiss are told that increasing transport difficulties within Germany account for the diminishing German exports to Switzerland.

Italian Clearing. Between March 10 and April 17 the Italian overdraft on the Italo-Swiss clearing dropped from about 69 to 68 million francs, and then again to 67.2 millions on April 21. As has already been reported the Clearing Institute at Zurich can permit this overdraft to rise to 125 millions without further arrangement with other Swiss authorities.

(4) FEDERAL FINANCE

Desiring to tap new sources of income, the National Bank is now working out a scheme for the emission of "baby" bonds. That notwithstanding, it is also planning a large new borrowing campaign for the end of May-beginning of June. Until that time the Confederation will have to issue about 2 to 3 hundred million francs of Treasury Notes, about half of which will be taken by the National Bank and the remainder by the other credit houses.

File No. 851

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* Page 5 of Legation's "Economic and Financial Developments" report of February 19, 1942.

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National Bank; that account has been gradually rising in recent months and totals today perhaps 50 to 100 million francs. Sweden apparently is desirous of building up a Swiss franc credit here rather than to accumulate more gold in Stockholm, chiefly because it fears that it, more than Switzerland, is menaced by possible international strife, lying as it does in the path of either German or Russian invasion. The Swedish Bank also keeps gold here because it considers the spread in the Swiss National Bank buying and selling prices (4,869 and 4,920) for gold too great to make unnecessary transfers worthwhile. From the remaining 10,000,000 or so francs obtained by the foregoing described sale of gold to the Swiss National Bank the German Reichsbank has added a part to its credit balance at that bank, which balance has already grown to about "one-third to one-half" that of the Swedish Reichsbank. The German Reichsbank used the remaining part of the proceeds of the gold sale to pay for gold at the private Swiss banks for shipment to Portugal in exchange for escudos. About a month or two ago the Portuguese National Bank limited the amount of escudos which could be sold per day to each Swiss bank; the exact limit is not known to the Legation, but is said to be perhaps 10,000 escudos. It is known to the Swiss National Bank that the Portuguese do not always require strict observance of this limit and that at least one Swiss bank repeatedly exceeds it, explaining that "as long as our Portuguese correspondents continue to execute our orders in excess of the limit there would seem to be no reason why we should limit them ourselves".

Domestic. Between the beginning of January and mid-April the National Bank sold to domestic purchasers some 30,000,000 Swiss francs (nominal value) of Swiss 20 franc pieces; the actual value of these purchases is about 46,000,000 at the present selling price. Recently the trend has been toward increasing sales by the Bank of such pieces. During the same period the National Bank also sold to private Swiss about 1,000 kilograms of gold in bars, some of which certainly was shipped to Spain in exchange for gold pieces.* The Bank also disposed of several million francs worth of eagles and a similar quantity of Napoleons. At present the market for sovereigns is glutted, but the price remains high. Purchases by the public of all these varieties of gold are attributed in very large measure to hoarding by fearsome Swiss, who apparently became more nervous in period under review, since in the preceding period (February 15-March 15) domestic demand for gold was unimportant.

(c) Prices

During the period under review bar prices remained unchanged at 4,930 and 4,960 bid and asked. Prices of eagles were shaded almost imperceptibly, while those for Swiss pieces remained unchanged.

(3) FOREIGN LOANS

German Clearing. Imports from Germany decreased during the period under review, and the delay in payment out of the clearing to holders of Swiss exporters' credit bills

* Page 3 of Legation's "Economic and Financial Developments" report of March 27, 1942.

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merchandise to Europe after the war there would be insufficient tonnage for such purpose for a long period of time, and, finally, that by the time tonnage would be available the prices for such raw materials would have declined to such an extent that the whole venture might prove an exorbitant wastage of Swiss capital substance.

(2) GOLD

(a) Stocks

National Bank. Between March 14 and April 15 the National Bank acquired a net of 136 million francs in gold, exclusively through further conversion of blocked dollars exchange at New York, the total value of which declined by 137 million francs, as may be noted from the following table:

<u>End of:</u>	<u>National Bank Holdings (million francs)</u>	<u>Foreign exchange abroad*</u>
December, 1939	2,262	360
July, 1940	2,114	488
June 23, 1941	2,292	1,304
May 14, 1942	3,306	263
April 15, 1942	3,442	126

* Dollars at New York

The National Bank's stock of gold is distributed as follows: 1) Of the some 3,570,000,000 Swiss francs of gold and frozen dollar assets carried in the Bank's balance sheet on March 31 only about 22 percent, or about 785,000,000 francs, was in Switzerland; 2) about 17 percent, or 620,000,000 francs, was in England; and 3) about 61 percent, or 2,165,000,000 francs, was in the United States. At the end of March 1942 the National Bank carried in its balance sheets only 126 million francs of blocked dollar assets convertible into gold. Ever since June 1940 the percentage actually in Switzerland of the Bank's total gold (and dollar assets) has varied constantly between 20 and 30. Inasmuch as the bank note circulation on March 31 was about 2,240,000,000 francs, the coverage by gold in Switzerland alone was only 35 percent, or less than the minimum (40 percent) prescribed by law.

(b) Movements

International. The Swiss National Bank has made available to the British Legation here about 15,000,000 Swiss francs against the creation in the Bank of Canada at Ottawa of a deposit of an equivalent amount of gold. Between mid-March and mid-April the Bank of France sold about 5,000,000 Swiss francs of gold to the Swiss National Bank. During the same period the German Reichsbank sold about 20,000,000 Swiss francs of gold to the Swiss National Bank, depositing about half the proceeds thereof in the checking account of the Swedish Reichsbank with the Swiss

National

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Handelssperrenmarken. The exchange rate of this money of restricted use continued very steady through April 10 at about 21 francs per 100 Reichsmarks; thereafter, however, there took place an appreciation in value of about 7 per cent by April 16.

100 "Handelssperrenmarken" in Swiss Francs
 (Monthly averages unless otherwise stated)

<u>1939</u>	<u>Low</u>		<u>High</u>
Jan.-July inclusive	17.04	--	18.81
September		6.67	
<u>1939-1940</u>			
November-February	13.34	--	15.62
<u>1940</u>			
May		8.56	
December		38.02	
<u>1942</u>			
January		15.78	
March		20.48	
April 16		22.50	

(b) Blocked dollars

The Duttweiler project* to use blocked "financial" dollars** to purchase North and South American raw material stocks for post-war delivery has made sufficient progress to have acquired a name and substantial banking interests. The project calls for a cooperative society to be named "Treuhand Genossenschaft für Überseewaren". Representatives of three of the largest Swiss banks will take part in the venture. There will also be a representative in the United States, a certain Mr. Fischer. The organization plans to reimburse the Swiss creditor, who yields to it his "financial" dollars frozen in the United States, with non-negotiable Swiss franc certificates.

National Bank authorities in Bern do not believe that the organization will invest in American raw materials anywhere near the amount called for by the project submitted a year ago to the Swiss Government, viz., about 100 to 200 million francs.*** The chief reasons for hesitancy to invest such a large sum now are, said to be, first, the fear that the United States or another American government might sequester the purchased raw materials, whereupon great uncertainty would prevail as to when equivalent quantities might be released; second, the fear that, sequestered or not, whenever the Swiss might desire to ship the merchandise

* Page 2 Legation's "Economic and Financial Developments" report of March 27, 1942.

** Pages 1 and 2 Legation's "Economic and Financial Developments" report of October 15, 1941.

*** Page 2 of Legation's "Fortnightly Financial Report" of May 7, 1941.

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days March 26 and 27, because between March 26 and April 9, inclusive, the dollar rate remained quite stable at the new and lower level and the Reichsmark rate likewise remained quite rigid between March 27 and April 13. However, there may have been further German intervention after April 9 because then dollars started down again to new record low levels; whereas only four days later Reichsmarks again sprung toward higher (but by no means record) levels. Nevertheless, local banking circles believe that the Reichsmark note reached on April 20 its highest point, for the present at least; in any event, a reaction set in after that date.

So far as is known here this is the first official German intervention on the Swiss foreign exchange market since at least a year ago, and its coincidence with inception of campaign in France to install Laval in power, the man who "is certain of German victory", has not gone unnoticed here; the transactions may very probably have been part of a campaign to create confidence in a German victory, as the dollar and Reichsmark quotations, in their juxtaposition in the following table, would readily lend themselves to German "victory" propaganda at home and in those countries using, but not in a position to appraise, German news:

Fluctuations of Reichsmark
 and dollar bank note exchange
 (Rates in Swiss Francs)

<u>March</u>	<u>Rm.</u> (100 Rm)	<u>Dollars</u> (\$1)
2	32.25	2.975
3	32.25	3.00
7	32.25	2.98
12	32.875	2.995
15	32.875	2.95
18	33.875	2.94
21	34.375	2.94
22	34.375	2.875
23	34.375	2.875
24	34.375	2.80
26	34.375	2.60
27	37.00	2.625
<u>April</u>		
9	37.50	2.625
10	37.50	2.575
14	40.00	2.575
15	41.00	2.525
20	42.50	2.525

The supply of dollar bank notes now on the market in Switzerland is said to be very large, and, for the greater part, to have been in Swiss, and even French, hands even before the debacle in France nearly two years ago. There has been some recent demand for dollar notes from Italy, one private party here having recently purchased at least 100,000 Swiss francs worth for shipment to Italy.

Handelssperrenmarken

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Bern, Switzerland.

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Strictly Confidential

(1) FOREIGN EXCHANGE

(a) General

Bank notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941:

Nominal rate in Swiss francs for
notes of large denominations

<u>1941</u>	<u>Rome</u> (100 lire)	<u>London</u> (£1)	<u>Lyon</u> (100 frs.)	<u>Berlin</u> (100 Rm)	<u>New York</u> (\$1.00)
Feb. 28	11.75	8.00	2.775	50.5	?
Mar. 21	12.65	7.55	3.80	54.5	?
Apr. 29	12.775	7.425	3.575	61.5	4.22
May 6	13.125	6.925	3.625	60.5	4.255
July 2	10.30	6.575	3.15	52.0	4.52
Sept. 12	8.30	8.575	2.575	42.5	3.95
Oct. 3	6.85	8.15	2.575	30.0	4.075
<u>1942</u>					
Jan. 22	6.10	6.90	1.725	33.25	2.95
Mar. 2	5.625	6.75	2.075	32.25	2.975
Apr. 16	5.05	5.975	1.90	42.25	2.55

The exchange rate of dollar notes has been depressed by recent British and United States regulations, restricting their transportation through British possessions and importation into the United States; moreover, they had to undergo some selling pressure from German sources. It is known that two Swiss banks received not long ago orders from Berlin to sell dollar notes and with the proceeds to buy Reichsmark notes. The quantity of dollars thus sold is described here as "several hundred thousand francs worth", or, at the rates of exchange at which probably sold, a sum not exceeding 100,000 dollars. It is said here that these dollars "might have been collected by the German authorities from the fine recently extracted from French Jews".

The Reichsmark-Swiss franc exchange rate, which since at least early December 1941 had enjoyed a long period of stability at about 32 francs per 100 Reichsmarks, commenced on March 9 a slow appreciation lasting until March 21, by which time it had gained about 7 percent in value. The dollar-Swiss franc exchange rate, which since mid-January had also been very stable at about 3 francs per dollar, commenced to drop slowly after March 13, but more rapidly after March 21. Neither the Reichsmark rise nor the dollar drop assumed significant proportions, however, until March 26, when the dollar dropped sharply (7 percent in one day), and March 27, when the Reichsmark rose sharply (nearly 8 percent in one day). It is quite probable that the major portion of the aforementioned dollar and Reichsmark bank note transactions for the account of Berlin took place prior to and on the two

days

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REQUIRED REPORT

(Reference: Department's instruction No. 1100 of July 31, 1941, file No. 102.81-5024)

ECONOMIC AND FINANCIAL DEVELOPMENTS

(Background Report for period from March 15 to April 15, 1942)

S T R I C T L Y C O N F I D E N T I A L

81 SWITZERLAND

From: W. M. Chase, Secretary of Legation

Bern, Switzerland. Date of completion: April 25, 1942
Date of mailing: May 2, 1942

Approved:

Leland Harrison
American Minister

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Authority AND 765006
By KG NARA Date 1/22/00

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REQUIRED REPORT.

(Reference: Department's Instruction No. 1100 of July 31, 1941, File No. 102.81-5024).

ECONOMIC AND FINANCIAL DEVELOPMENTS.

(Background Report for period December 15, 1941, to January 15, 1942).

STRICTLY CONFIDENTIAL.

RTI SWITZERLAND

From: W. M. Chase, Secretary of Legation.

Bern, Switzerland. Date of completion: January 19, 1942

Date of mailing: January 29, 1942.

Approved:

J. Elahr Huddle,
Chargé d'Affaires a. i.

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Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.

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Strictly Confidential.

(1) FOREIGN EXCHANGE.

(a) General.

Bank Notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941:

Nominal Rate in Swiss Francs
 for Notes of Large Denominations.

<u>1941</u>	<u>Rome</u> (100 Lira)	<u>London</u> (£)	<u>Lyon</u> (100 Frs)	<u>Berlin</u> (100 RM)	<u>New York</u> (\$ 1.00)
Febr. 28	11.75	8.00	2.775	50.5	?
Mar. 21	12.65	7.55	3.80	54.5	?
Apr. 29	12.775	7.425	3.575	61.5	4.22
May 6	13.125	6.925	3.625	60.5	4.255
July 2	10.30	6.575	3.15	52.0	4.52
July 22	8.60	6.40	3.10	51.0	4.235
Sept. 12	8.30	5.575	2.575	42.5	3.95
Oct. 3	6.85	8.15	2.575	30.0	4.075
Oct. 10	6.25	8.25	2.55	37.5	4.025
Dec. 17	6.95	7.10	1.90	32.5	2.825
Dec. 19	6.95	7.00	1.95	32.5	2.725
<u>1942</u>					
Jan. 14	6.175	7.05	1.925	33.25	2.875

Since December 15 Lira have depreciated considerably and on January 14 were nearly as low as their 1941 low point (October 10). Sterling dropped rather sharply and lost 10 per cent of its value between December 15 and 30; since the beginning of January there has been a slight recovery. At year end sterling was only slightly higher than the year's low point (July 22). The French Franc reached a new low on December 17 and has remained only inappreciably above that level ever since. The dollar reached a new low of 2.725 on December 19 and has only recovered slightly since then. Since middle October the Reichsmark has been very stable around 33 - 34.

Handelssperrenmarken. On January 12 this currency reached a new low of 15.00 francs per 100 Handelssperrenmarken, the lowest point since at least July 1940.

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100 "Handelssperrenmarken" in Swiss Franca
 (monthly averages unless otherwise stated)

<u>1939</u>	<u>Low</u>	<u>High</u>
Jan.- July incl.	17.04	-
September		6.67
<u>1939-40</u>		
November-February	13.34	-
<u>1940</u>		
May		8.56
December		38.02
<u>1941</u>		
June		20.56
July		22.66
November		20.22
<u>1942</u>		
January 2		17.125
" 12		15.00

(b) Dollar Check Rate and Blocked
 Swiss Balances.

At the annual meeting of the Swiss National Bank, where the chief question under discussion was Swiss-American financial relations, a representative of one of the cantonal treasuries asked whether the cantons had the right to continue to assess taxes on incomes from capital in the United States, although the transfer of that income had become impossible since the American blocking regulations had become effective last June. Many Swiss were objecting with great heat to being taxed on such income, which, in effect, they had not yet touched. Since some 30,000,000 dollars (about 130,000,000 Swiss francs), according to the best estimates, is due annually on Swiss investments in the United States, a renunciation by the cantonal treasuries of the right to tax this income would place several of them before very great financial difficulties. On the other hand, to rule that such income is taxable though blocked, would only increase the pressure from Swiss owners of these blocked funds on the National Bank to permit (which it has succeeded in prohibiting till now) the Swiss banks to ignore their dollar-pegging agreement* and to buy these blocked dollars at whatever depressed price might be established on an open market; moreover, pressure is increasing anyway, since the owners of this blocked income are feeling more and more the pinch of a considerably increased cost of living.

The Bern Director of the National Bank stated that, although he and his colleagues were in favor of maintaining the pegged rate (because they dread a post-war adjustment of the dollar-franc rate which would certainly be essential should the franc be allowed now to appreciate through

removal

* Page 2 of Legation's Economic and Financial Developments Report of September 29, 1941, and other reports and despatches.

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removal of the peg), the pressure to abandon the peg can become so great that one day the Bank directorate will have to release the commercial banks from their agreement to maintain the pegged rate. At such time, he forecast, a rate of possibly 3.50 francs per dollar, if not lower, would have to be envisaged (bank notes are already about 2.90). He questioned whether the United States would find it to its interest to have such a drop in the dollar rate, with all the propaganda use to which the Germans would put it ("Swiss lose confidence in dollar", etc.). Another factor in the situation is the current campaign of the Duttweiler political faction to revalorize the Swiss franc, at least in part, in order to increase its power for purchasing foreign raw materials and thereby reduce the cost of living in Switzerland. The two interest groups might unite and bring irresistible pressure for removal of the peg.

As for the refusal of the Swiss to accept dollars for expenses incurred in representing American interests,* the National Bank stated that such a stand was also due, in part, to deference to Swiss psychology. The Swiss people, so it is maintained, would never understand why the National Bank could accept blocked dollars for francs to be used in maintaining indigent Americans in widely scattered parts of the world, when it could not find it possible to accept them and provide 4.30 per dollar to indigent Swiss in Switzerland.

There are other questions, which, if not handled carefully, could, according to the National Bank authorities, produce considerable ill feeling toward the United States. The questions are transfer of blocked gold to blocked Portuguese stocks and blocked dollars to blocked Spanish accounts. These matters have been discussed by the Legation, from time to time, in this series of periodical reports, and in a series of telegrams and despatches, the latest of which is strictly confidential telegram No. 167 of January 16, 1941.

As for the transfer of 10,000 kilograms of gold from the Swiss to the Portuguese blocked stocks at New York, (which, incidentally, would satisfy somewhat less than 50 per cent of the total Swiss obligation to Portugal) the Bern Director of the National Bank exhibited a telegram from Mr. Gantier, the Bank's New York representative, who declared that the Treasury Department had just refused to sanction the transfer, alleging that Swiss banks had granted credits to Germany whereby the latter had been able to obtain escudos to pay for essential provisions. Dr. Rossy, the Bank's Bern Director, was most emphatic in denying categorically that the Swiss National Bank had ever sold (on credit or otherwise) escudos to the Reichsbank or any other German bank; further, that the other Swiss banks had ever provided credit facilities to a German enterprise enabling it thereby to obtain escudos. The other banks had, indeed, as already described on page 7 of the Legation's Economic and Financial Report of August 21,

1941

* Legation's telegram No. 322 of December 14, 1941.

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1941, accepted gold from Germany against delivery of escudos, a perfectly legitimate commercial transaction, since the escudos were obtained by delivery to Portugal from the Swiss banks' private stock of gold. The amount of escudos so purchased during 1941 was estimated by the National Bank at a very rough figure of 50,000,000 francs. When asked if the Swiss Legation or Mr. Gautier had protested or appealed the decision, Dr. Hossy said that Minister Bruggman and Mr. Gautier had been placed in an embarrassing position from which to act further in the matter, because the Treasury Department, by maintaining against their denials, its allegation that Swiss banks had granted credit facilities enabling Germany to obtain escudos, had practically stamped them as liars, something which they felt personally.

Dr. Hossy then brought up the matter of the Swiss loan of 10 million dollars to Spain, under an agreement whereby the latter is obligated to repayment by providing Switzerland with sea tonnage for transport of Swiss merchandise between Lisbon and Genoa.* As already reported telegraphically, the Swiss National Bank applied during November to the Treasury Department for permission to transfer 3 million dollars from its to the Spanish Bank's blocked dollar balances at New York. Thus far no decision has been rendered by the Treasury Department, and it seems that Mr. Gautier has informed the National Bank that he has been given to understand that the permit will not be granted. To make matters worse for the Swiss, the Spanish Government is threatening to terminate the agreement immediately if the 3 million dollars are not turned over to it at once in New York. Consequently, the Swiss Department of Public Economy is very worried, because withdrawal of the Spanish vessels from the Swiss provisioning route between Lisbon and Genoa and, to a minor degree, Buenos Aires and New York, not to speak of the transit route through Spain, would seriously impede the supplying of Switzerland with essential foodstuffs and raw materials.

Although the Swiss Legation in Washington and National Bank representative at New York are said to be taking steps to acquaint our authorities with Swiss difficulties, the Director of the National Bank at Bern asked specifically that the Legation report** this situation to the Department, because the Swiss authorities felt that were the Treasury Department to refuse, or further to delay action on, the request to transfer the 3 million blocked dollars (especially after having just refused to permit the transfer of blocked gold to Portuguese account), and were the Spanish to cancel the agreement on that account, the popular reaction in

Switzerland

* Legation's telegram No. 167 of January 16, 1942, and previous telegram and reports.

** Legation's telegrams No. 141 and 167 of January 14 and 16 respectively.

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Switzerland would be very considerable and not at all favorable to the United States.

In the above connection, it should be stated that the Swiss have given no publicity whatever as yet to the Treasury Department's refusal to sanction the transfer of the 10,000 kilograms of gold, and none has been given yet to the danger hovering over the Swiss provisioning route between Lisbon and Genoa. There is absolutely no reason to believe that the Swiss are consciously seeking to use these incidents as a means of destroying the very great goodwill now enjoyed by the United States among the Swiss masses; on the contrary, everything, that can be done officially in a quiet way, is being done to increase it. Nevertheless, a serious interruption of the provisioning route would have to be explained to the population and it would be politically necessary for the Swiss authorities to place publicly the blame. This would be even more the case, since the Duttweiler group* has already expended considerable criticism on the Government's various provisioning schemes, as well as, as has already been explained,**, having sponsored a campaign for revalorization of the Swiss franc.

(2) GOLD.

(a) Stocks.

Between December 15 and January 7 the National Bank acquired an additional 79 million francs of gold, the greater part of which was covered by the sale of its dollar assets at New York, as may be noted from the following table:

<u>End of</u>	<u>National Bank</u>	
	<u>Gold</u> (million francs)	<u>Foreign Exchange rate***</u>
December, 1939	2,262	360
July, 1940	2,114	488
June 23, 1941	2,292	1,304
December 15, 1941	2,795	751
January 7, 1941	2,874	678

(b) Movements.

Domestic. Between January 5 and 12 the National Bank lost, in a new wave of hoarding, about 10 million francs of
 Swiss

* Legation's despatch No. 1972 of December 18, 1941, and the previous.

** Page 3 of this report.

*** Legal coverage and exclusively dollars.

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Economic and Financial Developments,
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Swiss 20 franc pieces, Napoleons, and (small number) bars. There is no indication that this new wave of buying is anything more than a temporary surge, and the National Bank expects it to exhaust itself in a short time, as did previous ones. The psychology of this new wave is explained by banking authorities as follows. The average Swiss is accustomed at each year end to inventory his financial position, and this year and many Swiss, in reviewing their situation, have concluded that it would be prudent to have on hand some gold; hence the buying wave during the first January week that averaged well over a million francs a day. It was not hoarded bank notes, but withdrawals from bank accounts that served chiefly as the means of purchase of this gold. The sales were general in all parts of Switzerland, and an indication of the small capitalist type of purchaser is the fact that the bars in a number of cases are known to have been divided into at least 10 or 12 parts by the banks making the purchases for their clients.

