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RESTRICTION OF UNFRIENDLY ACTIVITIES IN NEUTRAL COUNTRIES

28 March 1947 147-112

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CAPTAIN WORTHINGTON:

We have for our speaker this morning Mr. E. E. Schnellbacher. Mr. Schnellbacher is the Director, Special Services and Intelligence Branch, Office of International Trade, Department of Commerce. He has been associated with this Department since 1924, specializing in the field of commercial intelligence.

In World War II, Mr. Schnellbacher represented the Secretary of Commerce on the Proclaimed List of Certain Blocked Nationals Inter-Departmental Committee, which committee designated certain individuals and firms as enemy nationals.

Mr. Schnellbacher is the author of numerous articles and other publications in the field of foreign sales and foreign credit practice. His subject this morning is "Restriction of Unfriendly Activities in Neutral Countries."

I take pleasure in introducing Mr. Schnellbacher.

MR. SCHNELLBACHER:

In preparing to discuss this subject, I deliberately refrained from doing any research work, which would only give you an academic presentation of a hypothetical situation. Perhaps in so doing I may not cover the title as described in the lecture, but I will endeavor to give you a case history of what we were doing in this particular field during this war. I should like to start out with a little background. In other words, let us look at the problem and see what brought it about. For that reason, I am going to take the German activities, because it will enable me to stick pretty close to the case history on which we have documentary evidence all the way through.

The German activities in the South American countries were probably better integrated and, perhaps for that reason, they were more dangerous than in most other areas of the world. I say this with due respect to the fact that countries on the border line of Germany in Europe probably knew how to deal with the Germans in matters of ideological warfare much better than we did even as late as 1939.

Obviously, Latin America was very important to this country, if for no other reason than because of its proximity. German economic penetration in that area began before World War I. Because of conditions in

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Germany, there has always been quite a bit of emigration to other parts of the world. During the period between World War I and World War II, conditions became far worse and German emigration was intensified. The combination of a terrific internal debt situation and the necessity of meeting the reparations of World War I made life pretty tough for most Germans, and they sought other places to go. Once settled they became very important factors in the economy of the country to which they immigrated.

I always think that the contributions made by the Germans prior to World War I in the field of economic penetration in other countries was more or less spontaneous. In other words, there has always been a tendency of Germans to get together. They organize their singing Bunds, have their singing societies, beer parties, and more or less penetrate--perhaps not with the idea of influencing a nation's economy, but of spreading German culture. And because of these traits, they have always been susceptible, and it has always been possible to find a homogeneous group of Germans.

Being of German descent myself, I can speak very frankly about my own childhood in Illinois. There people, who were probably only one or two generations removed from Germany, were a very close-knit group. They were proud of their "Waterland," and they talked a lot about it. I don't think those people were un-American. But in an argument between any other country--except perhaps the United States--Germany always came out at the better end.

I think it was this inherent pride in Germany, more than anything else, that enabled the German government to get the type of organization it wanted, sending out agents to various countries in this hemisphere as leaders who were eager to effect the desired type of penetration. They were carefully picked people who were capable of selling a particular doctrine that the Germans wished to accomplish.

The persecution of the Jewish people, as a means of gaining money for the purpose of developing their German system, was another technique used during this interwar period which accounted for the development of German penetration. It was probably unintentional at the time, but it led to the possibilities of expansion and the establishment of propaganda centers. Certainly, by 1939 it was becoming very evident to many of us in this country that the harmless looking German cultural development in this hemisphere was actually being used for ulterior purposes.

The Germans used several methods of penetration. The most important perhaps was that of business penetration, which accounted for the Department of Commerce becoming involved in the picture at an early date.

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Germany's long-established external trade had brought about the creation of many channels of distribution operated by individual Germans or by groups of Germans, either as agents for or distributors of German-made goods, or of branch factories or affiliates of the larger German organizations, many of which constituted the important cartels and cartel arrangements in the world.

In dealing with this situation we faced the difficult fact that these individuals were very efficient businessmen from the standpoint of trade and commerce. They were honest people; they were well accepted in the communities where they lived. In fact, they were generally the kind of people that, if you were looking for an agent or dealer to sell your line of goods in a country, you would pick in preference to almost any nationality, and, unfortunately, in preference to any native of the Latin American countries.

