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Lisbon, May 20, 1948

No. 19[illegible]

Subject: Presentation of Note on Looted Gold to Portuguese Government.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to the Department's various telegraphic instructions regarding the presentation of an Allied note on looted gold to the Portuguese Government and to the Embassy's telegram No. 282 of May 20, 1948 initially reporting that presentation.

There is attached a memorandum regarding the presentation of the note in question.

[illegible] are attached a copy of the [illegible] gold agreement which was left [illegible], a copy of the note as actually pr[illegible] of a memorandum by Mr. Xanthaky of [illegible] took place the same day.

Further reports will be made to the Department as developments occur.

Respectfully yours,

Albert E. Clattenburg, Jr.
Charge d'Affaires ad interim

Enclosures:

1. Memorandum re presentation.
2. Formula for gold agreement.
3. Copy of note presented.
4. Memorandum of [illegible] by Mr. Xanthaky.

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[illegible] (1) to [illegible] No. [illegible], May 20, 1948, from [illegible] Embassy, Lisbon, Portugal.

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[illegible]

[illegible] Visit to the Foreign Office, May 19, 1948

[illegible] the British Ambassador and the French Minister, [illegible] by the Portuguese Foreign Minister at 4:[illegible] P.M. today.

[illegible] presented the Foreign Minister with identical notes on the gold question in accordance with the draft reached at Paris.

The British Ambassador made introductory comments [illegible] that we had come to see the Foreign Minister on the always painful and long-pending question of gold.

The Foreign Minister interrupted to say that it was not only painful but delicate.

The British Ambassador went on to state that the three governments had come to the conclusion that it was necessary, now that Accords on gold had been reached with Spain, with the Bank of International Settlements at Basle and with all the other European neutrals, to come to final grips with the question in Portugal. The three governments were negotiating on behalf of all 18 members of IARA. The proposals they had so far received from the Portuguese Government were not proposals which they could take to IARA and recommend for adoption on the ground that the negotiating governments were satisfied [illegible]. It was felt that undoubtedly a formula could [illegible] which would permit the three governments to go [illegible] and honestly recommend adoption on the grounds [illegible] accord would meet the needs of all parties. [illegible] could not be found very soon that fact would [illegible] to IARA.

[illegible] Ambassador further went into the [illegible] of a prompt settlement, including [illegible] assets in the United States, the [illegible] gold movements and the improvement [illegible] of the European economy.

The presentation by the British Ambassador was [illegible] made.

The French Minister made supporting remarks and requested the Foreign Minister to read the French version of the note.

The Foreign Minister read the French version of the note very attentively and then proceeded to make quite extensive remarks upon the entire matter.

The first point made by the Foreign Minister was that the circumstances affecting Portugal were very different from those affecting the other governments or agencies which had arrived at gold accords. In respect to Spain, the Spanish Government had received 25% of all

liquidated/

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liquidated German property [illegible] very considerable amount [illegible] that the [illegible] relatively [illegible] would probably so [illegible] cash be [illegible] Spanish Government. In the opinion of the Fo[illegible] there be considered the very considerable [illegible] to spoil from the settlement, the favorable [illegible] it had received and the cash benefit the Spanish Government appears to expect, the Accord was actually [illegible] diplomatic triumph.

In the case of Sweden, the Foreign Minister cited a Swedish informant who had told him that the Swedish Government had agreed to turn over between 7 and 8 tons of gold in return for which they would receive 25% of German assets liquidated. The Swedish informant appeared to believe that in effect Sweden would receive full compensation for the gold so surrendered.

The Foreign Minister was less well informed with respect to Switzerland. He had received some information from Walter Stucki which led him to believe that the large volume of German assets to be liquidated in Switzerland together with the 50% basis of division would certainly leave Switzerland in not too unfavorable a position when the effect of its gold settlement was finally reckoned.

The Foreign Minister made the point that Spain, Sweden and Switzerland are larger countries with much more highly developed industry and a greater variety of products than Portugal.

Portugal, he [illegible], is a very poor country which subsists on a very [illegible] margin. It is true that during the war it had a windfall in the war-time profits from exports of wolfram and other commodities. Now that peace has come [illegible] diminishing and the windfall is vani[illegible]

[illegible] referred once more to the text of t[illegible] that he had remarked particularly that [illegible] legal or juridical arguments but [illegible] international relations and morality. As a [illegible] old Hague Court, he could testify that the juridical position of Portugal with respect to this gold was impeccable. He asserted that the legal systems of France, upon which that of Portugal is based, Great Britain and U.S. all protect the purchaser in good faith even if property is afterwards found to be stolen. The Foreign Minister then went on to point out that the gold in question was received by Portugal in return for transactions with Germany which had the consent of the U.S. and Great Britain in that it was agreed that Germany might purchase 28% of the wolfram available in Portugal, etc.

