

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Leroy-Beaulieu, Financial Counselor of the French Embassy, called on me yesterday at 5:00 p.m. He asked that I communicate personally and confidentially to the Secretary the following views on the Martinique situation. Leroy-Beaulieu said that the large airplane carrier Bearn, of some 24,000 tons, the light cruiser training ship Jeanne d'Arc and the cruiser Emile Bertin (of 7,000 tons) were still in Martinique, with the British naval vessels blockading the island, and American warships in turn, watching the British. He said that he understood all of the airplanes had been taken off the carrier and that twelve billion francs in gold had been removed from the cruiser. Leroy-Beaulieu reminded me that the Island of Martinique was the oldest French colony and that the natives were unquestionably loyal to the French Government. In these circumstances, he was convinced that the people would destroy the planes rather than see them get into the hands of an unfriendly nation.

It was Leroy-Beaulieu's hope that the United States might appoint a commission to intervene in the Martinique affair with the view to avoiding any hostilities in our American safety zone. It seemed to be his idea that the French vessels could be immobilized for the duration of the war, without permitting the cargoes which they carried to be transferred into British hands. While the Oran incident was widely removed from our shores, Leroy-Beaulieu feared that any naval engagement between the British and French at Martinique would have quite a repercussion on the United States.

In this connection, Leroy-Beaulieu stated that since the capitulation of France his people in New York have continued to endeavor to cooperate with the British Purchasing Commission. They have been turning over thousands of contracts and have continued to make certain payments on these contracts for the British, until the latter might set up the machinery to take care of them. This has been done with the understanding that the British would reimburse the French for these latest payments. The British are also to reimburse the French for certain advances which the French have made on contracts and for plant expansion, but these repayments are only to be made when deliveries occur. At that time part of the transfer will take place through credits opened in Canada, rather than through the payment of United States dollar exchange by the British. Leroy-Beaulieu stated that it had been rather difficult to keep the French personnel in the New York office in a cooperative mood, especially since the man at the head of the Contract Transfer Section was a French naval officer who was naturally bitter over Oran.

Leroy-Beaulieu sincerely hopes that we may help avoid serious trouble at Martinique. He said a continuation of a blockade will lead to economic distress in Martinique, as aside from the important political significance of any naval engagement

He said that the French authorities here were willing to continue to be cooperative in turning over contracts et cetera, to the British but that an untoward incident at Martinique would make this almost impossible. He said he did not want to resort to blackmail against the British, but felt that if they did act at Martinique as they acted at Oran this might be sufficient reason for the French authorities here to put all manner of difficulties, legal and otherwise, in the way of turning over contracts and deliveries to the British. Leroy-Beaulieu wanted the Secretary to have this situation in mind since the Secretary had been so helpful to both France and Great Britain in making their purchasing plans in the United States.

When Leroy-Beaulieu asked me as to what word we had from France, I recalled certain information in regard to American banks and the Bank of France which Matthews had conveyed in a recent cablegram. Leroy-Beaulieu, in turn, gave me gossip from France. He said that former Prime Minister Reynaud had been in Vichy in recent days, with his head bandaged. He had not been killed, as reported, in the recent automobile accident but had been injured. His companion, Countess des Portes was, however, killed in the accident. The two had been motoring to Southern France for a holiday following Reynaud's retirement from the Government. The children of the Countess are in the United States. Leroy-Beaulieu asked if I knew that Ambassador Bullitt was returning to the United States. I told him that I did not, but had seen the press report that the Ambassador was going to Spain, and the suggestion that he might proceed to the United States. Leroy-Beaulieu thought that the Ambassador's star was very much on the decline in France, with the disappearance of a gladiator from the Government and with the coming into office of men with whom Bullitt would have less sympathy. Leroy-Beaulieu stated that there was, of course, a strong feeling in France that Bullitt had made promises on which he had not been able to deliver. In this connection Leroy-Beaulieu referred to a visit of five hours which he had had with Premier Reynaud this past February when he had been ordered home from the United States for consultation. He said that Reynaud had been anxious at that time to obtain the latest information in regard to American sentiment toward France. Leroy-Beaulieu stated that while he should not be talking about the dead, he was aware that the Countess des Portes had no use for Ambassador Bullitt, or for Mr. Jean Monnet. She suspected that these two men were profiting personally from contracts let by the French Government for the purchase of airplanes from American manufacturers. On this ground she explained Ambassador Bullitt's reluctance to take up with the United States Government the possibility of obtaining planes from our military authorities (on which there would of course be no commission), and the objection on his part to Reynaud's desire to talk directly with the President by telephone upon this point. From what Leroy-Beaulieu said, I gained the impression that Reynaud had proceeded with a direct conversation with the President and that success had followed. Leroy-Beaulieu does not know what has become of Jean Monnet.



STRICTLY CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 10:35 today I received by messenger from the Department of State a formal letter in regard to the transformation of the Bank of England accounts with the Federal Reserve Bank of New York into British Government accounts. This letter quoted a message from our Embassy in London and also reported an exchange of correspondence between the State Department and the British Embassy in Washington. I immediately telephoned Vice President Sproul of the Federal Reserve Bank, summarizing the communication and quoting the final paragraphs. I told him that I would turn the letter over immediately to Mr. Bernstein for transmission to New York, which I did. I volunteered that we could telephone the text to New York if Sproul desired.

At 12 noon Mr. Sproul telephoned me back that he had been in touch with Mr. Bernstein and had requested that the text be telephoned, as I had offered. At 1 o'clock I initialed Mr. Bernstein's letter of transmission to the Federal.

This afternoon I have received from Mr. Pinsent, Financial Counselor of the British Embassy, the attached personal letter and enclosures, including a copy of Mr. Pinsent's letter to Mr. Sproul in regard to the additional arrangement which the Federal had requested with respect to "emergency authority", under the new accounts.



BRITISH EMBASSY

WASHINGTON, D.C.

11th July 1940.

Dear Merle,

I now enclose a copy of the note written by the Ambassador to the State Department, in reply to their note conveying the text of our Foreign Office's note of June 20th to Mr. Kennedy. I also enclose a copy of the reply which I have to-day sent to Mr. Sproul's letter of the 5th July.

Yours ever,

(s) Jerry Pinsent

Mr. H. Merle Cochran,
United States Treasury,
Washington, D. C.

BRITISH EMBASSY,

WASHINGTON, D.C.

No. 313.

8th July 1940.

Sir,

I have the honour to acknowledge the receipt of your note (841.51/1580) of the 5th instant conveying to me the text of a note marked "Secret" and dated June 20th, 1940, addressed to the American Ambassador in London by the Foreign Office, on the subject of the transfer of the Bank of England accounts at the Federal Reserve Bank, New York, into the name of His Britannic Majesty's Government.

In reply I have the honour to state that the text of the Foreign Office note of June 20th, 1940, is in accordance with the instructions received by me from His Majesty's Government, and I shall be grateful if you will communicate that note to the Federal Reserve Bank, New York, with your confirmation that the instructions contained in it emanate from His Majesty's Government.

I have the honour to be,

with the highest consideration,

Sir,

Your most obedient, humble servant,

(r.c.) LOTHIAN.

The Honourable

Cordell Hull,

Secretary of State of the United States,

Washington, D. C.

July 11th 1940.

Dear Mr. Sproul,

I am in receipt of your letter of the 5th instant with its enclosure, and have considered the situation very carefully under the Ambassador's instructions.

I fear that it would be impossible for the Ambassador to write a letter to the State Department in the terms which you suggest. This proposed letter, though I believe that it corresponds to the intentions of the British Government, would in effect amount to a restatement in different terms of a part of the instructions contained in the British Foreign Office note of June 20th to Mr. Kennedy, which is about to be communicated to you by the State Department. I think you will appreciate that the Ambassador is not empowered either to certify that the British Foreign Office note of June 20th to Mr. Kennedy is legal and valid, or to restate the instructions contained in that note in different language.

In these circumstances, by arrangement with the State Department, the Ambassador has replied in the terms shown in the enclosed copy to the note received by him from the State Department communicating the text of the British Foreign Office note of June 20th. I understand that, subsequent to the despatch of your letter to me, Mr. Walter Logan had a telephone conversation with Mr. Cochran of the United States Treasury, and that, on receipt of the text of the British Foreign Office note of June 20th, with the authentication of the State Department, the Federal Reserve Bank will be able forthwith to proceed with the opening of the four accounts in the name of His Britannic Majesty's Government and that operations on these accounts will take place in accordance with the instructions in the British Foreign Office note of June 20th.

On the other hand, I think we can accept the proposal contained in the enclosure to your letter to me for the text of the notification to be addressed to you by the Ambassador or by the Counsellor of this

Mr. Allan Sproul,
First Vice-President,
Federal Reserve Bank,
New York City.

Embassy in the event of emergency. I feel some doubt about the necessity of the last sentence of this draft, which reads:- "From and after the receipt of this notification by the Federal Reserve Bank of New York, the persons heretofore authorized by the Bank of England to sign in its behalf, with respect to operations on His Britannic Majesty's Government Special Account "A", are authorized by and in behalf of His Majesty's Government to operate said account. This sentence hardly appears to me to form a part of the emergency notification proper. Further, the point seems to me to be covered by those words in paragraph (B) of the British Foreign Office note of June 20th which provide that when the notice of cancellation of authority is given by the Ambassador or the Counsellor of this Embassy, the Bank of England power to give instructions regarding the four accounts terminates, and that (by authority of the British Foreign Office note of June 20th, i.e. by authority of His Majesty's Government) Special Account "A" will continue to be operated by the same signatories as at present. If, however, you attach special importance to the inclusion of this last sentence in the form of emergency notification, the Ambassador will not object to doing so.

I would make only one suggestion as to the wording of the emergency notification, viz. that it should begin:-

"I have the honour, with reference to paragraph (b) of the instructions contained in the note addressed by the British Foreign Office on June 20th to the American Ambassador in London, which has been communicated to you by the State Department to notify you that the authority of the Bank of England....."

Yours sincerely,

Sd. G.H.S.Pinsent.

JF:GHSP:GS

C O P Y

PARAPHRASE OF TELEGRAM RECEIVED

DATE: July 12, 1940, 10 p.m.
Rec'd 8 a.m. July 14.

NO.: 59

FROM: (Paris) LA BOURBOULE.

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

This morning I drove over to see Cariguel at Clermont-Ferrand. Cariguel told me that on Tuesday morning the convoy headed by Governor Fournier, of the Bank of France, Ardant of the Société Générale and others and carrying bank notes to the amount of five billion - reference, telegram of July 6, 9 p.m., No. 27 from this office - had finally gotten under way and after some delays en route had reached Paris.

Cable exchanges with the Federal Reserve, he said, are continuing satisfactorily, though there are delays in transit.

As for future developments, Cariguel seemed to be depressed and uncertain, and he seemed to be somewhat resentful of the Bank of England's actions. He said that he had not been able to ascertain the exact status of Franco-British relations as applicable to financial matters. He had suggested that rather than make a direct approach to the Bank of England, which he felt would hardly "be in keeping with the dignity of France", they make an approach indirectly through the Swiss connections of the Bank of France to ascertain the attitude of the Bank of England.

END SECTION ONE.

EA:LWW

MURPHY.

PARAPHRASE OF TELEGRAM RECEIVED
SECTION TWO, NO. 59 OF JULY 12, 1940 FROM (Paris) La Bourboule

In this regard the Swiss have now been approached, but no reply has been received as yet. However, he understands that in England balances of the Bank of France have been blocked. Neither did he seem to have much information as to the status with the Federal Reserve of accounts of the Bank of France.

Upon their arrival in Paris, the German authorities immediately circularized all banks asking about their holdings of foreign securities and foreign exchange. No replies to this circular have as yet been made by the banks. I saw Barrett of the Guaranty in Vichy today, and he said that the German authorities had as yet exerted no pressure to obtain the replies. No decision has as yet been made by the several American banks as to increasing representation at Paris. However, they are being urged by the Bank of France to expand their operations in Paris.

END SECTION TWO.

MURPHY.

EA:LWW

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 59
OF JULY 12, 1940 FROM PARIS.

Yesterday Pearce of the National City Bank drove over to see me. He said that pending further clarification of the situation, he has made no final decision, but he may send some personnel back to Paris merely for the purpose of cashing depositors' checks. Today his bank is not conducting any business there.

I was also told by Cariguel that as yet the Germans have not brought up any question as to the gold holdings of France.

Cariguel said that two weeks ago the Bank of France's note circulation was about 179 billion francs. The present circulation he does not yet know, in view of the uncertainty as to how much was burned in different localities in the face of approaching occupation by the Germans.

The National Bank of Belgium Governor, Janssen, has gone back to Brussels.

END OF MESSAGE.

MURPHY.

EA:LWW

In reply refer to Initials
and No.


NAVY DEPARTMENT
OFFICE OF THE CHIEF OF NAVAL OPERATIONS
WASHINGTON

12 July 1940

My dear Mr. Morgenthau:

This will acknowledge receipt by Admiral Stark of confidential reports, Part I - Airplanes and Part II - Airplane Engines, which information carries through July 6, 1940.

Yours sincerely,


W.R. Smedberg, III,
Lieutenant, U.S. Navy,
Aide to Admiral Stark.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

NAVY DEPARTMENT

12 JUL 13 11 54 AM '40

RECEIVED BY THE SECRETARY OF THE NAVY

Excerpt from a letter of July 12, 1940, from Mr. George H. Butler, Second Secretary, American Embassy, Lima, Peru.

Mr. Grégoire van Haersma de With called at the Embassy yesterday to inform the Ambassador that his check No. 41, dated June 15, 1940, in the amount of \$100.00, on the National City Bank of New York and Farm Branch, has been unpaid. The Chargé thinks that the difficulty might be a matter of identification but he asked if the Embassy could find out through the State Department if the laws or regulations of the United States would prevent payment on his check. He is, by the way, in a bad financial fix because of the European situation. If there is any information you can give us without going to too much trouble we will appreciate it.

Mr. Grégoire van Haersma de With is Chargé d'Affaires of the Netherlands at Lima, Peru.

TO THE SECRETARY
TECHNICAL V22-1111
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RECEIVED

July 12, 1940
9:15 a.m.

H.M.Jr: Hello.

Operator: Captain Puleston.

H.M.Jr: Captain?

Captain Puleston: Yes, sir.

H.M.Jr: I'm in a way sorry that you went to the State Department yesterday about that oil business. I didn't expect that you would.

P: Well, I understood you to want me to get the picture, so I went to the Navy Department and then they didn't have the information about the Verde Islands and then I went over to the State Department to see what they had.

H.M.Jr: Well, let me handle the State Department and you concentrate on the Navy and the oil companies.

P: All right, sir. I expect to get something more from Mr. Sadler this morning.

H.M.Jr: But just -- as long as Mr. Berle is going to be the man, I'd appreciate it if

P: (Laughs). All right, sir.

H.M.Jr: Keep away from the State Department on this thing, will you?

P: Yes, sir.

H.M.Jr: Thank you.

P: Right.

July 12, 1940
9:18 a.m.

H.M.Jr: Hello.

Operator: Secretary Knox. Go ahead.

H.M.Jr: Hello.

Frank
Knox: Good morning, Mr. Secretary. How are you?

H.M.Jr: Fine.

K: When I got back to the Navy last night, I started a little investigation about that Canary Island thing.

H.M.Jr: Yes.

K: And I find that we have some ships at Lisbon and we could send a destroyer over there. It'd take a couple of days, but the thought occurred to us that we might see what our consular representative there could find out for us and save us the trip if possible.

H.M.Jr: Well, now, I tell you. Mr. Berle came over after Cabinet and they've sent a cable to -- whatever the town is in

K: Yeah.

H.M.Jr: They've done just that, so they've sent a cable to the Canary Islands. I think you're right, we could wait.

K: Wait and if we don't get the dope we want there -- it isn't satisfactory, why it'll be a simple matter to have a destroyer drop in there and pick up a load of oil and see what's going on.

H.M.Jr: Thanks. Now.....

K: All right, I just wanted to check with you on the thing.

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H.M.Jr: I appreciate it. Now, I'd like to ask you something else.

K: Yes.

H.M.Jr: You know, this Allied Purchasing Commission is sort of accredited to me and I look after it the best that I can. We have a Committee which the President appointed of Admiral Spear of your Department, and Colonel Burns of the Army and Philip Young

K: Who of my Department?

H.M.Jr: Admiral Spear.

K: Admiral Spear.

H.M.Jr: S-p-e-a-r. Paymaster General.

K: Yeah.

H.M.Jr: Now, there's some unfinished business on that and I wondered if you could see Philip Young and Spear anytime this afternoon and see if we couldn't clean up some odds and ends.

K: I certainly can. What time will be most convenient?

H.M.Jr: You name the time.

K: Wait a minute. Just a second. (Aside) Capt. when can I see some of the members of the Allied Purchasing Commission and our man, Admiral Spear -- what time today? (Pause) Half past three be all right.

H.M.Jr: Three-thirty. I'll tell Philip Young, I take it you can have somebody tell Admiral Spear?

K: I'll take care of that, yeah.

H.M.Jr: And I'll have Philip Young there with the dope.

- 3 -

K: And tell me, is Philip Young a member of the Allied Purchasing Commission or is he our representative on it?

H.M.Jr: No. He's Assistant to the Secretary of the Treasury.

K: I see. O. K.

H.M.Jr: And I vouch for him and incidentally he happens to be Owen D. Young's son.

K: Oh, I know, Owen D. Young.

H.M.Jr: It's his son.

K: Yeah, I see. All right, fine.

H.M.Jr: Right.

K: Three-thirty.

H.M.Jr: Thank you.

K: O. K.

July 12, 1940
1:57 p.m.

H.M.Jr: Go ahead.

Operator: Go ahead.

H.M.Jr: Hello.

Wm. S.
Knudsen: This is Knudsen.

H.M.Jr: You know, I think it's funny. I was just putting in a call for you.

K: Is that so? (Laughs).

H.M.Jr: Absolutely.

K: Well, I hate to bother you again.

H.M.Jr: You can't bother me.

K: Did Foley report to you what Jones said?

H.M.Jr: Yes. He had a very, very good meeting. He came back very much encouraged.

K: Well, do you feel that there's no hitch there because Mr. Purvis was very much concerned yesterday.

H.M.Jr: Well, I don't know why.

K: He thought we were backing up on the deal that was made in your office that morning.

H.M.Jr: No, this is what -- on this Packard deal, Jesse Jones said that in the first place he was having some of his old trouble in regard to getting a mortgage on the new facilities. Maybe you know about that.

K: Yeah.

H.M.Jr: As he put it, Packard wanted to build everything sort of within their existing plant.

K: That's right. Except the test houses.

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H.M.Jr: Well, I didn't get the details.

K: He'll send them.

H.M.Jr: But it was difficult for him to get that. Then he said that his Board of Directors were worried. Well, I never -- I'd even forgot he had a Board of Directors -- but Foley gave them a couple of suggestions. He said, now, Mr. Jones, if you're worried about this I can get you the Attorney General's opinion.

K: Yes.

H.M.Jr: So Jones said, no, I don't need that, he says, I just want to think about it a little bit more. And Foley felt as he went along Jones cheered up a good deal, see?

K: I see.

H.M.Jr: And he said, now, as soon as he had this thing straightened out, he wanted to have a good talk with Purvis, himself, and Jones said two or three times, well, he said, I think the trouble is that each of us have been working too much by ourselves and, he said, we haven't worked enough together.

K: Well, you see, it might look that way. But I was trying to avoid wire-crossing until we got the job set.

H.M.Jr: Well, all I can say is that Foley came back and said he hadn't seen Jones as cheered up and in as good a humor in weeks. That's when he left.

K: I see.

H.M.Jr: And then on the Curtiss Wright -- hello?

K: Yes.

H.M.Jr: Foley reminded him that he'd written this letter on the twentieth. So here's the thing, you see, what Jones couldn't understand -- when anybody wants to borrow money, he said, well, why aren't they sitting on my doorstep? Why

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do I have to go after them? So Foley explained that they really don't care about the business and that this is something that the Government wants them to do and they don't give a damn whether they do it or not.

K: Yeah, I see.

H.M.Jr: And so Foley -- Jones agreed -- he's going to take off his coat now on this Curtiss Wright and he's admitted really since the twentieth he really hasn't done much of anything.

K: Well, on the Curtiss Wright, you see, I was waiting until I had a contract authorization so I could give them a commitment, because we don't need that many motors now

H.M.Jr: No.

K: but the planes we've got on order.

H.M.Jr: Well, Jones kept saying over again, well, each of us have been too much by ourselves, and for the first time today he understood why the Treasury under the present law couldn't give the write-offs. He said he'd never understood it before. So for the first time he understood it. But I was calling you up to tell you that I felt much more cheerful and that I thought that the thing looked much brighter.

K: Well, I thought this, Mr. Secretary, I thought that if Purvis was so worried we'd better get straightened out on it because he tackled me, you know, yesterday after we got through in your office and he said he was horribly worried because he had cabled to London our agreement that we could check him in on a United States deal.

H.M.Jr: Yeah.

K: And, of course, what Jones doesn't realize is that Curtiss Wright probably will ship some motors to England from the plant that he's financing down there.

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H.M.Jr: That's right.

K: See?

H.M.Jr: That's right.

K: So I feel that Jones has nothing to do with the British Commission. He only deals with the subsidiary company for leases to the operating company who deals with the British Government.

H.M.Jr: But you see, Knudsen, I've done business with Jones now for over seven years and he likes to do it just his own way and sometimes it's rather difficult.

K: Yeah, he called up and wanted to switch his loan to the working capital, but a working capital loan at 4% of course wouldn't be attractive to anyone.

H.M.Jr: No. Would you like me to call up Purvis and cheer him up a little bit?

K: No, I don't think that's essential, Mr. Secretary. I just wanted to let you know what was in his mind. Yesterday after we got through in your office I said to him, well, you're all right. You don't have anything to worry about any more.

H.M.Jr: Well, I don't -- where did he get the idea that he had something to worry about.

K: No.

H.M.Jr: I said, where did Purvis get the idea?

K: Well, you see if it's illegal for the British to participate in a plant arrangement, that will upset his whole program.

H.M.Jr: Yeah, but who told him it was illegal.

K: You know, we were talking about that in your office.

H.M.Jr: Oh, were we?

K: Yeah.

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H.M.Jr: Was he there?

K: He was there. He was somewhat concerned about it.

H.M.Jr: Well, so much happens each day I can't remember.

K: (Laughs). I see.

H.M.Jr: I guess you're the same.

K: Yeah. All right, sir. I've reported to you now.

H.M.Jr: Well, I'm glad you called me because I was calling you because I really -- this morning I was terribly discouraged, but I feel much better now.

K: All right, sir.

H.M.Jr: Good-bye.

K: Good-bye, sir.

RE DEPARTURE PERMITS

July 12, 1940
2:15 p.m.

Present: Mr. Compton
Admiral Spear
Mr. Cairns
Mr. Young
Mr. Bell
Mr. Berle
Mr. Woodson
Mr. Foley
Mrs. Klotz

H.M.Jr: The situation is something like this: Mr. Berle is expected, but I think we will go ahead, because he is always a little bit late. We are holding two American flagships in Texas, one Swedish tanker, all under contract for the Texas Oil Company to ship oil to the Spanish Monopoly, is that right?

Cairns: The Swedish vessel is under charter to the Spanish Monopoly.

H.M.Jr: They are all being held and, in other words - well, we won't give them a sailing permit and the Texas Company are down here and want to know what it is all about and we just shrug our shoulders and say nothing. Now, in talking with the President this morning he said that he had had a happy thought, as he called it, and he said - you have heard him use that expression, haven't you?

Woodson: Yes.

H.M.Jr: When you were with him. He said if we are embarrassed that under the new legislation he was sure that the Navy needed this oil at Puerto Rico, the Virgin Islands, or other points west. Now, that is the thing very simply. Now, this is costing the Texas Company three thousand dollars a day per ship.

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(Mr. Berle entered the conference.)

H.M.Jr:

Hello. The reason the Navy is here is this: The President had what he called a happy thought and he told me to continue not to let these ships sail and if I was embarrassed - the Texas Company is here today. The ships are two belonging to Texas Oil and one Spanish Monopoly. That all goes to the Spanish Monopoly. He said if I was on the spot he was sure that the Navy needed it at the Virgin Islands or Puerto Rico, and it is costing the Texas Company three thousand dollars a day per ship and they are coming back at 3:30, so that is - just for the moment, as long as these gentlemen are here, that is the particular problem at the minute. Have I stated it about correctly?

Cairns:

That is correct.

H.M.Jr:

Now, have you brought your check book?

Compton:

Mr. Secretary, in the first place I haven't got a logical reason for taking the oil and I haven't even got a fairly good illogical reason for so doing, but we want to cooperate, of course, and do anything we can. We haven't any fuel capacity except in Guantanamo and that would be just a question of topping off the tanks. They have got a good quantity of oil in there already and the amount of oil that we could put in those tanks at Guantanamo is so small that it wouldn't make a dent in this rather large organization down there. The only other thing we could do would be to - the only tankers we have, we could go down and take the oil out of these ships and pump it in tankers if that had to be done. We have only two tankers on this Coast, both of which are en route from one port to another. One is filled with oil and the other is in ballast, which we might be able to divert to Galveston now. That would be - we could take that. I don't know at the time whether

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these ships are American registry or foreign registry.

H.M.Jr:

Two of them are American.

Compton:

We might be able to move that oil by just simply chartering those ships. We can move the oil right out. We don't have any oil storage at any other - we don't have oil storage in Puerto Rico, do we, Admiral?

Spear:

No.

Compton:

Guantanamo is the only place.

Spear:

The only thing that would take care of these two cargoes is Hampton Roads.

Compton:

We would have to bring it back up here. Then the other thing is, the cargo isn't all fuel oil, as you no doubt know. It is a miscellaneous cargo of grease, kerosene and gasoline and bunker oil and diesel oil, wax. I don't know just what we could do with the wax. That about finishes the statement of the information I have, Mr. Secretary, except that I was pointing out - I don't think you have heard this, that the cargo isn't all fuel oil. There is grease and kerosene - the kerosene and the wax - I don't know of any Naval use for those items.

H.M.Jr:

You can sell it.

Compton:

And some of the gasoline is the low grade gasoline, it is not high test or aviation gasoline and, of course, we don't use a great deal of the regular gas, but it looks to me on the surface as though the best thing to do, if we do anything, would be to charter the ships that are of American registry if we can do that legally, and move the oil from where it is to Norfolk and then dispose of it from that point. We will distribute it to the fleet for use, what it can use, and sell what we have no use for. I don't think that we

have got anything in the West Indies where we have stored facilities ashore which would accommodate that gallonage.

Berle: May I ask a question?

H.M.Jr: Please.

Berle: Has anybody worked out something for Spain on the theory that Spain is entirely dry of oil?

H.M.Jr: These are the figures of the Texas Company.

Bell: We have got some other figures on the estimated consumption. In 1936 it was 800 thousand tons a year. In 1937 it was 625,000; 1938, 625,000; and 1939, 575,000. I don't know what the normal consumption is, but at that time, in 1939, 575,000 and if they get oil at the rates, as it says in that memorandum, of 70,000 a month, it means they are getting about 840,000 tons a year over the 575 requirements.

Berle: That is the answer. I was merely wondering whether as a result of this we couldn't work out a kind of rationing arrangement rather than a complete grab.

H.M.Jr: Well, with that in mind --

Berle: That is clear, they are over their ration.

Bell: If the 575 is a normal figure and we don't know.

H.M.Jr: Where did those figures come from?

Bell: They came from the Texas Company. They check, too, with a survey that was made in '39, pretty close to it.

Gairns: The Cities Service 1939 survey was made of normal peace time petroleum consumption and my figures agree with Mr. Bell's.

H.M.Jr: Cities Service?

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Cairns: The figures come from Garfield and Wetzel, who made the survey for the Cities Service.

H.M.Jr: How much did they say they needed in '39?

Cairns: How much did they need?

H.M.Jr: Yes.

Cairns: I have it in barrels, 4,700,000 barrels, but that agrees with the tons that Mr. Bell has.

Bell: That is right, pretty close.

H.M.Jr: Well, if the Navy can take the two American flagships, under the rationing thing, we might let the Swedish one go, because the Swedish one is chartered by Spain, isn't it?

Spears: Mr. Secretary, I would just like to point out in all probability this is grade C oil, a grade that the Navy does not use. It will be a great inconvenience. It will destroy some of our high grade oil that we now have in our tanks to dump this into our present storage system. The Bureau of Engineering is vitally opposed to our taking this grade C oil because of their burners, and it will be a hard - it will be a difficult thing to work this stuff off.

Compton: That is what I meant, Mr. Secretary, when I said we couldn't find a logical reason for --

H.M.Jr: Well, gentlemen, I'm in this frame of mind. I am not going to worry. It is here. The President suggested the Navy should take it. I am not going to issue a license and I am not going to worry. I will let you fellows worry. I am not going to beg you to take it. It isn't even my suggestion. I will simply tell the President the Navy is thinking about it and let the Navy work out its solution.

Spears: Well, we have the capacity to take that fuel oil, sir, in Norfolk, Virginia.

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H.M.Jr:

I am not going to worry about this thing. This was the President's own suggestion and Colonel Knox says if that is what the President wants, buy it. I have quit begging around this town. This authority the President has given me and I am sitting here with these three tanks. If you fellows don't want it, just tell the President. Tell Colonel Knox that. I won't bother him. I am not going to beg you to take it. Mr. Ickes sat on helium for three months and finally they agreed he was right and I may have to sit on this stuff for six months, but it is going to get hot for somebody. I am not going to worry.

