Report Summary [1]

Allied Relations and Negotiations With Argentina

Argentina, alone among the American Republics, pursued a neutrality in World War II that the United States perceived as not only failing to support the Allies but as actually sympathizing politically with the Axis and ignoring Nazi penetration of Argentina until the War was nearly over. Although Argentina had a history of close ties with Britain and there was considerable sympathy for the Allies among the Argentine public and some political parties, the government became increasingly dominated during the War by pro-Axis leaders, particularly after the overthrow of civilian authority and the establishment of a military regime in June 1943. The Argentine Government did not sever diplomatic and commercial relations with Nazi Germany until January 1944, refused to cooperate in U.S.-led economic warfare measures, permitted Argentina to become the center of Axis espionage and propaganda activities in South America, and even conspired to overthrow the governments of other South American nations and replace them with pro-Axis authoritarian regimes. The United States viewed the accession to power in February 1944 of General Edelmiro Farrell as representing the final triumph of the pro-Axis faction in the Argentine military and consequently refused to recognize the Farrell government.

During the War, Argentina ignored Allied recommendations and declarations to end all financial interaction, direct or indirect, with Nazi Germany. The Allies became particularly concerned about the operation within Argentina of subsidiaries of Germany's leading firms, including I.G. Farben, Staudt and Co., and Siemens Schuckert. These firms maintained links with Germany throughout the War and supported major Nazi espionage operations in Latin America.

On the other hand, Argentine exports to the United States and especially Britain (which depended on Argentine beef to help feed its population) rose dramatically during the War, essentially doubling their prewar volume. This fact reflected the convergence of two important factors: the willingness of Argentine producers to expand their exports, and the strength of prewar and wartime ties between Argentina and Britain in particular.

The Allied wartime blockade made it impossible for Argentina to provide substantial amounts of exports to Germany, which up until then had been one of its principal trading partners. The Argentine capital of Buenos Aires, however, was one of the principal Latin American ports from which goods valuable even in small quantities, such as platinum, palladium, drugs, and other chemicals, were smuggled to the Axis. The State Department instituted a contraband control program as one aspect of a broader State Department-Board of Economic Warfare effort that also included the management of U.S. exports to Argentina with the aim of denying Argentine trade and financial interaction with Germany and persuading Argentina not to serve as a base for Axis subversion.

Despite these efforts, the United States and its Allies were never able to mount effective measures to counter what the United States viewed as Nazi economic penetration of Argentina, in part because of differing views within the U.S. Government and, more importantly, because of even greater differences with the British Government. The State and Treasury Departments viewed the Argentine situation differently, with Treasury continually pressing for more aggressive action -- a pattern often matched in U.S. policy-making toward the other wartime neutrals, especially Switzerland. State deplored Argentine policies but favored a more cautious diplomatic approach that would not alienate other Latin American countries and would lay the foundation for postwar solidarity among the American Republics and closer ties with the United States. For its part Britain did not share the U.S. concerns about Argentina but rather viewed

[1] The full text of the summary of the May 1997 Preliminary Report is included as Annex II at the end of this supplementary report.

Argentine neutrality as advantageous to the Allied cause, as it safeguarded from German attack the Argentine shipments of meat and other exports needed to sustain the embattled British population. The United States could not, even with high-level appeals to Prime Minister Churchill, persuade Britain to break its relations with Argentina or support strong sanctions against it. Argentina did not play a significant role in sustaining the Nazi war effort.

The United States found it difficult to extend its Safehaven program to Argentina. Argentina's insistence on a neutrality that deviated sharply from its neighbors' policies and could not be justified by an Axis security threat, combined with the known pro-Axis proclivities of certain Argentine leaders, gave rise to U.S. suspicions -- never substantiated -- that Argentina was a safehaven (indeed a willing one) for German gold and other assets. The Safehaven efforts in Argentina, mounted in late 1944 and into 1945, foundered on the strains between the United States and Argentina and the absence of official relations after the Farrell regime came to power in early 1944.

The Act of Chapultepec of 1945, the cornerstone agreement for postwar security and cooperation among the American Republics, recognized the right of each Republic of the Western Hemisphere, including the United States, to dispose of German property within its own respective jurisdiction and retain the proceeds. Since the Farrell regime adopted the Chapultepec agreement when it finally declared war on the Axis at the end of March 1945, the Allies could not lawfully lay claim to German assets in Argentina. Instead, once U.S.-Argentine relations were resumed, the Treasury Department worked out a "replacement program" under which Argentina would, like other American Republics, eliminate Axis firms by liquidation, expropriation, and forced sale. As was also true in the other American Republics, including the United States, the proceeds from the liquidation or takeover of German assets in Argentina were never subject to postwar Allied control or disposition to aid the victims of Nazism.

In February 1946 the United States published its Argentine Blue Book, in which it sought to provide evidence of the pro-Axis policies pursued by Argentine governments during the War and to demonstrate the continuing potential for Argentina to become a base for a resurgent Nazism. The Blue Book confirmed that the Argentine Government asserted no control over German firms until its declaration of war against the Axis in March 1945, and reported systematic attempts to distribute or dissipate assets of German firms in Argentina. Although publication of the Blue Book gave rise to considerable anti-American public sentiment, and may have helped to elect Juan Peron President of Argentina, it actually fostered improved cooperation with the Enemy Property Board, established by the Argentine Replacement Program to take control of and liquidate German assets. By the end of 1946 U.S. relations with Argentina began to improve, and the onset of the Cold War renewed U.S. desire for hemispheric alignment, contributing to the improvement in U.S.-Argentine relations.

