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Authority: W.D. 802116
By: W. NARA Date: 10/2/97



EMBASSY OF THE
UNITED STATES OF AMERICA

JDAH - FC
JDN

Madrid, September 30, 1944

SECRET

No. 3163

Subject: Visit of Mr. Samuel Klaus of F.E.A.,
Mr. Herbert J. Cummings, of the State
Department, Mr. John S. Richards and
Mr. Sidney Kennedy of the Treasury
Department to Spain.

RC 59
Dec File 1940-44
KR 800.515/1-144
to 800.515/6-3044
Bx 3277

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to the following
communications:

1. Department's Circular Telegram of August 17,
2 p.m., 1944.
2. Department's Circular Airgram of August 19, 1944.
3. Department's Circular Airgram of August 23, 1944,
9:10 a.m.
4. Department's Circular Airgram of August 29, 1944,
4:30 p.m.
5. Department's Circular Airgram of August 31, 1944,
11:40 a.m.
6. Department's Circular Telegram of September 5,
1944, Midnight.
7. Embassy's Despatch No. 3071 of September 12, 1944.
8. London's Telegram No. 141, September 13, 5 p.m.,
1944.
9. Department's Telegram No. 2547, September 14, 1944,
9 p.m.
10. Department's Circular Telegram of September 16,
1944, 4 p.m.
11. Department's Telegram No. 2563, September 16, 1944,
9 p.m.
12. Department's Telegram No. 2564, September 16, 1944,
10 p.m.

800.515/5-3044

There is transmitted herewith a memorandum on the
subject of the visit of the Safe Haven Mission to Madrid.

The information contained therein may be of possible
interest to the Department in connection with discussions
regarding Bretton Woods Resolution No. VI.

Respectfully yours,

Carlton J. Haves
Carlton J. Haves

REC'D
SEP 6 1944
DEPT. OF STATE

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✓ Enclosure:

★ Memorandum, as stated.

File no. 711.2 - Enemy Assets

Original in ezalid to Department
Two copies to London.

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MEMORANDUM

Madrid, September 26, 1944.

SECRET

Subject: Visit of Mr. Samuel Klaus of F.E.A., Mr. Herbert J. Cummings, of the State Department, Mr. John S. Richards and Mr. Sidney Kennedy of the Treasury Department to Spain.

On September 13 this Embassy was informed by the Embassy in Lisbon that Mr. Klaus and Mr. Cummings would arrive in Madrid by air the following morning. They were met by an Officer of the Embassy and conducted to their hotel. In answer to an inquiry as to how long their visit in Spain would be; Mr. Cummings replied "perhaps three or four days"; Mr. Klaus interrupted and stated "three or four weeks or as long as it necessary to get a feel of the situation".

After arranging for accommodations and after installing Mr. Klaus and Mr. Cummings in their quarters, the Officer invited and took them to lunch and thence to the Embassy where arrangements had been made for them to meet and discuss in preliminary form the question of investigation and action in Spain concerning enemy assets, flight of enemy capital, and looted property.

The first discussion took place in the office of the Counsellor, Mr. Butterworth, with Mr. Butterworth, Mr. Ackerman, and Mr. Whedbee of the Embassy present. The discussion was prefaced by remarks from Mr. Klaus and Mr. Cummings concerning the origin of their mission and an explanation of the absence of the other two members of the mission.

Mr. Klaus stated that he was a Special Assistant to a general counsel in the Treasury Department but at present was on loan to the Foreign Economic Administration. He stated that he had been employed in various types of investigational work for the Treasury Department for the last ten or twelve years; that in the course of this work he had been largely responsible for the breaking up of the lottery and horse race rackets in the United States; that he was a principal figure in the investigation of I. G. Farbenindustrie activities prior to and during the early years of the war; that he had assisted in the Al Capone case and in general that he was one of the more important of the Treasury Department's investigators.

While

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While engaged in these investigations he decided some time before there was a threat of a European war that steps should be taken by the United States Government to ascertain the nature and extent of German influence in the commercial world in the United States as well as the use to which such commercial influence could be put in espionage, sabotage and other activities against the welfare of the United States. He was finally able to convince a number of people in the Treasury Department of the need for such a program and he acted as a principal force in organizing the Foreign Funds Division of the Treasury Department, though at a later date, because of personal difficulties, he withdrew from active participation in the functioning of that division.