As a result we found these German firms had some very good friends in the United States. Many American businessmen came to us in the early days of the war program and pointed out that these agents had been their representatives for many, many years. They had been guests in their homes. The Americans had not only been entertained by these people but had found them very competent dealers. Therefore, it was extremely difficult to undertake a program of this sort without having misunderstandings with the people who didn't know what we were trying to accomplish.

It seems to me that the biggest problem in dealing with such a situation was the fact that the people involved were being used for a purpose. Whether they were being used against their will or because they wanted to, they were efficient and were considered honest and decent people in the community in which they lived. They came to these countries to live. They married the Latins. They took Latin names--Karl became Carlos; Heinrich became Enrico. The ability of the German to quickly conform to the place where he finds himself is a matter of record.

The fact remains, however, that many of our American businessmen in 1939 and 1940 were aiding these Germans to develop their economic penetration program. During that period it became more and more difficult to get goods from Europe and, consequently, we became more and more the source of supply for most people. With the German dealer organization on this hemisphere, we were actually supplying its agents with goods which they could sell at a profit. They, in turn, could use the money to work against our interests to the extent that they were serving their own interests.

We found that these people had a very thorough knowledge of the business community in which they lived, and they did a very good job of instilling loyalty for Germany into the people with whom they worked. Many young Germans came over during the interwar period and were employed by these older German firms. Oftentimes, they were set up in

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business to continue the pattern of German firms in these Latin American countries.

Most of the established German businessmen found it possible to send their children back to Germany to be educated. Those sent after 1934 very frequently found themselves ostracized from their own homes when they came back. We know many, many cases where the father never recognized the son who came back from Germany in 1937 because he had developed the type of attitude that the Jugend movement developed in a young man in the days of Hitler.

A fact that cannot be ignored and bears repetition is that social and educational penetration was one of the important factors that made this government's job extremely difficult. It was hard to sell people on the idea at a time when they were not interested in being sold. Throughout South America there were collegio allemagne types of educational institutions, German colleges, and German schools.

Even the employees of companies were encouraged to learn German. In Guatemala, for example, you will find that practically all the people employed in the factories speak German. If you ask them how it happened, they would probably not be able to tell you, but the language was eased onto them by the school system and by social contact.

Some of the technical schools were very good. They all, of course, had German equipment, and in this way children were taught that it was the only kind to use. Naturally, when they left school, they used it in the plant they were managing.

There were also some very good commercial schools on this hemisphere. The Germans have a fine system of teaching accounting by using a universal method that can be applied in almost every country. I ran across an excellent accountant several years ago who had very little knowledge of English, but he had quickly acquired a high position with an accounting firm in New York because he understood our system of accounting. In fact he knew it as well as anybody educated in this country.

With this brief background, you can appreciate what we were up against when we attempted to deal with the economic penetration problem. The German objective was to insure the loyalty of the local German colony; to educate the Latins to use and understand German equipment; and to impress them with the superiority of the German methods. All these techniques were very effective in increasing the sale of German goods after World War I, much at the expense of Great Britain. They were also very effective in setting up a system of information which could later be used by the Germans.

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It was a fairly effective system for supplementing propoganda. For instance we used to intercept, occasionally, German catalogs. Frequently we would discover between their pages material which was sent to alleged agents of some German company in a Latin American country. Actually, the agent was an employee of one of the German Government organizations, sent out under the guise of being a salesman. The company in Latin America had accepted him as a salesman, and perhaps innocently permitted him to use its office and its business as a "cover."

It must also be remembered that the system does establish some very effective means of revenue. These Germans were constantly called upon to finance propoganda machines in their own countries and to make contributions to the home government. They were also extremely effective as sources of material. However, the British propoganda early became quite effective, and very few materials ever got through other than those which were of high unit value such as platinum, diamonds, and a few products of that sort, which could be brought over by air.

I don't think the Germans were very successful in setting up a safe-haven in Latin America for flight capital. That is yet to be evaluated. We haven't the complete information on the extent of external assets that may have found their way to this hemisphere, but I doubt that the movement was very successful.

