

DECLASSIFIED

Authority NND 760050

By EL NARA Date 7/2/86

REPRODUCED AT THE NATIONAL ARCHIVES

Doc
Updated material on US/Allied positions

800-515/5-646
800-515/5-1446

IV-9/1

RG 59

1945-1949

box 4206

MEMORANDUM

SUBJECT: German Foreign Assets

The starting point for policy on the subject of German external assets in Article 3, Section 18 of the Potsdam Protocol which allocates German external assets in Hungary, Rumania, Bulgaria and Finland and German property in the eastern half of Austria to the U.S.S.R. (and presumably to Poland) and allocates other German external assets to the US, UK and France, for distribution presumably in accordance with an overall reparation plan. As yet, no program for allocation of German external assets among the reparation claimants who are to be satisfied from deliveries out of the three Western zones of Germany and out of these German external assets has been made. In addition, the German external assets are to a considerable extent hypothetical assets since they are located either in the United Nations or in neutrals and there is strong reason to believe that we will encounter great difficulty in attempting to obtain control of these assets for reparation purposes in either type of case.

1. Assets Located in United Nations.

It has long been agreed US policy that German assets located in United Nations would be allocated to those nations under the reparation agreement and that those nations would be able to set off these assets against their reparation claims. This policy continues with respect to the principal reparation claimant countries such as the United States, United Kingdom, France, Belgium, etc. There are, however, certain proposed modifications of this policy with respect to certain of the other United Nations.

a. Argentina and Turkey are an exception to the above rule since it has always been contemplated that they might be treated as neutrals for these purposes. The present thinking is along the lines of requiring both Argentina and Turkey to yield German assets within their jurisdiction to the reparation pot on the ground that they were neutrals until the last possible moment and have suffered no damage whatsoever in the war.

b. It is now contemplated that some contribution will be attempted from the Latin American nations. The Replacement Program and the campaign of Economic Warfare in Latin America were spark-plugged largely by the thought that German assets within their territory could be expropriated and used by these nations for such purposes as they saw fit, including their indemnification for claims against Germany on account of damages real or fancied. It will also be recalled that Resolutions 18 and 19 of the Mexico City Conference contained a provision, inserted at the request of certain Latin American countries, that the rights of each

of the

DECLASSIFIED

Authority NAD 760950

By ER NARA Date 7/8/86

REPRODUCED AT THE NATIONAL ARCHIVES

IV-8/2

RG 59

1945-1949

box 4206

of the American republics with respect to German property within its borders was not to be impaired by anything done at that Conference and that each would have the right to take action either unilaterally or in consultation with respect to this property. On the other hand, plans for a program to be presented to the November 15 meeting of the Economic and Social Council set up at Mexico City call for the assessing of claims by the Latin American republics against Germany and the turning over of the excess above such claims of German property within their territory to something like the reparation pot. The argument might be made that such German external assets should be used for European relief and rehabilitation, and that the United States will renounce such claims as it may have to these assets in return to their being devoted to the relief and rehabilitation of war devastated areas. Alternatively, suggestions are being entertained that these assets might be turned in as a partial contribution by the Latin American countries to UNRRA or even to the Bretton Woods Bank. These procedures may also be applied to Argentina and to this extent would modify the suggestion that Argentina be treated as a neutral.

c. The British have informally indicated a feeling that some part of the German external assets in the UK will be applied to British prewar creditors of Germany, that is, creditors under the standstill agreements and holders of Dawes and Young Plan bonds. Mr. Playfair of the British Treasury indicated his feeling that the amount of external assets applicable to the British reparation claims will thus be decreased by the amount thus applied to the claims of pre-war creditors. Mr. Rubin has indicated his personal view that all German external assets in any Allied nation should be applied against its reparation claim through the subsequent allocation of such external assets would then be a matter for the particular nation to decide. In other words, the German assets in the U.K. will be applied against the British reparation claim although the British might thereafter use these assets to pay off pre-war creditors. The other view would not only seem to be inequitable, and to coerce other United Nations to give priority of payment to pre-war creditors, but also would give to the neutrals a strong argument for following a similar procedure thus greatly reduce the amount of German assets which we might hope to realize in neutral territory.

