

## Allied Relations and Negotiations With Portugal

### A. Portugal's Neutrality and Expanded Wartime Economy

When World War II began in 1939, Portugal had strong and long-standing political and emotional ties to Britain dating back to the Anglo-Portuguese Alliance of the 14<sup>th</sup> century. Britain was Portugal's leading trade partner with 629 million escudos (over \$25 million) in total commerce in 1938. Portugal's relationship with Hitler's Germany emerged during the Spanish Civil War of 1936-1939, when Portuguese Prime Minister Dr. Antonio de Oliveira Salazar sided with the dictatorships, assisted Germany in smuggling arms to Spanish General Francisco Franco's forces, and sent Portuguese volunteers to fight with Franco's army. To gain one of his long-term goals for Portugal—stabilization and development of the country's economy—Salazar encouraged foreign trade and investment, a growing portion of which came from Germany. By 1938 Germany was Portugal's second largest trade partner with 526 million escudos (almost \$22 million) in total commerce.<sup>1</sup>

Portugal, which had joined the British alliance early in World War I and sent over 50,000 troops to the front, stood aside from the new world war. At the outbreak of the War in September 1939, Salazar publicly protested Hitler's blitzkrieg through Catholic Poland but declared Portugal's neutrality. There were dangers in this neutrality. Portugal's weakened economy, strategic location on the southeastern tip of Europe, valuable colonial possessions in the Atlantic and Africa, and important commodities posed real threats to continued Portuguese neutrality and sovereignty. Salazar promised both belligerents open trade for Portugal's valuable domestic and colonial resources.<sup>2</sup> Also important early in the War was fear of the German military machine: with the Wehrmacht less than 260 miles from Portugal's border in southern France and the ever-present possibility of a German-Spanish alliance, Salazar was concerned about the possible presence of German troops in Spain. In the opinion of Dean Acheson, then Assistant Secretary of State, Salazar granted favors to Germany in the trade war after computing "the relative danger of German and allied military pressure on him. German troops in Spain would be as uncomfortable for Portugal as had been Napoleon's a century and a quarter earlier."<sup>3</sup>

Portugal's role as a neutral in the War had a profound effect on its economy. Portugal was predominantly a pastoral country prior to the War, its commerce dominated by agriculture and fishing.<sup>4</sup> Between 1937 and 1939, annual exports averaged 1.2 billion escudos (nearly \$50 million) and imports averaged 2.2 billion escudos (nearly \$90 million), creating a trade deficit. By 1942 exports had grown to almost 6 billion escudos (nearly \$240 million), and imports to 4.3 billion escudos (nearly \$172 million), creating a trade surplus of \$68 million.<sup>5</sup> Private banks' assets nearly doubled over the first four years of the war, and assets at the Bank of Portugal more than tripled. By 1943, government revenues, drawn primarily

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<sup>1</sup> "Portuguese External Commerce," Military Attaché Report 2833, December 3, 1943, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. Some historians have noted that Salazar, a devout Catholic, despised Hitler's paganism and anti-clericalism, but as an ardent anti-Communist, decided to work with the Fascist regimes in Rome and Berlin. See, for example, Tom Gallagher, *Portugal: A Twentieth Century Interpretation* (Manchester, UK and Dover, NH, 1983), pp. 85-98.

<sup>2</sup> *The War and the Neutrals*, pp. 316-322, edited by Arnold Toynbee and Veronica M. Toynbee, in the *Survey of International Affairs 1939-1946* series (London, New York, 1956). Scholars have argued that Salazar favored the Allies, but as a patriot and pragmatist, believed that Portugal was too weak to survive as a belligerent. See, for example, Gallagher, *Portugal: A Twentieth Century Interpretation*, pp. 101-102, and Douglas L. Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986.

<sup>3</sup> Acheson, *Present at the Creation*, p. 87.

<sup>4</sup> "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

<sup>5</sup> "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. According to a British study, for the five-year period ending December 31, 1944, Portugal had an overall trade surplus of 1.113 billion escudos or \$44.7 million. (Despatch 28, April 20, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3)

from export taxes, had increased nearly 44 percent over their 1939 levels.<sup>6</sup> Raw materials essential for both the Axis and Allied war industries, such as wolfram, tin, chromite, manganese, and mica, increasingly dominated Portuguese exports.<sup>7</sup> An Allied study of Portugal's financial position in April 1945 concluded that the country did indeed "benefit financially during the war" through its trade with both sets of belligerents.<sup>8</sup>

Portugal practiced during the War what Assistant Secretary Acheson described as "classical legal neutrality,"<sup>9</sup> balancing its trade as much as possible with each side. Both 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 benefited from the venerable Anglo-Portuguese Alliance and Portugal's dependence on U.S. petroleum, coal, ammonium sulphate, and wheat.<sup>10</sup> In October 1940 Britain capitalized on its long-standing ties with Portugal to induce it to sign a "payments agreement," which enabled Britain to use sterling to buy Portuguese goods and receive credit for escudos. The agreement allowed Britain to compete with Germany for Portuguese goods at a time when Britain was short on gold and hard currency. In contrast, Sweden and Switzerland were demanding gold in their trade with Britain. By the end of the War, Britain had incurred debts under this agreement of about 80 million pounds (\$322.4 million).<sup>11</sup>

While Germany's trade relations lacked the facility of the Anglo-Portuguese "payments agreement," it had equally advantageous informal arrangements. Much of the commerce between Portugal and Germany was conducted through the 1935 Luso-German Clearing Agreement, which established a procedure by which most of the international payments between Portugal and Germany were made through the facilities of the Deutsche Verrechnungskasse and the Bank of Portugal. The system guaranteed in theory that the value of one country's exports was balanced by the value of its imports and that neither country would incur debts for goods. In practice, however, because of the high demand for Portuguese products, Germany usually imported more than it exported, running up debts that the Bank of Portugal covered. Deficits under the Clearing Agreement averaged between 13 and 23.5 million Reichsmarks (\$5.12-\$9.26 million) between 1943 and 1944. On several occasions during the War, Germany paid down this debt with Swiss francs it had purchased with gold or directly with gold. The Allies believed that after 1942 most of this gold was looted.<sup>12</sup>

A November 1945 study by the U.S. Embassy in Lisbon noted that Portuguese firms and government ministries also routinely advanced "substantial amounts" of escudos to Germans when they contracted to purchase goods. While unable to determine a total, the study noted that the Portuguese Government usually made advances of 20 to 30 percent of the value of its contracts with Germany and was claiming almost 91 million escudos (\$3.64 million) at the time in losses on advances for undelivered German goods. The report concluded that the Germans "did not lack escudos to carry on their purchasing

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<sup>6</sup> Despatch 28, April 20, 1945, *ibid.*

<sup>7</sup> "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845.

<sup>8</sup> Despatch 28, April 20, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>9</sup> Acheson, *Present at the Creation*, p. 87.

<sup>10</sup> Hull, *Memoirs*, vol. II, p. 1135; Medlicott, *The Economic Blockade*, vol. I, pp. 526-529; "Portuguese External Commerce," Military Attaché Report 2833, RG 165, Regional File, Portugal 1922-44, Box 2845; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 81-87, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>11</sup> Memorandum from Wood to Baruch, November 19, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3; *The War and the Neutrals*, p. 29. A later source puts the total debt at 90 million pounds; see Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986, p. 111. Dollar conversion is based on 1 pound = \$4.03.

<sup>12</sup> "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records and Analysis Division, Research Reports and Studies, Box 13; memorandum from Wood to Baruch, November 19, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3; Treasury Department Report, "German Clearing Agreements," July 27, 1944, *ibid.*, Subject Files of Commercial Attaché James Wood, 1942-1945, Box 1 of 3.

or other activities." Portugal also had a similar clearing and advance policy with Fascist Italy, which by September 1943 had incurred a 67.1 million lire (\$3.38 million) debt.<sup>13</sup>

In addition to the regular commerce between Portugal and Germany, Portuguese merchants were an important source for the Axis of smuggled goods and raw materials from South America and Africa that were not readily available in continental Europe. By 1942, the Allies were able to stem the flow of bulk raw materials and larger items to the Axis through a comprehensive certification and search and seizure program, but smaller items, such as drugs, chemicals, and certain minerals that were easy to conceal, continued to sneak through. These items were critical to the Axis war effort and thus even small amounts were highly valuable. A January 1944 analysis of blockade violations found that 22 Portuguese vessels had been involved in smuggling, second only to Spain.<sup>14</sup>

Of the smaller items smuggled, Germany was most in need of industrial diamonds, used in precision machining and critical to the armament, aircraft, automotive and mining industries; and platinum, used in electrical contacts, heat elements, electrodes, x-ray and radio tubes, and as catalyst in a host of chemical processes including the making of nitrates and sulfuric acid. To counter the growing contraband trade in these items, the Allies in spring 1943 began a comprehensive preclusive buying program in Latin America and Africa, along with stepped-up intelligence activities and comprehensive searches of neutral vessels, mostly Spanish, traveling from South America to Iberian ports. This program seemed to have some success in slowing down the platinum trade, but evidence of success with diamonds was inconclusive. Allied estimates indicated that by January 1944 the Germans would exhaust their supply of industrial diamonds and increase smuggling efforts, but instead the opposite occurred. By 1944 the Iberian black market in diamonds dried up, leading the Allies to believe that the Germans were successfully smuggling in diamonds from South Africa, possibly by plane through Egypt, or using Portuguese merchants, who had well-established trade connections in Africa. Allied officials, however, were unable to gather conclusive evidence to support this theory.<sup>15</sup>

## ***B. Portuguese Wartime Trade in Wolfram***

Allied trade objectives in Portugal were twofold: to procure certain vital goods that they could not easily obtain elsewhere, and to limit as much as possible Portuguese export of certain strategic goods needed by the Axis, either through Portuguese acceptance of export limits or Allied preclusive buying of Portugal's exportable surpluses. The Allies began trade negotiations with Portugal in 1941, and in November 1942 reached two accords. In one the Allies agreed to sell Portugal specified quantities of coal, petroleum products, ammonium sulphate, and wheat in exchange for commodities such as rubber, sisal, copra, and palm oil. In the other agreement, the Portuguese promised to limit their export of skins, wool, and minerals to the Axis and their imports of certain goods that the Allies believed might be re-exported to the Axis. In July 1940 Prime Minister Salazar facilitated the conclusion of a trade agreement between his country and Spain, which assured that certain key goods would be traded between them and not with the Axis, indirectly aiding the Allies. The agreement was renewed in September 1942 and February 1943.<sup>16</sup>

With agreements such as these in place, the Allies took a far greater share of Portugal's strategic goods during the War than did the Axis, but the trade figures belied the importance of one key export to Germany that the Allies were unable to stop—wolfram.<sup>17</sup> Wolfram ore, when processed into the extremely hard metal tungsten, had myriad uses, the most important of which were light-bulb filaments, steel-cutting machine-tools, and armor-piercing shells. Both the Allies and the Axis needed wolfram to maintain their

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<sup>13</sup> Memorandum from Wood to Baruch, November 19, 1945, *ibid.*, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. Dollar values are based on the following conversion rates included in this memorandum: 1 Reichsmark = 9.852 escudos; 1 lira = 1.258 escudos; and \$1 = 24.815 escudos.

<sup>14</sup> "History of Blockade Division, Enforcement Section," December 15, 1944, and "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, circa spring 1945, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 1.

<sup>15</sup> *Ibid.*; Medlicott, *The Economic Blockade*, vol. II, pp. 435-445.

<sup>16</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>17</sup> Hull, *Memoirs*, vol. II, pp. 1343-1344.

industrial base, and Portugal, as the leading continental producer of wolfram before the War (Spain was second), was in a unique position to take advantage of this demand. The Allies, unlike Germany, had easier access to sources in Latin America and the Far East and were not dependent on the Portuguese market. Germany, with only limited access to these alternative sources because of the Allied blockade, was dependent on the two Iberian countries for the bulk of its supplies.<sup>18</sup> The Allied objective during the War was to purchase enough of the ore to satisfy Portugal's export demands and prevent it from increasing its trade with the enemy. The onset of war, therefore, brought on a competition between the two sides for Portugal's production, driving up prices 775 percent over pre-war rates by 1943. Production also soared, from about 2,419 metric tons in 1938 to 6,500 tons in 1942, making it a \$100 million-a-year industry.<sup>19</sup>

Allied estimates of Germany's wolfram requirements were based on their knowledge of pre-war German industry and tungsten stockpiling; captured enemy documents, machinery, and artillery; limited military intelligence; and comparisons to their own wolfram consumption.<sup>20</sup> At the height of the trade in July 1943, the British estimated that Germany needed a minimum of 5,800 metric tons of wolfram annually, while the Americans placed that figure at 3,590 tons. The different estimates arose from differing analyses of German machine tooling and artillery requirements. The British believed that the Germans needed 3,500 tons for machining alone, while the Americans, claiming that German tool design consumed less tungsten than the Allies' equivalent, felt they could survive on 2,500 tons. In artillery, the British felt that the Germans would need 1,500 tons annually, based on their experience during the North African campaign. The Americans, in contrast, argued that while conditions in North Africa favored the use of high-velocity, low-caliber tungsten-carbide ammunition, in Europe, where the Germans had stockpiled larger guns and heavier artillery, tungsten-carbide shells would provide no significant tactical advantage. As a result, the Americans predicted the Germans would rely on their stockpiles and require no additional wolfram for artillery.<sup>21</sup>

By February 1944 the United States and Britain agreed that Germany's minimum annual requirement was about 3,500 tons, with any additional procurement going to armor-piercing shells.<sup>22</sup> While they realized this estimate was based on conjecture, the fact that Germany had been making such extraordinary efforts throughout the War to acquire wolfram confirmed for the Allies that Germany considered it a vital resource. The Allied goal, therefore, remained to keep as much of the ore from Germany as possible.<sup>23</sup> Both Allies concurred that wolfram was most critical to the German machine-tool industry. Compared to U.S. tools, which used molybdenum tips, German tools were designed for tungsten-carbide tips and could not be readapted or replaced without crippling German production. In fact, Allied officials predicted that if Germany were deprived of wolfram, its machine-tool industry would virtually

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<sup>18</sup> "Wolfram and the War," February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2845; Medlicott, *The Economic Blockade*, vol. I, pp. 509-513.