International. From December 15 to January 12 the German Reichsbank sold about 2,500 kilograms of gold to the National Bank and added the proceeds to its credit deposit at the latter. The Germans are also still selling French francs here and converting the proceeds into gold, a part of which is used to buy escudos. Rumania, Hungary, and Bulgaria continue to buy gold here from proceeds of their favorable trade balances.

(c) Prices.

Bid and offer prices of eagles tended ever so slightly lower during the final half of December; but they more than fully recovered during the first half of January. Prices for Swiss francs and bars remained very stable during the entire time between December 15 and January 15.

(3) FOREIGN LOANS.

German Clearing. Between December 15 and January 15 there was no change in the amount owed by Germany on the clearing; on January 12 it was still about 150,000,000 francs. Swiss authorities expect, however, that the visible German indebtedness will rise soon to some extent because Germany delivered several million francs less of merchandise during December, which was not counterbalanced by smaller Swiss exports. As this decline in deliveries of Germany to Switzerland was paralleled by a decline of German deliveries to Italy through Switzerland, it would seem that Germany experienced difficulties of some sort during December. As there was considerable movements of troops and materials during that month and as, in the past, such movements have caused a decline in deliveries to Switzerland, it is possible that the decline in merchandise deliveries was only due to priority being given on the German transport system to military cargoes and is,

therefore

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therefore, of a temporary nature.

Italian Clearing. On January 12 the Italian net indebtedness on the clearing was substantially the same as last reported, namely, 54,000,000 francs. The Italian members of the mixed commission, which has been in Switzerland* for its periodical review of Swiss-Italian trade, have apparently not made any financial proposals of such importance that the National Bank has had to be consulted, since no one in the National Bank has had any official contact with them. In fact, the Bern Director of the National Bank stated that although he and the head of the Italian delegation, whom he has known for a long time, had been guests at the same lunch one day, the Italian had not even broached the subject. Inasmuch, however, as for a long time Italy had the right to "overdraw" on the clearing to the extent of 125 million francs (it has only an "overdraft" of 54,000,000 francs to-day) before the Swiss clearing authorities must consult with the National Bank, there is still a considerable "overdraft" margin for Italy before negotiations would have to be opened for a clearing "credit".**

File No. 851.

Original and seven copies to the Department.

Copy to American Consulate General, Zurich.

MMC/neg

* Cf. Page 3 of Economic and Financial Developments report November 6, 1941, and Legation telegram No. 256 of November 20, 1941.

** Cf. Legation's telegram No. 135 of January 14, 3 p.m.

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REQUIRED REPORT.

(Reference: Department's Instruction No. 1100 of July 31, 1941, File No. 102.81-5024).

ECONOMIC AND FINANCIAL DEVELOPMENT.

(Background Report for period January 15, 1942 to February 15, 1942.)

851 SWITZERLAND
MINISTERIUMS

STRICTLY CONFIDENTIAL.

From: W. M. Chase, Secretary of Legation.

Bern, Switzerland. Date of completion: February 19, 1942.

Date of mailing: February 19, 1942.

Approved:

J. Klahr Huddle
Chargé d'Affaires a.i.

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 Authority NRD 765006
 By KG NARA Date 1/22/10

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Economic and Financial Developments,
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Strictly Confidential.

(1) FOREIGN EXCHANGE.

(a) General

Bank Notes. The following table illustrates the movements in exchange rates of bank notes of the principal currencies since tabulation was started on February 28, 1941.

Nominal Rate in Swiss Francs,
 for Notes of Large Denominations.

<u>1941</u>	<u>Rome</u> (100 Lira)	<u>London</u> 1 L	<u>Lyon</u> (100 frs)	<u>Berlin</u> (100 RM)	<u>New York</u> \$1.00
Feb. 28	11.75	8.00	2.775	50.5	?
Mar. 21	12.65	7.55	3.20	54.5	?
Apr. 29	12.775	7.425	3.575	61.5	4.22
May 6	13.125	6.925	3.625	60.5	4.255
Jul. 2	10.30	6.575	3.15	52.0	4.52
Jul. 22	8.60	6.40	3.10	51.0	4.235
Sep. 12	8.30	6.575	2.575	42.5	3.95
Oct. 3	6.85	8.15	2.575	30.0	4.075
Dec. 19	9.95	7.00	1.95	32.5	2.725
<u>1942</u>					
Jan. 22	6.10	6.90	1.725	33.25	2.95
Feb. 16	6.00	6.75	1.975	32.75	2.95

On February 15 Lira reached a new low point commensurate with the pessimistic local appraisal of the Italian situation. French francs touched a new low on January 22, but since then have experienced a slight improvement; the latter is certainly not due to a more optimistic appraisal here of the situation in France, but probably is due to either greater purchases for smuggling into France or a decrease in offers of francs smuggled from France. Also possibly contributing thereto has been an apparent easing in Franco-German tension. Sterling has, of course, suffered from allied reverses in the Far East and Africa and is consequently at a low point since July 1941. The Reichsmark, which had remained very stable since middle October, suddenly began to weaken on January 29 and continued downward slowly until February 9. Since that date it has remained quite without movement. The dollar has tended upward over so slightly since the middle of January, perhaps due to a new demand for shipment to foreign countries, Turkey being mentioned in this connection.

Handelsopermarken

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**Economic and Financial Developments,
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Handelssperrenmarken. The currency of restricted use in Germany is said locally to be the most sensitive barometer of German political and military fortunes. Having reached on January 15 a new low, at 14.50, since June or July 1940, it commenced to rise again with the initiation of Rommel's offensive in Libya and, with the escape of the three German warships through the English Channel, it advanced to 21.50, an advance of nearly 50 percent in exactly a month.

100 "Handelssperrenmarken" in Swiss Francs
 (monthly averages unless otherwise stated)

<u>1939</u>	<u>Low</u>	<u>High</u>
Jan.-July incl.	17.04	18.81
September	6.67	
<u>1939-40</u>		
November-February	13.34	15.62
<u>1940</u>		
May	8.56	
December	38.02	
<u>1941</u>		
June	20.56	
July	22.66	
<u>1942</u>		
January 15	14.50	
February 16	21.50	

(b) Danish Revalorization

The revalorization of the Danish crown has attracted a fair amount of interest here, where it is described as a manifestation of the "extreme misery" in Denmark. It is believed that two factors probably led to the measure, first, the necessity felt by the Danish Government to do "something" that it could describe to the people as an "effort to halt" rising prices and, second, a desire to make more expensive for foreign nations the continued purchase of what remains to be bought in Denmark. As this latter motive is believed here to have had chiefly Germany in mind, the natural question arises, "Will not Germany insist upon some arrangement in the clearing whereby the effects of the measure will be nullified?", and scepticism prevails, therefore, as to the results obtainable from the revalorization.

(c) Campaign to revalorize
 Swiss franc.

Hot

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Not so long ago Duttweiler* was invited to a conference by the Bern Director of the National Bank, and the question of Duttweiler's campaign to revalorize the Swiss franc was discussed at great length. At the end of the conference Duttweiler agreed to abandon his campaign, but about three weeks later he apparently had "forgotten" his conversion and resumed the campaign.

(2) GOLD
 (a) Stocks

Between January 7 and February 14 the National Bank acquired about 250 million francs more gold, chiefly through liquidation of dollar exchange at New York, the total value of which declined by 240 million francs as may be noted from the following table:

End of:	<u>National Bank</u>	
	<u>Gold</u> (million francs)	<u>Foreign exchange abroad**</u>
December 1939	2,262	350
July 1940	2,114	488
June 23, 1941	2,292	1,304
Jan. 7, 1942	2,874	673
Feb. 14, 1942	3,123	433

* Dollars at New York

(b) Movements

Domestic As predicted in the Legation's preceding report the wave of gold buying proved temporary, and in the last few weeks the domestic demand for gold for other than normal industrial purposes has declined to insignificant proportions.

International. The international traffic in gold over Switzerland has been of unimportant proportions during the past few weeks. Since January 15 no transactions with Germany were carried out by the National Bank and the latter does not believe that the other Swiss banks had

* Page 5 of Legation's "Economic and Financial Developments" report of January 19, 1941

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conomic and Financial Developments,
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had any such business, since they actually bought about 1.5 to 2.0 million francs of gold from the National Bank, which they generally would not have done had they been replenishing their supplies by purchases from Germany. The National Bank did buy, since January 15, about 3 million Swiss francs of Napoleons from the Bank of France. It has only been able to resell on the local market about 10 percent of this amount weekly, or about 300,000 francs. When this sum is compared with the same 10 million francs sold by the National Bank in the week January 6-12*, the decline in the domestic demand for gold is easily visualized.

(c) Prices

The great stability between January 15 and February 16 in gold prices, only bars having fluctuated somewhat and then downward, is another manifestation of the restored quiet on the gold market in Switzerland.

	<u>Bid</u>	<u>Offer</u>
	(Swiss francs)	
<u>Bars</u>		
Jan. 15	4,950	4,980
Feb. 16	4,915	4,950
<u>Knives</u>		
Jan. 15	8.65	8.80
Feb. 16	8.70	8.80
<u>Swiss pieces</u>		
Jan. 15	30.70	30.90
Feb. 16	30.70	30.90

(3) SILVER

Sometime ago the National Bank, after failing to receive a navicert to import from the United States about thirty tons of silver for minting, purchased thirty tons of the metal from an Axis-controlled country at sixty-seven francs per kilogram or two francs per kilogram more than the American price.

(4) FOREIGN

* Cf. Pages 5 and 6 of Legation's report of January 19, 1942.

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(4) FOREIGN LOANS.

German clearing. Through February 12 there had been no change in the amount owed by Germany on the clearing; on that date it was still about 150 million francs. Since the present delay in payment out of clearing to holders of Swiss exporters bills is only 59 to 62 days and 90 days must be awaited before that paper can be rediscounted, the National Bank does not expect any important increase in the German overdraft on the clearing until at least April. According to the official Swiss statistics, soft coal imports from Germany in January 1942 were twice those of the corresponding 1941 period and imports of coke were in the ratio of 315 to 290 for the same period. As the National Bank had been receiving reports from its Basel branch to the effect that Swiss imports of coal from Germany in January had decreased considerably, the expectation had naturally arisen that the German clearing overdraft would show an increase in recent weeks. The official import figures show why there was no increase.

Italian clearing. On February 12 the Italian clearing overdraft was about 71 million francs, or an increase in a month of about 17 million francs. The reasons for this large increase are not easy to track down here, but the National Bank is inclined to believe, since the decline in Italian exports to Switzerland has been insufficient to account for nearly all, not to speak of all, of the increase, that there has been an increasing burdening of the clearing on other than merchandise account. It is known that at least one Italian industry recently acquired a substantial property in Switzerland, a transaction which might have burdened the clearing. Then, in addition to the usual merchandise traffic through Switzerland from Germany to Italy, there were during December and January heavy shipments of petroleum products,* which added to the Italian indebtedness since transit freights for Italian account are billed by Switzerland against the clearing. As stated in the Legation's previous report Italy can overdraw the clearing by 125 million francs, under an agreement made during the autumn of 1940, before it will have exhausted its credit here.

(5) PUBLIC FINANCE.

The Federal Treasury has gone to the market again slightly earlier than anticipated.** It has just announced that it is putting out a 400 million franc conversion loan, which

* - Legation's strictly confidential telegram No. 329 of January 30, 1942.

** - Page 4 of Legation's report of November 26, 1941.

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**Economic and Financial Developments,
 From American Legation,
 Bern, Switzerland.**

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which will not be increased however great may be the offer. The borrowing will be at 3-1/4 percent and the paper will run 12 years. Matured paper offered for conversion will be traded 100 for 100 against the new paper. Cash purchasers of the new paper must pay 100.60 frs. per 100 frs. of the new paper. It is expected in Bern that about 70 percent of the new paper will be traded against maturing loans.* Thus the Treasury will obtain only about 120 million francs new money; nevertheless, it is calculated that, together with other funds, the Treasury will not need new money again before about April 15.

During the past several weeks there has been a slight tightening of the money market, since funds which had been sucked therefrom by last autumn's Treasury loans have not yet all flowed back. For this reason the Treasury decided that it would not create a greater stringency by accepting subscriptions to the new loan in excess of 400 million francs.

File No. 851
 WMC/MLD

Original and six copies to the Department.
 Copy for the Division of Commercial Affairs.
 Copy to American Consulate General, Zurich.

* - Pages 3 and 4 of Legation's report of November 26, 1941.

A true copy
 of the signed
 original: WLD

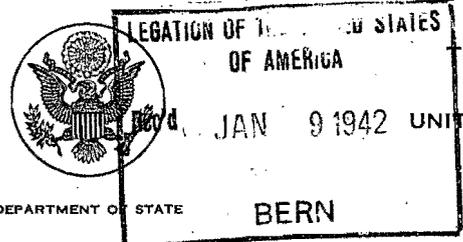
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IN REPLY REFER TO
FILE NO. 851.6

9415
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RA
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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN CONSULATE GENERAL
Zürich, January 8, 1942.

Confidential

Dear Mr. Huddle:

I beg to refer to my confidential letter of December 31, 1941, concerning the complaint of the Swiss National Bank as to its inability to make use of a portion of its blocked funds in the United States for purchasing food-stuffs and raw materials. As you will recall, I reported to you then that President Weber stated that he would make a brief report in writing concerning the matter to this Consulate General which would be submitted to the Legation.

As over a week has elapsed since the interview of Consul Altaffer with President Weber, he telephoned today and asked him whether he intended to submit the report referred to or whether in the meantime the matter had been settled to the satisfaction of the National Bank. He replied that shortly after the interview the National Bank had received a definite refusal of its application for funds from the State Department in Washington and he added that the application had been renewed before another Department of our Government, probably the Treasury Department. He stated that he was conferring with the Directors of the bank and that he would communicate with this office again on January 10. I shall not fail, therefore, to advise you of the nature of this report when it is received.

Sincerely yours,

James B. Stewart
James B. Stewart
American Consul General

J. Klahr Huddle, Esquire,
Chargé d'Affaires a.i.,
American Legation,
Bern.

851. CONFID 1942
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By **KG** NARA Date **1/22/10**

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IN REPLY REFER TO
FILE NO. 851.6



LEGATION OF THE UNITED STATES
OF AMERICA
Rec'd JAN 15 1942
THE FOREIGN SERVICE
OF THE
BERN UNITED STATES OF AMERICA

ack
See letter of Jan 15 to Zurich
JCH

Confidential

DEPARTMENT OF STATE

AMERICAN CONSULATE GENERAL

Zürich, Switzerland, January 14, 1942.

Dear Mr. Huddle:

I refer to my letter of January 8, 1942, concerning the complaint of the Swiss National Bank as to its inability to make use of a portion of its blocked funds in the United States for purchasing foodstuffs and raw materials, and in this connection beg to enclose a translation of a letter dated January 13 received from President Weber of the National Bank describing the situation of the National Bank in this regard. You will note that President Weber states that:

"As in certain circumstances such divergencies can not remain without influence on the handling of our future foreign currency policy with regard to dollars, we may have to exercise reserve in the further accumulation of American currency, gold and dollars, which for Swiss circumstances are considerable, and under which also fall other Swiss investments by the public....."

Mr. Weber informed Consul Altaffer on the occasion of their recent conversation that up until recently the National Bank was receiving dollars at the rate of about 50,000 dollars a day. The Bank was accepting these dollars largely out of consideration for the United States and American interests, in the hope that Switzerland would receive considerate treatment in the unblocking of Swiss funds in the United States from time to time as they were required for food and raw materials. He explained that up to the present time

J. Klahr Huddle, Esquire,
Chargé d'Affaires a. i.,
American Legation, Bern.

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Swiss - U.S.

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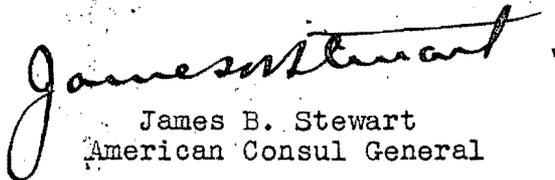
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the Bank had not been able to secure the release of any funds despite almost daily representation on the part of the Swiss Minister in Washington and the special representative of the Swiss National Bank in New York and Washington, M. Gautier, both before the State and Treasury Departments. He pointed out that the National Bank, in view of this situation, could not continue indefinitely to accept the dollar checks proffered by legitimate interests in this country, much as it would like to do so.

I am informed that the National Bank is at present refusing to negotiate United States Treasury checks and will only accept them for collection. It will be recalled in this respect that in the latter part of December the Bank likewise caused some difficulty in cashing our official drafts and this difficulty was only overcome after this Consulate General had intervened and requested that funds be made available for our various offices in Switzerland. At that time President Weber intimated privately to a member of the staff that hereafter our drafts and checks could not be negotiated under the circumstances unless our Government shipped gold to Switzerland in the counter value. I mention this merely to show you that unless something is done to alleviate the situation we may experience difficulty within the near future in obtaining funds for our official establishments in Switzerland.

Sincerely yours,


James B. Stewart
American Consul General

Enclosure:

Translation of letter of January 13,
1942, from President Weber of the
National Bank.

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By <u>KG</u> NARA Date <u>1/22/10</u>

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Translation of letter from the Swiss National Bank.

January 13, 1942.

American Consulate General,
Zürich.

Attention Consul Altaffer

We refer to your conversation of December 31, 1941 with our President, E. Weber, on which occasion the difficulties confronting us in the use of our dollar assets in the United States, and also with regard to a transaction involving gold with the Portuguese "Notenbank" debited to our American gold depot, were pointed out to you.

As in certain circumstances such divergencies can not remain without influence on the handling of our future foreign currency policy with regard to dollars, we may have to exercise reserve in the further accumulation of American currency, gold and dollars, which for Swiss circumstances are considerable, and under which also fall other Swiss investments by the public, we are pleased, as suggested by you, to describe in more detail the difficulties already mentioned.

As you are no doubt aware, Switzerland and Spain have an agreement regulating payment for the shuttle service between Lisbon and Genoa for Swiss imports and exports. In accordance with this agreement the goods are shipped on Spanish freighters to those two ports. In each case the transportation costs falling to the debit of the Swiss Government are, according to the treaty, credited on call in round numbers in dollars to the Spanish "Noteninstitut". Since the beginning of November our payment orders on the following American banks, in compliance with the agreement mentioned, have not been executed:

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Order of

\$ 250,000	on the National City Bank of			
	New York.....			Nov. 7, 1941
\$ 750,000	on Manufacturers Trust Co.,			
	New York.....			Nov. 7, 1941
\$1,000,000	do.	do.		Nov. 24, 1941
\$1,000,000	do.	do.		Dec. 2, 1941
<u>\$3,000,000</u>				

that is to say, the creditor, the Instituto Espanol de Moneda Extranjera, Madrid, has, up to date, received no credit advice.

While former payments, also within the period of the declaration of the American embargo, in the amount of \$1,500,000 were executed with a few days delay, we are much concerned that the application for payment of the above amount, according to the latest information, has not been granted, whereby the fulfillment of our treaty obligations for purely Swiss interests in spite of "General License 50" has been made impossible.

The second item concerns a gold transaction with the Banco de Portugal, Lisbon. The latter would be agreeable to take over an amount of fine gold of approximately 10,000 kilograms from us in New York from our New York gold depot.

This transaction can be justified by us on the ground that since the middle of 1941 until the end of the year, Escudo purchases in the amount of approximately 90 million francs (the equivalent of roughly 510 million Escudos) have taken place in payment of imports, freight, port charges, and other incidentals for purely Swiss interests. This application was refused by the appropriate American authorities.

You will see from these facts that the obstacles to the use of our American credits have occasioned quite extraordinary difficulties.

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It is quite unnecessary to assure you, most honored Consul, that we shall be extremely grateful to you for any assistance which you may be able to give us.

Yours most respectfully,

SWISS NATIONAL BANK

(SGD) E. WEBER SCHAEFER

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To Zürich Jan. 15 mk

Paraphrased: hsb

~~Handwritten~~
file

*Copy to
Zürich
by Bagan*

Handwritten: Mess. 24 BVR

TELEGRAM SENT

To: Department

Date: January 14, 9 p.m., 1942.

No.: 141

Code: ~~Confidential~~

Charged to:

GPO 1-1142

PARAPHRASE

SUBJECT: Unblocking of Swiss funds

oooo

TRIPLE PRIORITY.

Reference to Department's No. 358 of December 20 and previous.

The Legation has today been informed by the Director of the Swiss National Bank that the Spanish Government threatens immediately to cancel the Swiss-Spanish agreement under which sea tonnage is supplied by Spain for the transportation of Swiss merchandise between Lisbon and Genoa, unless \$3-million of the \$10-million credit which was granted by Spain to Switzerland (see page 1 of the Legation's Economic and Financial Report of November 6, 1941) is immediately made available to the Spanish Bank by the Swiss National Bank. In November last the latter requested a permit for the transfer of that amount from its blocked accounts at New York to the Spanish Bank's blocked accounts at New York, but has been informed from the United States that this permit will probably be refused by the Treasury Department.

Handwritten: ST. SWISS 1942

Considerable worry is felt by the Swiss Department of Public Economy for the reason that any further delay and/or the Treasury Department's refusal to grant a permit will cause Spain to make good its threat and thereby seriously interfere with Switzerland's further provisioning. The Legation has been requested by Director Rossy to report to the Department that favorable action by our Treasury Department is considered by the Swiss authorities as a very urgent need. Further, the Director stated that, were the Spanish to withdraw their ships from provisioning Switzerland because the Treasury Department refused to sanction the dollar transfer, Swiss popular reaction would be considerable and would only react unfavorably for the United States, particularly inasmuch as the Treasury Department ..

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(No. 141)

had only just recently withheld granting a permit for the transfer of 10,000 kilograms of gold to the Portuguese blocked accounts at New York from the Swiss blocked accounts at New York in settlement for provisions essential for Switzerland. Wonder has been expressed by the Swiss authorities that the United States not only tolerates but encourages Swiss purchases in the United States of food and other raw materials, that Swiss purchases in Portugal are encouraged by the British, and that the latter grant land and navicerts for their transportation to Switzerland, and that the United States then decline to make the means of payment available.

The Legation has been told by the Director of the Maritime Section of the War Transport Service that Switzerland's ability to provision itself to the extent otherwise contemplated by American and British policy would be seriously impeded through the cancellation of the agreement with Spain, which calls for the placing by Spain at Switzerland's disposal of 50,000 tons of shipping monthly, almost exclusively for the Lisbon-Genoa shuttle service; for the Buenos Aires and New York service a very small fraction is used. Spanish ships carry 55% of the total shuttle service, whereas Swiss ships chiefly carry the remainder. Transportation from Lisbon to Switzerland by sea to Genoa totals about 90%, and that passing overland amounts to the other 10%.

With reference to the reasons for its refusal to sanction the afore-mentioned gold transfer at New York put forward by the Treasury Department, the National Bank's Bern Director categorically denied to the Legation that the National Bank had ever (repeat ever) accorded any credit facilities to Germany which would enable it to procure escudos and that the other Swiss banks had ever participated in a similar manner in any similar operation; furthermore, he stated that Swiss banks, apart from the National, had, indeed, made sales of escudos to the German Reichsbank, but strictly against Germany's receipt of gold (see page 7 of the Legation's Financial and Economic Report, dated August 21st, 1941), and that these escudos were obtained by them through the shipment to Lisbon of their own gold. It was estimated by the Director of the National Bank that such purchases of escudos might have totaled as much as 50-million francs for the entire year 1941.