The Treasury Department made its final Safehaven reports regarding Argentina in May 1946, estimating German assets at $200 million[2] but also concluding that Argentina had not become a haven for looted gold or assets. Although U.S. Safehaven investigations in Argentina were never pressed vigorously and did not include a review of the records of the Argentine Central Bank, documents were obtained by the U.S. Embassy in Buenos Aires that allowed the conclusion to be drawn that no gold in Argentina had come from Axis sources. Nor were any caches of gems or art treasures looted by Germans officially uncovered in Argentina. (A U.S. Government examination in 1997 of selected records released by the Argentine Central Bank found no evidence that any gold was acquired by the Argentine Central Bank from Europe between August 1942 and the end of the war, but the records also contain no information about the origin of any gold the Bank received prior to August 1942.) In the wake of the resumption of

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[2] All of the dollar figures in this report are in 1946 dollars, unless otherwise noted. For a formula to convert from 1946 to 1998 values, please see the Statement on Gold and Non-Gold Asset Values and Foreign Trade Values, below.

friendly relations with Argentina, the Embassy notified Washington in early 1947 that all German assets were lawfully the property of the Argentine Government. Although the Enemy Property Board had at one time stated that the proceeds from Argentina's Replacement Program would be deposited in accounts intended to reimburse wartime losses incurred by the United Nations, no negotiations regarding the distribution of the proceeds of liquidated assets were undertaken.

Although the United States had become aware during World War II of an extensive commercial relationship between Argentina and Switzerland, which often included payments for exports in gold, the Treasury Department made a determination in December 1946 that the current status of U.S.-Argentine relations precluded any investigation of rumored Argentine acquisition of gold and that no negotiation over the restitution of any gold could be conducted. In light of that determination, the State Department approved in June 1947 a shipment of gold from Argentina to the Federal Reserve Bank. In October 1947 a Treasury Department undertaking to purchase Argentine gold at the Federal Reserve Bank resulted in inquiries to Argentina regarding the origin of the gold and whether any had possibly been looted by Germany. Although Argentina provided some assurances that none of the gold had come from Germany, a complete investigation was put aside by U.S. officials in the interest of not jeopardizing the development of better relations with Argentina. Improving U.S.-Argentine relations and fully integrating Argentina into the postwar hemispheric solidarity system had by then become important U.S. policy goals.

Allied Relations and Negotiations With Portugal

During the War, Portugal practiced what Dean Acheson, then Assistant Secretary of State, described as "classical legal neutrality," balancing its trade as much as possible with each side. Germany and the Allies waged an economic war to lure Portugal to their side through a combination of threats and lucrative trade deals. The Allies began this economic war with some advantages, most notably a centuries-old Anglo-Portuguese alliance, coupled with close economic and trade relations (Britain was Portugal's leading trade partner), as well as Portugal's dependence on U.S. petroleum, coal, and chemical supplies. Germany, Portugal's second largest trade partner, also enjoyed significant advantages, particularly after its occupation of France gave it a direct overland route to the Iberian Peninsula, through which it could both supply Portugal with greater quantities of imports than the Allies and pose a military threat if Portugal attempted to curtail exports important to the German war effort.

Honoring its historic alliance with Britain, Portugal allowed Britain to trade and receive credit backed by the pound, allowing Britain to obtain vital goods at a time when it was short on gold and escudos. By 1945 Britain owed Portugal over $322 million under this arrangement. Portugal provided the Axis less formal but also advantageous trade facilities, permitting Germany and Italy to incur sizable debts in their clearing agreements with Portugal and advancing them significant amounts of escudos in government and private contracts. Deficits under the Portuguese clearing agreement with Germany averaged between 13 and 23.5 Reichsmarks ($5-9 million) between 1943 and 1944. A 1945 Allied study noted that, as a result of these arrangements, Germany never lacked escudos during the War.

The heated competition between the belligerents for its important resources greatly benefited Portugal's economy and generated huge profits for its businesses and banks. Although the Allies took a far greater share of Portugal's strategic goods during the War than the Axis did, Portugal exported one material to Germany without which, the Allies believed, Germany could not continue to fight: wolfram, which when processed into the extremely hard metal tungsten had myriad vital industrial and military uses. Allied officials predicted in 1944 that if Germany were deprived of wolfram, its machine-tool industry would virtually shut down within three months. Portugal was Europe's leading producer of wolfram, and while the Allies had easier access to sources in the Latin America and the Far East, Germany was dependent upon Portugal and Spain for the bulk of its supplies. The Allies' objective was to purchase enough of this vital ore to satisfy Portugal's export demands and prevent as much as possible from going to the enemy. Portuguese merchants also were an important source of vital smuggled commodities to the Axis, including industrial diamonds and platinum from Africa and Latin America.

Germany and Portugal negotiated secret agreements in accordance with which Portugal exported an average of over 2,000 metric tons of wolfram to Germany annually between 1941 and mid-1944, about 60 percent of Germany's estimated minimum industrial requirement, which the Allies estimated to be 3,500 tons annually. Portuguese Prime Minister Salazar commented to the British Ambassador in February 1944 that denying wolfram to Germany "would reduce her power of endurance, and the war would be accordingly shortened."

In January 1944 the Allies began to pressure Salazar to embargo all wolfram sales, but Portugal resisted, defending its right as a neutral to sell to anyone and fearing that any reduction in its exports would prompt Germany to attack Portuguese shipping, bomb Portuguese cities, or even launch an invasion from occupied France across Spain (which was neutral but under Franco's leadership, sympathetic to Nazi Germany). The Allies could have used the threat of an oil embargo to compel Portugal to end the trade with Germany, but they placed greater importance on negotiating access to military bases on the Azores. Portugal granted Britain access to these bases in October 1943 and extended such access to the United States a year later. On the eve of the D-Day invasion in June 1944, after Britain and the United States threatened economic sanctions, the Portuguese Government imposed a complete embargo on wolfram exports to both sides.

