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**EXPORTS OF PETROLEUM PRODUCTS, SCRAP IRON AND SCRAP STEEL
FROM THE UNITED STATES TO JAPAN, RUSSIA, SPAIN, AND GREAT BRITAIN
AS SHOWN BY DEPARTURE PERMITS GRANTED**

Week ended September 14, 1940

	: JAPAN	: RUSSIA	: SPAIN	: GREAT BRITAIN
PETROLEUM PRODUCTS				
Fuel and Gas Oil (including Diesel Oil)	57,000 Bbls.	---	54,000 Bbls.	---
Crude -				
Blended or California High Octane Crude *	268,438 Bbls.	---	---	---
All Other Crude	---	---	---	---
Gasoline -				
Gasoline A **	---	---	---	---
Gasoline B *	122,033 Bbls.	---	75,000 Bbls.	---
All Other Gasoline	---	---	---	3,940 Bbls.
Lubricating Oil -				
Aviation Lubricating Oil ***	---	---	---	300 Bbls.
All Other Lubricating Oil	---	---	---	694 Bbls.
Tetraethyl Lead ***	---	---	---	---
"Boosters", such as Iso-Octane, Iso-Hexane, or Iso-Pentane	---	---	---	---
SCRAP IRON AND SCRAP STEEL				
Number 1 Heavy Melting Scrap	11,677 Tons	---	---	3,465 Tons
All Other Scrap	15,382 Tons	---	---	5,815 Tons

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

Source: Office of Merchant Ship Control, Treasury Department.

Sept. 16, 1940

* Any material from which by commercial distillation there can be separated more than 3% of aviation motor fuel, hydrocarbon or hydrocarbon mixture - President's regulations of July 26, 1940.

** Aviation Gasoline.

*** As defined in the President's regulations of July 26, 1940.

ALLISON ENGINEERING COMPANY
Deliveries of Airplane Engines

: Actual : Estimated deliveries on
: deliveries : existing orders

1940

January.....	10	
May 1 - June 1.....	15	
June 2 - 29.....	31	
June 30 - July 6.....	6	
July 7 - 13.....	18	
July 14 - 20.....	11	
July 21 - 27.....	15	
July 28 - August 3.....	30	
August 4 - 10.....	1	
August 11 - 17.....	1	
August 18 - 24.....	14	
August 25 - 31.....	45	
September 1 - 7.....	28	
September 8 - 14.....	37	
September 15 - 30.....		185
October.....		300
November.....		350
December.....		400

1941

January.....	400	
February.....	416	
March.....	416	
April.....	414	
May.....	408	
June.....	437	
July.....	400	
August.....	369	
September.....	431	
October.....	47	
November.....	45	
December.....	45	

1942

January.....	25	
February.....	21	
April.....	2	
June.....	2	

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

September 16, 1940.

CURTISS AEROPLANE DIVISION OF CURTISS-WRIGHT CORP.

British Contracts

	P-40 (Allison)	P-36 (Wright)
Airframes on hand September 7	86	4
Airframes completed September 7 - 14	<u>13</u>	<u>0</u>
Total airframes needing engines	99	4
Airplanes with engines shipped September 7 - 14	<u>0</u>	<u>4</u>
Airframes on hand September 14	<u>99*</u>	<u>0</u>

Office of the Secretary of the Treasury,
Division of Research and Statistics. September 16, 1940.

* On September 14 there were 16 Allison engines on hand for British P-40 contracts. Of these, 5 were being installed in some of the planes in storage.

4

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1940

TO Secretary Morgenthau


FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent, Financial Counselor of the British Embassy, called on me yesterday evening, he stated that he had been preparing a memorandum for his Ambassador, resulting from a conversation which Lord Lothian had with the President. Pinsent told me that Mr. Steinbeck, the author of "Grapes of Wrath", had made the suggestion to the White House that the British scatter by airplane counterfeit reichsmark currency in Germany. Pinsent could not recommend this scheme from a technical standpoint. He had noted with interest the report from Germany that the British aviators were dropping beetles on the German potato patches. He thought there might be some truth in the report also coming from Germany that British aviators were endeavoring to set fire to German crops with small incendiary parcels. He also mentioned that the proposal had at one time been made that fraudulent food ration cards be dropped on Germany to complicate their food distribution situation.

Mr. Pinsent told me further that his Embassy had been visited by Mr. William Wassermann of 40 Wall Street, New York. Wassermann claimed to be a member of William Allen White's committee and endeavored to interest the Embassy in propaganda in favor of the British cause. Wassermann's main idea was to start making it clear to the American public that Great Britain does not have sufficient gold and other resources to continue indefinitely its present scale of purchases of war materials, and to emphasize the importance of Great Britain's victory to the United States. Pinsent had been very guarded in an answer to Wassermann, refraining from any indication as to how long British resources would last.

In answer to Pinsent's question as to whether I knew Wassermann, I told him that I had met him in Paris and had read some very interesting, startlingly detailed and frank memoranda which Wassermann had written concerning his conversations with prominent officials in England and France, including the present Prime Minister, Mr. Churchill. This was some two years ago. I also referred to the publicity which Mr. Wassermann had obtained in regard to his scheme for lending to Great Britain against American securities held by Great Britain. It was my impression that New York had not made any strong claim to Mr. Wassermann as one of its leading authorities on such matters, and that there had even been some denial, as I seem to recall it, on the part of New York bankers and stock exchange officials as to Wassermann's ability to speak for any prominent banking or brokers' group in New York, where his office is said to be a one-room affair.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 9:45 this morning I telephoned Mr. Knoke in the Federal Reserve Bank at New York. I told him of the confidential note which had been handed to me by the British Embassy in regard to the Amtorg Trading Corporation having offered \$7,000,000 worth of gold to the New York office of the Bank of America, concerning which there was some suspicion that the gold may have come from the recently annexed Baltic States. Mr. Knoke knew nothing of this shipment, but promised to give me any word that he might have thereof.

At the same time I read to Mr. Knoke the telegram which the Director of the Mint in Washington had today received from the Mint's San Francisco office concerning the receipt in San Francisco from the Chase National Bank of approximately \$10,500,000 worth of gold imported from Russia. Mr. Knoke did not have all of the details on this case, but telephoned Mr. Funk of the Chase Bank while I waited, and then gave me the following data. Approximately four weeks ago the Chase Bank was approached in regard to gold in Vladivostok. The State Bank of Russia asked whether the Chase Bank would buy this gold in Vladivostok. A negative answer was given. Two weeks later the Russian State Bank asked whether the Chase would make a loan on this gold either in Japan or when shipped from Japan by the Yokohama Specie Bank on a neutral vessel. Another negative answer was given. Yesterday the Chase received a telegraphic message to the effect that the gold was arriving in San Francisco. In answer to my further inquiry, Knoke got in touch with Funk again and learned that the gold had actually been placed aboard the steamship at Yokohama. It appears that the gold now received in San Francisco was that originally in Vladivostok, which had been transhipped in Yokohama, either because of better trans-Pacific steamship facilities from Japan, or perhaps to avoid the publicity which attends gold shipments coming directly from Russia.



THE UNDER SECRETARY OF THE NAVY

9-14-60
-5

FROM: JAMES FORRESTAL

TO: Secretary of the Treasury

MEMORANDUM FOR THE SECRETARY OF THE TREASURY

DATE: 9-14-60

SECRETARY OF THE TREASURY
OFFICE

C O P YCONFIDENTIALMEMORANDUM

14 September 1940.

FRENCH PLANES at Martinique

- 44...Curtiss HD-77 Biplanes, of which 38 are ashore, with intention that they become ineffective through inattention and 6 are similarly exposed at French seaplane hangar.
- 6...Brewster Fighters, low wing monoplanes, exposed on mole between EMILE BERTIN and CUBA.
- 15...Curtiss H-75, monoplanes, of which 2 are in cases in BEARN and 13 on the mole exposed.
- 25...Stinson "Tourisme", of little military use, in BEARN. Purchased for training purposes; to be held for possible disposal.

90 U. S. Planes.

- 10...planes, 6 small flying boats and 4 twin float aircraft, maintained in hangar and used for local patrol purposes.
- 12...planes of miscellaneous types reported at Guadeloupe, local patrol only.

112 planes (total).

7

INVESTIGATIVE DIVISION

SEP 26 50 AM 8 12
CONFIDENTIAL

RECEIVED BY INVESTIGATIVE
OFFICE

C O P Y

NAVY DEPARTMENT
Bureau of Aeronautics
WASHINGTON

JHT-GB

16 September 1940

C O N F I D E N T I A L M E M O R A N D U M

To : The Acting Secretary of the Navy.

1. The 44 Curtiss biplanes are ex-U.S.Navy modern scout-dive bombers. We could use all of them if deterioration due to exposure has not progressed too far.

2. The 6 Brewster fighters are similar to Navy type and would be useful, if in reasonably good condition.

3. The 15 Curtiss H-75 are a U.S.Army Air Corps type. We have none similar and it would be difficult to maintain them unless we could get spare parts. Army Air Corps undoubtedly would want them.

4. Remaining planes listed are of little military value and would not be useful.

5. Any move towards recovery of the 44 ex-Navy dive bombers probably would be subject to considerable Congressional and press comment, because at the time they were turned in to Curtiss Company it was stated in an official Navy Department Press Release that they were lacking in certain desirable characteristics and were to be replaced by later type embodying those characteristics.

/s/ J. H. Towers
J. H. Towers

RECEIVED DEPARTMENT OF THE NAVY

SEP 20 5 00 PM '40

RECEIVED DEPARTMENT OF THE NAVY
OFFICE

Refer to Initials and No.

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

14 September 1940

MEMORANDUM

*See ltr of
transmitted
from Forrestal
9/18*

To : Acting Secretary Forrestal.

SUBJECT: Proposed adjustment of deliveries of British and U.S. Navy PB5 patrol planes.

In accordance with your instructions a study has been made of schedules of deliveries of subject type of aircraft, and a schedule which would equalize deliveries of first fifty-five on each order has been worked out and is recommended for your approval. Latest revised schedules and proposed new schedules are set forth below. These have been checked today by our inspector and a representative of the manufacturer and are believed to be reasonably accurate.

	<u>U. S. NAVY</u>		<u>BRITISH</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Sept. 1940	1	1		
Oct.				
Nov.	6	3	1	4
Dec.	7	6	4	5
Jan. 1941	10	9	9	10
Feb.	12	12	10	12
Mar.	12	12	12	12
April	12	12	13	12

I consider it most important both to British and ourselves that we keep the first plane to work out the minor troubles by flight tests in vicinity of factory in order that necessary changes in subsequent planes become known and are made promptly.

(e) J. H. Towers

Since the above was written I have learned that the U.S.-Canadian Joint Defense Board is recommending that six PB5 planes be made available to the Canadians by early Spring. They have some 100 on order but their deliveries probably will not begin until late Autumn 1941. Board recommendations could be met by taking 1 U.S. and 1 British plane per month in January, February and March.

G-2/2657-220

RESTRICTED

No. 194

SITUATION REPORTM.I.D., W.D.
September 14, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

Cloudy and overcast weather prevailed. The Germans operated all day and all night with single planes and small formations. Objectives attacked were generally in the London area and in southeast England. Widespread damage was caused in London. Apparently the R.A.F. was unsuccessful in intercepting the scattered planes in cloud cover or did not undertake this task.

British night bombing was directed principally at the Channel coastal area, in France, Holland and Belgium. Five ports were bombed.

II. Mediterranean and African Theaters of War.

No ground operations. Some air activity along the Mediterranean coast. The Italians claim successful air attacks on convoys in the eastern Mediterranean.

RESTRICTED

EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D. C.

11
Heg

SEP 14 1940

C.S. - D. - 010
Hm

My dear Mr. Secretary:

Pursuant to your letter of July 11, 1940, I have given further consideration to your previous proposal for abolition of the Bureau of Marine Inspection and Navigation and redistribution of its functions. In view of the defense considerations referred to in your letter, I have also discussed the matter with the President who indicated that he did not wish any action taken to bring the reorganization before the Congress at this time.

Yours sincerely,


Director

The Honorable,

The Secretary of the Treasury

OFFICE OF THE SECRETARY OF THE TREASURY
SEP 16 AM 8 55
TREASURY DEPARTMENT
07:06

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE SEP 14 1940

TO Secretary Morgenthau

FROM Mr. Foley

In accordance with the request contained in Mr. Thompson's memorandum of December 26, 1939, there is attached a summary report of studies or projects carried on in the Office of the General Counsel for the month of August, 1940.

Suzh

Attachment

SUMMARY REPORT ON STUDIES OR PROJECTS IN
THE OFFICE OF THE GENERAL COUNSEL -
AUGUST 1940

The following matters received attention in the Office of the Chief Counsel for the Bureau of Internal Revenue:

1. Excess Profits Tax - Second Revenue Act of 1940. Throughout the month of August, we cooperated with Mr. Tarleau and Mr. Beaman in the consideration of the substance and form of the proposed Second Revenue Act of 1940, the principal features of which, from the revenue viewpoint, are the excess profits tax provisions and the provision allowing taxpayers to amortize over a five-year period the cost of war facilities. Preliminary drafts of the proposed enactment have been prepared. No bill has yet been presented to the House. It is still under active consideration before the Ways and Means Committee.
2. Income Tax - Proposal to Amend Sec. 113(a)(8) of the Internal Revenue Code so as to Eliminate Possibility of Double Deduction. In Recommendation No. 214, approved by the Commissioner on August 19, 1940, a suggestion has been made that Sec. 113(a)(8) of the Internal Revenue Code be amended so as to limit the basis for determining loss to the transferor's basis or the fair market value at the time of the exchange, whichever is lower. This legislation is suggested by the Board decision in the case of W and K Holding Corporation, 38 BTA 830 (1938). In that case, the stockholders transferred to their corporation securities which had depreciated in value and received therefor preferred stock. Such stock was redeemable

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at an amount equal to the market value of the securities at the time transferred to the corporation. Later the stock was redeemed and the stockholders were allowed loss deductions on the basis of the cost of the securities which they exchanged for the stock. The corporation was also allowed in the same year a loss deduction on the sale of the securities computed upon the basis of the cost of the securities to the stockholders.

3. Income Tax - Consolidated Invested Capital. In response to the request of Mr. Roy Hough, Head, Division of Tax Research, a representative of the Legislation and Regulations Division attended conferences in the latter's office relating to consolidated invested capital in connection with the pending excess profits tax proposals. The two basic approaches to invested capital were discussed, namely, (a) the parent company balance sheet approach followed in the regulations under the Revenue Acts of 1917, 1918 and 1921, and (b) the separate company approach followed by the Board of Tax Appeals in the Grand Rapids Dry Goods case, 12 BTA 696. The difficulties associated with the respective approaches, especially from an administrative standpoint, were explored in detail.

4. Gift Tax - Recommendation re Increase in Rates with Respect to Gifts by a Donor over Sixty Years of Age. There has been prepared draft of a memorandum suggesting certain amendments in the Gift Tax Chapter of the Internal Revenue Code, the principal amendment

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suggested being the incorporation of the levy of an additional gift tax computed at percentages of the tax now imposed, such percentages to begin to apply to gifts made by a donor within the calendar year next succeeding the 60th anniversary of his birth, and increasing yearly thereafter until the percentage attains a maximum of 33-1/3 percent.

5. Estate Tax - Proposal to Exempt Small Estates of Nonresident Aliens. There has been prepared a draft of recommendation suggesting a revision of the estate tax provisions of the Internal Revenue Code, so that there shall be exempted from taxation those estates of nonresident alien decedents which have an aggregate net value of less than \$2,000, inasmuch as the costs of collecting an estate tax with respect to such estates exceeds the amount of revenue produced.

6. Stamp Tax - Prohibition upon Traffic in Revenue Stamps. There has been prepared a draft of recommendation suggesting a revision of the stamp tax provisions of the Internal Revenue Code so as to prohibit the purchase, sale, or other traffic in internal revenue stamps except through regularly appointed agencies of the Government and to impose penalties for the violation of such prohibition. The suggested revision is devoted to the purpose of preventing fraud upon the revenue through the use of washed stamps.

All of the above matters were handled under the supervision of G. C. Adams, Head, Legislation and Regulations Division.

The following matters received attention under the general supervision of Assistant General Counsel Cairns:

7. State banks and trust companies as "depositories". An opinion on this subject was prepared by Messrs. Feidler and Gilmore and was signed on July 31, 1940, too late for inclusion in the July report. The opinion concludes that the Secretary has no authority under section 3970 of Internal Revenue Code (derived from sec. 3211 of Revised Statutes (U.S.C. title 26, sec. 1760)), to designate as depositories, for the convenience of officers collecting internal revenue, state banks and trust companies which are not members of the Federal Reserve System.
8. Applicability of Securities Transfer Taxes to a Foreign Sovereign Government. This opinion, prepared by Messrs. Zarky, Wolf and Feidler, was signed on August 14, 1940. The opinion concludes that where transfer of securities is made to the British Government the transferor may be taxed, and if the transfer is written on the books of the corporation it may be taxed if the burden is not shifted to the British Government. Where transfer is made by the British Government, neither it nor the transferee may be taxed.
9. Transfers of Military and Naval Equipment to American Republics. This opinion was prepared by Messrs. Wolf and Feidler and was signed on August 16, 1940. It concludes that transfers of such equipment to American republics under the Joint Resolution of June 15, 1940, are

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not subject to section 14(a) of the Act of June 28, 1940 (Public, No. 671, 76th Congress), providing for a certificate of the Chief of Naval Operations or the Chief of Staff of the Army.

10. Government Aid to Manufacturers of Materials Useful for National Defense. This opinion was prepared by Messrs. Gilmore, Zarky, and Wolf and was signed on August 16, 1940. The opinion concludes that, under various acts to expedite national defense and appropriation acts, there is ample authority to assist, by means other than lending money, private manufacturers of materials useful for national defense to expand their plant capacity, even though the products of the expanded plant may be sold to others than the United States Government.

11. Wearing of Willkie or Roosevelt Buttons by Officers and Employees of the Department. This opinion was prepared by Mr. Feidler and was signed on August 16, 1940. The opinion concludes that, with respect to all classes of officers and employees in the Department, the wearing of such buttons would not be a violation of the Hatch Act, the Act extending it (Act of July 19, 1940), or Civil Service Rule I.

12. Notes of Certain Railroads Given Under the Transportation Act, 1920. This opinion was prepared by Messrs. Folkerth and Sherbondy of Assistant General Counsel Tietjens' section, was reviewed in the Opinions Unit, and was signed on August 17, 1940. The opinion involved the notes of the Missouri and North Arkansas Railroad Company and the

Minneapolis and St. Louis Railroad Company given to the United States under section 209(h) of the Transportation Act of 1920. It indicates that such notes may properly be canceled and returned to the carriers. The payments to carriers under section 212 of the Transportation Act are entirely different transactions.

The following were the subject of special studies in the Opinions

Unit:

13. Customs Officers Enforcing State Liquor Laws. This study was made with reference to certain laws of the State of Texas purporting to regulate the size of containers of beer and liquor in Texas, which laws the customs officials were requested to enforce against beer and liquor coming into Texas from Mexico. The study was completed August 23, 1940, and concludes that under section 593(b) of the Tariff Act of 1930 the customs officials should enforce such of the Texas laws relating to the importation of beer and liquor as were clear and unambiguous.

14. Equipping Armed Merchant Vessels in American Ports. A study of this problem was completed by Miss Goode on August 19, 1940. It indicated, in the light of existing administrative and legal precedents, that it would be a violation of neutral obligations under U.S.C. title 18, sec. 24 and international law (1) to permit a merchant vessel to install additions to defensive force within our ports, (2) to carry away materials fitted for installation at sea, but (3) that it is not

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a violation if she carries away such materials as cargo, without having them fitted for the vessel.

15. British Purchase Tax. Messrs. Dwan and Smith of the Customs legal staff studied and approved a proposed letter to the Secretary of State informing him that the proposed purchase tax of the United Kingdom would form a part of the foreign value of merchandise imported therefrom under existing tariff laws even though actually remitted in the case of exported goods, and that the Treasury Department is unwilling to sponsor an amendment to the tariff act in order to eliminate such item from the dutiable value of British imports.
16. Legislation. Mr. Everett Smith of the legal section, Customs, studied the question whether the Treasury Department should support an amendment to the Tariff Act of 1930 proposed by Judge Brown of the Customs Court, the effect of which amendment would be to extend the jurisdiction of the Customs Court under section 514 of the tariff act so as to permit judicial determination of certain questions not now subject to judicial inquiry. As a result of such study a letter was prepared by Mr. Smith and approved by the Chief Counsel declining to support the proposed legislation. In support of the position taken reference was made to the Supreme Court's opinion in Hadden v. Merritt, (1885) 115 U.S. 25, holding that the determination of the value of foreign coin is an executive rather than a judicial function and to a report of the House Ways and Means Committee stating that judicial

- 8 -

determination of allowable abatements in duties for loss of or damage to merchandise in warehouse had not been satisfactory.

16. Reliquidation. Mr. Everett Smith studied the question whether an importer who entered goods for warehouse prior to a Presidential proclamation under the so-called Trade Agreements Act should be deprived of the benefit of the proclaimed rates of duty on goods withdrawn from warehouse after the effective date of such proclamation by reason of the importer's omission to protest within the statutory period the reliquidation made by the collector to give effect to a mandate of the Customs Court in a proceeding under section 489 of the Tariff Act of 1930. A memorandum embodying the results of such study held that the importer's right to such proclaimed rates of duty had not been affected by his omission to protest the "involuntary" liquidation of the collector. The period of limitation on reliquidations prescribed by section 514 of the tariff act was held inapplicable on the ground that that section only limits the time within which erroneous "voluntary" liquidations may be corrected. This memorandum was signed by the Chief Counsel, Customs, and sent to the Commissioner of Customs.

The following matters received attention in the Legislative Section under the direction of Assistant General Counsel Bernard:

CONTINUATION OF PROJECTS

17. Bill to Relieve the Hospitals from Double Taxation (for description see original report, Item 9). This bill, prepared by

Miss McDuff, has been returned from Budget with a request for a further expression of our views in the light of the comments of the Federal Security Administrator. In response to this request, a letter and statement of arguments in support of the provision establishing an occupational tax classification for hospitals has been prepared by the Bureau of Narcotics. The statement is being revised by this office and will be sent forward within the next week.

18. Fidelity Bond Bill (formerly identified as "Bond Survey") (for description see original report, Item 10). A draft of the proposed fidelity bond bill and letter of transmittal to Congress were sent to Budget on March 30, 1940. Because of the interest in this bill of about ten other agencies, the Bureau of the Budget has not yet been able to give it the usual clearance. In addition to a considerable amount of research work, which has been completed, to support this bill, we have prepared a memorandum in anticipation of possible attacks on the bill so that we may be armed against them.

19. Compilation of Money Statutes (for description see original report, Item 11). Miss McDuff is continuing the work on this material.

20. Compilation in Annotated Form of Laws and Regulations Affecting Government Personnel (for description see original report, Item 13). The Legislative Section is continuing this project.

21. Codification of Federal Regulations (for description see original report, Item 16). The Treasury phases of this work are being handled by Mr. Spingarn.

- 10 -

22. Codification of Anti-counterfeiting and Related Laws (for description see original report, Item 7). Mr. Koken is continuing his work on this matter.

23. Federal Depository System (for description see original report, item 6). Mr. Reeves is continuing his work on this bill. Although it would probably be difficult to secure legislative consideration of this bill during this session because of the complicated nature of the subject matter and the controversial character of certain of the bill's provisions, we are taking all possible steps to secure its early enactment.

24. Federal Tort Claims Bill (for description see March report, Item 35). This study has been completed.

25. Acting Administrators Bill (for description see June report, Item 33). Miss McDuff is continuing her study of the necessity and feasibility of general legislation to provide for acting bureau or division chiefs in the absence of a chief.

NEW STUDIES

26. New Deal Legislation and Testimony of Secretary Morgenthau Before Congressional Committees. At the request of the Office of the Secretary, Miss McDuff is assembling and indexing the testimony of Secretary Morgenthau before various committees of Congress from 1936 to date, and assembling and indexing the major legislation of the New Deal from 1934 (73rd Congress, 2nd Session) to date. This material will be bound in volumes.

- 11 -

The following matters received attention in the office of Assistant General Counsel Tietjens:

27. Railroad Obligations Held by the Secretary of the Treasury Under the Transportation Act, 1920

(a) Seaboard Air Line Railway Company. Messrs. Sherbondy and Folkerth are making a study of the value of approximately \$27,000,000 face amount of securities (14 different issues) held as collateral for the balance owing on loans made to the Seaboard Air Line Railway Company under section 210 of the Transportation Act, 1920. That study is preparatory to steps being taken to assure that the interests of the Treasury Department on behalf of the United States are adequately represented in the pending receivership proceedings of the carrier.

(b) Virginia Blue Ridge Railway Company. Messrs. Sherbondy and Folkerth have been making a study of the financial condition of this carrier, and of four individual guarantors on the obligation of the carrier to the United States, which totals approximately \$195,000. An offer in compromise of the obligation is pending. As part of the study Messrs. Sherbondy and Folkerth in company with Mr. Heffelfinger of the Under Secretary's office personally inspected the properties of the Virginia Blue Ridge Railway Company.

- 12 -

The following matters were worked on under the direction of Mr. Bernstein:

28. Foreign Exchange Control. An extensive amount of work has been done in connection with the administration of the freezing control, including the issuance of general licenses, the answering of voluminous correspondence relating to the Order, the preparation of licenses covering diplomatic staffs and the examination of legal questions which are continually arising. The entire staff has been engaged in this work.

A considerable amount of work was done in connection with the question of whether certain American banks will be permitted to send funds to their branches abroad. Members of this office participated in conferences held with respect to this matter and otherwise participated in the consideration of the question. Messrs. Bernstein, Luxford, Aarons, and Friedman did this work.

This office cooperated with Customs and Secret Service in examining mail and passengers brought in on the Clippers from Portugal for the purpose of ascertaining whether the Germans were sending English bank notes into this country. This search was prompted by the fact that the British have forbidden the importation of English bank notes into the United Kingdom but permitted bank notes to be imported from the United States if they were received by an American bank on or before August 27. Messrs. Bernstein and Luxford worked on this matter.

29. Banco do Brasil. The Federal Reserve Bank of New York was requested by the Banco do Brasil to make dollars available to it under the arrangement entered into by this Government with the Government of Brazil in 1937. In connection with this request of the Banco do Brasil this office prepared a cable to the American Embassy in Brazil indicating that the Federal Reserve Bank of New York would take the action requested upon receiving confirmation by the Brazilian Government of the fact that the Banco do Brasil was acting in the transaction as fiscal agent of the Brazilian Government. Upon receipt through the American Ambassador of the confirmation requested, this office prepared a letter to the Federal Reserve Bank enclosing a draft of cable to be sent to the Banco do Brasil indicating that the Federal Reserve Bank is prepared to purchase milreis in exchange for dollars in accordance with the above-described arrangement. Mr. Friedman handled this work.