<sup>19</sup> *Foreign Relations*, 1943, vol. II, p. 509; Dickerson to Secretary of State, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3; Hull, *Memoirs*, vol. II, p. 1343-1344. The production figure for 1938 is from *The Statesman's Year-Book*, 1940, p. 1231. The production figure for 1942 is from "Brief Survey of Exportable Surpluses in Portugal," June 22, 1942, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. At the height of the trade in 1943-1944, up to 90,000 mining-related jobs were created by the "wolfram fever," which drew many young men from their villages and created a class of independent, unscrupulous entrepreneurs known as "volframistas." See Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986, pp. 113-114.

<sup>20</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 122, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>21</sup> "Tungsten Position of the European Axis," July 3, 1943, *ibid.*, Research Reports and Studies, Box 11.

<sup>22</sup> "Raw Materials Position of Enemy Europe," February 14, 1944, *ibid.*, Box 2.

<sup>23</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 122, *ibid.*, Historical Monographs Prepared Outside the Division, Box 5.

shut down within three months,<sup>24</sup> thereby shortening the War or severely impacting Germany's capacity to continue to pursue the War.

### **C. Allied Competition With Germany for Portuguese Wolfram, 1941-1942**

Portugal's strict adherence to neutrality posed a significant hurdle for the Allies in their effort to limit Germany's imports of wolfram. In comparison to Spain, which allowed a free market in wolfram throughout the War, by 1941 Portugal began placing strict controls on its mining and exports, depriving the Allies of an important advantage in the preclusive buying campaign: their ability to out-pay Germany with hard currency. In 1942 the Portuguese began implementing a quota system, permitting each side to export the production of its own mines up to a certain amount as well as a fixed percentage of the yield from independent mines and prospectors. All the wolfram was sold to the Portuguese Metals Commission, which resold it to each side at a flat rate per ton, including a large tax, for export.<sup>25</sup>

Under this system, mine ownership provided a distinct advantage in the competition for wolfram. Britain owned Portugal's largest mining concern with an annual output of 1,600-2,000 tons, and Germany owned two mid-sized concerns, as well as a number of smaller mines with a combined output by 1941 of 945 tons. Britain had also contracted to purchase most of the production of Portugal's second largest mine, with an annual yield of 600 tons, but the mine was owned by a French company, and after the fall of France, the Vichy government began efforts acquire it. To prevent this, the British began legal action in Portugal, tying up most of the mine's yield in litigation through 1941. By the end of 1941 Britain had acquired 3,662 tons of wolfram, about 64 percent of Portugal's available production, leaving Germany with the remaining 2,038 tons exported that year. Nonetheless, Germany's share represented almost 60 percent of its minimum annual requirement of 3,500 tons. Germany had also procured as much as 1,000 tons from Spain, and an undetermined amount from smuggling and other sources.<sup>26</sup>

In January 1942 Portugal concluded a secret agreement granting Germany export licenses for the sale of up to 2,800 tons of wolfram under the new quota system, including half the production from independent mines. In exchange Germany agreed to deliver significant amounts of coal, steel, and fertilizer, which Portugal needed and which the Allies could not then supply.<sup>27</sup> The agreement was to run from March 1942 to March 1943. When the Allies learned of the agreement, they lobbied Portugal intensively to revise the pact, suggesting that they would consider cutting deliveries of vital supplies from the United States. By August Portugal agreed to grant the Allies export licenses for up to 4,000 tons, including most of the production of the French-owned mine, which Portuguese courts decided in February belonged to Britain. The Allies learned, however, that Germany would receive 75 percent and the Allies 25 percent of the output of independent mines. The Portuguese claimed this division was fair because the Allies controlled more mines, despite the fact that Portugal's supplies were far more critical to Germany. In addition, the Portuguese Metals Commission began paying a higher rate for ore produced by independent mines than that from Axis or Allied mines, increasing the incentives for independent production to Germany's advantage under the percentage distribution. Portugal did, however, promise the Allies that

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<sup>24</sup> "Ferro-Alloys and Their Effect on Steel in the German War Economy, 1943 and 1944," June 1944, *ibid.*, Research Reports and Studies, Box 13.

<sup>25</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 56, 127-129, *ibid.*, Historical Monographs Prepared Outside the Division, Box 5.

<sup>26</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 122-127, 133-134, 165, *ibid.*; Medicott, *The Economic Blockade*, vol. I, pp. 524-529. A June 1943 report on smuggling between Germany and the Far East, based on intercepted German and Japanese cables decrypted by U.S. authorities and available to U.S. leaders, indicated that between January 1941 and April 1943 Germany obtained 1,918 tons of wolfram from the Far East, in addition to the Portuguese and Spanish wolfram. ("Magic" Diplomatic Summary, June 8, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 5)

<sup>27</sup> Medicott, *The Economic Blockade*, vol. II, p. 325. Portugal also signed trade agreements with Romania (June 1942) and Hungary (December 1942) for a total exchange of goods worth 80 million escudos. As part of these exchanges, Portugal promised each country 5 tons of wolfram. ("Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 87-88, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5)

their share of the output of independent mines would be increased to 50 percent when the agreement expired at the end of February 1943.<sup>28</sup> By December 1942 the Allies estimated that Germany had purchased 2,040-2,220 tons for the year, about 58-63 percent of its requirements.<sup>29</sup>

#### **D. Allied Attempts To Deny Portuguese Wolfram to Germany, 1942-1943**

By late 1942, in response to Germany's success at procuring wolfram from Portugal, the United States began advocating increased use of illegal purchases to buy the supply of the independent mines. Both the Germans and the Allies had engaged in illegal purchasing since the Portuguese Government began regulating the market in late 1941, but the Germans, who were more desperate for independent wolfram than the Allies, were taking in more. The two principal means of illegal procurement were "absorption," claiming black market wolfram purchased from independent producers, and smuggling ore over the Spanish-Portuguese border. The Germans favored smuggling into Spain because the contraband could be more easily secreted from there to the Axis countries, and they began a concerted effort to acquire smaller mines on each side of the frontier.<sup>30</sup>

The British were initially reluctant to increase illegal purchasing for fear of antagonizing the Portuguese and jeopardizing their own wolfram imports. Since Japan's military successes in the Far East in 1941, they had become more dependent on Portuguese supplies. In spring 1943, after the Allies learned that the Germans had been involved in large-scale smuggling, the British consented to the American plan for illegal acquisition. Allied illegal purchases increased from about 10 tons a month in December 1942 to 40 tons by July 1943. Estimates of German illegal purchases increased from about 45 tons a month in 1942 to 50 tons by 1943.<sup>31</sup>

Early in 1943 the Allies began negotiations with the Portuguese for a new wolfram agreement, hoping to increase their share of the independent yield. They also began talks on renewing the November 1942 supply-purchase agreement, which was due to expire by June. During both discussions, the Portuguese pressured the Allies to reduce their prices for products, such as ammonium sulphate and petroleum products, bought and sold under the supply-purchase agreement. The Allies refused, and the Portuguese would not agree to increase the Allies' share of independent wolfram when the 1942 agreement expired in February.<sup>32</sup>

Negotiations over both accords continued until May 1943, when Portugal accepted the Allies' terms for renewing the supply-purchase accord. At the same time, Portugal revealed that it had again concluded a wolfram trade agreement with Germany. The Allies asked about the terms of the agreement so they could make a counter-offer, but the Portuguese were reluctant to divulge the details, claiming they had

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<sup>28</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 129-139, *ibid.*; Medlicott, *The Economic Blockade*, vol. II, pp. 325-336.

<sup>29</sup> The low estimate is based on monthly procurement figures as of December 1942 in "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 140, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5. The high estimate is from "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. A later source puts the 1942 figures at 4,588 tons for the Allies and 1,405-1,555 tons for Germany. (Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, Vol. 23, No. 1, Summer 1986, p. 118)

<sup>30</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 124-125, 133, 135-136, 140-143, 155, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Medlicott, *The Economic Blockade*, vol. I, pp. 524-529 and vol. II, pp. 595-598.

<sup>31</sup> *Ibid.* Medlicott notes that the Germans smuggled 550 tons of Portuguese wolfram through Spain in the first half of 1943 (vol. II, p. 596); presumably this is the evidence of large-scale smuggling the Allies received in the spring of 1943.

<sup>32</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 143-145, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Hull, *Memoirs*, vol. II, pp. 1336-1337. See also *Foreign Relations*, 1943, vol. II, pp. 497-517.

a sovereign right to conclude an agreement with Germany. They argued that their actions were justified because of the Allies' refusal to yield on prices. The U.S. Minister in Lisbon, Hamilton Fish, described the secret deal as "another demonstration of Salazar's determination to use Portugal's strategic raw materials as a bargaining counter for wartime supplies," but admitted that at that point the Allies' negotiating position was "still not a strong one" because Germany could deliver "a wide range of commodities...with reasonable punctuality," while the Allies were dependent on Portuguese vessels for shipping (except petroleum).<sup>33</sup>

In June 1943 the Allies learned the terms of the agreement between Portugal and Germany, which had been signed in April but made retroactive from February 1. Germany was guaranteed export licenses for up to 2,100 tons of wolfram, less than the maximum allowed in the January 1942 accord, but comparable to annual German imports over the previous two years and still about 60 percent of its requirement.<sup>34</sup> In exchange Germany pledged to sell Portugal 40,000 tons of steel, railway cars, war material, and ammonium sulfate, all at favorable prices.<sup>35</sup> Germany had also gained some advantages over the Allies in the last year by acquiring the largest independent mine, increasing production in the mines it already owned, and increasing its take of black-market wolfram. Furthermore, the Allies found that the Portuguese Metals Commission had been including lower-grade wolfram in the Allied share of the independent production as well as delaying deliveries, raising fears that the Commission was favoring Germany.<sup>36</sup>

The Allies protested strongly to Salazar about Portugal's agreement with Germany and extracted an interim agreement to divide exports 50-50 from March through June 1943.<sup>37</sup> The United States turned to Brazil to help increase diplomatic leverage on Portugal, and on September 10, 1943, Secretary Hull instructed Ambassador Jefferson Caffery to persuade Brazil to join the United States in persuading Portugal to halt all wolfram exports to Germany: "We pointed out that if German acquisitions of wolfram in Portugal could be kept to a minimum, there was little doubt that German reserves might be completely exhausted at the end of the year and that German production of armor-piercing ammunition would be very seriously impeded." Hull felt that Brazil responded with full backing to the Portuguese negotiations.<sup>38</sup>

Parallel to the wolfram negotiations, the Allies in 1943 pressed forward with efforts to acquire air and naval bases on the Azores islands. The battle in the Atlantic between the Allied convoys and the growing German submarine fleet reached its peak in the spring of 1943, and the need for Allied anti-submarine air bases from which to patrol the vulnerable southern Atlantic convoy routes to Europe became acute. The British, for whom the Azores were so critical, had not seized the islands because of the fear that Germany would retaliate by invading Portugal or the entire Iberian peninsula. By the middle of 1943 the British Chiefs of Staff felt that risk of German reaction to the occupation of Portuguese bases had essentially passed.<sup>39</sup>

The acquisition of bases in the Azores was discussed by President Roosevelt, Prime Minister Churchill, and their military advisers at their meetings in Washington, May 10-25, 1943, and in Quebec, August 14-24, 1943. Toward the end of the Washington Conference, Churchill summed up for the British

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<sup>33</sup> Telegram 1008 from Lisbon, May 8, 1943, *ibid.*, pp. 517-518.

<sup>34</sup> Telegram 1435 from Lisbon, June 30, 1943, *ibid.*, pp. 524-525. The agreement contained no obligation to supply definite quantities of wolfram but only a guarantee of export licenses.

<sup>35</sup> Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, Vol. 23, No. 2, Winter 1986, p. 98.

<sup>36</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 140-141, 144-145, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>37</sup> The exchanges between Washington and Lisbon on these negotiations are documented in *Foreign Relations*, 1943, vol. II, pp. 517-525. Sir Llewellyn Woodward, in *British Foreign Policy in the Second World War* (London, 1962), p. 383, notes: "There was a certain paradox in the fact that economic negotiations generally were easier with Spain than with Portugal. One reason was that in Spain General Franco left the arrangements almost entirely to the Ministry of Commerce and Industry where matters were argued on a basis of Spanish economic interest, whereas in Portugal Dr. Salazar himself undertook the negotiations, and brought into them his own sensitiveness about Portuguese sovereignty."