It is understood by the Legation that the Swiss Legation have made representations on this subject, and that similar representations have also been made by the Swiss National Bank in New York City.

HUDDLE

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DECLASSIFIED
 Authority AND 765006
 By KG NARA Date 1/22/10

RG 84
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 File 851. CONFID 1942
SWISS - U.S.
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IN REPLY REFER TO

FILE NO. 851.6



THE FOREIGN SERVICE
 OF THE
 UNITED STATES OF AMERICA

Confidential

File
JAN

DEPARTMENT OF STATE
 LEGATION OF THE UNITED STATES
 OF AMERICA
 Rec'd JAN 16 1942
 BERN

AMERICAN CONSULATE GENERAL

Zürich, Switzerland, January 15, 1942.

Dear Mr. Huddle:

Referring to the second paragraph of my confidential letter of January 14, 1942, concerning Swiss blocked funds in the United States and the effect this was having on the negotiation of American drafts and checks in Switzerland; I fear that I did not make it sufficiently clear with regard to the accumulation up to the present of Swiss funds in the United States. As was pointed out in my letter, until recently the Swiss National Bank was receiving American money at the rate of about \$50,000 a day. This represented drafts and checks for legitimate transactions under the so-called Gentleman's Agreement between the National Bank and Swiss commercial banks. Under the existing arrangement the Bank was unable to dispose of this money since it automatically went into the blocked account with the United States Federal Reserve. I have had frequent conversations with Dr. Bachmann, the President of the Board of Directors, and also with President Weber of the National Bank, and they assured me that they were adhering to this one-sided arrangement largely out of consideration for the United States and American interests, in the hope that Switzerland would receive considerate treatment in the unblocking of Swiss funds in the United States as they were required for food products. Switzerland adhered to the old Tripartite currency agreement entered into by the United States, England and France, and it has always endeavored to promote the unhindered flow of money among the banks of issue of these countries. In this connection it has recently freely accepted large transfers of American dollars made by the Bank of England.

J. Klahr Huddle, Esquire,
 Chargé d'Affaires a.i.,
 American Legation,
 Bern.

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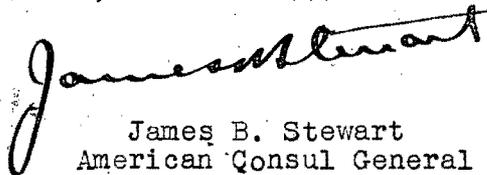
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By <u>YG</u> NARA Date <u>1/22/10</u>

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A tendency has been perceived for some time now on the part of the United States Treasury Department and financial circles in New York City to regard Switzerland as a part of the German system and freely cooperating with it, and it is believed that this is the reason why all requests on the part of the Swiss National Bank for unblocking a part of its funds in the United States have met with steady refusal. It is probable that this refusal is a part of the development of the blockade. However, even under the British blockade allowance is made for the passage of regular amounts of food, fodder and edible oils. It is believed, therefore, that, in our own interests, some endeavor should be made to clear up this situation so that Switzerland can use a part of this fund for the payment for food products essential for the feeding of the Swiss population. Unless some such understanding can be arrived at it is easy to understand that the National Bank would feel justified in refusing to negotiate further American drafts or checks, inasmuch as such accommodation would only serve further to increase the amount of blocked Swiss funds in the United States.

Sincerely yours,


James B. Stewart
American Consul General

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By	KG NARA Date 1/22/10

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Translation

MEMORANDUM

The Note delivered by the Department of State to Minister Bruggmann at Washington implies that the Government of the United States is authorized by "Executive Order 8389" to control the financial transactions of the Swiss representative in the United States ~~connected in connection~~ ^{for} charged with the protection of German, Italian and Bulgarian interests. The German Government has never imposed a control over the transactions effected by Swiss representatives in Germany in connection with the protection of American and British interests. Similarly, the British Government has never attempted to control the transactions entered into by the Swiss representative in safeguarding German interests. The Division wonders if the measures taken by the American Government will not bring forth reprisals ^{measures} on the part of the German Government, measures which would greatly complicate the task of the Swiss representatives within the field of the protection of American interests.

In its Note of February 11, the Department of State has pointed out that it is not the policy of the American Government to authorize the use of ~~blocked~~ ^{(blocked ?} frozen enemy funds to cover expenses incurred in safeguarding the interests of the Governments to which these funds belong. It added that the Government of the United States "expects that the Swiss Legation will deposit promptly in an appropriate bank account the currency which has been turned over to it by the officials established and personnel..

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and personnel of these three Governments" (German, Italian and Bulgarian Governments).

The Swiss Legation at Washington having subsequently announced that it has temporarily suspended all payments for the account of German interests, the Division deems that the question assumes a very urgent aspect and that a decision must be made at once concerning the necessary transactions which will be authorized by the Government of the U.S. This situation threatens to have serious repercussions both over the work of the Swiss Legation ^{at} ~~in~~ Washington ~~and the Swiss Legation~~ ^{at} ~~in~~ Berlin ~~and~~ ^{at} ~~in~~ Rome ton as well as over the work of the Swiss Legations at Berlin and Rome, and the Division believes that the free ^{utilization} ~~disposition~~ of the necessary funds should be left to the discretion of the Swiss Minister at Washington, at least during the progress of the negotiations which will take place in order to settle the question.

The Division finally calls attention to the fact that the transfer of the funds required for the ^{protection} ~~safeguard~~ of foreign interests in Germany and England has always taken place without any control on the part of the German and British Governments. This question may be made a subject for discussion when the American Government shall have presented to the Federal Government concrete proposals for the establishment of clearing accounts.

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IN REPLY REFER TO
FILE NO.

125.5 Accounts
PCS/dh



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

*Letter Bern
20 Jan 42*

LEGATION OF THE UNITED STATES
OF AMERICA
DEPARTMENT OF STATE
Rec'd JAN 16 1942
BERN

AMERICAN CONSULATE

Geneva, Switzerland, January 15, 1942

J. Klahr Huddle, Esquire,
Chargé d'Affaires ad interim,
The American Legation,
Bern.

Sir:

I have the honor to transmit herewith a memorandum of the accountant of this Consulate relative to the difficulties encountered in cashing Government drafts and to request the good offices of the Legation in this respect.

Respectfully yours,

Paul C. Squire
Paul C. Squire
American Consul

Enclosure:

Memorandum, as stated

851
~~125.5~~
Remission

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By <u>KG</u> NARA Date <u>1/22/10</u>

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 Box 7

January 14, 1941.

MEMORANDUM

On January 10th I requested Mr. Braun of the American Express Company to submit to the Swiss National Bank at Zurich the matter of cashing an office draft for the equivalent of about Swiss francs 10,100 to cover the payment of the Consulate's current bills. I was obliged to furnish the details concerning these bills, this information being required by the Swiss National Bank. The main item consisted of a payment of Swiss francs 8,234 to be made to the firm of Ritschard & Co. of Geneva for the shipment from Budapest to Lisbon via Geneva of the effects of certain members of the American Legation at Budapest (Messrs. Packer, Ackerson, Dulaski and Costello). Mr. Braun informed me today by telephone that the Swiss National Bank had objected to accept our draft in order to permit the payment of the above described item on the grounds that such payment should be effected in Hungary, but that our draft to meet other routine expenses such as telegrams, telephone, light etc. would be cashed. Mr. Braun wished to suggest to the Consulate that the matter be referred to the Legation at Berne and that the Legation request the intervention of the Département Politique Fédéral, and in particular, that of an official by the name of Koli - spelling of name uncertain - . . .

Mr. Braun was also informed that when the Consulate wished to cash a draft for the payment of salaries at the end of the month, it would have to furnish the details concerning the salaries, i.e. the names of the officers and employees on the pay roll and the respective amounts received by each person !

Fortucci.

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By <u>KG</u> NARA Date <u>1/22/00</u>

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TELEGRAM SENT

To: Department Date: January 21, noon, 1942.
 No.: 210
 Code: ~~Confidential~~ Charged to:

070 1-1142

PARAPHRASE

SUBJECT: Funds for Swiss

ooo

TRIPLE PRIORITY.

Reference Legation's No. 167, January 16, and previous thereto.

The Legation has experienced serious difficulties recently in connection with the sale of official drafts and Treasury checks to Swiss banks because the latter claim that they can no longer be certain of their resale. The repurchase of such paper has been refused by the Swiss National Bank, and they now offer to buy it at a discount only. During the past seven or eight months their buying rate has been very stable at 4.285, but the rate has now been dropped to 4.145, and there is no assurance that it will not drop still lower or that they will be able to make purchases at all.

A series of conversations on this precarious situation has taken place, following which a representative of the Legation conferred informally yesterday with the Bern Director of the National Bank and the Economic and Financial Liaison Officer of the Foreign Office, concerning ways and means of establishing for a certainty that, at a given moment, our Foreign Service establishments and their personnel in Switzerland could obtain Swiss francs sufficiently to normally function. An abstract of memorandum of the conference follows:

"I was informed that neither the Foreign Office nor the National Bank has forbidden the purchase of our drafts by commercial banks; that they had simply been notified by the National Bank that it could not repurchase them, but that it saw no objection to their purchasing them and to their fixing the exchange rate; that the position taken by the Foreign Office is that, so long as we are free to offer and sell our drafts provided a buyer is found, there was no necessity for its intermediation; that, therefore, in principle, the Swiss

authorities ...

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authorities make no suggestions for improving our position, and that neither the Swiss Government nor the banks are at fault because of the market for our drafts suddenly practically vanishing.

It was readily agreed by all the conferees that such a position could not be satisfactory to us, since it might be found abruptly impossible for commercial banks to continue the purchase of our drafts at no matter how low a price. In fact, it was indicated that the chief reason why the banks can continue to buy them at all was the possibility of their immediate resale to emigrant Jews.

Several ways out of our predicament were envisaged by the Director of the National Bank. In the first place, he expressed his opinion that he could obtain the assent of other National Bank directors to guarantee the purchase of dollars we offered, as well as those offered by associated (Latin-American, etc.) nations, provided the transfer of blocked Swiss gold and/or dollars to the accounts of neutral countries would be authorized by the Treasury Department, as had recently been requested and refused in the case of Portugal and the as yet undecided case of Spain. The Legation's point of view was then expressed to the effect that it would appear desirable to consider the matter of providing Swiss francs for the maintenance of American representation in Switzerland as a separate and distinct question which should not be confused with other problems involved in financial relations between Switzerland and America. Under these conditions, the Bank conferee remarked, there was a further possibility for furnishing francs, in the event our Government bought badly needed commodities for shipment to Switzerland, preferably metals, in addition to those for which navicerts were already obtainable. Very probably the Bank would also be willing to pay us francs for gold delivered to it in Bern or Portugal, as it had proposed to do to enable us to reimburse the Swiss Government for expenditures in connection with the representation of our interests. The representative of the Foreign Office interposed, stating that the Swiss Government could not admit of a 'diplomatic' clearing, calling for the shipment by us of such gold only as would cover our eventual debit balance, explaining that it is the opinion of the Foreign Office that both the Swiss and we are able amply to discharge our indebtednesses without imposing a clearing; that, moreover, it is the feeling of the Foreign Office that such a 'diplomatic' clearing, should it be established, would shortly become general for all transactions between Switzerland and America, which, to the Swiss, was a distinctly distasteful prospect.

The conferee from the National Bank interposed that our authorities had perhaps the false impression that the desire of the Bank was to diminish or liquidate its United States ...

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(No. 210)

States position; that, on the contrary, the chance to retain that position would be welcomed by the Bank if only it might render that position mobile again by drawing from and adding to it for legitimate actions of no assistance to our enemies. Thus, that the Bank would be pleased to take a corresponding amount of dollars should the Treasury Department only sanction the transfer of the \$3-million to the blocked Spanish account."

Its local bank has just informed the Legation that the verbal assurance given on January 19th that, on January 31st, it would purchase its draft for \$42,500, representing January salaries and February operating expenses, even though the National Bank might refuse to repurchase it, had now become conditional since it had reached the decision to request the repurchase of the draft by the National Bank, and, in event the latter refuses, it stated it would have to reconsider whether it could buy the draft or not. The ultimate refusal of our bank is probable. This similar uncertain situation is faced by the Consulates. In the meanwhile, it has become necessary to cash several small drafts at the reduced rate of exchange for private account.

Subsequent to drafting the foregoing, the following communication from the Swiss National Bank has been received:

"Swiss francs 1,502,145.92 has been transferred to us through the Banco de Portugal, Lisbon, by the Federal Reserve Bank of New York, which amount is being held at your disposition."

Obviously this is the franc equivalent of the \$350,000 remittance cited in the Department's 139 of January 17th. Pending permanent arrangements, and in order to avoid loss by exchange through the forced sale of drafts at a discount and also assuring that the funds will actually be available in view of the uncertain market for our drafts, would the Department consider authorizing the Legation to draw on this Swiss franc account at the National Bank to obtain funds for the administrative and personnel needs of the Legation and of all Consulates in Switzerland as of January 31st?

HUDDLE

WMC/hsb

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 By KG NARA Date 1/22/10

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TELEGRAM SENT

(C.L.) *[Signature]*

To: Department Date: January 22, 1 p.m., 1942

No.: 223

Code: Confidential

Charged to:

Copy sent to Zurich 23rd

SUBJECT: Swiss-American Financial Relations

PARAPHRASE

RUSH. Reference Legation's telegram No. 210 of January 21 and previous telegrams.

The following is an abstract of part of a strictly confidential report on "Economic and Financial Developments" made by the Legation on January 19, 1942. The report will be carried to Lisbon for airmail pouch by courier leaving Bern on January 30.

"The chief subject of deliberation at the annual meeting of the National Bank was Swiss-American financial relations. The question was brought up by a cantonal treasury representative whether blocked income from Swiss capital in the United States could be taxed by cantons; vociferous objections to such a tax have been raised by the Swiss. According to best estimates, a total income of about 130,000,000 Swiss francs was previously transferred annually on Swiss investments in the United States; serious difficulties for several cantonal treasuries would be created by renunciation of taxation thereon. On the other hand, if taxation of such blocked income were allowed, pressure would increase on the National Bank to abandon the dollar pegging agreement and to enable blocked dollars to be bought by banks on the free market; at all events such pressure is increasing on the part of people who are in need of blocked income in order to meet the increase in cost of living.

Maintenance of the pegged rate is favored by the National Bank, if for no other reason than to avoid a post-war adjustment of the franc-dollar rate, which is deemed a necessity should appreciation of the franc be allowed now; pressure could, nevertheless, force abandonment of that rate, and a rate of three and a half francs to the dollar or lower would be a

possibility

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Authority NND 765006

By YG NARA Date 1/22/10

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possibility. The question was raised by the bank whether the United States would want to allow such a situation to be exploited by the Germans by broadcasting that the Swiss have lost confidence in the dollar, etc. Revalorization of the Swiss franc is also being sought by the Duttweiler political faction as a means of increasing purchasing power for foreign raw materials and foodstuffs, thereby reducing living costs in Switzerland. Irresistible pressure for removal of dollar rate might be brought by union of the Duttweiler group and those people who are deprived of blocked income.

In discussing the refusal to accept dollars for meeting the expenses of Swiss representation of our interests, the National Bank described its stand as due in part to deference to the psychology of the Swiss, since they would never understand how the Bank could accept dollars in exchange for francs to be used all over the world in maintaining indigent Americans, while unable to accept them and provide francs at the rate of 4.30 to the dollar for indigent Swiss citizens in their own country.

A report has been received by the National Bank from Gautier, its New York representative, to the effect that the Treasury has refused to sanction transfer of gold, alleging that credits were granted to Germany by Switzerland, enabling Germany to obtain escudos for making essential purchases in Portugal. The National Bank categorically denies, through its Bern director, ever having sold escudos to any German bank, on credit or otherwise; it further denies that credit facilities for that purpose had ever been provided to a German enterprise by other Swiss banks. It admitted that German gold had been bought by other banks against escudos, obtained against gold deliveries from private stocks of banks (see the "Economic and Financial Developments" report of the Legation dated August 21, 1941). German purchases of escudos in this manner during 1941 might have equalled 50,000,000 francs. Minister Bruggman and Gautier are declared by the National Bank to be in an embarrassing position from which to appeal the Treasury Department decision, since by maintaining its allegations in spite of their denials the Department has cast personal reflections which tend to compromise their position.

Gautier has informed the National Bank that the request to transfer \$3,000,000 to blocked Spanish account will probably be disapproved by the Treasury Department. As Legation reported in its telegram 141, it is said that the Spanish are threatening, if \$3,000,000 are not made available in New York at once, to denounce agreement and to withdraw sea tonnage and other facilities. This is

described

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TELEGRAM

described by the Swiss authorities as a vital matter, since the supply of raw materials and food to Switzerland would be seriously impeded by such Spanish action:

Code: There has been no publicity whatsoever given here as yet either to the refusal of the Treasury Department to permit the transfer to blocked Portuguese stock of 10,000 kilograms of gold, or to the menace to the provisioning route via Lisbon and Genoa. There is no reason whatsoever to believe that the Swiss are using or would like to use these incidents to undermine our very great good will here; on the contrary, much is being done officially, in a quiet way, to increase it. Nevertheless, any serious interruption of the provisioning route would have to be explained publicly by the Swiss authorities, especially since various government provisioning schemes have also often been attacked by the Duttweiler group. (Transmission of telegram of January 31 and previous telegrams.)

The following is an abstract HUDDLE part of a confidential report on "Economic and Financial Developments" made by the Legation on January 17, 1948. The report will be carried to Lisbon for airmail pouch by courier leaving P. WMC/re January 30.

"The chief subject of discussion at the annual meeting of the National Bank was Swiss-American financial relations. The question was brought up by a consular treasury representative whether blocked income from Swiss capital in the United States could be taxed by custom; volitional objections to such a tax have been raised by the Swiss. According to best estimates, a total income of about 150,000,000 Swiss francs has previously transferred annually on Swiss investments in the United States; serious difficulties for several cantonal legislatures would be created by introduction of taxation thereon. On the other hand, if taxation of such blocked income were allowed, pressure would increase on the National Bank to abandon the dollar pegging agreement and to enable blocked dollars to be sought by banks on the free market; at all events such pressure is increasing on the part of people who are in need of blocked income in order to meet the necessities of cost of living.

Maintenance of the pegged rate is favored by the National Bank, if for no other reason than to avoid a post-war adjustment of the franc-dollar rate, which is deemed a necessity should appreciation of the franc be allowed now; pressure could, nevertheless, favor abandonment of that rate, and a rate of three and a half francs to the dollar or lower would be

Continued

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COPY

File 851 - Switzerland

WMC
 This memo was brought by
 the Minister on his return. It is
 an interesting unilateral report.
 January 23, 1942

Jed

MEMORANDUM ON

The Use of Dollar Funds by Switzerland
 in Payment for Spanish Shipping Services

Four applications have been filed for licenses to permit the transfer of \$3 million from the blocked account of the Swiss National Bank to the Spanish Foreign Exchange Institute. Two other applications are pending to transfer dollar accounts of the Spanish Foreign Exchange Institute with Swiss and Portuguese banks to American banks. The Spanish Foreign Exchange Institute has also inquired regarding the attitude of this Government toward the shipment of \$1 million in American currency from Spain.

The applications for the transfer of \$3 million are part of an advance payment of \$5 million on the \$10 million shipping agreement between Switzerland and Spain under which some 50,000 tons of shipping will be made available for transporting goods from Lisbon to Switzerland by way of Genoa. Payments under this agreement are expected to approximate \$1 million a month.

It is the policy of Foreign Funds Control to prevent the use of dollar resources and the American monetary system wherever they can be used to contribute to the war effort of Germany and Italy. Our objectives are to discourage the extension of credit to the Axis powers, to minimize the shipment of raw materials from neutral to Axis countries, and to increase the flow of raw materials to the United States and England. It will facilitate the achievement of these objectives if we refuse to let the neutral countries of Europe use dollar funds in payment for transactions consummated in Continental Europe. The European neutrals are fully aware of this basic development in Foreign Funds policy.

The dollar resources of Spain are not extensive. Our policy with respect to dollar payments from Switzerland to Spain must of necessity bring about some adjustment in the Spanish economy to make good any deficiency in dollar exchange arising from our restrictions.

Although precise data are not available on the exports of Spain to Germany and Italy they are known to be extensive. Spain is an important source of supply of mercury, wolfram, iron and copper pyrites, wool, hides and skins, cork, olive oil, fruits and nuts, and other products for the Axis powers. For many of these products, exports to the United States and England have been reduced very sharply in recent years in

order

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Division of Monetary
 Research

order to enable Spain to increase its shipments to Germany and Italy.

The large Spanish exports to Germany and Italy constitute a heavy burden upon the Spanish economy. Not only is Spanish production of many of these products inadequate for domestic needs, but these exports are made to Germany and Italy without any significant current counter-value. The greater part of these shipments is offset by a reduction in the large debt of Spain to Germany and Italy. An official estimate places Spain's current state obligations to Germany and Italy at \$120 million and \$250 million, respectively, for aid received during the Spanish Civil War. In addition, Germany and Italian investments in Spain increased rapidly in the years before the war and now amount to more than \$850 million. The income from these investments is also used by the Axis countries as a means of paying for Spanish exports.

Apart from this large contribution that Spain makes to the war effort to Germany and Italy through its exports, additional help is provided by Spain through the purchase of wolfram and other raw materials in Portugal, which is reexported to Germany and Italy. Besides, some of the Spanish exports to Switzerland are reexported to Germany and Italy after further fabrication. There is considerable evidence, too, that funds derived by Spain from its trade with Switzerland are used in part to pay Spain's debt to Germany and Italy.

To some extent Spain has been receiving dollar currency from Germany in payment for some critical exports. This dollar currency is unquestionably part of the loot of Germany's conquest. There have been large shipments of American currency from Spain in the past and there is now pending a request from the Spanish Foreign Exchange Institute to permit the shipment of \$1 million in American currency immediately, with continued shipments of approximately \$50,000 monthly thereafter. The origin of this currency is said by Spain to be funds brought back by returning Spaniards, vessels, tourists, etc. Obviously, no considerable sum can be derived in this way. There is other evidence to show that Spain is one of the two primary markets for dollar currency in Continental Europe and that the great bulk of its currency holdings has derived from Germany.

With this heavy drain upon its economy, Spain has been unwilling or unable to maintain a sufficient level of exports to the United States to provide it with the dollar exchange

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Division of Monetary
 Research

it requires. Spanish exports to the United States in 1941 amounted to \$14.5 million, half of which consisted of olives, brandy, and wines and wine derivatives. We get entirely too little of the strategic materials which could be of use to this country and to England and which, under any circumstances, should not go to Germany and Italy. Furthermore, our total imports from Spain are far below what we received even in the depression years of 1932 and 1933.

It is worth noting that the dollar funds that Spain would receive under the Swiss-Spanish shipping agreement and from currency exports would probably exceed the dollar exchange derived by Spain from its exports to this country. If Spain could not receive dollar exchange from Switzerland, it would be compelled to export larger quantities of goods to the United States, particularly more strategic materials, in order to cover its need for dollars to pay for imports from this country and from Latin America. The recent increase in imports from Spain may be attributed in part to the development in our Foreign Funds policy which limits the use of dollar balances for transactions consummated in Continental Europe.

