

19 November 1940

TO: Ambassador Baruch

FROM: James E. Wood

SUBJECT: Report (Attached) on Portugal's International Financial Position

I enclose herewith a study on Portugal's International Financial Position which I prepared for the Treasury. It occurred to me that you, and also Mr. Crocker, might like to glance at it, especially at the tables in the first section. Afterwards, it should go to Mr. Dickerson.

You will notice in the covering letter to Mr. Harry D. White, prepared before the report was finished, that the results of inquiries on Portugal's monetary policy are described as being presented as a final section of the paper. However, I later decided to make this an earlier section but appropriate change was not made in the letter. I believe that most of the technical errors made in typing, done in my absence, have been corrected. The calculations were all made by the primitive hand method, in the absence of a machine, but after considerable checking they look to be accurate.

The study is not definitive, in the sense that I have not stated a specific problem and analyzed the results in a corresponding manner. Nevertheless, I think that the descriptive material presented will be most useful to the Treasury and to other Government departments. Since the paper was written the Portuguese and British have concluded a new payments-trade agreement, details of which I will give to Mr. Dickerson.

Attachment

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 James E. Wood, 1942-45
 6-12, Box 3073*

INTERNATIONAL FINANCIAL POSITION OF PORTUGAL;

Gold		with special reference to foreign assets, monetary policy, and clearing and payments arrangements.	
Foreign Reserves			
Notes			
Other Liabilities			
TOTAL			

* For purposes of valuation, the gold stocks listed have assumed, in this report, the value of 1000.00 escudos per gramme, which is the equivalent of 13.00 per ounce. (The value of gold stocks of gold and gold coins, reported, and discussed in text below.) On this basis Portuguese gold stocks are undervalued in terms of the U.S. price of \$35 per ounce. The Bank of Portugal sells gold to the collectors' guild for 31.50 escudos per gramme.

†† Includes principally Swiss francs and Swedish kroner.

Letter No. 226

Lisbon, October 19, 1945

To: Harry D. White, Ass't. Secretary of the Treasury

From: James E. Wood; Financial Attache, American Embassy, Lisbon.

Portugal's International Financial Position

I submit herewith a paper on Portugal's international financial position. Some of the material contained therein already has been forwarded to the Treasury over the past year or more.

INTERNATIONAL FINANCIAL POSITION OF PORTUGAL:
The first sections of the study attempt a summary of the principal foreign assets held by the Portuguese; these are followed by sections which discuss payments and clearing agreements (all but one of the latter, the Luso-Spanish clearing, is inoperative), and, finally, there are presented the results of inquiries concerning Portuguese monetary policy made of the Bank of Portugal and of the Minister of Finance.

Because of the nature of my duties here it has not been possible to work continuously, for satisfactory lengths of time, on this study and, therefore, to give the subject the careful and thoroughgoing attention it deserves. Moreover, the policy of secrecy followed by the Portuguese Government has made it difficult to obtain exact and complete information. For the first reason, the study is not definitive, but it provides materials that will be useful in arriving at conclusions on Portugal's financial potential, the nature of her agreements with other countries, and some views of officials responsible for her monetary policy.

The data presented in my paper to a certain extent supplement those presented in Sir Stanley Wyatt's more comprehensive report, which has the title, "Portugal - Some financial Consequences of the War." This was submitted to the Department of State as an enclosure to the Embassy's "Top Secret" Dispatch No. 28 of April 20, 1945.

It will be noted that the figure of 16 billion escudos in assets abroad agrees closely with the figure given in Hyatt's report, dated PORTUGUESE ASSETS ABROAD Report No. 15 of April 30, 1945, which also was for the year 1944. The figure so derived was 16,298,563,000 escudos, which included gold stock, foreign currency, clearing accounts and sundry elements.

In its last report on the "PUBLIC ACCOUNTS OF 1944", issued in the Jornal do Comercio on August 4, 1945, the Ministry of Finance has stated that Portugal had, on December 31, 1944, the equivalent of 16 billion escudos, or almost \$645 million, in gold and foreign currencies. These assets were in the following forms:

	Escudos	Dollar Equivalent +	Percent
Gold	8,523,200,000	343,469,679.60	53.27
Pounds Sterling	6,724,800,000	270,997,380.61	42.03
Dollars	698,000,000	28,047,552.10	4.35
Other Values	56,000,000	2,256,719.72	0.35
TOTAL	16,000,000,000	644,771,328.03	100.00

* For purposes of evaluating Portuguese gold stocks it has been assumed, in this paper, that the Bank of Portugal has valued its gold at 28 escudos per gramme, which would be the equivalent of \$1.987 per ounce. (See note on evaluation of gold and gold sile, appendix, and discussion in text below.) On this basis Portuguese gold stocks are undervalued in terms of the U.S. price of \$31 per ounce.

** The Bank of Portugal sells gold to the goldsmiths' guilds for 11.50 escudos per gramme.

† Includes principally Swiss francs and Swedish kronas. See Jornal do Comercio de Administracao, Gerencia de 1944, (Lisbon, 1945), pp. 40-41.

** Only the total figure for gold and foreign currencies and the percentage of the different classes of assets were stated in the report, already cited, of the Ministry of Finance. The escudo and dollar figures in the table therefore were derived from them.

**** A copy of Hyatt's summary work sheet on the gold stocks was made available to me by his secretary and it is included in the appendix. It moved away from Lisbon in the spring of 1945. (For footnotes see next page)

It will be noted that the figure 16 billion escudos in assets abroad agrees closely with the figure given in Wyatt's report, attached to Embassy's "Top Secret" Dispatch No. 28 of April 20, 1945, which also was for the end of 1944. The latter figure he derived was 16,294,563,000 escudos, which included gold stock, foreign currency, clearing accounts and unknown elements. (Total gold stocks were valued at \$35 per ounce.)

Before proceeding, it should be pointed out that although we have here assumed that the Portuguese gold is valued at 28 escudos per gramme, this is not necessarily true, and for that reason we cannot be sure of the exact quantity of gold the Portuguese have. Wyatt's discussion of this matter is of interest and a note to the table above makes reference to an explanation in the appendix on evaluation of gold and the gold agio. On February 20, 1945, the Bank of Portugal, in his paper, Wyatt concluded that at the end of 1944 the Portuguese had 320,852,000 grammes of gold. He was not certain, however, whether 15,477,312 grammes of gold held by the Bank of Portugal for the Portuguese Government were included. If we value at 28 escudos per gramme the gold represented by the 15,477,312 grammes in the table above, this gold would consist of 304,400,000 grammes. By adding to this quantity the 15,477,312 grammes owned by the Portuguese Government, we arrive at a figure, 319,877,312 grammes, which approximates the estimate made by Wyatt - which did not answer the question whether the Portuguese Government gold was included. This question remains unanswered.