<sup>38</sup> Hull, *Memoirs*, vol. II, p. 1336.

<sup>39</sup> Michael Howard, *The History of the Second World War*, United Kingdom Military Series, *Grand Strategy*, vol. IV, August 1942-September 1943 (London, 1972), pp. 452-453.

Cabinet (which opposed the military seizure of the Azores on moral grounds and out of concern for negative political and economic consequences) the justification for acting swiftly to occupy the Azores:

"My estimate that 1,000,000 tons of shipping and several thousand lives might be saved was regarded by the Combined Chiefs of Staff as a serious underestimate. In short, military necessity is established in the most solid manner....I cannot see that there is any moral substance in the legalistic point involved in overriding the neutrality of Portugal in respect of these islands which are of no peace-time consequence but have now acquired vital war significance. The fate of all these small nations depends entirely upon our victory....It is a painful responsibility to condemn so many great ships of the British and American flag to destruction and so many of our merchant seamen to drowning because our inhibitions prevent us from taking the action which would save them....In this case the issue is far more precisely pointed because the rate of new buildings over sinkings is the measure of our power to wage war and so to bring this pouring out of blood and money to a timely end."<sup>40</sup>

Churchill and Roosevelt agreed to give diplomacy a chance to succeed. While the British and U.S. military chiefs readied plans for forcibly seizing the Azores, British diplomats invoked the 600-year old Anglo-Portuguese Alliance and succeeded in concluding an agreement with Salazar and his aides on August 17, 1943, that permitted British forces to land in the Azores beginning on October 10. Allied commitments under the Anglo-Portuguese Agreement were explained to Marshal Stalin by Churchill and Roosevelt in the following terms:

"Dr. Salazar was of course oppressed by the fear of German bombing out of revenge, and of possible hostile movements by the Spaniards. We have accordingly furnished him with supplies of anti-aircraft artillery and fighter airplanes which are now in transit, and we have also informed Dr. Salazar that should Spain attack Portugal we shall immediately declare war on Spain and render such help as is in our power."<sup>41</sup>

American military leaders were distressed that the Anglo-Portuguese Agreement failed to provide for U.S. bases, and Roosevelt and Hull refused to support the British pledges to abandon the facilities at the end of the War. Instead the United States pressed ahead with its own separate negotiations, although with little success initially. Chargé George Kennan described the circumstances in Lisbon as follows:

"He [Salazar] feels that he has strained his relations with the Germans to utmost already and that we will be lucky if he gets off with sinking of a ship or two and possibly some reprisals in Azores area. The idea of giving the Germans further cause for offense at this moment would appall him. I cannot disagree with this analysis. German-Portuguese relations seem indeed perilously close to the breaking point. Any further strain may well cause complications which would run counter to our desire to keep the Peninsula quiet at this juncture."<sup>42</sup>

In late 1943 Salazar adopted an interpretation of the British-Portuguese Agreement that allowed U.S. aircraft to use the British facilities in the Azores islands, but he remained opposed to granting facilities outright to the United States, "as long as he is trying to remain neutral."<sup>43</sup>

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<sup>40</sup> Telegram Pencil No. 159 from Churchill in Washington to Attlee and Eden in London, May 21, 1943, *Foreign Relations*, The Conferences at Washington and Quebec, 1943, pp. 310-311.

<sup>41</sup> Telegram from Quebec Conference, August 19, 1943, *ibid.*, p. 1091. The text of the Anglo-Portuguese Agreement is in *British and Foreign State Papers*, 1946, vol. 146, pp. 447-451.

According to an intercepted message decrypted by U.S. authorities and available to U.S. leaders, the German Foreign Ministry informed the Portuguese Ambassador to Berlin that, "Since England and America were going to be able to use the Azores...Germany had to reserve the right to act as the occasion might demand 'without considering the question of Portuguese territorial waters.'" Nonetheless Germany was not willing to break its vital commercial ties with the Portuguese, noting that "it would be highly regrettable if our two countries were unable to maintain economic relations." ("Magic" Diplomatic Summary, November 2, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8) According to another intercepted message, Salazar told the Japanese Ambassador in Lisbon that the agreement was the least he could give the Allies without jeopardizing vital supplies to Portugal. In response to the Axis protests, Salazar emphasized the limited terms of the Azores agreement: it dealt with only one port and one airfield, American planes would not be allowed, and only American ships in convoy with British ships would be permitted to use the facilities. ("Magic" Diplomatic Summary, October 17, 1943, *ibid.*)

<sup>42</sup> Telegram 2469 from Lisbon, October 20, 1943, *Foreign Relations*, 1943, vol. II, pp. 558-559.

<sup>43</sup> Telegram 2906 from Lisbon, December 2, 1943, *ibid.*, p. 573.



The lucrative Portuguese wolfram trade with the Allies and Germany continued. By July 1943 overall production had increased to 7,200 tons per year, with the Allies taking 400 tons a month, 100 tons more than their average in 1942, and the Germans taking 200 tons a month, 30 tons more than their 1942 average. At that rate, Germany was expected to increase its imports to 2,400 tons for the year, excluding smuggling, almost 70 percent of its minimum requirement.<sup>44</sup> By the end of 1943, with more than enough ore to supply their own needs, the Allies began to take measures to reduce Portuguese production. These included reducing production in their own mines to minimize the ore's theft and sale on the black market and both legal and illegal purchasing of independent wolfram to lessen the small producers' incentives to produce. In reducing smuggling, they were aided by Portugal's increased efforts also to end smuggling, which was reducing Portuguese revenues by escaping taxation.<sup>45</sup> These efforts helped stem the gains Germany had made by the increase in overall production, and by the end of the year Germany had imported 2,097 tons, comparable to the average take since 1941 but less than the projections in July for the year.<sup>46</sup>

### **E. Cessation of Portuguese Wolfram Exports, June 1944**

In early 1944 the United States and Britain approached Salazar directly about limiting Portuguese wolfram exports to Germany. In January the State Department instructed the Legation in Lisbon to point out to Salazar the consequences to the Portuguese economy if communications between Germany and Portugal were cut and the German buying of wolfram ended. "Consequently, it would appear most advantageous to the Portuguese to make some arrangement at this time which would cushion the effect upon Portuguese economy of the Germans and ourselves from the market. If arrangements for stopping or reducing shipments to Germany cannot be made to our satisfaction at this time, we cannot undertake to assist the Portuguese economy when wolfram purchases are completely stopped."<sup>47</sup>

Salazar demurred, pleading fear of German retaliation and concern for maintaining Portuguese neutrality. He argued that such a "denial of wolfram to Germany would reduce her power of endurance, and the war would accordingly be shortened,"<sup>48</sup> clear recognition that these exports were critical to the Nazi war machine and to sustaining the War.<sup>49</sup>

At the end of March 1944, Salazar refused a written request from Prime Minister Churchill for a permanent embargo on wolfram exports to Germany on the grounds that Germany would regard the action as a "hostile act" and he refused to "have Portugal drawn into the war directly or indirectly through the wolfram issue."<sup>50</sup> As late as May, during an approach by the Brazilian Ambassador, Salazar stated that "a total embargo on wolfram to belligerents would not be fair in his consideration, and as a neutral he could not completely cut off supplies to Germany."<sup>51</sup> While refusing to impose a complete embargo, Portugal did cooperate with the Allies to reduce smuggling, and by the end of the year contraband traffic had decreased

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<sup>44</sup> "Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845.

<sup>45</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 154-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>46</sup> "Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845.

<sup>47</sup> Telegram 132 to Lisbon, January 27, 1944, *Foreign Relations*, 1944, vol. IV, pp. 87-90. See also *ibid.*, pp. 91-132 and Hull, *Memoirs*, vol. II, pp. 1336-1339.

<sup>48</sup> Telegram 1371 from Lisbon, May 6, 1944, *Foreign Relations*, 1944, vol. IV, pp. 102-104. The quote is in "Weekly Intelligence Report #204, February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2846.

<sup>49</sup> According to an intercepted message decrypted by U.S. authorities and available to U.S. leaders, in March Portugal assured Germany that it would renew the 1943 agreement, which expired in February, and as a good faith gesture, would supply Germany with 200 tons of wolfram from Portuguese stocks to make up an amount past due from 1943. ("Magic" Diplomatic Summary, March 11, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 10)

<sup>50</sup> Telegrams 896 and 958 from Lisbon, March 25 and March 31, 1944, *Foreign Relations*, 1944, vol. IV, pp. 99-101.

<sup>51</sup> Telegram 1371 from Lisbon, May 6, 1944, *ibid.*, pp. 102-104.

markedly.<sup>52</sup> Portugal nevertheless continued exporting wolfram to Germany at about the same rate as during 1943, and refused to implement measures that would reduce its revenues.<sup>53</sup>

By April 1944 the United States decided to use economic sanctions to pressure Portugal to stop wolfram exports to Germany, but Britain continued to be reluctant.<sup>54</sup> In a note to the British Government in May 1944, the State Department pointed out that Portugal was "entirely dependent for petroleum products and other important items" on the U.S. and British Governments, was "bound by the most solemn treaty obligations to the British Government," could no longer feel "imperiled" militarily by Germany, and thus should acquiesce to Allied demands.<sup>55</sup> By June the British concurred, and on June 5, 1944, several days after Spain had agreed to reduce markedly its wolfram exports to Germany, Portugal imposed a complete embargo on wolfram exports to both Germany and the Allies. Immediately after the Portuguese embargo, both Britain and the United States began negotiations with Portugal for supply-purchase agreements.<sup>56</sup> Salazar's decision was based in part on his judgment that the unrestrained wolfram trade was undermining traditional Portuguese society, as well as growing labor and leftist unrest in Portugal and popular discontent with Portugal's relationship with Nazi Germany. This anti-German sentiment was reinforced after a German U-boat seized a Portuguese merchant vessel on May 26, 1944, forced its passengers into lifeboats, and held it hostage for nine hours. Three people died in the process of re-boarding the ship.<sup>57</sup>

Even with the embargo, Germany imported about 900 tons of Portuguese wolfram from the beginning of 1944, but the cut-off, combined with the Spanish agreement in May, began to take its toll. In September 1944 the U.S. Foreign Economic Administration reported to Congress that Germany was being forced to use inferior carbon-steel machine tools, reducing its industrial productivity significantly, and that the German Army had been using fewer of the high-efficient tungsten shells.<sup>58</sup>

Shortly after imposition of the embargo, Salazar agreed to allow the United States to begin surveys of the Azores with the objective of building an air base on the islands. Construction was delayed, however, as Portugal sought a "wide range of supplies and services in the strategic shipping and economic fields" and Allied permission for participation in the liberation from the Japanese of the former Portuguese colony of Timor.<sup>59</sup> After lengthy negotiations, Salazar signed an agreement on November 28, 1944, permitting construction and granting U.S. forces access to the air base for up to nine months after the end of the war. In a side note to the agreement, the United States approved Portuguese participation in the Timor campaign.<sup>60</sup>

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<sup>52</sup> Hull, *Memoirs*, vol. II, pp. 1338-1339. An intercepted April 1944 German cable from Madrid to Berlin, decrypted by U.S. authorities and available to U.S. leaders, indicated that Portugal was stalling on German requests to begin negotiating a new wolfram deal. ("Magic" Diplomatic Summary, April 25, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 10)

<sup>53</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Hull, *Memoirs*, vol. II, pp. 1338-1339.

<sup>54</sup> "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

<sup>55</sup> Aide-Mémoire from the Department of State to the British Embassy, May 18, 1944, *Foreign Relations*, 1944, vol. IV, pp. 111-113.

<sup>56</sup> Reports on the negotiations leading up to Salazar's decision and the Portuguese announcement of June 5 are *ibid.*, pp. 125-132.

<sup>57</sup> Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 2, Winter 1986, pp. 100-111.

<sup>58</sup> "Report to Congress on Operations of the Foreign Economic Administration," September 25, 1944, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared by Division, Box 18; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-164, *ibid.*, Historical Monographs Prepared Outside the Division, Box 5.

<sup>59</sup> Hull, *Memoirs*, vol. II, p. 1343.

<sup>60</sup> The agreement and side letters are in 2 UST (pt. 2) 2124. See also *Foreign Relations*, 1944, vol. IV, pp. 27-84.