The Swiss Government has indicated in connection with these and other transactions that it is fully aware of our policy of not permitting the use of dollar funds for the settlement of transactions consummated in Continental Europe. A recent cable from the Swiss National Bank to the National City Bank states:

"Owing our present difficulties dispose of U.S.A. reserves favor neutral central banks, can buy dollars only for commercial purposes."

The Swiss Government has very largely adjusted its acquisition of dollars in conformity to our policy of limiting their use of dollars.

The denial of these applications would not deprive Switzerland of the shipping services it requires. There are innumerable ways in which Switzerland could pay for these services in a manner acceptable to Spain without using its dollar funds. All the alternative methods of payment are preferable from the point of view of our interests.

For example, Switzerland could compensate Spain for these shipping services by exporting additional goods to Spain. While this might necessitate a reduction in Swiss exports to other countries, this would be wholly desirable in so far as it would reduce the volume of goods sold to

Germany

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Division of Monetary
 Research

Germany and Italy. Switzerland could also pay for these services from its European reserves of gold or other foreign exchange. To the extent that Spain uses such gold and foreign exchange in purchasing goods in some neutral country, for example, Portugal, it might contribute to a reduction in German and Italian imports from Portugal. Furthermore, the use of its gold and foreign exchange resources in Europe might necessitate a limitation by Switzerland upon the credit it grants to Germany and Italy.

It is quite obvious that Switzerland can make arrangements for payment to Spain that will at once provide Switzerland with the shipping services it requires and reduce to some extent its contribution to the war effort of Germany and Italy.

The Spanish Institute of Foreign Exchange has requested the Export-Import Bank to intervene with the Treasury to license these payments. In July 1939, a credit of \$13,350,000 was established by the Export-Import Bank to finance the export of cotton to Spain. The unpaid balance on these credits is now slightly more than \$5.5 million, which matures at short intervals up to October 10, 1942 when it will be fully repaid.

It is implied by the Spanish Exchange Institute that its present resources are inadequate to meet the accruing payments in January, February, and March, amounting to approximately \$2,800,000. At the close of business on January 19th, Spanish dollar balances in the leading New York banks amounted to \$5 million. The Spanish Foreign Exchange Institute will acquire additional dollar resources from its continuing flow of exports to the United States. Clearly the Spanish Government is in a position to meet its obligations under the Export-Import credit.

EMBernstein/jm
 1/23/42

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 Authority AND 765006
 By KG NARA Date 1/22/00

RG 84
 Entry 3208
 File 851. CONF. 1992
SWISS - U.S.
 Box 7

TELEGRAM RECEIVED

75

From: Department Date: March 5, 11 p.m., 1942
 No. 606
 Code: Confidential and Brown Received: March 6, 3 p.m.

Dollar Transfer to Switzerland

PARAPHRASE

Reference is made to your telegram No. 791 of February 26, 8 p.m.

In an interview held on March 5, Mr. Acheson, the Assistant Secretary of State, handed to the Swiss Minister an aide-mémoire which reads as follows:

BROWN

Begin Restricted

"With reference to the application of the Swiss National Bank to transfer from its accounts in this country, certain United States dollars to the account of Instituto Español de Moneda Extranjera, the United States Government is happy to state that the appropriate licenses will be granted to permit the transfer of \$3,200,000 from the account of the Swiss National Bank to the account of the Instituto Español de Moneda Extranjera. It should be noted, however, that this action is to be taken because this Government is informed that this amount relates to services which were completed during the time that negotiations were being carried on between representatives of the Swiss Government and the United States Government with respect to this question. Furthermore, it must be pointed out that the policy of the United States Government is opposed to further transfers of this nature for similar purposes.

"The licenses will be granted on the understanding that once the transfer has been effected the Swiss National Bank will make the necessary arrangements so that this Government will be able to purchase the counter-value in Swiss francs of \$2,200,000 and the British Government will be able to purchase the counter-value in Swiss francs of \$1,000,000. It is also understood that the purchase

of Swiss

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(No. 606)

of Swiss francs by this Government will be effected either through the sale of official drafts or in such manner as may be agreed upon by the parties concerned, and that the purchase of Swiss francs by the British Government will be effected in such manner as shall be agreed upon by the parties concerned.

PARAPHRASE

The Swiss Minister, either through Gautier or directly, will consult his Government regarding the understanding which is referred to in the last paragraph, and he will as soon as possible inform the Department.

WELLES ACTING

re

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TELEGRAM SENT

To: Department Date: March 11, 12 midnight, 1942.
 No.: 1008
 Code: Confidential. Charged to:

GPO 1-1142

PARAPHRASE

SUBJECT: Transfer funds

ooo

Reference to 4th paragraph of Legation's telegram No. 931 of March 7th.

An informal declaration was made this afternoon to a Legation representative by the Bern Director of the National Bank to the effect that the Bank had reached the decision to decline the proposal made by the Treasury Department to transfer 3.2-million blocked dollars of the Swiss National Bank to the blocked account of the Institute Espanol de Moneda Extranjera, for the reason that it could not accept the position of the United States that this transaction should, in effect, become a single exception to the general policy of the United States. The National Bank, in other words, does not intend to sign away thereby what it considers as its right to ask permission in the future to effect other similar transactions.

In connection with the above, the Bern Director expressed informally his conviction that the National Bank would agree to the proposal of the Treasury Department provided the restrictive clause as to similar transactions in the future were deleted, but provided also that all dollars purchased by the National Bank, say, after March 1st, might be sold only to central banks of such neutral countries as Spain, Portugal and Sweden, with the full knowledge and license of our authorities naturally. As the Bern director pointed out, there would thus be established a sort of "liberty under control" in the disposition of the dollars the National Bank would acquire, and a limited restitution of the international currency of the dollar as well.

The Bern Director, in an effort to illustrate the National Bank's contention that it has, despite all handicaps, been "cooperative" in accepting dollars, exhibited a memorandum on which was shown in detail purchases made by the Bern and Zurich offices of the Bank of dollars from October 1st last to the end of February from the various allied and Latin-American

diplomatic ...

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-2- (No. 1008)

diplomatic and consular establishments, and, even, the Vatican; dollars purchased for these accounts totalled 720,000, to which must be added 40,000 already this month from the Brazilian Legation in Bern.

The Bern Director concluded by making the statement that the Bank had decided to postpone its decision with respect to purchasing our draft for \$200,000. mentioned in the Legation's telegram referred to above; until such time as it could be ascertained whether our authorities would agree to dollar transactions in the future of the type proposed in the foregoing paragraphs of this telegram by the National Bank.

This evening the Foreign Minister confirmed to me the position of the Swiss as above outlined and reiterated the difficulty confronting Swiss finance should it be called upon to furnish Swiss francs against dollars the use of which they would be unable to make. He laid emphasis on his contention that the accumulation of blocked dollar credits against free Swiss francs would cause a weight which the Swiss are convinced could not be carried.

HUDDLE

Copy to Accounts.

hsb

212507

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(71)

TELEGRAM RECEIVED

851 SWITZERLAND - U.S.

From: Department Date: March 16, 7 p.m., 1942.
No.: 687
Code: Confidential Received: March 17, 9 a.m.

PARAPHRASE

SUBJECT: Funds - Swiss-Spanish transfer

oooo

Reference to Department's telegram No. 606 of March 5th, 11 p.m., and Legation's telegram No. 1008 of March 11, midnight.

The representative in the United States of the Swiss National Bank, Mr. Gautier, conferred with Assistant Secretary Acheson on March 12th concerning the Swiss-Spanish transfers. During the course of this discussion the statement was made that this Government would license the transfer from the Swiss National Bank of \$2,200,000 to the account of the Instituto Espanol de Moneda Extranjera, with the result that the licenses necessary to permit of the transfer of this amount were issued on March 13th by the Treasury Department. Mr. Gautier stated that the Swiss would agree to make available to the Government of the United States or to such persons as it should designate the equivalent of \$2,200,000 in Swiss francs as against the payment into the blocked account of the Swiss National Bank in this country of \$2,200,000. Instead of the \$3,200,000 previously mentioned in the Department's No. 606, the figure was set at \$2,200,000 because his bank's instructions to Mr. Gautier did not refer to the proposal that the bank should purchase from the British \$1,000,000 for Swiss francs. Mr. Gautier was informed that this Government would be prepared to approve the transfer of \$1,000,000 additional provided Mr. Gautier gave the assurance that the Swiss franc equivalent of \$1,000,000 to the British would be made available by the Swiss. Mr. Gautier stated that he would prefer to confirm by cabling his banks and would inform Mr. Acheson as to what assurances he would be in position to give respecting this additional \$1,000,000.

During the course of the discussion, it was stated by Mr. Gautier that his bank could not, as a principle, accept that future transfers to the blocked accounts of other neutral banks from the Swiss account solely for Swiss purposes could not be made. Mr. Gautier was informed that this Government had made no attempt

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attempt to force the Swiss Government to acquiesce in this principle, but it stated merely that this Government's policy would be not to permit such transfers in the future. He was informed that the \$2,200,000 transfer, with the possibility of increasing it to \$3,200,000, was merely an effort to reach a settlement of the difficult financial questions which had arisen between the Swiss Government and this Government by making an effort to meet the present Swiss embarrassments as quickly as possible and by warning the Swiss of this Government's future attitude. Therefore, the Swiss Government was being urged by this Government to make payments in the future in some other way, in order that there might be a practical demonstration of the correctness or incorrectness of the various predictions which had been presented by the Swiss respecting the consequence of refusal of further transfers of this character. Mr. Gautier appeared to be satisfied with this explanation. This Government has authorized the transfer of \$240,000 from the Greek Government funds in this country as part of the \$2,200,000 which the Swiss Government has agreed to transfer, the equivalent in Swiss francs to be made available in Bern to the Greek Minister for the purchase of foodstuffs and medical supplies which are to be distributed by the International Red Cross in Greece through private channels and will not enter into your accounts. To supplement the \$350,000 mentioned in the Department's 139 of January 17th, it is expected that an additional telegraphic transfer of \$605,000 will be initiated at an early date. In the future other transfers will be made. It is suggested that you refrain from offering official drafts for sale in order to prevent confusion arising as to the amount of dollars which the Swiss National Bank is required to accept, but cash such drafts alternatively from Swiss francs under the procedure authorized in the Department's telegram No. 307 of February 3rd.

WELLES ACTING

* Corrected by Department

/hsb

212509

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Authority <u>AMS 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG 84
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Bern, March 19, 1942

Dear Beaulac:

Following my letters of March 9th and March 14th, I now have to inform you that an agreement has apparently been reached in Washington between the American and Swiss Governments with reference to disposition of Swiss blocked funds in the matter of a transfer to Spanish credit.

The Legation has been informed by the Department in a telegram dated March 16th that the American Government would license the transfer from the Swiss National Bank of \$2,200,000 to the account of the Instituto Español de Moneda Extranjera, with the result that the licenses necessary to permit of the transfer of this amount were issued on March 13th by the Treasury Department.

As a result, insofar as our situation in Switzerland is concerned, we will now receive in the course of time Swiss francs in an amount up to the equivalent of the \$2,200,000 which has been transferred as above indicated.

This Legation is not informed regarding the position of the Spanish authorities in this transaction.

Sincerely yours,

J.K.H.

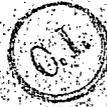
Willard L. Beaulac, Esquire,
 American Chargé d'Affaires a.i.,
 American Embassy,
 Madrid, Spain.

JKH/mk

212510

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Authority AND 765006
By KG NARA Date 1/22/80

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Entry 3208
File ST. CONF. 1942
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Box 7



TELEGRAM RECEIVED

From: Department

Date: March 25, 6 p.m.

No.: 780

Code: Secret

Received: March 26, 8 a.m.

PARAPHRASE

Upon learning from the Swiss and British that the Swiss are making the equivalent in Swiss Francs of the \$1,000,000 referred to available to the British in Switzerland, license was granted to allow the transfer of an additional \$1,000,000 referred to in the aforementioned cable from the account of the Swiss National Bank to the account of the Instituto Espanol de Moneda Extranjera.

Reference Department's 687 of March 16, 1942.

WELLES ACTING

jh

851 SWITZERLAND-U.S.

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DEPARTMENT OF THE STATE
OF AMERICA
Rec'd APR 1 1942
BERN

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

*File
851-Switzerland
JGH*

AMERICAN EMBASSY

Madrid, March 26, 1942.

Dear Huddle:

With reference to your helpful letter of March 9, 14 and 19, the Department has confirmed to us by telegraph that the amount of \$2,200,000 in Swiss credits delivered to Spain have been freed for use by the Instituto Español de Moneda Extranjera. The head of the Instituto informs me orally that an additional \$1,000,000 has also been freed. He says, moreover, that conversations are going on concerning the possible freeing of an additional \$1,300,000 held by the Manufacturer's Trust Company. This has somewhat relieved the situation.

The background you gave me was very helpful.

With kindest personal regards,

Very sincerely yours,

Walter D. Bland

J. Klahr Huddle, Esquire,
Chargé d'Affaires ad interim,
American Legation,
Bern.

851-CONFID-1942 - U.S.A.

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By KG NARA Date 1/22/00

RG 84
Entry 3208
File 85/6/2 PONTIERS
Box 7

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

Minister



DEPARTMENT OF STATE
WASHINGTON

August 5, 1942

CONFIDENTIAL

AIR MAIL

Dear Leland:

Recently the Bank for International Settlements applied for a license to permit the transfer of \$1,000,000 from its account with the Federal Reserve Bank to the account of the Swiss National Bank. The Treasury denied the application and the matter was then presented formally to this Department by the Swiss Minister. The Department upheld the Treasury's decision.

I believe that the positions taken by the Treasury Department and this Department and the underlying reasons therefore will be of interest to you, and I am therefore enclosing for your confidential information copies of the more pertinent documents from the Department's file on the case.

With kindest personal regards,

Sincerely yours,

Dean Acheson
Dean Acheson
Assistant Secretary

Enclosures:

(For enclosures,
see following page.)

The Honorable

Leland Harrison,
American Minister,
Bern.

Acheson, Bern
8516
BANK FOR INTERNATIONAL SETTLEMENTS

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Authority <u>NND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG <u>84</u>
Entry <u>3208</u>
File <u>856 R POW R</u>
Box <u>7</u>

AIR MAIL

-2-

Enclosures:

1. Memorandum to Swiss Legation, July 25, 1942.
2. Memorandum to Mr. Berle, from Financial Division, July 16, 1942.
3. Memorandum to Mr. Acheson, from Foreign Funds Control Division, July 15, 1942.
4. Letter from Acting Secretary of Treasury with report, June 26, 1942.
5. Letter to Secretary of the Treasury from Mr. Acheson, June 11, 1942.
6. Aide-mémoire from Swiss Legation, June 3, 1942.

212514

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Authority <u>AND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
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File	<u>856.6 B.I.S.</u> <u>EST. 1942 PONT.</u>
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COPY

MEMORANDUM

Reference is made to the aide-memoire submitted by the Swiss Minister on June 3, 1942, requesting a further review of an application for a Treasury license to permit the transfer of \$1,000,000 from the account of the Bank for International Settlements with the Federal Reserve Bank of New York to the account in the same bank of the Swiss National Bank.

It is noted that the transfer in question constitutes a partial repayment of a dollar demand deposit which the Swiss National Bank maintains with the Bank for International Settlements. It would appear from the aide-memoire that the Swiss National Bank in requesting repayment of this deposit is motivated by apprehension as to the future of the Bank for International Settlements. This appears to be substantiated by the probable willingness of the Swiss National Bank to convert the dollars that would be received into gold to be left with the Federal Reserve Bank for the duration of the war.

The Department of State has carefully reviewed the proposed transaction with other interested agencies of this Government and is constrained to conclude that it is not in a position to intervene in the decisions which have already been rendered. This Government considers that it would not be in the interest of the United States to permit the depletion of the assets of the Bank for International Settlements held in the United States for the consummation of a transaction which is motivated by the considerations indicated in the aide-memoire. It should also be pointed out that this Government does not consider itself responsible for the liquidity or safety of dollar deposit contracts entered into by foreign banking institutions. Depositors who open dollar accounts with non-American banks assume the risk that such dollar deposits may have to be repaid in their equivalent in other currencies.

Department of State,

Washington, July 25, 1942

212515

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Authority <u>NND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

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DEPARTMENT OF STATE

FINANCIAL DIVISION

July 16, 1942

Mr. Berle: I agree--AAB

The action drafted on this case may be of some interest to you as a definite negation by the United States of the pre-war effort, embodied in treaties signed by several countries but repeatedly turned down by the United States, to guarantee funds of the Bank for International Settlements freedom in war as well as in peace from the financial controls imposed on other bank operations by governments of the countries in which it operates. Why the Swiss should raise this question over a little amount like a million dollars which they would merely transfer from the BIS account here to their own blocked account is not clear. Since they have done so, however, and since Germany's interests as controller and largest creditor of the BIS has become so predominant, there seems no good reason why the United States should not thus record the break down of the pre-war effort to make this particular bank a real international banking institution superior to national interests.

FD:FL:JD

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DEPARTMENT OF STATE

FOREIGN FUNDS CONTROL DIVISION

July 15, 1942

A-A - Mr. Acheson: I agree--BA

While we do not agree with all the arguments presented by the Treasury Department in its memorandum, nevertheless it is the opinion of FD and FF that the request of the Swiss should be denied and the Treasury Department's decision upheld.

The Treasury's thesis is largely based on the theory that the Bank for International Settlements is an Axis-controlled institution and an agent of the Axis, and if it was forced to repay the Swiss National Bank dollar deposit in gold or Swiss francs, this would reduce the assets available for the extension of credit to the Axis. It is the view of FD and FF that the B.I.S. could continue to refuse to repay the deposit except in dollars, and consequently would not reduce the credit which could be made available to the Axis because of denial of the application by the United States Treasury.

On the other hand the Swiss build their case about a contingency, namely, the uncertain outlook for the B.I.S. and the possible loss they might sustain if it were liquidated. From the point of view of this contingency, it would appear prudent for this Government not to permit this transfer, for in the event the B.I.S. were to become completely Germanized, this Government could place the assets the B.I.S. has in this country into the pool of German assets.

Moreover, if we continue to hold a substantial amount of the liquid assets of the B.I.S. under our control, we may at least within limits more effectively influence B.I.S. policies than would be the case if we permitted these assets to be transferred to other institutions. These considerations in our opinion outweigh any claim of the Swiss to be paid out of the dollar assets of the B.I.S. in this country merely because of uncertainties as to the future of the B.I.S.

In the light of the foregoing we have drafted the attached memorandum in reply to the Swiss aide-memoire of June 3, 1942.

FD:GLuthringer
FF:JNPlakias

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840.51 Frozen Credits/6898

COPY

TREASURY DEPARTMENT
WASHINGTON

In reply please
refer to: 18022

June 26, 1942

My dear Mr. Secretary:

Reference is made to Assistant Secretary Dean Acheson's letter of June 11, 1942 (FF), requesting a statement of the reasons underlying the Treasury Department's refusal to authorize the transfer of \$1,000,000 from the account of the Bank for International Settlements with the Federal Reserve Bank of New York to the account in the same bank of the Swiss National Bank.

Attached hereto is a memorandum explaining the policy of the Treasury Department with respect to the matter under reference.

Sincerely yours,

E. H. FOLEY, JR.
Acting Secretary of the Treasury

The Honorable,
The Secretary of State.

212518

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By KG NARA Date 1/22/10

RG 84
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COPY

TREASURY DEPARTMENT

WASHINGTON

June 19, 1942

Memorandum on the Transfer of Dollar Funds
from the Bank for International Settlements
to the Banque Nationale Suisse

The Swiss National Bank carries two dollar accounts, approximating \$3 million, with the Bank for International Settlements. In February, 1942, the Swiss National Bank requested repayment of \$1 million by the transfer of that sum to its dollar account at the Federal Reserve Bank of New York. The application of the Bank for International Settlements for a license to make this transfer was denied by the Treasury. This decision was made in accordance with the policy of the Treasury not to license payments which facilitate commercial and financial transactions directly or indirectly beneficial to the Axis countries.

The Bank for International Settlements is owned by the central banks of Germany, Italy, France, Belgium, and Great Britain, and by some banking institutions in Japan and the United States. It is quite obvious that control is vested in the representatives of the Axis countries and the occupied countries. Furthermore, Germany is the largest creditor of the Bank for International Settlements. The German Government deposit and the Annuity Trust Account Deposits, in which there is probably a large reversionary interest in favor of Germany as well as a direct Italian interest, constitute 70 percent of the total liabilities (other than capital and reserves) of the Bank for International Settlements. Apart from this, Germany has a contingent interest in the profits of the Bank for International Settlements in excess of normal earnings. While the operating policies of the Bank may not be determined by Germany, it is submitted that Germany is now, and expects to be, an important beneficiary directly and indirectly of the Bank's operations.

Under any circumstances, the operations in Europe of the Bank for International Settlements adversely affect this Government in the prosecution of the war. On March 31, 1942, the Bank for International Settlements held assets of more than 475 million gold francs (32.7 cents per gold franc)--approximately \$155 million. Included in these assets are Treasury bills amounting to 104 million gold francs, commercial bills and bankers' acceptances amounting to 114 million gold francs, and other bills, investments, and funds at

interest

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interest amounting to 183 million gold francs. By far the greater part of these 400 million gold francs of income-earning assets contribute to the financing of transactions in Europe directly or indirectly beneficial to the Axis countries.

The decision of the Treasury to deny the application of the Bank for International Settlements for a license to pay \$1 million to the Swiss National Bank does not imply that there are any other immediate interests in this transaction, nor does it imply that there is any other purpose in this transaction than the repayment of a deposit. Nevertheless, the drawing down of the assets of the Bank for International Settlements in this country would of itself facilitate the extension of credit in Europe by the Bank for International Settlements. The Treasury Department cannot give its approval to a transaction which makes possible the extension of additional credit by the Bank for International Settlements to finance transactions in Europe.

There is ample evidence that the Bank for International Settlements has been systematically drawing down its assets in this country for the purpose of removing them from our control. While the Bank for International Settlements held \$29.5 million in gold, deposits, and bills in New York on January 2, 1940, these assets have been reduced to about \$21 million. We know that the Bank for International Settlements has attempted to initiate transactions involving the export of gold from this country, the switching of gold between this country and Latin America, and the holding of dollar deposits in Latin American banks. For example, the Bank for International Settlements recently attempted to transfer certain of its Brazilian gold holdings to Argentina. Apparently the Bank for International Settlements felt that with gold held in Argentina it could effect transactions which Brazil would not permit. Brazil properly refused to allow any such transfer. Such shifting of assets indicates a definite plan on the part of the Bank for International Settlements to escape and defeat the foreign funds control of this Government and of other governments cooperating with us. Ordinary business prudence suggests that a sound and unbiased banking policy would require the Bank for International Settlements to shift its assets from Europe to the United States rather than to draw down its safe holdings in this country.

The decision of the Treasury on this application is not directed against the Swiss National Bank. Precisely the same decision would be made on any application to transfer the funds of the Bank for International Settlements

to

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By <u>KG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
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Box	<u>7</u>

-3-

to European interests. In the aide-memoire of the Swiss Minister, it is stated that the Treasury decision has deprived the Swiss National Bank of the possibility of collecting its deposit from the Bank for International Settlements. Obviously, payment of this deposit can be made in a manner that will be approved by the Treasury. Nevertheless, it must be emphasized that this Government is not the guarantor of the liquidity and the safety of dollar deposits in banking institutions outside the United States. Depositors who open dollar accounts with non-American banks assume the risk that such dollar deposits may have to be paid in their equivalent in other currencies.

