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JUL 3 1946

My dear Mr. President:

Just before Mr. Chief Justice Vinson's resignation from the Treasury he received from you a memorandum dated May 27, to which was attached a copy of a letter dated May 24 which you received from Senator Kilgore, relating to the Allied-Swiss negotiations on German external assets in Switzerland. Apparently, the letter was unanswered in view of the final pressure of work before Mr. Chief Justice Vinson terminated office as Secretary of the Treasury.

I have carefully examined Senator Kilgore's letter and discussed the matter with members of the staff who worked closely on these negotiations. They have informed me that Mr. Chief Justice Vinson was likewise kept fully informed of the progress and developments of the negotiations and was frequently consulted on basic policy decisions by Mr. Randolph Paul, the United States negotiator. In the light of my discussions with the staff I should like to make the following comments on some of the matters raised in the Senator's letter to you:



1. In the first instance it is not possible to accept the Senator's recommendation that the United States take the initiative in breaking off the Allied-Swiss negotiations on German external assets. The negotiations, as you know, were concluded on May 25. The agreement provides, among other things, that the proceeds of German holdings in Switzerland be divided equally between the Allies, on one hand, and Switzerland on the other. In addition, on the question of the restoration of looted gold, the Swiss Government agreed to make available to the Allied Governments \$58.14 million, or two-thirds of the looted gold actually proved to be purchased by Switzerland from Germany.

2. Senator Kilgore suggests that the matter be referred to the United Nations. I assume he has in mind some sort of international arbitration of the matter. The Swiss themselves recommended submitting the whole matter to arbitration. Under other circumstances, arbitration might have been indicated. But arbitration would have been a prolonged and involved process extending over many years. The selection of an arbitral tribunal would itself have presented many difficulties. During the process of arbitration German assets would have deteriorated and relations between the Allies and Switzerland as well as the status of the businesses involved would have been unsettled. But even more important, the security objectives would have been weakened and immediate reparation payments to the countries entitled to them could not possibly have been provided.

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3. The financial settlements incorporated in the agreements represented a final offer made by the Swiss negotiators. However, before this offer was accepted your assistant, Mr. Randolph Paul, the United States negotiator, carefully explored the offer with Mr. Clayton and Mr. Chief Justice Vinson, then Secretary of the Treasury. They were both convinced that the Swiss offer should be accepted. The Allied countries could not continue the wartime economic restrictions at a time when antagonism was increasing everywhere against the post-war continuation of controls. Moreover, it did not appear advisable to jeopardize, for the sake of a few more dollars, the possibility of securing wholehearted support by the Swiss of the Allied economic security objectives. In this connection, I was advised that Mr. Chief Justice Vinson was informed by Mr. Paul that after he had discussed the matter with Senator Kilgore he concluded that the offer was acceptable to the Senator. Senator Kilgore likewise was of the opinion that the United States controls, such as the Proclaimed List and the continued freezing of Swiss assets in the United States, could not be maintained much longer. (Attached for your confidential information is a copy of the minutes of a meeting which Mr. Paul and Mr. Rubin, of the State Department, held with Senator Kilgore on this matter.)

4. Actually, the primary Allied security objective of immobilizing German assets in Switzerland, which constitute a threat to the peace of the world, was, in my opinion, attained by the agreement. German assets are to be identified and liquidated by a Swiss agency. This agency will work in close cooperation with a Joint Commission in which the Governments of the United States, United Kingdom and France will be represented. The use of a Swiss agency to carry out the actual mechanics of liquidation of a vast amount of property, when the liquidation will involve sales and transfers of securities, business enterprises, and other diversified properties, is a desirable procedure. Even if the question of Swiss sovereignty had not arisen, it would have been extremely difficult for the Allies to staff such an agency with the necessary technically competent personnel. Security requirements are met by provisions requiring that the Joint Commission be given full information on all important actions taken by the Swiss agency. Moreover, the Joint Commission will pass on the qualifications of purchasers of German properties in order to assure that those purchasers are acceptable to all concerned. The settlement also provides for arbitrating differences which may arise between the Swiss agency and the Joint Commission.

5. Senator Kilgore indicates concern that if Swiss assets in the United States are unblocked, German assets held in the United States through Swiss accounts will be freed. On the basis of my discussions with members of the staff of the Treasury who handled defrosting arrangements with the countries whose funds were blocked in this country, I am compelled to disagree with Senator Kilgore's conclusion. Preliminary to

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the defrosting of the funds of any countries with which we have entered into defrosting agreements, the Secretary of the Treasury receives assurances from the governments of those countries that they will notify him, after appropriate investigation, of all German assets which may be held through accounts in the names of nationals of such countries. In fact, before any funds can be unblocked in the United States, the governments of the countries concerned must certify that there is no enemy interest in such funds. This procedure requires the governments to secure all information with respect to the true beneficial ownership of the accounts in the names of their respective nationals held in the United States before such governments can officially certify to their non-enemy ownership. It is contemplated that this type of procedure will be followed in the case of Switzerland, and thus force the disclosure of German assets cleaked through Swiss accounts in the United States.

