

RG 56, Entry 69A7584.
 Treasury - Asst. Secy. for
 Internat'l Affairs, Div. of
 Monetary Research, Box 1

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Authority <u>NND 978026</u>
By <u>af</u> NARA Date <u>12/2/96</u>

Country files: Argentina
 "Economic Controls in
 General" file

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Oct 23, 1943

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MEMORANDUM FOR MR. PAUL:

Approximately a year and a half ago the Treasury Department began pressing for the extension of the freezing control to Argentina. As is indicated later in this memorandum, this matter has been the subject of extensive negotiations and discussions with the Department of State. Recent developments have led us to feel that the time is now propitious for again raising this matter:

I. Economic Basis for Freezing Argentina

At present enemy interests are able to make free use of American financial facilities simply by working through persons and institutions in Argentina.

The financial and banking system of Argentina is the most highly developed and the Argentine currency the strongest of the Latin American Republics. These facts alone would tend to make Argentina the most attractive of all Latin American countries from the standpoint of Axis financial operations in this hemisphere. In addition, however, the Argentine Government is the only one which has continued to maintain diplomatic, financial, and commercial relations with the enemy. It has made no pretext of instituting effective controls designed to prevent enemy operations. On the contrary, Argentina has:

- (a) Freely permitted German firms to acquire the cloak of Argentine identity with resultant benefits and immunity from controls;
- (b) Made substantial amounts of free foreign exchange available to our enemies;
- (c) Permitted large amounts of Axis assets, including currency and securities looted in Europe, to be disposed of in her markets.

In addition to permitting the Argentine financial system to be freely used by the Axis, the Argentine Government has, on numerous instances, taken active steps to aid enemy nationals and to shield them from the effects of our controls. Large governmental contracts are given to Proclaimed List firms. When Proclaimed List firms encounter difficulty in obtaining materials in their own names, the Argentine Government, in numerous instances, has obtained the materials for them. Government-owned institutions such as Banco de la Nacion and Y.P.F. (government oil company) have placed full-page advertisements in the notorious pro-Axis Argentine publication "Clarinada." The Argentine Government has even placed a 3,000,000 peso deposit with the Banco Frances e Italiano in order to offset the loss of deposits resulting from its inclusion on the Proclaimed List and the British Statutory List.

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In this connection, the following excerpt from a report made to the State Department in September of this year is of interest. This report was written by Jim Mann, who was formerly with the Treasury Department but who has been a member of our Embassy staff in Argentina for approximately a year:

"You are aware through memoranda previously furnished the Department of the many sins committed in Argentina against the Allied cause. Argentina continues to be the Axis financial mart in the Western Hemisphere with remittances going in both directions. Argentine banks, particularly the Banco de la Nacion and the Banco de la Provincia de Buenos Aires continue to make credit facilities available to Proclaimed List firms. The Argentine Government in the past has awarded millions of pesos worth of contracts to black listed firms and has even obtained the raw materials for them. Axis subversive and espionage activities continue unabated. Looted dollar currency and securities are still being disposed of here and no doubt shipping information continues to be sent out of Argentina by the Axis. With this picture before us, I think it is fair to say that we have only scratched the surface in waging economic warfare in Argentina."

II. Measures Taken to Date to Cope with the Problem

As a result of long negotiations with the State Department, we have taken certain limited measures to deal with specific aspects of the problem. These measures are the following:

1. In May 1942 our control on the importation of United States currency was extended to all of Latin America. This action was precipitated by the large volume of dollar currency being sent to the United States from Argentina, most of which was doubtless of European origin.
2. The State Department agreed that Proclaimed Listing should be applied more vigorously in Argentina than in the other Latin American republics. While the number of persons listed in Argentina has been larger than those in other countries, we believe that the program has not been aggressively carried out. For this step to be effective, the initiative must be taken by our Embassy in Argentina, which has been very sensitive to local pressure and has hesitated to go after the large interests in Argentina. The natural tendency of the embassy to be unduly cautious is doubtless increased, in this instance, by the fact that the head of the Proclaimed List Section in our Embassy is a person whose ties with Argentina are very strong. His mother was a native Argentinean; he has spent a good part of his life in Argentina and is one of the

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beneficiaries of a large estate in Argentina amounting to some 20,000,000 pesos (between four and five million dollars).