Compton:

Colonel Knox told me to try to find a logical reason for doing it and a place to store it. We have got to place it and now that I find the ships are in our own ports, it makes it simpler and there are also two of these ships under our flag and it is one of those things that it is possible to do, no question about it. It is possible. We can charter the tankers and we can store the oil, but we may have a lot of surplus oil on our hands we don't know what to do with, because we can't use it and surplus wax and surplus other items in the cargoes.

H.M.Jr:

Three or four months ago I begged the Navy Department to take the tools, these machine tools. We went through the same thing. Then all of a sudden you got an order and you did it. We got the same argument about those machine tools.

Compton:

It was only about a week after you told me about it, Mr. Secretary, as far as I am concerned.

H.M.Jr:

I have got a letter from the Navy Department about three months old from Mr. Edison saying it couldn't be done. The Navy wants this stuff spotted all over the Atlantic, so somebody else can pick it up - I think it is just, to put it mildly, very short-sighted.

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- Compton: Well, as I say, it is possible to do it and this is a legal arrangement with the use of our appropriations that I am not familiar with.
- Spear: I can pay for this thing if we are going to be a dumping ground for this stuff. I don't know what this lubricating oil is and I am guessing that this fuel oil is a grade we don't want, but we can pay for it. We can pay for it.
- H.M.Jr: You have done some good swapping. If you can get this grade C, you can swap it off to grade A, can't you?
- Spear: I will have to get the lawyers to tell me how I can trade Government property for something else. The Army has something like this.
- H.M.Jr: Seriously, if you got this grade C, couldn't you swap it around for grade A or whatever you buy?
- Spear: These are merchant vessels that have got this grade C oil. The Army has got some transports that use that kind of oil.
- Woodson: We can't swap anything under that last Act that was passed.
- H.M.Jr: Can't?
- Foley: You can swap it with the Army.
- Spear: Why not give it to the Army in the first place if they can use it?
- H.M.Jr: The President said the Navy.
- Compton: I think the President thought we had some storage.
- Spear: I think he dreamed this was Navy oil we use in our burners. We may have to change burners to use this. If we got all of this in one

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dose, in one tank, and had to issue it, we would have to mix it with something to get the stuff to burn in the burners.

Compton: Of course, the objective is to get this oil somewhere where it won't get to where we think it is going to go.

H.M.Jr: That is right.

Compton: And that is possible to accomplish. We can store this oil in our tanks up here in Norfolk. We may not have any immediate use for it. We may have to find some other means of disposal for it, but if it is a thing that has to be done, it can be done at considerable inconvenience to the Navy and if we are ever called upon to justify the doing of it, we wouldn't have a very logical justification.

H.M.Jr: At least you would have a legal one this time.

Compton: That is right, we want to be careful about that, don't we, Mr. Secretary.

H.M.Jr: That didn't hurt you any.

Compton: I am not worried about it. I didn't even worry at the time.

Spear: Does the title to this oil still rest with the oil companies?

H.M.Jr: I don't know.

Spear: Who owns the oil?

Compton: The Texas Oil Company, isn't it?

Cairns: I think it is still in the Texas Oil Company.

Compton: And, of course, that simplifies it. We have got the legal complications, but they would be worse if the title were somewhere else.

H.M.Jr: Haven't you got a contract with Texas or anywhere else?

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- Compton: Have we?
- Spears: We probably have, but this doesn't phase my contract. I don't give a hoot about my annual contracts, because I will make a separate contract for this thing here.
- H.M.Jr: I could see that you got it and got a credit arrangement against some kind.
- Berle: I think there is a perfectly good reason for holding these ships on this set of figures. The consignee is the Spanish Monopoly. On this set of figures, it would seem that here is a bunch of stuff that is headed for some destination other than Spain, presumably an enemy destination - a belligerent destination - because there is so much there.
- Cairns: You mean because they are in excess of normal times?
- Berle: I suppose you can indulge a presumption when you have every reason to believe the fact that these are shipments of contraband to a belligerent country, under the Neutrality Act.
- Compton: Well, if that were done, Mr. Berle, then it would just be a question of unloading the oil and finding some place to store it. Then the oil would be - the title to the oil would remain where, or should it be returned to the Texas Company? That would be the simplest thing.
- Berle: I am thinking of the --
- Compton: Sounds like a good thought there, maybe worth developing.
- H.M.Jr: Well, by what authority can we tell the Texas Company to unload these two ships? We have the authority not to let them sail, but by what authority can we unload them?
- Berle: Is the oil paid for?

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Cairns: I don't think so.

Berle: I don't think so. We could put it squarely on the Cash and Carry Law, couldn't we?

Cairns: Oil going from one neutral to another neutral and carried in the vessel of a neutral isn't under that provision.

Berle: If you indulge the presumption it is not going to a neutral --

Cairns: The only port they can go to is the port it is headed for. Under the law, those are the only ports they can go to.

Berle: That is obvious, but the question is the destination of the goods.

Cairns: All we know on the record is it is destined to Monopoly.

Berle: Well, I wanted to send some stuff to Switzerland via Marseilles and you said we couldn't do it.

Cairns: Marseilles was a belligerent port.

Berle: It was on the Cash and Carry Law.

Cairns: I am not suggesting that you cannot operate on that presumption. In fact, we have got figures here to back it up.

Berle: It seems to me the Texas Oil Company might be told that we have some reason to believe that this is headed for belligerent destination. It is true that it is going through a neutral port.

The object of the Cash and Carry Law was to prevent our getting involved in a situation

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where we had unpaid for goods with fundamental belligerent interests which might get sunk or otherwise knocked around at sea and we would get in a net here, but by consequence before we could issue a license we should want proof satisfactory to us that the actual destination and consumption of that oil was where it was supposed to be going, the Spanish owner. That likewise is a foundation for the ultimate arrangement you will have to work out, which is that a certain limited amount of oil for Spain is destined to be used in Spanish factories and so forth as long as Spain remains at peace. It would lay the foundation for rationing it along that line.

- H.M.Jr: If you notice, there are no navicerts for these boats.
- Berle: I don't think that we have ever recognized navicerts around here.
- H.M.Jr: I know.
- Compton: Then if they failed to produce that evidence that you have asked for, Mr. Berle, then what would happen to the oil? The Texas Company would have to take it back, wouldn't they? Is that the assumption?
- Berle: I presume so, because we don't issue clearance in that case, do we?
- Cairns: No. The non-issuance of a navicert, I think, is significant or has a bearing on our assumption that this may be destined to belligerents.
- Berle: That might be emphasized, but it seems to

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me that the Texas Oil Company ought to be formally told that the Spanish oil has got to go to Spain. Otherwise, it falls under the orders of the Neutrality Act.

Cairns: We might run right into the situation of the Spanish Ambassador coming in and giving assurances that that will go to Spain.

H.M.Jr: Well, I may say that factually I have no doubt in the world that the bulk of this is destined for Spanish consumption.

Berle: But that is because that country has been siphoned clear of every drop of oil, as far as I can make out. Gasoline costs about two dollars a quart over there now, I am told. So this probably is replacement.

H.M.Jr: Who will take care of the Spanish Ambassador when he comes around?

Berle: I think we will.

H.M.Jr: I don't think he will come here.

Berle: Mr. Secretary, the general policy is to say here, "We have applied our Neutrality Act through hell and high water. We have applied it when sometimes it is hurting one person, sometimes the other, and sometimes ourselves, and this is obviously a case that calls for it. We feel that you ought to lay down your general outlines of your requirement and give your assurances and implement those assurances with figures or something of that kind."

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- Cairns: You are looking toward a rationing system?
- Berle: I was just thinking out loud what I would do --
- Cairns: Because I think we have the power. We say, "No departure permits" - period. We don't have to give any explanation.
- H.M.Jr: Let's just look at it for a minute with the Texas Company. As of this morning they were in a very good humor and they wanted to know what - I didn't see them, but they are coming back at 3:30. Now, if we followed for a minute what Mr. Berle said, then are you going to say to them, "Well, gentlemen, with the figures that we have, we feel that they are far in excess of their quota and therefore we wish that you unload these ships"?
- Berle: My private opinion is that it would be well if we can take a couple of shipments off their hands, because I think it is a little unfair to the company to pull a lanyard on them without any previous notice. Therefore, I think the square thing to do would be to take care of this couple of ships.
- H.M.Jr: And let the Navy take care of them.
- Berle: Well, they seem to be the only customer in sight.
- H.M.Jr: That was the only happy thought the President had and I thought it was a peach. It will put the Navy on their mettle, to see how good they are.
- Compton: As I said, Mr. Secretary, it is possible and the Navy can do it, but I did want to also point out that if we are ever asked to defend the action, we won't have much of a logical defense.
- Spear: All I am trying to do, Mr. Secretary, is to stop my fuel oil tanks from being contaminated.

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- H.M.Jr: Well look --
- Spear: And have these chief engineers all down on my neck.
- H.M.Jr: Admiral, if Colonel Knox and Mr. Compton decide they are going to do this thing, you could work out a swap with the Texas Company over night that somebody would swap "C" for "A" and you would wake up in the morning and you have got "A" oil instead of "C".
- Spear: That sounds very simple, sir, but it isn't quite as simple as that.
- Young: He is a good swapper.
- H.M.Jr: I know he is. He hasn't had time to think a good swap out.
- Compton: That is another thing, we didn't have much time to think this through, Mr. Secretary.
- H.M.Jr: Well, I think on the Swedish flag, though, - do you think we had better let her go?
- Berle: I would let her go. I would strengthen your hand a little in view of the Texas Oil Company - they had contracts to send oil to France. We asked them not to and they didn't and that later - in a conversation I had I observed that I thought it was pretty dangerous for an American flagship to be carrying oil to a vortex there. It is certain to arouse complications from one side or the other, or maybe both. I would also point out that I was concerned about having oil around the Atlantic bases.
- Compton: Couldn't we do this, Mr. Secretary?
- H.M.Jr: That is just what the President said. He doesn't want it spotted all over the Atlantic.

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- Compton: Couldn't we do this? This Texas Company can't get a license to export it. If the company would take back to their own stock the oil of the two American ships, couldn't we then buy from Texas under any contract we have or any method you could work out, an equivalent amount of dollars and cents worth of stuff that they sell and we have use for?
- Berle: I would say so.
- Foley: Then you wouldn't have any storage problem.
- Compton: Well, we can find a place to store it up here in our tanks in Norfolk.
- Foley: But you wouldn't have any immediate storage problem. They will take care of the excess amount.
- Compton: Yes, on an order they would probably accommodate us by keeping it in storage and letting us draw it out.
- Spear: I thought we wanted to free these ships.
- Compton: That came from some storage they had. Let's get that back on their storage and let's leave our storage free to put stuff in.
- Spear: The Texas Company must have commercial orders themselves. Why don't they just simply divert those cargoes to fill some other orders?
- Compton: The objective now is not, as you say, to pull the lanyard on them, as a matter of business ethics, and to get around that we will buy from them what we need over and above what we normally would buy from them anyhow.
- Spear: Standard Oil told me that the whole Navy business is only one percent of the fuel oil industry on this Coast, so they must have other business.

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- H.M.Jr: I think Mr. Compton has got a real idea.
- Compton: That makes the question of the ethics of the thing, as far as I am concerned - and I don't see any reason why we can't do it legally or otherwise, do you, gentlemen?
- Spear: What was that again?
- Compton: We have two ships filled with some stuff we don't need and the Texas Company are going to be forced, under the application of this law, to take that stuff back, you see. Well, instead of the Navy becoming a customer for that particular oil they have got on those ships, let us become a customer for an equal amount of oil.
- Spear: Anyway, particularly if we have a contract for them.
- Compton: Over and above everything else we have and stick it in storage somewhere. If that is Grade C and we want Grade A, let them take back their Grade C and we buy Grade A.
- Spear: You mean that gets them out of the financial hole?
- Compton: Yes, and it covers the point of the business ethics mentioned here by Mr. Berle.
- H.M.Jr: And it stops paying these demurrers of three thousand a day.
- Compton: Yes, it stops that loss.
- H.M.Jr: We will do it on the basis we are doing them a great favor and also get them to agree that until we could sit down and talk to them, they won't load any more ships.
- Berle: Of course, the fact of the matter is that I think they would be the logical people to work out a rationing agreement. I wouldn't want to try to ration another Government

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which is neutral and with which we are at peace. I would much rather see Cairns over there with his well known obstinacy somehow say, "We can only see about so much of this as destined for Spain. That is your job. You see the Spanish what you know is Spanish and if you make out a case, that goes. If you sell more than that, you will have to make out more case and it probably won't go."

- Compton: It would be the seller's risk.
- Berle: I would let them do the rationing.
- H.M.Jr: I think that is smart, with the understanding, of course, that they don't use a Texas subsidiary to send the oil out.
- Berle: Yes. Of course, the next point is that I think they would then say to you, "All right, we will do that and don't bother about it." What we don't want is W. R. Davis or some of the sharpshooters to merely squeeze in there.
- Cairns: Don't forget they have got exclusive contracts with a monopoly and no other owner is going to Spain except Texas oil.
- Berle: How in the world can they enforce that?
- Cairns: That is their contract with the monopoly. Any oil leaving the U. S. must be Texas oil.
- Berle: Who is going to stop the Spanish Monopoly from chartering a ship in Port Arthur and taking it?
- Cairns: Well, we will just add it to the quota of the Texas Oil Company. All the oil leaving the U. S. is Texas oil.
- Berle: The real reason why you won't have any trouble lies in the fact that Davis can always get American flag tankers which

will have to come back to you. All the other tankers I know of are British.

Calms: We hold all foreign - American flag vessels.

H.E.Jr: Well, the Spanish Monopoly chartered the Swedish ship.

Barle: That, I think, ought to get by or we will have trouble with the Spanish Ambassador.

H.E.Jr: Well now, it sounds good to me if the Navy will do their stuff on the two.

Compton: I don't see any reason we can't.

Spears: What is the modus operandi? Are you going to have the Texas send those ships up here?

Compton: We don't care where the Texas Company unloads them. All we do is buy an equal amount of oil in dollars and cents. In other words, those cargoes are worth so many dollars and so many cents as a business proposition to the Texas Company. The Navy Department will buy an equal amount of dollars and cents worth of something from the Texas Company that we can use, which we will buy right now and store, which will be the fuel oil that people use.

Spears: Well, I will have to look up those contracts, because we have got about twenty oil contracts.

Compton: Well, can't you do it on an open purchase basis without competition?

Spears: I might buy aviation gasoline, if they have got that.

Compton: Any commodity. All we are interested in, as I understand it, Mr. Secretary, is to give the Texas Oil Company people that business right away.

H.E.Jr: Over and above your normal contracts.

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Compton: Over and above our normal contracts.

H.M.Jr: Let's do it this way, because we are fighting time. Let my people talk to them and come to an understanding. If this is agreeable, then I will have Mr. Foley get in touch with you.

Compton: Or directly with Admiral Spear.

H.M.Jr: If you don't mind - would you mind in this first instance sitting in on it yourself?

Compton: The only thing is, I have got to leave town at 4:00 o'clock. I have got to get up to the New York shipbuilding company tonight.

H.M.Jr: Well --

Spear: Just tell me what you want to do. I will do it.

H.M.Jr: I am not your boss.

Compton: Well, Admiral Spear --

Spear: There will be a boss over there.

Compton: Admiral Spear and I understand each other very well. I will tell Colonel Knox all about it when I go back and you will know that Admiral Spear is handling it.

H.M.Jr: Well, it is your suggestion, as I understand it, that as a favor to these men we will buy "X" hundreds of thousands of dollars of oil, equivalent to this cargo, over and above our present contracts.

Compton: That is right.

H.M.Jr: What happens to this is their own business.

Compton: That is correct.

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- H.M.Jr: Well then, if that is the case, if you can get the Texas Company to agree, we will just contact Admiral Spear.
- Compton: You are going to let this Swedish ship go?
- H.M.Jr: I think so. On a ration basis, that is all right. What is in the Swedish ship?
- Compton: The Swedish ship has got 1067 barrels of lube oil, 18,972 barrels of gasoline oil, 83,727 barrels of fuel oil, 440,584 pounds of grease.
- H.M.Jr: I think our position isn't too good on this Swedish boat.
- Berle: It is a foreign ship and foreign charter and foreign title and not a thing in the world we can hang to.
- H.M.Jr: I would let her go.
- Spear: Will that ship get there or will they pick her up some place and bring her in?
- Berle: Admiral, I don't know what the British fleet is doing over there. I have assumed that --
- Spear: I bet she never gets there.
- Cairns: She applied for a navicert on the fifth of June and hasn't got it yet.
- Compton: The British Navy might be more helpful in this than the United States Navy, Mr. Secretary.
- H.M.Jr: That is all right. I appreciate the way you gentlemen approached this thing. It is very helpful and I will tell the President that. Now, we will go on with something else with Mr. Berle, and I thank you very much.

(Mr. Compton, Admiral Spear and Mr. Woodson left the conference)

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- H.M.Jr: That is that. How about the old - the boat is unloading.
- Young: She does not load until 8:00 o'clock in the morning. This is new. A message came through she had two million fifty thousand rounds of 45-calibre ammunition on board, three Pratt & Whitney engines. And she is preparing to load a considerable number of aluminum ingots. Maybe that is to take the place of ammunition.
- H.M.Jr: Well, isn't aluminum on your list?
- Berle: Not my list.
- Young: It has a permit number here.
- Berle: Mr. Secretary, I have requested that all outstanding licenses be revoked subject to immediate reissue on validation. I don't know that all licenses need to be cancelled, but they should be suspended and revalidated so there would be no question. They could be revalidated with a rubber stamp and no time lost.
- H.M.Jr: Well, my thought on this boat is this, that as long as they have volunteered to take off everything that needs a license, we might as well do a hundred percent job. Does aluminum need a license?
- Young: There is a permit number here.
- Cairns: Aluminum is on Maxwell's list, I am pretty sure.
- H.M.Jr: If they would take everything off which needs a license, there would be no trouble about their sailing and if whoever told them gave them the original hint, we would give them that hint.
- Cairns: Yes. I think it was Basil.

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Foley: O'Keefe, I think.

H.M.Jr: He would give them the hint and if they would take off everything that required a license, they would be given a permit to sail promptly.

Young: What else is on it that needs a license?

Cairns: I don't know.

H.M.Jr: I can't hear.

Young: I was asking Mr. Cairns what else was on there that needed a license.

H.M.Jr: Well, three engines, or whatever it is. In other words, it would be - we get down to munitions, isn't that what it amounts to?

Cairns: Yes.

H.M.Jr: O'Keefe was the fellow that gave that.

Cairns: I will get in touch with him as soon as I leave.

H.M.Jr: And the only other thing, we are still holding sugar for Casa Blanca.

Berle: As far as I can see, there is no particular reason for holding sugar for Casa Blanca unless the shipment should be extremely large. How big is it?

Cairns: I haven't the figures on it.

Berle: How big a ship?

Cairns: The Greek vessel? I don't have that.

H.M.Jr: I will get it. Greek vessels are usually small.

(To Lieutenant McKay) I want the size of the ship, this Greek vessel that we are

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holding for Casa Blanca and if possible, how many tons has she got on board. I either want it in a couple of minutes or it isn't much use. They may have it downstairs.

McKay:

All right, sir.

Berle:

In the existing state of affairs, it is hardly unlikely that will go anywhere except to African consumption. A limited amount of it might, I suppose, go into French boats, but as there aren't very many of those left loose, I can't see that there is any reason why the sugar shouldn't go.

H.M.Jr:

We recognize the French Government?

Berle:

I am glad to say the question has not come up. There is a French Ambassador up the street and he has an Embassy and until some Act of some sort comes along which requires us to take some affirmative step, we don't have to answer that question. Sometimes when you don't know the answers, it is not a bad idea to just sit.

H.M.Jr:

Well, there are no other new cases, are there, Dan?

Cairns:

I have one just handed me.

H.M.Jr:

Good.

Cairns:

This is the first one of this type.

H.M.Jr:

This is good mental gymnastics.

Cairns:

A vessel proceeding from New York to Vladivostok, chartered by the Amtorg, a Panamanian vessel, with a general cargo.

Berle:

I should say let it go.

Foley:

So would I.

H.M.Jr:

Has it got to have a license?

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Cairns: It has to have a permit from you.

H.M.Jr: Sailing from where?

Cairns: New York to Vladivostok.

H.M.Jr: General cargo.

(Discussion off the record)

July 12, 1940

A conference was held in Mr. Cairns' office at 10:05 a.m. with T. E. Buchanan, General Manager, Marine Department, Texas Company, and L. A. Moricca, Assistant to the Management, Export Department, The Texas Company. The Texas Company wishes to know whether or not departure permits will be issued for the NEVADA and the ARYAN, American flag vessels, and the HERA, a Swedish vessel, now at Port Arthur, Texas. It is intended that these vessels carry petroleum products to Spain. The following facts were developed:

Monopoly

Since 1928, Compania Arrendataria del Monopoleo de Petroleos S.A. has had the monopoly for the sale, distribution, and importation of petroleum products into Spain. It is a wholly-owned government corporation. It is the consignee and purchaser of the petroleum products intended to be transported by the above-named vessels.

Sources of Spanish Oil

Prior to the outbreak of the war, Spain obtained its petroleum products from Russia, Rumania, and the United States. From 1928 to 1935, the Texas Company was under contract with the Spanish Government to supply its petroleum requirements. Today Spain obtains all its petroleum products from the United States and from the Texas Company.

Statistics of Import

1937 -- 35,000 tons a month to Franco.
 1938 -- 40,000 tons a month to Franco.
 1939 -- 52,000 tons a month (January to March - to Franco).
 1940 -- 72,000 tons a month. (First six months.)

Transportation

The Spanish monopoly uses its own ships, but the Texas Company, in accordance with a verbal understanding, has the privilege of furnishing transportation when the requirements exceed the monopoly's facilities. In return, the Texas Company must, to the best of its ability, supply tonnage when called upon to do so by the monopoly. They have met this last requirement upon numerous occasions since 1936.

Navicerts

The HERA, which is under charter to the monopoly, received a navicert on its last voyage. On June 5, application for a navicert for the HERA was made but has not yet been granted. On June 21, application for a navicert for the NEVADA was made but has not yet been granted. Application for a navicert for the ARYAN has also been made and not yet granted.

- 2 -

Mr. Patrick Hill of the British Embassy is kept fully advised of all petroleum shipments to Spain, and handles the navicert questions.

It was stated that none of the ships carrying petroleum products to Spain had been intercepted by any belligerent.

Cost

It was stated that the cost of each day's delay to the Texas Company in the case of the NEVADA and the ARYAN is \$3,000 a day.

Consequences of Failure to Grant Departure Permit

The representatives of the Texas Company stated that they wished to obey all laws of the United States and, if departure permits will not be granted, they assume that Spain will look elsewhere for her oil, probably to Rumania. They stated, however, that the existing contract is a valuable one, and they are, of course, anxious to preserve it.

Law

The representatives of the Texas Company were advised that departure permits were issued pursuant to the Proclamation of the President, dated June 27, 1940, and the rules and regulations issued pursuant thereto. They were advised that the permits were not issued in connection with the Neutrality Act of 1939.

Conclusion

Messrs. Buchanan and Moricca will return at 3:30 for advice as to whether their vessels will be permitted to depart. They were given no assurance that any definite statement could be made at that time.

July 12, 1940

A conference was held in Mr. Foley's office at 3:45 p.m. today with T. E. Buchanan, General Manager, Marine Department, The Texas Company, and L. A. Moricca, Assistant to the Management, Export Department, The Texas Company, and Mr. Cairns.

The representatives of The Texas Company were advised that careful consideration had been given to the issuance of departure permits for the NEVADA, the ARYAN, and the HERA to carry cargoes of petroleum products to Spain. The representatives were asked if they knew the value of the cargoes of the NEVADA and the ARYAN. According to their best estimate, the NEVADA cargo is valued at \$290,000, including \$180,000 freight, and the ARYAN, \$380,000, including \$180,000 freight. The representatives were also asked if they could furnish estimates of the amount of petroleum products moving to Spain for the six months period beginning July 1, 1940. They replied that they were without any definite figures, but they assumed that the amount would be comparable to that which moved during the first six months period less the amount of asphalt shipped during that period. This would amount roughly to 70,000 tons a month. They were unable to state whether or not this amount represented Spain's normal peacetime needs.

The representatives were advised that it had been decided to permit the HERA to depart, but not the NEVADA and the ARYAN. They were also advised that the Treasury representatives were not in a position to state the reasons for the decision. It was pointed out to them, however, that the Government appreciated the difficulties of the situation, and would attempt to relieve the company of possible losses in connection with the transaction to the extent of arranging for the purchase by a Government agency at the dollar equivalent of the cargoes of the two vessels, or perhaps as an alternative, the purchase of the cargoes directly. The representatives replied that the suggestion as to mitigation of loss was a policy matter upon which they could not speak. They thought, however, that a representative of the company from a different department would communicate with the Treasury on that point. They stated they would give consideration to a submission of figures showing the normal peacetime petroleum requirements of Spain.

E. H. J. L.

HK

This is the note which the Ford representative
drew up while Carl Ward was with him on July 12.

COPY.

NOTE.

Etant données les circonstances nouvelles, il paraît indispensable d'envoyer outre le moteur 89, le moteur 51 aux Etats-Unis. En effet, comme il est impossible d'obtenir une production certainement équilibrée dans l'avenir, et même de connaître immédiatement les stocks existants, il convient de prier la maison FORD ou tout autre groupe associé ou non avec elle, de procéder sans délai à la fabrication de pièces 51 aussi finies que possible.

Tous les documents relatifs à ces pièces sont déjà en la possession de représentants de FORD aux Etats-Unis, pour faire les outillages qui étaient commandés par FORDAIR.

On devrait donc prier la Maison FORD, ou les groupes associés, d'accepter pour le compte du Gouvernement Français des commandes de pièces détachées, formant autant que possible des moteurs complets mais arrivant dans l'ordre des possibilités, c'est-à-dire aussitôt que chacune d'elle sera terminée. Ces pièces, une fois reçues, seront autant que possible complétées par des éléments existant en France et il est bien entendu qu'ultérieurement et le plus prochainement possible, ce sont tous les éléments du moteur 51 qui devront être fabriqués de façon à composer des moteurs complets.

Il n'est pas besoin de les envoyer assemblés pour le moment; un ordre d'urgence pour les pièces sera indiqué.

Un effort spécial et parallèle à celui que fait HISPANO A Tarbes devra être fait en ce qui concerne les métaux légers. Sur ce point, une documentation spéciale sera fournie par HISPANO à la Maison FORD, avec dessins et pièces-type et modèles si possible.

Ces pièces, et éventuellement ces moteurs 51, feront donc l'objet d'une commande du Gouvernement Français.

Le moteur 89, qui est envoyé aux Etats-Unis, a fait à quelques variantes près ses essais d'homologation à Jonzac à une puissance de 1350 CV. Le moteur 51 est en service et donne les meilleurs résultats sur le front. - Il n'est donc pas question ni nécessaire de lui faire subir des essais nouveaux.

Du point de vue industriel, il est très important que la Société FORD en ait un en sa possession pour pouvoir fabriquer les pièces dudit moteur et pour pouvoir se mettre en route, immédiatement et parallèlement, sur la fabrication du moteur 89.

Les accessoires devront être des accessoires standard américains, avec la réserve qu'ils puissent être interchangeables sur avion et moteur avec les accessoires français.

De

-2-

De façon à gagner du temps, on pourra s'inspirer des méthodes américaines en ce qui concerne l'emploi des aciers spéciaux, particulièrement pour les vilebrequins et pour les chemises. On pourra se référer aux recommandations faites par le Dr. Mac Carroll.

Tarbes, le 12 juin 1940.

Having been faced by a new set of circumstances, it seems indispensable to send over Motor #89, Motor #51, to the United States. Indeed, since it is impossible to obtain an absolutely balanced production in the future, and even to know at once what stocks are on hand, it is fitting to urge the Ford establishment, or any other group, whether associated or not with it, to proceed without delay to the manufacture of units 51, as nearly complete as possible.

All the papers relating to these units are already in the possession of representatives of Ford in the U.S.A., in order that the stock of tools which were ordered through* Fordair may be made.

It should therefore be urged upon the Ford firm, or the associated groups, that they accept for the account of the French Government orders for separate parts, forming as much as possible complete motors but arriving in the order of possible shipment - that is to say, as soon as each of them shall be finished. These parts, once received, will be complemented as soon as possible by those parts now in France, and it is understood that eventually, and as quickly as possible, these will be followed by all the different parts of Motor #51, which should be manufactured in such a way that they make up readily into complete motors.

There is no need to send them assembled for the time being; the order of urgency for the different parts will be indicated.

A special endeavor, parallel to that which Hispano is making at Tarbes, should be made in everything that concerns the light metals. On this point, a special set of papers will be furnished by Hispano to the Ford establishment, with drawings, sample parts and models if possible.

*Par means either by or through. The context would indicate it is used in the sense of through here.

- 2 -

These parts, and eventually the Motors #51, will accordingly be the subject of an order from the French Government.

The Motor #89, which is sent* to the United States, has made at various readings, in the course of its trials for official confirmation at Jonzac, up to a power of 1350 CV**. The Motor #51 is in service and gives the best of results at the front. There is no longer any question (in regard to it) nor necessity to make it submit to new tests.