The Treasury Department has no wish to inflict any unnecessary hardship on the Swiss National Bank. The Bank for International Settlements has total assets of more than \$155 million, of which only 10 percent are held in this country. Obviously, the European resources of the Bank for International Settlements are wholly adequate to effect the transfer of \$1 million to the Swiss National Bank. The Treasury Department is prepared to grant any licenses necessary to authorize the payment of this dollar deposit out of the funds now held in Europe by the Bank for International Settlements.

APPENDIX I

United States Assets of the
Bank for International Settlements

(Millions of Dollars)

January 2, 1940	
Deposits and bills	18.2
Gold	<u>11.2</u>
Total	29.4
January 1, 1941	
Deposits and bills	21.3
Gold	<u>7.2</u>
Total	28.5
January 1, 1942	
Deposits and bills	16.1
Gold	<u>4.0</u>
Total	20.1

April 30,

212521

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By KG NARA Date 1/22/00

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Box 7

-4-

April 30, 1942	
Deposits and bills	14.9
Gold	<u>6.5</u>
Total	21.3

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By <u>KG</u> NARA Date <u>1/22/10</u>

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Entry	<u>3208</u>
File	<u>85/6 B.I.I.S.</u> <u>942 PONT</u>
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APPENDIX II

**BANK FOR INTERNATIONAL SETTLEMENTS
STATEMENT OF ACCOUNT AS OF MARCH 31, 1942**

(In Swiss gold francs (units of 0.290 322 58...grammes fine gold) (Art. 5 of the Statutes))

	<u>ASSETS</u>	<u>Percent</u>
I- GOLD IN BARS	42,082,396.06	8.9
II- CASH		
On hand and on current account with Banks	32,962,453.81	6.9
III- SIGHT FUNDS at interest	16,340,546.99	3.4
IV- REDISCOUNTABLE BILLS AND ACCEPTANCES		
1. Commercial Bills and Bankers' Acceptances	114,158,585.20	24.0
2. Treasury Bills	<u>29,886,659.98</u>	6.3
V- TIME FUNDS at interest	144,045,245.18	
Not exceeding 3 months	21,068,707.65	4.4
VI- SUNDRY BILLS AND INVESTMENTS		
1. Maturing within 3 months		
Sundry Investments	77,856,216.35	16.3
2. Between 3 and 6 months		
Sundry Investments	35,799,652.38	7.5
3. Over 6 months		
(a) Treasury Bills	74,464,835.62	15.6
(b) Sundry Investments	<u>31,842,102.24</u>	6.7
VII- OTHER ASSETS	219,962,806.59	
	183,979.08	0.0
	476,646,135.36	100
	<u>LIABILITIES</u>	
I- CAPITAL		
Authorized and issued 200,000 shares, each of 2,500 Swiss gold francs 500,000,000.-- of which 25% paid up	<u>125,000,000.00</u>	26.2
II- RESERVES		
1. Legal Reserve Fund	5,780,203.15	
2. Dividend Reserve Fund	4,200,538.73	
3. General Reserve Fund	<u>13,342,650.13</u>	4.9
	23,323,392.01	
III- LONG TERM DEPOSITS		
1. Annuity Trust Account Deposits	152,606,250.--	32.0
2. German Government Deposit	<u>76,303,125.--</u>	16.0
	228,909,375.--	
IV- SHORT TERM AND SIGHT DEPOSITS (various currencies)		
1. Central Banks for their own account:		
(a) Not exceeding 3 months	3,968,900.--	0.8
(b) Sight	<u>13,354,565.86</u>	2.8
	17,323,466.86	
2. Central Banks for the account of others:		
Sight	1,267,341.84	0.3
		3. Other

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 Authority NND 765006
 By KG NARA Date 1/22/10

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EST. 1942
 Box 7

		<u>Percent</u>
3. Other depositors:		
(a) Not exceeding 3 months	24,344.68	0.0
(b) Sight	<u>4,541,366.73</u>	1.0
	4,565,711.41	
V- SHORT TERM AND SIGHT DEPOSITS (Gold)		
1. Not exceeding 3 months	1,464,753.74	0.3
2. Sight	<u>27,579,932.38</u>	5.9
	29,044,686.12	
VI- MISCELLANEOUS	<u>47,212,163.12</u>	9.9
	<u>446,646,135.36</u>	100

Note: Earmarked gold held in custody for the account of Central Banks and funds held for the service of International Loans, for which the Bank of International Settlements is Trustee or Fiscal Agent, are not included in the above Statement.

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By <u>KG</u> NARA Date <u>1/22/10</u>

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Box	<u>7</u>

-2-

APPENDIX III

(2) Seven persons representative of finance, industry or commerce, appointed one each by the Governors of the central banks mentioned in sub-clause (1) and being of the same nationality as the Governor who appoints him.

During the continuance of the liability of Germany to pay Reparation annuities, two persons of French and German nationality respectively, representative of industry or commerce, appointed by the Governors of the Bank of France and of the Reichsbank respectively, if they so desire.

(The rest of this article on directors is omitted.)

Art. 53. The yearly net profits of the Bank shall be applied as follows:

(a) Legal Reserve Fund; (b) Dividends; (c) Further dividends; (d) General Reserve Fund;

(e) "as long as the Plan is in force any remainder of the net profits after meeting the foregoing requirements shall be disposed of as follows:

(1) as to seventy-five percent to such of the Governments or central banks of Germany and the countries entitled to share in the annuities payable under the Plan as have maintained time deposits at the Bank subject to withdrawal in not less than five years from the time of deposit or after four years on not less than one year's notice. This sum shall be distributed annually in proportion to the size of the deposits maintained by the respective Governments of central banks in question. The Board shall have the power to determine the minimum deposit which would justify the distribution provided for:

(ii) as to twenty-five percent, as follows:

If the German Government elects to make a long-term deposit with the Bank withdrawable only on the terms specified under sub-clause (i) above and amounting to the minimum sum of 400,000,000 reichsmarks, the said twenty-five percent shall go into a Special Fund, to be used to aid Germany in paying the last twenty-two annuities provided for in the Plan.

If the German Government elects to make such long-term deposit amounting to a sum below 400,000,000 reichsmarks, the participation of the German Government shall be reduced in proportion, and the balance shall be added to the seventy-five percent referred to in sub-clause (i) above.

If

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By <u>KG</u> NARA Date <u>1/22/10</u>

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Box	<u>7</u>

840.51 Frozen Credits/6853

LEGATION DE SUISSE

Washington D.C.

its ability to settle the dollar debt in gold or in gold but confirming the balance of the dollar account.

Aide-Mémoire

In an endeavor to find a satisfactory solution to the Banque Nationale Suisse and the B.I.S. problem.

For some time the Banque Nationale Suisse has entertained with the Bank for International Settlements in Basle two dollar accounts on which the B.I.S. pays a current interest. One of these accounts, opened September 1940, is a demand deposit account, callable on sight, for an amount of \$1,695,000; the second one is an account callable after three days sight, and amounts now to \$1,300,000.

In February 1942, the Banque Nationale Suisse, desirous to reduce these deposits, asked the Banque for International Settlements to repay \$1,000,000 on the sight account by transferring that sum to the Banque Nationale Suisse's dollar account with the Federal Reserve Bank in New York. An application for this transfer was immediately made by the B.I.S. through the Federal Reserve Bank but the license for the transaction was refused by the Treasury Department on February 21st without any indication of motive.

Upon instructions from Zurich, the representative of the Banque Nationale Suisse in New York asked the Treasury, in a conversation with Mr. John W. Pehle, to reconsider its decision. He gave the assurance that the transfer in discussion had nothing in common with another transaction between the same banks, made in May 1941 at the request of the B.I.S. which at that time had intended to sell dollars against Swiss francs to Banque Nationale Suisse. In the transaction of May 1941, for which the license has never been granted, the initiative came from the B.I.S., which, for reasons unknown here, wanted to buy Swiss francs against dollars. This time, the initiative belonged to the Banque Nationale Suisse which wished to be partially repaid by its debtor. The two transactions are, therefore, radically different in their origin and in their aims.

In spite of this, the Treasury Department, after reconsidering the matter, confirmed its first refusal and suggested that the Banque Nationale Suisse ask the B.I.S. to repay the wanted amount in gold in Switzerland or in Swiss francs. This, the B.I.S. refused to do, declaring

its

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Authority NND 765006
By KG NARA Date 1/22/00

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Box 7

its inability to settle its dollar debt in other exchange or in gold but confirming its readiness to repay in dollars.

In an endeavor to find a solution satisfactory to the Banque Nationale Suisse and to the Treasury, Mr. Gautier indicated that, if the transfer were authorized, the Banque Nationale Suisse would probably be willing to turn the dollars received into gold and to leave this gold at the Federal Reserve Bank for the duration of the war. This proposal was made on April 24th, but was rejected by the Treasury on May 23rd in a letter of Mr. Pehle in the following terms:

"The application for a license to effect such a transfer has been reconsidered in the light of your letter, but it has been found that approval thereof would not be in accordance with the policy of this Department."

It is not clear how a repayment of \$1,000,000 by the B.I.S. to the Banque Nationale Suisse can affect the policy of the Treasury Department and it is not understandable how a transfer of funds which would remain under the control of the Federal Reserve Bank in the account of a neutral central bank can be considered incompatible with that policy but attention is called to the fact that by this decision the Banque Nationale Suisse is deprived of the possibility of collecting its due. In the present conditions prevailing in Europe, it is certainly not exaggerated to say that the future of the B.I.S. is uncertain. Nobody can foresee what its assets will be worth after the war. If its creditors cannot be repaid in full, the loss sustained by the Banque Nationale Suisse will be the result of the refusal opposed by the Treasury to the application for transfer submitted by the debtor.

In such circumstances, this refusal given without any justification is incomprehensible and a review of the case would be highly appreciated.

Washington, D. C., June 3, 1942

In spite of this, the Treasury has agreed to reconsider the matter, and it is suggested that the Banque Nationale Suisse should be asked to repay the wanted amount in gold. Switzerland is in a difficult position, and the Swiss Government is in a difficult position.

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 Authority NND 765006
 By KG NARA Date 1/22/10

RG 84
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 File 8516 B.I.S.
1942 POWERS
 Box 7

The Minister
J.H.

TELEGRAM SENT

To: Department Date: April 18, 11 a.m., 1942.
 No.: 582
 Code: Confidential. Charged to: (10)

PARAPHRASE

SUBJECT: Free exchange between B.I.S. and Axis Powers

oooo

CONFIDENTIAL FOR ASSISTANT SECRETARY ACHESON.

I have been asked by McKittrick to convey to you the following confidential data with respect to the movement of free exchange between the B.I.S. and the Axis powers, including occupied and controlled territories, with the request that it be communicated by you in strictest confidence to the Treasury and to the Federal Reserve Bank, New York, in connection with the cable which the B.I.S. is sending to the Federal Reserve Bank, New York, which will contain additional information and will request reconsideration by the Treasury of the refusal to license repayment of deposit of one million to the Swiss National Bank:

During the fiscal to March 31st, 1940, Germany transferred to the B.I.S. in free exchange as interest on sums loaned during the first years of the bank's existence the equivalent of approximately \$2,840,000, 26.4% of which was returned as dividends. Corresponding figures including Italy for year to March 31, 1941, were interest transferred 3,120,000, 27.4% of which was repaid to Axis. The Board members are now considering the proposal to pay the usual dividend this year and if approved the figures will work out similarly to those of last year. In this manner, approximately three-quarters of the interest paid to the B.I.S. by the Axis represents a net loss of exchange to those countries and the dividends paid to Allied countries represent a corresponding net profit.

HARRISON

HSB

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Authority NND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File 85-16-101-1
Box 7

IN REPLY REFER TO
FILE NO 851.6

Ack'd by form

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File
[Handwritten initials]



WHS/ah
DEPARTMENT OF THE UNITED STATES
OF AMERICA

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

MAR 25 1942

BERN

DEPARTMENT OF STATE

AMERICAN CONSULATE
Basel, Switzerland,
March 24, 1942.

CONFIDENTIAL

The Honorable
Leland Harrison,
American Minister,
Bern.

Subject: Neutrality of the Bank for
International Settlements

851.6

Sir: I have the honor to report as follows:

Mr. Thomas H. McKittrick, President of the Bank for International Settlements, Basel, when approached by me this morning in connection with the question raised in the House of Commons a day or two ago regarding the neutrality of his bank, took occasion once more to emphasize the non-partisan character of the Basel institution and the general interest in keeping it neutral. Mr. McKittrick took occasion to mention his refusal some time ago to make a \$5,000,000 short term loan to the Germans to tide them over a critical period and the good grace with which Berlin accepted his decision. There have been no requests for loans since, he said. Mr. McKittrick, moreover, declared that Mr. Paul Hechler, the German Manager of the Bank for International Settlements, had just returned from Berlin and had brought him personal assurances from Messrs. Funk, Langer and Puhl of Germany's interest and desire to maintain the neutral character of the Basel institution and their readiness to cooperate with him in the matter.

Mr. McKittrick took occasion to deny that any attempts were being made at present by the Germans in connection with gold transactions involving his bank.

Respectfully yours,

[Handwritten signature]
Walter H. Sholes
American Consul General

*two years

2 copies to Department
Copy to Zürich.

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Authority NND 765006
By KG NARA Date 1/22/10

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Entry 3208
File 851.6
Box 7

IN REPLY REFER TO

FILE NO. 851.6

Ack. Feb. 4 mk



LEGATION OF THE UNITED STATES OF AMERICA
OF AMERICA UNITED STATES OF AMERICA
Rec'd FEB 4 1942
BERN

THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

File 851.6

DEPARTMENT OF STATE

AMERICAN CONSULATE
Basel, Switzerland,
February 4, 1942.

CONFIDENTIAL

J. Klahr Huddle, Esquire,
Chargé d'Affaires a.i.
Bern.

Subject: McKittrick to Remain President
of the Bank for International
Settlements

Sir:

I have the honor to report as follows:

According to Signor Azzolini, Governor of the Bank of Italy, the Axis Powers rather than venture into the unknown with neutrals who may have axes to grind, have agreed to the continuation in office of Thomas H. McKittrick, an American, as President of the Bank for International Settlements, Basel. Signor Azzolini passed through Basel last week en route home from Berlin, where he had been called for consultation by the Reich authorities, on the subject owing to America's entry into the war.

A proposal which first met with favor, namely, that an Executive Committee, composed of Mr. Ernst Weber, President of the Managers of the National Bank of Switzerland, and Ivar Rooth, President of the Sveriges Riksbanks, Stockholm, together with Mr. McKittrick conduct the affairs of the bank was finally dropped.

It was agreed that Mr. McKittrick was to be continued in office, but that the bank's communications to Germany and Italy must no longer be signed by Mr. McKittrick, whose continuation as President has doubtless prevented

serious

851.6 Bank for International Settlements

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Authority WMD 765006
By KG NARA Date 1/22/00

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Entry 3208
File 851.6 B.I.S.
1942 POW
Box 7

IN REPLY REFER TO
FILE NO 851.6

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DEPARTMENT OF THE UNITED STATES
OF AMERICA
MAR 25 1942
DEPT. OF STATE

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN CONSULATE
Basel, Switzerland,
March 24, 1942.

CONFIDENTIAL

The Honorable
Leland Harrison,
American Minister,
Bern.

Subject: Neutrality of the Bank for
International Settlements

851.6

Sir: I have the honor to report as follows:

Mr. Thomas H. McKittrick, President of the Bank for International Settlements, Basel, when approached by me this morning in connection with the question raised in the House of Commons a day or two ago regarding the neutrality of his bank, took occasion once more to emphasize the non-partisan character of the Basel institution and the general interest in keeping it neutral. Mr. McKittrick took occasion to mention his refusal some time ago to make a \$5,000,000 short term loan to the Germans to tide them over a critical period and the good grace with which Berlin accepted his decision. There have been no requests for loans since, he said. Mr. McKittrick, moreover, declared that Mr. Paul Hechler, the German Manager of the Bank for International Settlements, had just returned from Berlin and had brought him personal assurances from Messrs. Funk, Langer and Puhl of Germany's interest and desire to maintain the neutral character of the Basel institution and their readiness to cooperate with him in the matter.

Mr. McKittrick took occasion to deny that any attempts were being made at present by the Germans in connection with gold transactions involving his bank.

Respectfully yours,

[Handwritten signature]
Walter H. Sholes
American Consul General

*two years
2 copies to Department
Copy to Zürich.

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Authority NND 765006
By KG NARA Date 1/22/10

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File 85/6/2 B.I. 1/1/42
Box 7

Ack'd by form

Mingel

Voluntary

File
John

Confidential

To the

American Legation

B e r n .

LEGATION OF THE UNITED STATES
OF AMERICA
Rec'd AUG 22 1942
BERN

851.6 BANK FOR INTERNATIONAL SETTLEMENTS

PRESIDENT THOMAS H. MCKITTRICK
AND THE BANK FOR INTERNATIONAL SETTLEMENTS

From

Waller
~~Walter H. Shoes~~

American Consul General

Basel, Switzerland.

Date of completion: August 21, 1942.

Date of mailing: August 21, 1942.

The following comment is offered on recent developments
at the Bank for International Settlements at Basel:

The

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 Authority NND 765006
 By KG NARA Date 1/22/00

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 File 851.6 B.I. 1
 Box 7

- 2 -

The annual report of the Bank will be off the press and distributed within the next few days. The report will not bear the signature of Mr. McKittrick, the American President of the Bank - this to meet German susceptibilities. A diplomatically worded request had previously been received at the Bank on the subject from Berlin. The fact that the Bank's annual report is a much quoted document throughout the financial world gave rise to the German request that this year's annual report be made to appear as coming from the "President", without the mention of Mr. McKittrick's name. The preface of the report will be somewhat like the following:

"The President of the Bank for International Settlements, Basel, has the honor to report the ..."

It is also interesting to note that Mr. Thomas H. McKittrick's three year term as President of the Bank will come to an end at the close of 1942. While eligible for reelection under the Bank's statutes, the controlling interests including the Reich have been unable to reach a decision on the subject to date. The Reich at first seemed anxious for Mr. McKittrick's continuation in office but its present attitude may indicate a change of sentiment on continuing an American as President of the Bank. The fact that the Bank's annual report for April 1, 1941 to March 31, 1942, will not bear President McKittrick's name indicates how the wind is blowing in Berlin.

It is generally known supreme authority in the Bank rests with the Board of Directors. The President conducts the affairs of the institution under them. All directors have equal right irrespective of shares held by the Government they represent or votes engaged by their central banks.

851.6
 WHS/sr

2 copies to Department
 1 copy to Zurich

212538

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Authority <u>MND 765006</u>
By <u>CG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
Entry	<u>3208</u>
File	<u>5/6/42 P.O.N.F.</u>
Box	<u>7</u>

TELEGRAM RECEIVED

From: Embassy, London

Date: August 20, 6 p.m., 1942

No. 54

Code:

Received: August 21, 3 p.m.

Reference your July 22, 5 p.m.

Personal and confidential for the Minister.

At Niemeyer's request I am now telegraphing message which he asks be delivered to McKittrick and which is at present on the way to you under cover of letter dated August 4:

"1. Provided it was definitively understood that in consequence you would be reappointed President of the Bank, we would agree to Weber's becoming Chairman of the Board. Before we support the election of a new chairman this proviso is essential and must be certain.

2. We would agree in that event that you should pay a short visit to America if you think it opportune and still wish to do so.

3. Certainly publicity should be reduced to the minimum."

WINANT

851.6 BANK OF INTERNATIONAL SETTLEMENTS

DECLASSIFIED
Authority MAN 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File 8516 B.I.S.
Box 7

*Start by
Cripbankel*

MEMORANDUM

~~784~~
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File
J. J. [unclear]

August 21, 1942

Tom McKittrick, who had lunch with me yesterday, had recently seen the President of the National Bank in Zurich, Weber, and this time had found him extremely outspoken in his criticism of the policy of our Treasury Department respecting the difficulties that they put in the way of the Swiss in using their dollar holdings in the United States. Mr. Gautier, who had been in Washington representing the National Bank, had just returned and Weber's attitude probably reflects what he had been told by Mr. Gautier.

Tom also informed me that our Treasury had refused a license to the B.I.S. to make use of their blocked dollars in the United States for the payment of interest to British, American and South American holders of the stock of the B.I.S. He showed me an exchange of telegrams that he had had in this regard with the Federal Reserve Bank and with the Bank of England, the last telegram informing him that the Treasury proposed that the B.I.S. should make payment in Swiss francs. The action of the Treasury in this regard had been very embarrassing to Tom, as he did not have enough pounds sterling to pay the interest in Great Britain, and the Germans had recently indicated to him their desire that he should not use the Swiss francs which they paid him on what they owed the B.I.S. for the payment of interest in the United States and the Americas. In that connection, Tom also said that the Germans were in advance in their interest payments on their indebtedness to the B.I.S., which they pay in Swiss francs and which amounts to about 10,000,000 Swiss francs per annum. Tom is writing to Leon Frazer to inquire what his position would be under existing law and Treasury regulations, if he should take the position that the B.I.S. had complied with those obligations in full by offering to pay the American stockholders with dollars now held by the B.I.S. in New York and which the Treasury refused to release for the payment of these stockholders.

Comment. From the foregoing it would appear that our Treasury Department is losing no opportunity to obtain Swiss francs for our outpayments in Europe.

L. H.

851.6
DATA FOR INTERNATIONAL AFFAIRS

*That interesting
gladly*

DECLASSIFIED
Authority <u>MND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
Entry	<u>3208</u>
File	<u>85/6 B.I.S.</u>
Box	<u>?</u>

AIR MAIL

Bern, September 4, 1942

Dear Dean:

I greatly appreciated the thought in sending me with your confidential letter of August 5th copies of the pertinent documents in the matter of the application by the Bank for International Settlements for a license to permit the transfer of \$1,000,000 from its account with the Federal Reserve Bank to its account in the Swiss National Bank.

In all frankness, I must say that I cannot agree with the Treasury's thesis that the B.I.S. is an Axis-controlled institution and an agent of the Axis, nor, like FD and FF, do I agree with all the arguments presented by the Treasury. I take it that the basic reason for refusal of the license requested is directed primarily to require the B.I.S., if possible, to make use of its holdings in free currencies to repay the deposit of the Swiss National Bank, which I might say, parenthetically, would appear to be a liability rather than an asset of the B.I.S. If my understanding is correct, it now remains to be seen whether the refusal of the license will achieve the ends desired by the Treasury. If my understanding is incorrect and you should have a spare moment to drop me a line, I should be very grateful.

With renewed appreciation and kindest personal regards,

Ever sincerely yours,

LELAND HARRISON

The Honorable
Dean G. Acheson,
Assistant Secretary of State,
Department of State,
Washington, D. C.

LH/mk

851.6 B.I.S. FOR INTERNATIONAL SETTLEMENTS

212541

DECLASSIFIED
Authority <u>AND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
Entry	<u>3208</u>
File	<u>85/62 B.I.S.</u>
Box	<u>7</u>

MemorandumOctober 12, 1942. *file*Strictly Confidential

Mr. McKittrick called this morning and spoke briefly of his difficulties in finding some means of distributing to American shareholders dividends due from the Bank for International Settlements in the amount of about \$70,000. The Treasury Department of the United States has refused permission for any transfer of BIS assets in New York for this purpose.