Germany paid for its Portuguese imports with German goods and escudos, as well as gold (most of which came through Switzerland) and Swiss francs purchased with gold. The Allies determined that after 1942 much of this German gold was looted, and warned all neutrals in early 1944 that they would not honor these transactions. The Bank of Portugal began to dispose of large amounts of German gold in 1943, and the Allies estimated that the Bank sold or traded 34 to 45 tons of gold by February 1945. Estimates of the total amount of looted gold received by Portugal ranged from 44.9 tons ($50.5 million), the amount of looted gold the Allies estimated Portugal had received after 1942, to the State Department estimate of 94.8 tons (including 20.1 tons of Belgian gold) ($106.6 million). According to the same State Department report, however, only the 20.1 tons of looted Belgian gold had been purchased by Portugal directly from German accounts in Switzerland; the other 74.7 tons of gold ($84 million) had been sold to Portugal by Switzerland, which had previously purchased it from Germany. Portugal did not respond to Allied requests for information on its secret gold transactions.

Negotiations with Portugal for the restoration of looted gold and the disposition of German external assets began in September 1946 and eventually stretched into the late 1950s. The talks were held away from Washington and by the late 1940s were conducted on the Allied side by diplomatic representatives assigned to the Embassies in Lisbon. Allied investigators estimated that there were $36.8 million in German assets in Portugal at War's end, although this figure was considered tentative. They demanded that the assets be liquidated and the proceeds delivered to them as reparations to help war refugees and rebuild Europe. In February 1947 the two sides agreed on a division of the proceeds from liquidation, giving the first $4 million to the International Refugee Organization, $9.2 million to Portugal for its own wartime claims against Germany, and the remainder to the Allies as reparations. Portugal refused to implement the plan until the two sides could reach agreement on the restitution of looted gold, but the plan's terms became the basis for all subsequent negotiations.

While the Allies had evidence that Portugal acquired a significant amount of looted gold through private sources and smuggling, they agreed to form a joint investigative committee with Portugal to review only records at the Bank of Portugal in order to resolve the dispute over gold. The Portuguese investigators, however, dragged out the work of the committee and refused to allow their Allied counterparts to review the Bank's actual records. Based on this limited investigation, the Allies concluded that Portugal had received between 38.45 and 43.95 tons

($43.3-49.4 million) of looted gold. The Allied investigators could not trace the origins of about 8.3 tons of gold ($9.3 million); no effort was made to determine if it was non-monetary gold stolen from the Nazis' victims. In November 1947 the Allies demanded that 38.331 tons ($43.1 million) be returned to its original owners. The Portuguese, however, contested all but 3.9 tons ($4.5 million), claiming they had purchased all the gold in a "good faith" belief that the Germans had not looted it. Consequently they refused to relinquish any without compensation.

In 1949 the Portuguese agreed to begin liquidating German assets and keep the proceeds in a blocked account while the gold negotiations continued. As the negotiations dragged into the 1950s, the value of the German assets depreciated and the liquidation process was slowed by complex procedures and Portuguese delays. The Allies had lost some negotiating leverage with Portugal when the United States unblocked Portuguese assets in the United States in August 1948. The U.S. Joint Chiefs of Staff also feared that the impasse might jeopardize what it considered the more important strategic goals of continued U.S. access to air bases on the Azores, talks on which had resumed as early as June 1947, and integrating Portugal into postwar Western Europe, goals which would be secured by membership in NATO.

The negotiations were further complicated by the Allies' efforts to integrate West Germany into the Western alliance, which raised difficult issues over how Germany would honor reparations commitments made by the Allies after the War and handle Portuguese claims for wartime damages. Consequently, by July 1951, the State Department recommended accepting a Portuguese offer from July 1948 to turn over to the Tripartite Gold Commission 3.9 tons of Dutch gold for which Portugal would be fully reimbursed out of the proceeds of liquidation.

Intermittent negotiations continued for several years as Portugal demanded that West Germany be brought into the negotiations. In the interim, the United States, Britain, and France fulfilled Portugal's contribution to the $25 million Reparations Fund out of their portion of Switzerland's payments in implementation of its agreement with the Allies. (Portugal did not repay the Allies specifically for the Allies' payment to the Reparations Fund on its behalf.) Finally, in October 1958 the United States, Britain, France, Portugal, and West Germany reached an agreement, and in December 1959 Portugal delivered $552,000 to the Allies and 3.998 tons of gold ($4.5 million) to the Tripartite Gold Commission. In addition, Germany paid Portugal about $13.7 million to reimburse it for the gold and to cover its wartime damage claims, for which Germany received still-unliquidated German assets in Portugal.

Allied Relations and Negotiations With Spain

Although Spanish General Francisco Franco declared Spain neutral in 1939, he was openly sympathetic to the Axis powers, which helped bring him to power, and only gradually abandoned his inclination to join the Axis. Spain supplied Germany with critical commodities, intelligence, and even some troops -- the Blue Division -- for the Eastern Front. By 1943, however, Spain had gradually adopted a more honestly neutral policy, largely in response to Allied economic warfare, the growing strength of Allied armed forces especially in North Africa and the Mediterranean, and the reversals experienced by Germany from 1942 onward. Nonetheless, Spain's strategic location and its supply routes to North Africa and South America gave Germany a conduit for important wartime materials, which Franco continued to supply. Private Spanish merchants were also Germany's principal source of vital commodities smuggled from Latin America and Africa, including industrial diamonds and platinum.