## ***F. The Beginnings of Safehaven in Portugal***

The Allies pursued various initiatives to thwart the wartime neutrals, including Portugal, from allowing Germany to use looted monetary gold and other assets to finance its war effort: the January 1943 London Declaration, the February 1944 Gold Declaration, and the August 1944 Bretton Woods Resolution VI. These declarations formed the legal basis for the Safehaven program. As Germany's military defeat became certain after D-Day, many in Washington, particularly at the Treasury Department and the Foreign Economic Administration (FEA), feared that the Nazis were planning to use Portugal, along with other former neutrals, as a possible "safehaven" for assets to be used to revive their cause after a German defeat. In 1946 the State Department estimated that approximately 50 million escudos (about \$2 million) had been transferred as German mine owners liquidated their assets and invested the proceeds in Portuguese businesses to cloak them from the Allies.<sup>61</sup>

The U.S. Embassy in Lisbon began its Safehaven investigations in Portugal in August 1944. In the autumn a team headed by Samuel Klaus from the FEA and including Herbert Cummings from the State Department visited Portugal as part of a European-wide assessment of these operations.<sup>62</sup> In his report on the trip, Klaus complimented the Embassy's initial work (led at the time by Financial Attaché James Wood), and predicted a "measure of success" for the Embassy's efforts. Klaus believed that Portugal could serve as a financial center in any postwar Nazi machinations, an "international free money market...where gold may come to rest for the time being or where monetary transactions may take place in such a way as to conceal the real interests behind them." He also noted that the country's five largest banks were being used by German interests to "disguise...transactions which may [have] terminate[d] elsewhere," and should be a focus of any Safehaven inquiries.<sup>63</sup>

On October 2, 1944, the U.S. Embassy formally requested Portugal to implement measures to thwart Nazi Germany's use of looted gold and other assets as called for in the Gold Declaration and the Bretton Woods Resolution VI. Like the other neutrals, Portugal had been reluctant to trade its wolfram and other resources to Germany in exchange for Reichsmarks, which were difficult to convert on the international market. Instead, Portugal preferred to be paid in German goods through the Luso-German clearing agreement or in escudos or hard currency such as Swiss francs or gold. The Allies were certain that after early 1943 Germany was resorting to the sale of looted gold from the occupied countries to finance its trade.<sup>64</sup> When Portugal did not respond to the Embassy's request on looted gold, the United States, acting on the views of Treasury and FEA, advocated using direct threats such as economic sanctions. The British, with some sympathy from the State Department, favored using moral persuasion.<sup>65</sup> Finally, in April 1945 all sides agreed on a joint approach that included Treasury and FEA's demands that Portugal and the other neutrals be required to freeze all Axis assets, conduct a census of these holdings, and subscribe to Bretton Woods Resolution VI. The Allies formally presented these demands to the Portuguese Government on May 7, 1945.<sup>66</sup>

After Germany's surrender on May 8, 1945, Portugal replied quickly to the Allied Safehaven demands. On May 14 the government enacted Decree Law 36400, freezing all German assets in Portugal, providing for a census of these assets, creating a licensing system for releasing them, prohibiting the trading of foreign currency notes, and establishing a penalty regime to enforce these provisions. The

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<sup>61</sup> Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

<sup>62</sup> *Foreign Relations*, 1944, vol. II, pp. 220-221.

<sup>63</sup> Memorandum from Klaus to Currie, Coe, and Cox, October 21, 1944, Franklin D. Roosevelt Library, Cox Papers, Lend Lease File, Box 104.

<sup>64</sup> *Foreign Relations*, 1944, vol. II, pp. 230-237; Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946. See *Preliminary Study on U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II* (Washington, D.C., May 1997), p. 66. [Hereafter cited as the Eizenstat Report]

<sup>65</sup> Margaret Clarke, "The Safehaven Project," Foreign Economic Administration Study #5, 1945, covers some of the interagency debate in pp. 121-130, RG 169, Records Assembled by the Historian, Material on the Safehaven Project, 1943-1945, Box 991. For more on the British-U.S. divisions, see Medlicott, *The Economic Blockade*, vol. II, pp. 622-629.

<sup>66</sup> FFC Monthly Report, April 1945, and FFC Monthly Report, May 1945, RG 131, Foreign Funds Control, Subject Files, Box 256.

decree also included a statement of public adherence to the principles set forth in the Gold Declaration of February 1944 and Bretton Woods Resolution VI of August 1944. On May 23 the decree was extended to all Portuguese colonies.<sup>67</sup> Included in these frozen assets were the official State properties of the German Government in Portugal. Portuguese officials seized German Government buildings and their contents throughout Portugal and its colonies and, by early June, delivered them to the Joint Allied Committee on German Affairs in Portugal, established to oversee their liquidation. Included in these seized assets were 5,000 unidentified gold coins found at the German Legation in Lisbon in May 1945.<sup>68</sup>

The wartime Safehaven efforts in Portugal, as in other neutral countries, were replaced at the beginning of 1946 by the Allied reparations and restitution programs established at the Paris Reparations Conference, which concluded in January 1946. The Conference agreed that the United States, Britain, and France would represent the other Allies in negotiations with the wartime neutral states over the restitution of looted monetary gold and the liquidation of external German assets to be used for reparations and the support of the stateless victims of Nazism. Portugal agreed to begin its negotiations with the Allies in the fall of 1946.<sup>69</sup>

Before negotiations began, concerns arose in Washington about Portugal's implementation of the Decree Law freezing German assets. A June 1946 State Department report noted that the law excluded the Allies from the census and included a serious "loop-hole" that permitted the transfer of blocked assets to individuals for their "subsistence" and "the normal exercise of commercial and industrial activity." As a result, employees had been granted excessive living allowances, German firms continued to operate "without any serious handicaps," and much of Germany's assets had been dissipated. Moreover, the Portuguese census had failed to uncover any holdings the Allies had not already identified. The report claimed that these concerns had been communicated to the U.S. Embassy, but officials there did little to pressure Portugal to address them.<sup>70</sup>

### ***G. Allied Estimates of German External Assets in Portugal***

Allied estimates of German external assets in Portugal varied widely without detailed census data. In April 1945 the U.S. Embassy had put the total at \$45 million. Three months later it revised the estimate to \$30.8 million, admitting that \$22.5 million of that amount was a "pure estimate...[based on] some facts but...subject to extreme change."<sup>71</sup> In October 1945 the FEA calculated about \$40.8 million, admitting also that this amount was "based on a number of fragmentary reports" and therefore highly "tentative."<sup>72</sup>

In June 1946, in preparation for the upcoming Allied-Portuguese negotiations, the State Department estimated a total of \$36.8 million (920 million escudos), excluding any looted items, such as gold or diamonds, that were destined to be returned to their owners.<sup>73</sup> According to the State Department analysis, the German assets fell into six categories. First, valued at \$16 million (400 million escudos), were

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<sup>67</sup> Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946. See also "Draft of Sections of the History of Activities in Which the Treasury Department Participated with Respect to the Recovery and Distribution of Gold Looted by the Germans during the War and the Liquidation of German Assets Located Outside of Germany," January 29, 1952, by Robert J. Schwartz, RG 56, Acc. 66A-816, Special Subject Files, Box 1. Schwartz, a Treasury Department official involved in the postwar efforts to liquidate German external assets, also provided a copy in his letter of January 14, 1997, to Ambassador Eizenstat.

<sup>68</sup> Despatch 220 from Lisbon, June 8, 1948, RG 59, Decimal Files 1945-49, 800.515/6-848. The Joint Allied Committee was composed of one representative each from the three Allied Embassies in Lisbon.

<sup>69</sup> Treasury Department Report, "Safehaven-Portugal," July 26, 1945, RG 131, Foreign Funds Control, Subject Files, Box 346.

<sup>70</sup> Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

<sup>71</sup> Safehaven Report, Lisbon, July 21, 1945, RG 131, Foreign Funds Control, Subject Files, Box 384.

<sup>72</sup> "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

<sup>73</sup> Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

the German mining interests: two privately owned firms with links to large German steel companies, and a smaller concern controlled by a German State-owned enterprise in Spain known as SOFINDUS, the Sociedad Financiera y Industrial Lda. Second was \$7 million (175 million escudos) in a blocked account for five German ships caught in Portuguese harbors at the start of the war. In 1943, with Allied consent, the Portuguese had purchased the ships from their private German owners, but unbeknownst to the Allies the German Government allegedly reimbursed the owners. This made the account a German State asset, depriving the former German owners of protections afforded private citizens under the Decree Law.

A third category of assets consisted of the hundreds of concerns in which German firms were heavily invested, valued at \$5 million (125 million escudos). German corporate giants such as I.G. Farben, Siemens, A.E.G., and Roechling, as well as lesser-known firms, had numerous subsidiaries in Portugal during the War and also owned significant shares of Portugal's cork harvesting, communications, transportation, and film industries. A fourth type were the German agricultural holdings in Portuguese colonies (mostly Angola), valued at \$2.5 million (62.5 million escudos). A fifth was the approximately \$5 million (125 million escudos) in personal and real property owned by individual Germans. And the last category, estimated at \$1.3 million (32.5 million escudos), comprised German State properties, such as schools and Legation buildings and their contents.<sup>74</sup>

#### ***H. Beginnings of Postwar Allied Policy Toward German Looted Gold in Portugal***

Both Germany and Portugal used Switzerland as an intermediary to facilitate their wartime gold transactions. When Germany needed escudos to purchase wolfram or other Portuguese goods, the Swiss National Bank would transfer gold from Reichsbank accounts to the account of the Bank of Portugal. This gold apparently went to the Reichsbank's "Escudo account" with the Bank of Portugal, which in turn credited a like amount of the escudos to two private banks, the Banco Espirito Santo and Banco Lisboa e Acores. These banks then deposited the escudo amounts to Germany's accounts with them. In 1943, almost 729 million escudos (\$29 million) were reportedly transferred to Germany in this way.<sup>75</sup> Sometimes the Swiss National Bank transferred the gold directly; sometimes the Bank used the German gold as credit and deposited equivalent amounts of Swiss francs, which the Portuguese used to buy Swiss goods. Ultimately, much of this gold and currency was transported to Portugal. From 1939 to 1944 Portuguese domestic gold holdings increased by \$67.5 million.<sup>76</sup>

The Allies also had evidence of a significant trade outside the Bank of Portugal. One of the largest institutions involved in this unofficial trade was the Banco Espirito Santo. According to an October 1945 FEA report, the bank served as the "German financial agent for wolfram operations," regularly advancing escudos to the Germans to purchase wolfram in return for "gold and Swiss francs from the

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<sup>74</sup> Treasury Department report, "Safehaven - Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346, and Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

<sup>75</sup> Despatch 28, April 30, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>76</sup> Draft memorandum from James Wood to Assistant Treasury Secretary White, December 7, 1945, *ibid.*, Box 3 of 3; memorandum by Otto Fletcher attached to "Safehaven - Portugal," July 26, 1946, in RG 131, Foreign Funds Control, Subject Files, Box 346. Draft despatch 306, March 20, 1944, calculated Swiss National Bank deliveries of gold to Portugal between 1939 and 1943 at 123.7 tons, worth about \$150 million; RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. One report indicated that Germany paid 10-15 percent of its clearing debts for wolfram in Swiss francs; memorandum from Wood to Baruch, November 19, 1945, *ibid.*

Reichsbank."<sup>77</sup> In August 1944 the Allies compelled the bank to cut its ties with the Reich, but the Germans transferred their accounts to the Banco Lisboa e Acores.<sup>78</sup>

Smuggling also brought significant amounts of gold coin and ingots into the country. In 1946 the former German Commercial Attaché in Madrid admitted to shipping almost \$1 million in English gold sovereigns received from Berlin to the German Embassy in Lisbon, where they could be sold for three times their value in Spain. The coins were sent in small packages via the diplomatic pouch between 1943 and 1944, and the proceeds from their sale were converted into pesetas for the use of the Embassy in Madrid.<sup>79</sup> Another report indicated that at least 320 kilograms of gold (\$360,000) had arrived by plane in June and July 1944 and were taken by German Legation cars to the Bank of Portugal where it was deposited in a "special account" in the name of the German Ambassador. According to the source, Bank directors had requested the Portuguese Ministries of Foreign Affairs and Finance to allow them to open the accounts. In addition, there were reports throughout 1944 of other dignitaries, such as the Spanish Ambassador to Portugal (brother of Spanish dictator General Francisco Franco), the Uruguayan Minister, and several Portuguese Legation officials in Germany and Vichy France, smuggling in "considerable quantities of gold, diamonds, bonds, banknotes and other valuables." Much of this smuggled loot was deposited in private banks, including the Banco Espirito Santo. The Allies also had reports of looted bars and ingots smuggled into Portugal in September 1944 "to build up a postwar credit for the Germans." Much of this gold was supposedly re-smelted into Portuguese bars.<sup>80</sup>

During the War, the Bank of Portugal, the only national institution officially allowed to trade in gold, began to dispose of its holdings in the face of the Allied warnings about trade with Germany. In 1943 Allied intelligence reports indicated that the Bank of Portugal exchanged up to 4 tons it held in the Swiss National Bank, believed to include gold obtained from Germany, for prewar gold stocks held in an account in Canada. In July 1943 the Bank of Portugal reportedly sold to Lisbon dealers gold bars bearing Reichsbank markings and swastikas; the exchange dealers intended to re-smelt these bars into smaller bars with Portuguese markings. The U.S. Embassy in Lisbon also obtained reports that in 1943 and 1944 the Portuguese and private goldsmiths re-smelted gold ingots the Bank of Portugal had received from France as well as bars bearing the marks of German-occupied countries.<sup>81</sup>

Beginning in 1944, and especially after the Allies issued their warnings against trafficking in looted gold and the German military situation began to worsen, the Bank of Portugal accelerated its efforts to sell its German gold. According to Allied intelligence reports, between June and September the Bank allegedly sold 3,387 kilograms of its German gold holdings (\$3.8 million) at the Swiss National Bank.<sup>82</sup> In August the Bank of Portugal began selling 50-100 kilograms of gold a day to private concerns, reaching a

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<sup>77</sup> "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13; Intelligence Report H5709, April 22, 1944, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. The FEA report claims that the Banco Espirito Santo was partially Swiss-owned, but a March 1998 letter from Ricardo Espirito Santo Salgado to a Swiss researcher indicates the bank was controlled by the Espirito Santo family.