London	13,000,000.000	3.3
Berne	4,500,000.000	1.2

From secret data at hand it is possible to learn how much gold the Bank of Portugal has bought and sold and the net increase required so far this year. Between January 1 and September 15, 1945, the Bank of Portugal bought 38,037,033.894 grammes of gold and sold 6,508,614.241 grammes, leaving a net acquisition for the period of 31,428,419.563 grammes. Adding this amount to the quantity

152,380,319.563	22.1
	100.0

* Translation forwarded to the Treasury.
 ** The balance sheet of the Bank of Portugal on December 30, 1944, showed assets and liabilities of 19,450,589,863. See Relatorio do Conselho de Administracao, Gerencia de 1944, (Banco de Portugal, Lisboa, 1945), pp. 29-31.
 *** Only the total figure for gold and foreign currencies and the percentage left held different classes of assets were stated in the report, already cited, of the Ministry of Finance. The escudo and dollar figures in the table therefore were derived from them.
 **** A copy of Wyatt's summary work sheet on the gold stocks was made available to me by his secretary and it is included in the appendix. He moved away from Lisbon in the spring of 1945.

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of gold held by the bank at the end of 1944, using Wyatt's figure of 320,852,000 grammes, it had, on September 15, 1945, in the neighborhood of 352,380,319.563 grammes, an equivalent of 9,866,648,947.76 or \$397,608,259.02. (This figure would be higher if the Portuguese Government gold has not been included and if total gold stocks were valued at \$35 per ounce.)

The table on the following page shows purchases and sales of gold by the Bank of Portugal during the first eight and a half months of 1945, all transactions with each local or foreign institution being grouped. A preponderance of the gold acquired by the bank was purchased from the Federal Reserve Bank of New York; more than half the gold sold by the Bank of Portugal was acquired by banking institutions in Europe, and the remainder went to goldsmiths, banks and bankers in Portugal. On February 23, 1945, the Bank of Portugal suspended all sales of gold other than to the goldsmiths.

According to information conveyed to me by the Portuguese Minister of Finance, João Pinto do Costa Leite (Lumbrães), Portuguese gold stocks on August 29, 1945, were distributed geographically as follows:

		<u>Grammes</u>	<u>Percent</u>
<u>Foreign</u>			
<u>Purchases</u>			
	New York	252,000,000.000	71.8
	Ottawa	4,000,000.000	1.1
	London	13,000,000.000	3.8
<u>Sales</u>	Berne	4,500,000.000	1.2
<u>Portuguese</u>			
	<u>Total Outside</u>		
	Portugal	274,500,000.000	77.9
	<u>Residual</u>		
	(in Portugal)	77,880,319.563	22.1
<u>Bank of Portugal</u>			
		352,380,319.563	100.0
<u>Additional stocks possibly not included above which may be in Portugal</u>		15,477,331.000	
<u>Possible total of Portuguese gold stocks</u>		367,857,650.563 grammes	

	<u>Grammes</u>	<u>Escudos</u>	<u>Dollars</u>
Purchases	38,037,033.804	1,065,001,753.31	\$42,917,676.94
Sales	6,508,611.241	196,357,178.91	7,912,435.21

Net Difference 31,428,319.563 868,644,574.40 \$35,005,241.73

As of September 15, 1945, the approximate amount of assets of the Bank of Portugal in foreign countries or in terms of claims against such countries were the following:

	<u>Escudos</u>	<u>Dollars</u>
Gold Stocks	9,866,648,947.76	\$397,608,259.02
Foreign Currencies	8,015,462,795.88	321,060,775.66
Clearing Debits	87,548,490.61	3,532,073.31
Official Claims against Germany	91,000,000.00	3,667,875.00
TOTAL	18,060,660,234.25	\$725,868,982.99

The gold transactions with the Sveriges Riksbank look suspicious. Our record of these during the period is as follows:

Date	<u>Purchases</u>	<u>Sales</u>	<u>Grammes</u>
Jan. 8, 1945	500,639.17		242,936.70
Mar. 3, 1945	500,639.17		500,096.27
May 14, 1945	2,200,649.51		750,713.57
Total	3,201,927.85		1,493,746.54

If these figures are correct, the Bank of Portugal bought, roughly, twice as much gold during the period from the Sveriges Riksbank as it sold to it. Some of the gold was acquired as received for Bank of Portugal earmark in New York in settlement of a kroner balance arising from trade. It is not known where the Sveriges Riksbank received the gold purchased from the Bank of Portugal but it may be that the former relinquished gold in New York in order to receive it in Lisbon or elsewhere.

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Before discussing in detail foreign currency and clearing balances and clearing and payment agreements, we will present information received from responsible Portuguese authorities on monetary policies.

MONETARY POLICIES

Portugal's monetary policies are laid down by the Bank of Portugal and the Ministry of Finance in close association with Salazar, who has the final word and who occupies, among other positions, the post of Minister of Foreign Affairs. Certain private bankers also exert influence on monetary policy by virtue of being in close contact with Salazar, the Minister of Finance, and the important officials of the Bank of Portugal.

Because of Salazar's policy of keeping certain financial operations and data secret and because of the reluctance of high officials to take any important position without reference to him, it is no simple matter to obtain information desired. Last summer, I broached the subject of making a survey of Portugal's international financial position and financial policies to A. Cabral Pessoa, General Secretary of the Bank of Portugal. He indicated, although without enthusiasm, that he and Alvaro Pedro de Souza, Vice-Governor of the bank, would be willing to discuss the subject. On seeing Pessoa a few days later on another matter he remarked that he and de Souza were preparing a statement for me and on the next visit he presented me with the statement, which is inserted below.

Holding fast to a policy of secrecy, Pessoa each time has replied to my request for data on Portugal's balances abroad and on details of clearing arrangements by saying that he could:

- (1) Refer me only to the published material (such as the bank's reports and the general procedures on operation of clearings outlined in decree laws); but that
- (2) The position is very simple since most of the gold and foreign currency balances are concentrated in New York and London.

He has, however, discussed with me in a general way certain policies and clearing arrangements, has always been willing to provide specific data where a question in which the bank is interested, such as transfer of gold from Argentina

to Portuguese account in New York, is under discussion, and personally is always most cordial.*

The statement prepared by Pessoa and de Souza on recent and future policies of the central bank is here reproduced in full:

"BANCO DE PORTUGAL
LISBOA

NOTE

Hitherto our main object has been:

- 1) - To maintain stability in the gold value of the Escudo.
- 2) - In spite of the great difficulties prevailing on foreign markets, to keep our exchange market workable and efficient, by imposing the least possible restrictions on all current international transactions, as well as on such other transactions as still considered essential to our national economy.

Our probable future monetary object will be:

- 1) - To maintain the value of the Escudo stable with the value of gold.
- 2) - To assure complete freedom in foreign exchange transactions, by limiting the intervention of the Central Bank, to keep up the stability of our exchange market, and to preserve order and ethical principles in all exchange affairs.
- 3) - As to the future credit policy, intimately bound up with monetary policy, and which is as yet still in its formative period, it will be based upon the Escudo currency with stable gold value, but instead of this Escudo currency having a 100% gold cover over and above a small fiduciary issue, it will be necessary to have a proportional minimum percentage of gold assets (say 50%) with respect to the total value of currency in actual circulation, plus the total amount of other sight responsibilities of the Central Bank, the balance being entirely covered by foreign exchange and loans granted exclusively to national banking

(See footnote on next page)

institutions and fully guaranteed by Portuguese Government Bonds or Commercial Bills.

- 4) - With these objects as the main directives, our future policy will be necessarily readjusted by taking into account the principles established by international monetary agreements, we well as any other factors that might eventually be affecting the essential and vital needs of our national economy.

Lisbon, 30th April, 1945."