30. Canadian Account. In cooperation with the Department of State and the Federal Reserve Bank of New York, this office assisted in the preparation of the necessary documents in connection with the proposed transfer of certain funds standing in the name of the Bank of Canada in the Federal Reserve Bank of New York to accounts in the name of the Canadian Government. Among other documents, a memorandum to the President with respect to this matter was prepared.

- 14 -

31. Belgian Account. In cooperation with the Federal Reserve Bank of New York and the State Department, this office assisted in having the Belgian Minister make certain representations to the Federal Reserve Bank of New York concerning a proposed payment to be made from an account with the Federal Reserve Bank of New York by the National Bank of Belgium.

Mr. Friedman handled the last two mentioned matters.

32. Russian Protest. The Russian Government sent a note to our State Department protesting the failure of the Federal Reserve Bank of New York to transfer to the account of the State Bank of the U.S.S.R. certain gold being held in accounts of the Banks of Latvia and Lithuania and certain gold belonging to the Bank of Estonia held in the account of the Bank for International Settlements. This office prepared a draft of reply to the Russian note, a substantial part of which was incorporated in the note which the State Department sent to the Russian Government. Messrs. Bernstein and Friedman handled this matter.

33. Renewal of Gold Licenses. We worked with the Mint Bureau on the problem of the renewal of the outstanding gold licenses which expire on October 31, 1940. Miss Hodel and Mr. Friedman worked on this matter.

34. Consular Mail. State referred to the Treasury copy of a note from the German Embassy protesting the examination of mail addressed

- 15 -

to German consular officials and claiming, among other things, that this Government was violating the most-favored nation clause of the treaty with Germany. We worked on proposed replies, taking the position that no violation of any treaty had occurred. The matter was discussed with the State Department, which adopted our views. We cooperated in the drafting of the reply which the State Department sent to the German Embassy. Messrs. Bernstein, Mann, and Friedman conducted this study.

Rangoon, Burma, September 14, 1940

**SUBJECT: Burma's Transit Trade with China in
Supplies Other Than War Materials
During August, 1940.**

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON, D.C.

SIR:

I have the honor to report that the transit trade of Burma with China in supplies other than war materials during August, 1940, amounted in value to Rupees 11,943,199, or approximately \$3,582,960 at the average rates of exchange for the period. The total value of such trade, therefore, amounted to Rupees 51,560,297, or approximately \$15,468,090, during the first four months of the current fiscal year, which began on April 1, 1940.

Detailed statistics relating to this trade during August, 1940, and showing countries from which these re-exports were imported, appear in an enclosure submitted herewith.

The aforementioned and enclosed statistics obtained from customs records represent shipments from Rangoon of goods destined to China, rather than goods actually exported across the border from Burma to China during the period indicated. Statistics regarding actual exports over the border are not yet available.

Respectfully yours,

W. Leonard Parker
American Vice Consul

Enclosures:

Statistics of trade.

Distribution:

1. In triplicate to Department.
2. Copy for Embassy, London.
3. Copy for Embassy, Chungking.
4. Copy for Consulate, Yunnanfu.

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WLP/ah/mv

Commodity	United States	Hong Kong	French Indochina	Dutch East Indies	United Kingdom	China	Italy	Switzerland	India	Sweden	Straits Settlements	Total
	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value
Drugs & medicines, (—)												(694,151)
all sorts (Rs.)		(90,661)		(578,942)	(5,310)	(3,159)						188
Spirits in drugs (Gals.)		97				6						(4,225)
& medicines (Rs.)		(4,574)				(62)						21
Spirits, other (Gals.)		11										(232)
sorts (Rs.)		(222)										—
Paints, enamels & varnishes (Rs.)		(5,522)				(3,926)						(3,828)
Painters materials (—)												—
(Rs.)		(697)				(96)						(798)
Dyeing & tanning substance (Lbs.)		40,952										40,952
(Rs.)		(62,268)										(62,268)
Printers & lithographers' ink (Rs.)												—
(Rs.)		(25)										(25)
Polishes, all kinds (Rs.)												(26)
(Rs.)		(26)										—
Oils, essential, all sorts (Gals.)		8										8
(Rs.)		(222)										(241)
Soap, all kinds (Cwt.)												1
(Rs.)		(107)										(125)
Pneumatic motor covers (Nos.)		290		372			372					1,094
(Rs.)		(12,512)		(69,408)			(69,408)					(122,224)
Pneumatic motor tubes (Nos.)		200		372			372					1,054
(Rs.)		(3,697)		(6,464)			(6,464)					(12,908)
Rubber manu- factures (Rs.)	(22,968)	(14,178)										(40,792)
Ork manufactures (Cwt.)	7											7
(Rs.)	(579)	(12)										(591)
Furniture of wood other than bedsteads (Rs.)												—
(Rs.)		(8)										(8)
Furniture of other (—)												—
(Rs.)												(292)

Commodity	United States Quantity Value	Hong Kong Quantity Value	French Indochina Quantity Value	Dutch East Indies Quantity Value	United Kingdom Quantity Value	China Quantity Value	Italy Quantity Value	Switzerland Quantity Value	India Quantity Value	Sweden Quantity Value	Straits Settle- ments Quantity Value	Total Quantity Value
Manufactures of wood, other than furni- ture (Rs.)	(2)	(1,788)	-	-	-	-	-	-	-	-	-	(1,790)
Wood & timber, not elsewhere specified (Rs.)	-	5	-	-	-	-	-	-	-	-	-	(5,418)
Paper & stationery, in- cluding paper manufactures (Rs.)	(51)	(15,748)	-	-	-	(5,288)	-	-	-	-	-	(17,036)
Leather & leather manuf. excluding boots & shoes (Rs.)	-	(292)	-	-	-	-	-	-	-	-	-	(292)
Cotton, twist & yarn, grey (Rs.)	-	18,920	-	-	-	867,620	-	-	-	-	-	874,540
Flax thread for sewing (Rs.)	868	(8,882)	-	-	-	(318,968)	-	-	-	-	-	328
Cotton manuf. all sorts (Rs.)	(6,927)	-	-	-	-	-	-	-	-	-	-	(6,927)
Cotton shirt- ings, white, (Yds.)	(1,067)	(12,157)	(998,258)	-	-	(1,440)	-	-	-	-	-	(1,007,897)
dyes & colored (Rs.)	-	24,080	-	-	-	297,270	-	-	-	-	-	321,350
Cotton piece goods, dyed, white & colored (Rs.)	-	(8,532)	-	-	-	(72,898)	-	-	-	-	-	(78,930)
Woolen & tweeds (Yds.)	10,954	-	-	-	22,928	16,000	-	-	-	-	-	38,882
Woolen manuf., all sorts (Rs.)	(20,952)	-	-	-	(8,482)	(4,020)	-	-	-	-	-	(23,454)
Jute manuf., all sorts (Rs.)	-	(22)	-	-	-	(5,268)	-	-	-	-	-	(5,290)

Commodity	United States Quantity Value	Hong Kong Quantity Value	French Indochina Quantity Value	Dutch East Indies Quantity Value	United Kingdom Quantity Value	China Quantity Value	Italy Quantity Value	Switzerland Quantity Value	India Quantity Value	Sweden Quantity Value	Straits Settle- ments Quantity Value	Total Quantity Value
Other textiles(—)	-	-	-	-	-	-	-	-	-	-	-	-
manuf. (Rs.)	(1,809)	(1,676)	-	-	-	-	-	-	-	-	-	(3,485)
Woolen & worsted piece goods	-	-	-	-	-	3,204 (1,547)	-	-	-	-	-	3,204 (1,547)
Woolen manuf. other sorts	(389)	(133)	-	-	-	(64)	-	-	-	-	-	(576)
Belting for machinery	-	(315)	-	-	-	(64)	-	-	-	-	-	(677)
Garbage & rope	75 (15,003)	4 (571)	-	-	-	-	-	-	-	-	-	79 (15,574)
Apparel	-	(4,940)	-	-	-	(413)	-	-	-	-	-	(5,353)
Waterproof clothing	-	(1,004)	-	-	-	-	-	-	-	-	-	(1,004)
Haberdashery & millinery	(4,549)	(608)	-	-	-	-	-	-	-	-	-	(5,157)
Boots & shoes, all sorts	-	750 (1,927)	-	-	-	726 (1,974)	-	-	-	-	-	1,476 (3,901)
Dangerous Petroleum	(Gals.)	515,426 (371,595)	241,503 (184,457)	-	-	3 (4)	-	-	-	-	-	766,933 (536,056)
Kerosene oil	(Gals.)	6,442 (4,805)	-	-	-	-	-	-	-	-	-	6,442 (4,805)
Fuel oil	(Gals.)	328,956 (222,556)	-	-	-	-	-	-	-	-	-	328,956 (222,556)
Mineral oil other sorts	(Gals.)	240 (817)	-	98 (351)	-	1 (2)	-	-	-	-	-	241 (819)
Lubricating oils, other sorts	(Gals.)	48,675 (66,675)	-	-	-	-	-	-	-	-	-	48,675 (66,675)
Special grades	(Gals.)	17,009 (14,553)	-	-	-	100 (45)	-	-	-	-	-	17,109 (14,598)
Materials	(Rs.)	(2,411)	(4,468)	-	-	(32)	-	-	-	-	-	(6,911)
Glassware all sorts	(Rs.)	(235)	(1,000)	-	-	(600)	-	-	-	-	-	(1,835)

Commodity	United States	Hong Kong	French	Dutch East	United Kingdom	China	Italy	Switzerland	India	Sweden	Straits Settlements	Total
	Quantity Value	Quantity Value	Indochina Quantity Value	Indies Quantity	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value
Iron & steel (Tons) products (Rs.)	1,827 (98,569)	9,398 (1,046,095)	5,563 (1,044,567)	3 (5,029)	2,078 (401,790)	- (18)	2 (1,528)	-	-	14 (10,398)	-	18,865 (3,502,794)
Aluminum ingots & other aluminum pre-ducts (Rs.)	4 (1,323)	14 (14,132)	-	-	-	-	-	-	-	-	-	18 (15,455)
Brass & brass products (Rs.)	1,341 (97,690)	366 (25,075)	-	-	-	10 (259)	-	-	-	-	-	1,717 (123,824)
Copper & cop- per products (Rs.)	1,105 (75,113)	78 (11,904)	860 (45,000)	-	-	-	-	-	-	-	-	2,043 (130,017)
Lead & lead products (Rs.)	-	-	-	-	-	-	-	-	-	-	-	(76)
Zinc or spelter (Rs.)	1,068 (55,537)	21 (739)	-	-	-	-	-	-	-	-	-	1,089 (54,276)
Metals, un- enumerated (Rs.)	80 (30,398)	28 (5,519)	-	-	-	-	-	-	-	-	-	88 (37,417)
Outlery (Rs.)	(40)	(19)	-	-	-	-	-	-	-	-	(61)	(120)
Hardware, all sorts (Rs.)	(67,522)	(263,430)	(27,340)	-	(2,598)	(1,575)	(337)	-	-	-	(1,458)	(864,118)
Machinery & parts all sorts, other than motor vehicles (Rs.)	(65,618)	(951,284)	(66, -)	(66,454)	(16,747)	(4,101)	(88,071)	-	-	-	-	(1,199,275)
Instruments & apparatus in- cluding electrical, scientific, medical, etc. (Rs.)	(973,813)	(1,163,197)	-	-	(12,809)	(12,797)	-	(24,294)	-	(2,212)	(1,001)	(2,177,204)
	(3,007)	-	-	-	-	-	-	-	-	-	-	-

Burma's Transit Trade with China During August, 1940, Continued - Page 6.

Commodity	United States	Hong Kong	French Indochina	Dutch East Indies	United Kingdom	China	Italy	Switzerland	India	Sweden	Straits Settlements	Total
	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value	Quantity Value
Parts of carriages & carts	(—)	-	-	-	-	-	-	-	-	-	-	-
Motor cars	(Rs.) -	(745)	-	-	-	-	-	-	-	-	-	(745)
Motor cycles	(Nos.) 19	18	-	-	-	-	-	-	6	-	-	87
Motor cycles	(Rs.) (34,294)	(59,257)	-	-	-	-	-	-	(17,800)	-	-	(101,701)
Motor vehicles, imported with bodies	(Nos.) -	1	-	-	-	-	-	-	-	-	-	1
Motor chassis	(Rs.) -	(3,523)	-	-	-	-	-	-	-	-	-	(3,523)
Motor vehicles, imported with bodies	(Nos.) -	25	-	-	-	-	-	-	-	-	-	25
Motor chassis	(Rs.) -	(74,542)	-	-	-	-	-	-	-	-	-	(74,542)
Motor chassis	(Nos.) 40	30	-	-	-	-	-	-	1	-	-	71
Motor chassis	(Rs.) (107,735)	(89,786)	-	-	-	-	-	-	(9,348)	-	-	(206,869)
Vehicles, parts of mechanically propelled vehicles	(—)	-	-	-	-	-	-	-	-	-	-	-
Books & printed matter	(Rs.) (52,460)	(165,284)	-	-	-	-	-	-	-	-	-	(217,744)
Clocks and watches	(Nos.) 2	142	-	-	-	-	-	-	-	-	2	147
All other articles	(Rs.) (1,847)	(21,226)	-	-	-	-	-	-	-	-	(170)	(22,396)
All other articles	(Rs.) (1,672)	(35)	-	-	-	-	-	-	-	-	-	(1,707)
All other articles	(Rs.) (80,901)	(19,875)	-	-	(403)	(1,287)	-	-	-	-	(56)	(102,922)
Total	(Rs.) 2,578,884	4,919,778	2,272,617	728,636	445,656	438,886	168,637	44,884	27,274	18,611	3,002	11,643,190
	(US\$863,656)	(\$1,475,254)	(\$691,788)	(\$217,291)	(\$133,685)	(\$131,088)	(\$49,746)	(\$13,424)	(\$ 9,122)	(\$ 4,922)	(\$1,822)	(\$5,822,200)

* Union of South Africa's share of trade in chemicals, all sorts is Rs.3,542 (\$1,004).

	Rupees	U.S. Dollars
Total value of transit trade in first four months of fiscal year 1940-41 (April to July 1940).....	30,617,000	11,221,150
Total value of transit trade in August 1940.....	11,643,190	3,822,200
Grand Total (8 months).....	42,260,190	15,043,350

EH

PLAIN

Bombay

Dated September 14, 1940

Rec'd 2:47 p.m. 20th.

Secretary of State,
Washington.

Fourteenth.

Silver increased in price due belief increased Anglo-American cooperation would prolong war. Prices went above import parity with resultant liquidation and speculative sales. No imports reported spot high sixty-three fifteen six, low sixty-three, close sixty-two fifteen six, stocks 3,000 bars, daily offtake 15 bars.

Gold declined but remained above import parity market weak due slack demand for sovereigns and overbought position spot high forty-two nine three, low forty-two one, close forty-two one six, stocks tolas 150,000, daily arrivals 13,000, offtake 9,000.

Inform Treasury.

DONOVAN

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SECRETARY OF THE TREASURY
SEP 20 1940

SEP 15 1940

RECEIVED
SECRETARY OF THE TREASURY

RDS

GRAY

ROME

Dated September 14, 1940

Rec'd 2:45 p.m.

Secretary of State,
Washington.

882, September 14, 1 p.m.

Italian business volume for August was reported unusually low a seasonal factor being the midsummer holidays during which many stores closed for some fifteen days. The paralyzing effect of the war on overseas exports is exemplified by August exports from Milan district to the United States valued at \$35,500 compared with none for previous month and with \$661,600 for August 1939. The route for small existing export trade to the United States is via Switzerland, France, Spain and Portugal.

Coal imports are reported as keeping up to the necessary level of 1,000,000 tons per month the total for seven months through July being 7,800,000 tons of which 6,000,000 from Germany. Reportedly resulting from improved coal outlook previous limitations on consumption of gas have been made less stringent and gas prices somewhat reduced.

While manufacturing for export is heavily curtailed the high level of activity in the war industries and the labor of harvesting crops have sustained employment and
the

-2- #882, September 14, 1 p.m., from Rome.

the standard forty hour working schedule in industry has been raised to a maximum fortyeight hour basis. Current public works initiatives include provision for prompt reparation of private property damaged by military operations, appropriation of 50,000,000 lire for developments in mining regions of Arsia and Carbonia 76,000,000 for works in occupied enemy territory, authorization of , 142,500,000 lire loan by municipality of Addis Ababa for city planning development, 715,000,000 lire appropriation for construction of highways, railways and housing in Albania.

Legislative approval was given at month-end of decree of July 1 authorizing additional appropriations in 1940-41 budget for extraordinary expenditures resulting from the war amounting to 1,494,500,000 lire.

Rationing regulations continued unchanged. Additional foods for which prices have been "blocked" are fish and wine. Official encouragement is being directed to increasing consumption of fresh fruits particularly grapes and to promoting rabbit production to supplement meat supplies.

Among discussions of post war economy an article in the POPOLO D'ITALIA of September 12 by Count Volpi, outstanding Italian industrialist, contains the statement that the gold problem is not urgent for Italy. "Either
the

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TREASURY

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#882, September 14, 1 p.m., from Rome.

the present holders of gold will adapt themselves to the new system and will consent to a gradual return of gold to circulation through the development of their purchases of our merchandise thus allowing gold to fulfill its natural function as a subsidiary regulator of exchanges or gold will sooner or later be eliminated from our system of exchanges."

REED

EMB

MR

GRAY

Montevideo

Dated September 14, 1940

Rec'd 10:13 a.m.

SECRETARY OF STATE
WASHINGTON, D. C.

RECEIVED
SEP 15 1940

TO THE SECRETARY OF STATE
FROM THE SECRETARY OF STATE
CLASSIFIED BY [REDACTED]
DATE [REDACTED]

SECRETARY OF STATE,
Washington.

202, September 14, 10 a.m.

The Bank of the Republic announced today quotas for September of \$271,000 controlled and \$600,000 free exchange for imports from the United States covering industrial and agricultural machinery and parts, iron bars, sheets and hoops, hand tools, printing materials, parts for automobiles and trucks, lubricants, lumber, leaf tobacco, medicinal products, insecticides, packing house supplies, galvanized wire, pedigree stock, vegetable seeds, raw materials first and second categories, merchandise first, second and third categories.

WILSON

TFV

COPY

eh

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 14, 1940.

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 4:15 yesterday afternoon, I received, at the request of the British Embassy, Mr. Aks Bratt, who stated that he was the representative of the Governor of the Norwegian Central Bank who is now on a visit to this country. Mr. Bratt was connected with Lazard Bros. & Co., Ltd. of London, being their agent at Oslo, and is now spending part of his time with this firm's New York concern. It is my understanding that the present Governor of the Norwegian Central Bank is Bratt's stepfather. Bratt mentioned to me that a ship broker firm in New York had recently received an inquiry as to whether it could take care of a shipment of one ton of Norwegian gold from Vladivostok to the United States. This concern was the Isbrandtsen Moller Co., Inc., which operates the Maersk Line. Mr. Bratt thought that this case was quite suspicious. He insisted that all Norwegian gold had been gotten out of that country and shipped to the United States and Canada. So any gold now being passed as Norwegian through from Vladivostok might likely be of some quite different origin.

Mr. Bratt also spoke to me of one Benno Berger of Oslo, who is now in the United States supposedly representing "Ferro-Metal" of Oslo, and who, according to Bratt, recently has drawn \$500 on each of two letters of credit issued by Norwegian banks. The point Bratt made was that there was this chance for a leak under our giving \$500 per month to arrivals from blocked countries, since they may present letters of credit to this full limit to more than one bank.



September 14, 1940

Professor Chamberlain

Mr. Cochran

At 8:30 yesterday morning Mr. Shaw telephoned me from the National City Bank in New York. He stated that two days previously his bank had sent a cablegram to Switzerland endeavoring to obtain an offer up to one million belgas from that market. The National City had not found acceptable the offer obtained from Spain for the provision of one-half million belgas under the license which we had approved some days ago. The belgas available in Spain would only be fifty percent telegraphic exchange and fifty percent paper currency, the latter to be delivered in Madrid. The National City had yesterday morning received a reply from the Swiss Bank Corporation that it could provide the one million belgas requested, all in telegraphic exchange, if accepted immediately. The National City preferred to take this offer rather than to accept the smaller Spanish offer. Shaw asked if I could expedite a decision in the premises, he agreeing to make formal application later in the morning for a license if I could get approval of the plan. He felt that the Swiss offer had to be acted upon during the business day of yesterday.

I discussed this matter with Professor Chamberlain before the 9:30 Group Meeting yesterday and he asked me to submit it to the Secretary at that meeting. I did this and we obtained the Secretary's approval to the transaction. I telephoned Mr. Shaw at 10:00 and told him that he could go ahead on the one million belga transaction, providing he filed application at once with the Federal Reserve Bank and had it telephoned to Washington so it could be acted upon by us yesterday. He agreed to do this.

At 12:00 noon Mr. Shaw telephoned me back to report that he had followed my advice on the above points and that everything was moving satisfactorily. He then referred to the question which he has up with respect to selling French francs to corporations whose acceptances with the National City Bank in France are maturing. He understood from Mr. Knake that a license would be necessary to permit the National City to resell francs to customers to cover their indebtedness to the foreign branches of the National City. Shaw stated that the National City lawyers differed from this view. I confirmed that Knake had expressed the Treasury's views on this point, and advised him to put in the necessary applications. Messrs. Peble and Tessen were with me when I spoke to Mr. Shaw this second time, and I conferred with them in regard to my answers. We told Mr. Shaw that the application for a permit to resell the francs to the customers should set forth the names of such customers, the amounts for each, and also indicate the agreement of the customers to the filing of the application. Mr. Shaw also mentioned that his bank was filing an application for authority to purchase ten million belgas when they can get them. I told him we would have to look into this if and when received. I reported the substance of this memorandum orally to the Control Group yesterday afternoon.

[Handwritten signature]

ENC: 120-9/14/40

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 14, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

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The six reporting banks' transactions in registered sterling were as follows:

Purchased from commercial concerns	£22,000
Sold to commercial concerns	£10,000

The Federal Reserve Bank of New York reported that it purchased £2,000 of registered sterling from a non-reporting bank.

In the open market sterling opened at 4.03-1/2 and closed at 4.03-3/4. Transactions of the reporting banks in open market sterling were as follows:

Purchased from commercial concerns	£26,000
Sold to commercial concerns	£ 2,000

The discount on the Canadian dollar continued to widen. After closing last night at 16% the final quotation today was 17-1/2%.

The other currencies closed as follows:

Swiss franc	.2278-1/2
Swedish krona	.2385
Lira	.0505
Reichsmark	.4000
Mexican peso	.1996 bid, .2016 offered
Cuban peso	10-3/16% discount

There were no gold transactions consummated by us today.

The New York banks did not receive any gold or silver quotations from the Bombay market.

The Federal Reserve Bank of New York informed us that it had made another three-month's loan of \$50,000 to the Central Bank of El Salvador. As collateral, the Federal set aside gold valued at \$56,507.70 from the Salvadorean bank's earmarked account. The total of such loans now amount to \$300,000 secured by \$340,765 in gold.

B. M. F.

Pages 43-52 missing
due to faulty numbering
machine.

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0-2/2657-235

M. I. D., W. D.
Tentative Lessons
Bulletin No. 47
September 14, 1940.

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPENOTICE

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The information contained in this series of bulletins will be restricted to items from official sources which are reasonably confirmed. The lessons necessarily are tentative and are in no sense mature studies.

GERMAN REGULATIONS ON ANTI-AIRCRAFT DEFENSESOURCE

This bulletin is composed of extracts from German regulations and official manuals translated by a British source in June, 1940.

CONTENTS

- I. DEFENSE OF MOTORIZED TROOPS ON THE MARCH.
- II. DEFENSE OF TROOPS IN THE ZONE OF OPERATIONS.
- III. ANTI-AIRCRAFT DEFENSE AND PREVENTION OF AIR RECONNAISSANCE DURING DELAYING ACTIONS AND WITHDRAWALS.
- IV. DEFENSE AT RIVER CROSSINGS.
- V. DEFENSE OF TROOP TRAINS.

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I. DEFENSE OF MOTORIZED TROOPS ON THE MARCH.

Antiaircraft defense must be provided for motorized troops on the march just as it must be provided for troops moving by rail.

This defense should be based on the following principles:

A. Defense Against High Altitude Bombing.

Motorized troops require defense against high altitude bombing only when they are in assembly areas, when they are embussing and debussing, during rests, and at particularly dangerous points on the line of march, such as bridges, defiles, or points at which other motorized columns are passed.

In the zone of operations, antiaircraft defense is the responsibility of the senior air officer at Army H.Q. Units must notify him of their antiaircraft defense requirements in good time. The number of antiaircraft batteries to be used will depend upon the size of the motorized column and the number of danger points on the line of march.

It is not possible to give a large motorized column continuous protection along its line of march, since this would require too many antiaircraft batteries and since the speed of the column makes "leapfrogging" impossible.

Continuous antiaircraft protection is in any case not essential for motorized troops on the march because they can protect themselves against high altitude attacks by increasing the intervals between vehicles and thus presenting only small and difficult targets.

B. Defense Against Low Flying Attack.

For defense against low flying and dive bombing attacks, motorized units must rely principally on marching in extended order and using their own weapons--machine guns and rifles. Protection can, however, be increased by allotting to them a certain proportion of light antiaircraft artillery, which can be distributed throughout the column by troops or even by single guns.

II. DEFENSE OF TROOPS IN THE ZONE OF OPERATIONS.

In attack and in defense the most important tasks for

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antiaircraft artillery are as follows: *

- A. Engagement of reconnaissance aircraft.
- B. Engagement of enemy artillery observation aircraft.
- C. Antiaircraft defense for infantry positions.
- D. Defense of principal artillery positions against high altitude, low flying, and dive bombing attacks.
- E. Defense of reserves, support lines, and armored vehicles in the support lines.
- F. Protection for our own reconnaissance and artillery observation aircraft.

Allotment of heavy and light antiaircraft batteries throughout the corps zone will be the responsibility of the antiaircraft artillery commander. Heavy antiaircraft batteries should in most cases be sited near the forward artillery positions. The engagement of enemy artillery observation aircraft is possible only when heavy antiaircraft batteries can fire well over the enemy's lines.