3. We have instituted a procedure for ad hoc blocking individuals and firms in Argentina, thus freezing the assets any such person may have within the United States and preventing him from using American financial facilities in his own name. The limitations of this measure are clearly evident from the fact that any such person may readily make use of American financial facilities by working through some local Argentine institution. Notice of ad hoc blocking is not made public and hence results in no public stigma as does the placing of a person on the Proclaimed List.

It is evident that steps 2 and 3 are both subject to severe shortcomings. They do not permit control of harmful transactions which may be engaged in by persons not subjected to ad hoc freezing. Even when a person has been brought under our control, it is obviously very easy for enemy interests to work through another intermediary until we are able to accumulate evidence and take action against him. For these reasons, Argentine financial transactions, to be effectively supervised, must be subjected to an over-all freezing control. We cannot remedy the situation through a procedure whereby transactions are freely permitted unless we have advance information that the persons involved are suspect. Rather, it is necessary to institute a program whereby transactions are prohibited unless we are furnished with full information concerning such transactions and are satisfied that they should be approved. We would, of course, issue appropriate general licenses to take care of the bulk of routine transactions with respect to which we are not primarily concerned.

The State Department's Argentine program contemplates certain general pressures against Argentina by restrictions on shipping facilities and by severely rationing the amounts of strategic materials sent to Argentina. Should such a program be vigorously applied, it could, of course, be used to exert substantial pressure against Argentina. Such program would not, in and of itself, tend to close gaps now existing in our system of financial controls.

III. Political Considerations Involved in the Freezing of Argentina.

The opposition of the Department of State to the freezing of Argentina has been based primarily on the following considerations:

1. The Department of State felt that the freezing of Argentina would be inconsistent with our "good neighbor" policy and would have adverse repercussions upon "hemispheric solidarity."
2. Latin American specialists in the State Department and the top staff of our Embassy in Argentina felt that Argentina was slowly moving away from the Axis and if left to itself,

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would soon be cooperating with the United Nations. For example, prior to the revolution of June 4, 1943, which brought in the Ramirez government, Merwin Bohan, Counselor for Economic Affairs, at the United States Embassy in Argentina contended that the person who had been selected to succeed Castillo was favorable to the United States and would institute a more cooperative policy.

Instead, the June 4th revolution brought to power the pro-Axis Ramirez government. The activities of the Ramirez government have demonstrated that it is even less disposed to cooperate with our Government's economic warfare program than was its predecessor. In fact, since the advent of the Ramirez regime, Argentina has acted even less like a "good neighbor" and more like a Fascist "corporative state" intent upon adhering to its "neutrality." Congress has been dissolved; with Congress fell also the parliamentary committee which was investigating Axis activities in the Argentine. Congressional and presidential elections have been postponed indefinitely. A number of federal and provincial prosecutors and judges have been dismissed from office, among them Judge Jantus, who presided at the trial of Axis agents charged with espionage, and Judge Vasquez, one of the most intrepid defenders of democracy in Argentina. All fourteen provinces have been placed under military interventors. Meetings of political parties have been prohibited and the pro-Allied "Accion Argentina" and all Freemasons' lodges have been dissolved.

Violent propaganda for the establishment of a "corporative state" in Argentina is under way, seemingly with the approval of the government, and a fierce anti-"communist" drive is being conducted. Pro-Allied organizations have been disbanded and the democratic and pro-United Nations press has been constantly harassed by censorship and numerous suspensions. On the other hand, the pro-Axis press has hardly been molested.

More recently, two Argentine consuls have returned to Germany. Ramirez and others have publicly encouraged the pro-Axis press; Jewish language newspapers were temporarily banned. All of the 153 employees of the government who signed a pro-Allied manifesto were summarily discharged. Finally, those cabinet members said to be pro-Allied resigned and have been replaced by known Fascists.

We have just learned (not through State) that Raul Prebisch, Manager of the Central Bank, has resigned. Most, if not all, of State's hopes for Argentina's cooperation in financial matters has rested on its "close" association with Prebisch, as recent despatches from the Embassy have testified.