In addition to the statement on monetary policies made by the Bank of Portugal, I have received opinions on the same subject from the Minister of Finance. The Minister, who during the latter part of the summer and early fall has been residing in North Portugal, has answered certain questions I put to him through a mutual friend. On questions of policy, he has informed me that:

*Some time ago I presented to Pessoa the "Interrogatories" of the Bureau of the Mint for the year ending December 31, 1944. He accepted the questionnaire for study and indicated some willingness to supply the information requested. Nothing has since been heard from him on this matter. Recently, Pessoa has been in England, presumably to work on phases of the new Anglo-Portuguese repayments and trade agreement.

It must be understood that procrastination, non-performance and superficial performance are characteristics of Portuguese institutions and people. These, together with the fact that all important decisions must come from Salazar, account for the slowness with which things get done, if they get done at all. One of the complaints of foreign diplomats is that many of the notes sent to the Portuguese Foreign Office never are answered, that officials in the Foreign Office responsible for certain subjects are not empowered to make decisions and in some instances do not have access to files covering material in their respective fields.

- (1) Portugal likely will not continue to convert foreign currencies into gold, since the country's currency now has adequate gold backing,* but will use such currencies as far as possible to purchase goods, especially those badly needed to renew the country's obsolete and delapidated capital equipment.
- (2) It is not anticipated that foreign currencies will be used for investment in the countries in which they are located, unless, for example, a new Anglo-Portuguese agreement permits investment in Great Britain of sterling balances. So far as possible, the tendency will be to repatriate capital in the form of goods paid for in foreign currencies for investment in the Portuguese Empire.
- (3) An effort will be made to maintain a balance between imports and exports. As soon as it becomes possible to purchase supplies and equipment in quantity Portugal again will have an unfavorable balance of trade, which will be settled by means of the foreign currency balances the country has acquired.
- (4) The Government intends to maintain the external value of the escudo, and with its large gold and foreign currency balances abroad, in addition to its gold reserves at home, it feels it has the resources to do so.
- (5) There is no intention of changing the location of its gold stocks. Those in New York represent the greater part of the backing for the escudo currency and the sight responsibilities of the Bank of Portugal.

*On December 31, 1944, Portugal had gold stocks valued at 8,523,200,000 escudos as against an escudo currency circulation of 7,642,000,000. Not all the gold is used as backing for the notes. On the same date, the legal reserves (presumably all gold) were 91.3 percent of the notes in circulation and 40.2 percent of the notes plus sight liabilities. By law, the minimum reserve for sight liabilities and notes is 30 percent. All currency in circulation over 2,200,000,000 escudos must be backed 100 percent by gold.

- (6) Portugal favors an international policy of financial collaboration to facilitate liquidation of obligations created by the war (here the Minister has in mind the sterling balances), guarantee of credits, stability of exchange rates (highly placed Portuguese have expressed concern over possibility that the pound will be devalued and that Portugal might suffer loss in repayment of its sterling balances), and, in general, financial measures which will stimulate world trade.

FOREIGN CURRENCIES

On September 15, 1945, the Bank of Portugal had credited to itself on its books fourteen foreign currencies aggregating as already noted, an equivalent of \$321,060,775.66 (see table on following page.).

Of these foreign currencies, pound sterling balances constituted 95.47 percent of the total and dollar balances 4.08 percent. The remaining 0.45 percent consisted principally of Swiss francs and Swedish kroner. The relative importance of these balances has changed very little in three years or more. These foreign balances can be classified into four groups, to indicate the patterns in which three types of balances have moved and a fourth group remained static:

- (1) sterling holdings have increased almost steadily from November 1940, when the payments agreement was signed, to the present (at this writing they are, in excess of £76,500,000);
- (2) balances such as those in dollars, Argentine pesos, Swiss francs, and Swedish kroner have fluctuated, as the Bank of Portugal has followed a policy of converting such currencies into gold after they have increased to a certain point, which increases sometimes have resulted from favorable trade balances, and at times from selling gold to foreign central banks for their respective currencies;
- (3) currencies of the occupied countries, Norway, Denmark, Belgium, Holland, Czechoslovakia, which, by decree laws, have remained frozen; and

* See Dec. 1940
** See Dec. 1940

** Rest of the ... were taken from ...

(4) currencies such as French francs, cruzeiros, lire, pesetas, and reichsmarks (reference here concerning the last three names is to accounts outside clearing), balances of which have fluctuated but which for the most part have been relatively small or negligible.

FOREIGN CURRENCIES HELD BY THE BANK OF PORTUGAL,
September 15, 1945.

	Currency	Conversion Rate	Escudos*	Dollars*
£	76,504,564	24.03	7,650,456,400	\$306,311,402.92
₣	13,154,341		325,424,971	13,154,341.00
Swiss F.	5,372,157	5.76	30,743,624	1,238,912.88
Argen. Pesos	1,707	6.15	10,498	423.05
Swed. Kr.	1,400,002	5.913	8,278,211	333,552.36
Reichsmark	2,259	9.852	22,255	896.86
Lire	1,895	1.258	2,379	95.91
French Fr.	467,008	57.45	268,296	10,811.85
Dan. Kr.	164	\$0.19308** (1940 rate)	785	31.67
Czech Kr.	100	\$0.034252 (1939 rate)	85	3.43
Belg. Fr.	14,511	\$0.03376 (1940 ")	12,156	489.89
Florins	6,569	\$0.53128 (1940 ")	86,635	3,491.24
Pesetas	7,681	\$0.913 (1941 ")	17,402	701.28
Cruzeiros	92,758	\$0.60602 (official)	139,093	5,621.32
		TOTAL	8,015,462,795	\$321,060,775.66

* \$1 = Eso. 24.03
£ = Eso. 100

** Rest of the rates in this column, expressed in dollars, were taken from the Federal Reserve Bulletin.

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CLEARING BALANCES

In addition to the currencies just described, the Bank of Portugal carries on its books balances, owed to Portuguese, that have arisen from bilateral clearing arrangements with certain countries. The countries and the present (September 15) amounts of their indebtedness on clearing are as follows:

		<u>Escudos</u>	<u>Dollars</u>
Germany	R. Mks. 1,946,846	19,180,326.79	772,932.00
Italy	Lts. 53,958,132	67,879,130.06	2,739,433.00
Finland	F. Mks. 492,418	245,633.76	9,898.60
Greece	£ 2,434*	<u>243,400.00</u>	<u>9,809.02</u>
	<u>Total</u>	87,548,490.61	\$3,532,073.31

French North Africa No balance
 Spain Exact information not available.

*Figure given orally through Portuguese Minister of Finance.

Only the Spanish clearing remains in operation. Because of transportation difficulties, and political changes brought about by occupation and reoccupation, the agreements with Italy, Greece and Finland became inoperative long before the end of the war; although it functioned up to May 1945, the activity of the Luso-German clearing after the closing of the French-Spanish frontier in August 1945 resulted from a small volume of traffic in airborne merchandise and a large volume of payments. The French North African agreement was terminated last spring. During the past two years, the clearing balances, in excess of \$24,000,000, have been accumulated.

