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By <u>df</u> NARA Date <u>12/2/96</u>

Country Files: Argentina
"Economic Controls in
General" file

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MEMORANDUM FOR THE ACTING SECRETARY OF STATE

Since my return to Washington I have carefully reviewed the Argentine situation and I want to call your attention to the following points:

(1) Argentina subscribed to Resolution V of the Rio Conference (January 28, 1942) and to the Final Act of the Washington Conference on Systems of Economic and Financial Controls (July 10, 1942). Thus for two years she has been obligated to cut off all commercial and financial intercourse, direct or indirect, between Argentina and the Axis nations and to eliminate all other Axis financial and commercial activities inimical to the security of the Western Hemisphere.

(2) Notwithstanding the observance of these commitments by the other American Republics, Argentina has not only repeatedly refused to take effective measures to fulfill her obligations, but is now affirmatively promoting Axis interests. Specifically:

(a) Argentina is the Agency for the Transfer of Axis Funds to Europe.

Large transfers have been made to the Axis countries from Argentina and by way of Argentina. Not only are remittances of Axis funds permitted to Germany and Japan, but Argentina itself is a source of a large volume of the funds remitted to these countries.

(b) The Argentine Government has been giving direct material assistance to enemy firms. This is exemplified by the following points, contained in Despatch No. 12448 of October 19, 1943, from our Embassy in Argentina:

(i) From January 31, 1942, to March 31, 1943, certain Argentine Government departments awarded to enemy firms contracts totalling 34,000,000 pesos.

(ii) Since such firms are classified as unsatisfactory consignees and would therefore be unable to obtain certain materials for the execution of their

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contracts, the Argentine Government has often acted as an intermediary in purchasing such materials for them.

(iii) Firms which refuse to deal with enemy entities are often threatened with legal proceedings by Government agencies.

(iv) Firms are often instructed by the Argentine Government departments to accept sub-contracts on projects on which the main contractor is an enemy firm.

(v) Vicious anti-United States and pro-Axis newspapers and periodicals which cannot obtain newsprint supplies otherwise, are provided with their requirements by the Argentine Government at less than current market prices.

(vi) Despite the relatively strong financial position of most German firms, they often find themselves in need of additional finances. They encounter very little difficulty in obtaining financial assistance from the Banco de la Nacion and the Banco de la Provincia. An equally important source of financial assistance is the Banco Germanico which, on August 31, 1948, had outstanding loans and discounts totalling over 52,000,000 pesos, of which it is presumed that a large portion represents credits to German nationals.

(c) Argentina is a Refuge for Axis Funds.

In the weeks preceding the extension of our freezing order to the Axis, large sums were transferred to Argentina on behalf of Axis countries in the form of bank transfers and currency shipments. In this way, a large part of the funds which we had hoped to prevent being used for Axis activities escaped our control. This accumulation of Axis funds in Argentina has resulted in the Axis using Buenos Aires as the center point from which to transmit funds to Axis agents in all the other American Republics.

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(d) Argentina is the Base for Axis Financial Operations in the United States and Elsewhere in the Western Hemisphere.

Argentina has not only permitted Axis funds to move into Argentina but has actually fostered the accumulation of funds which can be used to finance subversive activities in all the other American Republics. Buenos Aires has become the center point through which funds are transferred for subversive activities throughout the Western Hemisphere. This is possible since this country and the other American Republics have failed to impose control measures on Argentine transactions.

(e) Argentine Institutions are a Cleak for Axis Financial Transactions.

Absence of effective legislation and enforcement has created in Argentina an ideal environment for the setting up of financial institutions--particularly holding companies--which can cleak Axis operations and provide a refuge for Axis assets. There are numerous Argentine holding companies disclosed in TFR-500 reports which can readily cleak Axis assets. After closely watching the account of one such Argentine holding company, believed to be concealing funds for a blocked national, we discovered that the funds in the account, amounting to over \$1,000,000 did in fact belong to a Swiss national on the Proclaimed List acting for the Axis.

(f) Commercial and Payment Agreements with Axis Countries.

Argentina has been contributing to the economy of Axis Europe by the export of strategic materials through the European neutrals. For example, skins and hides have been shipped from Argentina to Portugal, doubtless intended for re-export to the Axis powers as Portugal is normally an exporter of skins and hides. The Argentine Government has concluded various financial and commercial agreements which have brought her into closer cooperation with Axis Europe.

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(g) Argentina is the Fence for Looted Currency and Securities.

Despite the efforts that have been made to prevent Germany from realizing on the looted currency and securities seized in the invaded countries, the Axis has succeeded in realizing upon this stolen property by disposing of it through Argentina.

(h) The Proclaimed List and Cloaking.

Despatches received from American Missions indicate not only that the Argentine Government has refused to recognize our Proclaimed List policy, but also that Argentine facilities are being used to destroy the effectiveness of our Proclaimed List policy in other countries. The Argentine Government's failure to recognize our Proclaimed List makes it impossible for us to prevent delivery of shipments to persons in Argentina who are placed on the Proclaimed List after goods leave our shores. In many cases, the Germans have defeated the British and American Black List by reorganizing their companies into Argentine firms and the Argentine Government has, if anything, encouraged the practice.