The physical blockade set up by the British was followed by the establishment of a navicert system. This was directed toward the United States as well as other so-called neutral countries prior to 1941. I use the word "neutral" advisedly. If there were any neutrals in the last war, I would like to know what countries they were. In my mind, neutrality is a situation where somebody simply pulls down the blinds and lets the parade go by, being certain that nobody will throw rocks through the window. Such neutrality has long been extinct, and I don't think it is possible any more to talk about it if you are going to be a purist about neutrals and methods of dealing with them.

In any event the British navicert system was a source of very great aggravation. It meant that a pre-clearance had to be obtained on cargo destined for consignees in so-called neutral areas adjacent to the theater of war. In other words, it was necessary to go to the British officer in the particular section where the shipper was located. In this country you got clearance--prior to the establishment of the British Office of Economic Warfare--through their government representatives and even their consuls. You would take your bill of lading showing that the goods were going to such and such a place, and the British would or would not issue a navicert. If they did, your goods could go; if not, you simply didn't ship your goods.

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The final step in this particular area of dealing with the so-called neutrals was the establishment of a list of specified persons. This was called the British Statutory List which made dealings on the part of Britains with the listed firms illegal regardless of where such firms were situated. I should like to point out very briefly from my own observations some of the distinctions between the British method of dealing with this type of situation and our own.

The British had a "trading with the enemy" list. The United States had a "Proclaimed List of Certain Blocked Nationals." I think it might be interesting to you if I attempted to explain the difference between these lists without having the background of a Treasury lawyer, or the legal background of a lawyer for the Board of Economic Warfare. Rather mine was the background of a person in the Commerce Department who did his best to understand the system of Government operating in wartime and to discuss it intelligently with businessmen in order to effect cooperative compliance.

The British specified a person as an enemy for the purpose of trade. The British also decreed that if a person were a German he was an enemy by definition. We never got to the point all through this war where we developed by enemy definition. In other words, we never established our proclaimed list of certain block nationals as a trading with an enemy list. We still haven't. I think this point is particularly important to consider. The next time we fight a war, in the atomic age, I hope economic warfare can be handled on a much simpler basis than was the case in the last war when we had to depend so much on brief case and paper work to understand what was going on.

We developed a theory or ideology. From the American standpoint, trading with the enemy in World War II was dealing with somebody who accepted the concept of nazism or fascism. It made no difference where he was born, or who his father was. Even if he were a Costa Rican of the fourth generation status in Costa Rica, he was defined as a German in our program of blocking.

Back in 1940 and following the fall of France, we developed a list of firms in the other American Republics that we thought might be viewed with some circumspection. Our first approach to it was merely that of nationality. We were very easily able to segregate firms on this hemisphere who represented American firms. Those records had been developed in our office as a service to American business between the wars.

We received inquiries from the United States business firms as early as 1939 as to whether we would care to express an opinion on the desirability of hiring certain firms. Some of our business people were very quickly alert to the question of nationality. Perhaps one reason was because so much of the business of the American exporter was and

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is in the British hemispheres. He would naturally give us some nice looking orders from sections outside of the British Empire if he ran the risk of losing British business.

In questioning us about the nationality of some of the firms from whom they were getting orders, we were able to tell our people frankly, "This is how much information we have. We don't know whether these people are doing anything wrong or working against the British interests in the war effort." Then the pattern of inquiries began developing a little bit more definitely into the field of propriety in employing Germans. In other words, people were beginning to ask whether the Government would have any opposition to their hiring Germans. There followed many arguments within government as to whether this government had any right to ever suggest to an American businessman that he might not be within the bounds of propriety to do business with a certain firm. These went on as late as March 1941.

Remember, we had very definitely declared ourselves to be neutral. For this reason it was difficult to get any general counsel of any government department to guarantee you a position that could be supported in case you told somebody not to do business with a German firm, even though you knew that firm was conducting propoganda in one of the hemisphere countries. However, we in the Department of Commerce, in collaboration with the Coordinator of Cultural Relations between the American Republics, commonly known as the Rockefeller Office, undertook to set up an internal list of people. The resided in this hemisphere and we believed they were working in the interests of the Axis penetration program. We offered any United States firm that wanted to terminate its business connection in this hemisphere this service. We would replace this agent or distributor or source of supply with one who, we believed, would not get him into difficulties later on perhaps.