<sup>78</sup> "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

<sup>79</sup> Letter from the U.S. Political Adviser for Germany to the U.S. Embassy in Lisbon, November 7, 1946, enclosing "Interrogation of Walter Becker, German Repatriate from Spain," RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>80</sup> Despatch 1061 from Lisbon, October 12, 1944, RG 59, Decimal Files 1940-44, 800.515/10-1244.

<sup>81</sup> Despatch 1061 from Lisbon, October 12, 1944, *ibid.*

<sup>82</sup> Despatch 1061 from Lisbon, October 12, 1944, *ibid.* This despatch also reported that in September 1944 the Embassy in Lisbon passed on an intelligence report that the Bank of Portugal transferred to the Portuguese Government nearly 16 tons of gold it had purchased from the Reichsbank and held in Portugal, and that, as a counterpart to this transaction, the Portuguese Government had transferred a like amount of gold, which it held in New York, to the Bank of Portugal's account at the Federal Reserve in New York. The records of the Federal Reserve Bank in New York contain no evidence that such a transaction occurred. This kind of transaction is unlikely given the U.S. Treasury licensing requirements governing all gold transactions in the United States at the time. (Letter from James R. Hennessy, Counsel, FRBNY, to William Slany, November 3, 1997)

one-day high of 300 kilograms (\$340,000) in January 1945. These sales continued until February 1945 when, officially at least, they were formally ended.<sup>83</sup>

Allied requests to Portugal for information on its secret gold transactions were either ignored or evaded. Beginning in August 1945, U.S. Financial Attaché James Wood requested information from the General Secretary of the Bank of Portugal, the Portuguese Foreign Office, and the Bank's Vice Governor, but received no replies.<sup>84</sup> As late as May 1946, Bank of Portugal officials were denying that any monetary gold had been shipped from Germany to Portugal.<sup>85</sup>

In July 1946, in preparation for the upcoming negotiations with the Portuguese, Otto Fletcher of the State Department made a detailed assessment of Portugal's wartime gold transactions. Comparing the available data on German war acquisitions of looted gold, its sales to the Swiss National Bank, statements by Swiss Government officials, and War Department intelligence on truck shipments of gold, Fletcher deduced that Portugal acquired 123.827 tons of gold (\$139.3 million) during the entire war period. According to a "very confidential" letter by a Swiss diplomat, 20.117 tons (\$22.6 million) of this total was acquired by the Bank of Portugal from the Reichsbank's deposit with the Swiss National Bank and comprised "exclusively looted Belgian gold." Of the remaining 103.709 tons (\$116.7 million), which Portugal acquired from the Swiss National Bank, Fletcher's evidence indicated that at a minimum 72 percent (or 74.67 tons, \$84 million) had been looted by Germany from the occupied countries. Combining this figure with the amount of Belgian gold, Fletcher argued that the Allies should demand 94.787 tons (\$106.6 million). Fletcher believed his figures were modest, and took note of several military and intelligence reports of truck deliveries of as much as 400 tons of gold from Switzerland to the Bank of Portugal.<sup>86</sup> U.S. military investigators and Treasury Department analysts noted in another report that the Portuguese admitted, "in an official statement to the American Legation," purchasing 42 tons of gold from a German account at the Swiss National Bank and 66 tons from Switzerland "against payment of Swiss francs."<sup>87</sup>

### ***I. Allied-Portuguese Negotiations on Looted Gold and German External Assets, September 1946-February 1947***

Negotiations between the Allies (the United States, Britain, and France representing the Inter-Allied Reparations Agency (IARA)) and Portugal regarding the restitution of looted gold and the retrieval and disposition of German external assets began in Lisbon on September 3, 1946. The talks followed the Allied-Swiss negotiations of March-May 1946 and the Allied-Swedish negotiations of May-July 1946, both held in Washington. The Allied negotiators brought to Lisbon, and to the parallel talks in Madrid with Spain, the experience of these negotiations. Unlike the Swiss and Swedish negotiations, however, those with Portugal (and with Spain) were held away from Washington and were ultimately conducted on the Allied side by diplomatic representatives assigned to the Embassies in Lisbon. Initially the U.S. delegation was led by Assistant Legal Adviser for Economic Affairs of the State Department Seymour Rubin and Assistant Director of the Treasury Department's Division of Monetary Affairs Orvis Schmidt. The British delegation was led by Francis McCombe who had served, like Rubin, at the Allied-Swiss negotiations and

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<sup>83</sup> Wood to Assistant Treasury Secretary White, April 3, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>84</sup> Draft memorandum from James Wood to Assistant Treasury Secretary White, December 7, 1945, *ibid.*, Box 3 of 3.

<sup>85</sup> "Memorandum on Gold Acquisitions by Portugal During the War," prepared by Otto Fletcher, July 2, 1946, attached to "Safehaven-Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346.

<sup>86</sup> *Ibid.* According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, and 17, the Swiss National Bank sold to Portugal \$104.2 million in gold, and the Reichsbank sold to the Portuguese National Bank via the Swiss National Bank \$49.5 million in gold, a total of \$153.7 million. According to an undated paper submitted to William Slany by the Swiss National Bank, Portugal purchased 86.7 tons of gold directly from the Swiss National Bank, and 48.9 tons from the Reichsbank deposit at the Bank, a total of 135.6 tons of gold (\$152.6 million).

<sup>87</sup> Exhibit 2, attached to "Safehaven-Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346.

headed the British delegation at the subsequent Allied-Swedish talks. Francois de Penafieu and Marcel Vaide led the French delegation.<sup>88</sup>

The Allied discussions with the Portuguese failed to result in a quick agreement and eventually stretched over years. Rubin remained only for the opening phase, which ended in late September 1946. He characterized the negotiations as friendly, but noted the "serious disagreement" between the two sides on the following key issues: 1) defining exactly what German assets would qualify for liquidation; 2) determining how much the Portuguese could claim for wartime losses against Germany; 3) deciding what role each side would play in overseeing liquidation; and 4) deciding how much gold, if any, Portugal would have to relinquish to the Allies.<sup>89</sup>

On the gold side of the negotiations, because the intelligence on Portuguese gold acquisitions during the War was unconfirmed, the Allied negotiators did not feel they had enough conclusive documentary evidence to demand more than 44.864 tons of gold (\$50.5 million), the amount they alleged Portugal had acquired from Germany after 1942 when it became "common knowledge" that Germany had expended its own reserves and was relying on looted gold. In addition, the French, who were slated to get a portion of the amount recovered, pushed hard for a figure they believed the Portuguese would find reasonable. The Allied negotiators were willing to go as low as the 20.117 tons (\$22.6 million) in looted Belgian gold acquired directly from a Reichsbank account at the Swiss National Bank, for which they had confirming confidential Swiss statements. The Portuguese argued that they had no evidence that the Germans had traded in looted gold. Furthermore, they wanted to be fully compensated for any gold they would be forced to relinquish if it proved to be looted, since Portugal had purchased it "in good faith." The two sides could only agree to the establishment of a Joint Subcommittee on Gold to review Bank of Portugal records, and formal negotiations were suspended until its report was received.<sup>90</sup>

The Portuguese participated reluctantly in the investigations of the Gold Subcommittee. In a September 27, 1946 note, Portugal continued to claim that it had received no looted gold and insisted that its cooperation with the Subcommittee did not signify acceptance of the Allies' premise that it had. Portugal's reluctance delayed the work of the Subcommittee. The Portuguese members allotted only a few hours a week to the investigation, turning what one U.S. member described as "two days" work into five months of "detailed labor." In addition, they insisted that the report indicate only that certain bars "of concern to the Allied Delegations had been acquired by the Bank of Portugal," and not address whether they were looted. Portugal also refused to provide written records. Instead, the Portuguese representatives only verbally confirmed that the Bank of Portugal had acquired certain bars bearing the identifying marks the Allies provided. The Allies, in contrast, presented detailed evidence from a variety of sources, including captured Reichsbank and Prussian Mint records, showing from where gold had been looted and how it was re-smelted by the Prussian Mint, bringing into question the validity of the Portuguese documentation.<sup>91</sup>

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<sup>88</sup> A complete list of all the delegates is in the negotiation minutes attached to despatch 1120 from Lisbon, September 23, 1946, RG 59, Decimal Files 1945-49, 800.515/9-2346.

<sup>89</sup> Memorandum from Rubin to Ambassador, September 27, 1946, "A Report on the Progress of the Safehaven Negotiations to Date," *ibid.*, 800.515/9-2746. A copy of the Allies' draft accord delivered on September 9 is in despatch 1105 from Lisbon, September 10, 1946, *ibid.*, 800.515/9-1046. A copy of the Portuguese reply of September 17 was not found, but a summary of the major points was transmitted in telegram 841 from Lisbon, September 19, 1946, *ibid.*, 800.515/9-1946. Minutes of the Fourth, Fifth, and Sixth meetings forwarded under despatch 1120 from Lisbon, September 23, 1946, *ibid.*, 800.515/9-2346, and Seventh, Eighth, and Ninth Meetings forwarded under despatch 1129 from Lisbon, October 1, 1946, *ibid.*, 800.515/10-146.

<sup>90</sup> Memorandum from Rubin to Ambassador, September 27, 1946, *ibid.*, 800.515/9-2746; "Second Draft of Proposed Report to be Rendered to IARA or to the Individual Member Countries which have Claims for the Restitution of Looted Gold," ca. July 1948, *ibid.*, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 17.

<sup>91</sup> "Second Draft of Proposed Report to be Rendered to IARA or the Individual Member Countries Which Have Claims for the Restitution of Looted Gold," *ibid.*



Intermittent discussions continued into early 1947.<sup>92</sup> On February 21, 1947, Portugal agreed to terms for the liquidation of German assets, but refused to implement the plan until the two sides reached an accord on gold. The agreement called for the liquidation of almost all assets owned by Germans "resident in Germany" during the War or "transferred to Portuguese territory" between 1933 and May 7, 1945, except for the assets of Nazi refugees, a total estimated value of about \$36.8 million. The first 100 million escudos (about \$4 million) of the proceeds would compensate "non-repatriable victims of German aggression." The next 50 million escudos (\$2 million) would go to Portugal as a first installment toward its 140 million escudos (about \$5.6 million) in wartime damage claims against Germany, reduced from Portugal's initial claim of 415 million escudos. Any proceeds realized thereafter from the liquidations would be divided 50-50 between the two sides, with the Portuguese portion not to exceed 180 million escudos (about \$7.2 million). The accord also called for the Allies as signatories, or the "first legitimate German Government," to indemnify those proprietors affected by the liquidation. To oversee the liquidation, the parties agreed to create a three-man "Liquidation Commission," including one member appointed by the Allies, one by the Portuguese, and one selected by both.<sup>93</sup>

The accord also recognized the Allies' title to those "German State" assets that had been taken over by the Joint Allied Committee on German Affairs in Portugal in June 1945. Since then the Committee had been administering and liquidating these assets until June 1947 when it transferred its assets and responsibilities to the Allied Committee for German External Assets in Portugal, a three-member committee formed in January 1945 to handle all Safehaven matters. Since its establishment, the Joint Allied Committee on German Affairs in Portugal had located about 7.2 million escudos (\$288,000) in cash, mostly in the German Legation in Lisbon, and liquidated 2 million escudos (\$80,000) in movable property. It also identified 7 million escudos (\$280,000) in real estate, none of which had been liquidated by June 1947. After incurring almost 2 million escudos in expenses, it turned over to the Allied Committee for German External Assets in Portugal about 7.2 million escudos.<sup>94</sup>

### ***J. Further Allied-Portuguese Gold Negotiations, March 1947-February 1948***

The Subcommittee on Gold finally issued its report on March 19, 1947, concluding that the Bank of Portugal acquired 3,859 bars of gold (46.76 tons, worth approximately \$52.6 million) between January 1, 1939, and October 31, 1945.<sup>95</sup> Of this amount, 43.95 tons (\$49.4 million) were "of concern" to the Allies. One U.S. delegate, Robert J. Schwartz, felt there was conclusive proof that 38.45 tons (\$43.3 million) matched the Allies' evidence for gold looted and re-smelted by the Germans.<sup>96</sup> Of the total of 46.76 tons, only 4 tons looted from the Netherlands National Bank was in its original form. The rest included 20.4 tons identified as re-smelted Belgian gold looted from France and 14.05 tons identified as re-smelted coins stolen from the Netherlands National Bank. The investigators could not trace the origins of 8.31 tons (\$9.3 million), 5.11 tons of which appeared to be smelted from "miscellaneous bars...[and] coins,"

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<sup>92</sup> Updates on these intermittent negotiations are in telegram 969 from Lisbon, November 6, 1946, *ibid.*, Decimal Files 1945-49, 800.515/11-646; despatch 1218 from Lisbon, November 19, 1946, *ibid.*, 800.515/11-1946; and telegram 1067 from Lisbon, December 11, 1946, *ibid.*, 800.515/12-1146.