Wolfram was a major component of Spanish exports to Germany. As the second largest producer of this critical commodity (after Portugal), Spain sold Germany over 1,100 metric tons annually between 1941 and 1943, providing more than 30 percent of Germany's industrial requirements, and which, when combined with Portuguese sales to Germany, accounted for at least 90 percent of Germany's wartime wolframs needs, which the Allies estimated to be 3,500 tons annually. Allied economic warfare efforts against Spain were generally unsuccessful in the early years of the War. The Allied objective was to purchase enough of the ore to satisfy Spain's export demands and prevent it from increasing its trade with the enemy. The Franco regime combined desultory trade negotiations with the Allies and secret agreements with Germany to ensure the continued delivery of critical war supplies. In January 1944 the Spanish Minister for Industry and Commerce defended Spain's agreements with Germany, noting that Spain felt it "impossible" to deny Germany a commodity which "had a very high value in wartime." The Allies hesitated to act decisively against Spain for fear of driving Franco more fully into the Axis camp, but in January 1944 the Allies imposed an oil embargo on Spain.

In negotiations with Spain during the embargo, Britain favored a compromise that would allow Spain to resume wolfram exports to Germany at the 1943 level, but the United States continued to demand a complete ban. Finally in May 1944, as Germany's defeat became more certain, Spain agreed to limit exports of wolfram to Germany. Secretary of State Cordell Hull believed that if he had had "wholehearted British support," he would have achieved the objective of a complete ban on Portuguese wolfram exports to Germany. The Allies soon learned that senior members of Franco's Cabinet cooperated with Germany in smuggling more than 800 tons through July 1944 in violation of the agreement. Spain's exports of wolfram to Nazi Germany ended with the closing of the Franco-Spanish border in August 1944.

The American-led Safehaven program encountered resistance in the U.S. Embassy in Madrid. Intelligence operations to gain information about Spain's wartime support for Germany were undermined as U.S. Ambassador Carlton Hayes preferred a less aggressive attitude toward Franco and his government. Britain was less interested in the postwar political goals of Safehaven than in negotiating a trade agreement with Spain and ensuring the flow of Spanish goods to Britain in the postwar period.

In May 1945, just before V-E Day, in response to an Allied request, Spain issued a decree freezing all assets with Axis interests. The Allies estimated German external assets in Spain at the end of the War at about $95 million. American experts using some captured German documents conservatively estimated in 1946 that between February 1942 and May 1945 Spain acquired about 123 tons of gold worth nearly $140 million (over $1.2 billion in today's values): 11 tons directly from Germany and German-occupied territories, 74 tons from the German account at the Swiss National Bank, and about 38 tons directly from the Swiss National Bank, which the Allies believed included some looted gold (about $376 million in today's values). U.S. estimates indicated that 72 percent of the gold, worth approximately $100 million, acquired by Spain had been looted by Germany from the nations it occupied. Other reports of Spanish gold acquisitions included an SSU intelligence report that trucking gold from Switzerland to Spain became necessary by late 1942 because Germany could not pay for Spanish goods in any other manner; a War Department report that 203 tons of German gold were trucked from Switzerland to the Spanish Foreign Exchange Institute between January 1942 and February 1944; and a German diplomatic report that SOFINDUS, a large German State-owned enterprise in Spain, acquired about 83 tons of gold bars from Switzerland in 1943.

Protracted postwar Allied negotiations with Spain over the restitution of monetary gold and the application of external German assets for reparations began in Madrid in September 1946. The Allied-Spanish negotiations were more intermittent and lengthier than the Allied-Swiss and Allied-Swedish negotiations which had preceded them. In October 1946 Spain agreed to turn over to the Allies an estimated $25 million in official and semi-official German assets. In January 1948 Spain insisted on separating the negotiations over assets and gold, declaring that it would restitute any looted gold but would not sign an agreement that did not include a reciprocal claim for Spain's lost Civil War gold. The two sides agreed in May to a complex formula for liquidating private German assets (then estimated at $20-23 million) in which Spain would get about 24 percent and the Inter-Allied Reparations Agency about 76 percent of the proceeds. None of the proceeds was slated for the $25 million fund for non-repatriable victims of Nazism, as envisioned in the January 1946 Allied Reparations Agreement, because the Allied negotiators believed the fund would be fully subscribed by the amounts obtained from Switzerland, Sweden, and Portugal.

The two sides signed a separate agreement in May 1948 that Spain would return $114,329 (101.6 kilograms) out of about $30 million in looted Dutch gold that the Allies had identified at the Spanish Foreign Exchange Institute and be allowed to keep the remainder. This portion was the only gold that Spain had purchased directly from the Banco Aleman Transatlantico, a German institution, and the Allies claimed that under the terms of Bretton Woods Resolution VI only the original purchaser of the gold from Germany was liable for its return. The Allies publicly acknowledged that Spain had not been aware at the time it acquired the gold that it had been looted. In addition to the 101.6 kilograms of looted gold, Spain turned over to the Allies $1.3 million in gold bars and coins it had seized from German State properties at the end of the War.

The Allied-Spanish negotiations coincided with Allied efforts to ostracize the Franco regime. The Allies explored ways short of direct intervention to end the Franco regime and allow the Spanish people to choose freely a new government. During these years Spain was excluded from the United Nations, pending a UN review of wartime Spanish support for the Axis, as well as from the emerging Western Alliance, and most governments around the world downgraded their diplomatic relations with the Franco regime. Economic sanctions against Spain were under consideration but were ultimately excluded by the Allies for fear of exacerbating tensions that could bring about another civil war or allow Communism to gain a foothold in Spain. By 1948 the United States had concluded that these attempts at isolating Spain were counterproductive and were detrimental to the Spanish economy. As a result, with the signing of the May 1948 agreements, the United States released over $64 million in assets frozen since the War and informed Spain that it would allow it to use its remaining gold as collateral for private loans.