Our only approach in such cases was this: "You remember in World War I the United States Government did issue a black list and you suddenly found yourself out of business in a particular country." Then we said, "Why don't we try to resolve with you the names of the people who are likely to go on the black list if we get into another war. In this way you can be sure of being represented in that country by a reliable dealer, and you will not be put out of business by the black list."

We had interviews of this type with some thousand United States firms during that period. We used the field offices of the Department of Commerce, and kept them on a highly cooperative basis. In fact, the first thing we told the American businessmen was, "Here is the situation. Here is our story. We leave it with you to take such action as you see fit." We had about 100 percent cooperation.

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I probably am something of a rugged individualist in defense of the United States businessman on most occasions. But in any event, the wholehearted acceptance of this program is, I think, one of the finest tributes to the loyalty of United States businessmen. I also feel it proves that business will cooperate with government if it is asked in the right way and is told what you are trying to do. The main complaint of businessmen was that they were never able to understand most of the directives that came out of Washington.

Obviously, we were accused of putting out gray lists during these early days of the war. Well, perhaps they were. We told them what we were doing. We asked the newspaper people to come in and try to understand what we were doing. We even got the United States advertising fraternity to attempt to handle advertising which, for the first time, propagandized the United States in opposition to Axis propaganda in many countries which were too poor to undertake the job on their own.

This program brought to light some very interesting facts. The Germans, for example, were providing free radio broadcasts throughout the Latin American countries. This was possible because under the totalitarian system you can do some things you can't do under a democracy.

The Germans were also providing free newspaper services to practically all the papers that they could get to take them. And at that time, many papers were too poor to buy A.P. and U.P. service. The news was highly colored.

If there were no other justification for the Office of the Coordinator of Inter-American Affairs, the Rockefeller Office, I think the job it did in providing free news service to sustain the friendly newspapers in Latin America would justify its existence. For without this service, such papers would have gone broke when we ordered them to stop publishing German propaganda. I say we ordered them, because we said, "You won't get any newsprint if you keep using this stuff." We would have forced them into bankruptcy forthwith had we not provided them with low cost news services. Obviously, you couldn't ask private news agencies to do that job for nothing, so we did it for them.

Our Executive Order 8389, you may recall, came into being about the time of the fall of the low countries. Through the order we blocked all assets of those countries in the United States in order to preserve them for their owners if and when Germany were defeated in the war. At the same time, however, Executive Order 8389 became an affirmative directive in enabling us to block the assets of people whom we regarded as undesirable. Right up to the issuance of the Proclaimed List of Certain Blocked Nationals the Treasury Department was blocking, under Executive Order 8389, a large number of accounts of people on this hemisphere as well as in the Eastern Hemisphere. This was not done for the protection of their assets, but to place those assets under our control.

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The program was so difficult for business to understand that a number of us in government pleaded with the separate agencies to come out with a forthright position. For example, a businessmen wouldn't know who was blocked until after he had accepted an order and was about to ship the merchandise. Then he found himself held up by the Customs. Was there not some way, we asked, to advise American businessmen in advance? In addition to the economic warfare program which the Commerce Department was running, couldn't we make public the names of those whom we thought the Treasury was blocking? Then a businessman, who was willing not to sell to the kind of people we didn't want him to sell to, could deal on an efficient basis.

That was why we came out on July 17, 1941 with a Proclaimed List of Certain Blocked Nationals. In other words, there were a lot of blocked nationals who were not proclaimed, but we did proclaim certain ones who were so bad we had to announce them by means of this list. We found that the War Powers Act of 1917 had never been repealed, so it was utilized.