It has not been possible to learn to what extent the clearing deficits represent real debts owed to the Portuguese. According to the Portuguese Minister of Finance, the Bank of Portugal has assumed the clearing debts due from the countries party to the agreements only as an intermediary, Portuguese merchants and commercial banks which took their bills being the real claimants. He also has said that the clearing debts are in part only nominal since partial payments have been made to the Portuguese merchants and banks by foreign creditors for goods already delivered and in part represent only credits established under clearing arrangement in the foreign countries for the purchase of Portuguese goods never delivered. Passed

EXCERPTS FROM THE REPORT OF THE COMMISSIONER OF INVESTIGATION INTO THE ACTIVITIES OF THE PORTUGUESE GOVERNMENT IN CONNECTION WITH THE CLEARING OF GERMAN ASSETS IN PORTUGAL

has told me more than once that the clearing balances are only nominal debts, since inpayments and outpayments always are equal. This is reasonable in principle, but in point of fact time-lags are created by such factors as extension of credit, transportation requirements, and time necessary to fill orders. Despite what Pessoa has said, the Portuguese Government has put forward the Luso-German clearing deficit as an official claim against German official assets in Portugal.

Portuguese Official Claims Against German Official Assets

As already reported (see my pouch letter 217, July 28, 1945, to Harry D. White), Portuguese official claims against German official assets amount to more than 91,000,000 escudos. Against these claims the Portuguese present official German assets of almost 27,000,000 escudos. The Portuguese, however, state that they are holding 187,500,000 escudos of blocked funds representing proceeds of sales of German ships to the Portuguese, and that they are willing to consider these funds as officially German if the Allies will agree to their being used in settling German official debts as determined by the Portuguese Government.

The remaining sections describe some of the details of Portugal's clearing and payments agreements and also some of its specific transactions with foreign countries during the war. We take up first the Anglo-Portuguese payments agreement, which soon will be supplanted by a new agreement covering repayments of the Portuguese sterling balances and future trade between the two countries.

Portugal's Sterling Balance and the Anglo-Portuguese Payments Agreement

During the past two years the Portuguese sterling balances, in excess of £76,500,000 in mid-September, have increased by almost £30,700,000, an average rate of about £1,279,166 per month. In the first half of 1945 the average monthly rate of increase was about £900,000. The rate of accumulation of the balance decreased, with some time-lag, after cessation in the summer of 1944 of the heavy strategic-preemptive purchases of wolfram.

The payments agreement (copy of which was sent to the Treasury on March 9, 1944, pouch letter No. 60), under which this balance has accumulated, was negotiated on or about November 20, 1940 and still is in force. The principal provisions of the agreement are as follows:

Embassy's "Top Secret" Despatch No. 28 of April 20, 1945, p. 20.

(See footnote on next page)

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- 10) The contracting parties may from time to time consult together regarding revision or modification of the agreement and after the termination of hostilities and before the termination of the agreement shall consult on the dates and conditions for the settlement of the balances.

In notes exchanged between the Portuguese and the British on November 20, 1940, both Governments subscribed to the principle of balancing their exchanges so far as possible in order to avoid the accumulation of balances in favor of one country or the other and thus to facilitate trade and payments and development of financial and commercial exchanges. It was not, of course, possible to prevent the accumulation of balances in favor of Portugal, at least so long as the British had a preemptive-strategic buying and investment program in the country and, at the same time, were not able to supply Portugal with a commensurate volume of goods and services. The view was expressed by the Financial Counselor of the British Embassy early in 1944 that his Government would not look upon the rising balance with concern so long as it was not in excess of £70,000,000, which point was not reached until March 1945.

Since the agreement began to operate, the officials of the Bank of England and the British Treasury have had discussions with officials of the Bank of Portugal. In the fall of 1943, the Portuguese approached the Financial Counselor of the British Embassy in Lisbon to learn whether the British would be willing to discuss modification of the agreement in certain particulars (see Legation's cable #299, February 1, 1944, 6:00 P.M.). Although the British replied in the affirmative, nothing further, to my knowledge, was done about the matter at that time.

In December 1944, however, Waley, of the British Treasury, and Turner, of the Bank of England, came to Lisbon to discuss extension of the agreement and revision of the terms of settlement of the sterling balance. Complete details of these conferences, which took place within a period of two or three days, are not at present known, but our Embassy has been informed by the British that they had proposed, among other things, (1) extension of the gold settlement from the five-year period as provided to one of fifteen to twenty years, and (2) to remake the agreement

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between the two Governments rather than between the two central banks. It appears also that the British suggested liquidation of part of the balance with British exports to Portugal. I do not know for certain the manner in which de Souza, representing the Bank of Portugal, replied to the proposals, but, according to one of the directors of the bank, it is understood that he (de Souza) was inclined to accept them. When the terms suggested by the British were placed before Salazar, he turned them down, and they therefore never were presented to the directorate of the Bank of Portugal, in plenary session, for consideration.

After V-E Day the Portuguese, according to reliable authority, gave a concession to the British; they informed the latter that effective that day interest payment on the Special Money Employed Account was suspended. Judging from the implication contained in paragraph #15 of the agreement, the balance in this account was to draw interest until termination of the agreement three months after the conclusion of hostilities, at which time the interest-drawing Special Money Employed Account was to be liquidated by transfer of the funds in it to the Bank of Portugal Special Account. The Portuguese Minister of Finance reputedly is responsible for the suggestion that interest payments be stopped three months ahead of the termination date of the agreement, and the British, who had considered him incorrigibly pro-Axis, are reported to feel very gratified for his action and for the savings that will be realized.

August 8th, three months after conclusion of hostilities in Europe, passed without the British and the Portuguese reaching a repayments and trade agreement. Turner, of the Bank of England, Hugh Ellis-Rees, a Foreign Service Officer formerly on post in Madrid, were here in August for discussion with the Portuguese but they returned to England and no further conversations have been held here.* The Minister of Finance, at present in North Portugal on vacation, has stated for my information that proposals are still "under study."

Since my letter of September 15, 1945, to Harry D. White, I have not obtained any additional information in Lisbon concerning the discussions on the proposed agreement but have received Taylor's cables (No. 205, Sept. 15, 1945, and No. 216, October 1, 1945) and copies of correspondence exchanged between him and Ellis-Rees.

I understand that discussions have been continued in London between Portuguese Embassy and British Treasury officials.

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perhaps they were not put forward by the Portuguese or were offered in a different form.

- 3) Repayment of the sterling balances accumulated during the war, which in September amounted to more than £76,500,000, could, as suggested by the British, be made in the following manner: a fund of £15,000,000 would immediately be established which the Portuguese would use for purchase of British goods during the first year of operation of the liquidation agreement; this would bring the balance accrued during the war down to around £61,500,000, and this sum would be repaid at the rate of £5,000,000 a year. A clause would be inserted in the agreement to provide for repayment in gold of any portion of each year's allocation that was not used for Portuguese purchases. The question of what commodities the British could supply immediately was taken up, at what length I do not know, and the Portuguese tried to commit the British to providing coal, but the latter replied that it was impossible to give any guarantee for this commodity.

As Ellis-Rees has stated, the £15,000,000 referred to above would not be used the first year. The remainder would be settled by a special scheme for liquidation which would involve a gold settlement after expiration of a ten-year period.

Ellis-Rees, through Taylor, provided the additional information that

- 1) The Anglo-Portuguese agreement probably would be patterned on the Anglo-Swedish agreement.
- 2) When reached, the agreement is not expected to set limits on acceptance of sterling by Portuguese or escudos by British, but it would be understood that after balances accumulated to a certain point the entire agreement would be reviewed.
- 3) In view of Portuguese cooperation during the war, British are inclined to do everything they can for Portugal.