From the industrial point of view, it is very important that the Ford organization have one in its possession, in order that they may be able to manufacture the parts of the said *** motor, and to be able to go to work, immediately and at the same time, on the manufacture of Motor #89.

The accessories should be the standard American accessories, with the reservation that they should be interchangeable on both airplanes and motor with the French accessories.

In order to gain time, full use should be made of American methods in everything concerning special steels (tools ?), particularly for the drills and for the cases (cowling ?). In this connection, refer to the recommendations made by MacCarroll.

Tarbes, June 12, 1940.

* May mean "is being sent".

** This sentence is confusing in construction. The translation gives what seems to be its sense, but the aeronautical terms may not be rendered into the exact English equivalent.

*** The latter motor (?). This would seem to mean #51. (Last Paragraph) Several technical terms not included in even recent dictionaries. All give the word "wimble" for vilebrequins, but one also gives drills, which is used here. Also chemise indicates some sort of covering - might be cowling, motor block, etc.

July 12, 1949.

My dear Mr. Compton:

I want to acknowledge your letter of July 8th, which encloses a copy of a memorandum from the Chief of the Bureau of Ordnance to the Judge Advocate General.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Louis Compton,
Assistant Secretary of the Navy,
Washington, D. C.

GHF/dbs

By-Messenger

July 12, 1948.

My dear Mr. Cuyler:

I want to acknowledge your letter of July 9th, which encloses a copy of a memorandum from the Chief of the Bureau of Customs to the Joint Adversary Council.

Sincerely,

(Signed) H. Morgenthau, Jr.

Harold Louis Cuyler,
Assistant Secretary of the Navy,
Washington, D. C.

GMF/dbs

July 12, 1948.

My dear Mr. Crompton:

I want to acknowledge your letter of July 9th, which encloses a copy of a memorandum from the Chief of the Bureau of Customs to the Judge Advocate General.

Sincerely,

(Signed) H. Morgenthau, Jr.

Enoch L. Crompton,
Assistant Secretary of the Navy,
Washington, D. C.

HEM/dbe

14-51511/QU(400624)

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
WASHINGTON

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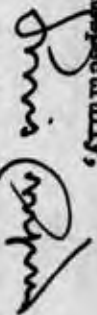
8 JULY 1940

S I T:

Your letter to the President, dated June 20, 1940, referring to testimony by Rear-Admiral Furlong regarding the Vinson-Trammell Act, has been brought to my attention by the President.

I regret that any interpretation of Admiral Furlong's testimony has resulted in the feeling that there are any objections on the part of the Navy Department to the worthy purposes of the Vinson-Trammell Act, and I trust that the enclosed copy of a statement from Admiral Furlong to the Judge Advocate General of the Navy, dated 24 June 1940, will clear up any misunderstanding that may have existed.

Respectfully,



Acting Secretary of the Navy

The Honorable
The Secretary of the Treasury.

OFFICE
SECRETARY OF TREASURY

1940 JUL 9 AM 8 56

10:3 ✓

TREASURY DEPARTMENT

(C O P Y)

NAVY DEPARTMENT
BUREAU OF ORDNANCE
WASHINGTON, D.C.

L4-3(11/1116)(AS)

24 June 1940.

From: The Chief of the Bureau of Ordnance.
To: The Judge Advocate General.

SUBJECT: Clearance of Contracts and Certifications with the Treasury Department.

Reference: (a) Memo of the Assistant Secretary dated 21 June 1940.

1. With reference to Mr. Morgenthau's letter to the President stating that my testimony made it difficult for him to carry out the Vinson-Trammell Act, there is a very great misconception as to my testimony and its purposes. I am and have been one of the strongest advocates of the Vinson-Trammell Act and I think that its provisions as to limitation of profit should be extended to all government departments and all government purchasing.

2. I was not testifying before the Committee handling H.R. 9822. I was testifying before the Senate Sub-Committee on Appropriations on the First Supplemental National Defense Appropriation Bill 1941, H. R. 10055. The Navy was asking in that bill for appropriations for facilities for government and private plants to speed up production.

3. I asked for funds for expansion of facilities for powder in a government plant. Senator Byrnes wanted to know the position of the private manufacturer as to expansion in his plant. My reply as quoted sets forth exactly the stand of the many manufacturers whom I have urged and implored to put in facilities to increase production. They have held back when I knew they should be expanding. They have stated that they felt they would not be allowed to recover the costs of enormous outlays for facilities.

4. Because of the fears and hesitancy of manufacturers, the Bureau of Ordnance, faced with the necessity of getting ahead with production, asked for and obtained authority in the Third Deficiency Appropriation Act of August 1939 to use \$6,000,000 to put facilities in private armor plants. In the bill on which I was testifying other bureaus also were asking for funds to pay for facilities in private plants. This will be a solution for obtaining shipbuilding facilities and expansion of ordnance production in private plants where great expenditure is involved. However, there are many smaller plants and even some of the largest contractors that would prefer not to have the government own the facilities in their plants.

(C O P Y)

L4-3(11/1116)(A8)

- 2 -

5. I prefer that they put in facilities themselves under the Treasury Department regulations but as they do not see their way clear, the only thing to do is for the Navy to pay for the facilities.

6. There is need now for a \$2,000,000 or more expansion at the Erie plant and Schenectady plant of the General Electric Company to manufacture the 5-inch antiaircraft mounts and guns needed in great numbers. They have held back on the necessary expansion. If the rules prescribed by the Treasury under H.R. 9822 show the contractors that they have a chance of recovering their outlay over not too long a period, there will be no trouble about expansion for most of the contractors have the funds and do not need the government to pay for facilities. There are a great number who have no reason to expand for their normal business but they must expand if we are to finish the ships on time. All they ask is to get back what they pay out for facilities over not too long a period.

7. It is rather unfortunate that Mr. Morgenthau should think that I or any one in the Navy is concerned about the administration of the tax. It is none of my concern except that I believe in the Vinson-Trammell Act 100% as regards limitation of costs. It is one of the finest pieces of legislation on our books and is the one block to war profiteering. But when contractors refuse to put in facilities because they fear the costs will not be allowed by the time all contracts are finished, then there is nothing for me to do but ask for funds for the government to pay for the facilities. My testimony was telling Senator Byrnes why we had to have money for facilities in private plants.

W. R. FURLONG.

MES

- 2 -

TREASURY DEPARTMENT
 INTER OFFICE COMMUNICATION

DATE July 13, 1940

TO Secretary Morgenthau

FROM Mr. Oochran

STRICTLY CONFIDENTIAL

At 4:30 yesterday afternoon Mr. Pinsent told me that Sir Frederick Phillips and Mr. Bewley had arrived at Halifax. Consequently I telephoned Mr. O'Keefe at New York to this effect so that he would not be meeting ships. I also telephoned Mr. Dow in Customs, who promised to send the necessary telegrams to the districts of Portland, Maine, St. Alban's, Vermont, and Ogdensburg, New York, with the view to giving the two gentlemen free entry wherever they may cross our frontier.

Pinsent told me that he expected the visitors to reach New York only on Saturday night or Sunday. They would probably spend some time there with Mr. Purvis, since they have problems to discuss with the Purchasing Mission. They should, therefore, not arrive in Washington before Sunday night or Monday.

I gave the above information to the Secretary by telephone at 9:30 this morning. I subsequently spoke with Mr. Pinsent, who still has no further information, but who promised to let me know over the weekend if he may learn of precise plans. In order that I may telephone this to the Secretary at the farm.



July 13, 1940

HM, Jr phoned the following from the Farm this morning:

I spoke to Arthur Purvis yesterday afternoon. I called him from the railroad station at a quarter of four and told him that the situation on Packard looked much better and I had given it a little push.

Packard Will Make Airplane Motors For U. S. And Britain

JUL 13 1940

By **GERALD GRIFFIN**

(Washington Bureau of The Sun)

Washington, July 12—The board of directors of the Packard Motor Company has approved a general arrangement for the manufacture of 3,000 Bells Royce aviation engines for the United States Government and 5,000 for Great Britain, William S. Krusen, member of the National Defense Advisory Commission, announced late today.

Contracts are being prepared to cover the United States part of the order, and will be put into effect at once.

This announcement made it plain that the final kinks remaining in these negotiations had been straightened out, and that an important phase of the airplane procurement program was making headway.

Turned Down By Ford

The order is the one which would have gone to the Ford Motor Company had not Henry Ford balked at building engines in this country for a belligerent nation.

It was announced on July 3 that M. M. Gilman, president of the Packard company, was favorably inclined toward the contract, and would place the matter before the company's board of directors. The board held back until several points could be settled.

These points, it was understood, included amortization for tax purposes of the investments to be put into the new plant necessary to handle the order. An agreement was reached two days ago to write into the new excess profits tax bill a provision allowing amortization in five years of defense plant investment.

Question About Capital

There was some question, also, about the capital with which the company was to build its plant additions. The company has discussed this subject with the EFC, but it was

(Continued on Page 4, Column 4)

PACKARD VOTES TO MAKE 9,000 PLANE ENGINES

Directors Delayed Decision Until Several Points Were Settled

Contracts For Motors For U. S., Britain To Go Into Effect At Once

By **GERALD GRIFFIN**

(Continued from Page 1)

not disclosed today whether it is to obtain a Government loan or obtain the needed funds from private sources.

Mr. Gilman estimated that it would take ten months to tool and prepare for production of the engines. Production would start at twenty engines a month and, at the end of fifteen months, reach a total of 800 a month.

The Defense Commission has been anxious to have work start on these engines because of the demand for liquid-cooled motors of this general type for use in the newest model planes. At the same time, however, the commission and the army and navy are going ahead with orders for many additional air-cooled engines, which already are in production.

\$136,743,900 Contracts

Earlier today the navy awarded contracts for \$136,743,900 for naval bases, air stations and other shore establishments on both the Atlantic and Pacific coasts and at the Canal Zone, Hawaii and other Pacific islands.

Included among these contracts was a \$24,204,000 award for the construction of aviation shore facilities at Quonset Point, R. I.; \$12,709,000 for similar facilities at Norfolk, Va.; \$12,786,000 for the naval air station at Jacksonville, Fla.; \$4,000,000 at Pensacola and \$2,500,000 at Miami.

For aviation facilities, buildings, fuel storage, dredging and other work at Pearl Harbor and other island possessions in the Pacific, \$30,870,000 will be spent. In the Canal Zone, an \$11,050,000 award was allotted for aviation facilities at Coco Solo.

No Need To Change Wage Law

STONINGTON, ROOSEVELT, immediately made public a letter from Col. Philip B. Fleming, Wage-Hour Administrator, reporting that no need has developed thus far for modifying the time and one-half for overtime requirement of the wage-hour law. The President observed that in the light of Colonel Fleming's finding, the Administration would go ahead with its present policy of not refusing the maximum hour or overtime provisions.

"The question whether in the light of the national defense emergency it will be necessary to raise the ceiling for hours above which time and one-half must be paid, has given me much concern," Colonel Fleming wrote.

"As a soldier, the nation's defense is my primary interest. My assignment to the administration of a labor law has in no way lessened that interest. Were there any defense need in certain industries for abrogation of the time-and-one-half rule, nothing could keep me from so reporting. In my contracts with industry no such need has yet been demonstrated to me."

Cites British Report

The wage-hour administrator called attention, in this connection, to the wartime report of the British munitions commission, stating that from experiments spread over a period of more than a year, a reduction of working hours of munitions workers was associated with an increase of production. A forty-five-and-one-half-hour week was found to yield more in products than a sixty-six-hour week, and practically as much as a fifty-five-hour week.

Colonel Fleming referred, also, to a general order issued by the army chief of ordnance in November, 1917, which said that "industrial history proves that reasonable hours, fair working conditions and a proper wage scale are essential to high production." It also asserted that "the pressing argument for maintaining industrial safeguards in the present emergency is that they actually contribute to efficiency."

The production line techniques of industry have been greatly developed since the British and American documents he cited were written, Colonel Fleming said, so that maximum efficiency of a machine usually is obtained "by using relays of workers in shifts short enough to make constantly intense effort possible."

He asserted also that the forty-hour week in France, which was blamed for slowing up production and which was dropped before the war began, was generally a rigid limitation on working hours. The American law, he noted, does not involve such a limitation, but requires that time and a half be paid for hours worked in excess of forty-two a week.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 13, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Cameron telephoned me from the Federal Reserve Bank this morning. He stated that a cablegram had been received from the Central Bank of Lithuania authorizing the transfer from its gold earmarked account with the Federal of \$2,750,000 to the account of the State Bank of Russia. This would leave only about 1,800 ounces of gold in the Lithuanian earmarked account with the Federal. There is a dollar balance of approximately \$48,000. The Federal has not yet received the necessary wire from the State Bank of Russia to accept the transfer. Consequently it will not take place today. I told Cameron in confidence that we were studying the problem of balances in Baltic countries and that he should consult us further on Monday before taking any action. He promised to send copies of the Lithuanian cablegram to us today, as well as any message that may be received from Russia.

At 12:45 noon Mr. Livesey telephoned me from the State Department to the effect that Mr. Henderson, in charge of the Russian section of the State Department, was again discussing in the Department the reported withdrawal from banking accounts in New York of the three Baltic countries of Lithuania, Estonia and Latvia. I told Livesey that we had prepared a letter for the Department of State, at their request made two days ago, giving the balances of these three countries on the American market. I reminded him that we had had up with the State Department some days ago the question of applying our control to this area, but that the State Department had opposed such action. Mr. Livesey stated that his Department desired that the Treasury ask the following banks: the Federal Reserve Bank of New York, National City, Guaranty Trust, Irving Trust, American Express Company, and Chase National Bank not to permit any important withdrawals from Baltic accounts until after consultation with the Treasury. Livesey said this was a temporary arrangement pending the return of Mr. Berle from New York so that he may be consulted on a definite program.

I telephoned the Federal immediately after receiving this message, but did not reach Mr. Cameron until 3 p.m. I told him that if he did not hear from us to the contrary before the opening of the New York banks on Monday morning, he should informally solicit the cooperation of the above-mentioned banks in the sense desired.

I telephoned Under Secretary Bell at 9:30 a.m. Sunday, to give him the above story.

Paraphrase of telegram number 2831 from American Embassy, Berlin, Germany, dated July 13, 1940.

Secretary of State,
Washington.

STRICTLY CONFIDENTIAL

A trade agreement between Finland and Germany which envisages a trade increase between them has been concluded according to the press, which published no details as to the items affected. It is stated by well-informed Finnish circles in Berlin that shipments to Germany from Finland may approximate one and three quarters the amount for the last half of 1938. These circles confirm the report regarding the conclusion of a payment agreement. Primary products such as eggs, butter, cheese and like products, as well as wood products such as timber and paper, logs, and pulp will go to Germany. Paper pulp and paper presented some difficulty, but Germany in the end agreed to the Finnish request that appreciable quantities, though less than Finland wished, should be included in the agreement.

On the other hand, Germany was willing to take all dairy products' shipments and meats that Finland could export, but those exports will decrease owing to declines in their domestic production. Manufactured goods, coal, coke, iron and steel will be shipped to Finland by Germany. The

Finnish

-2-

Finnish negotiators were told that Germany could provide only about three-quarters of the Finnish requirements of coal, coke, iron and steel because of the war situation, and decreased quantities of other products. The Finns had tried to obtain more of these products. Shipments of Finnish pulp to overseas neutral countries, including the United States, have been held up, on one ground or another, by the German naval authorities. A trial shipment from Petsamo has been made, according to Finnish circles, but transportation costs and difficulties via that route render doubtful much export trade through that port.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
GND JUL 18 PM 3 21
RECEIVED
BREVIERY DEPARTMENT
DCARHK:LM

RDS

GRAY

Berlin

Dated July 13, 1940

Rec'd 6:20 p.m.

Secretary of State,
Washington.

2830, July 13, 9 a.m.

My 2359, July 6, 10 a.m.

FOR TREASURY FROM HEATH AND ALSO FOR THE INFORMATION
OF THE DEPARTMENT.

The Reichsbank's statement for July 6 shows a relatively slight easement of its position since June 29. Its investment portfolio which had shown an increase of 804,000,000 marks the last week of June declined by only 223,000,000 marks to 13,011,000,000 marks and miscellaneous assets which had shown a 465,000,000 marks increase the previous week declined by only 124,000,000 marks to 1,739,000,000 marks. Note circulation decreased by 229,000,000 marks to 15,556,000,000 marks following an increase of 819,000,000 marks the week before and sight deposits decreased by 88,000,000 marks to 1,766,000,000 marks as compared with an increase of 376,000,000 marks the previous week.

The Reichsbank reported total clearings for June of 131.5 billion marks in its giro system (for payment transfers between banks and large firms having giro accounts at the Reichsbank) and 7,000,000,000 marks in its abrechnung systems

-2- #2830, July 13, 9 a.m., from Berlin.

systems (maintained in some of the larger cities for clearings between large local banks). These figures compare with 137,000,000 marks in April and 135,000,000 marks in May in the giro system and 8,000,000,000 marks in April and 7,000,000,000 marks in May in the abrechnung system. In 1939 the average monthly giro clearings were 109.6 billion marks.

According to a report of the coinage minted from April 1 to June 30 which has just been published total coinage in circulation decreased during this period by 1018.3 million marks to 1896.4 million marks on June 30. This fairly large decrease was due to the withdrawal from circulation of a large amount of nickel one mark and fifty pfennigs pieces which was partly off set, however, by the new aluminum fifty pfennigs pieces and zinc ten, five and one pfennigs pieces minted. Subtracting the Reichsbank's coin holdings on the dates in question the total coinage in circulation on June 29 was 1,540,000,000 marks as contrasted with 1579.2 million marks on March 30th.

KIRK

EMB

PARAPHRASE OF TELEGRAM

TO: Secretary of State, Washington
 From: American Legation, Kansas
 Date: July 13, 1940, 10 p.m.
 No.: 185

A Director of the Lietuvos Bankas has confidentially informed a member of my staff that the Lietuvos Bankas has been secretly forced by the Soviets to transfer all available gold reserves and that the Soviets under duress have obtained the signatures necessary for assigning to the Gosbank ear-marked gold. They are giving for exchange for actual transfers American dollars at 35 per fine ounce. The total amount involved approximates \$10,000,000, of which from 2-1/2 to \$3,000,000 is on deposit with the Federal Reserve Bank in the United States and \$350,000 is in Kansas. It is understood that they have not as yet touched foreign exchange holdings in Lithuania and abroad. On the black exchange dollar notes are being quoted at present at lite 50.

TO THE SECRETARY
 TECHNICAL ASSISTANT
 OFFICE OF THE

SO S M 12 6M 5 OS

RECEIVED
 DEPARTMENT

Re: LHM: HCS

COPIES: EA: EB

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

July 13, 1940.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses one copy of telegram No. 2143 of July 13 from London.

THIS COPY DEPARTMENT
RECEIVED

END JUL 13 PM 1 11

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

ATP

GRAY

LONDON

Dated July 13, 1940

Rec'd 8:40 a.m.

Secretary of State,
Washington.

2143, July 13, noon.

PERSONAL FOR THE SECRETARY OF STATE AND SECRETARY
OF THE TREASURY.

Brendonbracken of the Prime Minister's staff told me that large supplies of gold and United States securities have been seized in France by the Germans. He offered the suggestion that the Germans intended to demoralize the United States security market during the Presidential campaign. I pass this on without comment. I suggested that possibly the British Treasury had a list of the United States securities held in France and if so I would like to have it to send to the United States. He said he would look this up at once. He thought the gold might be used to bid up prices of supplies, Britain would find it necessary to buy in other countries.

Governor Norman told me last night he does not plan at the present time to do anything further with sale of American securities in the United States. It is of course becoming obvious that Britain's purchases in the United States are of such great amount that the sale of
securities

-2- #2143, July 13, noon. from London

securities in the market is academic question.
Sooner or later the United States Government will find
itself forced to do something about these holdings if
they expect to get their bills paid.

KENNEDY

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, (Paris) La Bourboule

DATE: July 13, 1940, 3 p.m.,
Rec'd 8:18 a.m., 15th.

NO.: 63

FOR THE TREASURY DEPARTMENT FROM MATTHEWS.

Reference is made to telegram of July 12, 10 p.m.,
No. 59 from the Embassy.

This morning Cariguel telephoned that they had received word that in Bordeaux Lloyd's Bank is only paying 30 percent on deposits. He said that he also had information - which has not yet been fully confirmed - that the assets in France of Lloyd's Bank totaled only some 300,000,000 francs to cover 700,000,000 francs liabilities. Cariguel said it appeared that the British managers took to England substantial amounts either of Bank of France notes or of French national defense bonds. The Bank of France felt, he said, that for this state of affairs to be allowed to continue was obviously prejudicial to the best interests both of Lloyd's Bank and of the French depositors and public.

Payments in full to depositors are being made by all other banks. Cariguel asked that I send you the foregoing by cable with the thought that you might find it possible and desirable to bring the matter to the attention of the Bank of England informally. He added that substantial franc
balances

- 2 -

balances were owned here by the Bank of England, and the Bank of France would be glad to have these utilized to remedy the foregoing situation. He said that whatever solution might be suggested to solve the problem would be quite agreeable to the Bank of France.

If you could cable me any information as to the Bank of France's status and that of the French Government accounts under the executive order blocking French balances which I presume has been issued, and any general licenses supplementary thereto, I should greatly appreciate it. Here I am completely isolated, and except after long delay, I do not have access to the radio bulletins of the Department of State, nor to our radio or our press.

END OF MESSAGE.

MURPHY.

EA:LWW

PARAPHRASE OF TELEGRAM

TO: Secretary of State, Washington
From: American Legation, Kaunas
Date: July 13, 1940, 10 p.m.
No.: 153

A Director of the Lietuvos Bankas has confidentially informed a member of my staff that the Lietuvos Bankas has been secretly forced by the Soviets to transfer all available gold reserves and that the Soviets under duress have obtained the signatures necessary for assigning to the Gosbank ear-marked gold. They are giving for exchange for actual transfers American dollars at 35 per fine ounce. The total amount involved approximates \$10,000,000, of which from 2-1/2 to \$3,000,000 is on deposit with the Federal Reserve Bank in the United States and \$350,000 is in Kaunas. It is understood that they have not as yet touched foreign exchange holdings in Lithuania and abroad. On the black exchange dollar notes are being quoted at present at lits 50.

Eu:LWH:MGS

COPY:EA:EB

July 13, 1940

Mr. Bell

Mr. Cochran

With reference to the inquiry which I made some days ago of Mr. Duggan of the State Department, I have now received from his office word that a cablegram from our Ambassador at Bogota reports that Mr. Louis Dion had arrived in New York from France on May 24, 1940. Mr. Dion is said to have made plans for remaining in the United States and becoming an American citizen. His New York account is with the National City Bank.



ENG:lap-7/13/40

277

Washington, D. C.
July 13, 1940

Personal

My dear Mr. Secretary:

With reference to our recent conversation, I am in receipt of a telegram from the National Resources Commission at Chungking, reporting that the price we obtained from the United States Government for our Indo-China stock of wolfram ore was \$16.00 per unit, and for refined antimony 14 cents per pound, both c.i.f. New York.

May I tell you again how much I appreciate your kindness in asking me to luncheon the other day, and the opportunity of discussing matters with you?

With kind regards, I am

Yours faithfully,

Walter Dill Scott



THE SHOREHAM - WASHINGTON, D. C.

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BRITISH EMBASSY,
WASHINGTON, D.C.

July 14th, 1940

PERSONAL AND
SECRET

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a copy
of the latest report received from
London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. S. S.

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D. C.

Telegram despatched from London
on evening of July 13th, 1940

1. French battleship "Paris",
Centre Torpilleur Le Triomphant, destroyers
Mistral and Ouragan commissioned July 12th as
tenders of H.M.S. "Drake". Flying boats report
sinking one Italian submarine morning of July 12th
and another same afternoon between Malta and
South Italy. A third reported damaged by two
anti-submarine trawlers.

2. Fleet air arm carried out successful
mine laying operations on north-west coast of
Holland last two successive nights. Last night,
22 Royal Air Force bombers despatched against ship-
building yards at Kiel and Baden. All returned
safely. Reports not yet received. Bad weather
prevented other projected night operations.

Reconnaissance yesterday reported 50 barges on
Leebrugge-Bruges canal and unbroken line of
barges three abreast for eight miles in Ostend-
Bruges canal.

3. A single enemy aeroplane, unannounced
by air raid warning, dropped 10 bombs on
Aberdeen yesterday mid-day. 35 persons killed,
several wounded. A direct hit on boiler house
has put yard out of production, this machine
brought down ten minutes later. Convoy attacked
off Suffolk coast and bombs also dropped at

-2-

Newport and Humber. Last night sporadic attacks chiefly with incendiary bombs, in Glyde, Cardiff and Tynsidae areas. No serious damage reported. Casualties few. During yesterday 16 enemy bombers and 2 Messerschmidt 110s. were destroyed, another 6 bombers probably casualties. We lost 6 aircraft.

4. Shipping losses reported yesterday, one British trawler sunk off Iceland, one British ship sunk off East Coast, both by aircraft. One Danish ship damaged during Portland air raid.

5. Egypt. On July 10th 22 Blenheims attacked Italian petrol dumps near Tobruk. Hits registered on target. Damage unassessable owing to clouds. All aircraft returned. On July 11th Wajazz attacked by 3 enemy bombers. 2 aircraft of South African Air Force intercepted, shooting down one and badly damaging another.

PARAPHRASE OF TELEGRAM

To: Secretary of State, Washington.

From: American Legation, Tallinn.

DATED: July 14, 1940, 11 a.m.

Rec'd: July 14, 1940, 12:45 p.m.

No.: 91

A reliable source informed me unofficially last night in the strictest confidence that on Saturday July 13 the Estonian Bank was required to transfer to the Gosbank, that is the Soviet State Bank, its gold abroad and that the Estonian Central Bank has been given by the Soviets the equivalent in a dollar account in the Gosbank. These gold holdings I am told approximate a total of \$47,000,000 of which \$9,000,000 are in New York at the office or bank representing the Baseler Bank, \$10,500,000 are in Sweden and 20,500,000 in England. The remaining \$7,000,000 are distributed in other places.

It is my understanding that current dollar credit accounts held in the National City Bank of New York or elsewhere by the Estonian Central Bank are not affected.

I am not trying to confirm the above statements from official sources because of their highly confidential character.

Eu:LWH

COPY:EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Riga

NO.: 191

DATE: July 14, 1940

Reference is made to my no. 183 of July 6, 10 a.m.

I have been informed by a member of the Government of Estonia that over \$3,000,000 of Estonian gold, as well as other assets, are in the United States. He said it was his belief that pending a settlements of accounts it would be perfectly justifiable for the United States to freeze the gold mentioned above since undoubtedly payments on Estonian dollar bonds and other indebtedness in the United States will be stopped by the Soviet Government.

It might be desirable to take immediate action in the event the Department plans to block gold and other Baltic assets in an effort to afford protection to legitimate American claims. It would seem that entirely adequate grounds for such action lies in the obscurity surrounding both the present and future status of these Baltic nations.

EA:EB

TO THE SECRETARY
LEGATION OF THE UNITED STATES
RIGA

JUL 14 1940

RECEIVED
LEGATION OF THE UNITED STATES
RIGA



THE UNDER SECRETARY OF THE TREASURY
WASHINGTON

July 15, 1940

MEMORANDUM FOR THE SECRETARY:

Reports up to Saturday night indicated that we had received subscriptions to the 2-1/4 per cent Treasury Bonds of 1954-56 in the aggregate amount of \$6,747,000,000, of which approximately \$37,000,000 represent the subscriptions received for the registered securities to be held 90 days.

We will have final reports in tomorrow evening and hope to make allotment early Wednesday morning. I am wondering, therefore, if it will be sufficient for you to say this afternoon that preliminary reports indicate that the total subscriptions are more than eleven times the amount of the public offering and that the subscriptions for the \$5,000 of registered securities are in excess of \$35,000,000. 600 X11

As a matter of information, you might also say that of the \$21,000,000 in subscriptions received last December for the 2 per cent 1948-50's in the \$5,000 registered class, 60 per cent of the bonds allotted are still held in registered form. This is an excellent showing. The 40 per cent exchanged for coupon bonds does not necessarily mean that these are not still held by the original subscribers, as it may be more convenient for the investor to hold his investment in coupon securities.

swB

TREASURY

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JR

GRAY

Moscow

Dated July 15, 1940

Rec'd 12:58 p.m.

Secretary of State,
Washington.

859, July 15, 5 p.m.

Today's newspapers publish a ukase of the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics in which it is stated that the issuance of poor quality or defective industrial products or the issuance of goods below the obligatory standards constitutes anti-state crime equivalent to wrecking. Directors, chief engineers and chiefs of departments or others responsible for such conditions are subject to trial and imprisonment ranging from five to eight years. Editorials in PRAVDA and IZVESTIYA praise the ukase and cite various examples of poor quality or defective production.

THURSTON

WSB

ATP

PLAIN

STOCKHOLM

Dated July 15, 1940

Rec'd 4:50 a.m. 16th

Secretary of State,
Washington.