You recall we set up at the same time an Office of Exports for the development of the theory of consignee control. This government undertook to be the provider, or the quartermaster, of Latin America and of the hemisphere. We decided that we would take care of the needs, wants, and lacks of all the people in this hemisphere, and in order to be sure that our available goods got into the right hands, we instituted a system of licensing. This was done from two points of view: (1) Whether the goods could be spared; and (2) whether the particular consignee was the right person to get them, and if so, to be reasonably sure that he would use them in his own country and not let them get into the hands of the enemy. That was the basic reason for the establishment of Colonel Maxwell's office which later became the BEW, and later, by the lend-lease operation, FEA. That office is now part of our Office of International Trade in the Department of Commerce.

Remember that the Proclaimed List of Certain Blocked Nationals was issued prior to the war, July 1941. It was not an inclusive list. At the time it listed the people solely as "blocked nationals." It was not until after Pearl Harbor that through another Presidential directive, the people on the Proclaimed List were defined as enemies.

Trade with people on the black list in this country was not forbidden. The British said, "This person is an enemy. You can't do business with him." We never did. You could do business with Italians in World War II if you could get a Treasury license. That was the way our laws were written, and that is the way they operated all through the war. In other words, our list specified certain people for whom the Treasury would issue no license. We published this list of names and said there was no use in applying for licenses because they would be refused. But technically we had no enemies by definition as far as our economic warfare program was concerned.

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The policing of this operation, as I have indicated, was done by the Customs, by the Board of Economic Warfare, and by the Office of Censorship. The evidentiary information came, of course, from many sources. There was quite a struggle in Washington in the latter part of 1941 as to who might ultimately acquire control over the operation of some of these activities.

Finally, the State Department was given the chairmanship for the job of issuing the "black list." The Board of Economic Warfare became the export control agency, or the licensing organization with respect to goods. The Office of Foreign Funds Control of the Treasury was the licensing organization with respect to financial transactions, and the Office of Censorship was purely a policing organization. By gathering information that could be used by the other agencies, they were able to do the policing work.

Remember also that the only way to deal with a neutral country's operations is by penalizing your own people. In other words, we couldn't stop a person in a neutral country from doing business with someone in another country, but we could stop our own people from doing business with that person. The impact of this procedure was that the Proclaimed List of Certain Blocked Nationals was against our own people, not against people in other countries. Otherwise, we would probably have violated international law.

Among efforts made to evade the operation was that of "cloaking," whereby a firm on the black list took an unknown employee and set him up in business. He would then begin to buy goods with money furnished by the black-listed firm. We made it a question of loyalty if an American did business with a listed firm. But the difficulty was that we were always confronted with an unknown and thoroughly innocuous name on the list. This gives rise to the question as to whether we would be better off next time to deal with a white list instead of a black list. That is something that will have to be tackled as a research job by somebody.

To those of you who are keenly interested in the legal and quasi-legal aspects of this, I recommend a very good book written by Martin Domke entitled "Trading with the Enemy in World War II." I think you will find it interesting reading because it sets out the significant legal factors we developed in this type of program. They are almost fantastic. Indeed, the program succeeded in choking off the operations of the blocked firm, and sterilizing it entirely, if possible. It cut down any form of financial aid the firm might receive. It sought to force out undesirable personnel and to make the people locally undesirable, or socially, outcasts, if you will.

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As I view it, our operation in neutral countries had three periods. The first period, under the trading with the enemy laws, was designed to effect a blockade. I think, as we look back now, we probably accomplished that purpose in 1942. From that time on, we had to have a better reason for continuing our black list, so we introduced what we called a replacement program. In other words, having sterilized these unfriendly activities, could we not make them part of the patrimony of the country in which they were located? So we started out on the second period with a program of teaching expropriation to the people of Latin America, which is what the replacement program amounted to.

The last step was our safe-haven program. This was an attempt to discover all the German external assets that had undoubtedly been located in the neutral countries by people who had stolen loot or who had actually made money over the dead bodies of their own soldiers. Some amazing cases were turned up in this program. For example, we uncovered actual dealings in rubber tires by some of the high German officers. They sold these tires to neutral countries in Europe at a time when their men were probably dying on the battlefield for lack of equipment, and they deposited the funds in places like Switzerland and Sweden.

The most interesting description of how safe-haven works I gathered at a meeting one time when an official from Czechoslovakia happened to be present: his government was in exile. We were sitting around the table. We asked him if he had ever been able to define "safe-haven." He said, "We always define it as something where you push a button here and something comes out over there."