At that time Mr. Klaus became interested in the general problem of controlling enemy assets after the present war but, until a few months ago, was unable to obtain support from sufficiently high quarters to enable him to set up a general program. He made vague references to difficulties between himself and the Foreign Funds Division of the Treasury Department and stated that he finally obtained support from Mr. Coe and Mr. Crowley in the Foreign Economic Administration. With this tacit, if not open support he approached the Offices of Naval Intelligence, Military Intelligence, the Office of Strategic Services, the Federal Bureau of Investigation, the State Department, and several miscellaneous agencies and received approval for his present mission.

It appeared that the State Department's approval was given contingent upon its sending with him a State Department representative. Several persons were suggested to Mr. Klaus but for various reasons they were eliminated and at Mr. Klaus' suggestion the State Department appointed Mr. Cummings who was thereupon reinstated in the Department after having resigned as an Economic Analyst at Istanbul. Mr. Cummings interjected that he had worked with Mr. Klaus on a number of investigations prior to having gone to Turkey some eighteen months ago.

From Mr. Klaus' conversation it appears that at this point in the developments the Foreign Funds Division of the Treasury Department learned of the forthcoming departure of Mr. Klaus of this mission and the assignment of Mr. Cummings. The Foreign Funds Division, accordingly, decided that as the present mission's work would overlap to a considerable extent the work which they have been performing during the war, they should have a representative accompany Mr. Klaus on his trip. Mr. Klaus did not want this and therefore departed as quickly as possible from the United States intending to go to as many capitols on his itinerary as he could before the Treasury representative would be able to overtake him. Upon arriving in London Mr. Klaus learned of the appointment of Mr. Richards and decided to visit Stockholm at once. He apparently was overtaken there by Mr. Cummings and Mr. Richards and also Mr. Kennedy.

Mr. Klaus

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Mr. Klaus and Mr. Cummings then discussed for some minutes the complete and "utter incapacity" of either Mr. Richards or Mr. Kennedy "to contribute anything" to their mission. They discussed several personal quarrels with Mr. Richards and Mr. Kennedy in Stockholm and also in London and stated that it had finally been decided in London that Mr. Richards and Mr. Kennedy would make the remainder of the circuit of capitols as a separate mission, for as Mr. Klaus phrased it, "reasons of security" since some publicity had apparently been given to their mission in the London papers.

At this point they were interrupted by Mr. Butterworth who stated that the Embassy was not particularly interested in the quarrels among the mission but would like to know exactly what was the purpose for which Mr. Klaus and Mr. Cummings had come to Madrid. Mr. Klaus thereupon summarized the Bretton Woods resolution No. VI, commenting that while it appeared from intercept material, which his office staff in Washington was at present organizing, that Spain would be the largest recipient of looted property, holder of enemy assets and most likely country in which "shadow" war plants would be established, no information had been received in Washington from the Embassy, Consulates and Services in Spain. Mr. Butterworth and Mr. Ackerman mentioned the considerable volume of Proclaimed List reporting as well as reporting concerning Spanish imports from enemy territory and espionage and counter-espionage reports, all bearing on this question. Mr. Klaus conceded this point but asserted that virtually all this information was of a static nature and stated that what was desired in Washington was a current and running account concerning all enemy assets or assets which might benefit the enemy directly or indirectly and current reports on all enemy nationals or nationals who might directly or indirectly aid the enemy in Spain.

Mr. Butterworth pointed out that this program is exceedingly pretentious in view of the difficulties in obtaining precise information in Spain. The Embassy had had considerable difficulty in maintaining a counter-espionage organization, and, at the conclusion of hostilities, and upon the cessation of the oil control program, these difficulties would increase. The close relationship between many Spanish Governmental enterprises and enemy influenced enterprises; and the probability that the Spanish Government would continue to consider the industrial development of Spain above questions of which foreign power might be lending assistance thereto were mentioned. Mr. Ackerman remarked it would be most unlikely that the Spanish Government would countenance the establishment of an organization which in Spanish eyes would be engaged in espionage; that there are very strict laws against espionage. He gave examples where persons connected with the recent wolfram and other investigations were now in prison on charges of "furnishing information to a foreign power". As these

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laws were being enforced in cases where the Spanish Government had welcomed information from Allied sources to prevent smuggling, we could anticipate less sympathetic consideration of organized investigations concerning entities operating as Spanish, and probably having a substantial Spanish interest, although they might be controlled by Axis capital. (At this point Mr. Ackerman left the meeting for a long distance telephone call.)