In 1950 the Federal Reserve Bank of New York held $50 million worth of gold as collateral for loans by Chase National Bank of New York (now Chase Manhattan) and National City Bank (now Citibank) to the Spanish Foreign Exchange Institute. Part of the collateral consisted of looted gold Spain had purchased from Switzerland and Portugal during the War. Both the State Department and the Treasury Department ruled that, pursuant to postwar Allied restitution policy, the gold was considered "tainted only in the hands of the first purchaser." Thus Switzerland (not Spain) was held legally responsible for providing this quantity of gold to the TGC. At the request of Citibank, the looted gold Spain used to collateralize its loan was re-smelted into "good delivery" bars by the U.S. Assay Office. In 1951 Spain collateralized a $10 million dollar extension of one of the loans using gold, including $2.6 million in looted gold that it had bought directly from the German account at the Swiss National Bank and had never revealed to the Allies. Both Treasury and State allowed the Federal Reserve to accept the looted bars, arguing that since Spain had negotiated the May 1948 Allied-Spanish accord on looted gold "in good faith" they would not consider them looted.

In 1951 Spain halted the distribution of German assets in an effort to garner a larger percentage and gain West Germany's assurance that it would not hold Spain responsible for compensating German owners of liquidated property. Intermittent negotiations continued until 1957, when Spain agreed to turn unliquidated assets over to Germany and Germany agreed not to hold Spain liable for compensation. This opened the way for an Allied-Spanish agreement in which Spain turned over the money it had blocked since 1951 in exchange for $1 million liquidated after that date. The total value of funds derived from German assets in Spain and disbursed by the IARA amounted to about $32.8 million, taking into consideration the fluctuation of the value of the peseta in the 1950s as a result of Spain's severe economic problems, stemming from the devastation of the Spanish Civil War and World War II. Altogether Spain received at least $5.3 million in liquidation proceeds.

By 1950 the Allies joined the U.S. effort to normalize relations with Spain, and the assets negotiations were subordinated to efforts to integrate Spain into the Western economic and military framework and provide Spain with substantial economic and military assistance -- even though it was to remain formally outside the Western Alliance until its accession to NATO and the European Community in the post-Franco 1980s.

Allied Relations and Negotiations With Sweden

Sweden's neutrality in World War II was maintained at some cost to its independence and through considerable economic and military concessions to Nazi Germany. The Swedish Government sought to balance these accommodations by retaining, as best as its diplomats could manage, Sweden's traditional political and economic ties with the Western democracies. The British and, within the U.S. Government, the State Department and the President were inclined to sympathize with Sweden's plight (surrounded as it was by Axis powers or occupied countries) and understand its cautious relationship with Germany. There was considerable concern among the Allies, however, that Sweden went too far in accommodating the Nazi regime. U.S. and British economic warfare experts generally felt that the German war effort depended on Swedish iron ore and ball-bearings and Soviet oil, and that without these materials, the War would come to a halt. Not only was the quantity of iron ore important, but the high quality of the Swedish ore made steel making more efficient, and the use of Swedish ships for transport eased delivery problems for Germany.

The Allied blockade of Europe and Germany's counter blockade of the waterway into the Baltic prevented all but the minimum of critical items like oil reaching Sweden from the West. Allied diplomacy through much of the War aimed at curtailing Swedish exports to Germany and reducing Sweden's more practical assistance to Germany's military operations on the northern front. Although these efforts did not, in the end, significantly constrain the German war industry in 1943 and 1944, an Allied-Swedish trade agreement of September 1943 did eventually bring about a progressive, substantial curtailment of Swedish commerce with Germany. Under the agreement, the United States and Britain agreed to allow an increase in exports to Sweden, including oil and rubber, in exchange for which Sweden agreed to cancel the transit of German military matériel and troops across Sweden, further reduce iron ore exports, end Swedish naval escorting of German sips in the Baltic, and reduce ball-bearing exports. The unremitting Allied diplomatic pressure and the crumbling of the Nazi war effort moved Sweden gradually to reduce and ultimately to end its trade with Germany. All Swedish trade with Germany halted completely in November 1944.

The U.S. military particularly deplored Sweden's continued critically important exports of iron ore and ball-bearings to Germany and its tolerance for the transit of German soldiers and war materials across Sweden and through the Baltic under Swedish naval protection. During the last half of 1943 and the early months of 1944, the United States sought to cripple Germany's ability to continue the War by carrying out a concentrated and costly bombing campaign against ball-bearing production in Germany combined with trade negotiations, including preclusive purchasing arrangements, intended to cut off Swedish ball-bearings to Germany. The U.S. bombing campaign reduced German ball-bearing production, but German industrial countermeasures and improvisations warded off any serious consequences. Moreover, the September 1943 agreement, which halted exports of ball-bearings, neglected to impose restrictions on exports of high-quality steel used to manufacture ball-bearings and appears to have allowed Sweden to provide Germany with ball-bearing steel, largely offsetting the drop in the Swedish export of finished ball-bearings. These efforts did not, therefore, significantly constrain the German war industry in 1943 and 1944.

After the tide of battle on the eastern front had irreversibly shifted following German defeats at Stalingrad and Kursk in the winter and summer of 1943, the Soviet Union took the lead in suggesting a more active role for Sweden in the War, such as the establishment of Allied air bases in Sweden. This idea was taken up at the Moscow Conference of Foreign Ministers in October 1943 and by Roosevelt, Stalin, and Churchill at the Tehran Conference in November

1943. Although the Allies did not decide to call on Sweden to declare war on Germany, Churchill believed that the War might be brought to an early end if Sweden and Turkey entered it on the Allied side in order to confront Hitler on additional fronts.