Mr. McKittrick feels that it is the purpose of the Treasury on behalf of the American Government to enforce payment in Swiss francs in order that the Government may obtain needed Swiss francs. Mr. McKittrick says that the Bank has Swiss francs and that it receives approximately 1,000,000 Swiss francs per month from the German Government. He further says, however, that were any of these Swiss francs to be paid over to persons in the United States the German Government, while not specifically having prohibited such a transaction, would immediately discontinue its payments to the Bank, and the Bank could, of course, no longer function.

The Bank is, therefore, in a dilemma as to procedure if it is to effectuate the desired dividend payments.

I told Mr. McKittrick that unfortunately we did not seem to be able to be helpful at this juncture, that it would not even be possible for us under present conditions to forward a memorandum on his behalf in the matter for very practical reasons which I confidentially explained to him. At the same time I pointed out that as he was now about to proceed to London and New York I had no doubt that he would be able to present the matter to the responsible authorities there and if not able to obtain their acquiescence to his proposed method of payment in dollars he would at least be able to find out from them on what grounds they based their refusal. (The refusal of the Treasury Department to permit this transfer is undoubtedly based on the same grounds as those which we were informed of by Assistant Secretary Acheson in connection with the proposed transfers of BIS funds to the Swiss National Bank.)

J.K.H.

212542

DECLASSIFIED
Authority AND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File 8576 B.I.S.
Box 7

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

October 28, 1942

AIR MAIL

Dear Leland,

I have your letter of September 4 concerning the reasons which prompted this Government to deny the recent application by the Bank for International Settlements to transfer \$1,000,000 from its account with the Federal Reserve Bank in New York to the account of the Swiss National Bank.

So far as the feeling of this Department is concerned our decision not to intervene with the Treasury Department on behalf of the Swiss did not mean that we subscribed to the Treasury thesis that if the application under reference were denied the B.I.S. might be compelled to use its holdings in free currencies to repay the deposits of the Swiss National Bank. The primary considerations which influenced the Department are those set forth in the third and fourth paragraphs of the memorandum of July 15 addressed to me by FD and FF, a copy of which was among the enclosures sent to you with my letter of August 5. Possibly some amplification of the statements set forth therein may clarify our position.

As we saw it the only reason advanced by the Swiss for asking for withdrawal of funds from the B.I.S. was the fear of the Swiss as to the future of the B.I.S. Thus the Swiss aide-memoire of June 3 states that the future of the B.I.S. is uncertain and that nobody can foresee what its assets will be worth after the war. It was in fear of this contingency that the Swiss wished to withdraw part of their deposits with the B.I.S. However, regardless of the degree to which the policies and assets of the bank may or may not

be

The Honorable
Leland Harrison,
American Minister,
Bern.

DECLASSIFIED
Authority <u>AWB 765006</u>
By <u>RG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
Entry	<u>3208</u>
File	<u>85/6 B.I.S.</u>
Box	<u>7</u>

AIR MAIL

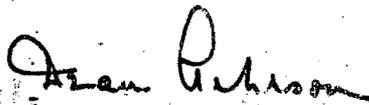
-2-

be controlled by the Axis at the present time, it is a not impossible contingency that the Axis may seize control of the Bank and its assets, directly or indirectly, and operate the Bank as an Axis institution or in the Axis interests. If this contingency should come to pass we might find it appropriate and to our interest to regard the B.I.S. as an Axis institution and might under certain circumstances treat the assets of the B.I.S. in the United States as part of the general pool of Axis property in this country available as security for or eventual payment of possible claims against the Axis. If it is argued that this is only a contingency the answer can be made that the Swiss proposal was to withdraw funds because of fear of this or a like contingency. We could not see our way clear to ask the Treasury to defer to the Swiss on the latter's request as presented. If we permitted assets of the B.I.S. in the United States to be transferred to the names of neutral European countries for reasons such as that advanced by the Swiss, creditors of the Bank in such countries would be given a preference with respect to the dollar assets of the Bank to the possible detriment of the interests of the United Nations and their associates in the Bank.

I trust that the foregoing will be of some assistance to you in understanding the Department's position.

With kindest personal regards.

Sincerely yours,



Dean Acheson
Assistant Secretary

212544

DECLASSIFIED
Authority AND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File 85642 B.I.D.
Box 7

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~~CA 1000~~
~~71 20 10~~
File #

LEGATION OF THE UNITED STATES
OF AMERICA
Rec'd NOV 24 1942
VOLUNTARY
BERN

*Int. Bank
25 Nov 42
901*

CONFIDENTIAL

To the
American Legation,
B e r n .

NEW CHAIRMAN FOR THE BANK FOR INTERNATIONAL SETTLEMENTS

From
~~Walter H. Sholes~~ American Consul General

Basel, Switzerland. Date of completion: November 24, 1942.
Date of mailing: November 24, 1942.

Mr. Ernst Weber, President of the Swiss National Bank, Zürich has been designated Chairman of the Board of Directors of the Bank for International Settlements, Basel. Mr. Weber will succeed Sir Otto Niemeyer, London, whose term of office expired in May 1940. There was considerable delay attending Mr. Weber's choice as the appointment required not only the approval of the Federal Council (Bundesrat) and the Swiss National Bank but also that of the Cantonal Bank Council (Kantonal Bankrat) which comprises all the Cantonal banks of the Swiss Confederation. Replies from the Cantonal banks, because of their large number, were slow coming in - hence the delay attending Mr. Weber's designation to the chairmanship of the Bank for International Settlements. Official announcement of the latter's appointment

is

851.6 B.I.S.

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Authority <u>AND 765006</u>
By <u>KG</u> NARA Date <u>1/22/10</u>

RG	<u>84</u>
Entry	<u>3208</u>
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-2-

is expected shortly. Mr. Weber's elevation to the chairmanship of the Bank for International Settlements, Basel, has not only the full approval of the Reich, but apparently will result in the reelection next month for a further period of three years of Mr. Thomas H. McKittrick, American, as President of this international, financial institution.

Mr. McKittrick is at present in London and, according to a telegram received here Saturday, is expected to depart for New York within the next few days, where he intends to remain for two or three months.

At the Bank for International Settlements it is said that in the event of Mr. McKittrick's reelection, special travel facilities will doubtless be made available by the Reich with Spain to permit his safe return to his post in Basel.

851.6
WBS/dh

In sextuplicate for
eventual distribution by
Legation.

212546

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RG 84
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Box # 1

Gerson dep 24 June 27
1941

Internet & dipl academy
Clinton W. Wiant

To DFB Mar. 19

543

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By KG NARA Date 1/22/10

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Box # 1

Paraphrase

JKH
①

TELEGRAM SENT

To: Department

Date: December 16, 5 p.m., 1941.

No.: 350

Code: C-1

Charged to:

oro 1-1142

Rush. ~~Confidential~~ and personal for Minister Harrison from McKittrick:

"Without raising question officially I am anxious to ascertain if any legislation exists or is in prospect which a continuance of my present associations in Basel would violate. Since I am confident in its future usefulness, I am hoping to succeed in bringing the Bank through. Am writing."

HUDDLE

Charge Mr. McKittrick.

JKH/hsb

551.6 BANK FOR INT SETTLEMENTS

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 Authority NND 765006
 By KG NARA Date 1/22/00

RG 84
 Entry 3208
 File 500,000-55710
 Box # 1

Minister

TELEGRAM SENT

To: Department

Date: January 28, 10 a.m., 1941

No.: 16

Code: Brown

Charged to:

GPO 1-1142

Confidential.

Further reference your telegram No. 13, January 21, 9 p.m.

Following submitted as of possible interest:

1. Requests by Japan, Sweden, Rumania and others for guarantee of their dollar balances have been refused by BIS.
2. The gold stock of the National Bank of Belgium was distributed equally between New York, London and Paris. Before the German invasion, Paris gold was removed for safekeeping to Dakar under the control of the Bank of France. Recently the Germans requested National Bank of Belgium to instruct the Bank of France to transfer the Dakar gold to Berlin, to be held by the Reichsbank under assurance that it would be safe and held for the account of the Bank of France. When the Belgians refused, the Germans issued a decree on December 19th last empowering the German Commissar at the National Bank of Belgium to take any action on behalf of the Bank, which would be binding on the Bank if countersigned by the German military authorities in Belgium.

Subsequent developments not (repeat not) known.

HARRISON

LR/re

212549

DECLASSIFIED
 Authority NND 765006
 By KG NARA Date 1/22/10

RG 84
 Entry 3208
 File 500,000-557,10
 Box # 1

MEMORANDUM.

*Handled here
 by Mel G. Wick
 Jan 25, 1941*

On taking office as President of the Bank for International Settlements on January 1, 1940 I found that during the preceding month a declaration (Annex 1) had been circulated to Central Banks and all other clients defining the policy of the Bank relating to neutrality. I found later when specific decisions in this connection were required that the provisions of this declaration were intricate and difficult to apply and, therefore, adopted as the best working rules to do nothing which might directly or indirectly (a) increase the financial resources of a belligerent country or its institutions, or (b) increase the availability of such resources by any transaction not open directly to the institution for which the B.I.S. would act. This has been and is the present policy of the Bank. This second point has developed into what is now known inside the bank as the "no bypass" principle, which can be stated: No client can by working through the B.I.S. obtain facilities which are not available to him directly and in his own name. The B.I.S. will not support attempts to evade or circumvent the financial regulations of any country.

On September 17 two questions in regard to the association of the Bank of England to the B.I.S. were asked in the House of Commons and the Chancellor of the Exchequer replied in a way which clearly showed his confidence in the neutrality of the Bank and perhaps also in my ability to give effect to that policy. A photographic copy of a cutting from the Times, London, dated September 18, 1940, (Annex 2) is enclosed. Not long after this the Financial Times, also of London, published in its column "Lombard Street" an attack on the B.I.S. in which it stated that the Bank was under German control and that nothing stood in the way of our turning over all of our American assets to Germany. That seemed to go rather far and to give people in London the facts I sent a telegram (Annex 3) to Arthur Villiers of Barings, a close friend of mine, and I wired a copy of this to the Governor of the Bank of England. My attitude remains as it was then.

22/I/41.

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 By KG NARA Date 1/22/10

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 Box #1

Bern, January 20, 1941.

~~Personal and Confidential~~

Dear Mr. Blake:

I have just telephoned to Tom McKittrick to inquire whether he was expecting to be in Bern shortly. He replied that he had nothing special in mind that would bring him here, but that he might be able to come over on Thursday for luncheon with me. The reason for my inquiry was due to the fact that I have just received a personal telegram from Mr. Hull requesting a special report on the recent and current activities of the B. I. S. having to do with either (a) the handling of dollar securities for or on behalf of European interests and (b) the transfer of dollar funds. The Secretary went on to say that the fuller and more complete it may be possible to make the report the more useful it will be.

May I ask that you be good enough to telephone Mr. McKittrick and inquire when it would be agreeable for you to call upon him at his residence. I made this suggestion to him over the 'phone and he said that he would be glad to arrange this or even call upon you. As I am sure you will appreciate, it would be preferable not to discuss the matter with him at his office.

Please feel at liberty to show Mr. McKittrick this letter and say that I know that Mr. Hull would appreciate his cooperation as greatly as I will if he could find it possible to let me have the information desired on the two points in question, in strict confidence. I shall also be grateful if you will take this up with Mr. McKittrick as promptly as possible and also tell him that if he were not planning to come to Bern for other reasons, perhaps he would be good enough to give you the answer which you could forward to me without any indication of the source.

Will you also kindly acknowledge the receipt of this letter and believe me, with many thanks for your kind assistance,

Very truly yours,

LH/me

M. Williams Blake, Esquire,
 American Consulate,
 Basel.

212551

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 Authority NND 765006
 By KG NARA Date 1/22/10

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TELEGRAM SENT

FILE AFTER CHECKING

~~MINSTER~~
~~MR. BIGELOW~~
~~MR. CHASE~~
~~MISS HARVEY~~
~~MILITARY ATTACHE~~

5516

CARDED

To: Department

Date: January 27, 11 a.m., 1941

No.: 15

Code: Brown

Charged to:

epo 1-1149

Confidential.

Reference your No. 8, January 15, 9 p.m. and No. 13, January 21, 9 p.m.

Following obtained from McKittrick:

1. (a) B.I.S. has no regular business in dollar securities for account of its clients and during 1940 has received for safekeeping only one small block Argentine dollar bonds which it still holds. For own account B.I.S. carries about ten million dollars ninety day paper in New York. No other business in dollar securities.

(b) Because expected investment possibilities in Switzerland did not materialize, Bank in past two months has retransferred to New York about one million dollars previously brought to Switzerland for investment. Bank transfers to New York regularly to amount of nearly \$200,000 a month interest received in Swiss francs on European investments and receives other interest payments directly in dollars. Bank buys and sells gold regularly against dollars license for each transaction being secured from Treasury. Certain central banks hold deposits with B.I.S. which involve rather infrequent receipt and return of substantial sums. In November Central Corporation Banking Companies Budapest transferred to Hungarian National Bank 725,000 dollars in bank's books. B.I.S. has recently granted credit of 1,050,000 dollars to Banco Central El Salvador secured by gold deposited with Federal Reserve Bank New York. Foregoing covers dollar operations since November 1 aside from purchase and collection of 90-day paper mentioned above and variety of less important transactions such as receipt and payment of interest on deposits commissions received in connection with Germany and Austrian bond issues charges for cables as well as for freight insurance and handling in connection with bullion shipments and so forth.

Since June 26 all operations of B.I.S. in American

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markets have been subject to Treasury license but Federal Reserve Bank New York has been authorized carry out routine transactions without reference to Washington. Operations in gold and any unusual transactions still require special license. All current business except purchase 90-day paper done with Federal Reserve Bank New York and although McKittrick ready send extracts account for last month or two if you so desire he suggests same information available at Federal Reserve Bank New York and would be glad if you could use this source which would also entail less delay.

2. Gold Rio five hundred kilos transferred last week by Bank of France to B.I.S. is held by the latter subject to instructions of the former. B.I.S. has no knowledge as to origin this bullion and has not yet received details of marks and weights though understands these have been forwarded by Bank of Brazil.

3. McKittrick anxious to cooperate and would be grateful for any information you can give him as to doubts or misgivings that may be entertained in Washington respecting policies or activities of B.I.S. Policy of B.I.S. in all transactions is to do nothing which would either first increase financial resources of any belligerent country or its institutions or second, increase availability of such resources by any transaction not open directly to its client (see McKittrick's cable No. 292 of June 26 last to Federal Reserve Bank New York which was communicated to Treasury).

HARRISON

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 By KG NARA Date 1/22/10

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IN REPLY REFER TO
 FILE NO.



DEPARTMENT OF STATE

JAN 23 1941

BERN

THE FOREIGN SERVICE
 OF THE
 UNITED STATES OF AMERICA

AMERICAN CONSULATE

Basel, Switzerland, January 22, 1941.

Personal and confidential

Dear Mr. Harrison:

I wish to acknowledge the receipt of your personal and confidential letter of January 20, 1941 regarding your desire to obtain information regarding certain of the activities of one of our local banks, and to say that I discussed the matter yesterday with Mr. McKittrick, as you requested.

As I mentioned to you over the telephone yesterday, Mr. McKittrick expressed himself as being somewhat at a loss to understand just exactly what sort of data was required, and as anxious of having an opportunity of discussing the matter with you personally.

It is my understanding that Mr. McKittrick will visit Bern tomorrow, and that he has already communicated with you to arrange a meeting.

Respectfully yours,

M. Williams Blake
 American Vice Consul

The Honorable
 Leland Harrison,
 American Minister,
 Bern.

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By RG NARA Date 1/22/00

RG 84
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To Mr. Blake LH/me Jan 20, 1941

To Dept. Jan 17, 1941

TELEGRAM RECEIVED

CARDED

U. S. GOVERNMENT PRINTING OFFICE 1-1142

From: Department

Date: January 15, 9 p.m., 1941

No.: 8

Code: Brown

Received: January 16, 9 a.m.

Personal for the Minister.

Will the Legation, employing whatever methods of approach seem most suitable to it, prepare a special report on the recent and current activities of the B.I.S. having to do with either (a) the handling of dollar securities for or on behalf of European interests and (b) the transfer of dollar funds. The fuller and more complete it may be possible to make this report the more useful it will be. It is believed that McKittrick will be glad to cooperate and please consider yourself free to advise with him fully.

HULL

nrm

551.6
BRANK FOR INTERNATIONAL SETTLEMENTS

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Authority **NND 765006**
By **KG** NARA Date **1/22/10**

RG **84**
Entry **3208**
File **102.3-820.02**
CONFIDENTIAL 1940
Box **#1**

FILE AFTER CHECKING

~~MINISTER~~
~~MR. BIGELOW~~
~~MR. CHASE~~
~~MR. HARVEY~~
MILITARY ATTACHE

[Handwritten signature]

No. 1519

Bern, November 19, 1940

Subject: Suggestions to counter German proposals for post-war financial and economic reorganization of Europe.

Pirsch Nov. 19

800 GENERAL / 551.6

RECEIVED

CONFIDENTIAL

The Honorable
The Secretary of State,
Washington.

Sir:

As of possible interest, I have the honor to enclose herewith copy of a memorandum prepared in the Bank for International Settlements at Basel, which was furnished me in confidence by Mr. Thomas H. McKittrick, President of the Bank, calling attention to recent statements in official quarters in Berlin regarding the German plan for the reorganization of industry and commerce in post-war Europe, and setting forth suggestions for

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for measures to counteract this German campaign.

In furnishing me with a copy of his memorandum, a copy of which he has also given to my British colleague, Mr. McKittrick stressed the importance, he felt, in taking such measures as might be possible promptly to offset German activity in this connection. In view of information reaching him from financial circles in many European countries, which has caused him increasing concern, he had, so he told me, endeavored to put his thoughts in concrete form and had therefore prepared this memorandum.

In this connection, Mr. McKittrick told me that he had noticed recent articles by Mr. Puhl, Vice President of the Reichsbank, in support of the present German plan. Nevertheless, having known Mr. Puhl intimately for many years, Mr. McKittrick felt confident that Mr. Puhl had never and would never commit himself wholeheartedly to any such plan as now proposed by Germany.

Mr. McKittrick also referred to Signor Riccardi's visit to Berlin during October last and his reported conversations with Dr. Funk of the Reichsbank at that time. According to information reaching Mr. McKittrick from what he considered most reliable sources, Riccardi had made it clear that his support of the German plan would be given, provided the following three conditions were met: firstly, that there should be no limitation of Italian industry; secondly, no subjugation of the lira to the mark; and, thirdly, that there should be a prior agreement as to an Italian area of economic domination.

I venture to call the Department's particular attention to the final remark in Mr. McKittrick's memorandum

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random that "the effect of any statements of policy (an assurance of the support by Great Britain of sound principles of trade) will be multiplied many times if it receives the support of the United States".

Respectfully yours,

Leland Harrison.

A true copy of the
signed original

JG

Enclosure:
Copy of memorandum.

File No. 800

LH/mk

In quintuplicate

212558

DECLASSIFIED
 Authority NND 765006
 By KG NARA Date 1/22/10

RG 84
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 File 102-3-820102
 Box #1
 CONFIDENTIAL 1940

MEMORANDUM

I PROPAGANDA

1) Official quarters in Berlin have recently made a number of statements as to the organization of industry and commerce in post war Europe. The following points appear to be the principal ones:

- (a) Multilateral clearing between the countries concerned.
- (b) Coordination of production, the needs of Germany being given primary consideration.
- (c) The German mark to be the money of international settlement and Berlin the commercial and financial centre.
- (d) Gold to play a subsidiary role, if any.

2) A constant effort is also made to disseminate the idea that England both will not and can not take part in the solution of post war financial and economic problems on the continent. Making good the losses sustained and dealing with empire problems will take all the resources and energy of the British government. Whichever side may in the end win, it is asserted that continentals will be foolish to look to London for guidance or support.

3) No effective answer to this has been made from the British side and still less has there been any effort to carry conviction by repetition and thus turn to account the method which the Germans use with such telling effect. The statements from Berlin have been ably prepared and are made by men whose names carry weight (Puhl, Abs) in neutral countries. The speakers most versed in matters of finance have not supported the plan announced as vigorously as the more political figures.

II STATE OF MIND

1) Let it be clearly borne in mind that the present system of clearings now so widely practised does in fact give rise to conditions of trade which are - or are at least believed to be - better than those which would result in war time from a system of free dealing and payments. Continental opinion is willing to admit that clearings have helped in the past and are probably helping today. Why should they not be generally adopted in future? This makes it necessary for business men in Europe to give serious consideration to the German statements.

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II STATE OF MIND (contd)

2) The foregoing is all the more a fact because Germany, at all times the largest producer and consumer on the continent, dominates completely the commercial situation in that area today. This is the case largely because the blockade cuts off overseas markets. It is for the smaller European nations a question of trading with Germany including the countries occupied or trading not at all.

III EFFECT OF I AND II ON NEUTRALS

Clearings and payments agreements are constantly under negotiation and require frequent adjustment. Pressure is being exercised continuously to extend and consolidate the position of Berlin as the clearing centre, the mark as the clearing currency, and to introduce in practice the system of multilateral clearing. The German propaganda (I above) combined with the state of mind (II above) in continental countries is leading in an ever greater degree to acceptance of the German plan by governments or their agencies (see attached note - Bergwerkszeitung, Nov. 6). Industrialists, looking both to the immediate and the more distant future, tend to follow the official lead and feel there is little prospect of prosperity except through dealing primarily with the Germans and in accordance with the system advocated by them. Continuation of this movement can only add to the difficulty and cost of - i.e., to the opposition which will be offered to - any plan of post war reorientation. Unless this tendency is checked, a mere restoration of free trading after another year or two of war will leave industry in the small countries tied into the German system of cartels, however unwilling the former may be to accede to this. The present course of developments is undesirable for Great Britain and the cost to that country of curbing it now is small compared with that of correcting its results later.

IV GERMAN OBJECTIVES

1) Germany has great need of goods and materials. The countries occupied have been divested of stocks and the greatest pressure has been brought to obtain deliveries from other sources. Germany by and large is becoming heavily indebted to other countries. To the extent that Germany can persuade her creditors, by arguments as to the future importance of the mark, to accept in settlement credits to their accounts at the clearing centre in Berlin, to that extent she obtains goods on credit and avoids the necessity of paying in foreign currency

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IV GERMAN OBJECTIVES (contd)

or shipping goods herself. The immediate object of the German scheme is to obtain credit without disclosing the fact.

2) Many thinking Germans have during the past month reached the conclusion that their country can not achieve a decisive victory. They look forward to a negotiated peace in the course of 1941 which will leave Germany with larger industrial resources than before the present war. Still greater armament and commercial penetration with political consequences in various parts of the world will then presumably be the German policy.

If before such a contemplated peace Germany can succeed in making the scheme of clearings at Berlin - whether bilateral or multilateral - binding on most of the other European nations, she will be able to exercise a monopolistic control of the continent's international business. In the past monopoly has always led to abuse. Germany has not hesitated to use any and all means available to further her needs. Virtual control of international trade within Europe and perhaps between Europe and other parts of the world will constitute a powerful weapon in her hands.

V COUNTERMEASURES

Declarations intended to oppose the present German efforts would naturally

- 1) seek to discredit the German proposals and
- 2) lend support to a different policy.

1) Discredit German proposals.