The role of light antiaircraft batteries in an advance, and to an even greater extent in defense, is the engagement of low flying bomber and fighter aircraft over our forward defense lines.

Antiaircraft gun positions must be coordinated with the infantry and with other artillery positions. Liaison must be established with the Artillery and Infantry commanders in good time. In general, antiaircraft batteries must conform to the infantry and artillery dispositions. In exceptional cases, however—for an example, where the antiaircraft defense of an

* Note by the British General Staff. In recent operations German antiaircraft artillery has frequently performed duties of other types of artillery. Apart from antitank action, which can be considered a normal secondary role of all German antiaircraft artillery, it has frequently been employed against ground targets of all natures, including fortified works. The mobility of antiaircraft artillery has in particular enabled it to support the action of armored and motorized divisions. A remarkable feature has been the success with which antiaircraft artillery has been maintained in the forefront of the rapidly moving battle.

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area is particularly difficult--artillery and infantry positions may have to conform to the positions chosen for antiaircraft batteries.

Liaison must always be maintained with the commanders of neighboring antiaircraft batteries and other units. The arcs of fire allotted to each unit must be known.

Heavy air attacks on forward defense lines and the artillery positions must be expected both in attack and defense. In such cases both light and heavy batteries must bring their fire to bear on the attacking aircraft, and in the case of forward defense lines, heavy antiaircraft batteries may even have to engage targets flying at low heights. If our own fighters go up, the antiaircraft batteries engage such enemy aircraft as are not engaged by our fighters, and try to protect our fighters.

Before an attack, light and heavy antiaircraft batteries should be detailed to accompany the advanced troops and to give them antiaircraft protection. If this is to be done, early reconnaissance must be made and orders issued to ensure that the antiaircraft batteries advance at the right time.

If in the defense, antiaircraft batteries are pushed out in front of the principal line of resistance in order to hinder the enemy's air reconnaissance, arrangements must be made to withdraw these batteries, when necessary, behind the principal line of resistance to prepared positions. In order that these forward antiaircraft batteries should not be surprised by the enemy, they must maintain the closest contact with the troops in front of them.

By frequent change in the positions of antiaircraft batteries and troops, it is possible during positional warfare to make it difficult for the enemy to locate antiaircraft positions and their effective arcs of fire.

III. ANTIAIRCRAFT DEFENSE AND PREVENTION OF AIR RECONNAISSANCE DURING DELAYING ACTIONS AND WITHDRAWALS.

A coordinated plan must be drawn up for the employment of heavy antiaircraft batteries. In the case of a delaying action, the most important point is to deceive the enemy--that is, to hinder his air reconnaissance. In the case of a withdrawal, however, antiaircraft protection must be provided at defiles, etc. The withdrawal of antiaircraft guns from position to position must be coordinated with the withdrawal of the main body of the troops.

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Light antiaircraft batteries may be allotted in a withdrawal or delaying action to individual units.

IV. DEFENSE AT RIVER CROSSINGS.

A distinction must be drawn here between the defense of a bridge and the defense of troops crossing a stream. In the first case it is in the main a question of defending the bridge against high or low flying attack. In the second case, however, approaches to and routes from the crossing and assembly areas must be defended against high and low flying attacks, and air reconnaissance.

Light and heavy antiaircraft batteries, searchlights, and observer corps units must cross as soon as possible.

Routes and timings must be very carefully regulated, and any congestion at crossing points must be avoided by careful traffic control. Defense against low flying and dive bombing attacks must be provided while the antiaircraft artillery is actually crossing.

The antiaircraft artillery must keep in close touch with the commander of the troops while they are crossing, so as to be constantly informed of the time and place at which the crossing is taking place.

V. DEFENSE OF TROOP TRAINS.

A. Antiaircraft Trucks and Their Incorporation in Troop Trains.

Two trucks with platforms for antiaircraft machine guns or 20mm. antiaircraft guns should be requested for each train.

The train will be divided into three sections, the antiaircraft trucks being coupled in the middle of the first and last sections. Only open trucks with low loads will be coupled on either side of the antiaircraft trucks. Passenger coaches, covered trucks, or open trucks with high loads are best coupled in the central section of the train.

B. Manning.

As no preliminary warnings can be given, surprise attacks must always be expected. All antiaircraft guns and machine guns will therefore be constantly manned, and two lookouts and two air sentries will always be posted. The duty of the lookouts will be to observe

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the direction in which the train is travelling and to report when it is approaching obstacles, such as trains going in the opposite direction, tunnels, bridges, signal standards, etc.,

Air sentries will be given an observation arc of 180° in the direction of travel of the train. Arrangements must be made for relieving the air sentries at frequent intervals. It is of great importance to have carefully chosen and well trained men as air sentries.

C. Action.

When travelling, the forward gun will be laid in the direction in which the train is travelling, and the rear gun in the opposite direction.

All firing, while travelling, will be with tracer ammunition, since the movement of the truck would make accurate laying impossible and the readings on the antiaircraft sight would be shaky and inaccurate. When the train is stationary, the antiaircraft sight will be used.

If there is time during longer halts, where the line is electrified or where observation is difficult because of cuttings, woods, etc., the guns should be dismounted and brought into action in suitable positions with all-round vision away from the railway line.

D. Equipment.

Detachments should be issued eye shields as protection against wind, smoke, and soot.

E. Safety Measures.

To avoid any danger to the train, and to avoid shooting into the sideboards of the trucks, a stop should be fixed in the toothed elevating arcs of the guns. The height of this stop will depend upon the height of the platform and the rails, and the height of adjacent trucks.

When the lookouts report approaching obstacles, the guns will immediately cease fire.

When aircraft flying parallel to the train is engaged, care must be taken not to fire into signal standards, telephone poles, and wires, as this would not only endanger the train, but might also disorganize the rail service.

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Antiaircraft guns on troop trains must in no circumstances open fire while travelling on an electrified sector with overhead wires; otherwise there might be damage to the wires and danger to the train. Aiming practice is also prohibited because of the danger of fouling overhead wires.

* * * * *

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G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 48
September 14, 1940

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPENOTICE

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BRITISH RECOMMENDATIONS ON ARMORED VEHICLES

SOURCE

The text of this bulletin consists of the combined recommendations of two high British authorities after actual experience in France. Their reports were made shortly after the conclusion of operations on the continent.

CONTENTS

- I. TYPES OF VEHICLES REQUIRED.
- II. ARMOR.
- III. ARMAMENT.
- IV. SPEED.
- V. COMMUNICATIONS.
- VI. CAPACITY.

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1.

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I. TYPES OF VEHICLES REQUIRED.

A. The Armored Car should have a 4-wheel drive and be equipped with a gun - at least a 2-pounder - for long distance reconnaissance. Its armor should be sufficient to keep out all small arms fire.

B. The Cruiser Tank is for employment in the armored division.

C. The Heavy Cruiser is for support of the cruiser tank in the armored division. Like the British Infantry tank, Mark II, it is also used for cooperation with other arms in semi-mobile warfare.

D. The Fortress or Position Warfare Tank was mentioned by the British officers as a necessary vehicle, but it was not discussed in their reports.

II. ARMOR.

No armor basis of less than 60 mm. can be considered adequate against German mobile antitank weapons, and, except for the armored car, vehicles should be more heavily armored than heretofore.

The cruiser tank should be armored up to a 60 mm. basis on the front and the turret. The heavy cruiser should be armored up to 70 or 80 mm., and the fortress tank should be even more heavily armored.

III. ARMAMENT.

A. Primary.

According to one authority, experience showed that the 2-pounder with solid shot was effective in penetrating enemy tanks. With the Germans in possession of full information on British weapons and armor thickness, however, it is expected that enemy tanks will be more heavily armored in the future. Thus a heavier and more powerful gun is needed as primary armament. The authority suggests a 6-pounder for the cruiser tank, if that weapon can be manufactured in England, and a 75 mm. gun for the heavy cruiser.

The second authority agrees that the 2-pounder was satisfactory as an antitank weapon when solid shot was used, but states that its ineffectiveness against certain types of German vehicles was due to the fact that ammunition with a bursting charge, rather than solid shot, was generally provided.

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B. Traverse and Location of Armament.

The main armament - 2-pounder, 6-pounder, or 75 mm. gun - must be mounted in the main turret and have 360° traverse. Experience has shown the desirability of power traverse for the main turret, since this enables both rapid and accurate laying of the main armament. With the increase of armor thickness, the power-operated traversing gear is essential.

IV. SPEED.

Too much emphasis has been placed upon speed in the past, and some reduction in performance must be accepted in order that adequate immunity may be obtained through the use of thicker armor. For the cruiser tank, 20 miles per hour, excluding halts, with a reserve of power and speed for good performance across country, is considered adequate. For the heavy cruiser, 15 miles per hour is adequate.

V. COMMUNICATIONS.

One authority believes that every tank, rather than just the section commander's tank, must have two-way radio, and that the set must be located in the turret so that the commander may listen in constantly.

Another states that visual signals within the brigade have proved "reasonably satisfactory." Each tank has a set of hand controlled semaphore apparatus of the old tank pattern and two flags - one single flag with pole and one double flag with pole.

Internal communication is necessary between the tank commander and his crew. This should be two-way between commander and driver.

VI. CAPACITY.

Since the tank commander must be free to carry out his duty as such, he cannot fire, load, or perform similar tasks. Thus there must be space in the main turret for three men - the commander, gunner, and loader-radio operator.

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September 14, 1940

Professor Chambelain

Mr. Cochran

Mr. Raymond N. Geist, Chief of the Division of Commercial Affairs in the Department of State, referred to me yesterday Mr. Henry H. O'Hleness, representing the Bervind-White Coal Mining Company of New York. Mr. O'Hleness told me that his company had been approached by the French Line in regard to a possible purchase by the latter of American coal, to the value of \$100,000, including cargo and freight, for delivery to French ports in Africa, most likely Dakar and Casablanca, to be used in bunkering. There has been no definite offer but a discussion of the possibilities of such a deal.

The Bervind-White Company would prefer to make such a shipment in American vessels. The State Department informed Mr. O'Hleness that it would permit shipment of such coal in United States vessels to Dakar, but not to Casablanca. When I asked O'Hleness whether he thought he could obtain navicerts from the British, he said that Mr. Davis, in charge of his company's foreign business, thought that this was very likely, since the British are interested in cooperating with and encouraging the French possessions in Africa to take up the British cause.

After mentioning this subject to the Control Group yesterday afternoon, I told Mr. O'Hleness, when he called me by telephone, that a formal application for license should be filed with the Federal Reserve Bank at New York giving all pertinent information, and including a statement as to the feasibility of making the shipment in question if Treasury authority for the license is granted.



HMC:1sp-9/14/40

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Paraphrase of Code Radiogram
Received at the War Department
at 12:15, September 14, 1940.

London, filed 12:56, September 14, 1940.

In the last twenty-four hours scale of German operations has been much reduced. Daylight activity involved some 90 planes operating on the axis Dieppe--London in a steady stream of single plane raids coming over at intervals of about 10 minutes. German night bombing on the 13th-14th was harassing in character and involved 120 planes in two main efforts, first from France and afterwards from Holland. Both main attacks were launched on London before midnight.

In the period 6 A.M., 13th,-- 6 A.M., 14th, damage was inflicted on 61 different places in London. Major damage was done in Battersea where an attack evidently directed at the very important power station did not harm the objective but where the post office and public library were wrecked and water mains broken. The Admiralty, War office, Scotland Yard, Buckingham Palace and the House of Lords were slightly damaged by explosive and incendiary bombs. Elsewhere in England there was some damage estimated to be minor at scattered points including Maidstone and Eastbourne. At Cardiff a cold storage plant was burned. No airdromes were damaged. Civilian casualties, as yet undetermined, are estimated as relatively small. German losses given as 3 confirmed, 2 damaged. The British lost 1 plane, the pilot of which was rescued.

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Due to the reduction in size of the German daylight attacks in the past two days, British fighter pilots have received some needed rest.

Last night the British used 110 bombers to attack assemblages of boats at five ports and the batteries at Cape Gris-nes.

No sinkings of ships have been reported.

Following signs heighten possibility of invasion: about 1,700 barges mobilized; mobilization of an estimated 100 merchant vessels with a total tonnage of 300,000; continued easterly (westerly ? G-3) movements of German shipping.

The Commander in Chief of the Middle East reported fighting on the 13th, as the result of Italian movements apparently directed at pinching out Sollum.


LEN

Distribution:

General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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BRITISH EMBASSY,
WASHINGTON, D. C.

September 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,

(For the Ambassador)

Frank Butler

The Honourable

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

Telegram from London dated
September 12th, 1940

67

1. Naval

Our destroyers have been operating during the night off the French and Dutch coasts.

During yesterday evening His Majesty's destroyer "Atherstone", while escorting a west-bound Channel convoy, was bombed and hit. No ships in the convoy were damaged.

Dover was bombed and shelled yesterday afternoon and two motor torpedo boats were damaged.

Two of the recently acquired American destroyers have been damaged in collision in the West Atlantic and will require 1 week and 1 month respectively to repair.

His Majesty's submarine "Sturgeon" has reported that she sank a 10,000 ton transport in the Kattegat on September 2nd and attacked and apparently sank a large U-boat on September 10th.

2. Royal Air Force.

Night operations September 10th/11th.

At the Potsdam railway station Berlin, 6 out of 7 heavy bombers detailed for attack claim direct hits; 12 500-lb., 30 250-lb. and also incendiary bombs were seen to burst in the target area. The majority of the remaining bombers carried out the attacks assigned to them, though only a

very light scale attack was made on Bremen docks and Brussels railway yards.

Day operations September 11th.

One medium bomber attacked a convoy off the Belgian coast. No hits were obtained, but the bridge of one merchant ship was machine gunned. In the afternoon convoys of merchant ships, escorted by E-boats, were reported; 5 medium bombers attacked one convoy off Dunkirk, and after an explosion 1 merchant vessel appeared to be missing. Later 12 medium bombers attacked shipping off Calais, but no hits were observed. They met heavy anti-aircraft fire and 36 enemy fighters of which 3 were shot down, and 1 enemy bomber damaged. Three of our aircraft failed to return.

Last night 131 bombing aircraft were sent out.

33 heavy and 67 medium bombers to attack shipping and barges in North-German, Dutch, Belgian and Northern French ports. Other objectives were railway targets in Germany, the Anhalter railway station at Berlin and gun-emplacements opposite Dover. Mine-laying was also carried out. Three heavy bombers are missing.

3. German Air Force.

Eight of September 10th/11th. Considerable use of incendiary bombs caused a number of fires, particularly in one of the London docks; this fire has been surrounded. Other major and minor fires in London area were under control yesterday evening except one timber-yard in East London. Damage to property was considerable but casualties much fewer.

Reports yesterday evening gave 18 killed and 280 injured.

One major attack was made yesterday evening.

About 250 enemy aircraft crossed Kent coast, of which about 30 penetrated to Central London. About 75 also came in over Hants. Both raids were intercepted and heavy casualties inflicted, especially to bombers. At a conservative estimate air crews killed or captured would amount to 250. Bombs fell near Woolwich Dockyard, other damage was caused in South-Eastern suburbs and various London areas. An aircraft factory at Southampton was also hit, casualties 41 killed and 91 wounded.

Last night between 8.30 p.m. and 5.30 a.m. about 150 enemy aircraft were operating over London. They approached first from the East and South-East and later from the North-East. The attack was principally against docks, railways and parts of the City, although most parts of London were visited. Light attacks were also made in the country districts around Liverpool, and mine laying was suspected in the Thames estuary, off the east coast and Sussex coast, and near the Isle of Man.

Summary of damage caused in London area.

Docks. A report yesterday morning disclosed that, with minor exceptions, all quay facilities in the Port of London remained intact. Since attacks on the dockyard area began 18 ships have been sunk or seriously damaged by fire and 12 have suffered minor damage.

Early this morning a fire was started in the Surrey Commercial Docks and some delayed action bombs are suspected. 3 heavy high explosive bombs caused damage to sheds and sank a fire float.

Railways. Considerable dislocation was caused to suburban lines in the south-eastern London area.

Industry. Fires were caused at 2 engineering factories, 1 flour mill and 2 other industrial factories.

Other damage. The Central Post Office was hit: there were few casualties and an emergency telegraph and telephone scheme is in operation. One 50-pump fire was started in south-east London.

4. Summary of air casualties.

Enemy casualties.

By our fighters:

	<u>Destroyed</u>	<u>Probable</u>	<u>Damaged</u>
Bombers	47	22	27
Fighters	33	12	17

By anti-aircraft

Unidentified.	5	—	9
Bombers	<u>1</u>	<u>5</u>	<u>—</u>
Totals	<u>6</u>	<u>5</u>	<u>9</u>

British: 28 aircraft (17 pilots killed or missing).

5. Sea borne trade

A convoy of 19 ships has arrived safely in home waters. There were 10 tankers and other cargoes included steel and grain.

6. Middle East

Egypt. Reported on September 10th that enemy force, estimated at one division, had made a considerable move eastward and had halted south-west of Sollum on Egyptian-Libya border.

On September 10th our medium bombers attacked about 700 mechanical transport vehicles in Libya and started fires amongst them. Six of our fighters engaged a formation of enemy bombers off Marsa Matruh and shot down four.

Sudan: On September 9th our heavy bombers attacked Asmara aerodrome and on September 10th armoured fighting vehicles near Kassala. One aircraft was lost.

Kenya: On September 7th medium bombers of South African

Air/

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Air Force attacked aircraft on the ground at an Italian aerodrome. One Savoia was burnt and 4 others extensively damaged. One aircraft failed to return.

7. Mediterranean.

Three Italian seaplanes alighted in Turkish territorial waters on September 9th. The crew of one aircraft comprising six, were interned and also one officer from the crew of the other two machines. Before the remaining personnel could be detained, they were rescued by two other Italian seaplanes. The 3 aircraft have been retained by the Turks.

8. France

The French are reported to be maintaining 10 divisions in unoccupied France, of which 2 colonial divisions are on the coast and 8 metropolitan divisions in the interior. This agrees with a previous report which stated that the French Government intended to maintain a force of 250,000 men in France.



BRITISH EMBASSY,
WASHINGTON, D.C.

September 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,

(For the Ambassador)

Harold Butler

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated September 13th, 1940.

1. Naval.

In the early morning yesterday a British destroyer sighted a destroyer off Casablanca steering north-west at 25 knots. She illuminated her and opened fire but ceased on discovering that the destroyer was French. No hits were made and the fire was not returned.

The same afternoon the armed merchant cruiser "Wolfe" was attacked by four enemy aircraft off West Ireland. A delayed action bomb fell on the deck and was thrown overboard; one near miss did superficial damage.

2. Royal Air Force.

Night bombing September 11th/12th reported as extremely successful. Eighty-three aircraft aircraft attacked shipping and barge concentrations in harbours from Hamburg to Boulogne causing large fires and explosions. Bombs fell near the bow of either the "Bremen" or "Europa" at Bremerhaven with unknown results. Four heavy bombers attacked the Anhalter railway station at Berlin and most bombs fell across goods yards.

Yesterday three Blenheims, escorted

by three fighters, attacked fifteen merchant vessels off Le Havre; one merchant ship and one tanker were hit.

It is reported now that on September 11th six Messerschmitts attacked a convoy of seventeen merchant vessels off Calais; one was hit and set on fire, another probably damaged by near misses. One enemy fighter was shot down.

Last night forty heavy bombers were sent out to the following targets: Essen dockyard, Brussels power station, and railway objectives in northern Germany. All our aircraft have returned.

3. German Air Force.

Night of September 11th/12th.

The attack on London continued for nine hours and, although widespread, was considerably less effective and casualties are thought to have been much smaller than on previous night. An outstanding feature was the large number of incendiaries dropped and extinguished before harm was caused.

Another noticeable feature was that attack on the Southern Railway was further away from London terminuses. A fire at one engineering works has been extinguished with no damage to plant. Several other medium and minor fires are all under control or extinguished. Two enemy aircraft were shot down by anti-aircraft fire during the night. Fire at Thamesthorpe has been put out.

Yesterday

Yesterday owing to changed weather conditions enemy activity consisted mainly of reconnaissances by single aircraft. Bombs dropped on railway at Reading and Banbury causing temporary stoppages on main lines. Some interceptions were made and our fighters destroyed one enemy bomber. Damage was caused to public services at Harrogate and a barrage balloon, breaking loose from Coventry, did serious damage to telephone cables at Rugby. At Hastings a few houses were demolished and enemy aircraft machine-gunned rescue parties at work.

Last night for the first time for several days the weather was continuously overcast. Enemy activity was on a reduced scale although more dispersed; nevertheless about 100 enemy aircraft were operating principally over London. Damage was appreciably less than on previous nights and for the second time a strong anti-aircraft barrage hampered raiders; one telephone exchange was put out of action and three operators killed. Two medium fires were caused but both are under control.

4. Summary of air casualties.

Enemy: one bomber destroyed and three bombers damaged by our fighters.

Unidentified: one destroyed, one damaged by our anti-aircraft; one destroyed by our balloons.

Totals: 5 destroyed. 4 damaged.

British casualties nil.

76

5. One British ship of 8800 tons was mined and sunk off Humber yesterday morning.

6. Middle East.

Egypt and Libya.

On September 11th nine Blenheims attacked a column of 500 mechanical transport near East Libyan frontier and obtained direct hits and started fires. At the same time a harbour, a seaplane base and two landing-grounds were attacked and bombs were seen to fall near objectives. Yesterday a Blenheim fighter shot down an Italian bomber into the sea off Alexandria.

On September 11th three formations of Italian bombers attacked Sidi Barrani, which is unoccupied.

Sudan.


On September 10th nine enemy attacked Khartoum aerodrome causing slight damage. Same evening 30 bombs were dropped at Athara and one on railway to Port Sudan.

Eritrea.

Three Blenheims from Aden dropped bombs on harbour works at Assab on September 15th and obtained direct hits.

7. Recent reports of British bombing in enemy territory state that at Dortmund damage estimated at three-quarter of a million marks was caused at an asbestos and rubber works at Mannheim and a chemical works has been severely damaged. The Fiat works on the night of August 10th/14th were more seriously damaged than the Caproni plant. The

Damage was mainly to buildings most of the machinery was intact and has been removed to other shops. Casualties to workers were forty-four killed.



BRITISH EMBASSY,
WASHINGTON, D.C.
September 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,

L. Harris

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated September 14th.

1. Naval.

During the night of the 12th/13th sweeps by light naval forces along Brittany, the coast between Cape Barfleur and Le Havre and between Calais and Boulogne were unproductive. The three destroyers sweeping in the last-named sector were ineffectually engaged by shore batteries.

Yesterday afternoon nine aircraft of the Fleet Air Arm attacked oil cisterns at Bergen but were driven off with loss of two aircraft. A merchant vessel was set on fire as a result of this attack.

Two convoys totalling 62 ships have arrived safely in United Kingdom ports. Cargoes included fuel oil, grain, iron ore, steel and bauxite.

2. Royal Air Force.

Owing to unfavourable weather during the night of 12th/13th our operations were reduced and several aircraft returned with their bombs. Six machines attacked Emden dock direct hits were obtained along the harbour and on one ship. Lightweight attacks were made on railway targets at one of which Regarded Unclassified

started. Individual aircraft attacked
Flushing dock, a seaplane base, and two aero-
drums. Fires and explosions were caused at
a Brussels marshalling yard.

During yesterday a number of success-
ful reconnaissances and attacks were made by 25
medium bombers on enemy shipping in the
Channel ports. All aircraft returned safely.

Last night 91 medium and heavy bombers
were sent out to attack shipping in Dutch
Channel ports. Two have not returned. Mine-
laying was successfully carried out.

3. German Air Force.

During the night of 12th/13th enemy
raiding was very widespread although London
was again the primary objective. Casualties so
far reported from London area are 40 killed and
58 wounded. Some dislocation was caused on
railways especially the Southern; on the Great
Western railway the two main lines reported as
temporarily blocked yesterday are already open
to traffic. Reported evening of 13th that all
fires in the London area amounting to 27 medium
and 279 small fires were extinguished or under
control.

Yesterday enemy activity was confined
to about 20 aircraft acting individually over
the London area probably on combined reconnais-
sance and bombing duties. A further 25 were
reported in the Bristol area some of which went
to Liverpool. Bad visibility made inter-
ception very difficult but 1 enemy bomber was

destroyed by our fighters and three more were damaged. I Hurricane was lost but the pilot is safe. Buckingham Palace was bombed. Two H.B. bombs fell in the quadrangle and 1 on the royal chapel but damage was slight. Some incendiary bombs fell in Downing Street and in Whitehall area but very slight damage was caused. A school in West Ham was bombed where the occupants were evacuated families; 50 casualties have been reported. Reports have been received of damage to property in several localities; some of it included industrial premises but there are no reports of major damage. Outside the London area there was little bombarding of importance.

Early morning an unsuccessful attack was made on shipping in Belfast Lough and later on an enemy aircraft dropped incendiary bombs in County Down which caused no damage.

Last night enemy activity was on approximately the same scale as the previous night and lasted for about 8½ hours. Preliminary reports indicate that damage caused was less serious and casualties at present only amount to between 30 and 40. One enemy aircraft was shot down by a Blenheim fighter and another destroyed by anti-aircraft fire. Main damage was as follows: Clapham Junction temporarily closed owing to unexploded bomb; an electrical generating sub station damaged and one suburban post-office set on fire. At Cardiff a cold storage/

storage plant was gutted and damage was caused to streets and gas mains.

4. Middle East.

Lybia. Reference to summary of 12th paragraph 5. Throughout September 11th forward movements of Italian units towards the frontier continued. Four columns of mechanical transport were located each containing from 200 - 350 vehicles. In addition there was great air activity against our forward troops throughout the day. During the past month Italians have adopted a plan of gradual approach to the frontier on a line south of the main coastal road. This plan was probably adopted with the dual purpose of preventing our patrols from crossing the frontier and of establishing forward bases and supply dumps in preparation for an advance.

On September 13th the G. in C. Middle East reported that the enemy had occupied Musaid during the night and an attack had developed on Halfaya; our forward post withdrew and Royal Tank Regiment engaged the enemy at midday. Six hundred and fifty mechanical transport vehicles reported in the vicinity of Capuzzo and enemy infantry and mechanical transport started to move northeast from Sidiomar at 11.0 a.m. on the 13th. Enemy's intention appears to be to pinch out Sollum.

On September 12th three medium bombers made a dusk attack on a concentration of about 400 mechanical transports at Sidiomar and fires were started.