With the end of the War, Sweden demonstrated a ready willingness to cooperate with the Allies' Safehaven program. The Swedish Government's Foreign Capital Control Office, which had adopted tightened exchange control regulations in November 1944, made great progress in identifying German properties and eliminating German influences from Sweden's economy. Allied estimates of looted gold sold to Sweden by Germany ranged between $18.5 million and $22.7 million. In March 1946 British, French, and U.S. officials met to discuss Swedish gold movements during the War. They concluded that the Swedish gold reserves had increased but were unable to determine if this was due to looted gold. In at least one instance, the Germans had attempted to sell gold looted from Belgium to Sweden, but the Swedes had apparently refused to buy.

Even before the postwar negotiations began with Sweden for the restitution of looted gold and the liquidation and application of external German assets to war reparations in Europe, the Allies found themselves at an important disadvantage. Sweden would not agree that the Allies could claim or dispose of German assets and property outside Germany, and the Allies could not agree to the use of economic sanctions against Sweden should negotiations over restitution and assets break down. In place of legal arguments based on Allied assumption of supreme authority in Germany, the negotiators cited the desperate plight of a devastated Europe and appealed to Swedish compassion. Negotiations in Washington moved swiftly from the start of their talks in late May 1946 until agreement was reached in early July. Sweden undertook to distribute more than $66 million in liquidated German assets as reparations, including a special $36 million fund at the Riksbank to forestall disease and unrest in Germany and to finance purchases essential for the German economy. It also agreed to restitute more than $8 million in gold to make up for that amount of Belgian monetary gold sold to Sweden during the War. Allied-Swedish negotiations regarding 8.6 kilograms of Dutch gold ($9.7 million), which began after the July 1946 accord, dragged on until 1955, with the Swedish negotiators arguing that the gold had been acquired before the January 1943 London Declaration on looted gold. In April 1955, after Swedish and Dutch officials met in Washington and the Dutch claim was proved conclusive, Sweden transferred about $6.8 million in gold to the TGC.

The U.S. negotiators informed Under Secretary of State for Economic Affairs Will Clayton that the July 1946 accord with Sweden was generally quite successful. The negotiations had none of the bitterness of the Swiss negotiations and resulted in the achievement of American Safehaven objectives. The agreement called for a 73-27 split in German external assets, which was an improvement over the 50-50 split of such assets with Switzerland. Within the State Department, critics acknowledged that the accord was better than that with Switzerland and as good as could have been expected in the absence of a willingness to resort to economic sanctions. The critics believed it was defective, however, because of its complexity (it consisted of 30 separate undertakings), because it reflected Sweden's rejection of the Allied assumption of supreme legal authority over German assets outside Germany and made Sweden's allocations of assets "voluntary contributions," and because its allocation of part of the liquidation proceeds to a fund for Germany to purchase essential commodities was more accurately a measure to benefit the Swedish economy.

The July 1946 Allied-Swedish accord proved to be as complicated as its critics warned, and its implementation stretched over the next eight years. Although Sweden was prompt in providing more than $12 million to the Intergovernmental Committee for Refugees for the succor of the non-repatriable victims of Nazism and $36 million was used in Sweden and elsewhere for essential commodities for occupied Germany, Swedish negotiators haggled with the Allies and the Inter-Allied Reparations Agency until 1955 over how to distribute the remaining $18 million for reparations. The promised payment of $8 million in gold to the Tripartite Gold Commission was delayed by Sweden until December 1949. Another $10 million in gold claimed by the Netherlands was not turned over to the TGC until 1955.

Allied Relations and Negotiations With Turkey

Turkey began World War II bound to Britain and France by the military alliance of October 1939, moved to non-belligerency in June 1940 after the fall of France, and adopted a policy of "active neutrality" in the spring of 1941 after German occupation of the Balkans and the conclusion of a German-Turkish Treaty of Friendship in June 1941. During most of the War, Turkey sough to balance the needs and expectations of Germany and the Axis on the one hand, and those of Britain and the United States on the other. Turkey took no overt action against Germany, which strictly observed Turkey's territorial integrity, and carried on extensive commerce with Germany, particularly the export of critical chromite ore for the Nazi war effort. American experts evaluated chromite ore, which could be converted to chromium, as one of the few raw materials that were essential for the German war industry and for which there were no adequate sources within German territory.

In October 1941 Germany concluded an important trade agreement with Turkey that provided for an exchange of Turkish raw materials, especially chromite ore, for German war matériel, together with iron and steel products and other manufactured goods, in order to draw Turkey further into the Axis orbit. At the same time, Turkey maintained its friendly relations with Britain and the United States, which provided Turkey with modern military equipment to upgrade its obsolete and ineffective armed forces, and both Allies sought to minimize the effect of Turkey's exports to Germany by preclusively buying its products, particularly chromite.

The United States and Britain began providing Lend-Lease military equipment to Turkey in 1941. Initially such aid was intended to maintain British influence with Turkey and keep it neutral. As the War progressed, much of the Lend-Lease military aid was in fact from the United States, although it was American policy to defer somewhat to Britain on Turkey and maintain British influence there. At their January 1943 Conference at Casablanca, President Roosevelt and Prime Minister Churchill considered seeking to bring Turkey into the War, and Britain was assigned the lead in negotiating Turkey's move toward belligerency. The Soviet Union urged the immediate entry of Turkey into the War during the October Tripartite Foreign Ministers Conference in Moscow in October 1943, and in November 1943 at the Tehran Conference. Roosevelt, Churchill, and Stalin called for Turkey's entry into the War by the end of the year. Allied military experts foresaw no likely threat to Turkey from Germany in the last months of 1943 or any time in 1944, but they judged that Turkish intervention in the War could provoke German retaliation. During 1943 and into 1944, Turkey continued to receive British-U.S. military assistance but resisted entry into the War. When Turkish leaders made their nation's entry into the War contingent upon massive military assistance and a significant Allied military presence, Britain and the United States in February 1944 abandoned their aid program to Turkey.