Mr. Klaus stated that we could probably expect considerable cooperation from pro-Allied and dissident Spanish groups. In Sweden, the Social Democratic and other parties had promised him and the Legation in Stockholm their support. He asked whether there were any large labor groups in Spain which might be contacted for this purpose. Mr. Butterworth replied that the Spanish labor syndicates as a rule may not be expected to furnish much information due to their being directly controlled by the Falange, and as the Communist Party was outlawed in Spain it would not be prudent to seek its cooperation if at the same time we were asking cooperation from the State.

Mr. Butterworth then remarked that we were already aware of the existence of considerable enemy assets in Spain, in particular, Italian assets, concerning some of which precise information has been forwarded to Washington and Allied authorities in Italy; and that effective controls could scarcely be established in neutral countries till after definite policies have been laid down in the occupied countries themselves. He asked if Mr. Klaus or Mr. Cummings could explain why the Italian Government or the French Government had not to date issued decrees vesting all foreign properties of Italian and French nationals in the State. Mr. Klaus and Mr. Cummings were not aware of even the general nature of these particular problems. Mr. Butterworth then asked if they could inform him of the general nature of the procedure Washington and London intended to follow after the conclusion of the war for controlling the undesirable activities from Germany. Mr. Klaus stated that probably no one other than the military chiefs, the Prime Minister and the President know even the general nature of such plans. Mr. Butterworth then pointed out that it would be most helpful to the Embassy to know more specifically toward what end information was to be gathered in Spain. Mr. Klaus stated that Mr. Butterworth was asking which came first the chicken or the egg; that the information had to be submitted first from Spain before Washington would know what the problem was. He described the well-known Treasury action in taking over General Aniline and Film in the United States, etc.; he mentioned as an instance of guidance to Washington from the field undesirable Swiss laws regarding the prohibition against banks disclosing information. Mr. Butterworth discussed additional undesirable Swiss banking and commercial regulations handicapping the tracing of possible German holdings and indicated that Spain also had similar regulations.

Mr. Klaus stated that it might be necessary for the United States to exert pressure to change their laws on

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Spain and Switzerland by freezing balances in the United States or some equally potent weapon. Mr. Butterworth pointed out that Spanish balances in the United States were relatively small and that they have been declining considerably in recent months. Mr. Butterworth then asked whether there were any specific problems which the mission wanted to take up at present.

Mr. Klaus asked whether there had been any recent movements of gold into Spanish banks and whether there had been any transfers from Spanish banks abroad--perhaps to Argentina. He asked whether the Embassy was checking on the foreign exchange holdings of the various Spanish banks. Mr. Butterworth replied, stating that private banks in Spain do not hold gold, all gold under Spanish law being the property of the State and must be immediately delivered to the State. Likewise Spanish banks do not hold foreign exchange, all foreign exchange being held in the account of the Spanish Foreign Exchange Institute. Mr. Klaus said he was glad to learn of the existence of such a control as it would considerably facilitate Allied measures for checking on the movement of gold and funds through Spain.

Mr. Butterworth then asked the mission's recommendations with regard to the immediate submission of information by the Embassy to Washington. Mr. Klaus replied that the optimum would be: (1) complete and detailed census of all enemy assets in Spain including assets not belonging to the enemy but which might benefit the enemy indirectly; and (2) lists of all enemy nationals in Spain, including reports currently submitted on their activities. Mr. Klaus stated that he realized the Embassy could not furnish all this information at once but should furnish as much as was available. Mr. Klaus then said that Mr. Cummings would be interested in knowing what additional personnel were needed to assist in gathering this information. Mr. Butterworth replied that it would be extremely difficult to estimate the personnel requirements until we were aware of the degree of detail which Washington required and an indication of what practical action might be taken after the presently available data and forthcoming data were assembled.

Mr. Klaus then stated that he would like to talk with the various attached services at the Embassy to which Mr. Butterworth assented but indicated that in the interests of coordinating our efforts a member of the Embassy staff should be present at such meetings and stated that Mr. Klaus and Mr. Cummings were not issue any directives regarding the activities of the attached services, to which Mr. Klaus assented.

On the evening of September 14th and the morning of September 15th the Commercial Attache, Mr. Ackerman, received Messrs. Klaus and Cummings. Mr. Klaus prefaced his subsequent remarks with the statement that he anticipated that the supervision and coordination of the investigations to be undertaken should be under the general supervision of the Embassy. He reviewed in some detail the purpose of his visit and conveyed substantially the same information as had been given to Mr. Butterworth.