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Paraphrase of Code Cabledgram Received at the
War Department 10:59 a.m., Sept. 15, 1940

London, Filed 10:35, September 15, 1940

The following information is in response to your cabled request:

The British estimate that German production of aircraft is now about 1800 a month. It is my opinion that the British estimates of German aircraft production are no more than educated guesses arrived at by pooling all available information and opinions and averaging the results. It is my conviction, however, that none of their information is very recent and that it is approximate only. I also believe that British officials give considerable weight, perhaps too much, to the difficulty of obtaining raw materials in Germany and to the interruption of production by bombardment by British aircraft. Certainly none of the large number of enemy aircraft captured give any indications that they are deficient in material.

British aircraft production has recently passed 1,000 a month and continues to rise. Their aircraft factories are almost intact at this time, but if they should be effectively bombed it would seriously affect production.

The present output of pilots from the training system is not sufficient to meet requirements. If the air battles increase in intensity or if they even continue at the present rate for a considerable period, the Royal Air Force will be hard pressed to maintain

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its present combat strength. Under either of these conditions the Air Ministry will certainly not be able to divert the large number of trained pilots necessary to provide for the training and combat units for the greatly increased Air Force which they must have if they expect to defeat Germany in the future. The same situation arises with respect to the members of combat crews, such as radio operators, gunners and navigators.

During the month of August the output of combat pilots almost exactly equalled losses. It is my opinion that Britain will inevitably have a great shortage of pilots by the end of the present winter if she does not develop training facilities beyond those now in sight. If battle wastage increases this shortage will occur before that time. Pilot training in England is steadily becoming more difficult owing to the shorter days, the winter climate, and the interference with training by the enemy activities.

LSE

Copies to: General Watson
Secretary of War
State Dept.
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

CONFIDENTIAL

GROUP MEETING

September 16, 1940
9:30 a.m.

Present: Mr. Gaston
Mr. Haas
Mr. Young
Mr. Graves
Mr. Sullivan
Mr. Chamberlain
Mr. Thompson
Mr. Bell
Mr. Cochran
Mr. White
Mr. Schwarz
Mr. Foley
Mrs Klotz

H.M.Jr: What have you got, Herbert?

Gaston: I haven't anything.

H.M.Jr: I am going down at 5:00 o'clock this afternoon with the President to Alabama, so I will be out of circulation for a day or two. Ed Foley thought I ought to go. He thought it would help him on the Hill. I got a call at 11:00 o'clock last night that no fooling, I was to go. That was the second call I got. I thought we would call off the press conference, with all this excitement today.

Schwarz: You don't have much time between coming back and the departure of the train, anyway.

H.M.Jr: No. That fellow is working out fine.

Gaston: That is good.

H.M.Jr: I saved at least five minutes on the take-off.

Gaston: You have got an unusually well-equipped crew, with that co-pilot being a chief radio electrician.

- 2 -

H.M.Jr: Very good.

Mr. Foley?

Foley: Here are a couple of memos - three memos. This is on that requisition bill you asked me to report on that I told you about.

H.M.Jr: In case I run out of detective novels - I have got two detective novels - we will take this on the train.

Foley: This is that question that Knudsen raised.

H.M.Jr: All right.

Foley: This is the memo on the imposition of anti-dumping, in so far as the petroleum products are concerned from Mexico. Harry and Herbert and I looked into it and we think that a thorough investigation at this time wouldn't be warranted, but we suggest that the State Department refer to us the facts that they have to see whether or not they have information that hasn't been made available to us.

H.M.Jr: Anything else?

Foley: No.

H.M.Jr: I see the Packard contract is all signed. Evidently, my letter was satisfactory.

Foley: They reduced, I understand, from seven to six percent, the fee that Packard is to get on each motor.

H.M.Jr: Mr. Jones called me and I invited him for lunch tomorrow. That is off. It is very amusing. All he said was, "I want to talk to you about the possibility of this financing," and so forth and so on, and he said, "I want -"

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I really want to put it up to the President now." He called me.

Sullivan: I think that that is something that should be straightened out. We have been getting more kick-backs. Navy understands that the reason for this plan of reimbursement --

Foley: It is number two that Biggers described to us.

Sullivan:that Treasury is against putting up the money themselves in the first instance, and if we can spread it over five years --

H.M.Jr: The Treasury is against what?

Sullivan: The idea of allowing a manufacturer to put up - the Treasury is against the idea of the Government building the plant itself. The whole thing is being misrepresented around town.

Foley: I thought if it was agreeable with you, I would set down in a chronological way the circumstances in so far as that Curtiss-Wright deal goes, and have that before you and then point out a little bit of what this plan number two is.

H.M.Jr: That is all right.

Foley: And then when you are talking to Knox and Stimson and Jones, perhaps you can bring them around to your way of thinking. I don't think they like it any better than we do.

H.M.Jr: Will you have it ready by 4:00 o'clock tonight?

Foley: Yes, sir.

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H.M.Jr: 4:00 o'clock?

Foley: Yes.

H.M.Jr: You might let Philip Young see it, and John.

Sullivan: We have had conferences on Curtiss-Wright and they change the contract every few minutes.

H.M.Jr: I think if you three gentlemen --

Foley: Curtiss-Wright is willing to go ahead now and have the Government build the plant exactly as the Chrysler tank plant is being built, and not go through all this rigamarole of their using their own money and being reimbursed by the Government, and I think it is just Biggers in the Defense Commission that represents this point of view. The rest of the Administration feel that they have to go along with it, because --

Gaston: The manufacturers own --

Foley: And Curtiss-Wright doesn't want it.

Gaston: Douglas doesn't want it.

Foley: That is right.

H.M.Jr: I just wanted you to know we are putting extra barbers - the one that has been cutting my hair. Where will we set up a barber shop?

Thompson: We will set it up somewhere.

H.M.Jr: Look at Ed. Couldn't there be one in the corner of the hall somewhere, just with a screen around it?

- 4(a) -

Thompson: That is right.

H.M.Jr: You fell for that, didn't you? As a matter of fact, Foley, you have got a good barber right outside your door now.

Foley: That is what he says. I never trusted him, but he comes around with his tools every once in a while. He says he cut the President's hair.

H.M.Jr: What else?

Foley: That is all.

H.M.Jr: Well, don't worry.

I just wonder, Bell, if you couldn't do this for me while I - I talk as if I were going to be gone for a long time - if you couldn't get White and Cochran together. We get a lot of information, supposedly, on the money that goes to the German Embassy and the money that goes to the Russian Embassy. The rest is kind of sketchy and the balances - and so forth and so on. I think it is important enough that we should hire all the time a very, very able fellow and pay him out of the Stabilization Fund to just watch the funds that go to the German Embassy and the German Consulates and the German balances, the same for the Russians; one fellow just sitting there with this stuff, and then if there are any pieces which are missing that he - but stuff keeps coming in all the time and I don't think that we have it, and I think it is important enough that one person should just watch that maze of stuff, see. The way it is now, the J. Edgar Hoover people see Cochran. I arranged that. If anybody wanted any additional information - Gaston ought to sit in it because he is - you ought to sit in on this, Gaston.

- 5 -

- Gaston: I have a letter on my desk now on it.
- H.M.Jr: I would like one man to give his whole time to the money that goes to the German Embassy and the German Consulates, what we know, or what the missing pieces are, and the same thing would go for the Russian Embassy and the Amtorg. We will start on that and I may want to add others to it. Let's add Italy now, see, but it is worthy. I mean, the man may not be very busy the first week or so, but I want a fellow who knows foreign exchange and who is smart, has got a sense of smell, you know. He may be a foreign exchange man, a lawyer, an accountant, it might be some of these people that are coming back from the foreign service, but I just want one fellow who will just have all of the stuff, and if there is something extra, he can say to Mr. Cochran, "Now, won't you --" What is this fellow's name that you see in FBI?
- Cochran: Kimball is one.
- H.M.Jr: But if you and Gaston and Cochran get together and just - I don't think foreign funds come in on that, do they?
- Chamber'n: No, I don't think so. Mr. Cochran could watch that, anyway.
- H.M.Jr: Get Sammy for that. Put Sammy on one of these.
- Foley: That would be all right.
- Bell: Who?
- H.M.Jr: Sam Klaus. He has got a nose.

Bell: Can he do the whole job?

H.M.Jr: No, he can just do one country. Let him do Russia.

Bell: He has got a nose, all right.

H.M.Jr: He will set a speed for the fellow who is doing the German one. He is the fellow that has been on Moe Annenberg for two years. He is a born detective.

Foley: Sure, he could do both, I think.

H.M.Jr: Well, do you mind?

Foley: No.

H.M.Jr: Okay. Let him set the pace on the Russians.

Klotz: There is something going on between the two of them on Sammy.

H.M.Jr: Well, anyway, Sammy goes on Russia.

Bell: He is clever.

Sullivan: It is the toughest break Russia has had in a long time.

(Secretary left the room for a telephone call)

H.M.Jr: Where were we?

Cochran: Do we get back from Mrs. Klotz those reports we had from Mr. Hoover?

H.M.Jr: They go to Mr. Gaston.

Cochran: And then they go to your files.

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H.M.Jr: Well, you people straighten it out. Every report I get from J. Edgar Hoover goes to Mr. Gaston. What Mr. Gaston will do from now on - the letters that affect Russia will go to Sammy Klaus, and the ones that affect Germany will go to Mr. "X" or if you want to see them first - work it out.

Cochran: Sure.

H.M.Jr: But I do want two men on this.

White: The Treasury Secret Service is not the appropriate agency to handle that instead of the FBI?

H.M.Jr: No. Ask Mr. Gaston what we went through on that. All right?

Cochran: Yes, sir.

H.M.Jr: Chick, you are all right?

Schwarz: Yes.

H.M.Jr: Philip Young?

Young: Do you want to see Mr. Morgan of Sperry Wednesday or Thursday?

H.M.Jr: Let's say Thursday afternoon, maybe around 3:00.

Klotz: Thursday?

H.M.Jr: Yes, Mr. Morgan. He is President of Sperry.

Phil, do you suppose you could get from George Mead - he must have now what he calls his master chart on orders for airplanes.

Young: You mean the production schedule up to April '42?

- 8 -

H.M.Jr: Yes.

Young: I have their schedules for both engines and planes now, which I got the other day.

H.M.Jr: Is that by companies, or how is that?

Young: All different ways. Every conceivable breakdown.

H.M.Jr: Maybe after lunch I could go over it with you and George Haas.

Young: Just like all those charts, it is never final.

H.M.Jr: I would like to go over it some time this afternoon with you and George. Anything else?

Young: That is all. I talked to Major Fleet on Saturday.

H.M.Jr: Oh, did you?

Young: I will give you a memorandum on it.

H.M.Jr: Was he at all cooperative?

Young: Oh, very cooperative.

H.M.Jr: Will you stay behind a minute? I would like to hear about it.

Young: All right.

Chamber'n: Mr. Secretary, we understand that nothing has been done - I am speaking on the French request to pay for their Embassies - yet.

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- H.M.Jr: Well, that is cleared for the United States, isn't it?
- Chamber'n: That is taken care of.
- H.M.Jr: The deal is this. It was made at Cabinet. Mr. Hull is to hold this as a carrot before the nose of the French for release of the planes at Martinique. That was not my suggestion. It was Mr. Roosevelt's suggestion to see whether we can't get those planes off the island of Martinique, and the whole thing is in Mr. Hull's hands.
- Chamber'n: Then we await notice?
- H.M.Jr: We wait until he tells us what we do. In the meantime, he is to try to trade the French this money for the planes which are on Martinique, and so if anybody asks you, tell them --
- Chamber'n: We don't know anything about it.
- H.M.Jr: Yes, or tell them to go to Mr. Hull.
- Chamber'n: All right. I understand Mr. Alphand was satisfied with the arrangement he worked out with us.
- H.M.Jr: Well, the President wouldn't have it. He just wouldn't have it, and he wants something for it.
- Chamber'n: Oh, I mean on the other.
- H.M.Jr: Oh, on the United States?
- Chamber'n: Yes. We thought the amount he asked was not exceedingly high.
- H.M.Jr: He wants to do a little trading.

- 10 -

Gaston: Maybe we had better get tough and start starving them a little bit.

Chamber'n: That is all.

H.M.Jr: Allison engines, George?

Haas: Looking a little better.

H.M.Jr: Now, let's take a guess at this.

Haas: On that figure?

H.M.Jr: Well, 37! I wouldn't have guessed that many.

Foley: He said 35.

H.M.Jr: Did he? 37, that helps.

Haas: And they are actually going to get some P-40's and engines this week. They have got 16 of them up there.

H.M.Jr: How many are they going to get?

Haas: They have got 16 of them up there for the British, and five of the engines are now being put in five of the planes which are in storage of that 99, and I presume the balance, 11, are going in planes which will be produced this week off the line.

H.M.Jr: Well, they are supposed to produce six a day and take three out of storage and give them nine a day, that is the program.

Anything else?

Haas: That is all.

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- H.M.Jr: Dr. White, I read your stuff on Chile. Me no likee. You are too honest in this report. There are too many loopholes.
- White: Well, you can't get away from the fact that there is a risk.
- H.M.Jr: Yes. I mean, I was surprised how fair you were.
- White: I thought I indicated there was a risk.
- H.M.Jr: You did all right. I can't go along with that.
- White: You can't go along with it?
- H.M.Jr: Oh, not on the stabilization fund. I mean, it is a straight subsidy to make up the difference each month on the difference between what their deficit is in exchange funds.
- White: I guess I didn't make myself clear in the memorandum, because I don't think that conclusion is justified.
- H.M.Jr: You get no guarantee.
- White: Yes, you get both the guarantees of the Government and the central banks.
- H.M.Jr: Not in your memo. You said they had to get special legislation.
- White: Not with respect to guarantees. Special legislation with respect to their pledging their gold or their agreement to utilize their gold.
- H.M.Jr: Well --

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White: But there is a risk.

H.M.Jr: Too risky for me.

White: Well, I think that needs further discussion.

H.M.Jr: I will give it further discussion.

White: Because I don't think the risk is so great as to warrant conclusion without examination.

H.M.Jr: Well, we will have a talk.

White: That raises this second point, then. The State Department has telephoned this draft of a cable which they want to send to Argentine. We have made some corrections here as to what might be satisfactory. However --

H.M.Jr: Well, I can't do it now. They will just have to wait.

White: They have been pressing us for Saturday on it.

H.M.Jr: Oh, Harry, if Mr. Hull can wait for three months, I can wait until afternoon.

White: All right.

H.M.Jr: After all, I can wait certainly until afternoon. Who is pressing you?

White: Well, Collado is the man who telephoned. He claims that Welles is pressing him.

H.M.Jr: Tell them both to take a walk.

White: I can do that very easily.

H.M.Jr: All right. I am sick and tired of being

- 13 -

pressed by them, and when it comes to the Swedish thing and it gets into hot water, they dump it all on Philip Young. I don't think - if I can talk to you about Chile this afternoon, it is fine, and Mr. Argentine can wait, most likely, until I get back.

White: Well, the Argentine will have to wait until the Chile, because if you feel pretty strongly on the Chilean thing, I don't think it is wise to give the Argentines any further encouragement, so I think this had better await further discussion on Chile.

H.M.Jr: I don't know how I am fixed this afternoon, but we will make it the first appointment. I don't know how long this thing will last on the Hill. I will give you ample time. 3:00 o'clock, tentatively. I want Mr. Bell in here and Mr. White and Mr. Cochran and Mr. Gaston, and I would like you to sit in, Ed, if you get back in time.

Foley: Can I bring Bernie?

H.M.Jr: If you will.

White: Here is a brief memo.

H.M.Jr: Have I overlooked anybody.

Dan?

Bell: Of course, you saw in the paper where the National Defense Commission was supposed to have given out estimates on the expenditures for 1941 national defense program. I can't find out who gave it out. Everybody denies it. It is only about four billion two fifty, whereas the statements we gave the Committee were five billion.

- 14 -

H.M.Jr: I thought you told me that if you gave them to the Defense Commission, it would be secret and everything else.

Bell: I am trying to get Leon Henderson's office to see if he gave them out, but I don't think he did. The Budget is trying every way to see who did it, and so is Mac, but nobody will admit it.

How about the financing program?

H.M.Jr: Have to let it go for a couple of days.

Bell: Until you get back? There is nothing you can do, anyway. That is all.

Thompson: I have nothing.

H.M.Jr: Well, as I say, I go up on the Hill at 12:00 and I am back, and I eat, and I will be ready at 3:00 for this meeting on Chile. The train leaves at 5:00 this afternoon.

SEP 16 1940

The President,
The White House.

Dear Mr. President:

You will be interested to know that, as the result of the transfer of the functions of the Federal Alcohol Administration to the Alcohol Tax Unit of the Bureau of Internal Revenue, pursuant to Reorganization Plan No. 3, savings will be effected amounting to about \$175,000 out of a total of \$415,000 available for the current fiscal year.

The activities formerly engaged in by the Federal Alcohol Administration have now been largely decentralized to the field offices of the Alcohol Tax Unit, although certain supervisory, administrative, and legal functions have necessarily been retained in the Washington headquarters. The work is in satisfactory condition.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

HNG/mff

cc to Mr. Thompson

By *Morgenthau* // 45

SEP 16 1940

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The White House.

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Faithfully yours,

(Signed) H. Morgenthau, Jr.

HNG/mrf

By Memorandum

Dispatches from Naval attaché - London
16-17 Sept.

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DISPATCHES FROM ALGERIA LONDON TO COMNAV

CONFIDENTIAL

EXTREMELY DIFFICULT TO SWEEP ARE THE MOORED ANTENNA MINES WITH TWO WAY FIRING CIRCUIT WHICH THE NAZIS ARE NOW USING X NAZIS ALSO USING ANTI-SWEEP DEVICE 6 FATHOMS 5/8 INCH STUD LINK CHAIN WITH LINKS THREE INCHES WIDE CARRYING CUTTER BLADE X CHAIN IS BEYOND CAPACITY PRESENT EXPLOSIVE CUTTERS BEING DEVELOPED NOW TO CUT FOUR PARTS 5/8 INCH ROD THREE CUTTERS ON SINGLE FRAME X ASSUMING GREAT IMPORTANCE IS DEVELOPMENT DETACHED CUTTERS X THE DEVISING OF AN ARRANGEMENT FOR CARRYING BOW PARAVANE TOW POINT ABOUT 4 FEET BELOW THE KEEL AND FORWARD OF THE STEM IS NOW BEING ATTEMPTED X AS PART PROTECTION SHORTER TOW ROPES ARE BEING USED TO INCREASE ANGLE X IT IS AGAINST ANTENNA MINES THAT THESE TOW ROPES ARE BEING SO USED FOR PART PROTECTION

FOR AN INDETERMINATE PERIOD LTCOM HARTMAN IN HMS SOUTHAMPTON IS GOING TO SEA

THE FOLLOWING ARE THE OUTSTANDING FEATURES OF THE BRITISH ASDIC DEVICE: THE EMPLOYMENT OF A STREAMLINED OUTER FREE FLOODING CASING WHICH PERMITS THE PROJECTOR ROTATING WITHIN TO ROTATE IN DEAD WATER X A PERMANENT RECORD OF THE ATTACK IS GIVEN CONTINUOUSLY AND VISIBLY BY A GRAPHIC RECORDER X EQUIPMENT IS CAPABLE OF QUANTITY PRODUCTION BEING CHEAPER AND SIMPLER THAN OURS X EQUAL RESULTS PROBABLY EQUIVALENT TO OUR OWN INDICATED FROM DISCUSSION

THERE ARE IN THE ENGLISH NAVY TODAY A TOTAL OF 1,500 GRADUATES OF SOUND SCHOOL. OF WHICH, 1,000 HAVE FINISHED 7 WEEK COURSE, 400 HAVE COMPLETED ADDITIONAL 3 MONTHS COURSE, ANOTHER 100 HAVE FINISHED ADDITIONAL 1 YEAR COURSE. 150 ENLISTED STUDENTS ARE AT SOUND SCHOOL AT PRESENT. COMMANDING OFFICER PLUS ONE ADDITIONAL OFFICER ABOARD EACH DESTROYER HAVE COMPLETED 8 WEEK COURSE. THE IMMEDIATE EXPANSION OF TRAINING FACILITIES OUR UNDERWATER SOUND PERSONNEL IS DEFINITELY INDICATED. BEST FEATURE OF SCHOOL IS SIMPLE ATTACK TEACHER. ONE PART CONSISTS OF COMPLETE SET-UP OF DESTROYER BRIDGE INCLUDING ASDIC CONTROL AND OTHER PART IS THE PLOTTING ROOM WITH GLASS-TOPPED TABLE WITH MECHANISM BENEATH. BY CRANKING IN SPEED AND COURSE OF DESTROYER AND SUBMARINE THIS MECHANISM PLUS LIGHT SOURCE MIRRORS AND PHOTOCELL PROJECTS ARROWS OF LIGHT ON GLASS TOP WHICH MOVE. WHEN ASDIC IS KEYED A DOT OF LIGHT TRAVELS AWAY FROM DESTROYER AND IF TRAINED ON CORRECT BEARING HITS ARROW REPRESENTING SUBMARINE. THE ECHO PRODUCED INDICATES RANGE ON GRAPHIC RECORDER. DURING ATTACK THE INSTRUCTOR PLOTS THE RESPECTIVE POSITIONS DESTROYER, SUBMARINE AND SIMULATED DEPTH CHARGE BARRAGE. CONNING OFFICER, CONTROL OFFICER AND SOUND OPERATOR ANALYZE PLOT UPON COMPLETION OF ATTACK

171532 TOUR 162130 SERIAL RECEIVED TWENTYSEVEN AUGUST HAVING BEEN SENT VIA PARIS BOTH OTHERS APPROPRIATELY REFERRED REPLY PENDING WILL ENDEAVOR EXPEDITE ALL

DISPATCHES FROM AINSA LONDON TO OMAHA (CONT'D)

THE CONFIDENTIAL REPORT OF THE AIR MINISTER CONTAINS THE PRESS REPORT THAT 186 GERMAN PLANES WERE DESTROYED YESTERDAY AND THAT THE ENGLISH LOSSES WERE 25 AIRCRAFT AND 13 PILOTS

ON THE 15TH OF SEPTEMBER GERMAN SUBS AND PLANES OPERATED TO WESTWARD OF SCOTLAND AND THESE OPERATIONS RESULTED IN THE SUBMARINES SINKING 2 MERCHANT SHIPS AND LATER DAMAGING 3 MORE

ALSO ON THE 15TH THE SLOOP DUNDIE WAS TORPEDOED IN THE NORTHWESTERN APPROACHES SHE WAS TAKEN IN TOW AND LATER SUNK TWO HUNDRED AND FORTY MILES WEST OF HERZLIDES

OFF FREE TOWN 12TH JULY HERMES RANDED BY BRITISH MERCHANTMAN CORFU AND DAMAGED X PROCEEDED TO SIMONS TOWN CAPE PROVINCE IN CONVOY

MR. EUGENE BOEGER REPRESENTING COMPAGNIE OPTIQUE ET PRECISION DELVALLO IS WALKER OF OPTICAL AND FIRE CONTROL INSTRUMENTS PRESENTED LETTER INTRODUCTION FROM COMBICORP AND DESIRES PROCEED US WITH VIEW ESTABLISHING MANUFACTURE PRODUCTS THERE. UNDERSTAND MINISTRY OF SUPPLY HERE DISAPPROVES ATTEMPT THESE ISLANDS BUT FAVORABLEY DISPOSED CANADIAN STAFF. BOEGER PREFERS INDEPENDENT REPORT USA BUT CANNOT GET VISA HERE UNLESS WASHINGTON APPROVES. REASON IS ALL FINANCIAL CONNECTIONS PLUS DOMESTIC ESTABLISHED LISBON AND PASSPORT ROUTINE HERE PREVENTS VISA WITHOUT COMPLIANCE WELL ESTABLISHED PROCEDURE. IF YOU ARE INTERESTED SUGGEST DEPT STATE BE APPROACHED OBTAIN SPECIAL CONSIDERATION. WANS PAPERS IN ORDER AND AUTHENTICITY ACCEPTED. PLEASE ADVISE AS HIS PLANS DEPEND YOUR REPLY.

AN EXTENSIVE PROGRAM IS UNDERWAY ON DEVELOPMENT OF VARIOUS TYPES LANDING BOATS LIGHTERS AND SPECIAL FERRIES IT IS BEING SUPERVISED BY JOINT COMMITTEE OF THREE SERVICES

MY ASSISTANTS ARE WITNESSING A FULL SCALE LANDING TESTS ON THURSDAY OF COMPREHENSIVE NATURE

I HAVE BEEN INFORMED THAT THIS EQUIPMENT WAS OF GREAT VALUE IN THE ORIGINAL LANDING AT HARVEY AND ESPECIALLY DURING THE EVACUATION FROM THERE DURING THIS EVACUATION IT WAS STATED THAT SERIOUS LOSSES OF MEN AND STORES ETC WAS AVOIDED SOLELY BECAUSE LANDING BOATS WERE AVAILABLE.

IN VIEW OF THE ABOVE IT IS REQUESTED THAT AN OFFICER BE ASSIGNED WHO IS FULLY QUALIFIED AMERICAN NAVYMAN AND FAMILIAR WITH BOAT DESIGN FOR THIS DUTY

THERE IS SOME ADVANTAGE HAVING WARREN CORPS FULL SUCH A BILLET OR SEND TWO OFFICERS ONE OF WHICH IS A NAVYMAN

G-2/2657-220

RESTRICTED

No. 195

SITUATION REPORTM.I.D., W.D.
September 16, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

On the day of the 14th two large German concentrations endeavored to break through the London defenses. Both were intercepted, but small percentages reached the metropolitan area and inflicted considerable damage. Brighton and Eastbourne were also bombed. During the night of the 14th-15th there were widespread raids by single planes and small formations, totalling about 175 machines in all. In daylight on the 15th three large waves of German planes attacked the London area, were successfully intercepted and suffered heavy losses. Another German daylight attack on Liverpool apparently met no fighter opposition. On the night of the 15th-16th harassing attacks on the London area continued. German bombers are active over London today.

The offensive effort of the Royal Air Force appears to have been somewhat increased. On the 14th-15th Channel ports and German communications in rear thereof were widely bombed. Reports on the 15th-16th are fragmentary, but there were two alerts in Berlin.

II. Mediterranean and African Theaters of War.

1. Sollum, Egypt, was occupied by the Italians on the 14th. The strength behind this movement is still undisclosed.
2. The Italian Air Force has been active along the Mediterranean coast of Egypt. There has been widespread sporadic activity over Italian East Africa and the Sudan.

RESTRICTED

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 16, 1940

TO Secretary Morgenthau
FROM Mr. Haas *BA*

Reports of the Work Projects Administration employment show a decline of 2,000 persons to 1,690,000 during the week ended September 4, 1940.