...

- 4) Discussions on a new agreement between British and Portuguese were to continue in London. (The Duque de Palmela, Portuguese Ambassador to London and a director of the Bank of Portugal, probably will represent his country in the negotiations. Palmela returned to Lisbon, presumably for consultation, on October 1.)
- 5) The agreement will not be published. (Possibly, and I have no confirmation of this, because it may give or imply certain guarantees of the Salazar regime.)

On September 19th the British and the Portuguese entered into a new contract covering sardines and other packs of fish. Made under direction of the Combined Food Board, the features of interest in the contract are these:

- 1) An estimated two million cases of sardines at 280 escudos per case (of 100 tins, $\frac{1}{2}$ club of 30mm.) and perhaps an additional one million cases, if an open season is declared during the winter. Thus, the total price of the sardine pack could be 840 million escudos or £8,400,000.*
- 2) The British will supply all tin plate at 450 escudos per case** and all wire and nails.
- 3) Payment will be made through Bank of London and South America, Lisbon.
- 4) The British will supply allocations to Western European countries. Any of these countries may deal with the Portuguese direct but the terms of purchase and sale would be those of the contract.
- 5) 150,000 cases of boneless and skinless sardines (luxury type) are to be supplied to the United States. Free purchases (purchases outside the contract) are permitted for anchovies.

*In addition to sardines the contract calls for chineherds, mackerel, tuna, and minor varieties of fish.

** I have been told that we are supplying the tin plate to the British at 402.50 escudos per case, but this is not confirmed.

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LUSO-SPANISH CLEARING

All payments under this clearing are made through an escudo account in the Bank of Portugal. Officials of the latter have never made any pretense, as they have in discussing the German and Italian clearings, that impayments and outpayments must be equal. From a formal point of view, provision that the Luso-Spanish clearing may, for a period, show a debit against one country or the other is a feature which distinguishes it from the clearings Portugal has had with other countries.

An idea of the volume of exchange under this clearing can be obtained from the figures quoted by Wyatt (see report already cited). In 1943 "incomings" (entradas) were 145,924,100 escudos and "outgoings" (salidas) were 111,941,041 escudos. The following year the corresponding figures were 150,000,000 and 115,000,000 escudos. The incomings I interpret as amounts credited to Portugal. According to information given verbally to me by a director of the Bank of Portugal, the total clearing volume is running at a rate of about 190,000,000 escudos per year. The clearing rate for the peseta is 2.29 escudos.

The following description of the operation of the Luso-Spanish clearing is based upon notes taken in conversation with Pessoa about a year ago:

The volume of goods to be exchanged between Spain and Portugal and the composition of the goods comprising that volume are determined in meetings held every three or four months between officials of the two countries. All merchandise exchanged is subject to export licenses issued in Portugal by the Ministry of Economy and in Spain by the Ministry of Industry and Commerce. No payment is made through clearing by the central bank of either country unless the documents supporting it include export license. The Ministry of Economy in Portugal relies upon the Bank of Portugal to give advice on the condition of the clearing, in order that the Ministry can judge whether, at any time, sufficient escudos are available to make feasible the issuance of an export license. In Spain, the Instituto Espanol de Moneda Extranjera performs the same function for the Ministry of Industry and Commerce as the Bank of Portugal for the Ministry of Economy.

Payments to exporters ordinarily are made by Portuguese commercial banks, which discount the paper presented. Such

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paper will not be discounted, however, unless the bank is certain that the goods represented will be paid for through clearing. This means that it must first be ascertained that an order from Spain is on the way through the exchange system and that the Ministry of Economy will issue an export license. It will not do so unless the order has been confirmed by Spain. The Bank of Portugal will re-discount the paper obtained in this manner by the commercial banks, or, if the exporter has not discounted his paper, will pay him through a commercial bank. The Bank of Portugal will not pay an exporter or advance credit to cover goods destined to be handled through clearing unless the Ministry of Economy has issued an export license. From time to time the Spanish Commercial Attache receives a credit through clearing and deals directly with the Portuguese exporters, but payments to them are made through the clearing.

As a result of its trans-shipment of colonial produce to Spain, Portugal has a favorable balance in the clearing. On the other hand, Spain has a favorable balance on extra-clearing transactions as a result of charges from railway and sea traffic, and periodically the clearing is balanced by applying the net amounts owed to Spain from the extra-clearing transactions against its adverse balance in the clearing. Charges for rail and sea traffic make up the bulk of the values represented by the extra-clearing transactions. Spanish investment in Portugal, represented principally by insurance companies, is relatively small and so also is Portuguese investment in Spain. The volume of financial transactions between the two countries (through official channels at least) is not substantial.

If at any time the Instituto Espanol de Moneda Extranjera is short of escudos in the clearing account, it may borrow from Portuguese commercial banks. According to Pessoa, the Spaniards on one or two occasions have asked the Bank of Portugal to replenish their account in the clearing with escudos accruing to them from extra-clearing sources. These advances presumably were made during an interval between meetings of Spanish and Portuguese officials at which the clearing is, if necessary, brought into balance by the application for the Spanish of their favorable extra-clearing sums against their unfavorable clearing balance.

and except as provided in the laws of Portugal...

The goods represented by the clearing account...

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BANK OF PORTUGAL REGULATIONS GOVERNING TRANSACTIONS IN SWISS FRANCS AND SWEDISH KRONER*

Portugal has no clearing or payments agreement with Switzerland, but the two countries operate on the basis of regulations issued by their respective central banks.

At the present time, the Bank of Portugal exercises control over operations in Swiss francs under regulations issued on August 18, 1944 and March 15, 1945. The earlier set of directives to the commercial banks and banking house that they may not buy or sell Swiss francs unless

- 1) The Bank of Portugal has given special authorization;
- 2) Such purchases or sales are for the purpose of paying for imports of goods into or exports of goods from the Portuguese Empire; but
- 3) Each commercial bank is permitted to buy a maximum of one million escudos or Swiss francs each week and
- 4) Each bank can freely sell, up to the limit indicated, its Swiss franc holdings to the Bank of Portugal, and can
- 5) Carry on arbitrage freely in Swiss francs and Swedish crowns in order to meet its requirements. (Portuguese banks and importers have used Swiss francs extensively for purchase of and payment in Swedish kroner.)

Swiss franc accounts may freely be credited but special authorization is required before they can be debited - except where the debiting results from the permissible operations described above in (2) and (3). Escudo accounts in the names of persons or firms in Switzerland are not allowed to move without previous authorization of the Bank of Portugal, except for the latitude described above in (3); and except as provided in (2), Bank of Portugal authorization

*See pouch letters of September 19, 1944 and No. 181 of March 21, 1945, to Harry D. White.

(See footnote on next page)

is required before any remittance can be made to Switzerland. Thus, strict control is exercised over Swiss franc balances of Portuguese banks and a somewhat freer hand is permitted the use of escudo balances by Swiss banks.

The Bank of Portugal requires reports from each bank and banking house covering all operations and changes in escudo and Swiss franc accounts, together with the names and addresses of the owners of the accounts.

Regulations relating to Swedish kroner were issued at the same time and follow closely those outlined above for trading in Swiss francs.