729 Fifteenth.

Swedish supplementary trade agreement with Germany mentioned in 720 eleventh provides for an increase this year in Swedish exports of about 140 million crowns particularly sulphate pulp paper iron and steel tools and machinery. The German foreign exchange allotment for Swedish pulp and paper has thus been raised by 33 million marks of which sixty percent for woodpulp and forty percent for paper. Germany agrees to increase shipments of coal and coke by one million two hundred thousand tons but at a considerably higher price than the level fixed in January this increase in the coal prices is alleged to offset the rise in prices of Swedish exports to Germany since the outbreak of the war excepting iron ore. In view of improved outlook for imports of coal authority just given by Fuel Commission permitting sale of coal and coke for next winter up to thirty percent of consumption during 1938-39 for heating purposes new Swedish company incorporated by all oil companies in collaboration with State Reserve Supply Board looking to pooled importation

-2- #729 July 15, 4:50 a.m. 16th from Stockholm

importation of petroleum products from overseas via Petsamo. Project still in preliminary stage and it is planned to erect oil tanks in Petsamo but project dependent on attitude of British blockade authorities. Swedish State has approximated three million 500 thousand crowns as first subscription in share capital of previously reported new steel mill to be erected in northern Sweden at cost of 10 million crowns. Coupons of Norwegian State 3 one half percent 1936 Norwegian Mortgage Bank 3 one fourth percent 1938 and Norwegian Small Holders and Housing Bank three percent 1938 Swedish loans maturing in Stockholm July 15 paid by local issuing banks out of funds received from London appropriated from Norwegian shipping remittances. Consolidated report of commercial banks for June indicates drop in deposits to 4,128 loans and discounts to 4,788 rediscounts to 202 cash to 189 and net foreign exchange holdings to 94 all in million crowns. Protested bills during June increased to 4,340 involving two million crowns compared 3,356 and one million 400 thousand crowns June 1939. Wage agreement involving 12 thousand workers in graphic and printing trades signed effective until June 30, 1941, which provides increase in wages of about 10 percent and for automatic increase based on cost of living index but agreement may be canceled by either party

-3- #729 July 15, 4:50 a.m. 16th from Stockholm

party if notice given fortnight before February 1 and April 1, 1941, Undersecretary of Swedish Foreign Office and several other delegates returning to Moscow today for further discussion of projected Russo Swedish agreement.

Inform Treasury and Commerce.

STERLING

DDM



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA

July 15, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a paraphrase copy of a telegram received from the American Ambassador to Colombia dated July 11, 1940.

Enclosure:

Paraphrase copy of telegram
from Colombia, dated July 11, 1940.

TO THE SECRETARY OF STATE
FROM THE AMERICAN AMBASSADOR TO COLOMBIA
JULY 11, 1940

94 11 1940

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[PARAPHRASE]

Of: Telegram dated July 11, 1940

From: American Ambassador to Colombia

With regard to the funds of ^OLuis Dieu concerning which you have wired me I am informed that the interested person arrived in the United States from France on May 24, 1940, that he plans to remain in the country at least long enough to become an American citizen and that his funds are on deposit in the National City Bank of New York, New York City.

TO THE DIRECTOR
1800 1800 1800
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1800 1800 1800

1800 1800 1800
1800 1800

Treasury Department
Division of Monetary Research

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Date July 15, 1940 19

To: Secretary Morgenthau

Not knowing what time you planned to take the matter up with the President tomorrow, I am taking the liberty of sending this to your home this evening.

There is appended a suggested draft of a memorandum for the President (two pages) with appended exhibits of explanatory matter. I thought you might wish to look it over tonight and indicate what changes you might wish so that I could have it altered before 9 o'clock tomorrow (provided you telephone me early in the morning).

You may prefer the memorandum without reference to any exhibits and without the appendices, so I am having a copy retyped without reference to the exhibits.

MR. WHITE
Branch 2058 - 210

THE SECRETARY OF THE TREASURY
WASHINGTON

July 15, 1940

MEMORANDUM FOR THE PRESIDENT

Preliminary Report on the Possibility of Financial
Assistance to China

1. Mr. T. V. Soong submitted a memorandum (Exhibit A, attached) tentatively outlining China's needs as follows:
 - a. For currency support --- \$50 million and an additional equivalent amount "by way of window dressing"
 - b. For purchase of planes, military equipment, and for equipping arsenals -- a total of \$70 million.
 - c. For transportation improvements, i.e., Burma road, air transport facilities, chiefly from upper Burma to China, and completion of the Burma railway --- a total of \$20 million.
2. Mr. Soong also submitted a tentative suggestion for China's currency support (Exhibit B, attached). The proposal submitted was merely for purposes of opening the discussion. The matter has to be gone into very carefully before even a preliminary opinion can be given as to the feasibility of extending financial assistance from the Stabilization Fund for the support of China's currency. Such examination is going forward rapidly now, but it will take at least a fortnight before the matter is clarified enough to come to your attention for decision.
3. On June 25, 1940 the amendment to the Reconstruction Finance Corporation Act was passed making it possible for a corporation, organized by the Reconstruction

Finance Corporation, to make payments, with the approval of the President, against the purchase price to be paid for strategic and critical materials in advance of the delivery of such materials. Under this authority we believe it will be possible to purchase critical and strategic materials from China and Russia (Exhibit G, attached).

According to a tentative schedule submitted by Mr. Soong (Exhibit D, attached), China can deliver at least \$50 million worth of wolfram (tungsten), antimony and tin over the next five year period in excess of commitments she now has outstanding to United States and Russia.

From a preliminary survey made of published data, it appears that Russia might be able to deliver to the United States from \$100 to \$200 million during the next five years of manganese ore, chromite ore, mercury, asbestos, platinum, fluorapatite ore and possibly several other items on our list of needed strategic commodities (Exhibit E, attached).

In line with your suggestion of exploring the possibilities of a three-way arrangement, the following plan may be worth further examination:

- (a) We purchase from \$100 to \$200 million of strategic commodities from Russia for delivery as rapidly as possible but probably extending over several years. We make advance payments for part of the purchase, possibly in proportion as Russia extends effective equivalent credits to China.
 - (b) Russia on her part agrees to extend to the Government of China equivalent credits; (in addition to the \$50 million or so credits reported by Mr. Soong to be still outstanding. China is using up the credit as rapidly as Russia will permit).
 - (c) To eliminate the risks of non-delivery of goods from Russia to the United States, the possibility of Russia's willingness to leave gold on earmark with the United States to an amount equivalent to the sums we pay in advance might be explored. The gold would be unblocked, and withdrawn if desired, as delivery of goods was made.
4. If this proposal is along the lines you had in mind, the next step should be for me to contact the Russian Ambassador to ascertain his government's reaction to this proposal.

Attachments

July 12, 1940

S E C R E TAID TO CHINA*Received from
T. V. Soong*

In order to maintain organized resistance against Japan as effectively as possible, China is in need of the following assistance:

1. For currency support, in order to maintain the country's economic and financial structure and avoid disastrous consequences to morale, to sustain the position of Chinese currency in enemy-occupied as well as Chinese-controlled areas, and to maintain a medium of exchange for legitimate foreign trade not subject to the trade and exchange control of Japan. Provision of fresh funds amounting to U.S. \$50,000,000 is desired for currency support, and if possible an additional amount by way of "window-dressing".

While the present technical position of the exchange market is fairly good, the rise of prices in the interior is proceeding with acceleration. Support of the currency is specially important so that internal confidence in the currency would be increased and the rate of increase of prices checked accordingly.

2. For purchases:
- (a) Materials for essential needs (specially for arsenals).
 - (b) Airplanes for military purposes obtainable in the United States.
 - (c) Other military equipment procurable in the United States or in Russia.
3. For transportation:
- (a) To improve the Burma Road by paving portions with asphalt or concrete as may be found practicable;

- 2 -

and to organize a transportation company to operate between Burma and different points in China, with joint American-Chinese or American-British-Chinese participation to conduct transportation as efficiently as possible.

- (b) To develop air-transport from Lashio (Upper Burma) to Kuming, and on other routes as may be practicable, by purchasing and operating additional transport planes to be operated by the China National Aviation Corporation.
- (c) To complete the Burma Railway, which is estimated to be practicable within two years, in order to increase transport facilities, and in preparation for a final counter-attack when world conditions permit or require.

July 15, 1940

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YSECRETMILITARY EQUIPMENT

(1)	10,000 7.9 mm light machine guns	U.S. \$2,500,000
(2)	300,000,000 7.9 mm cartridges	7,500,000
(3)	7.9 mm infantry rifles)
(4)	37 mm anti-tank guns	
(5)	75 mm mountain guns	
		10,000,000

MATERIAL FOR ARSENALS

Material for rifles and light and heavy machine guns)	
Material for trench mortars of various calibres, and shells)	
Explosives, propellants and fuses for shells)	
Lead, copper, tin plate)	
Machinery and accessories)	<u>10,000,000</u>
		30,000,000

MILITARY AIRPLANES

300 pursuits, 100 light bombers with spare parts	<u>40,000,000</u>
	U.S. \$70,000,000

C
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July 11, 1940

SECRETPLAN FOR CHINESE CURRENCY SUPPORT*Received from
T. V. Soong*1. PRESENT POSITION AND PROSPECTS

The Anglo-Chinese Stabilization Fund of £ 10,000,000 created in March, 1939 (hereinafter called Fund A) now has on hand approximately £2,000,000. The second Fund, which was recently created by Chinese Government Banks and a British Bank (hereinafter called Fund B), has so far not been drawn upon, and has on hand approximately £3,000,000.

Experience of two years of stabilization operations shows that during some extended periods these operations can be conducted without net cost. Periods of relative stability and strain tend to alternate. Pressure has always been great in the spring of each year, because of the seasonal adverse balance of payments, which tends to be lifted when the export season begins in late Summer and continuing through the Winter. Strain has also been created by adverse political developments. Since the first part of May, 1940, the market has acted fairly well, and in the absence of adverse political events there should be no difficulty in holding exchange in the neighborhood of the present level for a considerable time, perhaps till the pressure of the adverse balance of payments begins early in 1941. Nevertheless, there is the probability of political developments adverse to the currency, whose effect, however, could be countered were it known by the public that adequate resources are available to intervene successfully in the market.

There should be flexibility in the rates of exchange to be supported by the Stabilization Fund. The policy should be to maintain

-2-
July 11, 1940

a level in harmony with existing and prospective economic conditions and not to defend any particular rate too stubbornly.

2. AMOUNT

The Anglo-Chinese Stabilization Fund of £ 10,000,000 was not quite sufficient. With the resources now in the hands of the Stabilization Committee, i.e., the remaining portion of Fund A plus Fund B, an additional sum of U.S. \$50,000,000 should suffice to maintain the currency at a reasonable level for a year, and perhaps considerably longer. In view of the present low level of the Chinese currency, the leverage of a stabilization fund obviously is greater than at higher levels. If resources are large enough to command general confidence, the amounts that would have to be expended in market operations would tend to be less. Therefore, it would be desirable to provide, if possible, for a total additional sum of U.S. \$100,000,000, of which U.S. \$50,000,000, however, need not be touched.

Interest preferably would be paid only on the net amount of the American contribution to Fund C drawn and outstanding.

2. SOURCE OF FUNDS

Chinese Banks contributed half of Fund A and about two-thirds of Fund B, which latter was created after the British were at war. Their present position does not enable them to contribute any large portion of the proposed further Fund (hereinafter called Fund C). It is necessary that the existing resources of the Chinese Government and of Chinese Banks be conserved in view of the many grave uncertainties. The Chinese Government has substantial necessary current expenses in foreign currency for purchases abroad, transportation, foreign service, etc.; and it would not be prudent to draw heavily upon remaining reserves

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July 11, 1940

to contribute to Fund C. At the outside, if a further contribution is deemed advisable, the maximum amount thereof from Chinese resources would be U.S. \$12,500,000.

4. PROTECTION OF AMERICAN CONTRIBUTIONS TO FUND C.

Every effort would be made to minimize the eventual cost to Fund C, and to protect the American contribution from eventual loss. The following provisions are contemplated.

- (a) In the event of a Chinese contribution to Fund C, such Contribution would first be applied to cover losses when the Fund is wound up.
- (b) The Chinese Government would guarantee the reimbursement of losses on the American Contribution in operations of Fund C.
- (c) Reimbursement of such losses would further be made a first charge on the proceeds of an eventual loan for rehabilitation of Chinese finances after the hostilities.

5. RELATION OF OPERATIONS OF FUNDS A, B, AND C.

An understanding would have to be reached as to the participation of Funds A, B, and C in the purchase and sale of exchange. Subject to the necessary consultations with Funds A and B, the following is tentatively proposed.

- (a) Inasmuch as Fund B is not to sell unless and until Fund A is reduced to the minimum necessary to be retained by it, any sales to support the market in the meantime would be for account of Fund A. In this way greater protection would be furnished to Fund C.

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July 11, 1940

- (b) After Fund A falls to its minimum, further sales would be charged to Funds B and C approximately in proportion to the amounts of the two Funds.
- (c) Purchases of exchange would be exclusively for account of Fund A up to the time when Funds B and C commence operations, or if purchases are made when only Fund A is in possession of Chinese dollars. (At present only Fund A has Chinese currency available to purchase exchange.)
- (d) Subsequent to sales by Funds B and C, and subject to the preceding paragraph (c) purchases of exchange would be credited as follows:

50 % for Funds A and B, and

50 % for Fund C.

6. MANAGEMENT

Obviously, the market operations of the three Funds must be unified. It is proposed to set up a Management Committee for Fund C; and a Coordinating Committee for Funds A, B, and C.

The Management Committee for Fund C would consist of three or not more than five persons. The Chairman would be an American national (preferably not connected with a commercial Bank) appointed by the Chinese Government upon the nomination of the American Government. A majority of the Committee would be American nationals. The foreign exchange funds of the Committee would be deposited in American Banks; and the Chinese dollars funds would be kept in American Banks in China and/or Hongkong. Operations would be conducted through any bank or banks designated by the Management Committee. Reports concerning the

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July 11, 1940

operations and work of the Management Committee would be rendered to the American and Chinese Governments.

The Coordinating Committee would consist of the Chairman of the Management Committee of Fund C, who would also be Chairman of the Coordinating Committee; together with one Chinese and one British national representing the interests of Funds A and B.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUL 12 1940

TO Mr. Harry White
FROM Mr. Foley

Re: Strategic & Critical Materials

Section 5d of the Reconstruction Finance Act, as amended (U.S.C. 1934 Ed. Supp. V, title 15, sec. 606b), authorizes the Reconstruction Finance Corporation, when requested by the Federal Loan Administrator, with the approval of the President "to create or to organize a corporation or corporations, with power (a) to produce, acquire, and carry strategic and critical materials as defined by the President * * *".

The Reconstruction Finance Corporation is also authorized to make loans to or purchase the capital stock of any such corporation for any purpose within its powers related to the National Defense Program, on such terms and conditions as the Reconstruction Finance Corporation may determine.

This section further provides that any such corporation is authorized, with the approval of the President, to make payments against the purchase price to be paid for strategic and critical materials in advance of the delivery of such materials. Whenever practicable, the corporation may require the payments so made to be used for purchases of raw or manufactured agricultural commodities to be exported from the United States.

* * * * *

Under the provisions outlined above the Reconstruction Finance Corporation could (1) when requested by the Federal Loan Administrator, and with the approval of the President, organize or create a corporation for the purpose of producing, acquiring, and carrying strategic materials, and (2) make loans to or purchase the capital stock of such a corporation for any purpose within its powers related to the National Defense Program.

Any corporation so organized could purchase strategic and critical materials and, with the approval of the President, make payments for them in advance of delivery. It is believed that the charter of any such corporation could be so drawn as to make it possible for the corporation to purchase such materials from any person or persons whatsoever and, as part of the contract of purchase, to enter into an agreement with the vendor whereby the vendor would agree to apply the purchase price to certain specified uses, or to provide credits to third parties.

It is not believed that the language used in Section 5d of the Reconstruction Finance Corporation Act, as amended, which states that "when-
ever practicable, the Corporation may require that advance payments be
used for purchases of raw or manufactured agricultural commodities to be
exported from the United States" places a limitation on the use of advance
payments. In other words, this language does not require that in every
case where an advance payment is made, the advance be used to purchase com-
modities exported from this country. The language is permissive and is
only applicable when practicable.

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(NOTE: I am informed that the R.F.C. has already organized two corporations
under Section 5d, i.e. the Rubber Reserve Company and Metals Reserve Com-
pany. Each has a capital of \$5 million. The Rubber Reserve Company is
organized to deal in rubber only. The Metals Reserve Company may purchase
any strategic or critical materials, but its activities so far have been
confined to the purchases of manganese and tin. Copies of the charters of
these companies are not available for examination, and it is impossible to
state whether their charter powers are broad enough to enable them to enter
into agreements restricting the uses to which the purchase price of the
materials purchased by them must be put, or requiring the vendors to make
credits available to third parties. If the charter powers of the existing
corporations are not flexible enough for this purpose, there is no reason
why they could not be amended (inasmuch as the R.F.C. itself charters the
corporations), or a new corporation with the requisite powers organized.)

[PUBLIC—No. 664—76TH CONGRESS]

[CHAPTER 427—3D SESSION]

[H. R. 9958]

AN ACT

To authorize the purchase by the Reconstruction Finance Corporation of stock of Federal home-loan banks; to amend the Reconstruction Finance Corporation Act, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 304 of the Act entitled "An Act to provide relief in the existing national emergency in banking, and for other purposes", approved March 9, 1933, as amended (U. S. C., 1934 edition, title 12, sec. 51d; Supp. V, title 12, sec. 51d), is hereby amended by adding at the end thereof the following new paragraph:

"The Reconstruction Finance Corporation is authorized to purchase at par any part of the stock of any Federal home-loan bank owned by the United States, as evidenced by certificates, receipts, or otherwise, in amounts to be determined by the Corporation, with the approval of the Federal Loan Administrator; and the Secretary of the Treasury is authorized on behalf of the United States to sell such stock to the Corporation. Any such stock so purchased by the Corporation shall be held subject to the same conditions, requirements, rights, and privileges (including all dividend and retirement provisions) as are provided by law for or in connection with the ownership of such stock by the United States."

Sec. 2. Section 2 of the Reconstruction Finance Corporation Act, as amended (U. S. C., 1934 edition, title 15, sec. 602), is hereby amended by adding at the end thereof the following new paragraphs:

"The Corporation is authorized to make payments from time to time to the Secretary of the Treasury in amounts to be determined by the Corporation, with the approval of the Federal Loan Administrator, for the partial retirement of its capital stock at par and in payment of dividends from earnings. The aggregate amount of notes, debentures, bonds, or other such obligations which the Corporation is authorized to issue and have outstanding at any one time under the provisions of law in force on the date this paragraph takes effect shall not be decreased by reason of any retirement of capital stock under this paragraph, and such aggregate amount is hereby increased by an amount sufficient to carry out the provisions of this paragraph and of the second paragraph of section 304 of the Act of March 9, 1933, as amended.

"The Corporation, on or before June 30, 1941, may retire its capital stock and pay dividends under the preceding paragraph of this section, and may purchase stock of the Federal home-loan banks under section 304 of the Act of March 9, 1933, as amended, in an aggregate amount of not to exceed \$300,000,000 to be determined by the Secretary of the Treasury; but the Corporation, with the approval

of the Federal Loan Administrator, shall determine that portion of such aggregate amount which may be used for the retirement of the capital stock of the Corporation, the payment of dividends, and the purchase of such stock of the Federal home-loan banks."

SEC. 3. (a) The third paragraph of section 5 of the Reconstruction Finance Corporation Act, as amended (U. S. C., 1934 edition, title 15, sec. 605; Supp. V, title 15, sec. 605), is hereby amended by striking out "\$350,000,000" and inserting in lieu thereof "\$500,000,000".

(b) The first sentence of section 3 of the Act entitled "An Act to extend the functions of the Reconstruction Finance Corporation for two years, and for other purposes", approved January 31, 1933, as amended (U. S. C., 1934 edition, Supp. V, title 15, sec. 603a), is hereby amended by striking out "January 31, 1945" and inserting in lieu thereof "January 31, 1955".

SEC. 4. Section 3 of the Federal Farm Mortgage Corporation Act (U. S. C., 1934 edition, title 12, sec. 1020b) is hereby amended by adding at the end thereof the following new sentences: "The Federal Farm Mortgage Corporation is authorized to repay on or before June 30, 1941, to the Secretary of the Treasury on behalf of the United States, all amounts in excess of \$100,000,000 theretofore subscribed to the capital stock of the corporation. The proceeds of such repayment shall be held in the Treasury of the United States as a fund available for subscription, by the Governor on behalf of the United States with the approval of the Secretary of the Treasury, to the capital of the corporation when, in the judgment of the directors of the corporation, additional subscriptions to its capital are necessary."

SEC. 5. Section 5d of the Reconstruction Finance Corporation Act, as amended (U. S. C., 1934 edition, Supp. V, title 15, sec. 606b), is hereby amended by adding at the end thereof the following new paragraphs:

"In order to aid the Government of the United States in its national-defense program, the Corporation is authorized—

"(1) To make loans to, or, when requested by the Federal Loan Administrator with the approval of the President, purchase the capital stock of, any corporation (a) for the purpose of producing, acquiring, and carrying strategic and critical materials as defined by the President, and (b) for plant construction, expansion and equipment, and working capital, to be used by the corporation in the manufacture of equipment and supplies necessary to the national defense, on such terms and conditions and with such maturities as the Corporation may determine; and

"(2) When requested by the Federal Loan Administrator, with the approval of the President, to create or to organize a corporation or corporations, with power (a) to produce, acquire, and carry strategic and critical materials as defined by the President, (b) to purchase and lease land, to purchase, lease, build, and expand plants, and to purchase and produce equipment, supplies, and machinery, for the manufacture of arms, ammunition, and implements of war, (c) to lease such plants to private corporations to engage in such manufacture, and (d) if the President finds that it is necessary for a Government agency to engage in such manufacture, to engage in

such manufacture itself. The Corporation may make loans to, or purchase the capital stock of, any such corporation for any purpose within the powers of the corporation as above set forth related to the national-defense program, on such terms and conditions as the Corporation may determine.

"Any corporation created or organized by the Corporation under the preceding paragraph is also authorized, with the approval of the President, to make payments against the purchase price to be paid for strategic and critical materials in advance of the delivery of such materials. Whenever practicable, the Corporation may require the payments so made to be used for purchases of raw or manufactured agricultural commodities to be exported from the United States."

SEC. 6. That (a) section 1 of the Act approved January 26, 1937 (U. S. C., 1934 edition, Supp. IV, title 15, sec. 613c), as amended, is hereby amended by striking out "June 30, 1941" and inserting in lieu thereof "January 22, 1947"; (b) the first sentence of section 4 of the Reconstruction Finance Corporation Act (U. S. C., 1934 edition, title 15, sec. 604), as amended, and the first sentence of section 14 of the Reconstruction Finance Corporation Act (U. S. C., 1934 edition, title 15, sec. 614), as amended, are hereby amended by striking out the word "ten" and inserting in lieu thereof the word "fifteen"; (c) the second paragraph of section 5d of the Reconstruction Finance Corporation Act (U. S. C., 1934 edition, Supp. IV, title 15, sec. 606b), as amended, is hereby amended by striking out "June 30, 1939" wherever it appears therein and inserting in lieu thereof "January 22, 1947".

Approved, June 25, 1940.

Received from
T. V. Soong

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July 12, 1940

TENTATIVE OUTLINE OF A PLAN FOR A LOAN SECURED ON WOLFRAM

1. Production of Wolfram, etc.

The estimated production figures for wolfram, antimony and tin in China for the current year (1940) are as follows:

Wolfram	15,000 tons
Antimony	12,000 tons
Tin	13,000 tons

The production, transportation, and sales of these metals and ores are under the unified control of a governmental organ, the National Resources Commission. The producing regions of these metals are almost wholly in the free-China area, and strenuous efforts are made to maintain the production figure at a high level. Domestic consumption of these metals is negligible, and almost the whole amount of annual production is available for export.

Needless to say, war conditions during the past three years have imposed a serious handicap upon the production of mineral ores in China. The fact that the present level of production is still maintained, in spite of such a serious handicap, points towards the possibilities of great expansion, once the situation returns to something near normal.

2. Export Situation

During the last two years export figures for wolfram, antimony, and tin have not been able to keep up with the level reached before the war. Transportation difficulties are in the main responsible for the slackness of export. Under the stimulus of heavy foreign commitments, however, it is certain that export figures will pick up, especially as the Government is determined to overcome all difficulties in the way of mining and transportation of the products.

-2-

3. Commitments

A portion—but relatively a small portion—of the metals produced in China has been earmarked for the repayment of export credits granted by foreign countries, notably the United States and the U.S.S.R. Commitment to the United States is in the form of 40,000 tons of tin, repayable in a period of 7 years. (The schedule ranges between 3,000 tons to 7,500 tons a year.) Commitment to U.S.S.R. is somewhat more flexible. In the first place, only about one-half of the payment is to be made in mineral products, the other half being payable in tea, wool, skins, etc. In the second place, the composition of the minerals earmarked for payment is subject to negotiation from year to year. For the year 1939-40, the schedule agreed upon specifies 5,000 tons of wolfram, 5,000 tons of antimony, and 3,000 tons of tin. It is possible that some reduction in the amount of wolfram to be delivered to the U.S.S.R. even in the current year could be arranged, in view of a provision in the agreement granting flexibility in deliveries.

The British export credit also has to be paid in part in minerals. But the amount involved is insignificant.

4. Amount Available as Security

For the current year, the estimated amount of minerals produced still available as security for further export credit or loan is as follows:

Wolfram	10,000 tons
Antimony	7,000 tons
Tin	4,000 tons

In years to come, the corresponding amount should be considerably greater, in view of the anticipated increase in production.

-3-

In addition, because of the flexible terms of the existing arrangement with the U.S.S.R., the range of mineral products available as security for new loans is widened. In other words, if the American Government manifests a greater interest in wolfram than in antimony and tin, arrangements may be made whereby greater quantities of antimony and tin would be delivered to the U.S.S.R., so as to free a correspondingly larger quantity of wolfram.

5. Tentative Plan for Loan

The following table is constructed upon the basis of using only wolfram as security, and outlines a tentative plan for a loan of U.S. \$50,000,000. The period that the loan would run is assumed to be ten years, with interest rate at 4 percent. It is also assumed that China's annual commitment to the U.S.S.R. continues at the present figure, namely, 5,000 tons a year, although as stated the commitment is by no means definite and could be reduced, if necessary, to a lower figure.

July 12, 1940

TENTATIVE SCHEDULE FOR SECURITY OF A LOAN OF U.S. \$50,000,000Table I

Year	Principal Due	Interest Due	Total	Estimated Am't of Wolfram Production	Estimated Am't of Wolfram Available as Security	Estimated Value of Wolfram Available as Security	Am't of Wolfram required to meet scheduled payment	Estimated Am't of Surplus Wolfram
	\$	\$	\$	Tons	Tons	\$	Tons	Tons
1940-41	-	2,000,000	2,000,000	15,000	10,000	10,000,000	2,000	8,000
1941-42	-	2,000,000	2,000,000	16,000	11,000	11,000,000	2,000	9,000
1942-43	5,000,000	2,000,000	7,000,000	16,500	11,500	11,500,000	7,000	4,500
1943-44	5,000,000	1,800,000	6,800,000	17,000	12,000	12,000,000	6,800	5,200
1944-45	5,000,000	1,600,000	6,600,000	17,500	12,500	12,500,000	6,600	5,900
1945-46	5,000,000	1,400,000	6,400,000	18,000	13,000	13,000,000	6,400	6,600
1946-47	5,000,000	1,200,000	6,200,000	18,000	13,000	13,000,000	6,200	6,800
1947-48	5,000,000	1,000,000	6,000,000	18,000	13,000	13,000,000	6,000	7,000
1948-49	10,000,000	800,000	10,800,000	18,000	13,000	13,000,000	10,800	2,200
1949-50	10,000,000	400,000	10,400,000	18,000	13,000	13,000,000	10,400	2,600
Total	50,000,000	14,200,000	64,200,000	172,000	122,000	122,000,000	64,200	57,800

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Mr. White
 FROM Mr. Ullmann

Subject: The U.S.S.R. as a source of strategic and critical materials

The United States may be able to purchase strategic and critical materials from the U.S.S.R. to the extent of from \$100 million to \$200 million for delivery over a five-year period. (This sum is in addition to our normal trade with the Soviet Union, which amounted to \$24.5 million in 1939.)

According to this estimate, the following materials might be annually obtainable in the following quantities and values:

<u>Material</u>	<u>Quantity</u>	<u>Value</u>
Manganese (ore)	450,000 long tons	\$10,000,000
Chromite (ore)	100,000 long tons	2,000,000
Mercury	7,000 flasks (76 lbs.)	1,400,000
Asbestos (unmanufactured)	100,000 tons	5,000,000
Platinum (ingots)	60,000 troy ounces	3,000,000
Fluorspar (ore)	30,000 tons	1,000,000
Tin (ore or metal)	2,000 tons (metal content)	2,000,000
Mica (strategic - unmanufactured)	10,000 tons	500,000
Graphite (natural)	10,000 tons	250,000
Total		\$25,150,000

The above estimates are based on the best available information, which is neither up to date nor comprehensive. There are many strategic materials which are known to be produced in the U.S.S.R., but for which no adequate statistical information is readily accessible. Before any definite conclusion can be reached as to the extent of possible purchases, it would be desirable to obtain the necessary information from the Soviet Government as a basis for a more detailed survey.

Manganese

Use: Manganese is a strategic material, used in the manufacture of steel. It has been considered of "first priority".