Mr. Ackerman

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Mr. Ackerman stated that the problem appeared to fall within three broad categories: (1) to prevent the Germans from disposing of loot, (2) to prevent the hiding of German assets, and (3) to prevent maintenance of a highly skilled technical organization which at some later date might be used again to wage war. As regards loot the Embassy had been following closely all reports of the arrival of goods from German occupied territories; on several occasions it had written notes to the Foreign Office pointing out specific suspicious transactions. This approach was designed to reinforce the United Nations resolutions adopted in 1942 concerning looted property which had been duly submitted to the Spanish Government. He likewise mentioned the February resolutions concerning the transfer of gold. The Embassy intends to continue investigations along these lines and to afford the fullest cooperation to countries whose legitimate properties may be brought to Spain for disposal or concealment. The task of investigating the technical capabilities of Germans who might make an appearance in Spain, either now or after the war, was one which might attain enormous proportions and Mr. Ackerman questioned the worthwhiles of such investigations. There has been no great influx of German technicians to Spain during the last several years; some have entered in connection with normal commercial enterprises but these have not been outstanding in number nor, except for a few instances, in capabilities. The Embassy is watching carefully the only means of communication now available to Spain, airlines, but this does not afford a broad avenue of exodus from Germany and it is hoped that in cooperation with the Spanish Government it may soon be sealed. There would seem to be little point in the Embassy attempting to ticket closely all arrivals having technical skill, if as seems to be apparent, Russia may seek German labor in the postwar period; likewise, if as Mr. Klaus had previously explained, it was the intention of the allies to destroy those German industries which might be used for rearmament, undoubtedly there would occur an enormous exodus of skilled German workmen to all parts of the world. However, if all basic industries in Germany are to be destroyed it seems remote that such workmen could contribute to German rearmament. Furthermore, if the plants in Germany are not to be destroyed, the few skilled technicians who might emigrate from Germany to Spain would have little significance.

Mr. Ackerman discussed briefly the more important German commercial, industrial and banking interests in Spain. He pointed out that few of these were of recent creation but were the outcome of Germany's commercial and industrial expansion policy over a period of many years. The Embassy had been closely following recent developments in these lines. It kept close tab on Germany's financial relations with Spain and was fairly accurately informed as to the state of German balances; it had attempted to learn of gold movements from Germany through Spain; it had

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been less successful in obtaining information on the activities of German banks. Washington had been kept informed along these lines, either by the Embassy or by Mr. Barth of the USCC. The financial structure of entities known or suspected to be German controlled or in which the Germans held a substantial interest, had been closely followed; the Embassy would be on the alert for any changes in the capital structure or in expansion. However, with few exceptions, all these concerns were incorporated under Spanish law; ownership was by "to bearer" shares. As certain minimum Spanish ownership was required under Spanish law in order that a concern be treated as a "national" concern so that it could obtain government orders, it is so difficult to learn the true ownership of shares that few investigations undertaken by the Spanish Government had been successful. This raised a fundamental question, that is, whether a Spanish incorporated concern in which the Germans held an interest, whether majority or minority, would be considered as a German asset and subject to expropriation by the Allied governments at the termination of the war; and, if so, whether a neutral government such as Spain would be called upon to make the requisite investigation of the German participation upon the demand of the Allied Governments. The question arose as to whether it would not be more simple and more satisfactory to have investigations conducted in the country of parent concern where a court of inquiry would have clearly defined powers. The Embassy was not sanguine that lacking juridical powers, it could obtain in Spain a true picture of the extent of German ownership in those concerns. Mr. Klaus recognized these difficulties. He appreciated that the cooperation of the Spanish Government in ultimate action to be taken would be essential. The Spanish Government might be prevailed upon to permit the United States Government or the Allies to take over the German interests in these firms or to sell or to permit their sale to Spanish interests and the funds therefrom made available to the reparations committee. Spanish cooperation might be obtained by an offer from the United States of certain supplies and services and if this failed the United States might impose sanctions. However, in order to establish the facts of the situation he believed that the Embassy should continue to send to Washington a flow of material describing in as great detail as possible German financial, economic and technical penetration into Spain.

In response to Mr. Klaus' inquiry as to the personnel which might be required by the Embassy to conduct necessary investigations, Mr. Ackerman states he was not competent to prognosticate at the moment nor could he state what qualifications new personnel should have. It depended upon the ultimate determination by Washington of the essential information desired and of the supplementary studies which might be found necessary as the broad program of investigation was developed. For the moment he felt that we should concentrate on German assets and place only incidental stress on the technical personnel reaching Spain. The Embassy already had a great mass of information, part of which had been sent to Washington in connection with Proclaimed List work, on known German concerns. It would supplement this information with additional data but it would be especially alert to expansion and to the advent of new German financial and commercial enterprises.