Attachments

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

Week ending	Number of Workers (In thousands)
1940	2,288
February 7	2,306
February 14	2,319
February 21	2,324
February 28	
	2,324
March 6	2,319
March 13	2,312
March 20	2,288
March 27	
	2,204
April 3	2,162
April 10	2,118
April 17	2,092
April 24	
	2,059
May 1	2,008
May 8	1,970
May 15	1,945
May 22	1,925
May 29	
	1,859
June 5	1,785
June 12	1,714
June 19	1,666
June 26	
	1,611
July 3	1,619
July 10	1,659
July 17	1,689
July 24	1,700
July 31	
	1,709
August 7	1,708
August 14	1,699
August 21	1,692
August 28	
	1,690
September 4	

Source: Work Projects Administration.

WORK PROJECTS ADMINISTRATION
Number of Workers Employed - Monthly
United States

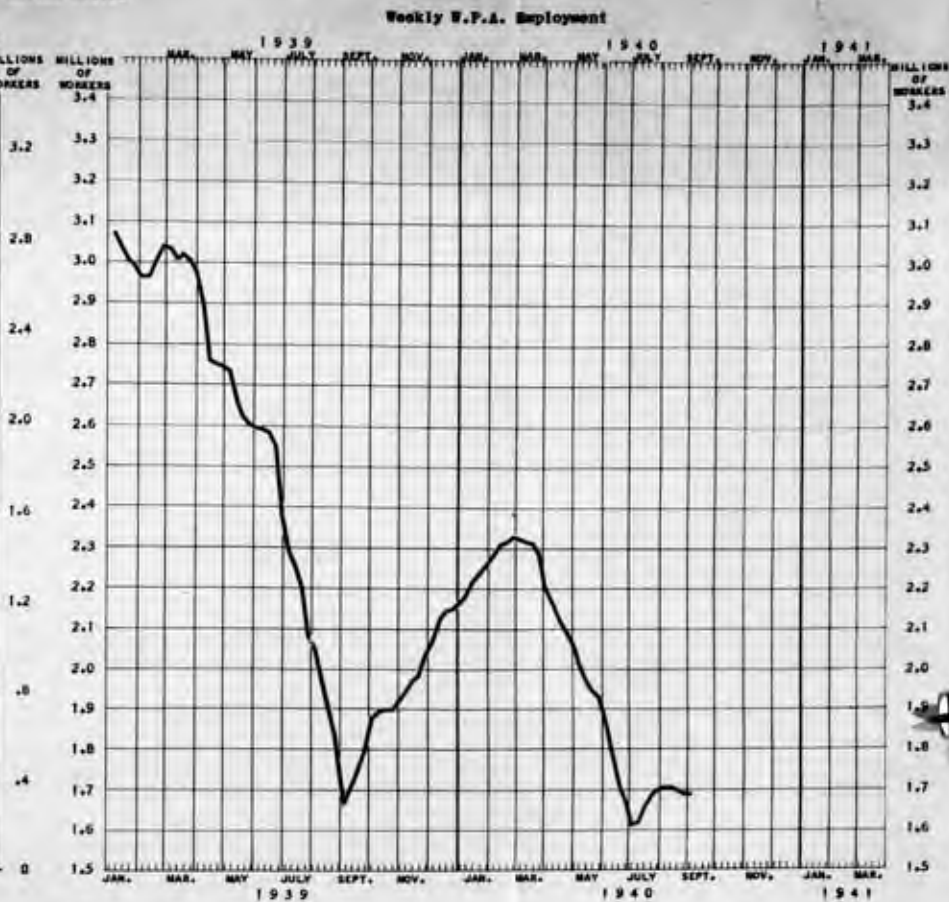
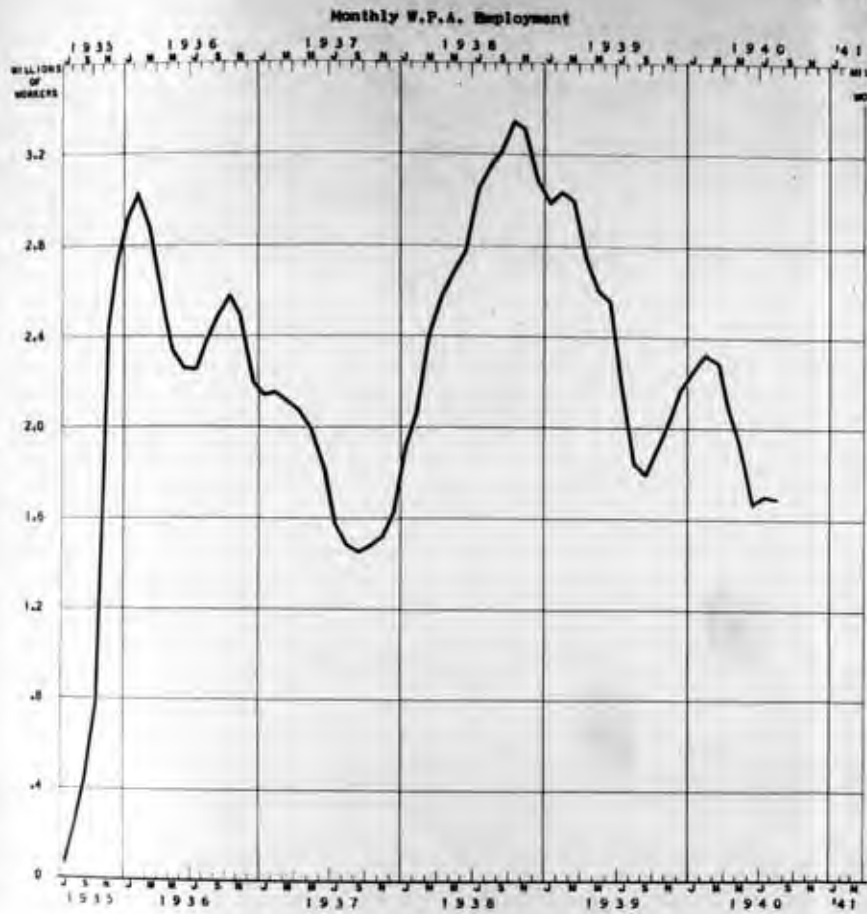
	Number of Workers (In thousands)
1938	
January	1,901
February	2,075
March	2,445
April	2,582
May	2,678
June	2,807
July	3,053
August	3,171
September	3,228
October	3,346
November	3,287
December	3,094
1939	
January	2,986
February	3,043
March	2,980
April	2,751
May	2,600
June	2,551
July	2,200
August	1,842
September	1,790
October	1,902
November	2,024
December	2,152
1940	
January	2,266
February	2,324
March	2,288
April	2,092
May	1,925
June	1,666
July	1,700
August	1,692

Source: Work Projects Administration.

Monthly figures are weekly figures for the latest week of the month.

They include certified and noncertified workers.

WORK PROJECTS ADMINISTRATION
 Number of Workers Employed
 United States



SOURCE: WORK PROJECTS ADMINISTRATION

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

Z - 221 - 52

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

CONFIDENTIAL

DATE September 16, 1940

TO Secretary Morgenthau
 FROM Mr. Haas *HA*
 Subject: The Business Situation,
 Week ending September 14, 1940.

Summary

(1) A rising business trend is indicated by increasing activity in defense industries, by rapidly expanding automobile output, and by a rising volume of consumer buying, despite some interruption to new ordering and production over the Labor Day holiday.

(2) A recent tendency toward increased forward buying of commodities, together with rising prices of industrial materials, bears out previous indications of a more optimistic feeling among industrial buyers. To what extent this may be adversely affected by the intensified bombing of England remains uncertain, but the relatively slight effect on stock prices so far suggests that no important relapse in confidence has yet occurred.

(3) Blast furnace operations in August, at 89.9 per cent of capacity, exceeded the highest annual rate of the World War period, which was 86.7 per cent in 1916. It is doubtful that this rate can be appreciably exceeded, owing to the necessity for relining and repairs. Since the present blast furnace capacity is about the same as the average during the World War, it is possible that this may prove a limiting factor to the rapid expansion of armament production. The situation may be partially relieved by increased use of steel scrap in place of pig iron.

- - - - -

The present situation

While the recent holiday somewhat decreased the volume of new orders in the first week of September, and holiday influences have reduced the significance of current statistics, the indications of (1) increasing activity on defense

Secretary Morgenthau - 2

orders, (2) rapidly expanding automobile output, and (3) a rising volume of retail sales, leave little doubt that the trend of business is upward.

Automobile output last week, despite the holiday, rose 23,600 units to a total of 63,200 units. This figure was not reached last year until two weeks later, and in 1938 not until five weeks later. All three major automobile producers are now in volume operation and accelerating rapidly, with dealer orders reported far in excess of present production. It is not yet clear whether the draft may later in the fall have an unfavorable influence on retail sales of automobiles and other durable consumers' goods.

Department store sales in the last three weeks reported have shown increased gains over the previous year, averaging 11.1 per cent higher as compared with an average gain of 6.9 per cent in the previous 3-week period.

Defense orders stimulate business

Factory employment and payrolls in New York State showed a much greater than seasonal increase in August, employment rising 3.4 per cent and payrolls 4.9 per cent, according to the State Labor Department. In a number of industries the major portion of the gains were directly attributed to Government orders for military supplies.

Business in industrial centers is showing a particularly encouraging upturn. In the Detroit area, for example, for the first time since late 1936, every member of the Purchasing Agents Association reports his firm's business during the past month as better than in the previous month. Reflecting a more optimistic outlook, the forward buying of materials and supplies by members of that association is being extended, and hand-to-mouth buying is being reduced. In August, 21 per cent of purchases were reported to cover requirements 6 to 9 months ahead, as compared with 19 per cent in July and 6 per cent in August 1939.

The awarding of Navy contracts last week for 201 ships costing over \$3,800,000,000, a new peak in defense awards, will strongly affect activity in many industries.

What effect the intensified bombing of Great Britain may have on buying policies of industrial concerns and retail buying is yet to be determined. Its relatively slight effect on the stock market so far may provide some indication of a minor reaction on public confidence.

Steel orders slightly lower in August

New orders reported by the U. S. Steel Corporation in August were slightly below the July total, while shipments increased nearly to the level of new orders. (See Chart 1, upper section.) As a consequence, the estimated backlog of unfilled orders at the end of the month (lower section of chart) was but slightly larger than at the end of July. One reason for the downturn in new orders was the reduced takings of steel by the automobile industry during the month.

The rate of steel output scheduled for the current week shows a further slight rise to 92.9 per cent, which compares with 91.9 per cent last week.

U. S. Steel orders during the week ended September 5, affected by the holiday, were reduced to 76 per cent of capacity from 107 per cent in the previous week. Trade reports mention continued light buying by the automobile companies and the tin plate industry, which contrasts with heavy British orders for semi-finished steel, increasing domestic demand for plates, and for structural steel for plant expansion.

The downturn in steel orders, together with a substantial decline in textile orders during the holiday week, has caused a sharp drop in our weekly new orders index. (See Chart 2.) Other effects of the holiday are seen in the export freight data for the North Atlantic area, both receipts and exports being down sharply in that week.

Pig iron capacity limitations

An analysis of capacity data for the steel industry, in the light of our experience during the World War, suggests that pig iron capacity may prove a limiting factor to the rapid expansion of armament production in this country and Canada, unless steel scrap can be substituted for pig iron in sufficient quantity to alleviate the situation.

The highest annual rate of blast furnace operations reached during the World War period was 86.7 per cent of capacity in 1916, but this was not maintained, and the tonnage output of pig iron fell off in the following year despite the increased steel requirements of our war preparations.

Secretary Morgenthau - 4

In recent months we have already exceeded the average 1916 rate of pig iron output, the blast furnaces in August having operated at 89.9 per cent of capacity, and last November as high as 90.3 per cent. It is doubtful if this rate can be appreciably exceeded, owing to the recurring necessity for relining and repairs. Our present pig iron capacity is not much larger than that during the World War, the total capacity of 55,700,000 tons as of December 31, 1939, comparing with 50,400,000 in 1915 and 58,000,000 in 1920. The capacity has been tending slightly downward in the past two years.

Inability to produce sufficient pig iron is already tending to hamper steel production in the Birmingham district, according to current reports. A partial remedy for a pig iron shortage is the use of increased proportions of steel scrap in making steel. The steady rise of scrap prices in recent weeks may indicate that this is being done. The Iron Age composite price on September 10 had risen to the year's high of \$19.92 a ton, and further increases have been reported at Pittsburgh since that date.

The importance of our pig iron capacity to hemisphere defense is suggested by the fact that Canada has apparently reached its practical limit of steel production, and will need to import larger quantities of basic materials from the United States to expand armament production. Exports of pig iron to Canada, which were negligible at only 81 tons as recently as April, have expanded sharply since then. The volume in July was 10,311 tons, twice as large as in June. Exports of steel ingots and steel scrap to Canada have also greatly increased in the past several months.

Industrial material prices higher

Prices of industrial materials were somewhat stronger last week, especially those that are most likely to feel the influence of defense buying, such as hides, print cloth, wool, burlap, and steel scrap. Foodstuffs were lower, reflecting declines in spot prices of wheat, hogs, steers, lard, and cottonseed oil. (See Chart 3.)

Secretary Morgenthau - 5

The very heavy buying of zinc in the past several weeks has carried spot prices sharply above the August average, in line with the indications provided by our "estimated basic price" derived from demand and supply data for August. (See Chart 4, upper section.) The bullish price factors have been a steady rise in demand, as indicated by deliveries, combined with a reduction in available supplies. Zinc deliveries (including exports) in August showed a strong increase, while production declined because of a strike, and stocks fell to a new low level since 1937. (See lower section of chart.)

Deliveries of refined copper (including exports) also increased in August, totalling 97,944 tons as compared with 74,758 tons in July. The report of increased deliveries, together with reduced production in August, provided the incentive for an increase in futures prices at the end of last week, in contrast to a sagging tendency earlier in the week. Deliveries for export in August were only 1,561 tons as compared with 3,532 in July.

Residential construction at new high

Data on construction contract awards for August, just made available by the F. W. Dodge Corporation, reveal a continuation of the high level of construction activity noted in the previous month. Total construction awards moved slightly higher to attain a new peak since June 1930, while residential awards (see Chart 5) also moved up to a new high. In fact, the level reached by residential construction contracts in August was the best since July 1929. Although mortgages selected for appraisal by the F.H.A. in August did not rise above July as sharply as in the two preceding years, they were less than 6 per cent below the peak reached in May, and seem to assure a satisfactory level of residential building for some months ahead irrespective of the requirements for defense housing.

The number of new homes started under F.H.A. inspection (see chart 6) continued at a high level during August, in line with the increasing number of residential projects reported by F. W. Dodge. A seasonal decline has occurred over the Labor Day holiday.

Non-residential construction (other than public works and utilities) in August receded from the high levels of July, but was still more than 70 per cent above August 1939. This large

Secretary Morgenthau - 6

gain over year-earlier levels reflects the awarding of numerous contracts in connection with the national defense program. Total publicly-owned projects, which were running behind year-earlier levels up to June, have since been stimulated by the national defense program and in August showed a gain of more than 23 per cent over the corresponding month in 1939. The trend of construction contract awards during August is summarized in the following table:

Per cent change in daily average
construction contract awards

	August 1940 from July 1940	August 1940 from August 1939
Total	+ 0.2	+32.9
Residential	+ 4.9	+20.3
Non-residential	-17.4	+70.6
Public works	+34.1	+25.4
Utilities	-32.9	+16.4

Weekly business indexes

Due almost entirely to an extremely sharp gain in the adjusted index of automobile production, the New York Times index of business activity during the week ended September 7 rose 0.5 to 105.8. However, because of the customary difficulty in making accurate allowance for the Labor Day holiday, the figures mentioned must be regarded with less assurance than usual.

The adjusted index of automobile production continued to reflect the unusually early start and rapid upturn this year in the production of new model cars, which brought a gain of nearly 60 points in this index in the September 7 week. The only other components to show gains were the indexes of freight car loadings, which advanced only fractionally.

The principal factors tending somewhat to offset the sharp gain in the index of automobile production were declines in steel ingot and electric power production. In addition, the adjusted index of cotton mill activity turned down after

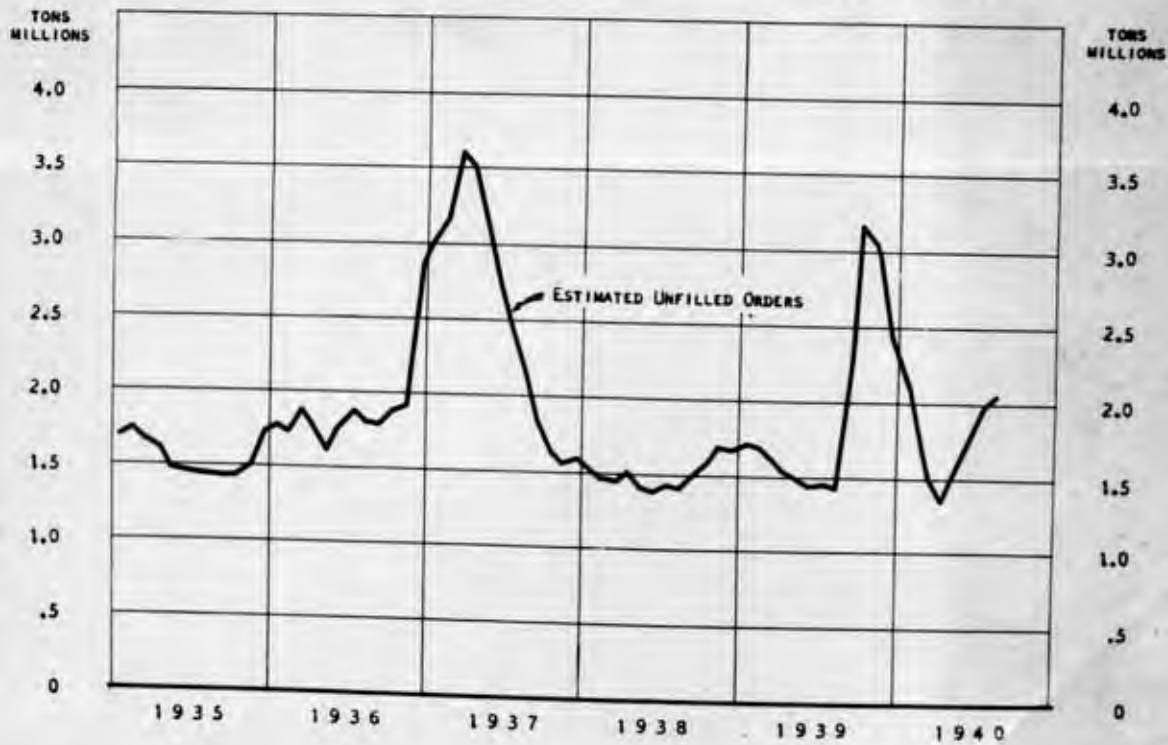
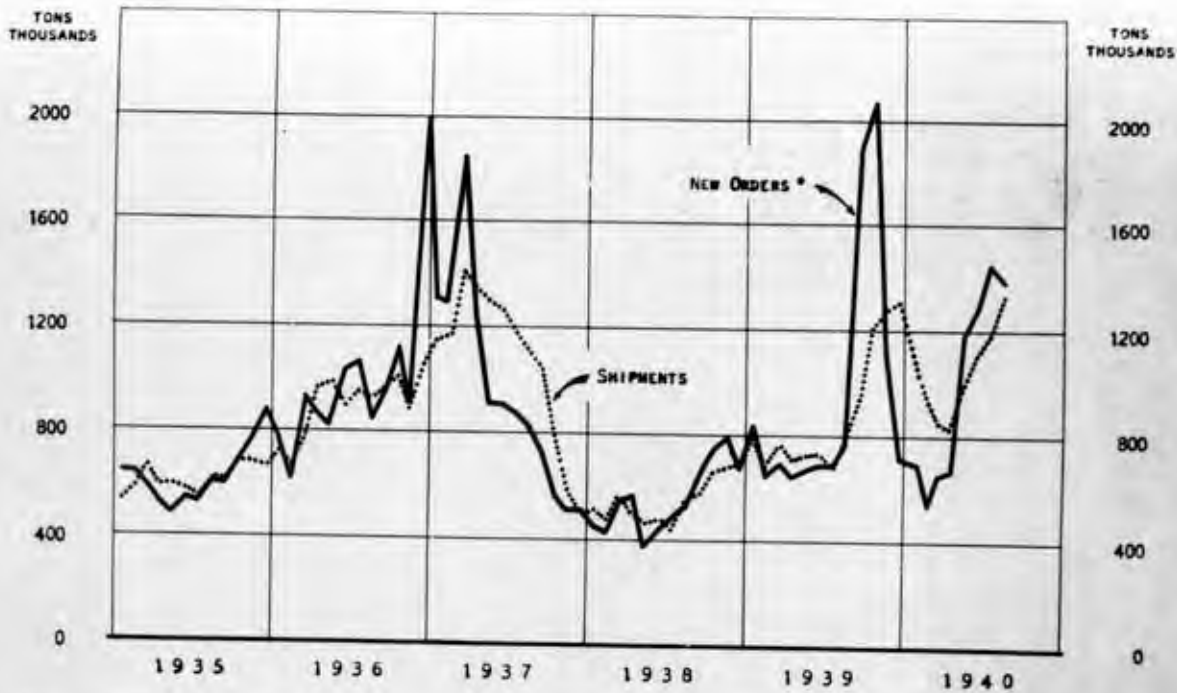
Secretary Morgenthau - 7

rising for four consecutive weeks, and the index of lumber production also receded. The significance of this last named decline, however, is minimized by the fact that new orders for lumber in recent weeks have been running substantially ahead of production.

Barron's index of business activity for the week ended September 7 rose more sharply than the Times index, increasing to 111.4 as compared with 109.5 in the previous week.

Preliminary data for the week ended September 14 reveal a slightly greater than seasonal increase in steel ingot production and another greater than seasonal rise in automobile production, which totalled 63,200 units. Ward's Automotive Reports forecasts a further rise in production during the current week to a total of around 85,000 units.

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



* CORRECTED TO TAKE ACCOUNT OF CANCELLED ORDERS

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

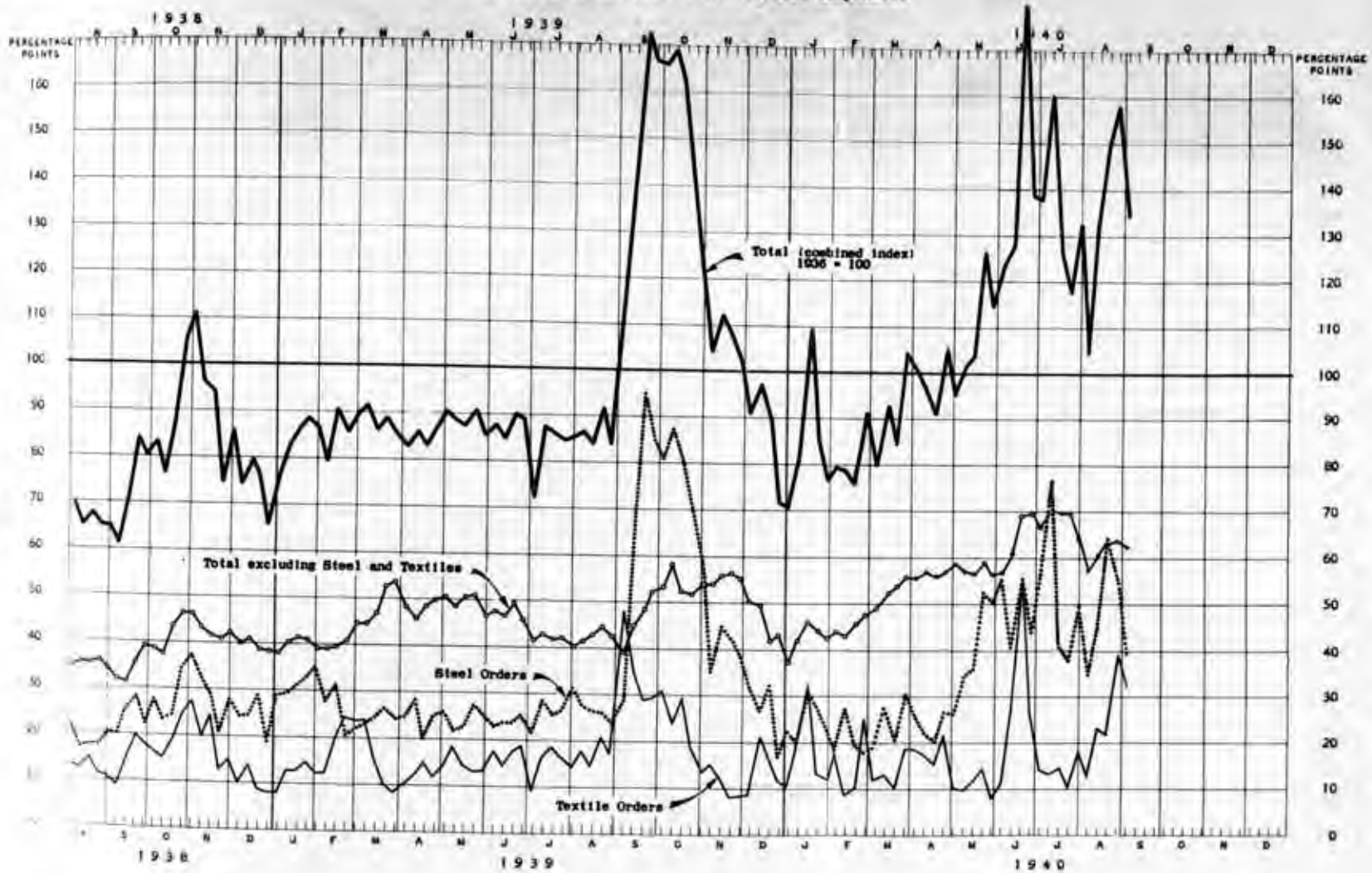
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Chart 1