United States Consumption: 1937

Produced in the United States	73,000 long tons ore
Imported - From U.S.S.R.	384,000
Imported - From other countries	<u>528,000</u>
Total imports	<u>912,000</u> long tons ore
Apparent consumption	985,000 long tons ore

Imports from "other countries" came principally from the Gold Coast, Cuba, Brazil. Russian ore has a higher manganese content than Western Hemisphere ore.

United States Emergency Requirements: 12 months (Army estimate)

Domestic Production	185,000 long tons ore
Imports	<u>277,000</u> long tons ore
Total requirements	602,000 long tons ore

(Deficiency to be made up from inventories)

This appears to be an underestimate of import tonnage requirements.

Estimated cost of imports: \$6,000,000.

Soviet Manganese Production

1938 U.S.S.R. production	2,273,000 metric tons ore
Known U.S.S.R. resources	785,000,000 metric tons

Conclusion

The United States can probably obtain a large part of its manganese import requirements from the U.S.S.R. The War Department estimates of manganese requirements appear low, especially in view of the 1937 volume. If, however, the United States were to import half the total 1937 quantity, the cost of imported manganese would amount to about \$10 million per year (using the Army estimates of emergency prices.)

Chromium

Use: Chromium is a strategic material (of "first priority"), used in alloy steels, in refractories, in pigments, and in chromium plating (e.g., machine gun barrels).

United States Consumption: 1937

The United States depends almost entirely on imports for its supply of chromite, importing chiefly from British Africa, from the Philippine Islands, Cuba, and Turkey. The Cuban ore is of low grade, and is therefore used in refractories. It is understood that Turkey has agreed to sell chromite to Germany, a factor which (together with shipping difficulties) makes Turkey a doubtful source of supply. 1937 consumption was as follows:

Domestic Production	2,000 long tons ore
Imports from U.S.S.R.	None
Imports from other countries	<u>554,000 long tons ore</u>
Apparent consumption	556,000 long tons ore

United States Emergency Requirements: 12 months (Army estimate)

The War Department has estimated that in an emergency, the United States would need 285,000 tons of chromite per year, using all possible substitutes. It estimated that domestic mines could produce 64,000 tons annually, which appears high in view of actual production (812 tons in 1938). Assuming its estimates to be correct, however, the United States would need to import approximately 200,000 tons per year.

Soviet Chromite Production

Soviet production data are not available for years since 1936, when their output was 217,000 metric tons. Production is probably appreciably higher at present, since it is known to have risen sharply through 1936:

1934	-	127,400 tons
1935	-	177,900 tons
1936	-	217,000 tons

Furthermore, Soviet publications claimed an inadequacy of chromite in 1936, while they claimed requirements to be 100 percent satisfied in 1938, when Soviet industry had expanded appreciably from 1936 levels.

Chromium
(Continued)

Soviet production now, it is felt, is probably well over 300,000 tons per year, a part of which the U.S.S.R. might be willing to export, especially since sales of the ore would in no way tax her refining facilities.

The United States has imported no chromite from the U.S.S.R. since 1936. As far as can be determined, the Soviet Union has exported none since that time.

Conclusion:

If the United States, under an emergency and using substitutes, were to import half its 1937 importations, it would need to purchase abroad 277,000 tons of chromite per year, which would involve an approximate cost of \$7,000,000 (using Army estimates of emergency prices). If the Soviet Union were willing to sell us 100,000 tons annually, the cost involved would amount to, roughly, \$2,000,000.

Mercury

Use: Mercury is a strategic material, used in manufacturing fulminate for detonating high explosives and fixed ammunition. It is used also in drugs (calomel, corrosive sublimate, etc.) in paints for ship bottoms, in electrical apparatus, and instruments (barometers, thermometers, etc.)

United States Consumption: 1937

The United States has in the past imported a substantial portion of its consumption: approximately half in years of high consumption and less in other years, with domestic consumption remaining relatively steady. Imports have come principally from Spain and Italy, with lesser amounts from Mexico. 1937 consumption was as follows:

Domestic production	16,508 flasks (76 pounds)
Imports from U.S.S.R.	None
Imports from other countries	<u>18,917</u> flasks (76 pounds)
Less exports	<u>454</u> flasks (76 pounds)
Apparent consumption	35,000 flasks (76 pounds)

United States Emergency Requirements: 12 months (Army estimates)

The War Department has estimated that requirements in an emergency would rise. The Bureau of Mines has recently (1939) estimated that the emergency requirements would amount to 46,000 flasks annually. Since domestic production has followed prices, it has been estimated that the United States output might reach 30,000 flasks under conditions of high emergency prices, to which can be added 2,200 flasks from Mexico. This would leave a deficit of approximately 14,000 flasks which could be supplied only by imports.

Since Spanish and Italian mercury might be cut off from a rising American market, the price might readily reach \$100 per flask (it was \$96.65 in June 1937). The cost of importing 14,000 flasks would be \$1,400,000.

Soviet Mercury Production

Reliable information about Soviet production is not available. The Minerals Yearbook (quoting the Imperial Institute) places Soviet production at exactly 8,700 flasks in 1935, 1936, and 1937 (the latest year reported),

Mercury
(Continued)

which appears to be inaccurate in view of the rapid expansion of Soviet production in all other fields. This figure, however, would place the U.S.S.R. fourth in the world's mercury-producing countries.

It is probable that Soviet production has expanded rapidly in recent years. As far as can be determined, the U.S.S.R. has exported no mercury.

Conclusion

The United States is faced with a deficiency in mercury, since requirements are rising and since its two most important foreign sources of supply may be cut off. The U.S.S.R. may be able and willing to supply us with perhaps 7,000 flasks annually, which would cost approximately \$700,000.

1450,000

Mica

Uses: Mica is a strategic material used in the electric and radio industries. A large part of the world's mica production is of non-strategic mica, ground and pulverized for many purposes, including roofing.

United States Emergency Requirements: 12 months (U.S. Army estimate)

The War Department has estimated that the United States would need 2,600 short tons of strategic mica annually during an emergency (this appears low in view of peace-time consumption). It estimated that our production plus normal stocks could more than supply this demand. However, this conclusion was based on "contemplated exploitation of all domestic resources at unrestricted costs".

In the past, the United States has imported chiefly from British India. If anything should cut off the Indian supply, the United States might find it practical to import mica from the U.S.S.R. in order to curtail too sharp a price rise.

Soviet Mica Production

In 1935, the U.S.S.R. produced over 8,000 tons of mica, twice the 1934 output and exceeding British India's output. If the U.S.S.R. production expanded as rapidly as India's, Soviet production in 1938 would amount to over 14,000 tons.

The United States has imported no Soviet mica, nor is it known that the Soviet Union has exported any.

Conclusion

The United States might find it practical to import 1,000 tons of unmanufactured mica from the Soviet Union, which might cost \$500 per ton or \$500,000.

Asbestos

Use: Asbestos is a critical material, used in the automotive industries for brake linings and gaskets. It is also important for heat insulation in various types of construction and equipment.

United States Consumption: 1937

The United States has been largely dependent on imports for asbestos, with Canada the principal supplier (supplying about 90 percent). The Soviet Union was second with 3 percent. United States consumption in 1937 was as follows:

Domestic production		12,000 tons (unmanufactured)
Imports from U.S.S.R.	10,000	
Imports from other countries	<u>297,000</u>	
 Total imports		 <u>307,000</u> tons
 Less exports		 <u>3,000</u> tons
 Apparent consumption		 316,000 tons

Soviet Asbestos Production

The U.S.S.R., in 1936, produced 125,117 metric tons of unmanufactured asbestos, which was a rise of 30 percent from 1934. If Soviet production continued to increase at the same rate, it probably will reach over 200,000 tons this year.

The Soviet Union, in 1937, exported 27,000 metric tons.

Conclusion

The United States, faced with an emergency, might have to import more asbestos from the U.S.S.R. If that country were able and willing, it might be able to sell the United States 100,000 tons of raw asbestos at, perhaps, \$50 per ton (the 1938 value of our imports from the U.S.S.R.) or \$5,000,000.

Platinum

Use: Platinum is a critical material, used in making sulfuric and nitric acids, as well as in many laboratory instruments, electrical contacts, and manufacturing processes.

United States Consumption: 1937

The United States is largely dependent on imports for platinum, although a large part of the imports are in crude forms which are refined domestically.

U. S. production (from imported materials)	87,000 troy ounces
U. S. production (from domestic materials)	5,000 troy ounces
Imports of ingots, bars, sheets, etc.	
From U.S.S.R.	15,000 troy ounces
From other countries	<u>47,000</u> troy ounces
Less exports (estimated)	<u>50,000</u> troy ounces
Apparent consumption	104,000 troy ounces

Imports of refined metal have come largely from the United Kingdom. Columbia has supplied a large part of our crude platinum imports.

U.S.S.R. production

The U.S.S.R. is known to produce annually between 100,000 and 200,000 troy ounces of platinum, probably nearer the latter figure.

Conclusion

The United States, in an emergency, would necessarily increase those industries which use platinum. However, the sale of platinum in consumers' goods (jewelry) would probably decline, possibly enough to offset the industrial increase. Nevertheless, we will have to import considerable quantities. The U.S.S.R., already on an export basis, might be willing to sell us 60,000 troy ounces annually, which would cost approximately \$3,000,000.

7-15-40.

My dear Basil:

In view of the very strong personal reasons which you feel make it imperative that you return to your former business, as expressed to me both verbally and in your letter of July 15, I have no choice but to accept your resignation as Commissioner of Customs and Assistant to the Secretary of the Treasury, at the close of business July 15, 1940.

You came to the Treasury at my personal request at a time of extreme emergency and I am sure you realize what a deep satisfaction it has been to me to have had the Customs Service in your charge during your brief stay with us. The Treasury has been fortunate during the period of your service to have had with it a person of your resourcefulness and capacity, and it is because of this that your leaving is of particular regret.

I personally have enjoyed our relationship and shall miss you, but I shall look forward to seeing you from time to time and continuing our very friendly relations.

Sincerely,



Secretary of the Treasury.

Mr. Basil Harris,
Treasury Department,
Washington, D. C.

ENT:12345



July 15, 1940.

Dear Mr. Secretary:

I herewith tender my resignation as Commissioner of Customs and Assistant to the Secretary of the Treasury, effective as of the close of business today, July 15, 1940.

As I have heretofore told you, personal reasons make it imperative that I return to my former business.

I think you will find affairs in the Customs Bureau in good shape and I am confident my successor can carry along with no great difficulty.

May I express to you, Mr. Secretary, my appreciation for the opportunity to have worked with you and your associates in the Treasury Department and my warm thanks for the continued and loyal support you have always given me in my endeavors.

Sincerely yours,

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury.

EH:ds

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BRITISH EMBASSY,
WASHINGTON, D.C.

July 15th, 1940.

Personal and Secret.

Dear Mr. Secretary,

I enclose herein for your
personal and secret information a
copy of the latest report received
from London on the military situation.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,



The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram despatched from London on the evening of July 14th.

Further report by Commander-in-Chief upon British-Italian naval action Mediterranean July 9th states:-

"Warspite" also engaged two 8" gun and two 6" gun cruisers and may have obtained one hit on 8" gun cruiser. Yesterday an aircraft of Royal Dutch air force attacked U-boat near Holyhead. No visible result. Eight dive bombers attacked British A/S "Swallow" off Dover inflicting slight damage.

2. Night July 12th-13th ten Whitleys reached naval armaments target at Emden. Large fires which could be seen 70 miles away were started in target area one stick of bombs seen to completely demolish a building. Owing to bad weather only four Whitleys reached naval armaments target Kiel; about 50 medium bombs dropped, observation results difficult. Yesterday 22 Blenheims despatched against aerodromes and industrial targets in northwest Germany; majority of aircraft forced to abandon task owing to weather conditions however oil plant at Monheim aircraft Brussels canal bridges near Burges attacked. Two aircraft missing. One Hudson aircraft bombed Harlingen quay and warehouses hit and fires started. Another

Hudson/

Endson attacked two mine-sweepers off Tereshelling region obtaining a close miss. Last night twelve Blenheims attacked large Bruges-Ostend area several fires started; one aircraft missing. Ninety-nine bombers despatched against ship-building yards and docks and industrial and railway targets northwest Germany also aqueduct over Dortmund-Rhin Canal. All aircraft returned. Successful mine laying carried out Elbe estuary and at Gochrugge.

3. Enemy air activity July 15th on reduced scale. Some attacks on shipping but no damage or casualties reported. Chief fighter engagements were off Portland in Dover area and off Calais. Enemy aircraft destroyed six bombers six fighters (confirmed) five bombers three fighters (unconfirmed). Our casualties three Hurricanes. Transport flights from northwest Germany to north Denmark continue on large scale.

4. Two neutral ships sunk in western approaches reported yesterday.

5. Mediterranean. Reported Italian air staff worried about large number of casualties among experienced pilots over short period and are using German support in aircraft and crews. Heavy N/T column engaged near Capoue and casualties inflicted.

6. East Africa. On July 15th enemy forces attacking Moyale appeared greatly reinforced. Our reinforcements held up on south side by light machine guns and artillery. Situation of
garrison/

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garrison considered serious owing to water shortage. In this area one Hartebeeste aircraft shot down and two others driven down on our territory by Fiat fighters. Two aircraft of S.A.A.F. bombed Kismayu July 11th. On night of July 10th-11th patrol Somaliland Camel Corps attacked enemy frontier post An Baha inflicted casualties and made successful withdrawal on July 12th. Two enemy battalions attacked and captured frontier post west of Dobe pass.

TREASURY DEPARTMENT

323

INTER-OFFICE COMMUNICATION

DATE

July 15, 1940

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For the Secretary's Diary

Mr. Knudsen telephoned me early this morning and said that he had been talking to Mr. Jones about the changes in the proposed method of financing the Packard additional facilities to manufacture the Rolls-Royce Merlin Engine. Mr. Jones was in Chicago when Mr. Knudsen spoke to him over the telephone. Mr. Jones told Mr. Knudsen that he had discussed the arrangements with me and would be glad to talk further with me when he returned from Chicago. At Mr. Knudsen's request, I had luncheon with him today. He handed me the attached letter from Mr. Jones and the attached plan which Mr. Knudsen had prepared in expectation of approval from Mr. Jones.

Mr. Knudsen seemed quite disturbed that the assurances you had given to Mr. Purvis that the British would receive the same treatment from the R.F.C. in regard to additional plant facilities as the United States received would be violated. I told them that I still thought the original arrangement could be carried out by the R.F.C., but if Mr. Jones wouldn't go along on that basis it was up to us to modify the arrangement to satisfy Mr. Jones, provided that the British didn't have to put up additional funds. Mr. Knudsen asked me to put the revised formula on paper which I agreed to do and telephoned him later in the afternoon.

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At 5:15 I telephoned Mr. Knudsen that I was ready and he told me to come over. Chuck Kades and I called on Mr. Knudsen and left with him the attached revised plan which Mr. Knudsen read carefully and approved. He said that he would telephone Mr. Bartman, attorney for Packard, who is to see Mr. Purvis in New York tomorrow and tell him that the \$25,000,000 is to be deposited with the R.F.C. instead of being placed in escrow with a private bank. Mr. Knudsen said he would explain the modification of the arrangements to Packard when they called on him on Wednesday.

Mr. Knudsen seemed satisfied that the Treasury had not receded in any way from its approval of the original plan but was attempting to work out the arrangements within the limitations laid down by Mr. Jones.

S.W. 76.

Attachments 3.

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July 11, 1940

MEETING WITH PACKARD OFFICIALS:

1. It was suggested that contact be established with the RFC and confirmation obtained for the arrangement that the plant account on the proposed Merlin #20 contract to be handled through the RFC with a separate corporation organized for this purpose which will lease the equipment and plants to the Packard Company.
2. The question was discussed as to whether an upset price wouldn't be the best way to start. Packard officials feel that a protective clause should be placed with the upset price giving them the privilege of cost plus a fixed fee of \$1200.00 per motor for a prearranged quantity of 1500 motors in order to have an intelligent estimate as a basis for the upset price.
3. The Packard officials brought out as the main point, the question of cancellation obligations by either of the contracting parties in case of termination of the contract before completion. The Packard Company would feel it necessary for its own protection to be assured through proper arrangements with the British Purchasing Commission on the one hand, the United States Government on the other, that it would be in a position to meet its obligations for the commitments and work done out of advance payments and deposits by the British Commission, or both.
4. It is understood that in general the British contract will follow the American contract.
5. It was felt that the amortization problem on the engine contract would not be any particular problem because of the separate Corporation phase.
6. The British Purchasing Commission will pay in advance cost of tools, dies and fixtures, the total amount being \$4,200,000 for the British, to be amortized over 6,000 engines. There shall be no profit on this item.
7. The initial order for 12 hand made engines to be made on a cost basis and will require a payment of \$500,000 for the British portion.

8. \$25,000,000 to be deposited to the Credit of Packard Company in some bank acceptable to British Government and Packard Company in a special deposit to include no other funds to be drawn upon from time to time by Packard Company, upon presentation to the depository of requisitions sworn to by the President, a Vice President or the Treasurer of Packard Company to the effect that the funds so withdrawn are needed for or will be used for the payment of obligations incurred by Packard Company in the performance of its contract with the British Government or for reimbursement of Packard Company for expenditures already made by it for that purpose. Payments by the British Government from time to time on account so that the fund standing to the credit of Packard will at least equal the outstanding obligations of Packard incurred in connection with its contract with the British Government. Requisitions for payment will be presented on the 15th of each month payable on the first of the month following.
9. In case of cancellation the British Government will assume two-thirds of the unamortized part of the Reconstruction Finance Corporation loan covering the plant account of about \$20,000,000 and will pay all labor and material expense and commitments due on the date of cancellation of the order for 6,000 Merlin engines. A handling charge of 10% will be paid to Packard in this case.
10. The entire transaction to be subject to audit by a mutually satisfactory responsible audit firm after termination of order.

FEDERAL LOAN AGENCY

WASHINGTON

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July 12, 1940

Dear Mr. Knudsen:

The RFC will be glad to assist the Packard Motor Company in its proposed plant expansion and in the purchase of new equipment, in order that it may manufacture airplane engines to aid the Government of the United States in its national defense program.

There would be no objection to the manufacture at the same time (in the improved plant and with the new machinery) of engines for sale to England, provided other capital is furnished for such plant expansion and new equipment in the same ratio to the capital supplied by RFC that the volume of equipment sold abroad bears to that sold for use by the Government of the United States.

It is my understanding that the Packard Motor Company will build nine thousand motors, of which two-thirds are to be sold to the British Government and one-third for the Government of the United States. I therefore suggest that only one-third of the cost of the plant and equipment should be financed by the RFC.

We understand from your statements that the British Government will deposit \$25,000,000 in escrow to guarantee its performance of the contract.

I suggest that instead of this \$25,000,000 being deposited with a bank, it be deposited with the RFC for the account of the Packard Motor Company, to be applied and used as contemplated by the contract as made between the British Government and the Packard Motor Company, the RFC to furnish necessary capital for labor and materials and allocate an appropriate amount of the deposit toward plant and equipment.

Sincerely yours,

(signed) Jesse H. Jones

Administrator

Honorable William S. Knudsen
Advisory Commission to the
Council of National Defense
Washington, D. C.

July 15, 1940.

328

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1. The RFC would loan to Packard from its own funds an amount equal to $1/3$ of the cost of the new machinery and equipment. Packard will include in the sales price of each Rolls-Royce engine produced for the United States an amount which, if the United States buys 3,000 engines, will yield a sum equal to such loan by the RFC from its own funds.
2. The British Government will loan to Packard an amount equal to $2/3$ of the cost of the new machinery and equipment. Packard will include in the sales price of each Rolls-Royce engine produced for the British Government an amount which, if the British Government buys 6,000 engines, will yield a sum equal to the loan from the British Government.
3. Packard will agree to pay to the RFC and the British Government monthly on the first day of each month, beginning with the month after the first of the Rolls-Royce engines is delivered to the United States, or to the British Government (as the case may be), the amount so included in the sales price of each Rolls-Royce engine multiplied by the number of engines delivered to the United States or to the British Government, respectively, during the preceding month. Packard will also pay interest as may be agreed upon annually on the money loaned to it.
4. If the United States cancels its orders for Rolls-Royce engines from Packard, the RFC will be entitled to repossess the new machinery and equipment purchased with the proceeds of its loan.
5. If the British Government cancels its orders for Rolls-Royce engines, Packard will be released from any obligation to repay the loan to the British and the notes will be cancelled by the British.
6. So much of the \$25,000,000 as is not needed for the acquisition of the new machinery and equipment in accordance with the above will be deposited with the RFC under the same escrow agreement which would be used if it were deposited with a private bank, and will be applied in payment of the purchase price of the Rolls-Royce engines sold to the British Government and last delivered, and in event of cancellation by the British Government will be used to reimburse Packard for the cost of labor and materials not yet reimbursed through the sale of engines.

FEDERAL LOAN AGENCY

WASHINGTON

JULY 12, 1949

Dear Mr. Emdinsen:

The RFC will be glad to assist the Packard Motor Company in its proposed plant expansion and in the purchase of new equipment, in order that it may manufacture airplane engines to aid the Government of the United States in its national defense program.

There would be no objection to the manufacture at the same time (in the improved plant and with the new machinery) of engines for sale to England, provided other capital is furnished for such plant expansion and new equipment in the same ratio to the capital supplied by RFC that the volume of equipment sold abroad bears to that sold for use by the Government of the United States.

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Sincerely yours,

(Signed) James H. Jones

Administrator

Respectable William B. Emdinsen
Advisory Commission to the
Council of National Defense
Washington, D. C.

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July 11, 1949

MEETING WITH PACKARD OFFICIALS:

1. It was suggested that contact be established with the EPC and confirmation obtained for the arrangement that the plant account on the proposed Merlin #20 contract to be handled through the EPC with a separate corporation organized for this purpose which will lease the equipment and plants to the Packard Company.
2. The question was discussed as to whether an upset price wouldn't be the best way to start. Packard officials feel that a protective clause should be placed with the upset price giving them the privilege of cost plus a fixed fee of \$1200.00 per meter for a prearranged quantity of 1500 meters in order to have an intelligent estimate as a basis for the upset price.
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July 15, 1940

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4. If the United States cancels its orders for Rolls-Royce engines from Packard, the RFC will be entitled to repossess the new machinery and equipment purchased with the proceeds of its loan.

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6. So much of the \$25,000,000 as is not needed for the acquisition of the new machinery and equipment in accordance with the above will be deposited with the RFC under the same escrow agreement which would be used if it were deposited with a private bank, and will be applied in payment of the purchase price of the Rolls-Royce engines sold to the British Government and last delivered, and in event of cancellation by the British Government will be used to reimburse Packard for the cost of labor and materials not yet reimbursed through the sale of engines.

TREASURY DEPARTMENT
 INTER OFFICE COMMUNICATION

DATE July 15, 1940

TO Secretary Morgenthau
 FROM Mr. Cochran

CONFIDENTIAL

The long-expected British program to place nearly every form of commercial and financial settlement between the sterling area and the United States (and Switzerland) on an official basis as from July 18, was disclosed in detail in the morning's press. Although a rapid advance of 24¢ in New York's open market rate for sterling was the initial reaction to this news, a subsequent decline cancelled part of the gain.

Sterling opened at 3.83-3/4, as against Saturday's close of 3.71. Within an hour, a high of 3.95 was reached. In the reaction that followed, the pound returned to 3.83 by noon time. During the afternoon, it moved steadily upward to close at 3.85-1/2.

As indicated by the reported turnover figures, heavy commercial orders to purchase sterling were mainly responsible for the sharp rise in the rate. Such purchases probably represented the covering of commitments by importers of rubber, tinny, tin, jute and certain other products contracted for prior to March 8, importers of all other goods from Great Britain already having been compelled, since July 4, to pay for their purchases on an official sterling basis.

Sales of spot sterling by the six reporting banks and the Federal Reserve Bank of New York totaled £302,000, from the following sources:

By commercial concerns.....	£ 89,000
By foreign banks (Far East, Europe and South America).....	119,000
By the Federal Reserve Bank of New York (for Yugoslavia).....	1 80,000
Total.....	£302,000

Purchases of spot sterling amounted to £428,000, as indicated below:

By commercial concerns.....	£401,000
By foreign banks (Europe and South America).....	1 27,000
Total.....	£428,000

The following reporting banks sold cotton bills totaling £26,000 to the British Control on the basis of the official rate of 4.02-1/2:

£15,000 by the Bank of Manhattan
11,000 by the Guaranty Trust Company
£26,000 Total

- 2 -

Sterling in the amount of £19,000 was purchased from the British Control at the official rate of 4.03-1/2 by the following banks:

£ 8,000	by the Guaranty Trust Company (for whisky and linen)
8,000	by the Bank of Manhattan (for whisky)
3,000	by the Chase National Bank (for rugs)
<u>£19,000</u>	Total

The Swiss franc, after opening at .2268, advanced to .2273 and then returned to .2271 at the close.

The other currencies closed as follows:

Canadian dollar	12-1/2% discount
Lira	.0505
Reichsmark	.4004
Cuban peso	Holiday
Mexican peso	.1990 bid, .2020 offered

We purchased \$50,000,000 in gold from the earmarked account of His Britannic Majesty's Government.

The Federal Reserve Bank of New York reported that the following shipments of gold were being consigned to it:

\$14,447,000	from Canada, representing two shipments by the Bank of Canada for its own account, for sale to the U.S. Assay Office at New York.
2,665,000	from Brazil, shipped by the Bank of Brazil, to be earmarked for its account as fiscal agent of the Brazilian Government.
1,657,000	from Portugal, shipped by the Bank of Portugal, to be earmarked for its account.
<u>\$18,769,000</u>	Total

The State Department forwarded to us a cable stating that the following gold shipments would be made from England by the Swiss Bank Corporation, London, for sale to the U.S. Assay Office at New York.

\$ 88,000	to the Swiss Bank Corporation, New York.
<u>12,000</u>	to the National City Bank, New York.
<u>\$100,000</u>	Total

The report from the Federal Reserve Bank of New York listing deposits for the account of Asia as reported by the New York agencies of Japanese banks on July 10, showed that such deposits totaled \$37,973,000, a decrease of \$543,000 since the last report as of July 3. Included in this total were \$29,368,000 in deposits with the Yokohama Specie Bank, New York, made by its branches in China, and there were again no deposits listed for its head office and Japanese branches. The overdraft of the head office and Japanese branches on the books of Yokohama's New York agency was \$64,624,000, an increase of \$709,000 since July 3.

The Bombay bullion markets were reported to have been closed today, and no quotations were received from that center.

CONFIDENTIAL

- 2 -

In London, spot silver was fixed at 22-1/16d, up 5/16d. The forward price was 21-3/4d, up 1/4d. The U. S. equivalents were 40.11¢ and 39.54¢ respectively.

Hendy and Harman's settlement price for foreign silver was unchanged at 34-3/4¢. The Treasury's purchase price for foreign silver was also unchanged at 35¢.

We made three purchases of silver totaling 225,000 ounces under the Silver Purchase Act. Of this amount, 100,000 ounces represented a sale from inventory, and the remaining 125,000 ounces consisted of new production from foreign countries, for forward delivery.

A handwritten signature in dark ink, appearing to be 'B. M. R.', is centered on the page.**CONFIDENTIAL**

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE July 15, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *JA*
 Subject: The Business Situation,
 Week ending July 13, 1940.

Conclusions

(1) Business activity, which has increased rapidly in anticipation of heavy demands from the defense program, is now tending to level out until actual armament orders reach a volume large enough to support a higher production rate. Evidence of some business slackening appears in:

(a) A hesitation in steel operations around the 87 per cent level, when the seasonal trend would call for a further rise.

(b) Continued weakness in steel scrap prices, which frequently foreshadows a slackening in steel production.

(c) A further decline in prices of industrial raw materials.

(2) The hesitation in steel activity apparently arises from:

(a) A heavy accumulation of finished and semi-finished steel at the mills.

(b) Relatively moderate backlogs of unfilled orders, despite the satisfactory volume of new orders, due to the output rate having risen almost as fast as the new-orders volume.

(c) The greater difficulty of expanding steel output at this high level.

(3) Evidence that the defense program is becoming a more active support to business activity appears in the recent pre-dominance of defense projects in heavy construction awards and in structural steel awards. In the meantime, residential construction is being well maintained.

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Secretary Morgenthau - 2

Business trend shows hesitation

The rise of 13 points in the FRB index in the last two months, chiefly because of a contra-seasonal upturn in steel activity in anticipation of heavy armament demand, represents an unusually rapid business improvement. It should therefore not be surprising if business activity should level off for a time, until the defense program and rising consumer demand provide a solid foundation for a further advance.

Some evidence of hesitation is beginning to appear in the steel industry. The steel operating rate is tending to flatten out around the late-June level, just above 86 per cent of capacity, whereas a seasonal rise during July is the normal expectation. The demand for pig iron has turned light, and many consumers are reported to have covered their requirements through the second half of the year. Steel scrap prices (Iron Age composite) declined 21 cents a ton further during the past week, representing a 6 per cent decline from the peak reached in June. Weakness in scrap prices frequently foreshadows a slackening in steel activity.

The hesitation in steel operations apparently arises from a temporary over-anticipation of steel demand, which has resulted in an accumulation of finished and semi-finished products at the mills. This is to be desired, of course, in the present situation, since it will allow the steel companies to concentrate more fully on defense orders later in the year. Nevertheless, it will tend to restrain further gains in steel activity until heavier defense orders for steel are actually placed.