In the regulations issued on March 15, the Bank of Portugal restated its directives on arbitrage involving Swiss francs and Swedish kroner and required each bank and banking house to file a report on its position in each of these currencies as of the close of business on March 14.

Purchases and sales of gold between the Bank of Portugal and the National Bank of Switzerland and the Sveriges Riksbank have been noted in an earlier section.

PAYMENTS ARRANGEMENTS BETWEEN PORTUGAL AND ARGENTINA

Portugal and Argentina have an agreement under which Argentina can acquire escudos to pay for Portuguese goods, pay beneficiaries in Portugal of remittances sent by Portuguese immigrants and others in Argentina, and cover expenses of Argentine diplomats and consular officials in Lisbon and Madrid.* These escudo payments are made through Portuguese commercial banks, and peso equivalents are credited to the account of the Bank of Portugal in Buenos Aires.

As permitted under the agreement, the Bank of Portugal converts its peso balance into gold in Buenos Aires in preference to permitting accumulation of pesos in its account. The agreement also allows the Bank of Portugal, at its option, to exchange gold in Buenos Aires for equivalent quantities in New York. Such transfers, the first of which occurred in July 1942, have been made under U.S. Treasury license. Preferring to hold gold in New York rather than in Buenos Aires, the Bank of Portugal considers taking steps to effect a transfer whenever the gold balance in Buenos Aires reaches about 200 kilos. During the first six months of 1945 the

(See footnote on next page)



Bank of Portugal acquired \$620,390.23 of United States gold coins (eagles) from the Banco Central de la Republica Argentina but I do not know where delivery was taken.

In addition to its gold account the Bank of Portugal maintains a small peso account, which on June 6, 1945, had approximately 2,000 pesos. The balance in this account has been much larger; in July, 1943, it was more than 2,000,000 pesos.

When Portugal acquires wheat from Argentina the letter is paid in dollars in New York. The Portuguese bank which handles this business is Fonseca, Santos & Viana. If its dollar account is not sufficiently large to cover a shipment it borrows dollars from the Bank of Portugal and repays in dollars or escudos.

LUSO-GERMAN POSITION

The Luso-German clearing, which on VE-Day had a deficit against the Germans of 1,946,846 reichsmarks, at times during the war showed a balance against the Germans of more than 20,000,000 reichsmarks. On December 31, 1943, for example, the deficit was 23,267,632 reichsmarks; it appears from incomplete figures that the amount owed the Portuguese by the Germans fluctuated between approximately 13 and 23.5 million reichsmarks during 1943 and up to early September 1944. In the latter month the balance began to decrease, and by October it had fallen to about 6,000,000 reichsmarks and continued slowly to decline to the amount remaining unsettled on VE-Day. Presumably the Portuguese permitted the deficit to reach high levels because they assumed in the early stages of the war that Germany would win and, in the later stages of the war, they felt they were protected by having German assets within the country which could be taken over in settlement of German debts.

* With escudos drawn in Lisbon, Argentinians buy depreciated pesetas which are taken to Spain by diplomatic pouch. Responsible Portuguese Government authorities are fully aware of this traffic, which, in a sense, they foster by admittedly permitting escudos to be drawn for the purpose.



Although not all the details regarding the operation of this clearing have yet become known, it is possible to make some comment upon it. Stated in reichsmarks, the account was carried by the Deutsche Verrechnungskasse in Berlin and operated by the Deutsche Verrechnungskasse in conjunction with the Bank of Portugal. Portuguese control of the clearing - as was true of its clearance with other countries - was exercised through the Ministry of Economy and the Customs, acting jointly with the central bank. The Customs cleared the goods across frontiers, the Ministry of Economy exercised supervision over exports and imports and issued licenses, and the Bank of Portugal controlled payments and by virtue of this fact worked together with the Ministry of Economy to govern the flow of commodities.

The operational procedure was as follows: an importer in Germany desiring to purchase goods in Portugal deposited or established credit in reichsmarks with the Verrechnungskasse in favor of the Portuguese exporter. Advice that the credit existed was then forwarded by the Verrechnungskasse to the Bank of Portugal, which in turn advised the Portuguese beneficiary that payment through clearing for goods that he might ship to Germany would be available when, after all documents were in order, escudos had been paid to the Bank of Portugal in exchange for reichsmarks needed by the Portuguese importer to pay for German goods. Since, theoretically, outpayments to domestic exporters would not be made by the Bank of Portugal unless escudos had been made available by domestic importers who had received goods from Germany, inpayments and outpayments balanced. In conversation, Pessoa emphasized on two or three occasions that the Bank of Portugal would pay escudos to Portuguese exporting to Germany only when goods from that country had arrived in Portugal and the importer in the latter country had paid escudos to cover the reichsmark obligations. Portuguese exporters were listed in the order in which the reichsmark credits were established for them and were paid in that order as escudos became available. Portuguese importers had to buy reichsmarks to pay for German goods before such goods could be brought into Portugal. In principle this procedure is of conventional type, and it was used in all the Portuguese clearing arrangements with other countries except under its agreement with Spain.

As the figures already presented show, it was not possible to maintain a balance of payments. Because of the heavy demands of the Germans for wolfram, sardines, and other commodities from Portugal and their own inability to supply manufactured goods in sufficient volume and to provide required transportation, there was a continual deficit against the Germans during the war years. To some extent the Germans used Swiss francs to decrease their deficit; specifically, according to Pessoa, they used Swiss francs to pay for from 10 to 15 percent of the uncompensated difference arising from wolfram exports, and presumably they also used gold. As previously reported, (see Department's 1174, April 26, 1944, 10:00 P.M.) and to some extent confirmed by Pessoa, the clearing account was divided into (a) wolfram account, payments for which were prearranged in Swiss francs and perhaps in gold; (b) sardines account, compensated by tin plate, machinery, and drugs, and (c) ordinary clearing account, which evidently included all other commodities exchanged except the principal ones named under (a) and (b).

So far as I have been able to learn, the Germans did not lack escudos to carry on their purchasing or other activities. By virtue of the advances made between Portuguese and German agencies and firms for purchases of German goods the Germans obtained substantial amounts of local currency. Advances of from 20 to 30 percent were made on contracts entered into by ministries of the Portuguese Government. For example, contracts made by the Comissariado do Desemprego, section of the Obras Publicas e Comunicacoes, totalled 100,000,000 escudos (see documents made available to under-cover agency in Washington), and the larger portion of the present official Portuguese claims against German official assets arise from the fact that Portuguese Government ministries had advanced funds to the Germans for purchase of equipment which the latter could not deliver. (See Pouch Letter #217 of July 28, 1945, to Harry D. White.)

LUSO-ITALIAN CLEARING

By early 1943 increasing transport difficulties and Italy's poor supply position had greatly reduced exchange of goods between Italy and Portugal. As a result, there



was little movement in the clearing during that year. On April 8, 1943, the clearing debit against Italy was 62.2 million lire and by September 15, a week after capitulation, it had reached 67.1 million lire. Between that date and April 1944, the debit had been reduced to 54.5 million lire* and it has remained virtually unchanged since that time.

To my knowledge, no steps have yet been taken here to reactivate this clearing, which cannot be done until Italy can again ship goods to Portugal.