After Turkey concluded the trade agreement with Germany in October 1941, which provided for major quantities of German military equipment in exchange for a significant portion of Turkish exports, especially chromite ore, the Allies undertook to redirect Turkey's German-oriented commerce. A preclusive purchasing program, in which the U.S. Commercial Corporation had the pre-eminent role but Britain look the lead, aimed particularly at preventing Turkish chromite exports going to Germany. President Roosevelt's proposed warning to Turkey in March 1944 that its chromite exports were keeping Germany in the War confirmed German Munitions Minister Albert Speer's assessment of November 1943 that much of Germany's manufacture of armaments would come to a halt within 10 months if Turkey's chromite exports to Germany were ended. British-U.S. pressure, persuasion, and preclusive purchasing did not succeed until early 1944 when it was supplemented by threats to apply to Turkey the same economic warfare measures earlier used against other neutrals. Turkey halted the export of chromite to Germany in April 1944 and suspended all commercial and diplomatic relations with

Germany in August 1944. Turkey finally declared war on Germany in late February 1945 on the eve of the convening of the San Francisco Conference establishing the United Nations.

U.S. experts estimated that Turkey, while not a major recipient of gold from Germany during World War II, received as much as $10 to $15 million in gold, much of it probably for its chromite exports. After the War $3.4 million in Belgian monetary gold looted by Germany was traced to Turkey. In addition, two German banks with branches in Istanbul, the Deutsche Bank and the Dresdner Bank, took advantage of the high prices on the Turkish free gold market to sell looted gold provided by the Reichsbank in return for foreign currency, particularly Swiss francs. Some of the gold provided by the Reichsbank came from the infamous "Melmer account" in which the SS deposited the gold jewelry, coins, bars, and dental fillings robbed from its victims at the killing centers and concentration camps. Profits from the banks' Turkish gold trade were used to finance not only Germany's diplomatic, espionage, and propaganda activities in Turkey, but also the operations of various other Axis and "Axis friendly" Legations. Other German gold acquired by Turkey during and after the War included coins and ingots from the account of German Foreign Minister Joachim Ribbentrop at the Reichsbank, which had been stocked with gold looted from occupied Europe.

Turkey's last-minute shift from the status of a wartime neutral to that of an ally vitiated Allied efforts to gain Turkish support for the Safehaven program to locate German external assets and prevent their use for a Nazi resurgence. Within the U.S. Government, the State Department favored a less stringent approach toward Turkey regarding Safehaven than did the Treasury Department -- a recurring pattern with respect to Safehaven and immediate postwar restitution objectives. The British and U.S. Ambassadors in Istanbul argued against treating Turkey as anything but an ally when it came to searching for looted gold. This position was persuasive in Washington, and the United States subsequently dropped any plans to request Turkey to provide detailed information about its gold supply.

The Allies conducted formal negotiations with Turkey over the restitution of looted monetary gold and the application of liquidated German external assets to the reconstruction of Europe. Allied experts estimated total German assets in Turkey at over $51 million in 1945 and possibly as much as $71 million in 1946. Turkey was willing to discuss assets with the Allies but insisted that they be applied to the settlement of Turkish war claims against Germany before the remainder might be shared with the Allies.

The Allied efforts to obtain agreements with Turkey in 1946 for the restitution of gold and return of German external assets were never pressed with vigor and were overshadowed by a major change in relations between and among the Allies and with Turkey. Although State Department policy papers identified no important U.S. national interests in Turkey as late as mid-1945, during the following year, in the wake of threatening Soviet gestures toward the Dardanelles and the Soviet-Turkish border, the United States quickly came to see Turkey as a cornerstone of the emerging Western strategy of containment. The enunciation of the Truman Doctrine in March 1947 to include not only Greece but also Turkey was followed in July by the signing of an aid agreement with Turkey worth $150 million.

The U.S.-Turkish aid agreement of July 1947 doomed negotiations with Turkey over gold and assets. In that month Turkey was willing to return more than $3.4 million in gold, but was unwilling to accept further Allied demands for information. Eventually Turkey failed to return any monetary gold; nor did any proceeds from liquidated German external assets ever reach the Allies. The status of Turkey as an ally rather than a neutral threw the negotiations off the course that the United States had envisioned at the outset. By 1953 the Allies abandoned further efforts to obtain from Turkey the restitution of gold or the application of external assets to the victims of Nazi Germany. In contrast to other wartime neutral nations, Turkey, an 11th hour ally, returned no looted gold to the Tripartite Gold Commission, and turned over no money either to the International Refugee Organization for the support of refugees or to the Inter-Allied Reparations Agency for reparations.

The Fate of the Wartime Ustasha Treasury

The so-called independent state of Croatia, established on April 10, 1941, as part of the German conquest and dismemberment of the Kingdom of Yugoslavia, was denounced by the U.S. Government. Throughout World War II, it was U.S. policy to avoid any action that might imply acknowledgment of the Croatian protectorate, and to support the guerrilla forces seeking to overthrow the German-backed regime.