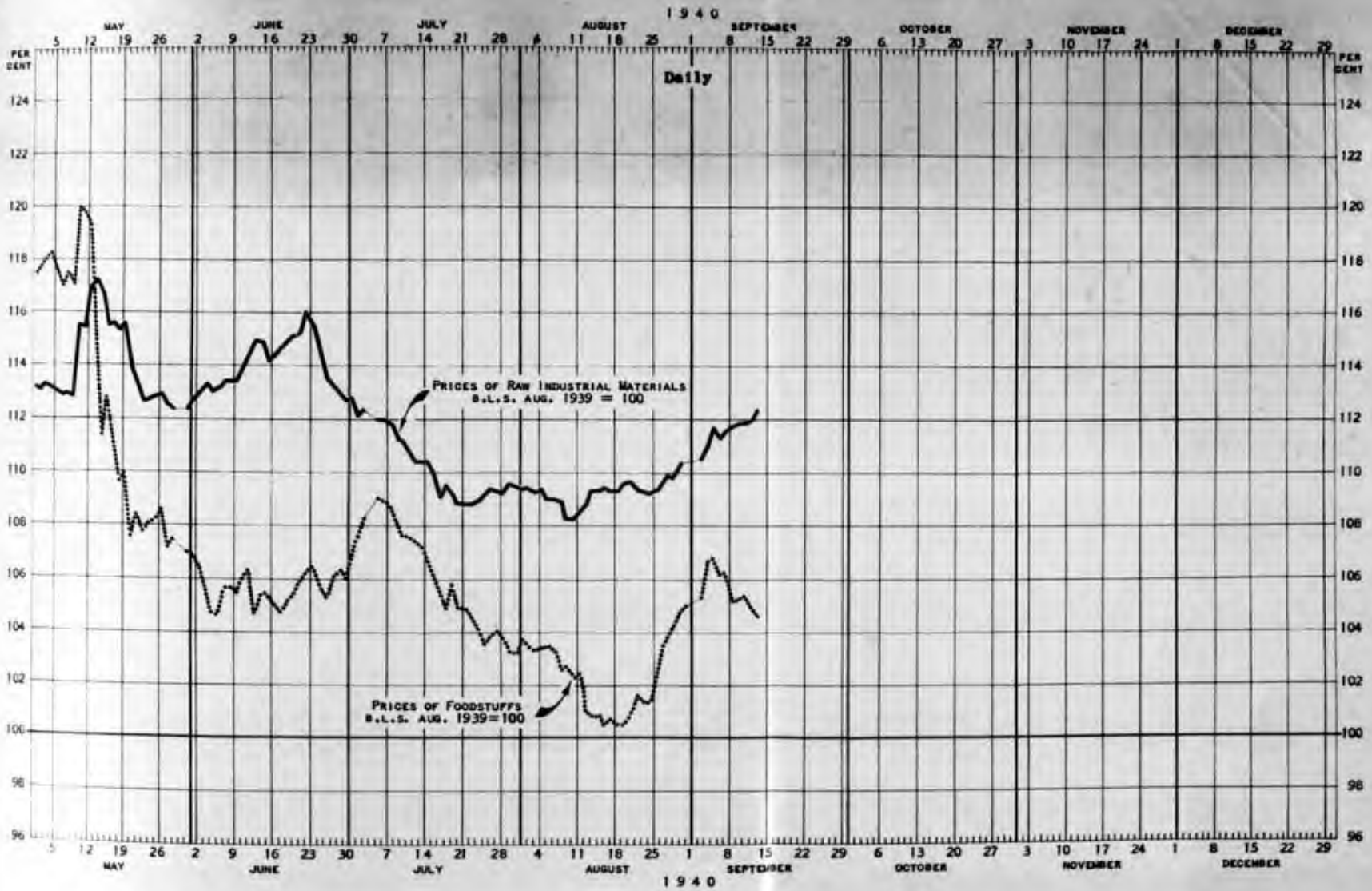
Regraded Unclassified

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

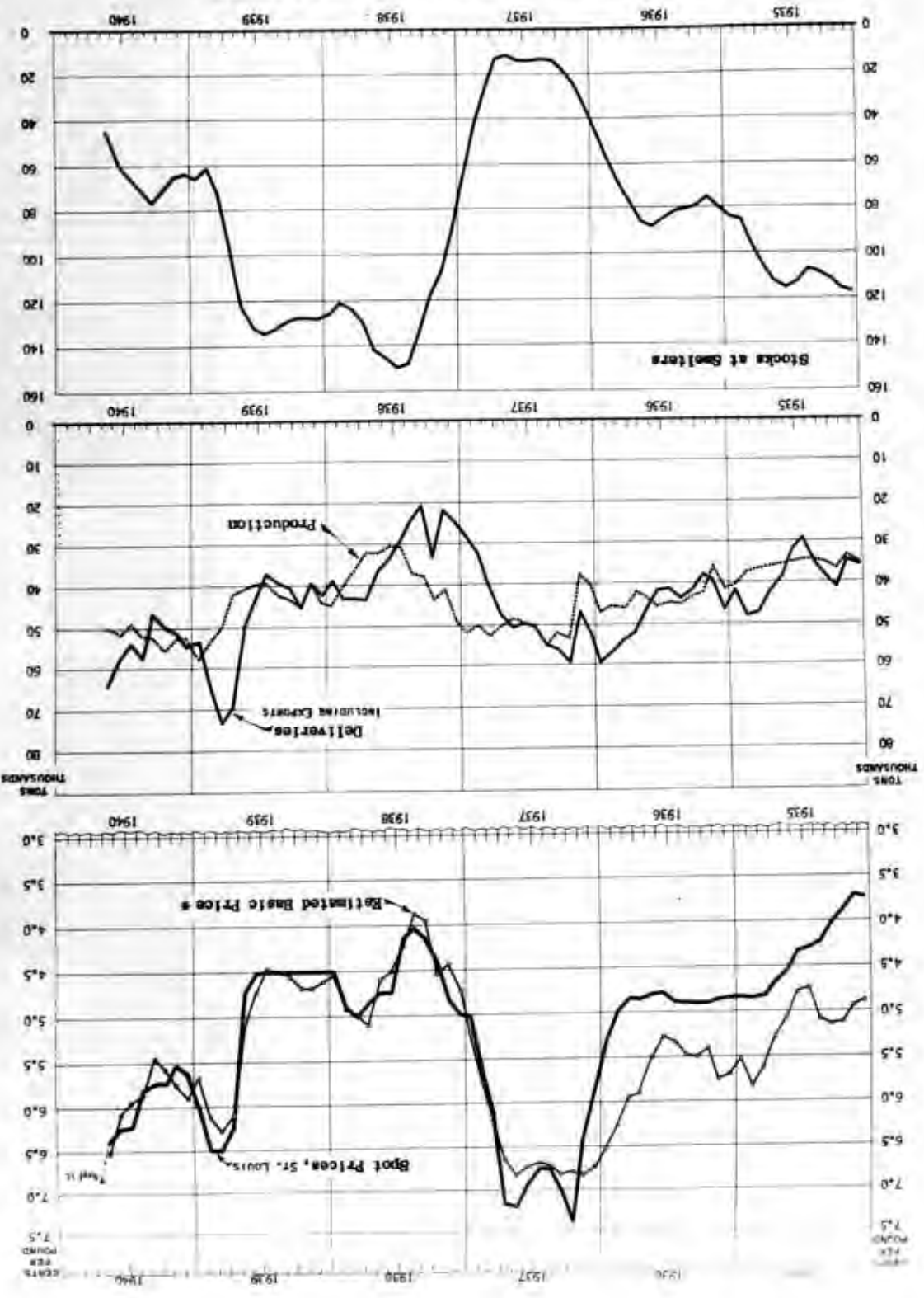


U.S. Department of the Treasury
Bureau of Economic Warfare and Finance

PRICES OF RAW INDUSTRIAL MATERIALS AND FOODSTUFFS

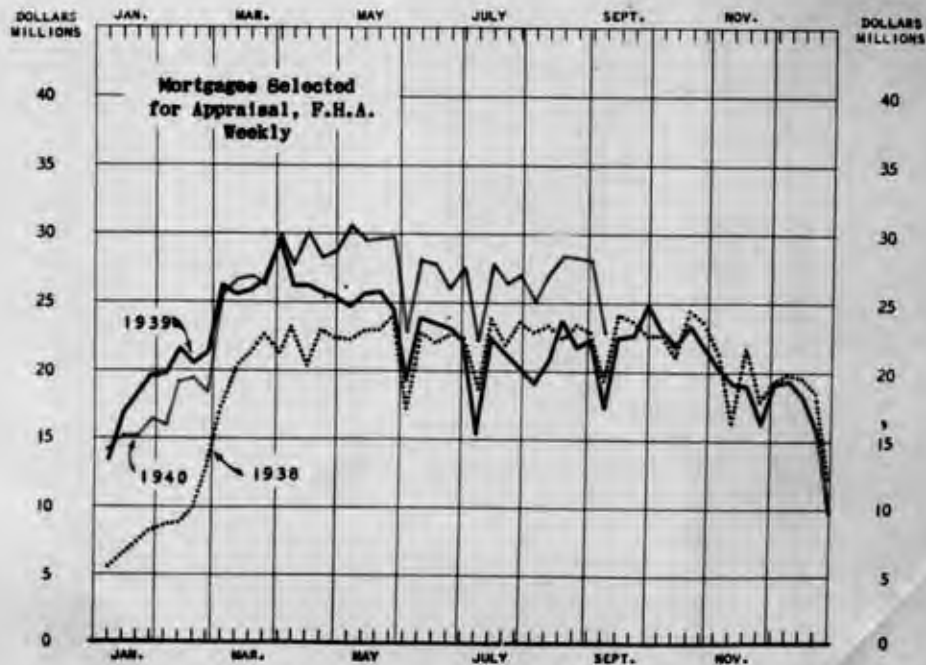
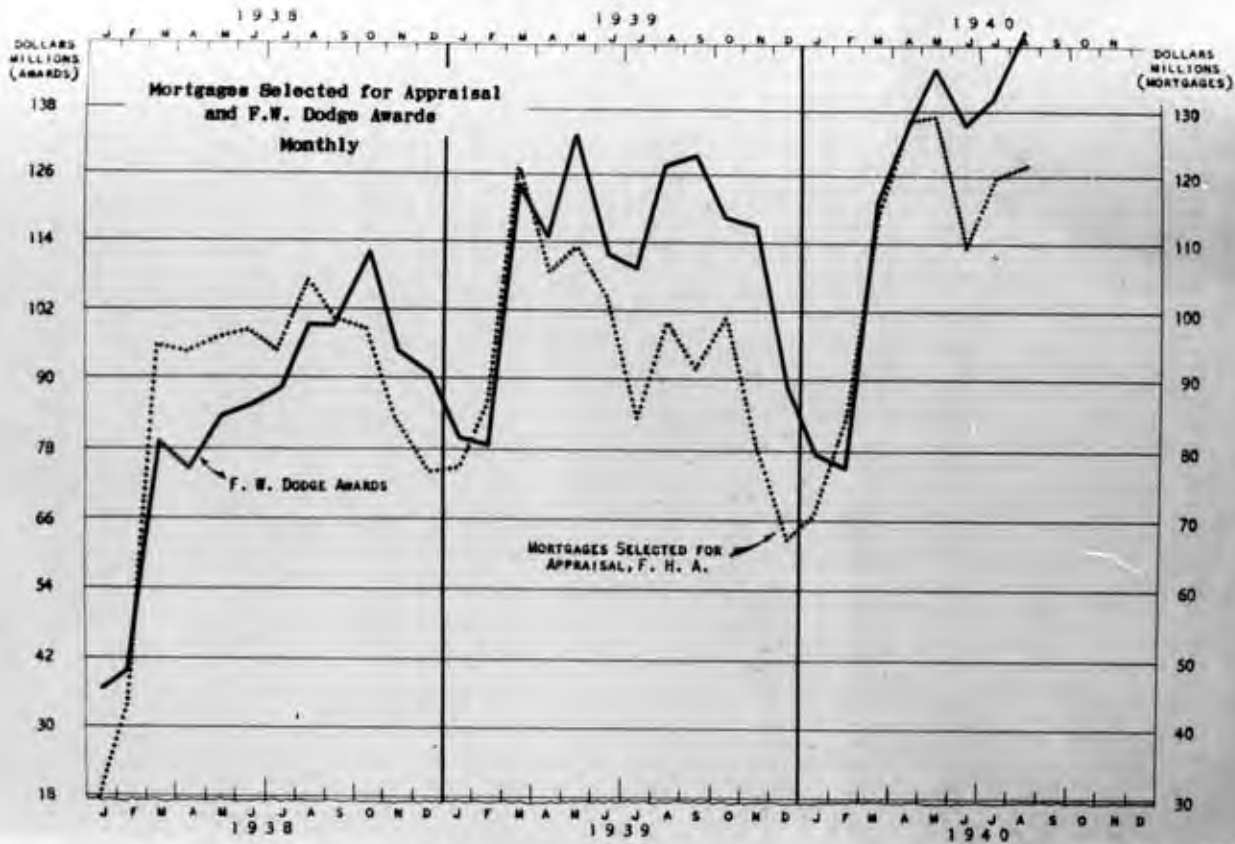


* COMPUTED FROM AVERAGE RELATIONSHIP OF ZINC PRICES TO U. S. PRODUCTION, SHIPMENTS, AND STOCKS OF ZINC.

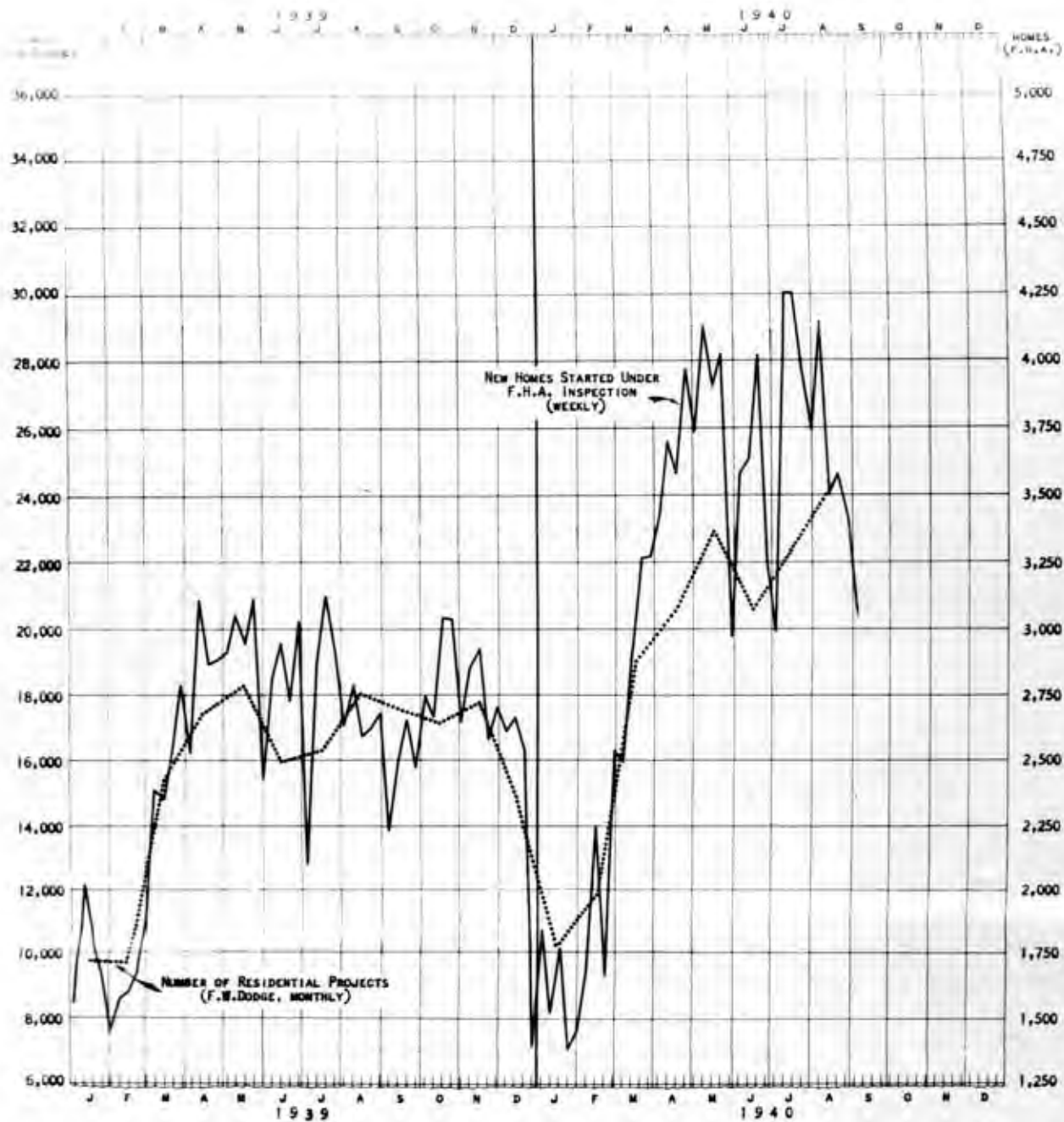


ZINC PRICES, PRODUCTION, DELIVERIES AND STOCKS

RESIDENTIAL CONTRACT AWARDS AND F.H.A. MORTGAGES



RESIDENTIAL AWARDS AND F.H.A. HOMES STARTED



PARAPHRASE

Telegram received from Buenos Aires

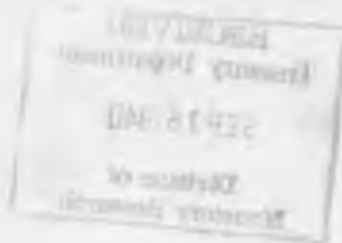
Dated September 16, 1940, 3 p.m.

No. 415

Reference Department's 203, September 8, 2 p.m.

The Minister of Finance inquired again this morning whether word concerning the procedure for discussing proposed monetary and exchange arrangements had been received by the Embassy from the Department. Please inform me what message in this respect I may convey confidentially to the Minister.

RA:EGC:MJC



CORRECTION

JR

September 16, 1940

In message 347, September 13, from Hong Kong,
for Treasury, line 14 make read: "imports 306 all from"
etc.

DIVISION OF COMMUNICATIONS AND RECORDS

TO THE DIRECTOR
RECEIVED
SEP 17 1940

SEP 16 1940

SEP 16 1940

DEPARTMENT OF STATE
WASHINGTON

In reply refer to
EA 840.51 Frozen Credits/572

/ September 16, 1940

The Secretary of State present his compliments to the Honorable the Secretary of the Treasury, and encloses a copy of a telegram from Vichy concerning the transfer to Switzerland of funds in the United States belonging to the Rumanian Ambassador to France and the release of funds in the United States belonging to his wife Marie Franasso Vici.

Enclosure:

From Vichy, no. 567,
September 14, 1940.

VHH

GRAY

(Paris)
Vichy

Dated September 14, 1940

Rec'd 10:20 a.m., 15th.

Secretary of State,
Washington.

567, September 14, 7 p.m.

The Rumanian Ambassador Franasso Vici asked me today whether anything could be done to facilitate the unblocking of five personal checks for which licenses were requested "several days ago" through the Banque de Credit Suisse at Berne, the funds to be made available to him in Switzerland. Four checks are on the Irving Trust Company and one on the Chase National Bank. He, likewise, asked that a license be issued covering \$30,000 which his wife, Marie Franasso Vici, has in the Guaranty Trust Company in New York. He said that these funds are entirely personal and have nothing to do with his government.

MATTHEWS

LMS

C
O
P
Y

bj

DEPARTMENT OF STATE

Washington

September 16, 1940

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and transmits herewith a copy of an informal communication from the Latvian Minister at Washington regarding funds in the United States of Mr. V. Sumanis, a Latvian national.

Enclosure:

From Latvian Legation,
Washington, D. C.,
September 6, 1940.

(COPY:VGS:Ru)
(CONFIDENTIAL)

LATVIAN LEGATION
Washington, D. C.

No. 701/646

September 6, 1940.

Mr. Loy W. Henderson
Assistant Chief
Division of European Affairs
Department of State
Washington, D. C.

Dear Mr. Henderson:

A couple of days ago I received a personal letter from Mr. V. Sumanis, our former Minister to Tallinn, Estonia, who was able to escape from Soviet occupied Latvia to Switzerland. I know the handwriting and signature of Mr. Sumanis well and therefore have no doubts as to the authenticity of the letter. In it he writes that his personal savings are deposited in the National City Bank of New York, City Bank Farmers Branch, 22 William Street, New York City, under the name W. Schumans, Latvian Minister, Tallinn. In view of the presidential order freezing all deposits belonging to Latvian citizens Mr. Sumanis is unable to draw upon his account. As this is his only means of livelihood at present, Mr. Sumanis has asked me to do something to have the ruling freezing his deposits lifted. In view of the circumstances I would greatly appreciate it if you could assist Mr. Sumanis in this matter. As you know, he is a well known Latvian diplomat who has done much to foster friendly relations between Latvia and the United States, and Mr. Coleman and Mr. Wiley will be able to furnish you with personal references regarding him. Mr. Sumanis informs me that he has already written to the above mentioned bank in the matter. His present address is: M. W. Schumans, 5 Avenue de la Paix, Geneva, Switzerland.

Thanking you in advance for your kindness and with best regards, I am

Very sincerely yours,

DR. ALFRED BILMANIS
Latvian Minister

RDS

GRAY

BERLIN

Dated September 16, 1940

Rec'd 5:30 p.m.

Secretary of State,
Washington.

4023, September 16, 4 p.m.

FOR TREASURY FROM HEATH AND FOR DEPARTMENT'S INFORMATION.

Announcement has been made of the conversion of the 7% preferred shares of the German State Railways into 4% bonds. There are 1,081,000,000 marks of these shares outstanding of which an unknown portion is in the hands of Government agencies or held abroad.

Holders of these preferred shares are given the following two options: (One) cash settlement of 120% of the face value to be paid in full by July 1, 1942 the 20% premium being in accordance with the terms on which the shares were issued plus dividends of 1940; (Two) exchange of the preferred shares for 4% bonds with twenty-five year maturity interest beginning as of October 1, 1940 at the rate of 120 marks in bonds for 100 marks in preferred shares. In the event of exchange the holders also receive a cash premium of 7 1/2% but lose their
dividends

-2- #4023, September 18, 4 p.m., from Berlin.

dividends for 1940.

RECEIVED
10 SEP 1940
1055

The new State Railway bonds offered in exchange for the preferred shares are in general in line with the provisions of recent Government bonds although their maturity is five years longer than the 4% Treasury certificates now being issued. The comment is made in the press, however, that in spite of the fact that market conditions are at present favorable for a conversion of these shares some surprise has been occasioned since it had been anticipated that these shares would not be converted until 1949 when the premium would have been reduced to 10%. The State Railways will save 23,790,000 marks per annum interest through this conversion since in future 4% interest on 1,297,200,000 marks will be paid instead of (7?)% on 1,081,000,000 marks.

KIRK

EMB

FEDERAL RESERVE BANK
OF NEW YORK

September 16, 1940

Treasury Department,

Washington, D. C.

Attention: Mr. H. Merle Cochran

Subject: Importation of Gold
by Parcel Post

Dear Sirs:

I enclose for the information of the Department copy of a memorandum prepared in this bank dealing with the importation by parcel post of two gold bars valued at \$27,257.

This being the first such case brought to our attention, we inquired of the Custom Division of the Post Office and also of officials of the Custom House and were told that similar exceptions had recently been granted in a number of cases.

Respectfully,

(Signed) L. W. Knoke

L. W. Knoke,
Vice President.

Enc.

dm

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date September 14, 1940.

To Mr. Knoke

From P. Lang

(Copies sent to Messrs. McKeon and Cameron)

As requested by you in our recent telephone conversation, I have prepared for your use, in case you wish to take the matter up with the Treasury Department, an outline of the action that has been taken in the past with respect to importations of gold by parcel post:

1) During the period August, 1938 to March, 1939, more than \$90,000,000 of gold was imported via parcel post. You will recall that sometime in February, 1939, Mr. Bolton had brought up the question in a telephone conversation with you and had asked whether there was any way to put a stop to such shipments.

2) Subsequently, on April 8, 1939, the following amendment to the U.S. postal laws and regulations was issued:

"Order No. 12761. Section 2233 of the Postal Laws and Regulations is amended, effective upon the giving of due notice to the respective countries, so as to add paragraph 3, as follows: '3. The transportation in the regular mails or parcel post from any foreign country into the United States of any consignment of gold coin, gold bullion, or gold dust, having a value in excess of \$50, is prohibited.'"

3) On January 3, 1940, Customs Regulations pertaining to mail importations were amended by Treasury Decision 50061, the pertinent section of which reads as follows:

"The transportation in the regular mails or parcel post from any foreign country into the United States, of any consignment of gold bars, gold bullion, or gold dust, having a value in excess of \$50, is prohibited."

- 2 -

4) About two or three weeks ago, a gentleman from Hallgarten & Co. came in to see us relative to the manner of handling some gold which had been consigned to them by a firm in Switzerland. In the course of the conversation I learned that the gold had been shipped via parcel post, and I immediately drew his attention to Treasury Decision 50061 referred to above, and warned him that the Post Office might refuse to permit the importation of the gold. Nothing further was heard by us on this matter until September 9, when Hallgarten presented to us the usual affidavit in duplicate, together with a Customs certificate indicating that 2 gold bars, valued at \$27,257 had been imported from Switzerland by parcel post. Before sending our letter to the Assay Office authorizing the purchase of this gold, we checked with both the Customs Bureau and the Post Office Department in order to find out how the gold was permitted to enter the United States, in view of the Postal and Customs regulations referred to above. We learned that a special exception had been made in this case by the Second Assistant Postmaster General in Washington, and were also informed that a number of other shipments of gold by parcel post had been permitted to enter the country recently.

As no other parcel post shipments of gold had come to our attention, it is likely that gold other than fine gold bars was involved and therefore, the relative affidavits and Customs certificates went directly to the Assay Office.

5) A copy of the letter received by the Postmaster at New York from the Second Assistant Postmaster General in Washington is attached, and the second paragraph of that letter reads as follows:

"As an exceptional measure, you are authorized to deliver the parcels to the addressees provided there is no objection on the part of the Customs."

In speaking to the Customs representatives on the telephone, they gave me the impression that they never raise any objection if the Post Office was willing to release the gold. Another point that may interest you is the fact that although the third paragraph of the attached letter specifically requests that the addressees be advised with respect to the prohibition against the importation into this country, in the mails, of gold in excess of \$50, Hallgarten & Co. tell me that they have received no such advice, either oral or written, from the Post Office or from the Customs.

C O P Y

813-E12 133

Division of International Postal Service.

POST OFFICE DEPARTMENT
Second Assistant Postmaster General
Washington

August 29, 1940.

Postmaster,

New York, N. Y.

The receipt is acknowledged of your letters dated August 26 and 27 (FOR 813-E12) relative to the receipt at your office from Switzerland of two parcel post packages containing gold bullion mailed by J. Vernon, Grauer Company, Geneva, addressed to Hallgarten Company, 44 Pine Street, your city.

As an exceptional measure you are authorized to deliver the parcels to the addressees provided there is no objection on the part of the customs.

At time of delivery it is requested that the addressees be advised with respect to the prohibition against the importation into this country in the mails of gold coin, gold bullion, and gold dust in excess of \$50.