The clearing, which went into effect in January, 1937, called for opening of an account in the name of the Bank of Portugal by Istcambi (Istituto Nazionale per i Cambi con l'Estero), in Rome, and for its operation in conjunction with the Bank of Italy. (See photocopy of agreement attached.) This account has been debited when lire have been paid to Italians who have exported goods to Portugal and credited when Portuguese commodities have been sent to Italy. Of interest is the fact that the agreement has permitted conversion into escudos and lire of other currencies. Also, the agreement provides that, should it not be possible for the Portuguese to pay in lire immediately for goods delivered in Portugal, the latter must arrange cover by purchase of lire but it has the privilege of reconversion into escudos or other currency as soon as the Portuguese credit in the clearing account permits. Subsequent to conclusion of the agreement, arrangement was made whereby the equivalent of 50 percent of the value of the Italian goods received in Portugal each month, up to a limit of one million escudos, was to be paid to the Italian Legation for its expenses.

Since the Armistice, the Italians have become further indebted to the Portuguese by virtue of extra-clearing advances made by the latter. The Italian Consulate at Lourenço Marques received from the Portuguese authorities in 1944 2.5 million escudos, part of which was used to pay living expenses of crew members of the SS Gerusalemme, and the Italian Consulate in São Vicente de Cabo Verde was ad-

*The reduction in the debit between September 1943 and April 1944 was accounted for by: importation into Portugal of about four million lire of artificial silk, produced by Sna Viscose di Milano for Fibra Comercial; 400 thousand lire for other products; cancellation of around five million lire of credits; and payments of approximately 3.2 million lire.

vanced 1.3 million escudos, used for support of crews of the SS Gerarchia, SS Arcola, and SS Taigeta.

As in their dealings with the Germans, the Portuguese advanced funds to purchase equipment from the Italians. According to the Italian Commercial Attache, the Portuguese Ministry of War signed, in July 1939, a contract with Ansaldo-Fiat for mountain artillery, and advanced the company, through the clearing, 25 million lire on a total purchase price of 51 million lire. In May, 1943, Ansaldo-Fiat delivered a part of the order having a value of 27 million lire, approximately the amount of the down payment. A year later the Italians delivered to the Portuguese ten complete mountain batteries and about 46,000 grenades worth about 24 million lire. Meanwhile, in 1941, the Portuguese War Ministry had advanced 33 million escudos to the Italians, which was partly offset by the mountain batteries and grenades but which leaves the Portuguese War Ministry creditor to the extent of about nine million lire against an equivalent portion of the clearing deficit.

LUSO-FINNISH CLEARING

Agreement upon which this clearing was based was concluded on April 9, 1941, shortly before the German attack on Russia, and went into effect on May 1st of that year. At that time there was no Finnish Legation in Lisbon, there being a mission in Madrid accredited to both Spain and Portugal, and the accord was negotiated by one Jalanti, a representative of the Finnish Foreign Office. Early in 1941, after conclusion of Finnish-Soviet hostilities, he visited Western European countries to establish, as a result of the new regimes created by German victories, new arrangements to govern Finnish foreign trade and finance. In October 1941 Finland established a Legation in Lisbon and from that time forward this mission dealt with the Portuguese on questions arising from operation of the agreement.

Made between the two Governments, the agreement was operated by the Bank of Portugal and the Suomen Pankki. The agreement, copy of which is appended, had the following principal features:



- 1) An escudo account was established in the Bank of Portugal into which payments were made for importations from Finland and the Suomen Pankki created a Finnmark account to which would be credited the value of goods received from Portugal. Therefore, Portugal would draw on its Finnmark account to pay for Finnish goods and Finland would do the same with its escudo account for Portuguese commodities.
- 2) Payment for all merchandise originating in and exchanged between the two countries, as well as goods originating in countries other than those of the contracting parties but for the account of one or the other, was to be made through the clearing. Conversion into escudos or Finnmarks of other currencies, in which the values of merchandise exchanged between the two contracting countries were stated, was provided for under the agreement. (The principal products supplied by Portugal to Finland were port and madeira wines, whereas Finland sent Portugal lumber and newsprint.)
- 3) Licenses issued by each of the national banks to its respective importers and exporters was a prior condition for movement of goods and, consequently, for effecting payments. Payments to exporters of each country were to be made by their respective national bank in chronological order.
- 4) In the event a substantial balance accrued to either contracting party, representatives of each were to meet to arrange terms of settlement.
- 5) Unless denounced two months in advance by either contracting party, the agreement was to terminate December 31, 1941, and thereafter to be renewed by tacit agreement. Subsequent to that date the agreement could be abolished upon denouncement thirty days previous.

According to the former Finnish Charge d'Affaires in Lisbon, Helge von Knorring, a ceiling of five million Finnmarks originally was placed upon the account that the Bank



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of Portugal might accumulate in the Suomen Pankki. However, in July 1943 the Bank of Portugal had more than 16,000,000 Finnmarks in its account. In the absence of any figures on the Suomen Pankki's escudo account, I do not know the extent to which it offset the Finnmark balance of the Bank of Portugal, but there is reason to believe, as a result of subsequent events, that the Finnmark balance owed to the Bank of Portugal in July 1943 represented an extension of credit to the Finns. By July 1944 the Finnmark account had been reduced to 5,332,458, where it remained without appreciable change until the end of July or first part of August 1945, when it was reduced to 492,418 Finnmarks. Payment which reduced the balance to this latter figure was made by the Finns through Switzerland, which in recent months has been the source of funds for the Finnish Legation in Lisbon. (Notice was received on September 15, 1945, that the Finnish Legation here has been closed, its affairs being assumed by the Madrid mission; von Knorring has been transferred to London.)

The Luso-Finnish clearing represented a wartime expedient, and it appears that it will not be reinstated.

LUSO-FRENCH POSITION

From October 2, 1943 to April 22, 1945, the French and Portuguese carried on trade under the Luso-North African Commercial Agreement. As provided in the agreement and as a result of certain operational difficulties experienced by the two parties - difficulties which during several months before termination became increasingly exacerbated - the French denounced the agreement on March 22, to provide for its termination thirty days later. Meanwhile, no new accord has been discussed.

Under the Agreement, a clearing was established and an account opened in the Bank of Portugal in the name of the Bank of Algeria. The clearing balance continually was in favor of Portugal and at the time the agreement was denounced it was around 20,000,000 escudos. Payment of that amount was made in sterling by the French to the Portuguese shortly before the expiration of the agreement, the sterling comprising a portion of a loan of £ 500,000 made by the French to the British early in 1944. (Another portion of that loan, the equivalent of 29,000,000 escudos,

was used by the French in Portugal for the purchase of sardines.) Liquidation of the clearing debit in sterling increased the holdings of that currency by the Bank of Portugal. The French, who want to make further purchases in Portugal, say that the British are raising objections to further sterling payments to Portugal for France, presumably because the British want to prevent the Portuguese sterling balances from becoming much larger.