In view of the fact that the allied note did not refer to juridical questions, the Foreign Minister remarked that the matters just discussed might be laid aside from discussion since the practical fact was that we must reach an agreement.

The Foreign/

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The [illegible] Minister [illegible] to eliminate the possibility of Portugal obtaining any compensation for gold which had been transferred to the Allies. He stated that the Germans had previously [illegible] in order to [illegible] the Allies in their previous [illegible] and [illegible] overwhelmed the Germans with assets in the colonies--Guinea, Angola, and [illegible]--which might be liquidated. As a matter of fact, these most German holdings in these colonies belonged to German residents there before 1939 and still resident there, thus not falling within the scope of the Accord, it would be surprising if liquidated assets available from this source would exceed more than 25% of the mentioned 200 million escudos. Thus, even if the Allies should give Portugal all these proceeds, the increment to Portugal would be far from meeting the cost to the country of 14.6 tons of gold which is about 406 million escudos. According to his computation, Allied insistence upon a figure of 14.6 tons of gold would mean a net loss, even if the Accord were re-written to give Portugal all the German assets in the colonies, of 300 million escudos. The Foreign Minister also underlined another difference between the case of Portugal and the case of other countries which had negotiated with the Allies. In the other countries, there is a State Bank and if the State stood a loss on the gold settlement that went directly out of the State's accounts. In Portugal, however, the national bank is a private enterprise which the State would necessarily have to recompense. This would mean a special budgetary provision and probably the imposition of some new tax specifically designed to raise this amount of money.

[illegible] the Foreign Minister drew from all the [illegible] which above enumeration was that the [illegible] in the Allied note is [illegible] would be necessary for him to [illegible] colleagues particularly the [illegible] out of town and Salazar who was [illegible] after consultation with them would [illegible] say something further.

[illegible] proceeded to question the Foreign Minister [illegible] various figures which he had cited and noted them all on a small notebook which he carried. He then made some comment about the fact that the gold which Portugal had acquired during the war was not all lost by Portugal as in the case of the other neutrals but that at least 2/3 of it was remaining in the country.

The remarks of the French Minister afforded the Foreign Minister an opportunity to rehearse the whole story about the action of the Vichy Government in transferring the Belgian gold deposit from Dakar to Marseille, where it came into the hands of the Germans as a result of the action of the duly recognized French Government. The Foreign Minister did not pay attention to the protest of the French Minister that this occurred because the French Government had a pistol at its head. The French Minister did not attempt to claim that the Vichy Government was a duly [illegible] government.

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Embassy, Lisbon, Port[illegible]

[illegible] this connection [illegible] attempted to [illegible] to the Foreign Minister [illegible] public knowledge [illegible] size of the German gold reserve should [illegible] Portuguese Government on guard against [illegible] in payment for exports to Germany. In [illegible], the Foreign Minister stated that the true figures about the gold reserves of all governments are never fully published, that it was well known that individual Germans had amassed important sums of gold which the government had requisitioned and that he himself had been on the track of further details on this subject when he was recently in Switzerland. He had been forced to cease his investigation to proceed to Paris to attend one of the international meetings. He seemed to believe that this element in the German gold situation if adequately explored would suffice to establish that the Germans could reasonably be expected to have produced "clean" gold to pay Portugal.

The British Ambassador stated that the Allied experts had prepared a few paragraphs in amplification of that part of the Allied note which indicated expectancy that the Portuguese Government restitute [illegible] of gold outlining in more clarity the terms [illegible] possible formula. He presented this to the Foreign Minister for the use of the Portuguese technical experts to whom the matter might be referred. The Foreign Minister reiterated that the assets to be recovered in the Portuguese colonies are less than the formula seems to imply and that the amount of 11.6 [illegible] of gold is too high.

The British Ambassador brought to the attention of the Foreign Minister that Mr. Schwartz of the U.S. Treasury Department [illegible] to be in Lisbon and that he and the [illegible] governments would be available to [illegible] with technical experts of the [illegible] the next few days, that Mr. Schwartz, [illegible] to leave the country within a [illegible] Sunday or Monday. The British [illegible] inquired whether such technical discussion [illegible] place prior to any definite decision on the part of the Portuguese Government which he perfectly understood could not be taken before Monday in view of the absence from town of Mr. Lumbrales and Salazar. The Foreign Minister evaded this point twice.