2. German Assets in Neutral Territory.

The Department, together with other agencies interested in Safehaven, has been for a considerable period of time pursuing a program designed to immobilize German assets in the neutral countries. This program has had a fair measure of success and by and large German assets in

the neutrals

DECLASSIFIED

Authority NND 760050

By EC NARA Date 7/8/86

REPRODUCED AT THE NATIONAL ARCHIVES

IV-4/3

RG 59

1945-1949

box 4206

the neutrals are frozen by the local governments who are also conducting a census of such assets. So far, however, we have not been able to obtain either the results of these censuses or agreement from any neutral to turn over the German external assets (with an exception to be mentioned) to the United Nations or the powers occupying Germany or the United States, United Kingdom and France acting together. The exception comes in the case of German public assets, where we have had some measure of success in obtaining control over such assets in the Iberian Peninsula and also have been able to obtain control of German state-controlled organizations such as Sofindus. In other of the neutral countries, however, notably Switzerland, we have met with no success even in obtaining control of German public assets, the Swiss having declared that the occupying powers do not enjoy the status of a government in Germany and that public assets will not be turned over to them at least at present. The neutrals in general, again particularly Switzerland, have taken the strong semi-public view that German assets within their borders should be subject to claims of neutral creditors against Germany. These neutral claims arise out of standstill agreements and such pre-war debts as the Dawes and Young Plan bonds; claims related to neutral property in Germany; and claims on German deficits in the clearing balances.

There is appended to this memorandum a memorandum which was drafted in London after discussions held by me with the British and French Embassy representatives there. This memorandum expresses the view that the neutral claims should be, in the first instance, rejected entirely; and that in the process of negotiation with the neutrals it may be necessary to fall back to the concession that neutral claims based on pre-war debts will be recognized to some extent as payable out of German assets located in such neutral countries. We should not be prepared to recognize the validity of the German debts in the clearing balances, since these merely represent neutral extortion of credit to Germany during the course of the war. In addition, we should take the position that neutral property in Germany remains and will presumably be available to the neutrals (after its having been removed on reparation account) when normal relations can be resumed with Germany.

The memorandum also outlines a proposal for obtaining control of German external assets and liquidating them in accordance with a program whereby the proceeds or products purchased with the proceeds would be made available for reparation distribution. In general, it is my feeling that such proceeds or products should be used for deliveries to countries devastated by Germany during the war, on the ground that a moral case against the neutrals is strengthened if we can argue that the German assets will be used for relief and rehabilitation purposes directly.

On the other hand, the suggestion is being considered that the neutrals might purchase the German property within their borders by use of neutral funds presently blocked in the United States--a proposal which if carried out, would

result

DECLASSIFIED

Authority AND 760050

By ER NARA Date 7/8/16

REPRODUCED AT THE NATIONAL ARCHIVES

IV-8/4

RG 59
1945-1949
box 4206

- 4 -

result in realizing a substantial amount of dollars for the German external assets in neutral territory. Whether the neutrals would go along with a program which they might consider to be a serious depletion of their foreign exchange resources is a question which will have to be explored when negotiations with the neutrals for the control and disposition of the German assets are begun.

3. Action by Allied Control Council on German External Assets.

The United States representative has transmitted to the Control Council a proposal for the issuance of a decree vesting all German external assets, both those owned and controlled by persons in Germany and those owned and controlled by persons of German nationality outside of Germany and by subsidiary corporations controlled by corporations located in Germany. There has been British opposition to the issuance of this decree, on the ground that it would damage our attempt to obtain control of the external assets through negotiation, that the legal basis for the decree, particularly with respect to persons outside of Germany, is extremely doubtful, and that the decree would set a dangerous precedent in international practice. The United States is continuing to press strongly for the issuance of the decree on the ground that it will lay the basis for our claim to German external assets, which otherwise might be resisted on the ground that even though we have authority to take over such assets we have not as yet exercised such authority.

Agreement has been reached with the U.S.S.R. that if the decree is issued the U.S.S.R. will administer German external assets in the four satellite countries and in Eastern Austria and that the other three occupying powers of Germany will administer the other German external assets.

The method of administration of these assets by the ACC has not as yet been worked out. It is tentatively contemplated that the powers of the ACC will be exercised through the U.S., U.K. and French Missions in each of the neutral countries. It is suggested that the ACC should accredit representatives to each of these missions and that these representatives should act under the supervision of the Chief of Mission in each case. The question of liquidation of German interests in the neutral countries and bringing the resultant proceeds under the control of the occupying powers is one which has many and delicate political ramifications and it therefore seems necessary to keep this phase of the operation under the control of the political representatives of this and the collaborating governments. For the same general reason, it seems desirable to make the problem of valuation of German external assets one for the Allied Commission on Reparation, acting in conjunction with the Missions and the Department.