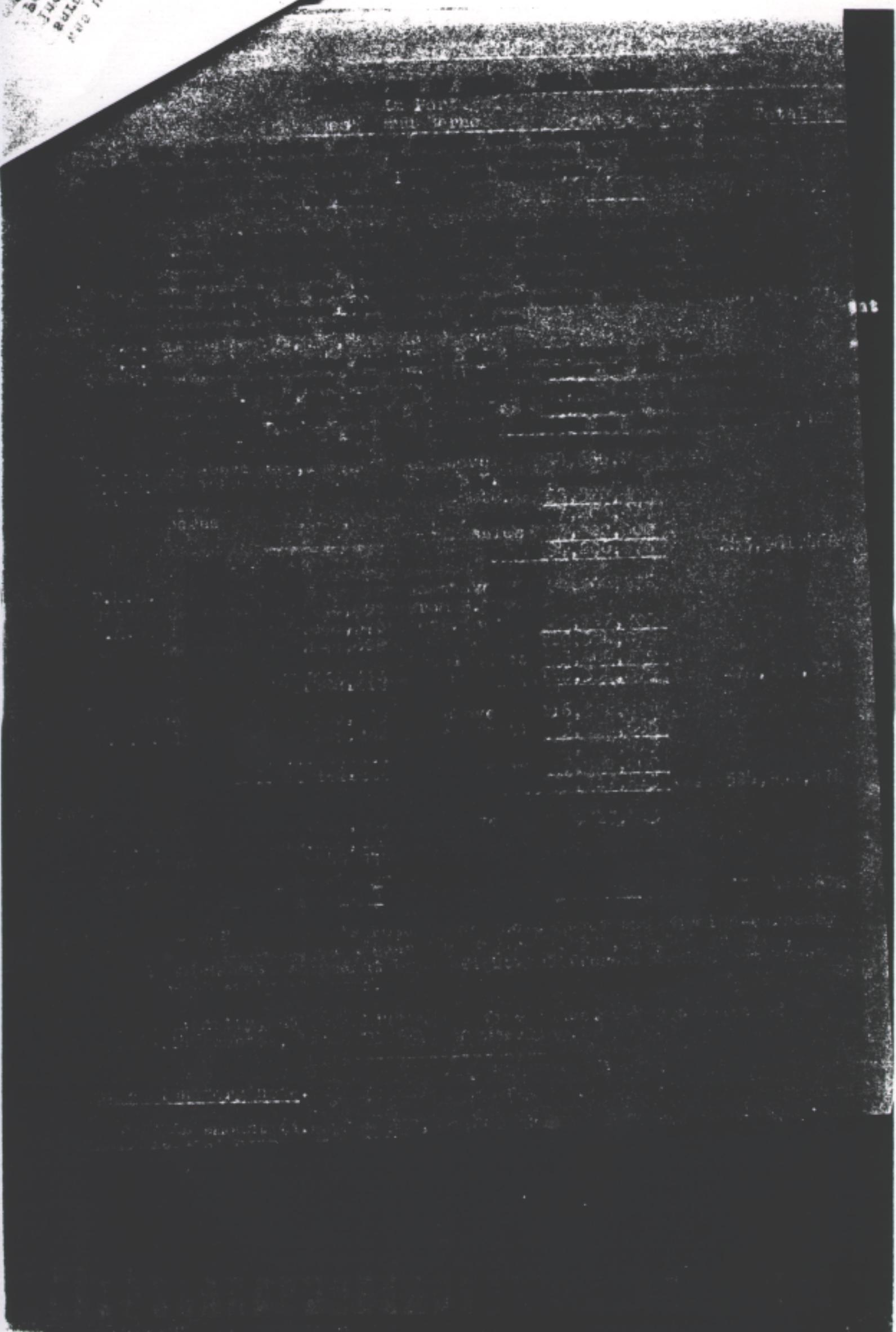
As a result of liquidating the clearing debit and of selling some more phosphates to Portugal, the French on April 23 had an escudo credit of 2,565,000 escudos. Subsequently, this credit has been used up with the shipment of Portuguese goods to North Africa and the French have had to buy escudos to cover further purchases. The French purchase the escudo at two francs to one escudo, which is slightly higher than the official rate. At present the official buying quotation for the franc is \$569 and the selling rate is \$580.

On June 6 the Bank of Portugal had a balance of 1,869,735 French francs. We do not know what this account, which recently, at least, has been small, is used for but it may be employed to pay Portuguese diplomatic and consular expenses in France.

The French look forward to negotiating a new agreement with the Portuguese which, on the French side, would include their metropole as well as their colonies. It is not planned by the French, however, to take any steps immediately to negotiate an agreement and they in any event will wait until a new Anglo-Portuguese financial accord is concluded. According to the French any new agreement between them and the Portuguese would include a clause providing for the reciprocal opening of credits, as established in the Franco-Swiss agreement.

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(1) THE BANK OF PORTUGAL'S YEARLY ACQUISITIONS OF GOLD (Grammes)

Date	In New York and Ottawa	Grammes	In Portugal and Berne	Grammes	Total
31 Dec. 1939	From B. of E. F.R.B.	15,594,535 <u>1,772,901</u>	Portugal	43,907,323	61,274,759
31 Dec. 1940	F.R.B. as above F.R.B. from Portugal F.R.B. in 1940	17,367,436 66,194,400 <u>15,068,965</u> <u>98,630,801</u>	Portugal	216,000	98,846,801
31 Dec. 1941	F.R.B. as above F.R.B. in 1941 F.R.B. from B.I.S.	98,630,801 15,955,984 4,554,563 <u>119,141,348</u>	As above From B.N.S. From B.I.S. Local sales	216,000 39,654,072 1,816,000 <u>41,686,072</u> <u>3,000,000</u> <u>38,686,072</u>	157,827,420
31 Dec. 1942	F.R.B. as above F.R.B. in 1942 Ottawa from Berne	119,141,348 26,593,635 4,019,609 <u>149,754,592</u>	As above From B.N.S. etc. Local sales	38,686,072 58,520,804 <u>97,206,876</u> <u>3,000,000</u> <u>94,206,876</u>	243,961,468
31 Dec. 1943	F.R.B. and Ottawa as above F.R.B. 1943 Argentine 1943	149,754,592 9,864,578 3,044,609 <u>162,663,779</u>	As above From B.N.S. etc. (net) Local sales	94,206,876 25,147,203 <u>119,354,079</u> <u>3,000,000</u> <u>116,354,079</u>	278,837,858
27 Dec. 1944	As above F.R.B. 1944	162,663,779 56,749,282 <u>219,413,061</u>	As above Sales (net)- Local sales	116,354,079 3,636,666 <u>112,717,413</u> <u>7,000,000</u> <u>105,717,413</u>	(a) 324,950,474
10 Feb. 1945	As above F.R.B. Argentine Sweden	219,413,061 13,296,820 549,939 500,639 <u>233,760,459</u>	As above	105,717,413	(b) 339,477,872

(a) For the purpose of this Note under "Gold stock and foreign-currency balances" I have taken a quantity figure of 320,852,000 grammes, a total which was arrived at by a slightly different method but which is approximately the same.

(b) This quantity, at 168 shillings a fine ounce, gives a value of 9,168,146 contos, i.e. 291,681,460 sterling.

(2) An explanatory note.

This amount (i.e. the 320,852,000 grammes referred to in S.W.'s note as "(a) GOLD - At the Federal Reserve Bank of New York and in Portugal, Berne and Ottawa) comprises the gold transferred for safe custody from the Bank of England in 1939/40 and from Portugal in 1940, as well as purchases (less sales) made between the end of 1939 and the end of 1944 in New York from the Federal Reserve Bank and in Portugal from the Reichsbank and the Swiss National Bank, as well as small quantities acquired from the Bank of International Settlements (1941) and from the Argentine central Bank.

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