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Subsequently, a general discussion took place in the Commercial Attache's office at which there were present Mr. Ackerman, Mr. Haering and Mr. Whedbee from the Embassy; Mr. Barth from the USCC; Colonel Sharp, the Military Attache; Captain Lusk, the Naval Attache; and, Mr. McMillan and Mr. Mellon from the O.S.S.

Mr. Klaus reviewed his story and emphasized the need for utilizing all possible sources of information. Particular examples of the various problems in Spain were outlined for the information of Mr. Klaus and Mr. Cummings. Mr. Barth emphasized in particular the need for decrees by the Governments in Italy and France concerning financial matters especially relating to foreign assets. A number of questions were asked by the representatives of the attached services concerning the extent of cooperation desired and Mr. Klaus informed them that directives would be given by the Embassy from time to time. He was especially anxious that information which might be obtained would flow to Washington in as great volume as possible.

During the next few days Mr. Klaus and Mr. Cummings talked individually with Mr. Haering concerning the contribution which the attached services might make in furnishing information, Mr. Horwin concerning the possibility of obtaining information from firms desirous of importing from the United States, Mr. Bowie concerning the Proclaimed List relationship to the present problem, with Mr. Barrel concerning USCC assistance, and with various O.S.S., military and naval officials. A number of conferences with attached services were arranged by Mr. Klaus without his informing the Embassy either before or after the conferences.

On September 18, Mr. Richards and Mr. Kennedy arrived from Lisbon. Mr. Kennedy explained that he was making a quick survey trip to determine whether there had come to our attention any evidences of counterfeiting of American currency or narcotics trade. He talked with various members of the Embassy staff and with Mr. Barth of the USCC and with the Director of the Spanish Foreign Exchange Institute, Blas Huete. He appeared satisfied that there was very little evidence of such activities and as soon as passport and transportation facilities could be arranged made his departure on Saturday afternoon, September 23.

Mr. Richards discussed the various phases of Bretton Woods resolution VI with several members of the Embassy staff, talked with USCC personnel and was given substantially the same background information and views on the Spanish situation as had been conveyed to Mr. Klaus

While these gentlemen were in Madrid the Embassy received a telegram from the Department to defer presentation of the Bretton Woods Resolution No. VI to the Spanish Government. It also received and conveyed to Messrs. Klaus, Richards and Cummings instructions for them to return to Washington after concluding their consultations in Madrid. Messrs. Klaus, Richards, and Cummings insisted that they should visit Barcelona and Bilbao and arrangements were

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made to have them accompanied by Mr. Whedbee of the Embassy so as to make certain that the Consulates would be fully informed of the viewpoint of the Embassy concerning investigations. These gentlemen visited Barcelona on September 20, and Bilbao on September 23. At both cities members of the Consular corps and the O.S.S. were present at meetings in which Mr. Klaus and Mr. Cummings reviewed the Bretton Woods Resolution No. VI, and their story as given in Madrid. The Consular Officers presented cases on German and Italian interests in their districts, and asked for guidance as to what phases of these interests should be reported on to be of assistance to Washington in the contemplated peace settlements and post war plans. Mr. Klaus requested that all available information be sent to Washington as rapidly as possible, but indicated that directives would be issued from time to time by the Embassy.

At both cities the mission asked what additional personnel was needed and received the reply from Mr. Key in Barcelona and Mr. Hawley in Bilbao that the personnel requirements would depend upon the degree of detail desired by Washington. Both the Consulate General in Barcelona and the Consulate in Bilbao stressed the absolute necessity for centering the direction of all investigation and coordination of all information at the Consular offices if efficiency in operation were expected.

Mr. Richards and Mr. Cummings departed from Madrid on September 25 for Lisbon, en route to Washington. Mr. Klaus departed for Lisbon on September 27, having failed to obtain a visa for Tangier in Madrid.

In concluding this report the Embassy wishes to express its regret that the several interested departments had not been able to clearly define the purposes of the mission and to avoid the unfortunate personal antagonisms which were apparent throughout their stay in Spain. It was evident that the mission had in mind that the various agencies of the government in Spain should immediately undertake independent investigations on all phases of Axis activities and interests in Spain. The Embassy believes the mission was convinced that this would lead to such confusion, misleading information and conflict that the objectives would be defeated; at least the mission agreed that coordination was desirable and necessary.