<sup>93</sup> "Draft of Sections of the History of Activities in Which the Treasury Department Participated...", January 29, 1952, by Robert J. Schwartz, pp. 19-20, RG 56, Acc. 66A-816, Special Subject Files, Box 1. An unsigned draft of the accord is in RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3. The letters appended to the accord are attached to an August 9, 1951, letter from Zumbiehl to Maddox, *ibid.*

<sup>94</sup> Despatch 220 from Lisbon, June 8, 1948, RG 59, Decimal Files 1945-49, 800-515/6-848. The Allied Committee for German External Assets in Portugal, which also included one representative from the U.S., U.K., and French Embassies in Lisbon, was later renamed the Allied Control Committee for German Affairs. It was also given responsibility for screening Germans traveling into and out of Portugal. (Letter from Wharton to Dunham enclosing copies of two memoranda, August 20, 1952, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3)

<sup>95</sup> "Report of Sub-committee for Gold," March 19, 1947, acquired from the Portuguese Embassy.

<sup>96</sup> "Draft of Sections of the History of Activities in Which the Treasury Department Participated...", January 29, 1952, by Robert J. Schwartz, pp. 21-22, RG 56, Acc. 66A-816, Special Subject Files, Box 1.

and 2.81 tons of which were unidentifiable. They made no effort to determine whether it was non-monetary gold stolen from the Nazis' victims.<sup>97</sup>

With the Subcommittee's report in hand, the Allies pressed for final negotiations on the gold issue. On March 29 they presented a note to the Portuguese Ministry of Foreign Affairs requesting talks, but the Portuguese refused.<sup>98</sup> Informal contacts continued into the summer, but by this time other aspects of U.S.-Portuguese relations overshadowed the negotiations. In July 1947 the State Department cabled the Embassy in Lisbon recommending compromise because there was little "possibility of persuading the Portuguese to restitute full quantity gold [from the March 1947 report]...since economy could not stand such loss."<sup>99</sup> In addition to its concern over Portuguese finances, the United States was preoccupied with ongoing negotiations for rights to station U.S. military aircraft at Lagens (also referred to as Lajes) air base in the Azores. These talks, which had broken off in September 1946, had resumed in June 1947. As it had during the War, the United States continued to view this base as an important strategic asset and one that, in the postwar period, had become critical to the defense of Europe against possible Soviet aggression.<sup>100</sup>

Also over the summer of 1947, the Treasury and State Departments worked to come up with a reasonable gold offer for Portugal. An August 29 memorandum indicated that the two agencies had agreed on \$40 million (35.546 tons), believing that this was the least the Allies could request without "running the risk of justified reproaches by the smaller claimant nations." But some State officials, most notably Ambassador John C. Wiley, argued that the figure was too high and would pose an unacceptable risk "before the security negotiations" were completed.<sup>101</sup> A September 10 instruction to the Embassy left the decision to Wiley, but advised, "In view of imminent resumption of Azores talks, difficulties we will encounter with Portuguese in both negotiations and likelihood of Portuguese associating these two problems, we have assumed [that approaching the Portuguese at the Ambassadorial level]...should be held in abeyance until conclusion Azores negotiations permits adequate pressure on Portuguese to bring satisfactory gold settlement."<sup>102</sup>

Wiley decided to proceed with negotiations in November.<sup>103</sup> Based on the evidence from the Gold Subcommittee's March 1947 report, the Allies requested 38.331 tons of gold (\$43.1 million). The Portuguese rejected the figure and maintained their arguments from the previous September.<sup>104</sup> On December 13 the Portuguese delegates suggested informally that they were considering making an offer of about 4 tons of gold without compensation and 11 additional tons covered out of the liquidation of German assets, a total of 15 tons (\$16.9 million). This prompted a series of meetings in Washington between State and Treasury officials, as well as consultations with the Allies. Both agencies rejected the proposal and agreed that 25 tons was the minimum they could accept without antagonizing the Inter-Allied Reparations Agency (IARA) and the Swedes and Swiss who had settled for much less favorable terms in their accords

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<sup>97</sup> Despatch 382 from Lisbon, "Transmitting Report on Portuguese Gold Negotiations," October 14, 1948, RG 59, Decimal Files 1945-49, 800.515/10-1448.

<sup>98</sup> Copy of Note attached to telegram 1438 from Lisbon, April 7, 1947, *ibid.*, 800.515/4-747.

<sup>99</sup> Telegram 515 to Lisbon, July 19, 1947, *ibid.*, 800.515/7-1947.

<sup>100</sup> Documentation on these negotiations is in *Foreign Relations*, 1947, vol. III, pp. 1019-1052.

<sup>101</sup> Memorandum from Fletcher to Baker (OE), "Portuguese Negotiations on Looted Gold," August 29, 1947, RG 59, Decimal Files 1945-49, 800.515/8-2947; memorandum from Schmidt to Surrey, August 28, 1947, RG 56, Acc. 66A-816, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, FFC, Box 2.

<sup>102</sup> Telegram 671 to Lisbon, September 10, 1947, RG 59, Decimal Files 1945-49, 800.515/9-1047.

<sup>103</sup> Telegram from Lisbon, November 12, 1947, *ibid.*, 800.515/11-1247; despatch 265 from Lisbon, November 17, 1947, *ibid.*, 800.515/11-1747; letter from Wiley to Sam Reber (WE), December 23, 1947, enclosure to *ibid.*, 800.515/1-2048; letter from Hanely to Dunham (WE), December 12, 1947, *ibid.*, 800.515/12-447.

<sup>104</sup> "Draft of Sections of the History of Activities in Which the Treasury Department Participated...", January 29, 1952, by Robert J. Schwartz, pp. 21-22, RG 56, Acc. 66A-816, Special Subject Files, Box 1; airgram A-376 from Lisbon, December 5, 1947, RG 59, Decimal Files 1945-49, 800.515/12-547; letter from Hanely to Dunham, December 4, 1947, *ibid.*, 800.515/12-447; despatch 267 from Lisbon, "Safehaven Report," *ibid.*, 800.515/11-1847; memorandum from Marcel Vaide to Allied Committee for German External Assets in Portugal, November 25, 1950, *ibid.*, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18.

with the Allies.<sup>105</sup> Britain and France indicated they were willing to go as low as 12 tons. On December 19 the State Department instructed the Embassy to counter with 38 tons and retreat to an "absolute minimum" of 25 if necessary. As an incentive for Portugal, the State Department recommended revising the February 1947 agreement on assets so that Portugal would receive all the proceeds of the liquidation after distribution of the first 150 million escudos, instead of just half.<sup>106</sup>

Despite these concessions, Portugal rejected the offer and responded, unofficially, with an offer of 3.9 tons (about \$4.4 million) with full indemnification. The Allies' unanimity collapsed, and the United States canceled all further negotiations out of fear that they would "interfere" with the Azores talks, then nearing conclusion. Ambassador Wiley cautioned against proceeding "on a crusading rampage." Noting that Portugal appeared near an Azores agreement on U.S. terms, he asked, "Why, therefore, are we 'demanding' so much more [than the British and French recommendation] when we stand to gain absolutely nothing for our efforts."<sup>107</sup>

### **K. U.S.-Portuguese Agreement on the Azores, February 1948**

The importance to the United States of the access agreement to air bases on the strategic Azores islands inhibited U.S. negotiators from pressuring Portugal in the negotiations over German external assets and gold. As postwar Cold War tensions increased, the islands' strategic importance became more apparent to U.S. military planners. In October 1945 the Joint Chiefs of Staff deemed the Azores one of nine "Primary Base Areas," defined as a strategic location "comprising the foundation of a base system essential to the security of the United States, its possessions, the Western Hemisphere, and the Philippines and for the projection of military operations."<sup>108</sup> In May 1946 a new short-term treaty was concluded in which the United States and Britain turned over ownership of the two air bases, which they had occupied since 1943-1944, to Portugal, which in turn granted them continued access through December 7, 1947.<sup>109</sup> In June the Chiefs, based on their view of the "course of events of the last six months," listed the islands as one of three locations of "outstanding importance" and advocated obtaining long-term base rights.<sup>110</sup> The State Department approached Portugal for such a long-term arrangement, but the negotiations broke down in September over Portuguese demands limiting U.S. access.<sup>111</sup>

The Joint Chiefs of Staff continued to insist that a longer-term arrangement was vital to U.S. security, and the State Department began talks again with the Portuguese in July 1947. On February 2, 1948, the two sides signed a five-year access agreement, retroactive to December 2, 1947.<sup>112</sup> For the first three years of the agreement, the United States was guaranteed access to Lagens air base and could at any time abrogate the agreement and relinquish the facility to Portugal. For the last two years of the treaty, Portugal had the option to "denounce" the agreement with three months' notice and reserved the right to offer analogous terms of access to Britain.<sup>113</sup>

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<sup>105</sup> Memorandum to Files by Smith, with attachments, December 18, 1947, RG 56, Acc. 70A-6232, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, Box 22.

<sup>106</sup> Telegram 907 to Lisbon, December 19, 1947, *ibid.*

<sup>107</sup> Wiley to Reber, December 23, 1947, RG 59, Decimal Files 1945-49, 800.515/1-2048; Despatch 328 from Lisbon, December 16, 1947, *ibid.*, 800.515/12-1647; airgram A-121 from Lisbon, March 19, 1948, *ibid.*, 800.515/3-1948; memorandum from Schwartz to Files, January 19, 1948, RG 56, Acc. 66A-155, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, FFC, Box 70.

<sup>108</sup> Office of Joint History, Office of the Chairman of the Joint Chiefs of Staff, *History of the Joint Chiefs of Staff, The Joint Chiefs of Staff and National Policy, 1945-1947* (Washington, D.C., 1996), vol. I, p. 144.

<sup>109</sup> *Foreign Relations*, 1947, vol. III, pp. 1019-1022. The 1946 agreement is in 2 UST (pt. 2) 2201.

<sup>110</sup> *Foreign Relations*, 1947, vol. III, pp. 1174-1177. This revision was part of series of State-War-Navy Coordinating Committee documents included in the volume. The documents make clear that the "course of events" concerned the West's growing conflict with the Soviet Union. See *ibid.*, pp. 1165-1177.

<sup>111</sup> *Ibid.*, 1946, vol. I, pp. 1112-1117, 1155; *ibid.*, 1947, vol. III, pp. 1021 and 1041.

<sup>112</sup> *Ibid.*, pp. 1019, 1021, 1025-1052.

<sup>113</sup> The text of the agreement is in 2 UST (pt. 2) 2266.

## **L. Portuguese Assets in the United States**

By 1948, with access to the Azores dominating U.S. interests in Portugal, the Allied negotiators in Lisbon searched for ways to pressure the recalcitrant Portuguese on gold restitution and the distribution of German external assets. The one possible bargaining chip that remained were the Portuguese assets in the United States, valued over \$63 million, frozen since the beginning of World War II.<sup>114</sup> In August 1946 Treasury Secretary John Snyder had authorized the negotiators to use the possibility of releasing these funds as an incentive in the negotiations, but it had not become a major issue in the discussions.<sup>115</sup>

On February 2, 1948, Secretary Snyder sent a public letter to Senator Arthur Vandenberg, Chairman of the Senate Foreign Relations Committee, proposing that these assets be transferred to the Justice Department's Office of Alien Property for a census within three months. Snyder concluded the letter: "Spanish and Portuguese assets are still blocked pending completion of the current negotiations...covering looted gold and German assets...If the negotiations are not completed...within the 3-month period [they will] remain blocked pending the conclusion of the negotiations."<sup>116</sup>

When the Portuguese press published a French translation of this statement that made it appear that the assets would be blocked permanently, Ambassador Wiley reported that "Salazar and Foreign Minister are extremely disturbed over this 'unfriendly act' so immediately after signing Azores agreement." Noting that Snyder's statement had "created a serious problem in our relations" with Portugal, he added that "if there ever was a moment when we should be seeking a gesture of appreciation to Portuguese...in view of what we have received in the Azores agreement, certainly this is it." Wiley recommended releasing all the frozen assets that had no readily apparent German interests "immediately."<sup>117</sup>

The State Department desired to maintain a positive U.S.-Portuguese relationship because of the importance of both the Azores agreement and overall European recovery. A May 1948 internal memorandum to the Secretary of State noted that "the present objective of US policy is to maintain and improve the existing cordial relations with Portugal and to encourage [its] cooperation in the economic and political rehabilitation of Western Europe." In addition, the five-year Azores agreement signed in February 1948 was an "interim arrangement" and the Joint Chiefs of Staff were still interested in long-term base rights.<sup>118</sup> Also at stake was concern for the postwar European recovery and U.S. moral commitments to the victims of Nazi Germany. In guidance sent to the Embassy in Lisbon in August, the State Department acknowledged the benefit to relations with Portugal of releasing the assets, but recommended caution about the timing of such a move, wanting to "avoid any suggestion that Portugal's intransigence...has earned her the premium of unblocking."<sup>119</sup>

The Treasury and State Departments continued to debate the issue through the summer of 1948. Finally, on August 25 Under Secretary of State Robert Lovett wrote to Treasury Secretary Snyder that both the Department and the Embassy in Lisbon had concluded that the "overriding political and strategic considerations of our foreign policy make it essential" that the Portuguese assets be released. A week later Snyder conceded and changed the licensing procedures for these assets, effectively unblocking them.<sup>120</sup> Thus, Allied leverage against Portugal was lost.

## **M. Continued Efforts at an Allied-Portuguese Agreement**

In the spring of 1948, after conclusion of the Azores access agreement, the United States decided to reopen the stalled negotiations with Portugal, and Treasury and State Department officials began debating a renewed strategy. State advocated pressing Portugal to begin the liquidation of assets in accordance with the February 1947 agreement while discussions on gold continued. Treasury argued that an interim agreement would only reduce Portuguese willingness to bargain on gold, and proposed offering

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<sup>114</sup> Memorandum from Surrey (Le/E) to Thorp (A-T), February 5, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

<sup>115</sup> Memorandum from Foley to Secretary Snyder, Truman Library, John Snyder Papers, Box 18; *Foreign Relations*, 1948, vol. III, pp. 995-996.