The Fascist Ustasha political movement in power in wartime Croatia carried out a murderous campaign aimed at Serbs, Jews, and others. As many as 700,000 victims, mostly Serbs, may have died in the camps. The Ustasha Croat campaign started with the internment of 35,000 to 40,000 Croatian Jews in the spring and summer of 1941, followed by the deportation of remaining Jews to Germany in 1942 and 1943. Only a few thousand Croatian Jews escaped after first finding temporary sanctuary in the Italian portion of the Croatian protectorate.

The Ustasha regime in Croatia accumulated a treasury that apparently included valuables stolen from the dispossessed and deported Jewish and Sinti-Romani victims of the ethnic cleansing campaign. A variety of wartime and postwar U.S. intelligence reports confirm a Ustasha regime treasury of some size, but no authoritative quantification proved possible. Nor was it ever clear how much came from Croatian Jewish victims -- although one U.S. intelligence report speculated that it might be as much as $80 million in gold, mostly coins. Official and postwar information does confirm that the Croatian regime transferred gold to Switzerland toward the end of the War, and at least 980 kilograms of gold (worth about $1 million), taken by the Croat officials from the Sarajevo branch of the Yugoslav National Bank in 1941, was transferred to the Swiss National Bank in 1944. In July 1945 the Swiss National Bank returned the gold to the new Yugoslav Government.

After the Ustasha regime collapsed at the end of the War, its leader, Ante Pavelic, and some companions fled to the British zone of occupation of Austria from where, according to intelligence reports, he escaped or was released after surrendering some or all of a quantity of gold he had brought from Croatia. Intelligence reports vary widely in the amount of gold Pavelic brought -- $600,000, $5-$6 million, or even $35 million. None of the information on the amount or makeup of the gold Pavelic was carrying or turned over to the British, some of which has the quality of legend, has been confirmed. What is known is that no gold was reported by British authorities to have been recovered, and none was turned over to the Tripartite Gold Commission for restitution. Pavelic made his way to Rome, where he arrived in early 1946.

U.S. and British intelligence reports agree that the College of San Girolamo degli Illirici in Rome served as a place of refuge and support for the Croatian refugees. San Girolamo, which is located outside the walls of the Vatican and pays Italian State taxes, provided living quarters for Croatian priests studying at the Vatican. After the War, it was the reported center of an extensive and effective underground that assisted Ustasha fugitives, including Ante Pavelic, to flee from Europe to South America. Pavelic hid in Rome at various locations from 1946 until his flight to Argentina in November 1948 without any decisive action by the U.S. or British authorities to apprehend him and make him available for a war crimes trial.

A prime mover of the Ustasha activity in Rome was Father Krunoslav Dragonovic, secretary of the College of San Girolamo. Taking advantage of his contacts inside the International Red Cross, Dragonovic helped Ustasha fugitives emigrate illegally to South America by providing temporary shelter and false identity documents, and by arranging onward transport, primarily to Argentina. In the late 1940s and early 1950s, the U.S. Army Counter Intelligence Corps and the Ustashi collaborated in running a "rat line," an escape route for defectors or informants who had come to Austria from the Soviet zone of Germany or from Soviet bloc countries. In 1951 the anti-Communist informer and Nazi war criminal Klaus Barbie escaped to South America over the rat line. Some intelligence reports indicate that gold from the Ustasha treasury may have been used to finance the postwar underground activities involving

Father Dragonovic at San Girolamo. There is no evidence in U.S. archives that the Vatican leadership knew of or gave support to the Ustasha activities outside its walls, but, given the location of the College, troubling questions remain.

The postwar fate of Croatian Ustasha fugitives, with or without portions of their wartime treasury, depended to a significant extent upon U.S. as well as British policies regarding Croatian Ustasha war criminals and escapees. In the first postwar months, U.S. and British policy was to turn over to the new Yugoslav Government of Marshal Tito anyone for whom the Yugoslavs could make a prima facie case of collaboration with the Nazis. This policy began to change in 1946 as the prisoner of war camps emptied. The standards for turning over Croatian prisoners of war steadily rose, and few were returned to Yugoslavia by late 1946. By May 1947 the U.S. Government became convinced that the Yugoslav Government was meting out unduly harsh treatment to its political enemies and perverting justice. U.S.-Yugoslav relations had cooled as a result of the Yugoslav regime's hostile actions, including harassment of U.S. Embassy personnel and accusations of espionage, the arrest and trial of Yugoslav employees of the Embassy on charges of espionage, attacks on unarmed U.S. aircraft over Yugoslavia, Yugoslav efforts to annex Trieste, and Yugoslav unwillingness to settle outstanding claims of American citizens for confiscated property. In addition, the U.S. and British intelligence services were relying increasingly on former Ustashi as sources of information and were consequently reluctant to antagonize these informants by extraditing their leaders to Yugoslavia. As a result, the policy of surrendering Ustashi was ended -- a policy with which the British concurred. Even when the Allies learned the precise location of Ante Pavelic, the leader of the murderous Ustashi regime, they refrained from taking any action to bring him to justice.

U.S. official records provide only an imperfect understanding of the fate of the Croatian Ustasha treasury and the uses to which it may have been put. Evidence presented by the Croatian delegation to the December 1997 London Conference on Nazi Gold gives encouragement that more can be learned from Croatian sources. The bizarre circumstances attending the movement of Croatian State gold to Switzerland during the War and the flight of Ustasha leaders to Austria at War's end as well as the underground activities of Ustasha priests in Rome give rise to the hope that more information on the fate of Croatian Ustasha gold, including any possible victim gold, may come from the records of the Swiss National Bank and the British occupation forces and intelligence organizations, as well as from the archives of the Vatican and the Croatian State Archives.