The points which can be made for this purpose are

i) World wide commerce has in the past resulted in greater welfare than restricted trade. No nation has voluntarily chosen a system of controlled commerce.

ii) The Germans are well aware of this and are seeking only their own immediate advantage at the expense of other countries (IV 1) above)

iii) Clearings are admittedly a temporary expedient and entail the following disadvantages -

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V COUNTERMEASURES (contd)

- (a) They turn trade into barter, reducing the volume of business
- (b) They impede the use of credit, which so greatly lubricates the wheels of commerce.
- (c) They require a mass of formalities, involving unnecessary delays and expense
- (d) They require buying and selling in markets which are by no means the most favourable.
- (e) They leave unsolved the problem of "spitzen" (balances).
- iv) The attacks on gold are insincere. Offer any man a free choice between a kilogram of pure gold and 2790 paper marks and see which he will take. The whole system of controlled exchange is in effect a choice of gold by the German government itself.
- v) The only big countries in the world without substantial holdings of gold are Germany and Italy.

2) Support for a different policy.

Specific undertakings in this connection are not necessary.

A statement of sound principles of trade and a declaration that they will have the support of Great Britain once victory has been achieved would be of great value. The case will be stronger if assurances can be added that England will not at the end of the war leave the smaller continental nations at the mercy of Germany. The effect of any statements of policy will be multiplied many times if it receives the support of the United States. Any announcement made needs repetition to drive it home.

212562

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Authority NND 765006
By KG NARA Date 1/22/10

RG 84
Entry 3208
File 500,000-55716
Box 41

Annex 3

COPY OF TELEGRAM
sent on October 10, 1940.

ARTHUR VILLIERS care of BARING BROTHERS

L O N D O N

According to Swiss Press Financial News of October 5 published comments on B.I.S. and my position stop In order that my many London friends may have the facts I wish to make two points clear ONE There has been and is no pressure on B.I.S. to depart from policy of strict neutrality stop Since I took office bank has not except in one minor instance received requests or proposals which could be criticised from this point of view TWO I do not expect any change in this respect but if pressure should be brought and I should find it very difficult or impossible to continue present neutral policy I shall not hesitate to resign paragraph Am most anxious avoid newspaper publicity and do not ask you to take any action regarding this matter but should be grateful if you would correct any uninformed talk you may hear stop Please show this to George Akers-Douglas stop Life practically normal here stop Many thanks and regards

Thomas McKittrick

212563

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Authority AND 765006By KG NARA Date 1/22/00

RG

84Entry 3208File 000-71112
CONFIDENTIAL 1941

Box

1

Annex 2

Cutting from The Times, dated Sept. 18, 1940.

THE INTERNATIONAL BANK

Mr. CRAVEN-ELLIS (Southampton, Nat.) asked the Chancellor of the Exchequer if he was satisfied that the enemy gained no advantage from the association of the Bank of England with the Bank for International Settlements; and whether, in view of the public concern about the Bank of England's association with this bank, which was now controlled by representatives of enemy countries, he would take steps to ensure that all connexion with the Bank for International Settlements was revised.

Mr. PARKER (Romford, Lab.) also asked the Chancellor of the Exchequer whether he was aware that, in the Report of the Bank for International Settlements, dated May 27, 1940, the names of Mr. Montagu Norman, Governor of the Bank of England, and Dr. Funk, German Economic Minister, were included together among the list of directors; and, as it was not desirable that at the present time Mr. Norman should be listed in a public document as a colleague of a German Cabinet Minister, he would take the necessary steps to terminate this country's connexion with the Bank for International Settlements.

SIR K. WOOD (Woolwich, W., U.)—I am satisfied that the enemy gain no advantage from the association of the Bank of England with the Bank for International Settlements, the administration of which is now controlled by its president, a United States citizen. The report referred to is in the first person and is signed by the president of the bank. I need hardly say that it contains nothing objectionable to this country. No meetings of the board of directors have been held since the outbreak of war. If any such meetings were proposed I should be made aware of the date and circumstances, and no British directors would attend without agreement with me. On balance there would be no advantage to this country in terminating its connexion with the Bank for International Settlements, and I think this step would be more likely to help the enemy than ourselves.

In reply to Mr. SHINWELL (Seaham, Lab.) SIR K. WOOD said that there were advantages to this country in retaining the association; we had a little money there.

Mr. GALLACHER (Fife, W., Comm.)—Does the right hon. gentleman recall the words of the Prime Minister that the gold sent through this bank by Mr. Montagu Norman would come back to this country in the form of bombs, and in view of the correctness of that prophecy, is it not time to put an end to this?

SIR K. WOOD (Woolwich, W., U.)—I am satisfied there. I think it essential that the position should be maintained.

212564

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Authority NND 765006By KG NARA Date 1/22/00
 RG 8
 Entry 3a
 File 50010
 Box 4

1940

212565

Cutting from The Times, dated Sept. 18, 1940

THE INTERNATIONAL BANK

Mr. CRAVEN-ELLIS (Southampton, Nat.) asked the Chancellor of the Exchequer if he was satisfied that the enemy gained no advantage from the association of the Bank of England with the Bank for International Settlements; and whether, in view of the public concern about the Bank of England's association with this bank, which was now controlled by representatives of enemy countries, he would take steps to ensure that all connexion with the Bank for International Settlements was revised.

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European Reconstruction Questions (contd)

the Lire, on the one hand, and the other European currencies, on the other hand, fluctuating exchange rates rendering intense commercial exchange impossible. The establishment of fixed exchange rates would be a decisive factor for attaining the possibility of immediate outpayments of clearing balances to the beneficiary. Once fixed exchange relations exist and the greatest possible liquidity of clearing balances within the European economic sphere is achieved external currency difficulties become practically impossible and thus Govt direction of the balance of payments would be considerably facilitated and simplified. The foundation of the whole system was, however, a sound internal currency policy in all countries participating in the clearing, the external value of any currency depending always on its internal value. It was impossible in the long run to maintain stable exchange rates if an unsound domestic currency policy led to irregular price rises. The guiding principle in this connection was that monetary circulation must always be in a well-balanced relation to turnover of goods. Discussing the possible functions of banks under the new system, Herr Puhl holds it possible that currency barriers between private banks may be ignored in direct transfer and credit transactions. This would, however, give rise to the problem of "Giralgeld" on an international scale. With regard to overseas trade relations, it is realized that the difficulties in the way of the application of the clearing system to overseas countries would be so numerous and considerable that its scope could only be limited. More favourable were the prospects for the system of payments agreements in this connection, which combined the advantages of private exchange operations with those of Govt direction of balance of payments. Herr Puhl envisages a free devisa exchange with overseas countries.

Berlin Clearing Centre BERGWERKSZTG, 6/11. Bulgaria, having declared herself prepared to settle payments with Norway, Holland and Belgium, via the German-Bulgarian clearing, the number of countries participating in the Berlin clearing has increased to ten, namely, Norway, Sweden, Finland, Denmark, Holland, Belgium, Italy, Switzerland, Yugoslavia and Bulgaria. The Berlin clearing is, for the time being, however, only applied between individual countries and the occupied countries or between occupied countries. Similarly to an arrangement reached with Slovakia, Germany has agreed with Bulgaria that export proceeds will be paid out in future immediately, regardless of the position of the clearing balance. Negotiations on the same question are taking place with Rumania, while with Yugoslavia there exists no necessity for such an arrangement, German deliveries to that country exceeding imports. The fact that the bad crops in certain South-Eastern European countries has resulted in a decline in deliveries to Germany, while German exports have increased, has given rise to the question of delays in outpayments to German creditors. Germany has a considerable clearing claim on Yugoslavia and Hungary, and in order to reduce the waiting period for outpayments to German exporters, the German Clearing Office has granted to Hungary two credits of RM 15 million each, while in relation to Yugoslavia, internal measures have been taken to accelerate outpayments to German creditors.

Nov 6, 1940

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*Tout-Bright
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a) B.I.S. has no regular business in dollar securities for account of its clients and during 1940 has received for safekeeping only one small block Argentine dollar bonds which it still holds. For own account B.I.S. carries between five and ten million dollars ninety day paper in New York. No other business in dollar securities.

b) Bank customarily transfers interest on its European investments received in Swiss francs to New York in amounts of approximately seven hundred and fifty thousand Swiss francs per month. Is further buying and selling ~~regularly~~ *regularly* gold against dollars. Aside from occasional minor transactions foregoing covers dollar transactions except for purchase and collection of ninety day paper mentioned above.

Since June twenty-sixth all operations of B.I.S. in American markets have been subject to Treasury license but Federal Reserve Bank New York has been authorized carry out routine transactions without reference to Washington. All operations in gold and other unusual transactions require special license before being effected. All current business done with Federal Reserve Bank New York and although McKittrick ready send extracts account for last month or two if you so desire he suggests same information available at Federal Reserve Bank New York and would be glad if you could use this source which would also entail less delay.

Gold Rio two hundred not five hundred kilos transferred last week by Bank of France to B.I.S. is to be held by the

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latter subject to instructions of the former. B.I.S. has no knowledge as to origin this bullion and has not yet received details of marks and weights though understands these have been forwarded by Bank of Brazil.

Policy of B.I.S. in all transactions is to do nothing which would first increase financial resources of any belligerent country or its institutions or second, increase availability of such resources by any transaction not open directly to its client (see McKittrick's cable No. 292 of June 26th last to Federal Reserve Bank New York which was communicated to the Treasury).

McKittrick anxious to cooperate and would be grateful for any information you can give him as to doubts or misgivings ^{that may be} entertained in Washington respecting policies or activities of B.I.S.

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Annex 1

CIRCULAR LETTER TO CENTRAL BANKS
HAVING BUSINESS RELATIONS WITH THE
BANK FOR INTERNATIONAL SETTLEMENTS

Basle, 18th December 1939.

Sir,

I have the honour to bring the following to the knowledge of all Central Banks having business relations with the Bank for International Settlements:

Present events require that the Bank for International Settlements should impose upon itself certain rules of conduct.

The position enjoyed by the Bank for International Settlements, which maintains business relations with almost all Central Banks, does in fact demand that it should only carry out operations which are above reproach both from the point of view of belligerents and neutrals. The strict observance of the following rules would seem to meet this necessity:

"(1) The B.I.S. will abstain from any transaction the result of which would be to carry out, directly or indirectly, for the account of the central bank (or other institution) of a belligerent country, a financial operation on the market or in the currency of another country with which the former is in a state of war at the time of such transaction.

(2) The B.I.S. will abstain:

- (a) from disposing of its assets on the market of a belligerent country for the purpose of making or facilitating any payment to or on behalf of another country with which the former is at war;
- (b) from holding in its own name for the account of the central bank (or other institution) of a belligerent country gold under earmark or other assets on the market of another country with which the former country is at war.

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(3) The B.I.S. will take all suitable measures and will, in particular, demand from its correspondents appropriate statements in order to satisfy itself before any transaction is carried out that such transaction does not fall directly or indirectly within the categories indicated above."

For the sake of greater clarity it may be well to state that the term "its assets" appearing in paragraph (2) (a) above means the balances appearing in all the accounts opened in the name of the B.I.S. on any given market, whether gold under earmark or accounts expressed in foreign currencies.

Further, by the terms of paragraph (2) (b) above, the B.I.S. may not in future accept any deposit falling within the category referred to. At the present time no deposit of this kind is held by the B.I.S.

I have the honour to draw the attention of Central Banks of neutral countries particularly to paragraph (3) above and to request them to be good enough to conform with the principle there set out. In transmitting to the B.I.S. any order or demand, a Central Bank of a neutral country will be presumed to have satisfied itself that the transaction in question does not come either directly or indirectly within one of the categories of operations which the B.I.S. has renounced. The B.I.S. reserves the right, if necessary, to ask for more detailed information before carrying out any operation upon the instructions of a Central Bank of a neutral country.

I am fully convinced that the Central Bank of will be in entire agreement with the Bank for International Settlements with regard to the foregoing and will be prepared, in so far as it is concerned, to assist our Institution in the fulfilment of its delicate task.

I have the honour to be, etc.,

(signed) BEYEN

President.

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J.C.S. 1341/1

23 May 1945

Page 12

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per letter dtd
25 June 45. JCS*

JOINT CHIEFS OF STAFF

AMENDMENT TO INSTRUCTIONS FOR UNITED STATES
REPRESENTATIVES ON THE REPARATION COMMISSION.

Handwritten mark

Reference: J.C.S. 1341

Note by the Secretaries

The enclosed memorandum dated 18 May 1945 from the Acting Secretary of State to the President is circulated for information.

A. J. MCFARLAND,
E. D. GRAVES, JR.,
Joint Secretariat.



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EUROPEAN ARMY
LONDON
DA

*1 copy is Rec'd.
99 - JCS
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101 - JCS 1341/1*

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10 May 45

Instructions for United States Representative
on the Reparation Commission

JCS 1341

10 May. Referred to JCS.

PRESENT STATUS

COMPLETED 15 May. JCS by informal action approved the recommendation in JCS 1341. (Memo dispatched to State-War-Navy Coordinating Committee transmitting reply to Secretary of State, 15 May.)

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J.C.S. 1341

10 May 1945

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JOINT CHIEFS OF STAFF

INSTRUCTIONS FOR UNITED STATES REPRESENTATIVE ON THE
REPARATION COMMISSION
Reference: J.C.S. 1067 Series

J. M. St.

Report by the Joint Civil Affairs Committee

141

THE PROBLEM

1. To draft a memorandum to the Secretaries of War and the Navy containing the comments of the Joint Chiefs of Staff on the military aspects of the "Instructions for United States Representative on the Reparation Commission" (Appendix "B") as a matter of urgency.

FACTS BEARING ON THE PROBLEM

2. On 5 May 1945 the State-War-Navy Coordinating Committee advised the Joint Chiefs of Staff that Appendix "B" had been approved by the Informal Policy Committee on Germany and had been referred to the State-War-Navy Coordinating Committee in order that the views of the Joint Chiefs of Staff might be obtained. The State-War-Navy Coordinating Committee requested that the comments of the Joint Chiefs of Staff on the military aspects of the subject instructions be furnished as a matter of urgency.

CONCLUSION

3. There is no objection to the proposed instructions from a military point of view.

RECOMMENDATION

4. That the memorandum in Appendix "A" be forwarded to the Secretaries of War and the Navy.

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The occupation authorities should be responsible for the execution of the plan within Germany. In the execution of the plan, the Control Council should have the authority to withhold from transfer as reparations specific items the removal of which in its judgment would reduce the available economic means below the minimum required to meet the other purposes of the occupation. After review by the Control Council and in the absence of agreement, the zone commander if he believes that any specific item should be retained within his zone may with the specific determination of his government that such item is essential for the purposes of the occupation withhold the removal of such item. The zone commander may, of course, withhold the removal of such items pending such determination.

The long term plan referred to above should not be approved by the U.S. representatives on the Reparation Commission or Agency until it has been submitted to and approved by the United States Government.

The Control Council should advise the Reparation Agency (or Commission) from time to time as deliveries are made. The Reparation Agency (or Commission) should keep a record of all such deliveries, and should place appropriate values on the respective amounts delivered.

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Reparation Plan. However, the reparation exactions should be held within such limits as to leave the German people with sufficient means to provide a minimum subsistence standard of living without sustained outside relief; but under no condition should this limitation operate to require the retention in Germany of means to support basic living standards on a higher level than that existing in any one of the neighboring United Nations.

k. The Reparation Plan should not put the United States in a position where it will have to assume responsibility for sustained relief to the German people.

4. It was agreed at Yalta that reparation in kind is to be exacted from Germany, partly through the "use of German labor." In negotiations on labor reparation with the other powers in the Reparation Commission, the United States representatives will be guided by the following principles:

a. The United States will not accept reparation in the form of labor services.

b. Both compulsory and voluntary labor services furnished as reparation should be used outside of Germany only for reconstruction and repair of war damage and not for current production operations except for fuel and food.

c. This Government is strongly of the view that persons other than those specified in d below as deserving of punishment should not be called upon to perform compulsory labor service outside Germany.

d. Compulsory labor service should be required only from war criminals and individuals definitely determined by appropriate process to be members of the Gestapo, the S.S., the Sicherheitsdienst der S.S., leaders of the S.A., or leading collaborators, supporters of and participants in

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the Nazi party or administration.

e. Agreement should be sought along the following lines with regard to compulsory labor service:

(1) Except for persons tried for specific crimes, and convicted and sentenced to lifetime punishment, the period of compulsory labor service should be limited to a definite span of years.

(2) The standard of living and conditions of employment should conform to humane standards.

(3) The Reparation Commission or Agency should periodically survey the living and working conditions of compulsory workers and the uses made of their services.

f. Apart from persons deserving of punishment as defined above, German labor for reparations should be recruited only on a voluntary basis.

g. The net value of the services of both types of labor shall be included as reparations.

5. The first charge on all approved exports for reparation or otherwise (other than removals of existing plant and equipment) shall be a sum necessary to pay for approved imports. Accordingly, to the extent necessary to pay for such minimum German imports as may be determined to be essential, recipient countries should be required to pay for German exports, except removals of existing plant and equipment. Imports for which payment will be sought shall include supplies imported by the occupying forces for displaced persons and German civilians.

6. Without the approval of an appropriate Allied body there shall be no re-export to third countries of goods received on reparation account.

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7. In order to prevent the treatment as war booty or as reimbursement for occupation costs of exports from Germany which should properly be considered as reparations deliveries, agreement should be sought on the scope of war booty and reimbursement for occupation costs. Agreement should also be sought on the scope of restitution in relation to reparation.

8. The governments participating in the Reparation Commission will retain control over the disposition of German property located within their respective borders. These nations will seek agreement with other countries in which German assets are located designed to eliminate continued German control of such assets and prevent their eventual return to Germans.

9. The United States will expect to assert a claim for reparations before the Reparation Commission in accordance with the principles of the Yalta Protocol in order to preserve its rights to its proper share of payment for losses caused to it by Germany in the course of the war. Pending the furnishing of a more exact claim at a later date the United States representative shall reserve the right to claim delivery of reparations in a total amount to be determined. The United States will desire to receive as much as feasible of its share of reparations in the form of foreign exchange assets including German investments abroad.

10. As an interim program, pending the formulation of more definitive arrangements, this Government would favor formulation of an immediate program by the Reparation Commission along the following lines:

a. During the initial period following the collapse of Germany each of the four occupying powers--Great Britain, Russia, France and the United States--may remove from its

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zone of occupation in Germany plants, equipment and materials (including current output) of such a nature and not in excess of such amounts as may be determined by the Reparation Commission. It shall be our policy to press for inclusion in such an initial removal schedule the categories of plant, equipment and materials (excluding ocean-going merchant tonnage) described in paragraphs 30, 31 and 32 of the "Directive to the Commander in Chief of the United States Forces of Occupation Regarding the Military Government of Germany" (J.C.S. 1067/6) and in paragraph 3 g above.

b. The decision as to whether or not the removal of particular plants, equipment or materials out of a zone in Germany is consistent with the purposes of occupation would be made by the commander of such zone, subject to the following conditions:

(1) There would be constant consultation between zone commanders.

(2) In making a decision as to removal the zone commander would be responsible for carrying out any relevant agreed policies which may be formulated from time to time by the Control Council.

(3) The Control Council would have an opportunity to consider any particular removal and could veto it.

(4) Regular reports should be made to the Control Council of transfers for reparation account and the Control Council should keep appropriate Allied agencies currently informed.

c. During this initial period any one of the four occupying powers could allow, if it so desired, any other United Nation entitled to reparations in the form of removals from Germany to take out of its zone plants, equipment and

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materials of such a nature and not in excess of such amounts as may be determined by the Reparation Commission. Such removals would be subject to the policy and conditions specified in sub-paragraphs a and b above.

d. Records should be kept of all deliveries made on reparations account under such interim arrangements and such deliveries should be made without prejudice to the final allocation of reparation shares. The Reparation Commission should determine the principles for valuation of such deliveries.

11. The Reparation Plan should include provision for the early establishment of a reparation agency including representatives of such governments as have suffered devastation or substantial damage. This agency, after detailed study of Germany's capacity to pay and examination of claims to reparation by the various claimant nations, shall develop a long term plan for the delivery of reparations. This plan shall set forth a description of the reparations to be delivered and their physical allocation to the various claimant nations. It shall contain a time schedule indicating the rate at which deliveries are to be made to the several governments over a stated period of years. The reparation agency should be given continuing responsibility for drawing up at regular intervals detailed schedules of the amounts and kinds of reparations items to be delivered and should have authority to determine the allocation of specific items among claimant governments.

In lieu of the establishment of the reparations agency referred to above the Reparation Plan may provide that the Reparation Commission, appropriately expanded by the addition of representatives of other claimant governments, may be continued in existence and utilized for the same purpose.

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APPENDIX "A"

D R A F T

MEMORANDUM TO THE SECRETARIES OF WAR AND THE NAVY

The Joint Chiefs of Staff recommend that the Secretaries of War and the Navy inform the Secretary of State as follows:

"The Joint Chiefs of Staff have considered the military aspects of the proposed instructions for the United States representative on the reparation commission (Appendix "B") and perceive no objection to these instructions from the military point of view."

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~~SECRET~~ SECRETAPPENDIX "B"INSTRUCTIONS FOR U.S. REPRESENTATIVE ON REPARATION COMMISSION

1. It was agreed at the Yalta Conference that Germany must pay in kind for the losses caused by her to the Allied Nations in the course of the war. The primary purpose of the Reparation Commission should be the formulation of a general program for the exaction of substantial reparation and the establishment of the policies under which this program is to be implemented.

2. It is and has been fundamental United States policy that Germany's war potential be destroyed, and its resurgence as far as possible be prevented, by removal or destruction of German plants, equipment and other property.

While cooperating with the other powers in implementing the basic purposes of the Yalta Agreement, the U.S. representative will bear in mind that whatever plan is formulated by the Reparation Commission (hereinafter referred to as the Reparation Plan) should be in conformity with the economic and security objectives of this country with respect to Germany. The position of the United States on the various issues involved in this respect is summarized in the following paragraphs.