In conclusion, after considering the Allied-Swiss agreement, it is my view that if the Allied Governments approach the execution of the agreement with the sense of cooperation and trust, which is basic to the agreement, German assets in Switzerland will be liquidated to accomplish the two-fold Allied objective to: (1) eliminate the use of German assets in Switzerland for future war or aggression; and (2) make these assets available for the rehabilitation and reconstruction of countries which have been devastated or depleted during the war.

I have prepared for your signature, if you agree, a proposed reply which you might send to Senator Kilgore as a follow-up on your letter to him of May 27, 1946, on the subject of the Allied-Swiss negotiations on German external assets in Switzerland.

Faithfully yours,

(Signed) JOHN W. SNYDER

Secretary of the Treasury

The President

The White House

DEPARTMENT OF STATE
MEMORANDUM OF CONVERSATION

May 6, 1946

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SUBJECT: The Swiss Negotiations

PARTICIPANTS: Senator Kilgore, Mr. Paul and Mr. Rubin

Copies to: ES - Mr. Surray
Mr. Reagan
EUR - Mr. Hickerson
Treasury - Mr. Orvis Schmidt

Pursuant to arrangement, Mr. Paul called on Senator Kilgore, in the latter's home, to advise him of the latest stage of the negotiations. Mr. Paul indicated that the Swiss had offered a fifty-fifty split on the German assets, 250 million Swiss francs in settlement of the gold question and that, in Mr. Paul's opinion, this offer was the best deal that could be negotiated at this time. Mr. Paul pointed out that perhaps in a different negotiation some time hence the Allies might be able to work out a better deal with the Swiss, but that this depended almost entirely upon the willingness of the United States to continue controls, particularly the Proclaimed List and the blocking of Swiss assets in the United States.

In response to Senator Kilgore's inquiry on the facts of the gold question, Mr. Paul explained that we had been able to trace approximately \$123 million of Belgian gold to Switzerland. Of this, something under \$40 million had been placed on deposit and had been sent to other countries, pursuant to the orders of the Reichsbank. The remainder, about \$88 million, had been purchased by the Swiss and remained in their possession. Of this the Swiss proposed to turn over to us the dollar equivalent of 250 million Swiss francs, the remainder to stay in Swiss possession. Mr. Paul indicated the possibility that some of the gold which had been placed on deposit in Switzerland and thereupon transferred might be followed into the countries to which it had been transferred. Mr. Paul explained that the Swiss would be retaining a substantial amount of gold - approximately one-third - of the amount which they had purchased and which we felt was looted. More perhaps could be obtained if litigation were instituted, but this was the best which had come out of these negotiations. In the discussion which followed, Mr. Paul indicated his feeling that a better deal perhaps might be worked out with the Swiss if the United States were firm in a policy of application of economic sanctions and of continuation of the freezing controls and

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black list, and if agreement on these matters could be worked out with the other interested United Nations, particularly the British. Senator Kilgore indicated his feeling that the most effective sanction was the freezing controls and he had some doubt that the British would go along on any application of continued economic pressures on the Swiss. Mr. Rubin stated that the question of the black list had been taken up with the British, and that so far it had been indicated that the British would not continue the Statutory List beyond June 30, 1946. He stated also that the British had said that this decision could only be reversed if Mr. Truman were to take up the matter with Mr. Attlee.

Senator Kilgore inquired about the procedural aspects of the agreement as it presently stood. After making clear that a number of these matters were not as yet finally settled, Mr. Paul stated that the procedures contemplated liquidation of the properties by a Swiss agency, which was to be supervised by a joint commission, doubtful cases to be referred to an umpire. He said that one portion of the proposed agreement was that information gathered by the Swiss through their census would be made available to the joint commission. Senator Kilgore inquired specifically about whether information which was relevant to the General Aniline - I. G. Chemie question would be obtained from the Swiss. Mr. Paul stated that a good deal of that information should be made available if the agreement worked out. He pointed out that, no matter how good the agreement might be, it would be extremely difficult to get information unless the spirit of the agreement was kept in mind on both sides, and unless there was a real cooperation.

Mr. Rubin mentioned the fact that the burden of proof in a suit for just compensation with respect to General Aniline might well be transferred to the Swiss under legislation now pending before the House Judiciary Committee. Mr. Rubin added that he was somewhat skeptical of the amount of information which would be obtained from the Swiss under any agreement, but felt that a considerable amount might be obtained under the procedural terms of the presently proposed agreement. He emphasized that a better agreement might perhaps be worked out if a strong position were maintained by the Allies for a substantial period of time, but stated his belief that the pressures for relaxing, rather than tightening, controls were increasing all the time. Senator Kilgore stated that he knew this very well, and that he was receiving daily a great many letters in this general vein.

Senator Kilgore, in summing up his reactions, stated that he felt that the security aspects of the proposed agreement were the more important, and that apparently the agreement did about as well as could be done with respect to the problem of security. He indicated that he had never expected to get a great deal from the Swiss on the monetary side, and stated that he felt that the agreement outlined by Mr. Paul did quite well on this aspect of the problem. In response to Mr. Paul's question, Senator Kilgore indicated that he would accept the terms suggested, if the problem were up to him.

There was some general conversation about the question of controls and pressures for their relaxation, and the lack of willingness of the other Allied Governments to maintain or increase controls, and the meeting then adjourned.