It appears that substantial injury is being done to "hemispheric solidarity" and that the "good neighbor" policy is being substantially impaired by the actions of Argentina and by our Government's failure to bring her into line. The Activities and policies of the Ramirez government have led the President and the Secretary of State to make public denunciations of that government. The failure of the Argentine Government to break off with the Axis has been the subject of recent exchanges of notes between Argentina and several of the other American republics.

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Moreover, there is reason to believe that many of the other American republics are disconcerted by the failure of this Government to take effective action in the case of Argentina, since they feel that Argentina has been allowed to maintain a profitable "neutrality" while they have, at some sacrifice, cooperated with the United Nations.

In view of the above, it is clear that the Department of State cannot at this time validly oppose the extension of the freezing control to Argentina on political grounds.

IV. Treasury-State Negotiations Relative to the Freezing of Argentina.

Prior to May 1942 the Treasury Department had repeatedly taken the position in informal negotiations with the State Department that Argentina should be subjected to the freezing control. To support this position, the Treasury Department had been gathering evidence of pro-Axis activities engaged in in Argentina and through Argentine financial facilities. Finally, in May 1942 the Treasury Department raised this issue at a meeting of the full Board of Economic Warfare. There was considerable discussion at this meeting of the feasibility of taking this action, with the State Department taking the position that no action should be taken. The matter was referred to a Subcommittee for a report.

May 12, 1942. At a meeting of the Subcommittee of the Board of Economic Warfare, the Treasury Department presented a memorandum recommending the extension of the freezing control to Argentina. In this memorandum the Treasury Department pointed out that Argentina was being actively used by the enemy to undermine our program of economic warfare and gave specific evidence supporting its position. Treasury's proposal was strongly opposed by representatives of the Department of State, principally on political grounds. The Subcommittee delegated to three of its members, consisting of representatives of State, Treasury, and the Board of Economic Warfare, the task of reporting on the points of agreement and disagreement as to the proposed freezing of Argentina.

May 14, 1942. Without prior notice to the Subcommittee or the Treasury Department, the State Department submitted to the President a memorandum opposing Treasury's proposal to freeze Argentina. Although no copy of this memorandum was sent to the Treasury Department, we understand that State argued that the purpose of Treasury's proposal was to coerce Argentina into cooperating with the United States and contended that the basic question was one of foreign policy which should be decided by the State Department. As a counterproposal to Treasury freezing recommendations, State suggested increasing the pressure on Argentina by strengthening navicert controls and by making more extensive use of the Proclaimed List.

May 15, 1942. The President advised Secretary Morgenthau that he was not prepared to freeze Argentina. The President agreed, however,

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that a study should be made of Axis activities in Argentina, particularly in the financial and economic fields.

May 19, 1942. Secretary Morgenthau transmitted to Secretary Hull a request for permission to send several experienced Treasury financial men to Argentina to obtain information about Argentine foreign exchange and financial practices which might be aiding the Axis. This request was not granted.

May 20, 1942. The State Department requested the Treasury Department to advise it as to the type of information desired with respect to Argentina so that the Embassy in Buenos Aires could make the necessary investigation.

May 29, 1942. Treasury was informed that Messrs. Meltzer and Cochran of State were going to Argentina to investigate the use of Argentina as a channel for transactions beneficial to the Axis. Treasury agreed to State's request that it make available to these two men its files showing suspicious Argentine transactions involving Axis interests.

October 14, 1942. After numerous requests from the Treasury Department for copies of the report prepared by Messrs. Meltzer and Cochran, Treasury received a copy of the report, which added little, if anything, to the facts already known with reference to these matters. At the same time, Mr. Acheson suggested that certain limited measures might be taken by the Treasury, such as increased freezing on an ad hoc basis of persons in Argentina. While recognizing its limitations, we promptly put this program into effect.

November 10, 1942. Secretary Morgenthau replied to the State Department's letter, pointing out the inadequacies of State's Argentine program and again recommending the extension of general freezing. The Secretary's letter also indicated that, should general freezing not be permissible, a program of examining in advance the more important Argentine financial transactions would be more effective than any measures which had hitherto been taken.

December 24, 1942. State replied, still opposing freezing, and also opposing the suggested substitute program.

JWP:WLC