U. S. Steel inventories at high level

Our analyses of published and confidential data of the U. S. Steel Corporation indicate the extent to which this company has prepared for an anticipated heavy demand for steel. The production of steel, as estimated from weekly operating rates of the Corporation, has exceeded the published figures of steel shipments by this company in every month since December. (See Chart 1, upper section.) This has resulted in a steady accumulation of inventories, which at the end of June, according to our estimates, reached a higher figure than the peak in late 1936. (Lower section of chart.)

Secretary Morgenthau - 3

A comparison of new orders with shipments of the U. S. Steel Corporation indicates that the backlog of unfilled orders at the end of June was relatively low. (See Chart 2.) In other words, shipments have almost kept pace with the increase in orders, which (as the upper chart indicates) has not reached nearly the proportions of the increase last fall.

The steel rate this week is scheduled at 86.8 per cent, a less than seasonal increase over last week's 86.4 rate. In view of the present moderate backlog of orders, large inventories at mills, and the increased difficulties of maintaining production at high capacity levels, it would seem that further gains in steel production are likely to be limited, unless large new orders come in, greatly increasing the unfilled-order backlog.

Steel orders currently are at a highly satisfactory level for the steel companies. Orders reported by the U. S. Steel Corporation over the past 4 weeks have averaged 95 per cent of capacity, with 109 per cent recorded in the latest week. This increase in steel orders, despite the Fourth of July holiday, has supported our composite index of new orders during the holiday week, when declines in textile and other orders would otherwise have dropped the index rather sharply. (See Chart 3.)

Heavy construction awards at new high

Engineering construction awards, expanded by defense projects, rose last week to \$98,039,000, a new high since January 1939. The leading award, amounting to \$16,175,000, was for shipbuilding docks at the Philadelphia and Norfolk navy yards. On a daily-average basis (see Chart 4, upper section) last week's volume shares high honors with two other weeks in the past two months, the more recent of which was also high because of armament projects.

Orders for defense purposes predominated in last week's structural steel awards, bringing an upturn in the total volume. (See Chart 4, lower section.) Important awards include:

- 4,000 tons of structural shapes and 1,000 tons of reinforcing bars for naval air bases in Alaska.
- 1,400 tons for naval air station at Pensacola.
- 1,300 tons for plant addition of Carpenter Steel Co.
- 1,200 tons for Vultee Aircraft Co.

Secretary Morgenthau - 4

Important additions to the list of pending awards during the week were:

- 5,000 tons for depot supply buildings in Canal Zone.
- 4,500 tons for depot supply building at Ogden, Utah.
- 4,000 tons for Government ammunition magazines at Savanna, Ill.
- 1,325 tons for addition to Navy munitions building at Washington.
- 2,200 tons for addition to plant of Aluminum Co.

Daily average construction contract awards, as reported by the F. W. Dodge Corporation, moved ahead during June to a new high for the year, aided by a marked increase in the last week of the month. The June figure was about 3 per cent above the previous month and 17 per cent above June 1939.

While a moderate expansion in total construction is normal for June, analysis of the figures reveals that the gain over May was more than accounted for by a stepping up in publicly-owned construction projects, which gained 37 per cent over May and moved above year-earlier levels for the first time since last July.

Residential construction well maintained

Residential construction so far this summer has shown some tendency to resist a seasonal decline. The F. W. Dodge residential contract awards, after reaching a new high since 1929 in May, declined but slightly in June, as compared with a rather sharp decline in June last year. (See Chart 5, upper section.)

The outlook for residential awards over the next month or two, however, appears somewhat less optimistic, in view of a sharp downturn in F.H.A. mortgages selected for appraisal. (Shown as dotted line.) The volume of mortgages selected for appraisal in recent weeks (lower section of chart) has maintained its gain over last year, while following a closely similar seasonal trend.

The number of new homes started under F.H.A. inspection remained at a high level during the past month (see Chart 6), but no tendency toward further gains has been apparent.

Secretary Morgenthau - 5

Railroad outlook improved

Recent traffic and earnings reports have indicated an encouraging improvement in the outlook for the railroads. After declining more than seasonally from the peak levels of last fall until early April, the trend of freight car loadings showed a definite favorable reversal in May, which has continued up to date. The effect of this reversal was first shown in the May figure for net railway operating income of Class I railroads, which amounted to \$47,000,000, and was 87 per cent over the figures for May 1939. While the coal strike in 1939 somewhat detracts from this favorable comparison, it is of interest that the amount mentioned also represented an improvement over both May 1936 and May 1937.

Results for the first 5 months of this year show a gain in net railway operating income of more than 4 per cent over the corresponding months of 1936, which, for the full year, was the best for railroad earnings since 1930. The traffic outlook now in prospect bids fair to carry railroad earnings this year to a new high since 1930.

Commodity prices weaken further

A somewhat disturbing factor in the current business outlook is a further weakening in prices of industrial materials. The new BLS price index of 16 raw industrial materials has declined for the third successive week. (See Chart 7, lower line.) Such weakness frequently reflects a falling off in industrial demand, but in the present case there seems little doubt that the progressive curtailment of European export markets has been an important bearish price factor, tending to cause a greater pressure of world supplies on our market.

The defense program, on the other hand, provides a potential bullish price influence, in view of the stimulus it will provide to industrial demand, and (through increased employment) to consumer demand. In this connection, a further expansion of credit through increased commercial loans is likely to be a contributing bullish factor. Despite the decline in business activity earlier in the year, total commercial loans have held the gains made last fall and have shown some rising tendency. (See upper line on Chart 7.)

Secretary Morgenthau - 6

Weekly business indexes

Due to the difficulty of making proper allowances for holiday influences and the numerous week-end shutdowns that occurred in industry, most of the components of the New York Times index of business activity for the week ended July 6 showed marked changes; and the nine weeks' rise of the combined index was interrupted by a decline of 2.8 points to 100.4.

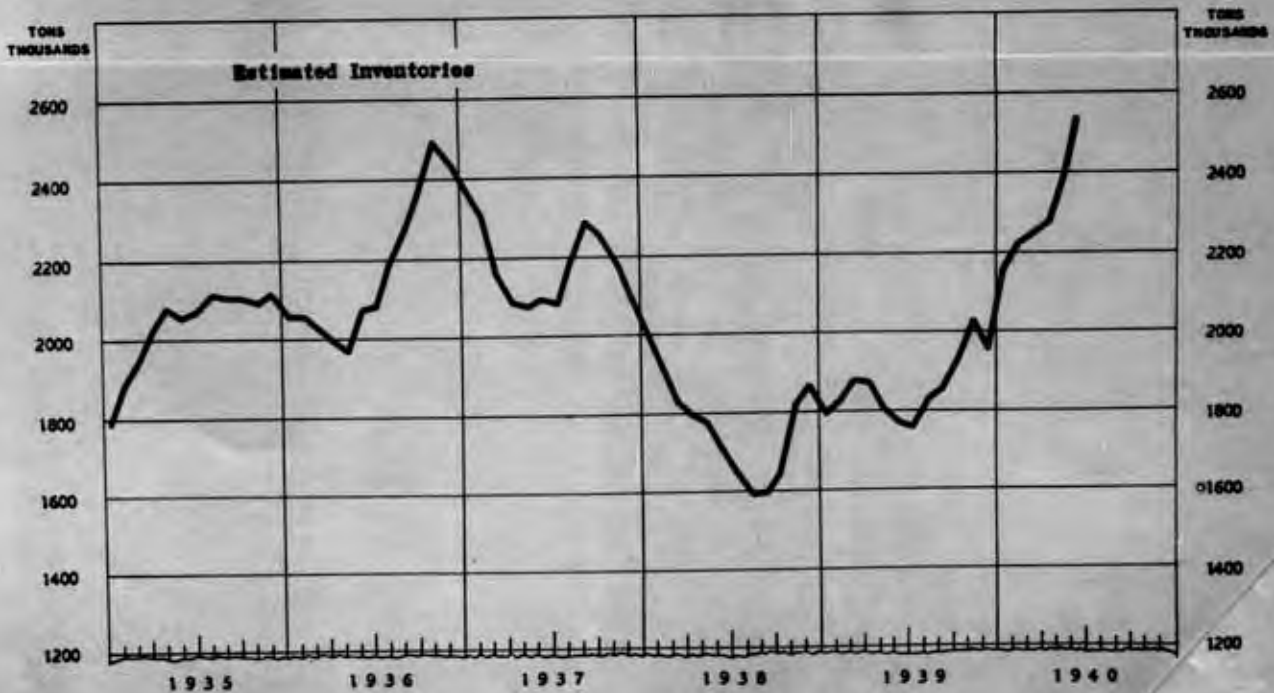
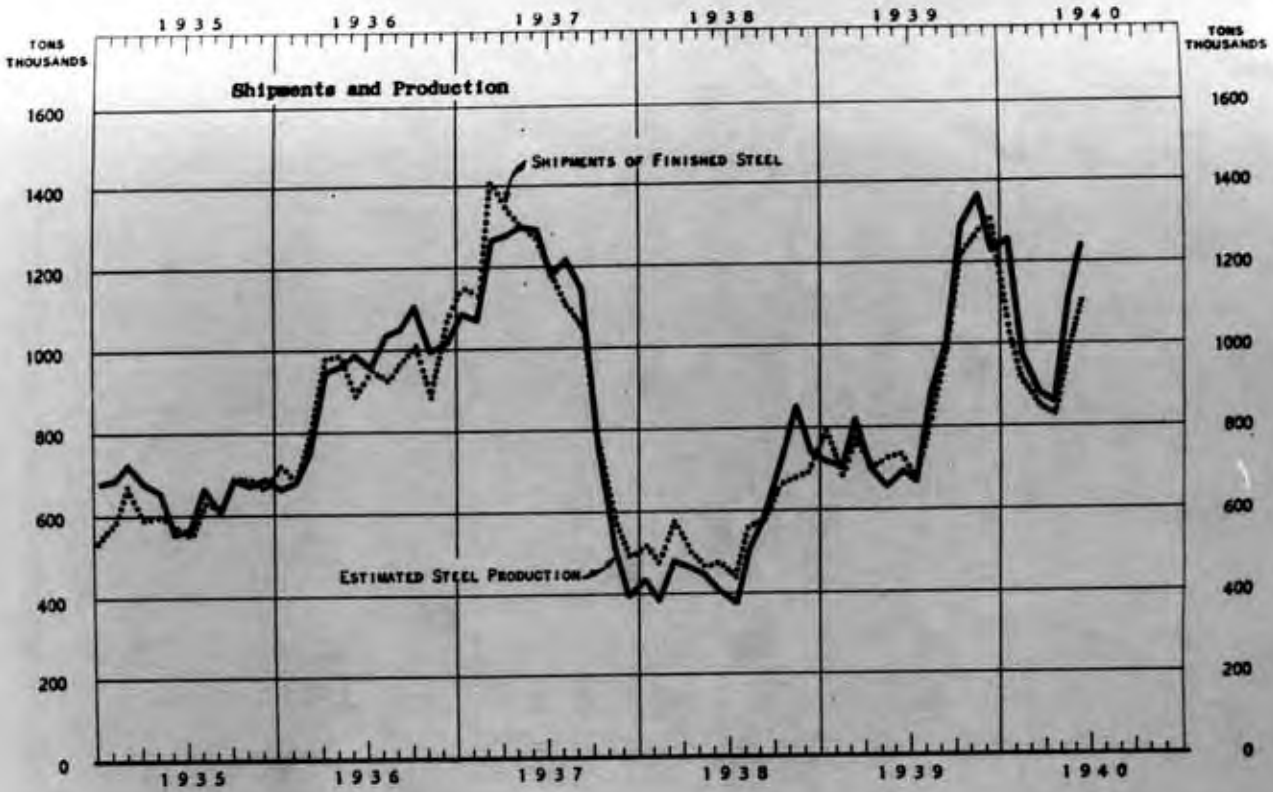
In contrast with the downturn in the Times index, Barron's index of business activity for the week ending July 6 rose to 113.5 from 113.1 in the previous week.

The most important factor in the Times index decline was a drop of over 4 points in the heavily-weighted index of electric power production. In the corresponding week last year a drop of over 2 points also occurred, only to be followed by a rise of 3.5 points in the succeeding week. It therefore seems quite likely that the index of electric power production will show a sharp rebound in the following week.

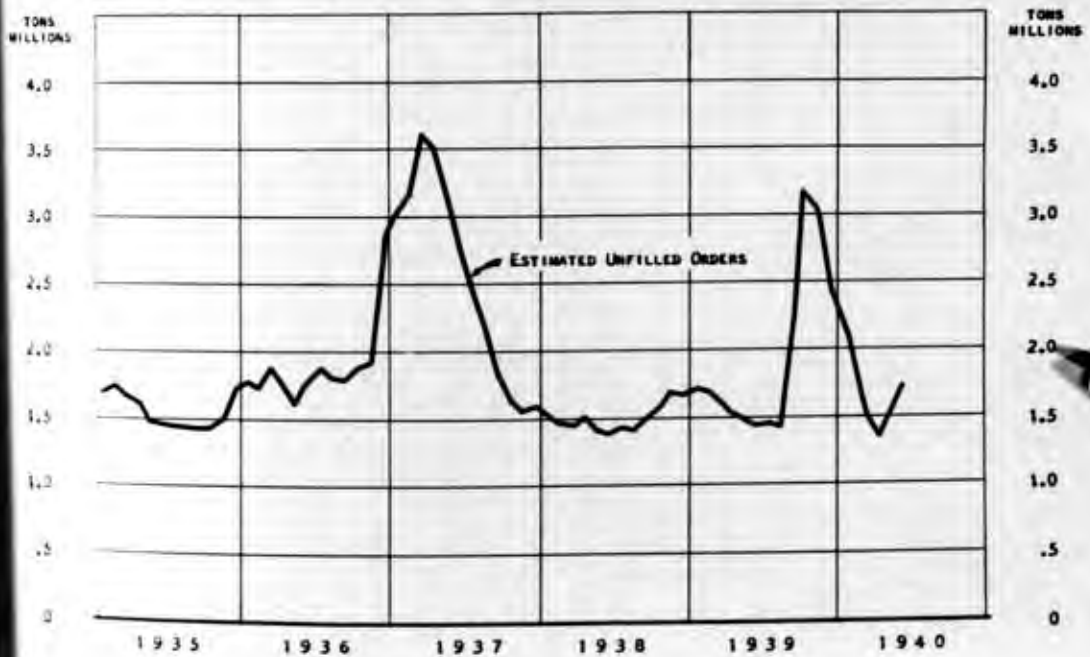
A sharp drop of more than 16 points occurred in the calculated index of lumber production, and here again a good recovery in the following week appears probable. The index of miscellaneous freight car loadings also declined, but all other components rose, with "all other carloadings" and cotton mill activity making particularly good showings. However, in view of the unusual fluctuations above mentioned, an accurate appraisal of the situation will not be possible until the results are available for the week ended July 13, when more accurate comparisons with pre-holiday business levels can be made.

Preliminary data for the week ended July 13 reveal that, despite the good recovery in steel operations after the holiday, the long rise in the adjusted index of steel ingot production has for the time being been halted. After seasonal adjustment, a decline estimated at more than 4 points occurred in the index of steel production during the July 13 week. Automobile production during the past week rose 10,201 units to 62,176. However, this rise was considerably short of the amount anticipated by the Times index and was also more than 1,700 units below the corresponding week of 1939.

STEEL SHIPMENTS, PRODUCTION AND ESTIMATED INVENTORIES
U.S. Steel Corporation



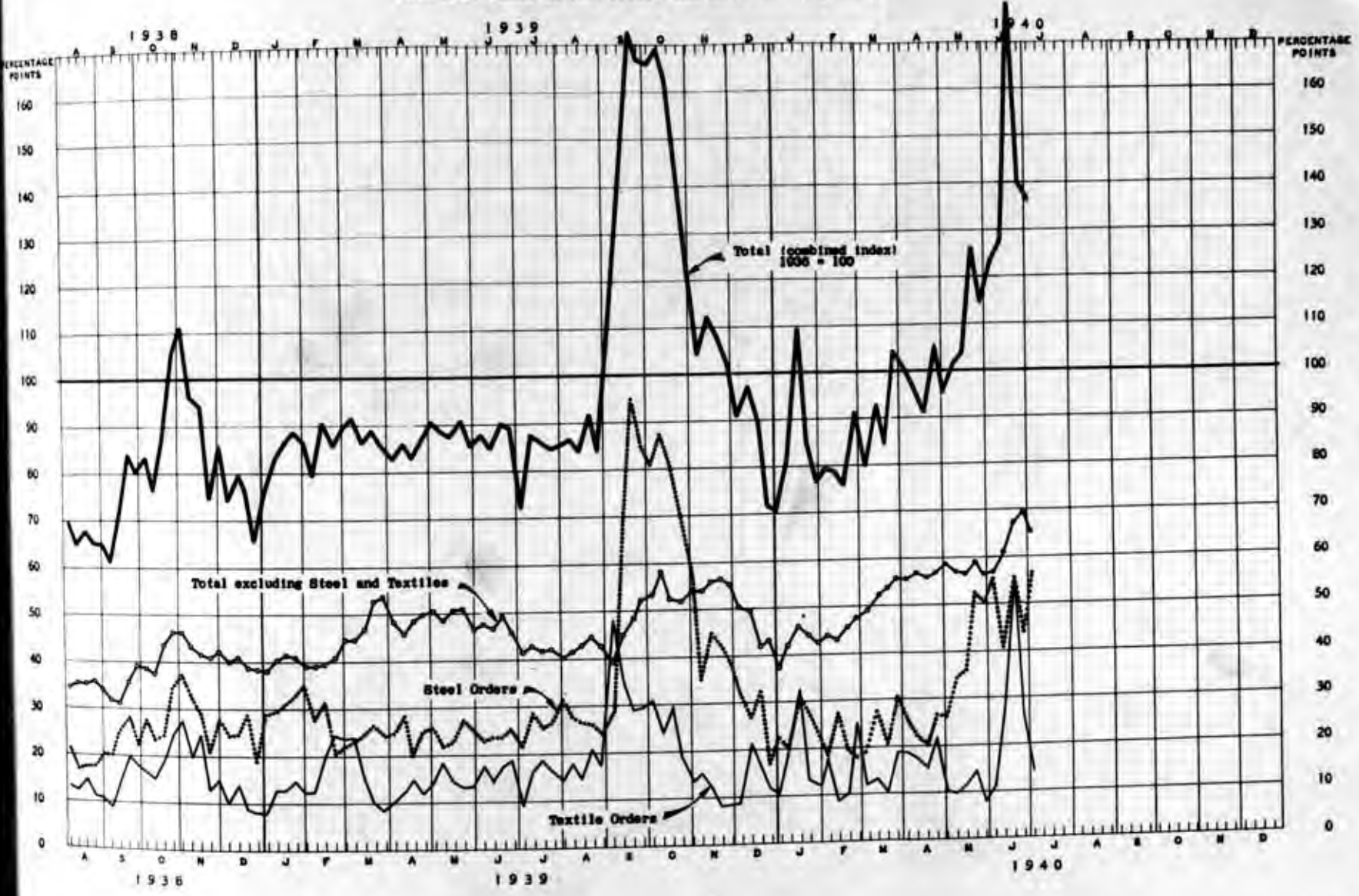
NEW ORDERS, SHIPMENTS AND ESTIMATED UNFILLED ORDERS
OF THE U.S. STEEL CORPORATION



* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

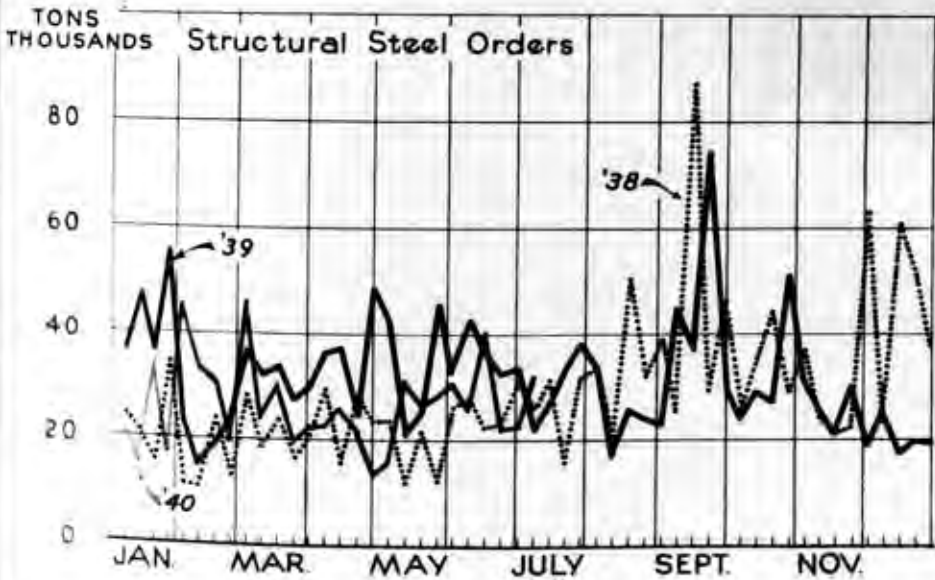
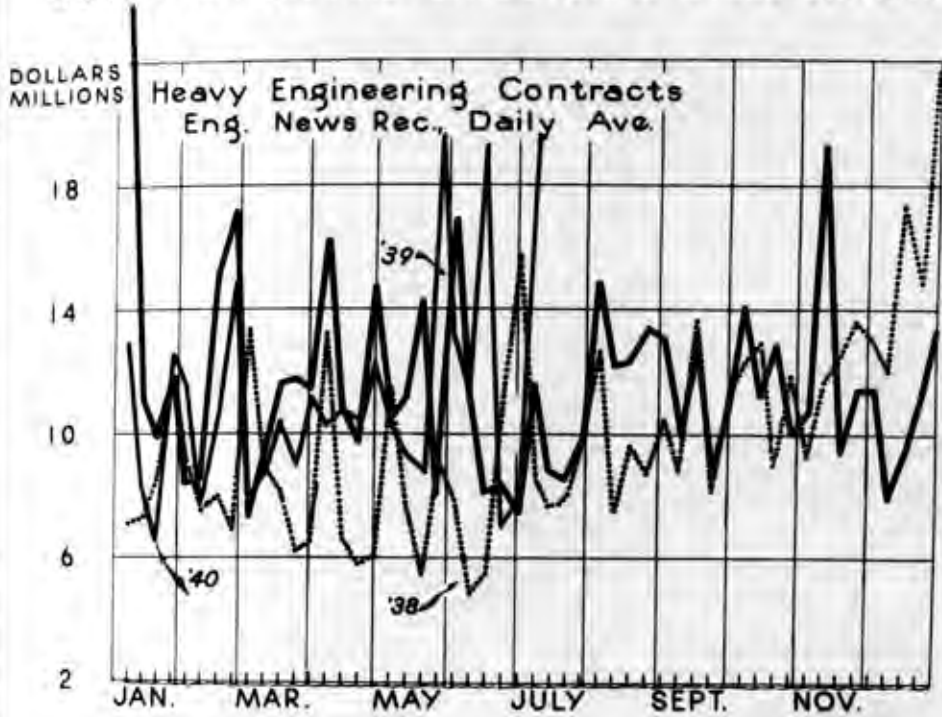
INDICES OF NEW ORDERS

Combined Index of New Orders and Selected Components

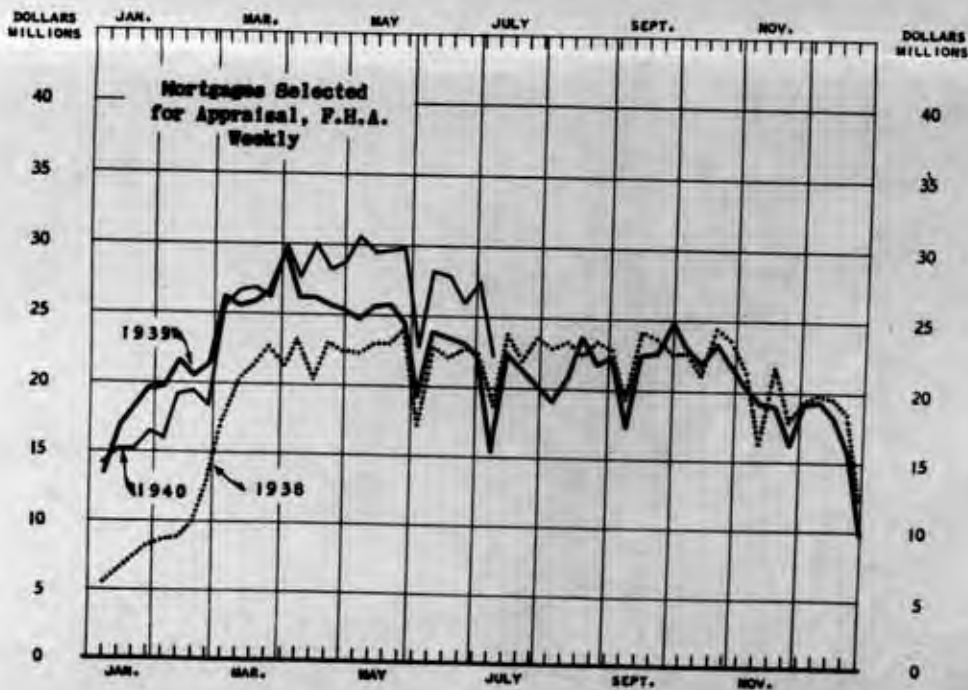
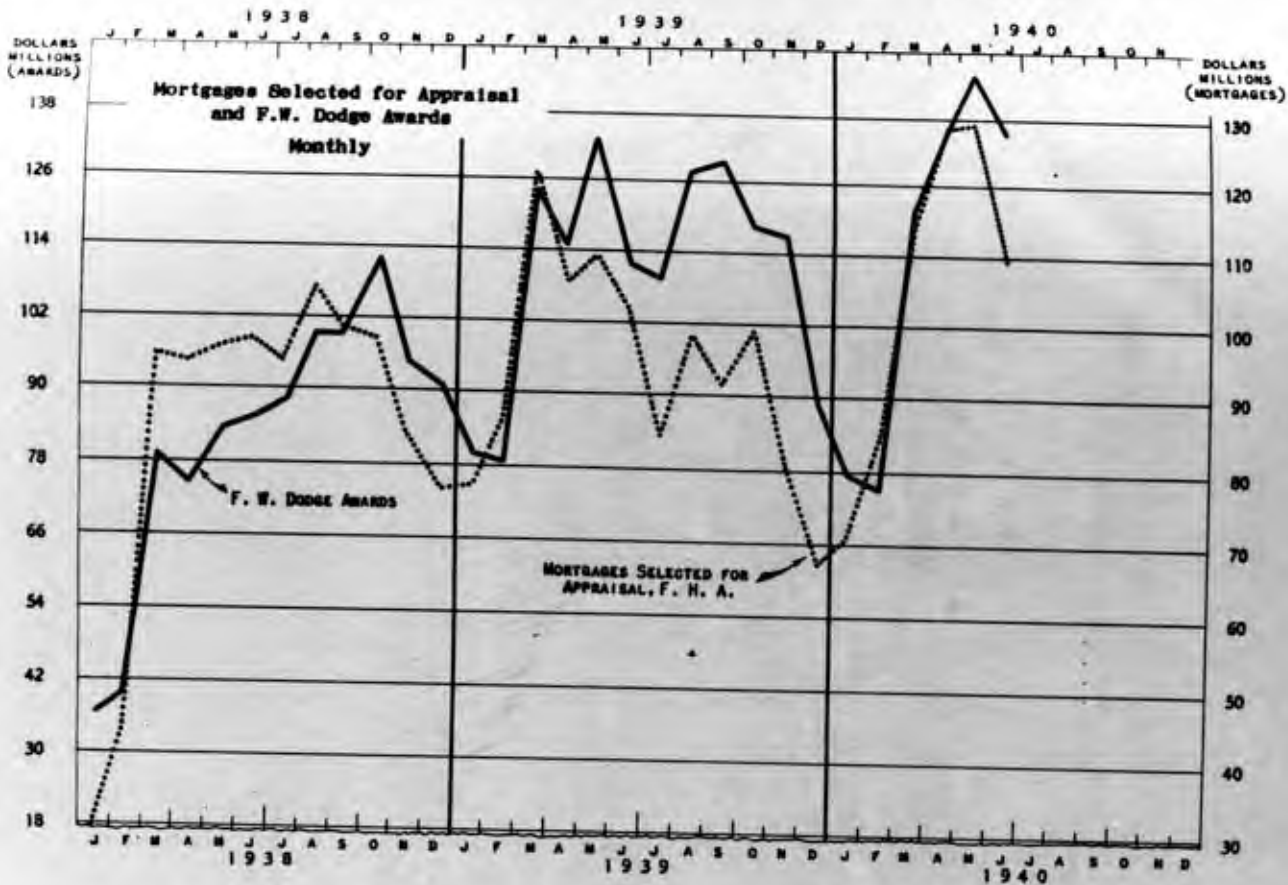