This problem of defining safe-haven, trying to find out where people can put money, under what form, in what guise--through shares of stock, or what have you--in a neutral country, probably accounts for the fact that we seemed, at one time at least, to have an abnormal number of people running around the world on safe-haven missions. Of course, there was more to safe-haven than that. Safe-haven isn't finished yet.

Looking to the future it is important to realize that little centers of German activity can be kept alive and, indeed grow up, in almost any neutral country through exporting technicians -- groups of smart electricians, machinists, and so on. I think the future of foreign trade is going to be in the export of technical know-how. And I think it behooves the United States to become more alive to the necessity of participating in this type of export trade, and thus be prepared to deal with economic penetration of the future.

I, personally, have no qualms of being accused of imperialistic tendencies when it comes to taking the United States into any foreign country in the world. I think as long as we have a decent attitude--and I think we do--we should vigorously promote the exportation of our decent attitude.

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I can readily see how these small German colonies will always continue to exist, will always be susceptible to whatever type of activity may develop in the fatherland. Today we are dealing with a very serious problem of rehabilitating the Germans in order to take the burden of feeding Germany off of the American taxpayer. We are rapidly approaching a time in our own organizations where we are out to promote the sale of German goods in the United States. We will soon be undertaking a program of promoting the sale of Japanese goods in the United States.

How quickly we have to shift our thinking. Then we get a letter from a mother who says, "I lost two boys in Japan. Why are you trying to promote the sale of Japanese goods?" On the other hand, we have to spend 200 million dollars out of that woman's money, as well as others, to feed Japan. It makes you wonder who won the war.

The pressure to eliminate completely these German and fascist holdings continues. In other words, there are still countries--associated with us in the war, and certainly not as true neutrals--that have not entirely eliminated axis stockholders. In principle, we own them. In other words, if we won this war, we might assume that everything Germany owned any place in the world is now ours. Perhaps we could go into those countries where there are any German assets and simply take them on this basis. But in our dealings with the countries where such assets are located, our only interest seems to be to keep them from reverting back to Germany. We are always big-hearted about letting anybody else have them, as evidenced by our dealings with most of the safe-havens which have been acquired.

I have tried to adhere fairly close to the subject given me on dealings with neutrals. Rather than to discuss every aspect, I have tried to confine my remarks to a case record of what we did in a very narrow confine or segment of this economic warfare program. There is probably some time for questions. I will be very glad to do what I can on them.

A STUDENT:

Do you know of any effort by the Russians comparable to our black-list? Did the Russians use a black-list in Switzerland, Sweden, or Turkey?

MR. SCHNELLBACHER:

It was almost 1944 when we finally got close enough to the Russians to ask them whether they would agree to join with us, the British, and the Canadians in our black-list work. They evidenced considerable surprise. They seemed amazed to discover that we were operating this type of procedure, especially in countries which had declared war on the axis.

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If you look over the list of countries in this hemisphere where we maintained a black-list, and then consider the people who declared war on the axis, you would wonder how we could continue a black-list in a country which was not a neutral but had actually declared war, although it was not doing much about it.

I was told by one of our representatives to one of the conferences that the only answer he got from Russia on the subject was, "Why don't you shoot them?" I don't think the Russians had any effective operation of this sort. Certainly they never had anything to swap with us. We gave them our list and invited their cooperation.

Incidentally, as rapidly as countries were liberated, such as the Netherlands, Belgium and France, they adopted our listings as part of their trade program. The British and the Canadians worked very closely with us all through the war. I really think that our operations were too much on the fantastic side for the Russians' direct method of operation. Certainly we never got any cooperation out of them.

A STUDENT:

Would you care to comment a little bit more on the attitude of the Swiss economists toward the safe-haven project?

MR. SCHNELLBAOHER:

Well, of course, whenever you get into a problem of safe-haven, the first question is one of national honor. The Swiss took the position that any effort on our part to pry into the personal deposits in their banks was an intrusion. Now, this probably was no different than their attitude toward our operations during the war with the proclaimed list. Swiss trade is so close to German trade that to have stopped Swiss trade with Germany would have been impossible. By the same token, Swedish trade with the Swiss was exactly the same way.