<sup>116</sup> A copy of Secretary Snyder's letter is attached to memorandum from Surrey (Le/E) to Thorp (A-T), February 5, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

<sup>117</sup> *Foreign Relations*, 1948, vol. III, p. 995-996.

<sup>118</sup> *Ibid.*, p. 999.

<sup>119</sup> *Ibid.*, p. 1000.

<sup>120</sup> *Ibid.*, pp. 1000-1002 and footnote 3.

to lift the freeze on Portugal's U.S. assets, which was still under debate, and possibly increase the Portuguese portion of the liquidation proceeds in exchange for a reasonable settlement including gold. In April the agencies decided to offer Portugal all the proceeds from the liquidation of German agricultural holdings in Portuguese colonies, in exchange for 15 tons of gold (\$16.9 million), a figure the Portuguese had offered on December 13, 1947. If the Portuguese refused, the matter would be referred to the IARA for resolution.<sup>121</sup>

At the Conference on Economic Security held in Paris April 26-May 7, 1948, the United States gained Allied concurrence with the plan, but the request for gold was reduced to 14.6 tons (\$16.4 million). On May 19 the U.S., British, and French Embassies in Lisbon presented identical notes to this effect to the Portuguese Foreign Minister.<sup>122</sup> On July 8 Portugal rejected the offer, maintaining its "good faith" argument, but formalized its proposal to turn over the 328 gold bars (3.9 tons or \$4.4 million) of Dutch gold that the Subcommittee on Gold determined had not been re-smelted. Portugal claimed these were the only bars the Allies could prove had been looted. In exchange, the Portuguese asked that their initial installment of proceeds from the liquidation of German assets be increased from 50 to 100 million escudos (\$2 to \$4 million), the maximum due them be increased from 180 million escudos to an amount sufficient to cover the cost of the 3.9 tons of gold, and their share of the proceeds after the initial distributions be increased from 50 to 70 percent.<sup>123</sup> On February 2, 1949, the Allies rejected the Portuguese offer as "entirely inadequate and therefore unacceptable," and threatened to refer the issue to the IARA.<sup>124</sup>

On February 17, 1949, the United States approached the Portuguese with a plan to implement the February 1947 agreement on the liquidation of German assets, while the two sides continued their discussions on gold. Both the United States and Portugal were concerned that the assets were quickly losing their value and little would be recouped by the time an understanding could be reached. The Portuguese accepted and on April 21, 1949, promulgated Decree Law 37377, permitting the liquidation to begin. In August the law was extended to German agricultural holdings in Portuguese colonies. By November the Portuguese had established the three-person "Liquidating Committee" to oversee the process, as well as a "Special Tribunal" to handle individual appeals called for in the 1947 agreement. The proceeds were to be placed in special blocked accounts until a final agreement was reached.<sup>125</sup>

The Decree Law created a complex process and infrastructure for handling the liquidations. An office in the Portuguese Finance Ministry was placed in charge of identifying concerns that qualified for liquidation and a tripartite group, the Allied Committee for German External Assets in Portugal, had the right to consult on and approve these decisions. An October 1950 Allied study of the process found that the Portuguese were fulfilling their commitments but unnecessarily slowly and methodically, demanding excessive proof of German ownership. The study also found that the procedure for notifying owners whose

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<sup>121</sup> Memorandum from Southard to Ness, April 7, 1948 and Memorandum to Files, April 21, 1948, in RG 56, Acc. 70A-6232, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, Box 22; memorandum from Southard to Ness, April 5, 1948, *ibid.*, Acc. 67A-1804, Legal Records, Box 22.

<sup>122</sup> Letter from Rubin to Secretary of State enclosing a "Classified Report of the Chairman of the United States Delegation to the Conference on Economic Security at Paris, France—April 26 to May 7, 1948," RG 59, Decimal Files 1945-49, 800.515/6-1148. The May 19 note actually requested an amount not "less than a third of the total" of the "43,829 kilograms of fine gold" that the Allies felt they had proven was looted. This figure differs from the 43.95 fine metric tons listed in the March 1947 Gold Subcommittee report and no record has been found explaining the difference. However, the note indicates that the Allies were seeking not less than 14.6 fine metric tons, about one-third of either figure. See despatch 199 from Lisbon, *ibid.*, 800.515/5-2048; telegram 282 from Lisbon, May 20, 1948, *ibid.*, 800.515/5-2048; telegram 293 from Lisbon, May 25, 1948, *ibid.*, 800.515/5-2548.

<sup>123</sup> Despatch 265 from Lisbon, July 16, 1948, *ibid.*, 800.515/7-1648; despatch 382 from Lisbon, October 14, 1946, *ibid.*, 800.515/10-1448.

<sup>124</sup> Copy of note #35 from the British Embassy to the Portuguese Foreign Office, February 2, 1949, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3.

<sup>125</sup> Airgram VI from Lisbon, February 24, 1949, with attached translation of February 26 Portuguese acceptance, *ibid.*; despatch 130 from Lisbon, May 6, 1949, RG 59, Decimal Files 1945-49, 800.515/5-649; "Working Paper on Reparations Problems; Status of Safehaven Programs in Countries not Members of IARA," April 6, 1951, RG 56, Entry 66A-1039, Miscellaneous Committee Records, Box 62.

assets were slated for liquidation was laborious and time-consuming and the guidelines for appealing the decisions were too simple. As a result, almost all of the more than 200 owners notified by October 1950 had appealed, and few German assets had been liquidated.<sup>126</sup>

The delays had direct financial repercussions. In November 1949, in a paper prepared for Secretary Acheson's meetings on Germany with the British and French Foreign Ministers, the State Department estimated the total German assets in Portugal at 625 million escudos (\$21.7 million), down markedly from the estimates at the start of the negotiations in 1946. In commenting on the state of the negotiations with all the neutrals, the paper noted: "In light of the failure of the Allies to realize almost anything...since the war and the tortuous negotiations which have been carried on...it is doubtful whether anything [close to the projections at that time] will ever be forthcoming."<sup>127</sup>

The estimates of German assets in Portugal continued to decrease. By April 1951 the State Department estimated that the value of the assets had depreciated to 400 million escudos (\$13.7 million). Only German State or quasi-official assets had been nearly completely liquidated, netting almost 43.9 million escudos (about \$1.5 million). Of this amount, the Allied Committee for German External Assets in Portugal, which took control of the assets in June 1947, had liquidated 17.4 million escudos (about \$595,000), 7 million escudos of which (about \$239,000) it advanced to the United States to purchase the German Legation in Lisbon. The United States was expected to pay back this sum out of its share of the final settlement with Portugal. The remaining 26.5 million escudos (about \$905,000) were the proceeds from quasi-official properties liquidated by the Liquidating Commission. The Allies also estimated that there were 27.9 million escudos (about \$953,000) in German assets in Portugal's colonies, but the Portuguese had never provided enough information on these assets to be certain.<sup>128</sup>

#### ***N. Frustrated Efforts at a Settlement, 1949-1952***

With German assets quickly losing their value and no final settlement on gold in sight, in November 1949 the Allies approached Portugal with an offer to submit the negotiations to international arbitration. After a delay by the State Department to avoid interfering with the ongoing Azores talks,<sup>129</sup> Ambassador Lincoln MacVeagh presented a démarche to Portuguese Foreign Office representative Dr. Faria on May 26, 1950. The démarche recommended submitting the case to the International Court of Justice in The Hague and advised that the Allies would demand the full 43.95 tons of gold (\$49.4 million) identified as possibly looted in the March 1947 Gold Subcommittee report. Faria commented that the "whole issue...[was] very much out of date, the world economic situation having greatly changed since its

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<sup>126</sup> Report of the Allied Committee for German External Assets, February 15, 1949, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3; memorandum from Marcel Vaide to Allied Committee for German External Assets in Portugal, November 25, 1950, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18.

<sup>127</sup> "History of the Reparations Problem," GEC D-3/1, November 2, 1949, and "Statistical Data on German Reparation Receipts Other Than Receipts From Eastern Europe and the Soviet Zone," November 1, 1949, both *ibid.*, Executive Secretariat, Conference Files 1949-1963, CF 1 to CF 8, Box 1. Documentation on the meeting, which focused on the program for dismantling German industrial plants, is in *Foreign Relations*, 1948, vol. III, pp. 294-430.

<sup>128</sup> Despatch 131 from Lisbon, August 20, 1951, RG 59, Decimal Files 1950-54, 262.0041/8-2051; Report by the Allied Committee for German External Assets in Portugal, "German Assets in Portugal, Statistical Survey as of September 15th, 1951," September 15, 1951, *ibid.*, Box 1049 [no decimal number]. No documentation has been found that the United States reimbursed the Allied Committee for the 7 million escudos advanced for the purchase of the German Legation. A letter from the Allied Committee to the U.S. Embassy in Lisbon, July 30, 1956, enclosed a "trial balance" sheet, which listed a balance of 12.2 million escudos, including an outstanding debit of 7 million escudos; RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3.

<sup>129</sup> Telegram 4217 to London, November 23, 1949, RG 59, Decimal Files 1945-49. [Decimal number not legible, but assume it is 800.515/11-2349.]

inception." Faria expected a negative reply from Salazar who would "decide the Portuguese attitude."<sup>130</sup> The Portuguese ignored the proposal as well as several subsequent démarches.<sup>131</sup>

On July 17, 1951, the State Department cabled the Embassy in Lisbon that it was willing to settle on Portugal's terms: "Department is anxious to eliminate as rapidly and to the fullest extent possible time consuming and now out-dated operations such as German external property problems still hanging over as deadwood from World War II." Underlying this policy change was the "overriding importance of politico-military objectives" and the need to "relegate other matters to a...subservient [position]."<sup>132</sup> By 1951 Portugal had become a full partner in the military and economic organizations established to strengthen Western Europe against possible Soviet aggression: the North Atlantic Treaty Organization, the European Payments Union, and the Organization of European Economic Cooperation. The United States was also negotiating with Portugal a revision of the 1948 Azores agreement to make it coterminous with the North Atlantic Treaty, and had signed a Mutual Defense Assistance Agreement on January 5, 1951, opening the way for U.S. military assistance.<sup>133</sup>

Based on these priorities and considerations, the State Department, after consultation with the British, recommended accepting the Portuguese July 1948 offer to turn over 3.9 tons of looted Dutch gold (\$4.4 million), for which Portugal would be fully reimbursed out of the proceeds of liquidation of German assets. The Allies would also offer a number of administrative compromises intended to expedite the liquidation process.<sup>134</sup>

The State Department did not begin vetting the proposals within the government until fall 1951, after a renewal of the access agreement to the Azores was concluded on September 6, 1951.<sup>135</sup> The proposals were discussed at a State-Treasury meeting on October 11. State claimed that "overriding political considerations" necessitated accepting the Portuguese offer of 3.9 tons of gold (\$4.4 million).<sup>136</sup> Treasury advocated turning the negotiations over to the IARA, so that the various claimant countries could make their demands directly to Portugal. The State Department, however, did not believe this option was feasible, arguing that the Netherlands had explicitly asked the Allies to continue their efforts to negotiate on its behalf and that the British and French would not agree, reluctant to acknowledge that their efforts to date had failed.<sup>137</sup>

The State Department also wished to settle with Portugal before the Allies reached an accord with the Federal Republic of Germany in their ongoing "contractual negotiations." In September 1951, at the Washington Conference of Foreign Ministers, the U.S., British, and French Foreign Ministers instructed the Allied High Commissioners in Germany to begin discussions with Bonn on "contractual" arrangements that would end the postwar military occupation of the country. Secretary Acheson noted in his memoirs that these negotiations were part of the Allies' effort to integrate the Federal Republic into the Western European economy and the European Defense Community by clothing it with "as many of the attributes of sovereignty as we safely could in view of the situation in East Germany."<sup>138</sup>

One aspect of the contractual arrangements was how Germany would honor future reparations agreements with the former neutrals. The Foreign Ministers specifically instructed the Allied High Commission to "take into account potential allied [reparation] requirements in respect of Portugal, Switzerland and Austria," the three countries with which the Allies did not have final agreements at the time.<sup>139</sup> In the case of Portugal, under the 1947 accord either the Allies or the Federal Republic could be

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<sup>130</sup> Despatch 395 from Lisbon, May 27, 1950, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>131</sup> A draft note to the Netherlands dated November 4, 1952, indicated that Portugal had not yet replied to the offer, *ibid.*

<sup>132</sup> Airgram A-9 to Lisbon, July 17, 1951, RG 59, Decimal Files 1950-54, 262.0041/7-1751.

<sup>133</sup> The text of the Mutual Defense Agreement is in 2 UST (pt. 3) 438. The text of the Azores access agreement of September 1951 is in 5 UST (pt. 3) 2263.

<sup>134</sup> Airgram A-9 to Lisbon, July 17, 1951, RG 59, Decimal Files 1950-54, 262.0041/7-1751.

<sup>135</sup> Text of the agreement is in 5 UST 2263.