It is further contemplated that a section of the Inter-Allied Reparation Agency will handle the allocation of the German external assets or their proceeds or products which might be purchased and be available for distribution with such proceeds. This agency could, for example, receive

reports

DECLASSIFIED

Authority NND 760050

By EL NARA Date 7/8/86

REPRODUCED AT THE NATIONAL ARCHIVES

IV-8/5

RG 59

1945-1949

box 4206

- 5 -

It is further contemplated that a section of the Inter-Allied Reparation Agency will handle the allocation of the German external assets or their proceeds or products which might be purchased and be available for distribution with such proceeds. This agency could, for example, receive reports on whether Swiss francs or Swiss machinery were available in Switzerland as a result of the liquidation of the German assets held in Switzerland and could then allocate these francs or materials which were available to reparation claimant countries in accordance with overall reparation distribution. The procedure of allocation would probably have to be worked out through the medium of directives given to the Allied Control Council (should it issue its decree) by the Reparation Agency.

4. Use of External Assets for Reparation or for Other Purposes.

External assets should be used for reparation purposes although it is arguable that they, like other German resources, should be subject to the first charge principle, the peculiar nature of these assets, the question as to their availability and the possibility that making them available for German imports rather than for reparation payments would weaken chances of controlling them, argue in favor of their being earmarked for reparation.

It is quite possible that there may be agreement in the course of negotiations with the neutrals that the German assets or their proceeds will be used entirely for relief and rehabilitation in other portions of Europe than in Germany. In other words, it may be necessary to commit the occupying powers to use of the German external assets for relief and rehabilitation in such countries as Belgium and France, in order to make the necessary moral point to the neutrals that the assets should be yielded for such relief and rehabilitation purposes.

5. U.S. Claims Against External Assets.

It is suggested that to the largest extent possible the U.S. should have its reparation claim, whatever that may be, paid out of German external assets. The U.S. will not wish much in the way of industrial deliveries; and if the hypothetical asset of external assets is assigned to the U.S., largely, there will be less possible source of friction between the U.S. (with the other countries which are trying to obtain control of these assets) and other reparation claimants who would have an interest in the results of the negotiations with the neutrals. Moreover, assignment of external assets largely to the U.S. will leave it open for the United States to press the procedure above mentioned, of having the neutrals purchase German properties within their borders with blocked U.S. dollars. It will also make it possible to allocate the greatest amount of physical properties now available for

distribution

DECLASSIFIED

Authority NND 760050

By ER NARA Date 7/8/86

REPRODUCED AT THE NATIONAL ARCHIVES

IV-8/6

RG 59

1945-1949

box 4206

distribution on reparation account to the claimant European countries and to allocate to the United States (which probably can best afford to take this risk) the risk of non-payment of its claim because of failure to realize on German external assets.

The fact that the U.S. may thus be entitled to the external assets does not alter the possible desirability of distributing the proceeds of these assets to devastated European countries. Some such commitment may even be necessary to persuade the neutrals to yield the external assets--which they may resent turning over to the U.S. Neutral resentment may also be somewhat alleviated if it is made clear that the proceeds of external assets will be used for larger European relief and rehabilitation rather than going into the coffers of the nation which is popularly supposed already to be the world's richest. It may be advisable, however, for the United States, even if it does realize on German external assets, to allocate its share of such assets in accordance with programs mentioned above for deliveries to other countries. It will be noted that editorial comment in the United States recently has favored such a source and has taken issue with Ambassador Pauley's statement that the United States may expect to obtain a large portion of German external assets. In addition, allocation of these assets to other nations will probably lift the burden on the United States to provide financial assistance or other aid for the reconstruction and rehabilitation of these other countries.

The actual proportion which the United States will obtain and the use to which it will put this proportion of a hypothetical total is something which will have to be worked out at a later date, presumably in the Allied Commission on Reparations.

6. German Property in Western Austria.

Policy with respect to German property in Western Austria depends very largely on Allied policy toward Austria and on information which is not as yet available on the extent of German property in the three western zones. A cable has been sent asking for information on this latter point. In the absence of this information it is suggested that US policy should be to treat German property in Western Austria as subject to claims in the same manner as other German external assets but to take a position which will permit eventual retention of a considerable amount of these German assets by a rehabilitated Austria.

7. German Property in Italy.

The policy of the Department with respect to Italy is to allow Italy to take over German assets in Italy. To this extent policy on German external assets should be modified.