For the Second Assistant.

(Signed) J. E. Laniell,

Director.

dm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 16, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Today's transactions in registered sterling by the six reporting banks were as follows:

Sold to commercial concerns	£68,000
Purchased from commercial concerns	£96,000

The purchases represented, for the most part, funds resulting from the export of cotton to Great Britain.

The Federal Reserve Bank sold £9,000 to a non-reporting bank.

In the open market, sterling was quoted this morning at 4.03-1/2. During the afternoon, the rate advanced to 4.03-3/4, and later to 4.04, where it closed. The amounts of sterling purchased were reported to have been very small. Buyers apparently found paying the higher rates preferable to incurring the expense and delay involved in obtaining free sterling from the British authorities at 4.03-1/2. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£14,000
Purchased from commercial concerns	£ 9,000

The Canadian dollar, which underwent a marked depreciation last week, experienced a small recovery. As against the current low of 17-1/2% discount, which was reached on Saturday, that unit closed at 17% today.

The improvement in the Cuban peso, which began last Thursday, continued today. The peso was quoted at 9-3/8% discount, as against 10-3/16% on Saturday.

The other currencies closed as follows:

Swiss franc	.2278-1/2
Swedish krona	.2385-1/2
Lira	.0505
Reichsmark	.3995
Mexican peso	.1996 bid, .2016 offered

There were no gold transactions consummated by us today.

- 2 -

The Federal Reserve Bank of New York reported the following shipments of gold:

\$5,629,000 from Japan, representing two shipments by the Yokohama Specie Bank to its San Francisco agency, for sale to the U.S. Mint there.
416,000 from Peru, shipped by the Central Reserve Bank of Peru for its own account to the Federal Reserve Bank of New York, disposition unknown.

\$6,045,000 Total

The Bombay prices for gold and silver both showed declines from last Friday's quotations. The equivalent of the gold price was \$33.97, off 16¢, and silver was equivalent to 44.76¢, off 1/8¢.

In London, the price fixed for spot silver was 1/16d lower at 23-3/8d. The forward quotation, on the other hand, advanced 1/16d to 23-5/16d. The dollar equivalents were 42.44¢ and 42.33¢ respectively.

Handy 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 two purchases of silver totaling 125,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.



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G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 49
September 16, 1940

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

NOTICE

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GERMAN ANTITANK AND ANTI-PERSONNEL MINE FIELDSSOURCES

Information in this bulletin on the general subject of mine fields is from German regulations of October, 1939, while information as to their location and destruction is from a German pamphlet of January, 1940. Both documents were translated by British sources.

CONTENTS

- I. GENERAL PRINCIPLES.
- II. LOCATION OF MINE FIELDS.
- III. CROSSING AND NEUTRALIZATION OR DESTRUCTION OF MINE FIELDS.

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I. GENERAL PRINCIPLES.

A. The German Engineers, who constitute a combatant arm destined for service in the foremost positions, are the only troops authorized to establish mine fields. The effective use of mine fields demands a high standard of discipline, training, and offensive spirit.

B. Mine fields must be used on a definite plan and laid with adequate supervision. Without this, they are a danger to friendly troops. They are placed:

1. In front of the defensive position.
2. In the neighborhood of the main line of resistance.
3. In the position in depth.

Enemy artillery can destroy well placed antitank mine fields only at the expense of a very large concentration of fire. In such an event, engineer troops armed with antitank mines should be ready to hold up the attacks of tanks which have penetrated the position.

Anti-personnel mines are used only in advance of the main line of resistance and are never placed in the inner portion of the defensive position. Anti-personnel mines which are not mixed with antitank mines can be destroyed by armored vehicles without risk. The destruction of mixed mine fields composed of antitank and anti-personnel mines is a difficult and dangerous operation requiring considerable time. If it is intended to pass from the defensive to the attack, definite orders must be given regarding the placing of anti-personnel mines.

C. Mine fields must be marked on sketch plans and maps, and these must be distributed in accordance with detailed orders. Mixed mine fields of anti-personnel and antitank mines must be specially marked, and the relative positions of each type of mine shown.

D. Electric firing of anti-personnel mine fields is ineffective if enemy projectiles cut the cable. It has the advantage of allowing friendly troops to cross the mine fields without risk. This method must be employed in the course of a premeditated retreat and for defense of water lines. The blowing up of these fields can be followed with great advantage by a counterattack.

II. LOCATION OF MINE FIELDS.

Mine fields are located by the following means:

CONFIDENTIAL

CONFIDENTIALA. Preliminary Reconnaissance.

A study of the map and a general survey of the ground will indicate the position in which mine fields are likely to be found. For this purpose enemy movements should be watched, particularly with regard to selection of paths, tracks, etc. An apparently unnecessary detour or twist in a track may indicate the presence of a mine field. Included under this head are statements from prisoners and local inhabitants, which may also provide very useful information.

B. Air Reconnaissance.

Mine fields cannot be located from the air unless they are badly camouflaged. On the other hand, tracks and troop movements can be spotted, and from these certain deductions may be drawn as indicated above.

C. Ground Reconnaissance.

When a mine field has been located roughly or a piece of ground is suspected of being mined, the exact position and extent of the mine field and individual mines must be determined by reconnaissance on the ground. The particulars which this reconnaissance should endeavor to obtain include the type, position and extent of the mine field; gaps which may exist, and the methods, used, if any, for marking gaps and boundaries of the mine field; possible detours, approaches; whether approaches are under cover from observation or from fire, and if not, the position of enemy C.P.'s and pillboxes. Aids to the location of mines on the ground include.

1. Electric detectors with sound indicators; these give a rapid but only approximate indication.
2. Stakes or feelers pushed vertically into the ground; these can only be used when time permits, and cannot be used when the ground is frozen. It should be noted also that they may set off anti-personnel mines.
3. Special forks or probes pushed horizontally into the surface of the ground; these will also spot bounding mines.*

* Note by the British General Staff. This is a form of anti-personnel mine which is operated by means of a trip wire. The mine is blown out of the ground by a small charge, and it detonates some feet above ground level.

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Mines which are operated by means of a trip wire are located by visual inspection.

III. CROSSING AND NEUTRALIZATION OR DESTRUCTION OF MINE FIELDS.

According to present information, mine fields other than German which are composed only of antitank mines can be crossed with safety by Infantry. If the type of mine in a mine field is not known for certain, Infantry should advance in extended formation. Fresh paths or tracks should be followed as far as possible, particularly those which twist and turn; troops following in the rear should endeavor to follow the tracks of those in front who have passed through the mine field successfully.

If a passage through an anti-personnel or antitank mine field cannot be found, one or more will have to be formed by the following means:

A. Engineer Units.

If mines are covered by direct enemy fire, a passage should be cleared by successive explosion of charges equal in length to the width of the passage to be cleared; otherwise the mines can be dug up or exploded individually. If operations have to be carried out at night, it is necessary that the passage to be cleared, as well as the exact position of the mines, be clearly marked beforehand.

Mines operated by trip wire are exploded by pulling the wire with a grapnel and heaving line.

As French antitank mines have an area of effect up to several hundred meters*, it is necessary to provide a shelter for Engineers carrying out these tasks; if an armored vehicle can be used for bringing up the working party, it can give them covering fire during work and provide a shelter during the explosion of the mines.

B. Artillery Fire.

An artillery shoot can be used for clearing a passage through a mine field, but heavy concentrations of fire are necessary. The 105 mm. gun-howitzer and 210 mm. mortar firing instantaneous percussion fuse can be used, as well as the 150 mm. howitzer with slight delay action percussion fuse. At medium ranges, the following are required to clear a path of 20 to 40 yards wide and

* i.e., effect against personnel. G-2.

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100 yards deep: 120 rounds of 210 mm. mortar, 400 rounds of 150 mm. howitzer, and 600 rounds of 105 mm. gun-howitzer. The latter are to be used only as a last resort. By this means, mines are exploded, destroyed, or thrown aside.

C. By Air Bombardment.

A stick of 110 lb. bombs is recommended. If heavier bombs than these are used, the craters may be too large for tanks to negotiate. Present experience indicates that in order to form a passage 50 to 100 yards wide and 200 yards deep, it is necessary to drop nine hundred 110 lb. bombs in sticks. Ground indication should be given of the path to be cleared.

Neither artillery nor aircraft can be relied upon to clear a path completely of mines; the task must be completed by Engineers. If the passage is to be used before completion by the Engineers, it is recommended that the tanks follow a path from crater to crater.

Note by the British General Staff: "The General Staff is of the opinion that these notes are unduly optimistic regarding the ease with which a mine field can be crossed. For instance, if mine fields are properly sited and covered by fire, it should not be possible for the enemy to mark them during the day (See Paragraph III. A.)"

"It is suggested that, if mine fields are properly laid, the German instructions would be extremely difficult to carry out."

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G-2/2657-235

M.I.D., W.D.
Tentative Lessons
Bulletin No. 50
September 16, 1940

TENTATIVE LESSONS FROM THE RECENT
ACTIVE CAMPAIGN IN EUROPE

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GERMAN INSTRUCTIONS FOR GROUND DEFENSE
AGAINST AIR-BORNE TROOPS

SOURCE

These instructions are from a German document translated by the British late in June, 1940.

CONTENTS

- I. NATURE OF ENEMY ATTACKS.
- II. ORGANIZATION OF THE DEFENSE.
- III. ANTI-AIRCRAFT COOPERATION.

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I. NATURE OF ENEMY ATTACKS.

A. Parachutists, air-borne troops, or both, might land from aircraft at dusk or during the night. They would drop from considerable heights from aircraft in sparsely inhabited but nevertheless important military districts.

B. They would attempt to destroy important military or industrial plants, railways, bridges, locks, overhead cables, transformer stations, and telegraph cables.

II. ORGANIZATION OF THE DEFENSE.

A. The command of the defense is in the hands of senior district officers in their capacity as regional defense commanders.

B. The regional defense commanders report to District Command X. They investigate, sound alarms, and issue operational instructions to available military units and to the police.

III. ANTI-AIRCRAFT COOPERATION.

A. All available arms are to be used to the full extent of their range - that is, gunfire and rifle fire. In addition, consideration must be given to the advisability of throwing out defense squads, if necessary, by motorcycle or light motor car, but only in so far as this does not interfere with their duties on anti-aircraft defense. Air-borne troops are most vulnerable while in the air.

B. After a landing has been made, contact with the enemy is to be maintained by scouts or motorcyclists.

C. Particularly important is immediate reporting to regional defense commanders. This can be done by telephone message (special priority call), by post office telephone service, or by the air force signal circuits, with the caller first announcing "Parachute call". It can also be done through police or railway authorities. Every soldier observing such landings is expected and entitled to put through such calls.

The report should include:

1. Strength of the enemy.
2. How armed.
3. Position of landing.

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4. Time of landing.
5. Presumed objective.
6. Position and immediate movements of the men reporting.

D. Further action should be as follows:

1. Prisoners are to be guarded, segregated and handed over to the nearest unit for transmission to air administration areas. They are not to be questioned.
2. Enemy aircraft and instruments are to be well guarded.
3. Troops should be made acquainted with any potential objects of attack in sight of the firing base. They should also be informed of the name of the senior district officer.

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Paraphrase of Code Cablegram Received at the
War Department 00:48 a.m., Sept. 16, 1940

London, Filed 5:55, September 16, 1940

During the night of September 14-15 British aircraft bombed enemy shipping concentrations and railroad yards.

Enemy daylight attacks during the 14th were directed chiefly against London. There were two raids taking the route, Kent--Thames River, the first consisting of about 150 and the second of about 100 planes. Both concentrations were intercepted by British fighters and small percentages only reached London. It is estimated that a total of about 400 German aircraft operated over Britain during the day.

German activities during the night of September 14-15 were slight although the weather was favorable. They consisted mostly of mine planting and small, erratic raids, with a total of about 175 planes.

In London water and sewer mains were burst in Lambeth; and gas tanks were set afire, the Southern Railroad was hit, and major damage was done to flour mills in Battersea. The big power station at Battersea, which provides one of the best targets in the London area, was repeatedly and unsuccessfully attacked, with but one hit effecting minor damage. In Warrington, Lancashire, two bombs struck a recreation ground, burying 150 workers in the wreckage of a canteen, with 14 killed and 21 injured. Extensive property damage resulted from two raids on Eastbourns, with three dead. In Brighton 21 high explosive bombs struck a cinema, killing 32 and injuring 157. The enemy bombed 163 widely separated localities during the past 24 hours, with minor damage only.

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German aircraft losses during the 14th were 16 confirmed, 13 probable and 12 damaged. The British lost 12 planes and four pilots. The total number of civilian casualties is as yet unknown.

In Egypt the Italians captured the Salma Barracks yesterday afternoon, with their advance continuing in three columns. No depth of advance is apparent.

There is no additional significant information bearing on the enemy plans for an invasion; nor is there anything new to report on the morale of the civilian population.

Four cargo boats, totalling (garbled) tons were sunk or seriously damaged. One naval sloop escorting a Canadian convoy was damaged by a torpedo.

The most puzzling feature of the military operations during the past month is the misuse and dissipation of their air power by the Germans. It can only be concluded that the enemy is badly informed as to the temper of the British people and as to the extent of damage inflicted by his bombardment. If invasion requires the crippling of British industry and public determination and the neutralization of the Navy and the Air Force, Hitler is further from success than he was during the middle of August.

LEE

Copies to: General Watson
 Secretary of War
 State Department
 Secretary of Treasury
 Asst. Secretary of War
 Chief of Staff
 ONI
 WPD

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Paraphrase of Code Cablegram Received at the
War Department 2:01 p.m., Sept. 16, 1940

London, Filed September 16, 1940

During the night of September 15-16 162 British bombers attacked enemy shipping concentrations and nearby railroad centers on the Continent. Power stations in the west part of Berlin were attacked by four bombers. The Coastal Command sent out 19 mine laying and bombing planes.

Reliable reports indicate that orders were issued yesterday suspending all leaves in the combat units of German Air Force until the termination of operations against England. This would seem to indicate that invasion is still a distinct threat. German dive bombers are still inactive.

London suffered two major attacks during daylight hours of September 15, while Portland and Southampton received smaller attacks. Two major attacks consisted of about 250 planes each, of which about 100 got through to London during the first attack and about 70 during the second.

During the night of September 15-16 German activity commenced at about 8 p.m. and continued for about nine hours. A total of about 15 raids were made on the Bristol Channel, South Wales, the Midlands and Liverpool.

It is estimated that about 600 German planes took part in yesterday's daylight attacks, with the number operating last night unknown.

Bombs fell at about 60 places on London, with major damage

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as follows: In Lambeth a company manufacturing telephones was forced to suspend production on account of delayed action bombs, and school buildings, gas and water mains were damaged. In Beckenham the East Croydon Railway was blocked and the power station was hit but is still operating. In Battersea a railroad bridge between Clapham Junction and Victoria, the West London Extension line and plants manufacturing projectiles were all hit; in the Strand the central tower of the Shell-Mex House was demolished and the top story of the building is at point of collapse, the Strand is blocked from Adams Street to Alwich, and near the Gaiety Theater a water main was burst. The Uxbridge and Hammermith road was blocked and water and sewer mains ruptured. The Shepherds Bush electric sub-station was rendered inactive by power failure and there is no current on the Hammermith activity line. At the Vauxhall Bridge Road the Westminster Bridge was blocked by debris and bomb craters. The Lambeth, Guy and St. Thomas's hospitals suffered hits but no casualties. Bombs again directed at Buckingham Palace. During the Southampton raid Thornycroft's (probably motor truck factory - G-2) received slight damage and some bombs fell near the Supermarine Aviation Works (where Spitfire fighters are built - G-2).

Shipping losses total 23,000 tons, with five ships damaged or sunk by bombers and submarines. The sloops reported damaged yesterday have sunk.

British air losses were 25 planes and 13 pilots. Enemy plane losses were 186 confirmed (of which 110 were bombers), 42 probable

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and 72 damaged. British civilian casualties were 134 injured, 49 killed.

The weather, which has favored the Germans up to this time, is showing signs of change. It is now cold and rainy.

Major Studler returned today from a trip through the Midlands and reports that there has been very little damage done to industry.

Civilian morale remains satisfactory.

LEE

Copies to: General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
NPD

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Paraphrase of Code Cablegram Received at the
War Department 1:58 p.m., Sept. 16, 1940

Rece, Filed 19:25, September 16, 1940

A reliable source reports with reference to Italian participation in the attack on England that Italian advance ground crews are now naming air fields in the Netherlands on which the Italian units joining German forces will be based. These units are organized into an air fleet which includes both pursuit and bombardment aviation and totals about 450 planes.

According to the War Ministry operations started on September 13 at daylight against British forces in Egypt. A fast-moving Italian column is advancing rapidly. The British have destroyed munitions and supplies and are retiring. They are suffering heavy losses from bombardment(s) and assault aviation. Front of attack and depth of advance to date were not disclosed.

PAINE

Copies to: General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
GHI
WPD

CONFIDENTIAL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany

DATE: September 17, 1940, 10 a.m.

NO.: 4028

Authoritative sources have informed the Embassy that in the near future, perhaps the first of October, it may be expected that the protectorate will be included in the German customs zone, and that shortly after that some form of closer monetary union may follow.

Well-informed quarters are under the impression that in Berlin the authorities are also giving consideration to another change in the political status of residual Bohemia and Moravia, tying in with the move for establishing more permanent forms of German rule in some of the other territories now occupied by Germany. It is commonly believed that one of the aims of Germany in establishing the protectorate was to segregate the territory concerned until price levels and living costs in the protectorate could be adjusted to those of Germany proper. The fact that abolition of the customs boundary is under consideration again would indicate that the German authorities believe such adjustment has been substantially completed. There is a possibility that this is another factor leading the Germans to take up again the arrangement of political and administrative affairs in that area at this time.

Will you please inform the Treasury of the foregoing.

KIRK.

EA:LWW

TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 16, 1940

TO Secretary Morgenthau
FROM E. H. Foley, Jr.

Wright Aeronautical Plant at Cincinnati, Ohio.

The purpose of this memorandum is to recite the delays which have prevented the increase in productive facilities for armament and other articles desired by the Government, with a view to pointing the way to a satisfactory solution of the problem. For this purpose the Government's effort to provide a method for increasing facilities for the manufacture of aircraft engines by Wright Aeronautical Corporation is used as an illustration.

On December 6, 1939, you stated in a memorandum to the President that it was your considered opinion that "it would be far better to spend millions for defense than to use the tax laws to subsidize private munitions makers," and stated that the problem of increasing productive facilities facing the War and Navy Departments could be solved "by erecting plants similar to the 'shadow factories' in Great Britain and leasing such plants to private industry."

On May 30, 1940, in order to utilize existing facilities for the production of aircraft engines, you asked officers of Wright Aeronautical Corporation to grant to the Government a non-exclusive right to manufacture aviation engines of any type manufactured by Wright and also to license any corporation to be designated by the Government to manufacture Wright engines, and you made the same request of officers of United Aircraft Corporation. Such licensing agreements were drafted by this office in cooperation with the two companies, and on June 5, 1940, offers to license were made by the companies which you transmitted to the Advisory Commission on June 7, 1940. United Aircraft Corporation has used this agreement to license Ford Motor Company to build aircraft engines of Pratt and Whitney, according to a letter dated August 21, 1940, from United Aircraft.

On May 30, 1940, you also discussed with G. W. Vaughan, President of Curtiss-Wright, the construction of a new plant with a capacity to produce 1,100 engines per month and to cost about \$45,000,000. The history of the proposed construction and financing of this plant is recounted below:

On June 11, 1940, Mr. Knudsen submitted a proposal under which the R.F.C. would advance Wright \$50,000,000 to build and equip the new plant. Under Mr. Knudsen's proposal, the plant equipment would be owned by the R.F.C. and would be leased to Wright for $3\frac{1}{2}$ years, Wright having the option to buy the building and equipment for one-half of the difference between its cost and the rent paid. Rent being computed at \$585 per engine, with 24,200 engines contemplated, the purchase price would have been \$18,000,000.

- 2 -

On June 12, 1940, I stated to Mr. Knudsen that giving such an option would be very doubtful since to depreciate a plant of this character by 36 per cent in 3 1/2 years would be difficult to justify, especially since an additional 28 per cent of the cost (returned to the Government as rent) was to be included by Wright in the price charged the Government for the engines. I advised Mr. Knudsen that his plan was otherwise sound.

On June 13, 1940, Mr. Knudsen submitted a proposal that the R.F.C. pay Wright the sum sufficient to pay for the cost of the plant and the equipment, title to the plant to be vested in Wright, and the loan to be repaid according to the number of units produced. Under this proposal, the amount of the indebtedness would be spread over the total units produced so that the sales price of each unit would include its pro rata share of the debt, and no business could be had to the general assets of the manufacturer.

On June 14, 1940, a rough draft of an agreement intended to carry out Wright's suggestion of Mr. Knudsen was submitted to him at a conference in his office.

On June 17, 1940, a revised form of agreement intended to carry into effect the plan of financing the new plant was submitted to Mr. Knudsen with the modifications suggested at the conference on June 14.

On June 19, 1940, at a conference in Mr. Knudsen's office, at which Messrs. Rogers and Nelson were present, I discussed in detail the draft agreement as well as alternative proposals. Nothing was definitely decided except that it was thought that the remedy of the R.F.C., in the event of default, should be restricted to the demolition of additions to existing buildings and the repossession of machinery acquired with the proceeds of a loan from the R.F.C.

On June 19, 1940, the Federal Loan Administrator Jones wrote Mr. Knudsen that the R.F.C. would lend Wright \$28,000,000 to build and equip a plant producing 500 airplane motors, the loan to mature in eight years and to be amortized at the rate of \$600 per motor as the motors are manufactured, and further stated that the manufacturer should have the right, if the plant should become idle through cancellation or completion of orders, to reduce the unpaid balance of indebtedness to the fair market value of the property as approved by the President.

On June 20, 1940, Federal Loan Administrator Jones wrote Mr. Gordon, Vice President of Wright Aeronautical Corporation that the R.F.C. would lend the subsidiary of Wright \$33,500,000 to construct and equip a new plant, the loan to be repaid within eight years, to be amortized at the rate of \$300 a motor, and to be secured by a first mortgage on the plant and equipment.

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On June 24, 1940, a tentative draft of an agreement embodying the understanding reached by Messrs. Knudsen, Biggers, Jones and representatives of Wright on the financing of the new facilities was submitted to Mr. Knudsen, Mr. Hotchkiss, attorney for Wright, and Mr. Schram, Chairman of the Board of Directors of the R.F.C.

On July 3, 1940, Mr. Van Anda, attorney for Wright Aeronautical Corporation, requested from the Commissioner of Internal Revenue a ruling and closing agreement concerning the tax effect of this tentative agreement, with the sole exception that the loan was reduced by approximately \$150,000 which would be used by the R.F.C. to acquire the land on which the new plant would be built, such land to be then leased to a subsidiary of Wright for an eight year period with the right to renew for eight years.

On July 12, 1940, the Commissioner ruled that for federal income and excess profits tax purposes, the subsidiary of Wright would be entitled to amortize the cost of the new plant and permanent equipment over the eight year life of the lease from the R.F.C. With the consent of Wright, I submitted this ruling to Mr. Jesse Jones on the morning of July 12, 1940, in his offices before it was announced, and Mr. Jones indicated that he thought the ruling was very sound and would be useful in many situations.

On July 22, 1940, the ruling was published in the Internal Revenue Bulletin and received wide publicity. Under the plan ruled upon, the buildings and permanent equipment placed upon the tract of land leased by the subsidiary of Wright from the R.F.C. would revert to the R.F.C. upon the termination of the lease.

On July 26, 1940, Mr. Van Anda stated to the officials of the Bureau of Internal Revenue that the R.F.C. desired that the lease should run for five years instead of eight years and requested a ruling that the cost of the buildings and permanent equipment as well as the machinery could be amortized over a five year period instead of an eight year period as heretofore agreed upon. On the same day, Mr. Van Anda was advised that the facts did not justify the Commissioner in stating that a five year lease would not be renewed and that the efforts of the Treasury to cooperate in the defense program were being frustrated by such a material change in the facts made almost simultaneously with the issuance of the ruling, and tended to discredit the original ruling.

On August 9, 1940, Wright Aeronautical Corporation submitted still another request for a ruling because negotiations between Wright and the R.F.C. resulted in the R.F.C. granting to Wright an option to buy the plant site at its cost, thus permitting Wright for the price of the land (now increased to \$200,000) to acquire plant and equipment costing \$37,000,000.

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On August 21, 1940, the Commissioner issued a ruling favorable to Wright under which the cost of the plant equipment could be amortized over the eight year term of the lease, notwithstanding the option to purchase on the condition that Wright would include in gross income the excess of (1) the fair market value of the plant and permanent equipment over (2) the cost of the plant and equipment less the amount of amortization previously allowed.

On September 4, 1940, Mr. Hotchkiss, attorney for Wright, advised Mr. Kades that the R.F.C. had notified Wright that the Advisory Commission had requested the R.F.C. in financing national defense plants to use the so-called five year plan of the Advisory Commission (sometimes known as Plan II) under which the War or Navy Department, as the case might be, would reimburse the manufacturer for the full cost of a new plant and equipment in annual installments of 20 per cent of such cost over a five year period. Under this plan the manufacturer always has legal title to the plant, with the Government retaining certain rights, but the Government's interest is hardly definite enough to be capable of legal definition.

On September 4, 1940, a draft of the five year plan was received by Wright.

On September 6, 1940, Wright requested a ruling from the Commissioner of Internal Revenue based upon a revised draft of this plan which Wright had received on the same day.

On September 11, 1940, the Treasury was advised that the Advisory Commission was revising the draft of September 6, 1940, and today it is understood that a further revision of the plan is being prepared. This constant revision of the method of constructing and financing new defense facilities makes it impossible for the Commissioner of Internal Revenue to issue a ruling and tender a closing agreement with any degree of assurance that he is not making a ruling upon a hypothetical state of facts embodied in a plan already abandoned by the Advisory Commission and the R.F.C.

Valuable time would be saved if the original proposal of Mr. Knudsen were reverted to under which the R.F.C. would advance funds to Wright to build a plant owned from the beginning by the Government. Such an arrangement has already been made by du Pont with the War Department under which du Pont will construct, as agent for the War Department and with funds supplied by it, a powder plant which will be owned by the Government. Upon completion of the powder plant, du Pont will manufacture powder in the plant in return for a management fee. Chrysler will build a tank factory and operate it for the Government on the same basis.