Office of the Secretary of the Treasury
Division of Research and Statistics

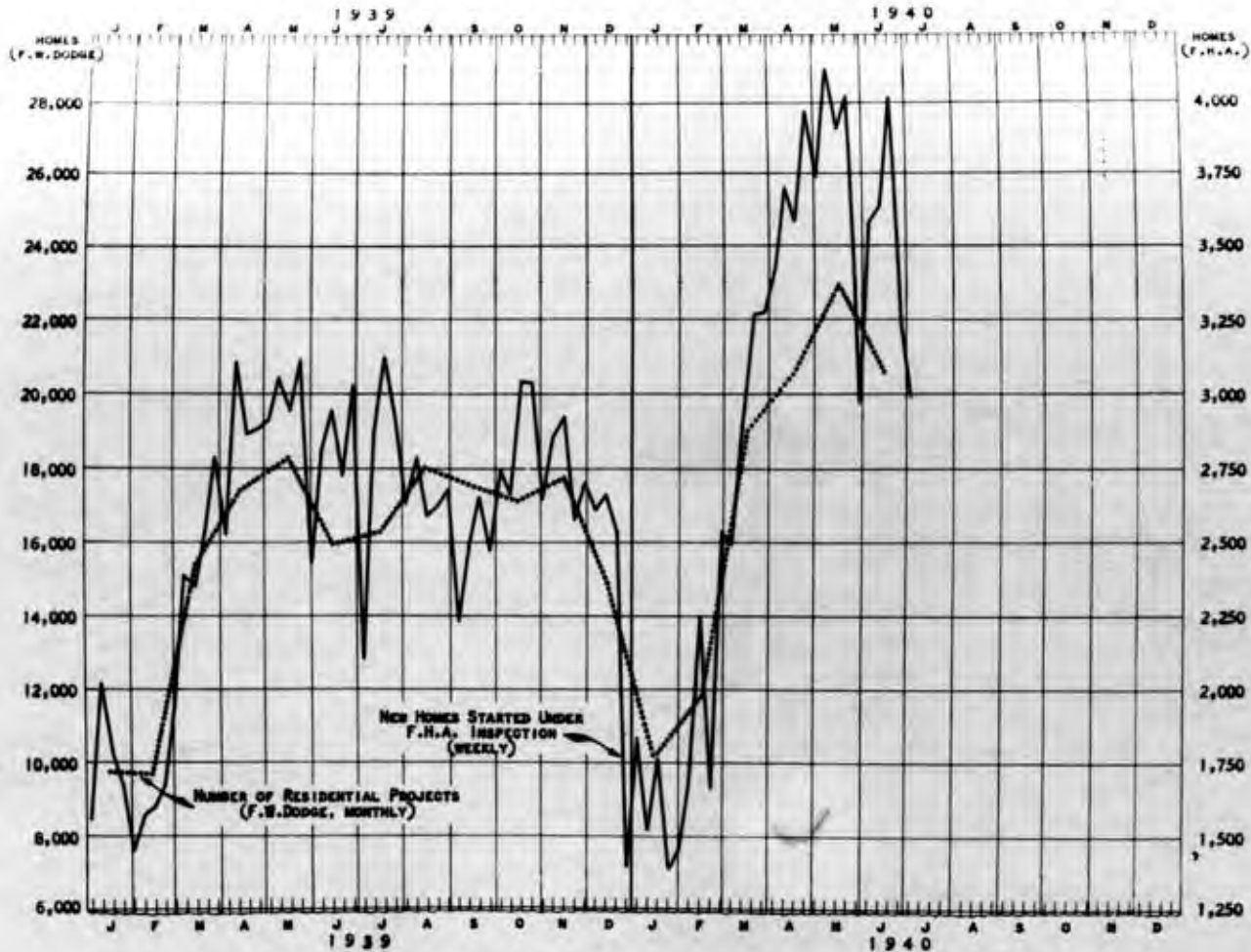
CONSTRUCTION AND STRUCTURAL STEEL ORDERS



RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



RESIDENTIAL AWARDS AND F.H.A. HOMES STARTED



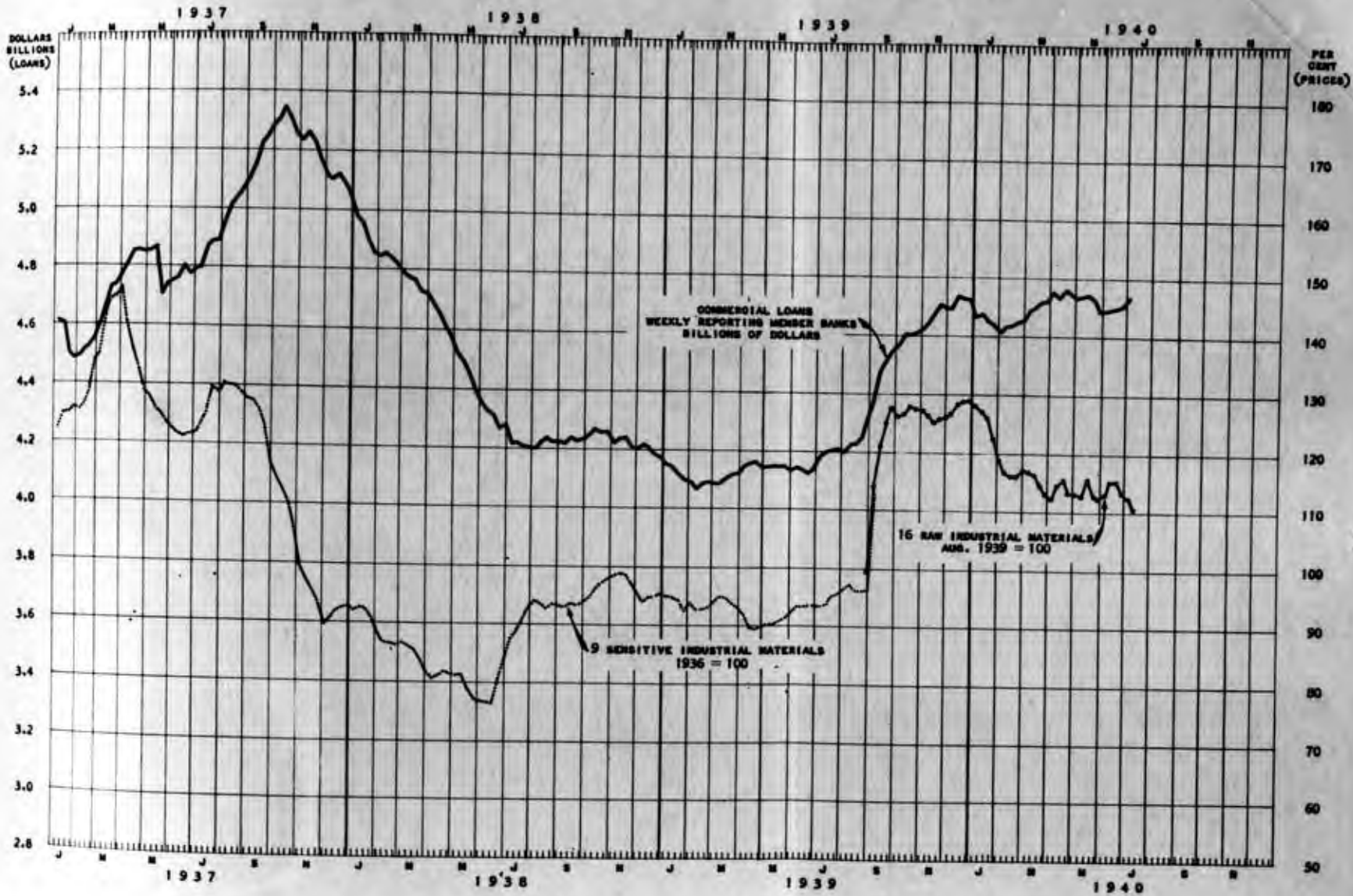
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Chart 6

COMMERCIAL LOANS AND INDUSTRIAL MATERIALS PRICES

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Chart 7



GROUP MEETING

July 15, 1940
9:30 a.m.

Present: Mr. Bell
Mr. Stewart
Mr. Thompson
Mr. Graves
Mr. Haas
Mr. Young
Mr. Schwarz
Mr. Harris
Mr. Viner
Mr. Cochran
Mr. Foley
Mr. White
Mr. Sullivan
Mrs Klotz
Mr. Cairns

Thompson: I have nothing.

H.M.Jr: Would you let Captain Puleston know that I want to wind up that office on the first of September? Is he on our payroll?

Thompson: No, sir, he is detailed.

H.M.Jr: I should think 45 days notice would be enough, wouldn't you think so?

Thompson: It should be, yes.

H.M.Jr: I would like to wind it up as of the first of September.

Anything else?

Dan, could you, by 3:00 o'clock, give me some figures for my press conference, what the bond condition is?

Bell: Yes.

H.M.Jr: After this meeting, I would like Bell and White and Dr. Viner and Stewart and Merle Cochran to stay behind and I would like to talk about Phillips' visit. If anybody has any ideas, it can wait until then.

How is your ship-holding committee?

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Bell: Never heard of it.

H.M.Jr: Downstairs.

Bell: Oh, I guess they are still holding.

Thompson: Mr. Foley is a ship holder.

H.M.Jr: Is he ship holding?

Sullivan: Captain of the port.

H.M.Jr: Who reports on that, anyway?

Foley: Herbert does, but he isn't here. Huntington has been doing it for Herbert while Herbert has been away.

H.M.Jr: Could we have Huntington in when this breaks up just for a minute?

Foley: Sure.

H.M.Jr: Do you know anything about it, Basil?

Harris: No, except I don't think it is a holding committee. I think they are letting them go, from what I can find out. They are weakening a bit.

H.M.Jr: Well, someone Saturday told me there was a ship getting ready to sail from Philadelphia today.

Young: Yes, I told you that on Saturday.

Bell: You heard about the other conference, didn't you?

H.M.Jr: Yes. And nothing happened?

Foley: Nothing since then. We haven't heard from anybody.

H.M.Jr: We have still got the ships?

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Foley: We have still got the Nevada and the Aryan.

Harris: So you are discriminating against American ships as against foreign ships.

H.M.Jr: On the basis of what Basil told you, we thought it was dangerous for them to go.

Harris: I agree with you, but I thought you were going to hold them all up.

H.M.Jr: Well, there is a place called the State Department.

Harris: I know.

H.M.Jr: That was a good hunch of yours, you know.

Foley: Unimpeachable grounds on that one, Basil. I think on the first one it is better to have two reasons, the one we use and a good one.

Viner: How do you find a good one?

Foley: We let the Swedish boat go, Jake, to make our other one good.

Bell: Did you see Mr. Cochran's memorandum on the withdrawals of - Latvia, Lithuania and Esthonia balances?

H.M.Jr: Have you frozen them?

Cochran: Temporarily, and there is a request coming through already this morning for transfers. You see, the State Department had asked us a few days ago for figures on them. Saturday they got nervous because there were some small withdrawals they had heard of and asked if we wouldn't get in touch with the Federal and have a listed group of banks hold up the transactions until they hear from us. Now this morning they just phoned me from the Federal that the Latvian Central

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Bank asked to transfer all of its gold to the U.S.S.R. Central Bank and there is one request from the Chase to okay a transfer of ten thousand dollars from Lithuania to a Latvian account. It is something we have to get on right away.

White: Well, Merle, they are not waiting to hear from us, are they? We are waiting to hear from them.

Cochran: From the State Department, that is right.

Bell: But these transfers are temporarily held up.

H.M.Jr: Well, does Mr. Berle know about this?

Cochran: They were to take it up with Berle as soon as he came back. They couldn't give us their definite decision Saturday because Berle was absent.

H.M.Jr: (To Lieutenant McKay) Mac, would you ask Mr. Berle if he could be here at 2:30 today?

McKay: All right, sir.

Cochran: We ought to clear them so they can be handled during the banking day if we don't hold them up.

H.M.Jr: Well, I can't get to it before 2:30 and they will be getting a great deal better service than they got on these export licenses on strategic materials. I just can't do it.

White: And Dan sent them our letter asking them officially on this matter, so they know we are waiting on them for a reply.

Bell: It was taken up informally some time ago and they didn't like the idea of freezing them.

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H.M.Jr: Who didn't?

Bell: The State Department didn't like the idea.

H.M.Jr: Well, somebody ought to tell Mr. Berle that that is one of the things I want to talk to him about at 2:30.

Bell: I will tell him.

H.M.Jr: Will you?

Bell: Yes.

H.M.Jr: So he will be up to date on it. What else?

Bell: The Budget called up and said they had an Executive Order over there appointing Mr. Ransom as Vice Chairman of the Federal Reserve Board to succeed himself. They just wanted to know if we had any comments to make.

H.M.Jr: Only that it would be very pleasing, sure.

Bell: All right.

Now, I have an application from the Bank of Martinique for a general license, which you said you would like to see.

H.M.Jr: Do you mind if we take that up with the group that stays behind, please?

Bell: All right. That is all I have.

H.M.Jr: Harold?

Graves: I was in Indianapolis two days last week and if you will let me come in some time during the --

H.M.Jr: Will you tell Mac?

Graves: Yes.

H.M.Jr: Would 24 hours make any difference?

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Graves: No.

H.M.Jr: Then tell Mac tomorrow. I am going to try to concentrate on Sir Frederick Phillips, because I came back just for that. Tell McKay.

Doctor White?

White: There is this letter in response to Mr. Wyckoff, which apparently began in the Wall Street Journal. I think somebody ought to go over that who is familiar with what the Government has spent.

H.M.Jr: Let Bell read it.

White: You asked some time ago - you wanted to see me with this Latin American thing.

H.M.Jr: Well, you will have to see me before you go.

White: This is something I think you should read on Japan and this is something that you might want to read.

That is all I have, except that I would like a couple of minutes more that you didn't give me the other day.

H.M.Jr: I know. Stay behind after the next group meets.

Basil?

Harris: No, sir.

H.M.Jr: This is a sad day for me. Isn't this your last one?

Harris: Yes.

H.M.Jr: Is it?

Harris: Yes, today. I may come around tomorrow just to see you and clean up and, you know, throw

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stuff in the wastepaper basket.

Viner: I wondered why there was no flower in his buttonhole.

H.M.Jr: We will give him a lily.

Harris: And I leave you with great regrets.

H.M.Jr: Well, I am sorry.

Harris: I enjoyed the work and I have been very happy here.

H.M.Jr: Well, I will tell you, if you are going to be here tomorrow, I think we will give you a little luncheon, the Treasury 9:30 group. Will you be here tomorrow?

Harris: I will make it a point to be here.

H.M.Jr: 1:00 o'clock?

Harris: Thank you.

H.M.Jr: Pig knuckles and sauerkraut.

George?

Haas: Here is this report.

H.M.Jr: Incidentally, George, that was good work you did over Saturday.

Haas: Thank you.

H.M.Jr: And you may hear a repercussion of it, Chick, but Hanson Baldwin had a story on the front page of the Times. Have you heard what I did?

Schwarz: No, but I saw the story.

H.M.Jr: He was completely - just as wrong as he could be. He said the English were waiting - I don't know, 70 to 100 planes out of Curtiss-Wright, the inference being that the Army was late.

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Schwarz: That is right.

H.M.Jr: Well, George got me the facts. To date the Allies have gotten two Allison engines, that is all, so if the Army is held up, they are held up on two engines and at Curtiss-Wright in Buffalo there are eleven P-40's waiting for the English and none for the Army.

Schwarz: All waiting for motors.

H.M.Jr: Yes. Well, I didn't tell them all, but there are - the Army are not waiting for any. I gave that information to Mr. Sulzberger, because to read in the papers that the English are waiting for 70 to 100 planes of Curtiss P-40's, when they are only waiting for 11, the inference being that they are holding up the Army when the Army - there are no Curtiss P-40's waiting for the Army. I thought it was --

Schwarz: It is better to get that straight.

H.M.Jr: You may get a flare-back on it. That is all I gave them. There is more stuff here which I didn't give them. Some didn't reflect so well on Curtiss-Wright. The good news here is that Allison jumped from six engines to eighteen last week, so evidently they have turned a corner.

Schwarz: Got the bugs out, evidently.

H.M.Jr: Evidently.

Schwarz: Fine.

H.M.Jr: You may hear - Hanson Baldwin may jump on you, but I don't care. Anybody who writes that careless a story ought to be jumped on.

Schwarz: He had good enough sources. If he had checked, he would have gotten the facts.

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- H.M.Jr: And if anybody did not read last week the story by Anne O'Hare McCormick, where she interviewed the President of the Norwegian Parliament, Hambro, you ought to get that and circulate that. Anne O'Hare McCormick's interview with Hambro when he arrived is quite different.
- Viner: Of course, there is a story like that now from Brunson, the same sort of story.
- H.M.Jr: I know, but right or wrong it is - the Hambro story is interesting.
- Phillip?
- Young: Colonel Maxwell has asked me to work with him as one of his two or three official advisers in ironing out his problems. Is there any objection to that?
- H.M.Jr: It depends upon what instrument you use for ironing out. I am delighted.
- Young: That is all I have.
- H.M.Jr: What I would do, unless you want me to do it for you, I would give Mr. Stimson and Mr. Knox each a follow-up today. Would you like me to do it for you or would you like to call up their office and ask whether they have the answers for you?
- Young: No, I think it ought to stew for a little bit this morning. I know the Navy isn't ready yet.
- H.M.Jr: Well, not later than tomorrow.
- Young: Right.
- H.M.Jr: The old Swedish boat, has she sailed?
- Young: She was due to sail on Saturday night.

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H.M.Jr: Somebody has got to know about this ship holding.

Young: They have put on aluminum.
(Mr. Cairns entered the conference)

H.M.Jr: Good morning, Huntington. Everybody is ducking this ship holding trusteeship. What about the Swedish boat that was supposed to sail?

Cairns: It will apply for clearance this morning or today sometime, according to my last report.

H.M.Jr: And you are holding the two American flagships in Texas?

Cairns: Yes.

H.M.Jr: Did the Swedish one sail?

Cairns: I haven't heard. We gave them clearance.

H.M.Jr: You might find out. And there is one loading at Philadelphia?

Cairns: Yes, the Koura, a Finnish vessel, carrying a full cargo of gasoline and other petroleum products to Finland, together with foodstuffs, coffee, sugar and wheat.

H.M.Jr: Well, Mr. Berle will be here at 2:30, so if you will be prepared at that time, will you?

Cairns: Yes.

H.M.Jr: Basil, will you be here at 2:30?

Harris: Yes.

H.M.Jr: Bell and Foley, wasn't that the group that worked on that? Phil, you sat in on that.

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- Young: Yes, sir.
- H.M.Jr: What else can you volunteer, Huntington?
- Cairns: I think that is the whole story.
- H.M.Jr: Will you stay, Dr. Viner?
- Viner: The Brazilian Government has sent me a plan for a scheme of capital control in connection with their bank and asked me to comment on it. I don't know whether the Treasury knows anything about that.
- H.M.Jr: Well, the man who is coordinating that for the President is Mr. Forrestal and he asked me what we were prepared to do and Dr. White was present when I told him. You can ask him afterward. I made this condition, that if we did anything in connection with the Central Bank, that I insisted on doing it myself, and I mean I, the Treasury, rather than the State Department.
- Viner: Well, they asked me whether I would be willing to comment and I told them I would. I thought that - on the other hand it is a big document and I am busy --
- White: Is it the same proposal they had two years ago?
- Viner: No. I just turned the pages on it and it is an elaborate scheme for qualitative control and an argument for it, qualitative control of credit. The communication was - I have had it from three different grades. The communication was from the Ministry of Finance and the Embassy here and presented to me by the Consular staff, a visitation of three of them.
- H.M.Jr: How much coffee do they give you?
- Viner: They offered me a fee and I told them I was connected with the Treasury and I

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would be very glad to do that without a fee.

H.M.Jr: Do you think you ought to turn it down before we have a chance to talk it over? You know, fifty-fifty.

Viner: I thought I would split with you.

H.M.Jr: How can you split if you turn it down? It is a coffee split instead of a banana split. All right.

Viner: I just wanted you to know that I said yes. I would have said no otherwise, because I have two other things to worry about.

H.M.Jr: Did you sell any of your graduates to anybody in the Treasury?

Viner: I don't know.

White: Yes, one.

Viner: Did I sell one?

White: Yes.

H.M.Jr: What is his name?

White: Snyder, a young fellow.

H.M.Jr: Is he a good man?

Viner: I think so, yes.

White: Well, it was on your recommendation that we took him.

H.M.Jr: Now that he is in the Treasury, Jake is going to begin to criticize him. While he was with Jake, he was good. Now he is with the Treasury and he doesn't know.

Viner: Read the record, Harry. He was the man I knew least well, but my colleagues all thought he was good.

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White: They all spoke extremely highly of him and he was one of three you recommended and he had the best record, but I got his name from your recommendation first.

Viner: That is right.

H.M.Jr: He is in the Treasury now. He is bear meat for Jake.

What else, Jake?

Viner: That is all.

H.M.Jr: Walter?

Stewart: Nothing.

Cochran: Nothing.

H.M.Jr: Ed?

Foley: I have a couple of memos for the Diary. This is the conference over at Jones' office and this is the conference Huntington and I had Friday.

White: He doesn't know it yet. He will know it this morning or possibly he did Saturday.

H.M.Jr: Do you mind bringing those in at 2:30?

Foley: All right.

H.M.Jr: What else?

Foley: Nothing else.

Sullivan: I would like a chance to report to you some-time on some conferences I had with Mr. Dough-ton and Mr. Cooper.

H.M.Jr: You got Doughton's name in the paper all right.

Sullivan: That is right, sir.

H.M.Jr: Chick did a good job.

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Sullivan: Fine.

Schwarz: I stressed him.

H.M.Jr: Did you get my note to be sure to get it to Clarence Linz, representing the Greenfield Banner Star?

Schwarz: Clarence took care of it, sir.

H.M.Jr: O. K. We will go to the next meeting. Phil, I want to talk about a personal matter with you.

July 15, 1940
10:00 a.m.

RE AGENDA FOR MEETING WITH SIR FREDERICK PHILLIPS

- Present: Mr. Bell
Mr. White
Mr. Cochran
Mr. Viner
Mr. Stewart
- H.M.Jr: Merle, you had better sit through on all of these and act as a historian. I don't think I will have a stenographer present, so I think you had better sit through on all of them. I didn't think this morning I would be too formal with them. I thought I would be a little chatty and sort of ask him what he would care to volunteer. Don't you think so, Dan?
- Bell: I think so. I think I would make the first one as informal as possible and kind of get under his skin, if he is the kind of fellow they say he is.
- H.M.Jr: Well, I know the man very well. Is he bringing Bewley with him?
- Cochran: I asked Pinsent. I said, "Will you be coming along?" and he said, "I am going to leave it with Phillips." He asked if you had indicated any preference, and I said no, it was up to them, to bring with him as many as he wished.
- H.M.Jr: What I thought, thinking out loud, was that I could say to him that I talked to Arthur Purvis last night and he said that Phillips was bringing with him the requirements for the next twelve months, which I asked for, in the way of money, and Purvis was quite disturbed. Phillips didn't show

it to him but he is worried that it isn't enough, because in the various talks that I had with Ambassador Lothian and C. D. Howe, Minister of National Defense of Canada and Casey of Australia, they all blame it now on the British Treasury. They say they were planning a three year war and what they don't say is that England was planning on a cheap war.

- White: There has been a substantial change made in the Treasury power about two or three weeks ago that might interest you.
- H.M.Jr: More important or less important?
- White: They have given them much less importance. They have taken away all their powers to go over expenditures in any detail and have reduced them to a status of what is referred to purely as a paymaster, on the grounds that it is the Treasury which has been stalling and wasting time going over detailed expenditures.
- Bell: I didn't think the Treasury had much power over the Army and Navy.
- White: They did in fact exercise the power under Simon, according to the reports. They exercised a good deal of power which they acquired or developed, possibly, rather than legally possessed.
- H.M.Jr: What was that, a cable from Butterworth?
- White: No, I got that from two different Englishmen and I saw one reference to it in one of the Journals, a very vague reference. That is my information.
- H.M.Jr: Well, we will know after he gets here, but what I was leading up to, just to talk to you people, that I would ask him for those figures and then ask him if he would care to tell us how much gold they have or rather

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go back to the thing which I have been groping for, if they can't give us a statement of their assets and their liabilities and we in return, I think, ought to be prepared to tell them in confidence what money we have on earmark for these various countries. I mean, if he wants to know, for instance, how much we have got for Norway and Denmark and these various countries. I think we ought to be prepared to tell him, which we never have, have we?

- Cochran: We have never given out Central Bank balances for another country.
- H.M.Jr: I think if we are going to ask him everything and he is going to ask us, I think we ought to be prepared to do that.
- White: I think with respect to these particular countries, it wouldn't be inappropriate to give it to him because there are special circumstances.
- H.M.Jr: You know, of the three E's, you have heard me talk about this - how many months ago?
- Stewart: At least a month and a half.
- H.M.Jr: That I wanted to get a balance sheet of England.
- Stewart: Oh yes.
- H.M.Jr: We are groping for that now. We asked - didn't we ask Pinsent for that?
- Cochran: We have asked him for nothing specific.
- White: Mr. Secretary, following the lines that you said, after he indicates to you what their needs are for the current year, which I think is an excellent beginning --
- H.M.Jr: He has that.

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White: Then in order to lead into this other a little more easily, I wonder whether you might not ask how they anticipate financing it, how much gold they are going to use, how much securities they are going to sell, and how much their current losses are, and from that it leads easily into the question of just what is their status of current foreign exchange.

H.M.Jr: I don't get the meaning of the word "losses."

Viner: Foreign exchange losses.

White: Drains rather than losses, if you like.

H.M.Jr: Yes, I --

Bell: Well, is that requirement that you are talking about for twelve months in this country or their total?

Viner: Their foreign exchange requirement would be an important item.

Bell: In this country?

H.M.Jr: I think that --

Viner: Their dollar requirement.

H.M.Jr: We can ask for their whole picture and hope to at least get this, and then with - there are in the United States now representatives who want to buy in Australia, South Africa, India and Canada and not only do I want the financial thing, but being for the President on this purchasing thing, you see, it is terrifically important - after we find out what they have got to spend, then the other thing that I am going to get Purvis down here and then have the two of them together, "Well, how are you going to spend this, gentlemen? How much is going to tanks for the Empire, how much for anti-aircraft, how much for shells?" I was just amazed. Elliott was in here the other day, who does the steel

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buying. How much steel do you suppose they are taking a month, not buying, but taking deliveries? Have you any idea? 950,000 tons is what they are taking a month. Isn't that perfectly amazing?

- White: Purvis gave me a figure of 300,000 that they were going to move up to.
- H.M.Jr: 950,000 tons is what Mr. Elliott was here representing the - some society for buying, an association of steel manufacturers.
- Bell: That is being shipped to England?
- H.M.Jr: That is what they are taking, and I asked him the question, "What about deliveries?" "Fine." "What about the prices?" "Very satisfactory." At the beginning they had a little trouble, but now everything is fine, and they do it on a three months order and then options, I think, for the balance of the year. That gives you some idea of the extent of the purchases. That is a tremendous amount.
- Bell: The French started out with sixty, didn't they? They were going to work up to 200,000 a month.
- H.M.Jr: I asked him for two or three times - for this information.
- White: Mr. Secretary, I take it that possibly the slant that these questions will have will be in the relation to how it is going to affect us, either our security market or our gold or our economy, though the interpretation that he may read into it - and it would be all right if he did - is that we would like to know what assets they have left in view of that remark in the Lothian letter that they don't like to undertake long contracts because they haven't got enough money, but I imagine that you have in mind, or it would be wise, to studiously avoid any imputation that you want to know, because you want to

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how soon they would want credit.

H.M.Jr:

Well --

White:

He may read that into it, which would be all right.

H.M.Jr:

After all, to give you gentlemen the whole picture, I put something across which I think - with the President's approval - and we only finally cleared it Friday - and I worked it out entirely on my own. I have been at it now for six weeks, I guess. It is in connection with this Packard Motor finance thing, the RFC - they are advancing the money, all of it, and as the English get deliveries or we get deliveries, it is paid back in per unit, but the money is being financed by the RFC or a subsidiary, which is an entirely new departure and we are going to try to do that for all the orders in the future. But even up to Friday noon, Jones was very much worried about the English, so Ed Foley said, "Well, take Curtiss-Wright, which we are financing. At the moment we have no order for English engines - I mean orders for engines from the new plant somewhere in the middlewest." If they came along and wanted 500 engines a month later, we could give them to them? And I said, "Sure," but it is easing the thing for them very much and I am doing it with my eyes open.

White:

Yet some of the motors that the Packard plant is going to produce presumably are going to be used in planes for the United States.

H.M.Jr:

One third.

White:

Yes.

H.M.Jr:

And two thirds for England.

White:

Therefore, in financing them, you are in real sense financing America's needs.

H.M.Jr:

You have got the answers, Harry.

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- White: You are doing it either way.
- H.M.Jr: In the room here, at least let's be frank with one another. I mean, up to now - up to that time Purvis had advanced 100% for the plant and 100% for the taxes that they had to pay on the transaction, plus the working capital.
- White: And they got 100% of the product.
- H.M.Jr: Not always. I think in the Colt case - I am not sure --
- Viner: Even then they might the first year or the second year - they were really financing productive equipment for us for the third year. I would say it works the same way on both kinds of transactions.
- H.M.Jr: But I wanted you people to know the - maybe I am overemphasizing it, but I think it is quite new and I know it was most encouraging to Purvis.
- Viner: Of course, you have to be very careful not to raise any expectations in his mind that you don't feel reasonably sure you can carry out. It would be unfair.
- H.M.Jr: I would leave that the other way.
- Viner: It would be unfair.
- H.M.Jr: No, I never do that. Jake, take T. V. Soong who was here. He was so disappointed, because after seeing the President and his hopes were raised, he saw me, and I told him everything he was asking was very difficult and I was very doubtful if I could do anything. I always go the other way, after being in Washington 7½ years.
- Viner: They have a great deal at stake, and they do have to plan.
- H.M.Jr: I do everything possible.