<sup>136</sup> Memorandum to Files, October 12, 1951, RG 56, Acc. 70A-6232, Legal Records, Box 22.

<sup>137</sup> Unsigned memorandum to Ambassador MacVeagh, October 23, 1951, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

<sup>138</sup> Acheson, *Present at the Creation*, pp. 713-717. See also *Foreign Relations*, 1951, vol. III, Part I, pp. 1163-1308. The Federal Republic of Germany was established in 1949.

<sup>139</sup> *Ibid.*, p. 1204.

liable for indemnifying the owners of liquidated assets, a financial burden that the State Department felt the Allies should avoid. State, therefore, wanted the accord revised to make West Germany the responsible party, and felt that if an immediate agreement could be reached with Portugal that included this change, the Allies would be in a better bargaining position in their contractual negotiations with the Germans.<sup>140</sup>

The Treasury Department ultimately agreed to "go along" with State's plan if Treasury received a letter "signed at the Assistant Secretary level," indicating that there were "political considerations which warrant a settlement...and that any agreement...would not result in claims against" the United States. Treasury also wanted the Netherlands, whose gold made up a sizable portion of the Portuguese cache, to approve the plan and the assurances that the July 1948 Portuguese offer was still open.<sup>141</sup> State agreed, and on October 26, 1951, Acting Assistant Secretary for European Affairs James Bonbright sent a letter to this effect to Treasury Secretary Snyder, along with a memorandum from U.S. Ambassador Lincoln MacVeagh noting his concurrence in the proposal. MacVeagh also noted that reaching a settlement was of the utmost importance, considering the "NATO concept and the cooperative attitude of the Portuguese in the negotiations regarding the Azores."<sup>142</sup>

State Department and British and French Embassy officials met on August 6, 1952, in Washington to discuss the U.S. plan. All three parties endorsed it and agreed to notify the Netherlands immediately of their decision. The British, however, were concerned that the new agreement would result in a 20 percent reduction in the liquidation proceeds slated for the IARA, and argued that if the IARA were expected to take a cut, "it would seem equitable at least to reduce proportionately the IRO share," which would go to refugees. Both France and the United States strongly objected on moral grounds. The British representative agreed to report their objections to his government. All three decided to consult their Embassies in Lisbon to determine how best to approach the Portuguese and whether their July 1948 proposal was still valid.<sup>143</sup>

### ***O. Negotiation of a Final Agreement, 1952-1958***

The Allies made their approach to Lisbon in early December 1952, but received no response.<sup>144</sup> Prompted by increasing IARA complaints about the neutrals' intransigence, Allied representatives met again in Washington in January 1953. Discussion of Portugal dominated the meeting. Of particular concern to the IARA was the possibility of giving up from its proceeds enough funds to make up the agreed Portuguese contribution of 100 million escudos (\$4 million) to the \$25 million fund for refugees established in January 1946 at the Paris Reparations Conference. The Allies agreed to set aside 17,205,600 Swiss francs (about \$4 million) of the IARA's portion of the liquidation settlement then being negotiated

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<sup>140</sup> Unsigned memorandum to Ambassador MacVeagh, October 23, 1951, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3. Ultimately, Germany signed a contractual agreement with the Allies, which included the future reparations agreement. See *Documents on Germany, 1944-1985*, pp. 379 and 424.

<sup>141</sup> Rosenson (MN) to Peterson (WE), attached to RG 59, Decimal Files 1950-54, 262.0041/10-1251.

<sup>142</sup> MacVeagh's October 24, 1951, memorandum and Treasury's November 15 response to Bonbright's letter, written by Director of the Office of International Finance George Willis, are attached to *ibid.*, 262.0041/10-1251. A copy of the October 26 letter from Bonbright to Snyder is in RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3. Willis' response refers to Bonbright's letter on November 1, not October 26, but no record of a later draft was found.

<sup>143</sup> Memorandum of conversation, August 6, 1952, *ibid.* The Embassies eventually agreed. The U.S. Embassy's position on the proposal is in despatch 147, September 16, 1952, *ibid.* The response of the Allied Committee on German External Assets and the British and French Embassies in Lisbon is in telegram 200 from Lisbon, November 22, 1952, *ibid.*

<sup>144</sup> U.S. officials met with Portugal's Ambassador in Washington on December 8, 1952. (Memorandum of conversation, December 8, 1952, *ibid.*) However, according to two later documents, the approach was made on December 5; see "Conference on German External Assets and Looted Gold - May 1953," May 15, 1953, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15; "Tripartite Meeting on German External Assets and Looted Gold, 6-21 January 1953," NARA, RG 43, Records of International Conferences, Commissions, and Expositions, Records of Meetings of the Council of Foreign Ministers and Related Conferences, 1945-1949, Box 197. No other documentation was found.



with Switzerland toward Portugal's portion. They would make up any shortfalls from their own funds if no settlement with Portugal was reached. To pressure the remaining neutrals, and especially Portugal, into an agreement, the Allies decided to publish a statement listing which wartime neutrals had not settled and give the Portuguese until April 1 to accept their December 1952 offer; thereafter, they would turn the responsibility for retrieving looted gold to the IARA countries and provide them technical assistance in their efforts.<sup>145</sup>

The note was finally sent to the Portuguese Government on April 1, 1953, and before the end of the month, the Portuguese consented in principle. In May 1952, however, the Allies and West Germany had reached an agreement in their contractual negotiations in which Germany assumed responsibility for compensating the former German owners of liquidated assets.<sup>146</sup> In view of this new arrangement, Portugal decided to seek a "global settlement." Both sides agreed to resume talks in May on two tracks: Allied-Portuguese negotiations and German-Portuguese talks to work out a final settlement of Portugal's wartime claims.<sup>147</sup> The Allied-Portuguese negotiations ended on June 24, 1953, with Portugal agreeing to deliver 100 million escudos (\$4 million) to the IRO, 75 million escudos (\$3 million) to the IARA, and 3.998 tons of gold (\$4.5 million) to the Tripartite Gold Commission. The agreement, however, was contingent on Portugal reaching an agreement with Germany.

The German-Portuguese talks, held October 1954-May 1955, ended without a final settlement. Germany insisted that the former owners of the liquidated properties contribute one-third the value of their assets toward the government's obligation, and all parties agreed that not enough could be raised in this way to meet the terms of the 1953 Allied-Portuguese accord. The two sides did agree to fix the total value of German assets in Portugal at 400 million escudos (\$13.9 million at that time). This figure would be used as the basis for the final distribution of the proceeds. They also agreed that Portugal's claims against Germany would be increased to 250 million escudos (\$8.7 million).<sup>148</sup>

U.S., British, and French negotiators met in London in January 1956 to find a way to resolve the deadlocks with Portugal and Spain that were holding up a final settlement with the IARA and IRO. To facilitate an agreement with Portugal, the Allies decided to reduce their demand for 175 million escudos in liquidated German assets to 75 million escudos, but still require a minimum of 3.998 tons of gold. They also resolved to hold a five-power conference to work out a global settlement. At the time, a total of 248.7 million escudos (\$8.6 million) had been liquidated. The Allies believed the remaining assets would yield 406 million escudos (\$14 million). The Portuguese estimated the value of remaining assets at 156 million escudos (\$5 million); the Germans estimated the value at 90 million escudos (\$3 million).<sup>149</sup> In April 1956

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<sup>145</sup> "Tripartite Meeting on German External Assets and Looted Gold, 6-21 January 1953," *ibid.*

<sup>146</sup> The May 26, 1952, contractual agreement, entitled *Convention on Relations Between the Three Powers and the Federal Republic of Germany and Related Conventions*, was published by the Office of the Executive Secretary of the U.S. High Commissioner for Germany. The 1952 convention never came into force because the French National Assembly refused to ratify it. An amended convention was signed on October 23, 1954, and came into force on May 5, 1955. The amended version contained no changes to the relevant paragraphs on German external assets; for text, see *American Foreign Policy, 1950-1955: Basic Documents*, vol. I, pp. 557-607.

<sup>147</sup> "Conference on German External Assets and Looted Gold - May 1953," May 15, 1953, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15; *Inter-Allied Reparations Agency: Final Report to Member Governments*, September 1961 [hereafter cited as *IARA Final Report*]. An unpublished version of the report, "Final Report to the Governments of France, the United Kingdom of Great Britain and Ireland, and the United States of America of the Inter-Allied Reparation Agency on German enemy assets in neutral countries and other territories," November 5, 1949, is in RG 84, Embassy Brussels, Files of the U.S. Delegation to the Inter-Allied Reparations Agency (IARA), German External Assets, 1945-1955, Classified IARA Subject File, Box 1.

<sup>148</sup> *IARA Final Report*; "Draft Background and Position Paper on Portuguese Claims (For Lisbon Conference)," undated but possibly drafted around October 1956, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15.

<sup>149</sup> The 248.7 million escudos included 49 million escudos from the Liquidating Commission, most of which was from quasi-official assets; 12.2 million escudos from the Allied Committee; and 187.5 million escudos from three shipping companies discussed above. The Allies had been petitioning the Liquidating Commission since 1949 over the shipping companies' case, claiming that Germany reimbursed the original owners for the ships, making them State assets. The Commission referred the case to the

the Allies and Germans agreed to re-value the German assets in Portugal at 437.5 million escudos (\$15.2 million at that time), giving Germany a larger pool from which to negotiate.<sup>150</sup>

On October 15, 1956, all five parties—the United States, Britain, France, Portugal, and West Germany—met together in Lisbon for the first time. An Allied report noted that during the talks, Portugal "refused to make any contribution to a settlement," and that Germany, because of an earlier agreement reached with Sweden on Swedish claims, felt it was "in no position to resist the Portuguese demand[s]."<sup>151</sup> The negotiations grew increasingly contentious, and agreement was not reached until after the parties had agreed to end the talks on November 2. In the final accord, Portugal agreed to pay the "Three Powers" 12 million escudos (\$418,000) from the liquidation of German assets and "132.5 million...in escudos convertible into foreign currencies or in gold as specified by the Three Powers," for a total of 144.5 million (about \$5 million). In a separate agreement, Germany agreed to reimburse Portugal directly for the 144.5 million as well as 250 million escudos (\$8.7 million), a total of \$13.7 million to satisfy its wartime claims, and Portugal agreed to turn over all unliquidated assets to Germany, from which it would take a one-third levy. Implementation of both agreements, however, rested on Portugal and Germany reaching a settlement on reciprocal trademark and patent rights of its citizens and their wartime claims.<sup>152</sup>

While these negotiations were continuing, the United States, Britain, and France, in response to urgent requests by the IRO, decided to pay Portugal's obligation to the \$25 million fund for non-repatriable refugees. Between March 1955 and December 1956, the Allies made two payments to the IRO for a total of 15.2 million Swiss francs (100 million escudos or \$3.5 million). The sum was deducted from the Swiss francs acquired by the Allies from Switzerland pursuant to the 1952 Allied-Swiss agreement.<sup>153</sup> Portugal did not specifically repay the Allies for their payment to the \$25 million fund.

In April and June 1958 Germany and Portugal reached agreement on a host of bilateral issues, including Portugal's wartime claims. Portugal also agreed to return all unliquidated assets to Germany for distribution to the original owners. These agreements opened the way for all five nations to sign a final accord on October 27 committing themselves to the 1956 terms. Over the next year Germany paid Portugal the full 394.5 million escudos (\$13.7 million) in installments, and by December 1958 Portugal turned over the 12 million escudos (\$418,000) to the IARA, as well as 3,998.741 kilograms of gold (approximately \$4.5 million) for deposit in the Tripartite Gold Commission.<sup>154</sup>

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Portuguese Government for decision in 1952, which decided in favor of the Allies. (Memorandum by the Allied Committee for German External Assets in Portugal, December 19, 1952, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3; memorandum from Ingersoll to Ambassador, February 14, 1956, enclosing "Final Report of the London Conference," *ibid.*, Embassy Madrid, Classified General Records 1953-1963, Box 4)

<sup>150</sup> Department of State Instruction, CA-8051, April 13, 1956, and Department of State Instruction, CA-8966, May 11, 1956, both *ibid.*

<sup>151</sup> "Conference on German Assets in Portugal and Other Asset Problems, Lisbon, October 15-November 3, 1956," RG 59, Records of the Office of Financial Operations, Records Relating to the Tripartite Commission for the Restitution of Monetary Gold, 1942-1962, Box 24.

<sup>152</sup> "Conference on German Assets in Portugal and Other Asset Problems, Lisbon, October 15-November 3, 1956," *ibid.*; *IARA Final Report*.

<sup>153</sup> *IARA Final Report*. A copy of a request for the funds from the IRO is attached to a memorandum from Ingersoll to the Ambassador, February 14, 1956, enclosing "Final Report of the London Conference," RG 84, Embassy Madrid, Classified General Records 1953-1964, Box 4.

<sup>154</sup> *IARA Final Report*. The West German-Portuguese agreements are in 1959 WGBB 264. The October 1958 treaty is in 351 UNTS 5031. The IARA Report noted that Portugal turned over 15.5 million escudos (\$539,400 at the 1958 exchange rate); no documentation has been found to account for the additional 3.5 million escudos. The report also indicates that Portugal turned over 758,336 Belgian francs, worth about \$12,473 in 1958. The documentation does not make clear what became of the 248.7 million escudos (\$8.6 million) liquidated by February 1956 or if more assets were liquidated after that date.