3. In determining the size and character of reparation in accordance with points a and b of paragraph 2 of the Reparation Protocol and the allocation thereof among the various claimant nations the following principles are advocated by this Government:

a. The Reparation Plan should assist in the elimination of industrial capacity in Germany considered to be dangerous to the security of the United Nations.

b. The Reparation Plan should aid in strengthening and developing on a sound basis the industries and trade of the

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devastated non-enemy countries of Europe and of other United Nations, and in raising the living standards of these countries.

c. The reparation burden should be distributed in so far as practicable so as to impose equality of sacrifice upon, and result in an equal general standard of living for the German populations of each of the zones under the control of the respective occupying nations.

d. This Government opposes any reparation plan based upon the assumption that the United States or any other country will finance directly or indirectly any reconstruction in Germany or reparation by Germany.

e. The Reparation Plan should not maintain or foster dependence of other countries upon the German economy.

f. The Reparation Plan should not be of such a nature as to promote or require the building up of German economic capacity.

g. To the maximum extent possible, reparations should be taken from the national wealth of Germany existing at the time of collapse, with primary emphasis upon the removal of industrial machinery, equipment and plants, particularly the shipbuilding, metallurgical, machine tool producing, electrical machinery, and chemical industries (including all industries producing oil and oil products, synthetic nitrogen and synthetic rubber), ships, rolling stock, patents, copyrights, and German foreign exchange assets including investments abroad. Capacity for the production of component parts that enter into the production of the industries noted above should also be eligible for removal. Reparation in kind should not include arms, ammunition, and implements of war. (This Government favors the inclusion of

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German ocean-going merchant tonnage in the shipping pool until the end of the war against Japan and its division on some fair basis thereafter, and negotiations with other governments are in progress on this subject.)

h. To the extent that for political reasons it may become necessary in the negotiations to agree that reparations be collected in the form of deliveries of goods from current production over a period of years, such goods should be of such a nature and in such amounts as not to require the maintenance of the German war potential or the continued dependence of other countries on Germany after reparations cease. Accordingly, recurring reparations, over a period of years, should be:

(1) As small as possible in relation to the reparations to be paid in the form of industrial plants and equipment; and

(2) Primarily in the form of raw materials and natural resources, and to the smallest extent possible in the form of manufactured products.

i. The removal of plants and equipment shall take place regardless of the fact that they are owned in whole or in part, directly or indirectly, by United Nations nationals. Where plants or equipment which are owned in whole or in part by a United Nation national are to be so removed arrangements shall be made, if practicable and desired by the government of such national, for the owner to retain his interest in such plant and equipment after removal. If not practicable or so desired, Germany shall furnish to the government of such national adequate reparation to cover the interest of such national.

j. It will be inevitable that the German standard of living will be adversely affected by the carrying out of the

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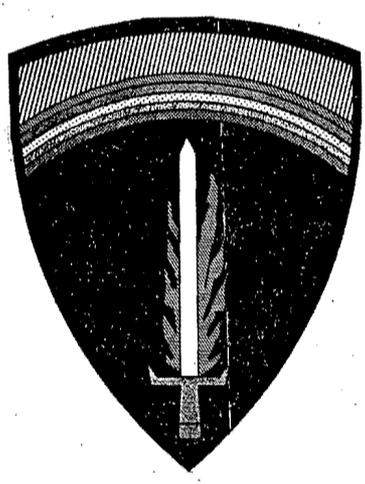
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OFFICE OF MILITARY GOVERNMENT FOR GERMANY (U.S.)

REPARATIONS

(Cumulative Review)



**REPORT OF THE
MILITARY GOVERNOR
SEPTEMBER 1945—JUNE 1949**

NO. 48

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REPARATIONS

CHAPTER I

REPARATIONS FROM GERMANY IN THE FORM OF CAPITAL INDUSTRIAL EQUIPMENT

Basic Reparations Negotiations

At Potsdam, prior intergovernmental discussions on the subject of reparations were formalized in an agreement on reparations, intended to compensate to the greatest possible extent the loss and suffering which Germany had occasioned to other nations and to accomplish the industrial disarmament of Germany. The Potsdam Agreement ^{1/} provided for reparations by the delivery of capital industrial equipment from Germany to United Nations and further settlement from German external assets. This report deals only with the problem of reparations in the form of capital industrial equipment from the occupied zones of Germany.

The Potsdam Agreement provided:

- "1. Reparations claims of the USSR shall be met by removals from the zone of Germany occupied by the USSR....
- "2. The USSR undertakes to settle the reparations claims of Poland from its own share of reparations.
- "3. The reparations claims of the United States, the United Kingdom, and other countries entitled to reparations shall be met from the Western Zones....
- "4. In addition to the reparations to be taken by the USSR from its own zone of occupation, the USSR shall receive additionally from the Western Zones:
 - a. Fifteen percent (by value) of such usable and complete industrial capital equipment ... as is unnecessary for the German (peacetime) economy and should be removed from the Western Zones of Germany, in exchange for an equivalent value of food, coal, potash, zinc, timber, clay products, petroleum products, and such other commodities as may be agreed upon.
 - b. Ten percent (by value) of such industrial capital equipment as is unnecessary for the German (peacetime) economy and should be removed from the Western Zones, to be transferred to the Soviet Government on reparations account without payment or exchange of any kind in return."

The nations entitled to receive reparations are represented in the Inter-Allied Reparation Agency and will hereinafter be called the IARA nations. These nations are 19 in number — Albania, Australia, Belgium, Canada, Czechoslovakia, Denmark, Egypt, France, Greece, India, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, South Africa, United Kingdom, United States, and Yugoslavia. The nations to which commitments were thus made and their relative shares in the capital industrial equipment allocated to IARA are as follows:

^{1/} Report of the Tripartite Conference of Berlin (Berlin Protocol or Declaration of Potsdam) of 2 August 1945. See Annex A, p. 16.

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REPARATIONS

SHARE OF INDUSTRIAL EQUIPMENT ALLOCATED BY THE
 INTER-ALLIED REPARATION AGENCY TO MEMBER NATIONS ^{a/}

Country	Proportionate Share of Industrial Equipment Allocated by IARA percent
Albania	0.35
Australia	0.95
Belgium	4.50
Canada	1.50
Czechoslovakia	4.30
Denmark	0.35
Egypt	0.20
France	22.80
Greece	4.35
India)	
Pakistan)	2.90
Luxembourg	0.40
Netherlands	5.60
New Zealand	0.60
Norway	1.90
Union of South Africa	0.10
United Kingdom	27.80
United States	11.80
Yugoslavia	9.60

^{a/} Member nations of the Inter-Allied Reparation Agency (IARA) receive reparations from Germany in the form of capital industrial equipment removed from the U.S., U.K., and French Zones of Occupation. Their proportionate shares of the 75 percent of the equipment removed which is allocated to IARA are stated in this table. (The Soviet Union and Poland are not IARA nations, but receive the other 25 percent of the equipment removed from the U.S., U.K., and French Zones plus all capital industrial equipment which they unilaterally remove from the Soviet Zone of Occupation.)

The amount and character of equipment surplus to a peacetime German economy was to be determined by the Allied Control Council, subject to the final approval of the Commander in the zone from which the equipment was to be removed. Prior to establishing the total amount of equipment subject to removal, "advance deliveries" were to be made from certain plants considered as obviously surplus to any subsequently agreed level of German peacetime industry. In accordance with this agreement the Western occupying powers prepared in the fall of 1945 an advance list of plants which might be dismantled and delivered as reparations prior to quadripartite agreement on the future level of industry.

Preparatory estimates and negotiations took place during the fall and winter of 1945-46 regarding the level of German industry which might be necessary to meet the needs of the occupying forces and displaced persons in Germany and to maintain average living standards in Germany not exceeding the average in other European countries. The four occupying powers, on 26 March 1946, agreed on a Plan for Reparations and Level of Postwar German Economy (dated 27 March 1946).^{1/} This plan, which proposed to reduce heavy industry in Germany to about 50 to 55 percent of the 1938 level, was predicated on conditions stated in the Potsdam Agreement; particularly that, during the period of occupation, Germany would be treated as a single economic

^{1/} For the text of this plan, see Annex B, p. 21.

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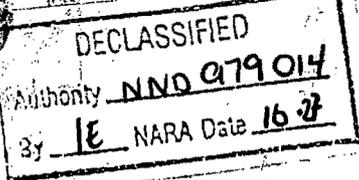
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 Box 1

COMMISSION TRIPARTITE POUR LA
 RESTITUTION DE L'OR MONETAIRE

TRIPARTITE COMMISSION FOR THE
 RESTITUTION OF MONETARY GOLD

BRUXELLES, 13th March, 1947.
 BRUSSELS.

24a Boulevard du Régent.

Sir Desmond Morton, K.C.B., C.M.G., M.C.,
 Delegate of His Majesty's Government of
 Great Britain and Northern Ireland,
 Inter-Allied Reparation Agency,
 Brussels, Belgium.

Sir,

1. As set forth in the official announcement made on September 27th, in the Department of State Bulletin, in the London Gazette, and in the Journal Officiel de la République Française, a copy of which is attached to this communication, the Governments of the United States, the United Kingdom and France, in accordance with the responsibilities placed on them under Part III of the Paris Agreement on Reparation, and in order to carry out as rapidly as possible the terms of that Agreement in so far as they concern the restitution of monetary gold, looted by, or wrongfully removed to, Germany, have constituted a Tripartite Commission for the Restitution of Monetary Gold. The Commissioners appointed by and representing their respective Governments are :

For the Government of the United States of America :	Mr. Russell H. Dorr
For His Majesty's Government of the United Kingdom and Northern Ireland :	Sir Desmond Morton, K.C.B., C.M.G., M.C.
For the Government of France :	M. Jacques Rueff, who during his missions away from the seat of the Commission, will be replaced by M. Henry Spitzmuller, who will exercise identical powers (Decree of the French Government, 9th November, 1946).

2. The Commission has been established for the time being in Brussels, where its address until further notice will be : -

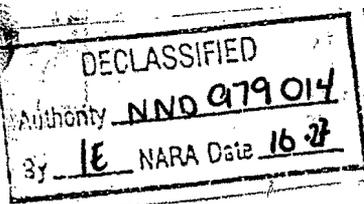
The Tripartite Commission for the Restitution of Monetary Gold,
 24a, Boulevard du Régent,
 Brussels, Belgium.

The Commission is in no way constitutionally connected with the Inter-Allied Reparation Agency, which also has its seat in Brussels.

3. As will be noted from the official announcement, the Commission has been authorised by the three Governments concerned to assemble the information required to carry out Part III of the Paris Agreement, and to determine the share of each claimant Government in the pool of monetary gold to be distributed by way of restitution. In this connection, the Commissioners beg to draw your attention to Paragraph D of Part III of the Paris Agreement and to the Terms of Reference of the Commission whence the question of the eventual participation by Governments not signatories to the Paris Agreement in the pool of monetary gold available for restitution is not one for the Commissioners to decide. In consequence, the despatch of this letter to non-signatory Governments can in no way be considered by such Governments as prejudging the decision in regard to their participation which will be taken by the Allied Governments concerned.

4. In general, the concepts of loss through looting by, or wrongful removal to, Germany, which will guide the Commission, are those described in the United Nations Declaration against Axis Acts of Dispossession, dated 5 January, 1943; in the United Nations Gold Declaration of 22 February, 1944; and in Resolution VI of the Final Act of the United Nations Monetary and

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Financial Conference, dated 22nd July, 1944.

5. For the purpose of implementing Part III of the Paris Agreement, insofar as concerns the submission of claims for restitution in respect of losses of monetary gold through looting by or wrongful removal to Germany, the Commission has adopted the following definition of "Monetary Gold":

"All gold which, at the time of its looting or wrongful removal, was carried as a part of the claimant country's monetary reserve, either in the accounts of the claimant Government itself or in the accounts of the claimant country's Central Bank or other monetary authority at home or abroad."

6. In view of the foregoing, we, the undersigned Commissioners, request you, as Delegate of His Majesty's Government of Great Britain and Northern Ireland, to be good enough to invite your Government to furnish us detailed and verifiable data regarding the losses of monetary gold, as defined above, suffered by your country since 12 March, 1938, through looting by or wrongful removal to Germany. Such data should include only claims on behalf of your Government or of your country's Central Bank or other monetary authority. The Commission cannot recognise claims put forward by one Government on behalf of another Government or on behalf of the Central Bank or other monetary authority of another country. In order to provide the necessary legal basis for restitution, it is requested that this information should be furnished as a formal statement by your Government, certified by the proper authorities with the necessary signatures and seals. It should be understood that this information may, in summary form, be published by the Commission as an historical document.

7. Attention is drawn to the fact that the three Commissioners will be able to enter into correspondence only with the authorised representatives of claimant Governments, and cannot receive communications from or enter into correspondence with private or legal persons in regard to claims for the restitution of monetary gold.

8. It is hoped that all Governments claiming restitution of monetary gold will find it possible to prepare the necessary information in a reasonable uniform manner, since this will expedite the work of the Commission and permit a more prompt distribution. To facilitate this, a questionnaire has been attached as a guide. It will be understood that, in view of the very large sums involved, and of its responsibility for determining the relative shares of the Claimant Governments, the Commission will feel obliged to scrutinize with the greatest care all information received and to reserve the right of requesting supplementary information, and of final decision concerning the admissibility of each individual claim. The Commission would, therefore, be grateful if your Government could undertake to ensure that all information furnished should be as complete and circumstantial as possible.

9. Information is requested as to those transfers connected with looting by or wrongful removal to Germany, recoveries of gold from German or German allied control and all other transfers of monetary gold during the war period. It will be recognised that such full information is essential to permit reconstruction of German gold movements during the war and to aid in tracing looted gold to its present location. Data as to any recoveries or acquisitions of monetary gold from German or German allied control, whether directly or indirectly, and as to recoveries or acquisitions from a third country made on account of monetary gold lost to Germany, are, of course, particularly important.

10. It is requested that six copies each, in English and French, which are the official languages of the Commission, of the required information, together with six copies each of certified translations into English and French of each evidentiary document in another language which is submitted in support of a claim, be forwarded to the Tripartite Commission for the Restitution of Monetary Gold at the address given above. It is requested that receipt of this

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letter be acknowledged, and it is hoped that, in the interest of your own Government and of all other claimant Governments, your Government will find it possible to complete its reply before 30 April, 1947.

Commissioner
for the Government
of the United States of America

(signed)
Russell H. Dorr.

Commissioner
for His Majesty's Government
of the United Kingdom of Great
Britain and Northern Ireland

(signed)
Desmond Morton.

Commissioner
for the Government
of France

(signed)
Jacques Rueff.

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our file: Shiloh gold claim

TREATIES AND OTHER INTERNATIONAL ACTS / SERIES 1707

RESTITUTION OF MONETARY GOLD

**Protocol Between the
UNITED STATES OF AMERICA,
the UNITED KINGDOM OF
GREAT BRITAIN AND NORTHERN
IRELAND, and FRANCE and ITALY**

- Signed at London December 16, 1947
- Entered into Force December 16, 1947,
effective September 15, 1947



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PROTOCOL

THE Governments of the United States of America, the United Kingdom of Great Britain and Northern Ireland, and the French Republic, hereinafter referred to as "the Allied Governments concerned," on the one hand, and the Government of Italy, on the other, have, through the undersigned duly empowered representatives, agreed as follows:—

1. The Allied Governments concerned agree that Italy should receive a proportional share of the gold distributed pursuant to Part III of the Agreement on Reparations from Germany, on the establishment of an Inter-Allied Reparations Agency and on the Restitution of Monetary Gold signed at Paris on 14th January, 1946,^[1] on the same basis as the countries signatory to the said Agreement to the extent that Italy can establish that a definite amount of monetary gold belonging to it was looted by Germany, or, at any time after 3rd September, 1943, was wrongfully removed into German territory.

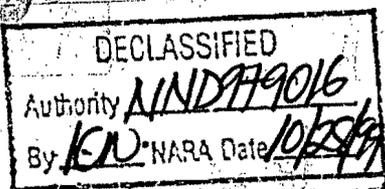
2. Italy adheres to the arrangement for the restitution of monetary gold set forth in Part III of the afore-mentioned Agreement and declares that the portion of the monetary gold accruing to it under the Agreement is accepted in full satisfaction of all Italian claims against Germany for restitution of monetary gold.

3. Italy accepts the arrangements which have been or will be made by the Allied Governments concerned for the implementation of the aforesaid arrangement.

4. (a) Pending the definitive settlement of such claims as may be made pursuant to Article 75, paragraph 8, of the Peace Treaty with Italy ^[2] within six months of the coming into force of the Treaty, the Italian Government agrees to set aside out of its share as stipulated above, as a guarantee for the execution of the said provisions of the Treaty, and to leave on deposit with the Allied Governments concerned, an amount of gold approximately equal to the claims which it is now known will be made against Italy under the said provisions, viz., 14,422 kilograms of fine gold in respect of the claim of France and 8,857 kilograms of fine gold in respect of the claim of Yugoslavia.

¹ Treaties and Other International Acts Series 1655.

² Treaties and Other International Acts Series 1648.



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CONFIDENTIALMEMORANDUM

U.S. Delegation
 to the Inter-Allied
 Reparation Agency

Action Officer:
 Nat B. King
 First Secretary

Subject: The United States Delegation to the
 Inter-Allied Reparation Agency.

The United States Delegation to the Inter-Allied Reparation Agency at Brussels (I.A.R.A.) is composed of a Delegate, Deputy and secretarial staff. I.A.R.A., an international organization composed of representatives of 19 nations and a Secretariat of some 150 persons, was established by the Paris Agreement on Reparation from Germany, which became effective January 14, 1946. (1) The United States was then primarily concerned with preventing the recurrence of German aggression. (2) Secondly, the conclusion had been reached that money reparations were a delusion, forming an unsettling influence over monetary exchange. (3)

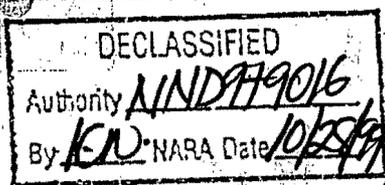
Many United Nations had suffered extensive industrial damage through enemy action and accelerated war time operations. On the other hand despite strategic bombing the bulk of German plants were operable or readily repairable, and German industrial capacity still far greater than needed for a normal peacetime economy. (4)

It was therefore decided that German World War II reparation would be a transfer of capital, principally industrial equipment and external assets. This was to accomplish economic disarmament, as well as provide tangible aid for allied reconstruction. The result was the Paris Reparation Agreement creating I.A.R.A. and fixing the reparation shares. (5)

The I.A.R.A. Secretariat makes recommendations for the allocation of reparation items to the Delegates who meet as an Assembly with authority to act by majority vote. (6) The United States Delegation has a dual role in this process. Its general objective is to conform allocation decisions to our political and economic policies. Specifically, it informs the

-
- (1) The Inter-Allied Reparation Agency, Department of State Publication No. 2584, page 7.
 - (2) The Paris Agreement on Reparation from Germany, Id., page 1.
 - (3) United States Economic Policy Towards Germany, Department of State Publication No. 2630, page 18.
 - (4) Id., page 13.
 - (5) The U.S. share of industrial equipment is 11.8% and for all other reparation (which includes German property in the U.S. and the neutrals) is 28%. Op. cit., Note 2, page 3.
 - (6) The Agency has adopted comprehensive rules governing its operation. I.A.R.A., 1948 Report of the Secretary General, Annex IV, page 30.

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Department of State (and through it private industry and interested government agencies) of material available for allocation, and then endeavors to obtain the allocation of wanted items for the United States.

While the United States has never required much German industrial equipment, both private business and government agencies are interested in items of advanced design. For example, from the German aircraft industry the U.S. Air Force has obtained equipment to develop mass production of aircraft, the U.S. Navy has obtained a large plant producing high concentration hydrogen peroxide used for submarines and rockets, and a private company has obtained an aluminum foil plant now operating in California.

Our financial interest in reparations are not inconsequential, the value of industrial plants already obtained by the U.S. Delegation being some 9 million dollars, and our potential share in German assets from Switzerland and Spain about 20 million dollars. Most important are German assets in the United States, valued at around 325 million dollars, many of which are subject to conflicting claims by other countries. These intercustodial conflicts are considered by special I.A.R.A. committees and the mediation forum thus provided is of considerable advantage to the United States.

Because of changing concepts of Germany's place in Europe's economy⁽⁷⁾ there has been considerable delay in making plants available to I.A.R.A. and this Agency has yet to allocate approximately 100 million dollars worth of capital equipment, a great part originally intended for the Soviets under the Potsdam Agreement.⁽⁸⁾ This is about one-third of all plants so far allocated.

The Paris Agreement requires that "a reasonable balance shall be maintained among the rates at which the reparation shares of the several claimant governments are satisfied".⁽⁹⁾ The Delegation must therefore constantly strive to maintain a favorable accounting position for the United States, bearing in mind that German property in the United States seized by the Department of Justice is accounted for through the Agency.

The political stake of the United States in I.A.R.A. requires that its position as an occupying power, its policy toward Germany (particularly ECA) be justified and Soviet views echoed by the satellite Delegates be refuted.

(7) Id., page 8, et. seq.

(8) Subject to certain reciprocal deliveries from the East, Russia was to receive 25% of industrial capital equipment in the Western Zones. Op. cit., Note 2, page 21.

(9) Part I, Art. 4, Par. C (iii), Id., page 14.

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Authority NND 979014
By IE NARA Date 16 27

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CROW. 120

October 16; 1947:

Sir,

The Tripartite Commission for the Restitution of Monetary Gold would be obliged if you would be good enough to transmit to your Government the following information with regard to the position reached in the Commission's work and the decisions which it has taken towards accomplishing the restitution of monetary gold covered by Part III of the Paris Agreement on Reparation.

In response to the Commission's invitation transmitted under date 13th March, 1947, to all signatories of the Act of Paris, and to Austria, Italy and Poland, ten countries entered claims for restitution of monetary gold looted by or wrongfully removed to Germany. The claimant countries on 15th September, 1947, announced by the Commission as the final date for the filing of claims were: Albania, Austria, Belgium, Czechoslovakia, Greece, Italy, Luxembourg, Netherlands, Poland and Yugoslavia.

The Commission has examined with care all claims and supporting evidence which it has received from claimant Governments. It has observed that some of the claims have raised no legal problems, have been supported by detailed and verifiable data and have been presented with all the evidence required both under the Paris Agreement on Reparation and under the public announcement of 27th September, 1946, by the Governments of the United States, the United Kingdom, and France, which set up the Commission. Other claims, on the contrary, have been found to give rise either to problems of law which cannot immediately be determined or to questions of fact necessitating the presentation of additional information. In the latter case, the Commission has requested the Governments concerned—and may be compelled to make further requests—to supply it with supplementary evidence and more detailed explanations. The procuring of this information by the Governments concerned and its examination by the Commission will necessitate some delay.

The Delegate of Belgium,
to the Inter-Allied Reparations Agency,
38, Boulevard Bischoffsheim,
Brussels.

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 Authority NND 979014
 By IE NARA Date 16 27

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The Commission has taken into account the desirability, in the light of world economic conditions, of putting into circulation without delay as large a part as possible of the recovered gold which has been immobilized up to the present and the legitimate desire of Governments to obtain as soon as possible that share of the gold to be distributed to which they are entitled. The Commission has, therefore, decided not to wait until it is in a position to adjudicate finally upon all the claims received, but to make a preliminary distribution in respect of those claims the validity of which it has found to be incontrovertible.

Such distribution will be as follows: Belgium 90,649.8374 kg of fine gold; Luxemburg 1,929,4999 kg of fine gold; Netherlands 35,890.5740 kg of fine gold. Further, the Commission observes that the Paris Agreement on Reparation of January 14, 1946 provides in Part III that the equivalent of the share of gold which countries not represented at the Conference (including Austria and Italy) would receive if eventually admitted to participate shall be set aside pending a decision on this point. Therefore, the Commission, considering that portions of the claims forwarded to it by the Austrian and Italian Governments would be valid and entitled to be included in the first distribution had the above stipulation been met, has decided to order that 33,783.4002 kg of fine gold for Austria, and 3,805.3182 kg of fine gold for Italy shall be set aside accordingly.

The Commission wished to draw to the attention of all Governments, and particularly those Governments not sharing in this preliminary distribution, the fact that in calculating the sums to be allocated it has maintained a sufficient reserve to satisfy claims at present held over for further consideration and which may later be judged valid. Rights to restitution which may be recognised in respect of such claims are, therefore, safeguarded.

Further distribution will be made by the Commission as soon as possible.

The Commission reserves the right to make public shortly this first series of decisions.

We have the honor to be,

Sir,

Deputy Commission of
 The Government of the
 United States of America

Commissioner of the Government of the United Kingdom of Great Britain and Northern Ireland. Commissioner of the Government of the French Republic.

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