In other words, you don't go into a country like Switzerland and say, "If anybody in your country does business with anybody in Germany, we will declare it an act of war." And if you attempt to black-list everybody in the country like Switzerland, it doesn't work, because you would simply put the whole country on the black-list. You would have no way of policing it, and you would be doing something that was vain and futile if you tried.

That was the reason for entering into the so-called war trade agreements. Many people don't understand these war trade agreements. They don't see why we would enter into an agreement with a country to permit it to do business with the enemy. But the only reason for doing it was to keep that country neutral at least. At the same time, we realized that a certain number of the Swiss people were naturally trading

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with the enemy country. But we did bear down on them all the time to agree not to increase the amount of business from them.

For example, in Switzerland, we found they were rebuilding German trucks with charcoal burners. We attempted to find out their annual amount of business, and when we discovered they were doing many times as much in 1944 as they were in 1939, we suggested the possibility of black-listing them unless they would agree to keep this business down to the pre-war level.

The agreements which were reached last year with the Swiss provided for the turning over of a very substantial amount of so-called Axis loot, the safe-haven German external assets, and probably a substantial amount that was coming out. It is believed that there is a substantial amount in Argentina, but I never have been able to decide what position we should take when some things we want to get rid of fall into the hands of those who do such a good job of getting rid of them without making a report. In other words, we would agree with some Latin American country to permit them to vest a firm, knowing all the time that by the time they get through the process of vesting, there wouldn't be any assets left. So we recognized the fact that, if the Latin American country did a good job of vesting the assets, even though they didn't show up in an accounting later, we had gotten rid of the enemy assets to that extent.

A STUDENT:

How effective were the black-lists on the firms in Argentina? Did they put any of them out of business?

MR. SCHNELLBACHER:

We probably never did as good a job in Argentina as we might have done had we handled it in a different way. I don't know whether we were right or wrong in our attitude toward Argentina, but since we had adopted one, I think we should have made it more effective by getting better cooperation. We were playing a lone hand in that deal.

Some of the firms were very badly hurt in Argentina. It is hard to know exactly because of the nationalization program. We hear a great deal about it today because of its trade implications, in compelling us to do business with those firms and to have free intercourse with these governments. This nationalization program is something for which we are largely responsible, because in our replacement program we encouraged these foreign governments to seize German and Italian assets and make them part of the Government's patrimony. If we could only have known in 1942--how what we did would look in 1948 from a trade standpoint--I think we might have acted differently. Actually, we just didn't know which way to turn. But the fact remains that we forced into the Argentine government operation a tremendous number of the most important

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utilities. Now, they might have been taken over by the Argentine government anyway, but that was the alternative we gave them. We said, "If you will take them on, we will take them off the proclaimed list, and make them open for trading." I doubt very much if we destroyed any assets, but we did succeed in, first, sterilizing them and then placing the assets in friendly hands in most of the countries.

A STUDENT:

The I. G. Farben Company had a large silk organization throughout Latin America. Will they be permitted to continue operation or will some outfit like Sterling take them over?

MR. SCHNELLBACHER:

I always felt that in respect to any firm, attempting to deal with the finger tips instead of the heart was rather ridiculous. What are you going to do with I. G. Farben in Germany? Are you going to deal with the heart of the operation in Germany? It is not of very great importance what you do with some subsidiary organization. It is possible, on a selective basis, that some of these people will turn up, but I doubt it very much.

We are having a rather interesting experience right now in handling inquiries of American firms who ask us to furnish them with factual information about people who were on the black-list and who are now open legally to trade again with the United States. American businessmen are being very cautious about rehiring or taking up relationships with firms who were on the black-list during the war.

Incidentally, we are carrying on a program right now called "political reporting" by which we give facts behind a listing of firms as part of our information service to American firms looking for dealers and distributors. In other words, they are exhibiting at this point undue interest. They don't want to get caught again.

CAPTAIN WORTHINGTON:

Thank you, Mr. Schnellbacher, for a most interesting talk.

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