At this point the British Ambassador raised the point that he and I had a special interest in the prompt settlement of the gold question by Portugal, one in which Portugal shared, in that we also represented the de facto authority in Germany. Germany and Portugal had always had important commercial relationships and it was in the national interest to resume them. That resumption would be much facilitated after a gold agreement permitted the Accord on German assets to go into effect. The Foreign Minister fully agreed on this point and expanded on it [illegible] emphasizing budgetary advantages to the United States.

At the/

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[illegible] to [illegible] from
[illegible] Lisbon, [illegible]

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[illegible] appropriate [illegible], I expressed support of [illegible] of the [illegible] and the French [illegible].

The Foreign Minister promised that he would acquaint [illegible] immediately by telephone with the outline of the Allied demarche that the matter would be given urgent attention and that some kind of a statement would be made to the Allies as soon as possible.

The meeting ended with the customary friendly greetings. The Foreign Minister did not evince any reaction one way or another over and above that conveyed by his words. I felt that in his oral presentation he probably was addressing himself to me more than my relative personal rank would justify.

[illegible]

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[illegible] to despatch [illegible] 20, 1945, from [illegible], Lisbon, [illegible].

Formula for [illegible]

The Allied concept of "reasonable settlement" is an amount which could, with justification, be presented to and accepted by IARA without criticism or discussion on the part of the 18 member nations. It is considered that this quantity should approximate 14.6 tons.

The Allies agree to a redrafting of the letters [illegible] to the Accord on German assets so that, for example, with respect to the colonies the Portuguese Government would receive the entire proceeds resulting from the liquidation of German assets in the colonies. Although the exact amount to be realized from this liquidation cannot at present be determined it is strongly believed that the amount will provide substantial reimbursement.

The Allies recognize that the proceeds from liquidation in the Portuguese colonies may not be equivalent to the 14.6 tons of gold. However, the Allies [illegible] in addition to the proceeds of this [illegible] 14.6 tons of gold which is to be payable [illegible] in some part be restituted by the [illegible] without reimbursement.

[illegible] outlined above is accepted by the [illegible] it would permit the putting into [illegible] German assets, and reporting to [illegible] Portugal on looted gold by payment

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[illegible] Lisbon, Portugal.

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[illegible] of Note Presented [illegible] Portuguese Government

[illegible]

[illegible] Embassy of the United States of America presents [illegible] to the Ministry of Foreign Affairs and [illegible], on the instructions of its Government acting in conjunction with the Governments of the United Kingdom and of France, to refer once more to the obligations of the Portuguese Government deriving from Resolution VI of the Conference of Bretton Woods, to the principles of which the Portuguese Government has adhered. In pursuit of the objectives of this Resolution, the four Governments, on 21 February, 1947, reached a satisfactory accord on the liquidation and the distribution of the German assets existing in Portuguese territory.

The present position is recorded in a letter dated February 21, 1947, addressed to the Chief of the Portuguese Delegation by the Chiefs of the Allied Delegations as follows:

"In connexion with the Accord on the liquidation of German assets which has been reached today, we confirm that it attends formal adoption by the Governments concerned and is to come into force by an exchange of notes, only when the other matters which have been discussed by the Delegations shall be definitely disposed of by agreement between the four Governments."

The [illegible] to in that letter concern the question of [illegible] gold. Although the [illegible] delegations contemplated in that [illegible] and have on the part of the [illegible] delegations been pursued [illegible] of exchange of fact and [illegible] on the part of Portugal [illegible]

[illegible] Government must be aware, its [illegible] mentioned has the effect [illegible] would benefit from the liquidation [illegible] in Portugal their due share of the proceeds [illegible] regard to the Gold Declaration of February 22, [illegible] in an unresolved position as regards the availability of Portuguese gold in the world's markets.

As a result of the labor of the delegations, it is an established fact that an amount of 43,829 kilos of fine gold was received by Portugal from Germany and, as the Allies claim, was proved, bar by bar and number by number, to have originated in gold pillaged by Germany from the countries of Europe overrun in the course of its aggression.

Notwithstanding/

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[illegible] to dispatch [illegible] 20, 1948, from [illegible] Lisbon, Portugal.

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[illegible] understanding that the allies agreed to the defer- [illegible] coming into effect of the accord on the basis [illegible] solution would be reached on the question [illegible] restitution of gold, having regard to the clear [illegible] of the Portuguese Government deriving from [illegible] of [illegible] goods, the only suggestions [illegible] the Portuguese side have been entirely unrealistic. [illegible] Delegations have pointed out, and the Government [illegible] United States of America repeats, that in this [illegible] of the restitution of looted gold, Portugal, alone [illegible] countries which were neutral, has not acted on the positive moral and international claim in the matter of gold.