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- White: That doesn't interfere with what he is doing. We are working on it, but he is starting from zero. Anything he is able to do is that much better.
- Viner: I don't mean let him leave with expectations.
- White: He is not leaving, he is here working.
- Viner: Who?
- White: Soong.
- H.M.Jr: No, he is talking about --
- White: Well, I don't know about that. I think with regard to Phillips, rather than to say I wouldn't give him any promise or couldn't deliver, I think the slightest implication of anything ought to be excluded from this office because he can have his own judgment as to the general trend of political affairs, but --
- Viner: I --
- H.M.Jr:as to loans, or anything like that, the present temper of the country is absolutely opposed to any such thing, but we have made a step forward in financing this Packard plant. It is a distinctly new departure and Jones only acquiesced on Friday.
- White: If the question is raised, then I think after you tell him that you could say that in any case it would be impossible for the American Government to give any consideration, even if they were so desirous of doing, unless they have a clear picture of the entire situation and that would be a further justification for them giving you that kind of picture in anticipation of their asking for anything.

(Unrecorded telephone conversation with Pa Watson)

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H.M.Jr: He just was asking about the Swedish boat and I told him that was all clear and then I asked him whether he wouldn't once more try to get all outstanding export licenses cancelled. He said Mr. Hull didn't want it and I said, "If you tried it again today, I think they could get it."

Let me just go around the room a minute. What would you like me to do first?

Bell: I think your suggestion is all right, to make it pretty easy for the first conference, informal, and ask a few questions in general and then get a little deeper into it in the next conference. It would be more a visit than anything else.

White: I think when you get to the questions of exchange, what they have got in assets and so on, that at that point you ought to turn him over to Dan Bell instead of discussing it with him yourself and let them prepare something and then come back to you with some conclusions.

H.M.Jr: Well, after the first day or two I won't see him.

White: No, but when you get to that point --

H.M.Jr: I can't say I am rusty on this, I just don't know. And then he comes back to me, he has heard something in Bell's office that I don't know, so I think when he goes to school - I will do it the way I did last time. I practically devoted a whole week to them and I am prepared to do that this time.

Stewart: Do you know how long he plans to be here?

H.M.Jr: No, I don't.

Stewart: It affects the time schedule, how rapidly we have to move.

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H.M.Jr: You (Cochran) might sort of sound out Pinsent on that, you see.

Cochran: All right, sir.

Stewart: My only other suggestion is that - you know how difficult it is to get him started talking.

H.M.Jr: I know.

Stewart: My inclination would be to have you and the Undersecretary with him to start with and let whoever is going to promote his group and ourselves wait in the anteroom until you just have a little opening with him.

H.M.Jr: Well, I want Merle here because he has got to write the notes as historian on this thing.

Stewart: It is awfully hard for those Britishers to open up before a large audience. He is particularly difficult.

H.M.Jr: Then I will have Bell and Merle here and then if I can have you three economists in afterward. White is going to go away and I want Merle to be here on all of them and he has got an excellent memory and can write the thing up.

Stewart: If you want us to take care of Pinsent, if he comes, we can entertain him outside.

Viner: I think that is the procedure.

H.M.Jr: Do you think you ought to be outside at 11:00? Be in your offices.

Viner: We will be on call, available.

H.M.Jr: Be in your offices.

Cochran: But if he brings along the other two men, I think you ought to receive them.

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H.M.Jr: Oh, yes.

Cochran: I left that with Phillips.

H.M.Jr: But I think if Phillips - if I receive three of them, it is all right.

Viner: And the first reception ought to be more personal, you see.

Stewart: I would see him first, if it weren't more than five or ten minutes.

H.M.Jr: Alone?

Stewart: Yes, I would. He may have something he wants to tell you.

Viner: Also, you have met him before.

Stewart: I would want to see you, if I was in his position.

H.M.Jr: Then I would see them all alone.

Viner: Yes, I would see them all alone the first five minutes.

H.M.Jr: Is that all right?

Bell: That is fine. He may have something that he wants to say --

Stewart: He may have.

Bell: That he wants to say confidentially.

Stewart: You can discuss with him the procedure.

H.M.Jr: This other thing of doing this thing in a broad way opens up all avenues, doesn't it?

Stewart: Yes.

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- Bell: You might open it up by asking him how long he is going to be here and how much time he will have to devote, and so forth.
- Stewart: I think he is interested, actually, in the statistical information that goes out. I am less interested in that than I am in the question of procedure and general policy and how we get prompt answers to questions from our side and that sort of thing, because I think things change so quickly that even if they gave us an elaborate answer to the question there, it wouldn't last us very long.
- The first part of what their intentions are to spend, I like very much.
- H.M.Jr: Well, the other thing which interests me, which I want to do, is have him here and Soong here. I am very much interested in what their attitude is going to be toward China because it will influence me in how hard I work in trying to do something for Soong.
- Cochran: If that one road is blocked, China can't get much from outside.
- H.M.Jr: Except from Russia.
- Viner: Well, that route is almost impossible.
- White: During this two months, yes.
- H.M.Jr: No, the Russian one.
- White: The Burma road also, it is right in the rainy season.
- Viner: The Russians have been shipping things that way because their own route is so - too long and difficult.
- White: Yes, it is three thousand miles long. It would be quite a departure, Mr. Secretary, if I remember correctly, from your procedure to see a man under those circumstances alone. I think that certainly Dan Bell and Merle ought to be here.
- H.M.Jr: If he brings in Bewley and Pinsent, then I will have Bell and Cochran with me. I will coach McKay to find out just what he wants to do. That is the easiest way. I will ask McKay to ask him what he wants. What suggestions have you got?

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- Cochran: There is one thing that I could tell you - those accounts for the Bank of England with the Federal were transformed on Friday into Government accounts. You will be able to tell him that, if it interests him. That has been pending quite a while. It finally went through on Friday.
- H.M.Jr: What is the significance of that?
- Cochran: They wanted them in that form so they could not be attached.
- White: They are under His Majesty's Government accounts.
- H.M.Jr: Rather than the Bank of England?
- Cochran: That is right.
- White: They were afraid that --
- Cochran: The Germans might try to attach it.
- White: There's somebody operating --
- Cochran: And there is rather a nervous wire in from Mr. Kennedy here. I sent you one at the house.
- H.M.Jr: I haven't been home.
- Cochran: No, I know. That first paragraph doesn't agree with the information we have had before.
- H.M.Jr: It sounds crazy. That is the same thing I have been told two or three times, that the Bank of America had so many Government bonds any time they wanted to they could break the Government bond market.
- Bell: They have got about 400 million. The Federal could buy those up.
- White: They haven't got more bonds than there is cash available to buy them.

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Cochran: On the State Department side, Mr. Secretary, do you want anyone over at any time or do you want me to make a memorandum for them?

H.M.Jr: Well, let's see how the thing goes. The way I feel right now - let's see what he has to say and then I think the best thing is to give a memo to Mr. Hull and keep forwarding them to him and say, "Now, any comments, any suggestions, I would be glad to receive them." I can do that with the first one and say, "I will keep you posted through memoranda, but please feel free at any time to send an observer if you wish." I don't know who they would send and it might just gum up the works.

The Government of Norway does not have any American securities. What has he got to do with it?

Cochran: He hasn't anything to do with it.

H.M.Jr: That is about as hysterical a telegram as I have read in a long time. Have you seen it?

Bell: No.

H.M.Jr: What else?

Cochran: That is all I have.

H.M.Jr: Jake?

Viner: Nothing.

H.M.Jr: I think we are all right, don't you think so?

Viner: I think so.

H.M.Jr: The main thing, as he asks questions and as they are answered, I have got to be present because I just haven't been giving this thing the detailed attention which it needs for me to have it at my fingertips

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and I haven't had time to learn it, but I thought I could learn it as he asked the questions.

White: There will be - if he goes into these, there will be some area in which, in order to get a clear picture, either he will submit something after study or if he is going to give the information offhand, there may have to be several questions asked him in succession to make sure he is covering the area and when it reaches that point, it will probably be possible for him to prepare something and give us a chance to go over it if he wishes to do that, because otherwise the information may be too sketchy to be of much value. If the conversation gets through sooner than you expect, I am wondering whether a second topic might not be quite appropriate for the first morning and that is the question of blocking German and Italian assets. They have asked us twice definitely and you might raise the question as to how important they think it is.

Bell: I think he will probably raise that before it is over with, before we go very far. Apparently they consider it very important.

H.M.Jr: I am awfully sorry that Berle is going down with Mr. Hull to Cuba. I have just established this working arrangement with them and for him to go off just breaks it.

White: He has been more active in this Latin American thing than anybody else has.

H.M.Jr: Well, I think we are all right, don't you think so?

Stewart: Sure, we are.

H.M.Jr: Dan? Then we will leave it that way.

Viner: One of the things I am curious about is just what their procedure is or what it is going

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to be with the French accounts.

H.M.Jr: Well, I am, too.

White: That is one of the questions that is asked here.

H.M.Jr: I think we are all right.

Bell: Do you want Stewart and Viner to go over these questions and see whether or not they could elaborate on them?

H.M.Jr: Very much so. They could take them now and go down and any time they have any important cables, if you could get them out, Cochran.

Cochran: Yes, I will get them out.

H.M.Jr: And if it hasn't been done, if you could go through the questions which they have asked us in the last month which haven't been answered.

Cochran: I always let them see my memos.

H.M.Jr: But I mean if they could be looked over.

Viner: If they could get them out, to see all of the questions. Some of them you may not want to take up.

H.M.Jr: What have they asked us in the last month which we haven't answered, because they no doubt will ask them again and we could be thinking of an answer.

Cochran: I think Stewart and Viner ought to see that letter from Lord Lothian, too. They could have that in the back of their minds. You have the only copy of that.

H.M.Jr: I have?

Cochran: Well, Miss Chauncey, I suppose.

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- Bell: It wasn't copied for distribution. There are only two questions, Merle, which might be, you might say, pending. That is the one of credits and the other of freezing the German and Italian accounts.
- Cochran: My thought was --
- H.M.Jr: George, what is an aide memoir? She misunderstood me. I said an egg that smells badly.
- What have you got, something that you want me to see?
- Bell: I have this application for a general license by the Bank of Martinique.
- H.M.Jr: Oh, yes.
- Bell: Which you wanted me to bring up, about 174,000 in the French-American Banking Corporation and they want a general license to operate that, so they say, to pay for imports from the United States. Of course, if we give them a general license, that allows them to operate. We thought we might give them the same treatment we have given a number of other banks in similar situations, and that is allow them a general license on 25% of their balance, plus any payments. It gives them a revolving fund of all their in payments plus 25% of their balance.
- H.M.Jr: Do you see what their transactions are?
- Bell: We would get weekly reports on that.
- H.M.Jr: My own feeling, unless these gentlemen want to overrule me, which is their privilege, I wouldn't give it to them.
- White: Wouldn't give them anything?
- H.M.Jr: No, I would pass on each transaction.

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- White: It is pretty difficult in these banking operations. The bank has to have - since that is all its balances here, it would have to have some freedom and if we give them the possibility of using 25%, you are freezing 75% of the assets and a portion of the 25 with weekly reports. Otherwise, I am afraid you will lay yourself open to unjust criticism that you are so interfering with their banking operations and with trade that they will have a just criticism.
- H.M.Jr: Yes, but I want advance notice if anything is going to happen down there. They have got 245 million dollars worth of gold. They have got 80 or 90 American airplanes which they have landed. Now, if something happens and we get a report a week later, we might just as well have it a year later.
- Bell: This only gives them about \$40,000 to operate on.
- H.M.Jr: I still say I want a notice.
- Bell: Well, they will claim that this interferes with their operations and it might injure their credit and there might be runs on the bank. We have had that in a couple of cases.
- H.M.Jr: Well, they have got 245 million dollars worth of gold down there.
- Cochran: They can't touch that. That is the Bank of France, you see.
- Bell: Fifty percent of the stock of this bank is owned by the Guaranty Trust Company and the First National of Boston and the other fifty percent is owned by the Comptoir d'Escompte of Paris.
- H.M.Jr: Dan, supposing these people want to do something today and Mr. Knoke sends it down. Can't they get a clearance right away?

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- Bell: They can if there is sufficient information on it. You might have to delay it a little while.
- White: There is usually from three to five days from beginning to end of the transaction.
- H.M.Jr: In the matter of national defense of the Western Hemisphere - I am not going to give it to them. I don't want to know a week later what they are doing down there. If they have got some money, they may want to finance an expedition or something or other. Let's hold it, Dan.
- White: The Bank might put some sort of a sticker on that and you might reduce the time element to avoid criticism.
- H.M.Jr: I would be glad to give them six-hour service.
- White: Well, we might cut it down to two or three days.
- H.M.Jr: No, I would give them service the same day. I would give it priority, but certainly to get a report a week after they have done something down there - we have no Consul down there, you see. It makes it very difficult. They have got that 245 million dollars worth of gold there.
- White: How did it get there? I thought the boat was leaving the United States with those planes.
- Viner: Halifax.
- H.M.Jr: It went down there and then this other cruiser took it to Halifax and got out before the Canadians could stop them.
- White: Where did the boat come from, Canada?
- H.M.Jr: France. They both left Halifax and beat it down to Martinique.

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- White: Oh, the gold was destined for Halifax and they didn't unload it?
- H.M.Jr: That is right. The planes were loaded and they sailed down to Martinique and according to Leroy-Beaulieu, they have landed the gold and the planes on the island at Martinique. If they intern those ships and that ends that, then I would feel differently, but the only tip-off that I can get for us here that anything is going to happen is that if they make some unusual movement with their money, even if it is only ten thousand dollars.
- Bell: Leroy-Beaulieu says that he wishes to point out the Banca de la Martinique is the central bank of the West Indies and a payment from this bank - suspension of payments on this bank would have a disastrous economic effect on the islands. If the license cannot be issued, he asks the Government to grant a special license authorizing the withdrawal of funds equal to the amount of withdrawals for the preceding months.
- White: That doesn't constitute a suspension of payments, just a delay.
- H.M.Jr: You can tell Knoke particularly if anything comes in to give it priority over everything else.
- Viner: This doesn't injure their ability to pay in French francs. They won't be able to supply foreign exchange to their customers.
- White: They will when we give them their license. It will be a delay.
- What control is there, Mr. Secretary, over the outward movement of their gold?
- H.M.Jr: This is the most dangerous spot in the Western Hemisphere, right now, and I am

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certainly not going to wait until a week after something has happened. I would much rather take the criticism or whatever it is, also to take personal satisfaction that through some request that they were going to charter a boat or something, move the gold back to Toulon, or something like that. I don't know what they might do.

White: Is there anybody there to —

H.M.Jr: Yes, through Mr. Hoover we finally sent a man down. I asked Hoover to, in desperation, after the State Department fooled around a week and told them I was sending somebody, "What are you going to do about it?" They finally did it at my request. J. Edgar Hoover sent a man down. That is the only person who is down there. But the State Department wouldn't do it and I told him, "The man is going and I am telling you and what are you going to do about it?" The man left.

Cochran: I mentioned Leroy-Beaulieu's talk on that the other day in a meeting and then I gave you a memorandum which you have up at the house now.

H.M.Jr: Okay, gents. Thank you all. I am glad you two gentlemen (Stewart and Viner) are here at this time.

Suggested Agenda for Discussion With
Sir Frederick Phillips

1. Gold and Foreign Exchange Assets of Great Britain
 1. How much gold does England have and where is it located?
 2. Is the British Treasury planning to remove the gold now in England to Canada or to other places where it will be beyond the reach of a possible German invasion?
 3. Does the Treasury anticipate increasing the rate of liquidation of British held American securities?
 4. What is the British Treasury's estimate of the total value of United Kingdom's foreign exchange assets classified by kind and location? What is the value and character of the foreign exchange assets of each of the Empire countries?
 5. To what extent are the dominions and colonies making their foreign exchange assets available for the financing of the war?
 6. At what rate is the United Kingdom at present depleting its foreign exchange resources? Could the British Treasury prepare an estimate for the Secretary of the balances of payments for the next three months of
 - (a) The British Empire with the rest of the world?
 - (b) The United Kingdom with her Empire?
 - (c) The United Kingdom with non-Empire countries?
7. Under what circumstances would the British Government desire the United States to impose licensing restrictions on the use of British assets in this country?

II. Gold and Foreign Exchange Assets of France

1. What steps is the British government taking or contemplating taking with respect to the French gold and other French assets in Great Britain and other parts of the Empire?
2. What are the views of the British Treasury with respect to the status of French gold earmarked in the United States, and to the liberation of other French assets blocked in the United States?

III. Gold and Foreign Exchange Assets of Other European Countries

1. The British government has requested us to block German and Italian assets here. How important do they feel such action to be?
2. Does the British Treasury contemplate any special action with respect to assets belonging to Switzerland and Sweden now held in British countries?
3. How much gold does the British Treasury believe to have fallen into German hands in occupied countries?
4. Does the British Treasury have any knowledge of the confiscation of foreign exchange yielding securities by Germany in the invaded countries?
5. How much gold, balances and other assets do the invaded countries have in the United Kingdom and the rest of the British Empire?

IV. Far East

1. Is the British Treasury considering extending additional aid to the Chinese government for the purpose of strengthening the yuan? Would it consider doing so in collaboration with the United States?
2. Does the Indian government intend to acquire more silver, or permit increased imports of silver into India?

See 304 pg 2 386

JUL 15 1940

Secretary Morgenthau

Mr. Foley

For the Secretary's Diary

In accordance with your arrangement with Mr. Jones, I attended a conference in his office from 11:30 to 12:30 Friday morning, July 13th. In addition to Mr. Jones and myself there were present Messrs. Emil Schram, Chairman of the Board of Directors of the RFC, Claude Hamilton, General Counsel of the RFC, and Gust Kades.

We first discussed the Wright Aeronautical Corporation matter. I told Mr. Jones that Mr. Van Auk had stated to Mr. Kades yesterday that nothing had been heard from the RFC concerning the proposed loan agreement. Mr. Hamilton stated that he had received a photostat of the draft agreement from Mr. Hotchkiss the first part of the week. (Both Mr. Hotchkiss and Mr. Van Auk are partners in the firm of Spence, Vindale, Walker, Hotchkiss & Angell which represents Curtiss Wright and Wright Aeronautical.)

I stated to Mr. Jones that this photostat was a copy of the draft agreement which I had sent to Mr. Schram on June 25th, and Mr. Schram recalled having received it. Mr. Jones then stated he had been waiting to hear from Wright Aeronautical Corporation that the Advisory Commission of the Council of National Defense had awarded the contracts for the engines to Wright Aeronautical Corporation and I explained that such an award would have to come from the War Department or the Navy Department, or both, and that the financing of a new plant in which to build the engines had to be carried out simultaneously with the placing of the orders, to which Mr. Jones nodded assent.

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Mr. Jones then asked about the ruling relating to amortization and I handed him a copy of the ruling and the proposed closing agreement as well as a copy of the letter from Wright Aeronautical Corporation requesting the Commissioner of Internal Revenue to make a ruling to which was attached a copy of the letter from Mr. Jones to Mr. Gordon, Vice President of Curtiss Wright in charge of Wright Aeronautical Corporation. Mr. Jones read the file carefully and asked to see a copy of the regulations upon which the ruling was based which I showed him and which he indicated he thought was very sound and would be useful in many situations. He asked to keep the file so that the ruling could be studied in relation to the possible changes in the plan of financing and I left everything with him.

At the conclusion of our discussion of the Wright Aeronautical Corporation's application for a loan from the NFD, Mr. Jones stated that Mr. Schran and Mr. Hamilton would get in touch with Mr. Hutchins and Mr. Van Amb the early part of next week with a view to having them come to Washington for a further conference and for working out the details of the transaction.

We then discussed the Fordard-Holly-Boyer matter. Mr. Jones stated that it was the opinion of the NFD that since a large portion of the engines were to be manufactured for the British, the facilities were not being constructed for "national defense" within the meaning of the Act of June 25, 1940, authorizing the NFD to advance funds for such purposes. I replied that I thought this interpretation of the law was wrong and that since the new facilities, even though temporarily used to manufacture engines for the British, would always be available for the manufacture of engines for the United States and since the Government could at any time give priority to orders for engines for the Army and

the Navy under ESB of the National Defense Act of 1916, it was a reasonable construction to hold that such facilities were for the "national defense". Mr. Sullivan stated he thought the Legislative history did not support my interpretation and I suggested that the matter be referred to the Attorney General for an opinion but Mr. Jones stated that regardless of what the Attorney General might rule he did not want to do it any way. I suggested that as an alternative the financing might be done under the Glass-Steagall Bill of 1933 which authorized the ETO to make loans to industry, but Mr. Jones said that Packard was not willing to give acceptable security such as a mortgage to even within the strict requirements of that bill.

Mr. Jones said that it was his understanding that the British had deposited \$25,000,000 in excess to secure Packard against the possibility of the cancellation of orders and that this \$25,000,000 would be used only in payment of the last batch of engines and would be left untouched until that time. Mr. Jones thought that if the \$25,000,000 was utilized to aid in financing the expansion of Packard, he could advance the balance of the funds needed by Packard. I told him I did not know any of the details of the arrangement between Packard and the British or between Packard and the Advisory Commission but that I thought if the opinion of the Government concerned would get together there was sufficient liquidity to work out a plan satisfactory to all concerned, and Mr. Jones said that he felt the same way and that he was not aware of taking action where necessary to get the program under way.

Mr. Jones mentioned that officers of Gold's Patent Film Arms Manufacturing Co. had recently spoken to him about funds for the purchase of jigs, tools, dies and special machinery which they wanted installed in the Gold's plant but that

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they did not want to be under any obligation to repay the funds so advanced, nor did they want the Government to have any right or title to the special machinery which would be purchased with the funds and Mr. Jones indicated he thought this attitude was unreasonable.

Mr. Jones asked me who it was in the British Purchasing Commission who spoke for the Commission, and I said that it was my understanding that Mr. Purvis was the one to talk to on the Hall-Dryden matter. Mr. Jones asked where Mr. Purvis' office was and I stated that it was in New York but he was always willing to take a plane and come to Washington whenever requested.

We discussed the possibility of handling the Hall-Dryden matter along the lines of the British-Wright Aeronautical leasing arrangement and Mr. Schum asked if we would send him copies of that contract and lease.

Mr. Jones asked whether it would not be possible for the Treasury to revise its regulations relative to depreciation and obsolescence so as to provide for rapid amortization of the cost of new facilities acquired for national defense purposes without waiting for the enactment of the excess profits tax with the special amortization provisions. I explained at considerable length to Mr. Jones that the Treasury had to treat all taxpayers alike and could not discriminate in favor of any particular group of taxpayers such as private manufacturers of armament. I explained to him that whatever rate of depreciation and obsolescence was permitted for buildings and machinery used to fill national defense needs would also have to be applied to buildings and machinery used for other productive and that it was essential that the Treasury have statutory authority to make any distinction.

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Mr. Jones stated that he thought that this was a very reasonable position and that he now understood why the Treasury could not handle the amortization question administratively. I stated to Mr. Jones that there had been a great deal of confusion and misunderstanding on this score but whenever we had had an opportunity of explaining the position, the need for new legislation became apparent. I referred to the Arthur Hays Sulzberger column which appeared in the New York Times on Wednesday, July 15th, as an example of the prevalence of misinformation and told him how utterly unfair and prejudiced the column was.

I explained to Mr. Jones that after a conference last week at Mr. Egan's office with Mr. Higgins, Mr. Bond and representatives of Wright Aeronautical Corporation at which the Vinson-Trammell Act and special amortization deductions had both been considered I had stated to you that I thought it was essential to repeal the Vinson-Trammell Act and that you had asked for a memorandum on this subject. After you had considered the memorandum you stated on Monday that you were convinced that the Vinson-Trammell Act was discriminatory, ineffective and was delaying the execution of important contracts, and that on Monday at a conference at the White House you recommended that the Act be repealed and that some special amortization allowances be considered in conjunction with an excess profits tax. I also told Mr. Jones that the President had stated to you that he wanted to consider these matters but that you should discuss them with the legislative leaders, and that on the next day, Tuesday, at a conference in your office attended by Senators Harrison, King and George and Congressman Jere Cooper, Chairman of the Tax Subcommittee of the Ways and Means Committee, you had laid the proposal for the repeal of the Vinson-Trammell Act and provision for special amortization allowances, as part of a general non-discriminatory excess profits

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ten, before the group. After some hesitation and considerable discussion the legislative leaders agreed with your suggestions and the result was the plan worked out during the conference at the White House on Wednesday which Mr. Jones had attended along with Mr. Eadsen, Senator Harvick and Congressman Cooper, in addition to you, John Sullivan and myself.

I told Mr. Jones that I thought that the speed with which the Treasury had acted showed that the Treasury, at least, was prepared to do everything within its power to expedite the national defense program and that the War and Navy Departments must perform their function of awarding the contracts, the NRC its function of financing new construction, and the Treasury its function of coordinating British procurement with domestic procurement and working out a tax policy, all in close coordination if the program was to succeed.

Mr. Jones said he realized that the Treasury was trying its best to expedite the progress of the national defense program and said he was willing to do his part to get things done quickly. He said he was in hearty accord with the repeal of the Vinson-Trammell Act and thought that a steeply graduated excess profits tax of general application was the fairest form of taxation and would help prevent corporations getting too big and having monopoly positions. However, he said he thought that the amortization deduction for special national defense facilities should be permitted regardless whether the financing was done by the NRC or by private banking institutions and that otherwise we were going to get into a most confused situation especially where some of the facilities would be financed from both sources plus existing corporate reserves for plant expansion. I told him that I agreed that any manufacturer whose new facilities were certified by the Army and Navy and the Advisory Commission as being immediately

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necessary for national defense purposes should be permitted to amortize over a five-year period such additional facilities, without regard to the excess of the funds used to construct the new plant or purchase and install the new equipment, and that you had an open mind on the subject and that was the reason why you said to him at the White House you would be willing to discuss the matter with him at any time over a glass of milk.

At the conclusion of the conference Mr. Jones seemed to be in a very amiable frame of mind and indicated that he was ready and willing to cooperate to the fullest extent possible. He clearly showed his feeling that the Treasury was doing its part and that the ruling in the Wright Aeronautical case was going to be very helpful.

(Initialed) E. H. P., Jr.

CIX:6
7-23-40

JUL 15 1940

Dear Mr. Wilson:

Thank you for your letter of July 2nd, concerning the disposition of the Hull's Bayou plans and drawings.

Attached herewith is a copy of a letter to the Secretary of War advising him that you will be delighted to request Lord Hawtstock to loan certain of these plans in the custody of the War Department for inspection purposes if it so desires.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Morris V. Wilson,
Representative, British Ministry
of Aircraft Production,
The Royal Bank of Canada,
Montreal, Canada.

Enclosure

7/12/40
F11bj

M.

*Airmail Special Delivery
(sent to R.R. & P.O. Station at 11:45)*

JUL 15 1940

Dear Mr. Wilson:

Thank you for your letter of July 2nd, concerning the disposition of the Rolls Royce plans and drawings.

Attached herewith is a copy of a letter to the Secretary of War advising him that you will be delighted to request Lord Beaverbrook to leave certain of these plans in the custody of the War Department for inspection purposes if it so desires.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Morris W. Wilson,
Representative, British Ministry
of Aircraft Production,
The Royal Bank of Canada,
Montreal, Canada.

7/12/40
FY:bj

JUL 15 1940

Dear Mr. Wilson:

Thank you for your letter of July 2nd, concerning the disposition of the Hollis Hayes plans and drawings.

Attached herewith is a copy of a letter to the Secretary of War advising him that you will be delighted to request Lord Hawtrey to leave certain of these plans in the custody of the War Department for inspection purposes if it so desires.

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. Morris W. Wilson,
Representative, British Ministry
of Aircraft Production,
The Royal Bank of Canada,
Montreal, Canada.

7/12/40
FY:bj

REPRESENTATIVE IN CANADA AND THE UNITED STATES
OF THE
MINISTRY OF AIRCRAFT PRODUCTION
OF THE UNITED KINGDOM

396

4 photostats
to Mr Young
7/9/40

Telephone:
PLateau 4136

ROYAL BANK BUILDING
MONTREAL

July 2, 1940.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

Dear Mr. Morgenthau:

So that you may get rid of the plans, drawings, etc., recently delivered to you, other than those of the Rolls-Royce Merlin engines required in connection with our proposed joint project, may I request that the plans and drawings of the Halifax-Handley Page aircraft and the Rolls-Royce "G" engines be sent by express, collect, to:

Morris W. Wilson,
The Royal Bank of Canada,
Montreal.

The remaining parcel, consisting of car and experimental drawings, may be turned over to the Rolls-Royce representative presently in Washington.

I regret giving you so much trouble in this connection. Thanking you in anticipation, I am,

Yours sincerely,

M. W. Wilson
Representative

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July 15, 1940

Kurt Sell, American representative of the D N B (which is the Nazi news agency) came in to the local Collector's office in Washington to file tax papers before going to Havana. By mistake he left an envelope. Irej made a preliminary translation. It is a document for the German White Paper #6. The preliminary translation shows that it is an alibi of Germany for its entry into the low countries and then into France.

Irej thinks it ought to go to the State Department today because evidently Kurt Sell is going to attend the Pan-American conference.