(i) Argentina permits German nationals within its borders to finance Nazi subversive activities.

The following points are brought out in Despatch No. 12448 of October 19, 1948 from our Embassy in Argentina:

(i) The German Government, being a totalitarian state, expects financial and moral assistance from its nationals, wherever they may be located. Consequently, German business interests in Latin America have maintained a close relationship with the Fatherland by frequent and continuing exchanges of employees, executives, and correspondence with the home office.

(ii) As is well known, the large German industrial companies such as I. G. Farben, Thyssen, and Siemens are controlled by the National Socialist Party in Germany, which uses their Latin American branches as a channel through which to exert influence in the Western Hemisphere.

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(iii) A large part of the financial burden for financing Axis subversive activities has been placed upon the German business community. All other American Republics have taken some form of action to eliminate similar communities from their own countries and the German community is now centered in Argentina. Mathematical support for this conclusion is provided by the fact that the German Embassy in one year spent approximately 5,200,000 pesos, of which amount only 800,000 pesos were received directly from Germany, the balance of 80 percent being contributed by German entities or nationals residing in Argentina.

(3) In view of Argentina's failure to take effective measures to observe her commitments for economic cooperation and in view of Ambassador Armour's statement on October 27, 1948 that "Mounting evidences show that the Government (Argentine) is rapidly passing from control to the promotion of such activities (i.e. financing totalitarian activities)", I want to strongly urge that Argentine assets should be frozen at once, thus according to Argentina the same treatment as that accorded the neutrals in Europe.

(4) At the suggestion of the President and with what we regarded as the tacit approval of the State Department, Treasury did arrange for an unofficial news story that this Government was considering the freezing of Argentine assets. In so doing, Treasury was not unmindful, as we presume the President and your Department were not unmindful, that this action would have financial repercussions in Argentina and that some flight of Argentine undercover assets might ensue. We felt, of course, that there would be full cooperation to obviate any adverse financial or economic effects proceeding from this action. Indeed, State Department did cooperate in halting the early transfers of Argentine funds, although it has more recently advised that we should not interfere with such transfers in other than very exceptional circumstances and has instructed the Treasury Department to release many of the transactions previously stopped.

(5) The current situation with respect to Argentine transfers of dollar assets that are not related to normal commercial transactions is as follows:

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Since the appearance of the stories in the press the following transactions, many or all of which are detrimental to our war effort, have occurred. Some of such transactions involve the flight of funds out of Argentine accounts to Uruguay, Panama and Sweden. Others involve the transfer of assets to the general account of the Central Bank where the ownership of such assets can no longer be traced.

On Wednesday, October 27, \$460,000 was transferred from Argentine accounts to other countries, of which \$230,000 was from the accounts of Banco de la Provincia and Banco de la Nacion. The same day \$2,000,000 was transferred to the general account of the Central Bank from the accounts of other Argentine banks.

On Thursday, October 28, there was a flight from Argentine accounts of \$465,000 and \$4,250,000 was transferred to the Central Bank account. An additional nine million and a half would have been transferred to the Central Bank from the accounts of Provincia and Nacion were it not for Treasury's ad hoc action approved by State Department.

On Friday, October 29, no substantial transfers were effected in view of Treasury's action in holding up of transactions with the State Department's approval.

On Saturday, October 30, there was a flight of \$402,000 from Argentina to the accounts of other countries and the transfer of \$6,000,000 to the Argentine Central Bank.

On Monday, November 1, there was a flight of \$3,808,000 out of Argentine accounts to the accounts of other countries, including Sweden, Uruguay and Panama. On the same day there was transferred \$6,500,000 to the Argentine Central Bank. The transactions effected on Monday included certain of the transactions previously attempted to be effected the previous Friday and held until Monday, at which time the transactions were allowed to go forward at State Department's request.

In addition, and unrelated to the news story, the following shipments of gold have been made or are about to be made pursuant to plans of the Argentine Government going back several months. The first shipment of Central Bank gold back to Argentina (\$1,250,000) is leaving November 2 or 3 on the Argentine boat "Rio Parana" from New Orleans. The second shipment of \$1,250,000 left New York for New Orleans Monday at 3:00 p.m.

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This shipment is scheduled to sail on November 5 on the Argentine vessel "Rio Atuel." The third shipment of \$1,250,000 is scheduled to sail from New Orleans on November 10 on the "Rio Iguazu". This gold will be shipped from New York on November 5 or 6.

(6) From the fall of France in June 1940 until the freezing of Axis in June 1941, the Axis moved over \$100,000,000 out of the U. S. and I have no doubt but that substantial Axis funds are cleaked in Argentine names. Accordingly, it is patent that among the Argentine assets now going undercover are enemy assets and we cannot act without your approval.

I recognize that freezing Argentine assets involves political as well as economic questions and that decision on the political aspects is clearly your responsibility. However, I sincerely hope that you will again review the Argentine situation and on economic warfare grounds, I again strongly recommend that Argentine assets be frozen.

/s/ HENRY MORGENTHAU, Jr.

Nov. 2, 1943

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