The three Governments feel that a solution cannot be denied to them and the countries which they represent, and that a solution can no longer be delayed. The fact cannot be ignored that one of the primary and fundamental objectives of a settlement on the question of German assets in Portugal is to obtain recompense from the assets of those whose methods of warfare inflicted unparalleled injury. Nor can the fact be ignored that the fundamental objective of a settlement of the question of looted gold is to restore to such injured countries some portion of the resources of which they were deprived and which can be identified and recovered and wherewith they might now [illegible] their reconstruction. These needs existed in [illegible] when negotiations began among the four Governments, and the needs of Europe at present, as the Government of Portugal, which has participated fully in the work of the [illegible] Cooperation [illegible], are [illegible] the fullest [illegible] that it [illegible] the [illegible] in [illegible] effort, [illegible] by [illegible] should not [illegible] her [illegible]

[illegible] maintain the principle that [illegible] identified [illegible] been [illegible] to restitution, they nevertheless [illegible] of conciliation which they trust [illegible] by the Portuguese Government, to accept, [illegible] of this question, a quantity of gold representing no more than a part of the gold so identified, which part in their view, cannot be less than a third of the total of their claim.

Having regard to the general questions which are involved, the Government of the United States of America earnestly requests that the Portuguese Government will favor it with a very early reply.

Lisbon, May 19, 1948.

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MEMORANDUM

May 19, 1948

[illegible]

Subject: Discussion of Gold Question at Luncheon Given by Mr. Casper in Honor of Mr. Schwartz.

Mr. Casper gave a lunch today in honor of Mr. Robert Schwartz of the Treasury Department who is visiting Lisbon in connection with the gold problem. The other guests were: Dr. Faria and Colonel Fernandes of the Foreign Office, Mr. [illegible], Secretary General of the Bank of Portugal and Mr. Xanthaky.

During the course of the meal Mr. Schwartz mentioned the reason for his presence in Lisbon and a lively conversation on the gold problem ensued. Dr. Faria stated he hoped that they could count on the support of the United States in this matter as Portugal had [illegible] the sentiments of friendship for the United States [illegible] in the Azores. He mentioned the Azores several times subsequently. Dr. Faria said that a restitution of anything like the figure previously advanced by the tripartite [illegible] would greatly harm Portugal's economy and certainly [illegible] to restore European economy [illegible] Portugal. Portugal, Faria said, is [illegible]

[illegible]

[illegible] Mr. Schwartz [illegible]

[illegible]

[illegible] legally [illegible]

[illegible] and that legal [illegible]

[illegible] Dr. [illegible]

[illegible] would have to [illegible]

[illegible] of course, greater Portuguese participation in [illegible] Mr. Schwartz said that although the [illegible] country would not accept a solution of [illegible] proposition along these lines could perhaps be worked [illegible] At this point Colonel Fernandes and Mr. Fesson both stated that [illegible] estimate of German assets was greatly exaggerated. They [illegible] that Mr. Wishaw of the British Embassy had based his calculation of German assets in the Portuguese colonies on his knowledge [illegible] that furthermore the great bulk of these assets were in the hands of Germans who were and had been actual residents of the colonies for many years and therefore did not fall within the definition of German assets as presented in the Accord. Mr. Casper stated

it was/

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[illegible] the lapse of time the over-all figure of German assets [illegible] continental [illegible] colonies had depreciated but [illegible] believe that it had [illegible] to the extent which the [illegible] now quoting, i.e., [illegible] dollars as the global amount.

[illegible] then inquired of Mr. Schwartz whether he was now representing all of the Allies in any technical question which might arise [illegible] much as the previous French and British negotiators had now come to Lisbon. Mr. Schwartz replied that he was acting only on the part of the United States but since he had recently been in Paris where this matter was thoroughly discussed he was acquainted with the views of both the British and the French.

In spite of the fact that Mr. Schwartz emphasized that it was now the consensus of the Allies that the new proposal would be reasonable and something from which a practical solution could be found by Portugal, Dr. Faria did not hide his sentiments and stated "I can only say that from what you have told me you appear to have brought us bad news and I cannot hide my personal disappointment and, I am sure, the disappointment of the Government". Mr. Schwartz replied that the offer which he and his British and French colleagues brought of a reasonable basis for settlement of a difficult [illegible] should be regarded as a happy opportunity to remove that [illegible]

T.A.X.

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