A variation of this method is the arrangement between the British Government and Wright Aeronautical Corporation under which Wright, with funds advanced by the British Government, acquired land, constructed additional buildings and purchased machinery and tools, title to the land, buildings, machinery and tools being retained by the British Government. Wright leased these facilities from the British Government at a rent equal to local property taxes and manufactured engines as ordered by the British Government, without any option to purchase.

F.W.H.

September 16, 1940.

To: The Secretary

From: Mr. Young

Subject: Stimson-Purvis Tank Financing Conference
Friday, September 13, 1940.

Mr. Purvis and I met with Mr. Stimson at 11 o'clock to ascertain whether the War Department would certify as to the necessity for a tank production capacity larger than the capacity required immediately by the Army.

I explained to Mr. Stimson that perhaps preparedness should demand a tank production capacity somewhat in excess of capacity required to build only those tanks for which appropriations had been received. I added that the Ordnance Department had already given some indication that it would approve a production capacity of 20 tanks per day although it had appropriations for only 10 per day. Further it was my belief that the RFC would finance any production capacity which the Army believed to be in the interest of national defense and that the RFC would have no objection to the use of excess capacity by the British, of course, recognizing the fact that the Army had the right to take over that excess capacity at any time.

Mr. Stimson said that he thought it made sense so he called in Judge Patterson and explained the situation to him. Judge Patterson also agreed and asked that Mr. Purvis and I talk with him and the Ordnance officers.

In Judge Patterson's office Mr. Purvis and I met with General Harris and Colonel Lewis and we talked specifically about financing Continental tank engines. Both General Harris and Colonel Lewis told Judge Patterson a production capacity of 20 tank engines a day was in the interest of national defense so Judge Patterson agreed to write a letter to the RFC making that commitment. A copy of this letter is attached for your information.

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Although Mr. Knudsen has already written a letter to the RFC stating that a production capacity of 20 tank engines per day would be desirable, I am having that letter withdrawn and a new one substituted similar to that of Judge Patterson's as the language of the Knudsen letter is not sufficiently forceful. This new certification by Mr. Knudsen should be in the hands of the RFC on Tuesday.

The result of this procedure is simply that the RFC finds itself confronted with the situation where both the War Department and the Advisory Commission certify that a production capacity of 20 tank engines per day is essential to the national defense of the United States. The RFC can hardly refuse to finance the facilities for such a program as it has no objection to the British using the excess capacity amounting to 10 tank engines per day.

- - - o o - - -

After I had left Mr. Stimson's office to talk with Judge Patterson on tank engines, Mr. Purvis took up with Mr. Stimson a matter of the new Sperry bomb sight. Mr. Stimson told Mr. Purvis that according to best information this new bomb sight would not be available for six months, therefore, it could not be considered in connection with any possible use which the British might wish to make of it immediately.

In accordance with your request to get an independent check upon this information, I have asked Mr. Thomas Morgan of the Sperry Gyroscope Company to meet with you next week.

T.P.G.

COPY

BOL:ms

WAR DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY

September 13, 1940

Honorable Emil Schram,
Chairman, Reconstruction Finance Corp.,
Washington, D. C.

Dear Mr. Schram:

The creation of manufacturing capacity capable of producing twenty Medium Tank Engines per day by the Continental Motors Corporation of Detroit, Michigan, is essential to the National Defense of the United States.

Sincerely yours,

(Signed) ROBERT P. PATTERSON

Robert P. Patterson,
The Assistant Secretary of War.

copy of this given to Mr. Fowcett.

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September 16, 1940.

To: The Secretary

From: Mr. Young

Subject: Major Fleet and Consolidated.

I finally got in touch with Major Fleet late Friday evening and arranged to meet him at the office Saturday morning. Major Fleet assured me that in connection with the production of Consolidated planes all the technical difficulties with the Army and Navy were being ironed out quite satisfactorily. He seemed to think that there was nothing we could do to help on that angle.

Then, he went on to point out that there were four major problems confronting the City of San Diego which had a direct effect upon the production of Consolidated as the largest commercial employer in that community. Consolidated now has on its books —

132 Million Dollars worth of business

25 Million for the Navy
26½ Million for the Army
80½ Million for foreign

He expects to receive an additional

81 Million Dollars worth of business from
the Army
106 Million Dollars worth from the Navy

or an additional 187 Million Dollars worth of business, making the total 319 Million Dollars. He stated he expected his business to increase to almost One Billion Dollars worth, in about the next two years.

Consolidated, to date, has built more than three times the number of planes with a wing-spread of 100 feet or more than all other United States aircraft manufacturers combined.

- 2 -

Consolidated employs approximately 10 thousand men; it expects to employ 15 thousand by January 1941, and 30 thousand by May 1, 1941.

Major Fleet advised me that he did not see how Consolidated could handle its increased business and maintain its production schedules unless adequate housing, adequate vocational schools, adequate water supply and adequate sewage disposal system could be established in San Diego.

In response to my inquiry as to why Consolidated could not establish another plant in another community, Major Fleet said it was impossible due to the lack of management and supervisory personnel. To illustrate this he stated that supervisors at the present time were actually over-seeing forty times the amount of work that they had in the past. Presumably this problem has been recognized because he has received permission to go ahead and build a new plant next to his present plant.

In order to place these four problems in their proper perspective, it is necessary to recognize the fact that the Navy holds approximately 54 percent of the property of San Diego. Thus only 46 percent of the city is subject to taxation for the support of such utilities, as noted above.

In addition to the need for housing facilities and vocational schools by Consolidated, the Navy itself can well take advantage of an increased water supply and an adequate sewage disposal system.

T/aa

- 3 -

It should also be remembered that there are two other companies, Ryan (aircraft) and Solar (aircraft exhaust manifolds) in San Diego, both of which are also expanding rapidly.

HOUSING

San Diego has a total of 48 thousand single occupancy dwellings of which 25 thousand are owned and 23 thousand rented. Only 7 hundred or 1½ percent are unoccupied, a rate which is the lowest in the country.

Major Fleet estimated that by January 1, one thousand new dwellings would be needed, and by May 31, 1941, approximately 5 thousand dwellings. In comparison the normal rate of growth would be 8 hundred by January 1 and 18 hundred by May 31, 1941.

Thus due to the tripling of the number of Consolidated employees, due to the 14 thousand increase in Navy personnel (artisans, mechanics, etc.,) and due to the presence of 15 thousand more men when the Navy ships are at San Diego base, it is stated that at least 6 thousand housing units are necessary, plus accommodations (barracks) for 4 thousand single men.

It is my understanding that this situation has been considered by Federal Housing, by Mr. Charles F. Palmer, Housing Coordinator, and by Mr. W. S. Knudsen. It is the attitude of Federal Housing that housing facilities necessary for the additional personnel required in San Diego can only be considered from an emergency point of view and would not be economic from a long range point of view.

In this connection, however, it is estimated that only approximately 10 million dollars would be necessary to ease the situation. Money for such a purpose has already been provided to the President under Section 201 of the Appropriation Act (H.R. 10263).

VOCATIONAL SCHOOLS

Due to the increase in business which Consolidated must absorb, it is necessary that new employees receive approximately 5 weeks schooling before they can be employed in the factory.

At the present time, Major Fleet informed me that his supervisors, etc., were working 14 hours a day; 8 hours in the factory and 6 hours teaching in the vocational schools already established in San Diego. In order to train an increased

- 4 -

number of employees, these schools must be expanded at a cost of approximately one and a half million dollars. This matter has already been taken up with Studebaker, Commissioner of Education, who is very sympathetic and has made the informal statement that he would like to do it if the money is supplied for such a purpose. An appropriation for such a purpose is now being considered by Congress.

In this connection, Consolidated will continue to furnish instructors to these schools so that the potential employees will be more efficiently trained for the job for which they will be employed.

SEWAGE DISPOSAL

A few years ago the San Diego river was diverted by the War Department from the harbor of San Diego so that it now empties into the ocean, three miles from its original mouth. As a result, landlocked San Diego harbor has no natural cleaning facilities. This situation becomes especially serious when the Fleet returns to the Naval base.

The only solution, so Major Fleet tells me, is the building of a sewage disposal plant, to which the Government should contribute at least 50 percent. Presumably H.P.A. could contribute 45 percent of the cost of such a plant, but the financial resources from San Diego are such that it could not support the remaining 55 percent. It has been proposed that this balance of 55 percent should be divided equally between San Diego and the Navy. I have been informed that Secretary Knox has in his possession a complete study and analysis of this San Diego sewage situation.

WATER SUPPLY

San Diego is the fourth largest city in the State of California, but it has no water supply other than that procured from local mountain springs and streams.

Los Angeles offered to let San Diego utilize the new water supply procured from the Colorado river project, but only at a cost of 20 million dollars. A sum which the taxable part of San Diego could not afford.

It is my understanding that San Diego is now considering attempting to raise three and a half million dollars for another local dam in order to relieve the water situation, but this

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would seem to be only a temporary relief.

It has been suggested that the Government should contribute 50 percent or more of the 20 million dollars required by Los Angeles in order to put San Diego in on the Colorado river system.

Major Fleet advised me, off the record, that if the President could secure the 20 million dollars for Los Angeles and an adequate water supply at San Diego, that he could probably carry California!

PT/ma

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BRITISH EMBASSY,
WASHINGTON, D. C.

September 16th, 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. Moran

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated
September 15th, 1940

Royal Air Force

1. The majority of the aircraft despatched during the night of 13th/14th successfully attacked barges and shipping in Dutch and Channel ports. Direct hits were seen on all targets and it is considered that extensive damage was inflicted.

Last night 154 bombing aircraft were sent to attack the following objectives:

Barges and shipping in Dutch and Channel ports

Railway targets in North Germany and Belgium

Gun emplacements opposite Dover and Chateau d'Argenteuil, believed to be Field Marshall Goering's headquarters.

All our aircraft except one returned safely.

2. German Air Force.

Industrial damage additional to that reported on September 13th was caused at one London oil company, where fires are under control and at an automobile engineering works where severe damage was done to buildings.

During the night of September 13th/14th more recent reports indicate that enemy aircraft were less active than usual. Rough

estimate/

-2-

estimate of casualties in London area are 25 killed and 19 wounded. The fire mentioned at a suburban post office is under control, and one telephone exchange, which was hit, has resumed services. Some serious fires occurred but all were reported yesterday evening as under control. Some damage was caused to dock area and also to industrial premises at Cardiff.

Yesterday morning, enemy activity was confined to reconnaissance flights by individual aircraft making use of cloud cover. Two of these were shot down. In the afternoon 2 raids were directed against London via Kent and Thames Estuary respectively. About 150 operated in the first, and about 100 in the second. A few of these penetrated inner artillery zone on both occasions, but interceptions were made by our fighters and casualties were inflicted. Damage is reported as follows. Although Battersea Power Station received direct hit, the damage was confined to the control room and plant is not badly affected, but a suspected unexploded bomb has temporarily suspended working. Some seaside towns on the South and East Coast were attacked, and extensive damage to property and some casualties occurred at Eastbourne. At Brighton a direct hit on a cinema killed 32 people and seriously wounded 62, and at Warrington 2 H.B. bombs dropped on a recreation ground, where a gala performance was in progress, killed 14 people and seriously wounded 21.

Last night although weather conditions were favourable enemy activity was slight. Several small raids, mainly of single aircraft operated over Sussex, Kent, East Anglia and North Midlands, and a few over London. The country was shelled by H.B. A 50-gallon fire was started in one London district, and about 50 casualties

are/

Regraded Unclassified

-3-

are reported from another. Otherwise, no reports of damage or casualties have been received.

Air training activity in Baltic continues at a high level.

3. summary of air casualties.

<u>Enemy</u>	Destroyed	Probable	Damaged
by fighters			
Bombers	4	-	6
Fighters	11	3	6
by anti-aircraft fire			
type unknown	1	-	-
Totals	<u>16</u>	<u>3</u>	<u>12</u>

British: 12 aircraft (4 pilots killed or missing).

4. Shipping Casualties.

By U-boat: on September 4th an Irish ship (1,000 tons) was sunk by gun fire in South Western approaches.

On September 7th a Norwegian ship (4,200 tons) was torpedoed and sunk in North Western approaches, and on the 11th a British ship (5,00 tons) was sunk by torpedos in Eastern Atlantic.

5. Middle East

Libya. Reference summary of the 13th, paragraph 4. The situation on the Libyan front at 5 a.m. on the 14th was Sollum barracks was in Italian hands. Enemy were infiltrating down the escarpment and advancing in 3 columns. 2 squadrons of 1st Battalion of the Royal Tank Regiment were engaging the columns.

There still appears to be no depth to Italian advance and there is at present no evidence of any other troops having been brought up to replace those that have now moved forward.

On September 13th, 3 Blenheims bombed the Bomba
a/c plane/

-1-

seaplane base, and 13 more again attacked mechanical transport concentrations at Sidi Omar, causing fires.

Abyssinia. On the 12th 3 medium bombers of the South African Air Force attacked an Italian aerodrome, making direct hits on buildings and on enemy aircraft on the ground, one of which was burnt. However, they were intercepted by 4 enemy fighters, and one machine crashed in flames, while a second is missing.

On the same day, 4 aircraft attacked an aerodrome South West of Addis Ababa, registering direct hits on hangars and destroying one aircraft.

CONSOLIDATED AIRCRAFT CORPORATION

Model and Purchaser	Unfilled:	Estimated deliveries										Total : estimated : deliveries : Sept. 15, 1940 : -June 30, 1941	: Deliveries on : present orders : estimated to : be made after : July 1, 1941	
	Orders	1940					1941							
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June			
B-24 type four-engine bomber														
U. S. Army	106✓	3	5	7	3	4	4	4	4	10	10	53	53	
British*	180		3	5	3	3	3	3	7	14	16	41	139	
Total B-24 type	286	3	5	3	3	5	5	6	14	24	26	94	192	
PBY-5 type two-engine Navy bomber														
U. S. Navy	220✓	6	10	11	15	16	19	17	20	26	24	164	56	
British**	238	1	3	3	8	9	8	10	12	15	10	79	159	
Total PBY-5 type	458	7	13	14	23	25	27	27	32	41	34	243	215	
PBY-2 four-engine Navy bomber														
U. S. Navy	7	2	1	1	2	1						7		
Total Army, Navy and British	751	12	19	18	28	31	32	33	46	65	60	344	407	

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

September 16, 1940.

* British orders of this model are reported as LB-30.

** British orders of this model are reported as 28-5ME and 28-5AME.

DOUGLAS AIRCRAFT COMPANY

Model and Purchaser	Unfilled:	Estimated deliveries										Total : estimated : deliveries	: Deliveries on : present orders : estimated to : be made after	
	: Orders	1940					1941							: Sept. 15, 1940
	: Sept. 14, 1940	: Sept. 15-30	: Oct.	: Nov.	: Dec.	: Jan.	: Feb.	: Mar.	: Apr.	: May	: June	: Sept. 15, 1940	: June 30, 1941	: July 1, 1941
A-20, A-20A type two-engine attack bomber														
U. S. Army	228	8	15	28	34	49	52	39	3			228		
British*	758	27	55	30	8	19	29	45	97	57	135	502		256
Total A-20, A-20A type	986	35	70	58	42	68	81	84	100	57	135	730		256
SBD-1 scout bomber														
U. S. Navy	157	11	27	20	22	35	29	13				157		
B-23 two-engine bomber														
U. S. Army	2	2										2		
British (spares)	4	1	2	1								4		
Total B-23	6	3	2	1								6		
XB-19 experimental bomber														
U. S. Army	1			1								1		
C-5 two-engine transport														
U. S. Navy	3	1	1	1								3		
Total Army, Navy and British	1,153	50	100	81	64	103	110	97	100	57	135	897		256

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

September 16, 1940.

* British orders of this model are reported as DB-7, DB-7A and DB-7B

BOEING AIRCRAFT COMPANY

Model and Purchaser	Unfilled:	Estimated deliveries												Total	Deliveries on
	Orders	1940						1941							
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940	estimated deliveries	estimated to be made after	
												June 30, 1941		July 1, 1941	
Flying fortress															
U. S. Army	359✓	7	10	9	6	10	16	10	5	13	26	112		247	
DB-7B two-engine bomber															
British	288									7	16	23		265	
XB-29 two-engine bomber															
U. S. Army	2											0		2	
XPBB two-engine patrol bomber															
U. S. Navy	1											0		1	
Total Army, Navy and British	650	7	10	9	6	10	16	10	5	20	42	135		515	

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

September 16, 1940.

GLENN L. MARTIN CO.

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940- June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
		Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
B-26 two-engine bomber U. S. Army	201 ✓		1	6	14	24	26	24	26	26		147	54
PBM-1 two-engine bomber U. S. Navy	26	1	4	7	12	2						26	
M-167-F4 two-engine light bomber British	158		1	15	39	44	40	19				158	
M-187 two-engine medium bomber British	600				1	12	40	50	57	57	57	274	326
XPB2M-1 four-engine bomber U. S. Navy	1												1
M-167-F3 two-engine light bomber British	1		1									1	
Total Army, Navy and British	987	1	6	23	58	72	104	95	81	83	83	606	381

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

September 16, 1940.

September 16, 1940

This, quite obviously, was written by Lothian because it practically is verbatim what Lothian told me when he was in to see me the other day.

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This was given to the Secretary
by Sir Andrew Agnew on Sept. 13th.

September 12th, 1940

The Far East - Oil

An important factor in the oil issue in the Far East at the moment is whether or not Great Britain and the United States can pursue a parallel course of action. Obviously we are in a far weaker position than the United States, and we will require American support in any measures of resistance to Japanese pressure which may be taken. Such support can only be forthcoming if the U.S.G. and the American public feel that we are not selling them down the river. If, on the other hand, the United States takes the lead and we again are accused, however unjustly, of taking the line of appeasement, then ill-will between the two countries may arise.

2. The question of oil supply for Japan is, of course, all important in itself and it raises a subsidiary point of equal importance, viz., the fact that it may either prevent or help to bring about British and American co-operation in the Far East. If the United States Government continue to intensify their strong line of action in the Pacific, it would appear to be most important that step by step we should be advised - before the event - otherwise a position may arise where the two countries are not following a parallel course. Even under consultation it may not be possible for the two countries to walk in step because of the political position elsewhere, but at any rate an exchange of views before taking action is likely to prevent misunderstandings by showing that the line we are taking in oil is as strong as one as we feel possible and not merely a scheme to take advantage of American restrictions.

3. American oil policy in regard to Japan is now a restrictive one, with the object not of preventing supplies and thus encouraging drastic action but of limiting them in quantity, quality and period of commitments. However, definite restrictions, amounting in practice to an embargo, have so far been applied only to aviation spirits, aviation lubricants and certain classes of crude oil. These restrictions, added to the fear of further action, have caused the Japanese to exert strong pressure on the Dutch, British and, to a much smaller extent, American companies operating in the Far East and to canvass the world, outside the United States, for oil.

4. In fact, Japanese pressure had already been felt before the American export licensing system was applied to oil, and negotiations were already proceeding between British-Dutch companies and the Japanese for increased deliveries from the East Indies. In addition, earlier this year the Anglo-Iranian (controlled by H.M.G.) had, for the first time, contracted to supply a certain quantity of crude oil to Japan. These negotiations and commitments were entered into at a time when the American market was entirely open to the Japanese. America has always been, and still is the major supplier of oil to Japan. The action taken by the Administration in its application of the licensing system to embargo certain special products had two effects. It intensified Japanese pressure for supplies of all oils from elsewhere, and it threw a spotlight on the sales made and under negotiation by British and Dutch interests. In fact, the quantity of oil sold or under negotiation by the British-Dutch interests is only a small proportion of that currently

being supplied by American companies, not only from the United States but also from other sources, e.g., Saudi Arabia and Peru. The Japanese demands upon the British-Dutch interests have by no means been met although, in fact, it would appear that the Government of The Netherlands are concerned to see that the oil companies go a long way in meeting the Japanese demands.

5. The facts surrounding British-Dutch sales have been exaggerated and distorted to appear as if, when the Americans took concrete action to limit certain supplies to Japan, we and the Dutch took advantage of the situation to increase our sales. We have been criticized by the State Department, but Sir Andrew Agnew has clarified this situation with the United States authorities. However, if, as they did in July, the United States authorities again take sudden and more drastic action without collaboration with us, we may again be subject to unjust criticism.

6. We have been, and are being severely criticized not only in the press but in public utterances by prominent oil men, especially in California and the Southwest. In some cases the statements made are blatantly untrue; for example, the reported sale by the Anglo-Iranian of aviation spirit which, it was implied, had caused the U.S.G. to give up its own policy as useless. This specific report was denied from London but there has been no general answer to the charge that we are not only selling U.S. Far Eastern oil policy down the river but also are taking American trade in so doing.

7. Obviously the situation changes in detail from day to day, and obviously the specific commercial transactions, even if they can be determined at any particular time, cannot be openly discussed. However, when the time is ripe, it is desirable to clear up the existing misunderstanding over oil, so that oil will not roughen further the troubled waters and prevent collaboration in the larger issues at stake. The U.S.G. has many other powerful weapons which it can exercise upon Japan, but the oil policies and practices of the British, Dutch and American Governments should either be reconciled on general lines or the factors surrounding them sufficiently understood to prevent recrimination.

8. In the Far East two sets of negotiations are now in progress, in both of which British, Dutch and American companies are involved.

9. In Yokohama, negotiations with British-Dutch interests are in progress regarding sales of oil to Japan. Apparently commitments extending over a year are being considered. However, attempts are being made to keep the period of such contracts down to a maximum of six months. These attempts may not be successful, as the British and Dutch in the final issue are not likely to be able to contemplate the possibility of military action in the Far East. What will then be the position? Will the American company get the State Department approval of their participation in such supply contracts?

10. In Batavia, a Commission has arrived apparently to negotiate for the sale of producing oil properties by the British, Dutch and American interests involved, and also perhaps for additional deliveries of oil. The Japanese are exerting their pressure primarily on the British-Dutch interests. Here again, when negotiations reach a critical point, it would be helpful to know what line the U.S.G. will take.

11. A British company has made a contract for the sale of oil to Japan from Iran (the Anglo-Iranian which is controlled by the British Government). Here again, the quantities involved are not very large, and particular circumstances were involved. For instance, the exports of oil from Iran have been sadly reduced due to the war, but the Shah's appetite for royalties has by no means suffered a similar diminution. It has been reported that the Japanese went behind the back of the Anglo-Iranian and exerted pressure to a highly receptive Shah for increased deliveries, and the Shah even threatened to cancel the Anglo-Iranian concession.

12. Both British and American companies are at present delivering against contracts made some time ago from Peru and Ecuador. However, the main source of oil supply for Japan is still the United States, excepting now for those limited categories for which licenses are being refused.

13. Thus the situation in detail is complicated and the time may not be ripe for any further steps than those being taken by Sir Andrew Agnew. In general, however, we need (a) to clear up the misunderstanding of our oil position in regard to Japan; (b) to suggest that the U.S.G. does not take further and drastic steps which will throw our actions more out of line in relation to their policy without at least giving us warning; and (c) to ensure that the U.S.G. should understand, even if it does not approve, the commitments which the Dutch and ourselves may be forced to make.

September 16, 1940

My dear Mr. Ambassador:

Thank you very much for sending me the memoranda in relation to counterfeit money.

Mr. John Steinbeck put the proposal up to me. I told him I was absolutely opposed to it as I thought it was crooked and I am delighted to learn that the British Government agrees with me.

Yours sincerely,

(Signed) H. Morgenthau, Jr.

His Excellency,
The British Ambassador.

By Messenger 4 45

September 15, 1940

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His Excellency,
The British Ambassador.

By Messenger

BRITISH EMBASSY,
WASHINGTON, D.C.

September 12th, 1940

Dear Mr. Secretary,

With reference to our conversation of today, you may be interested to see a memorandum which sets forth the views reached by the British Government when the proposal you mentioned was considered by them some little time ago.

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. Sturton

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

MEMORANDUM

The suggestion that counterfeit Reichsmark notes should be dropped from aeroplanes over Germany was exhaustively considered by the British Government some time ago. At that time it was thought that this would be regarded by the world at large as a particularly odious and dishonest method of warfare, and if this argument has to any extent lost its force since then there are other arguments which seem decisive.

The fact that such notes were being dropped would certainly be known without delay to the German authorities. In a country ruled in the way Germany is ruled, it would not be difficult for the authorities to organize the collection by Party or official organisations of the notes dropped, and to frighten the population so that they would not dare to collect these notes and retain and use them themselves. Precautions have probably been taken already by the German Government.

Even insofar as the population were able to retain and use such notes the effect would probably be disproportionately small. In Germany nearly all goods are either rationed or are simply not obtainable; the holders of these counterfeit notes would not be able to spend them to more than a limited extent and it is probable that they would flow to a considerable amount into savings bank accounts, etc. The German Government could increase their borrowing accordingly from these banks, and decrease their borrowing on the markets.

To overcome these objections in such a way as to cause a substantially increased demand for goods which would endanger the German price control, or as

-2-

to create distrust among the population in the currency, would require the scattering of counterfeit notes on such a large scale as might be beyond the capacity of the Royal Air Force if it is not to limit its attacks on military objectives to an undesirable degree.

Lastly, if Great Britain started this method of warfare and Germany retaliated in kind, it is not improbable that the effect on Great Britain, where we have not the same totalitarian methods of government, might be greater than the effect on Germany.

12

21th September, 1940

SEP 16 1940

Dear Mr. Humphrey:

I want to thank you for your letter of September 11th.

The information and opinions expressed in your letter are useful in helping us to understand the problems involved in the petroleum situation. I also appreciate your desire to cooperate with the Government, as well as your offer of further assistance in the event that we need additional information.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Mr. William F. Humphrey,
President, Tide Water Associated Oil Co.,
17 Battery Place,
New York, New York.

cc to Mr. Thompson

JPN
WLU:ls
9/12/40

FILE COPY

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 13, 1940

TO Secretary Morgenthau

FROM Mr. White

Subject: Tide Water Associated Letter of September 11, 1940.

This letter confirms verbal statements made by officials of the company in the meeting of August 8, 1940. It presents no new information.

1. The letter principally describes the company's financial and corporate relationship with the Mitsubishi Oil Company, of which it is a half-owner.
2. It notes the capacity of Mitsubishi's refineries.
3. It estimates Japanese stocks at 20 million barrels (probably not including Naval stocks) on the basis of Mitsubishi's stocks.
4. It offers cooperation with the Government, together with any additional information we desire.

Letter appended for Sec's signature.

TIDE WATER ASSOCIATED OIL COMPANY

17 BATTERY PLACE

NEW YORK

WILLIAM F. HUMPHREY
PRESIDENT

September 11, 1940

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

My dear Mr Secretary:

At your invitation, I was pleased to confer with you at Washington on August 8th last, at which time it was my privilege to meet Honorable Frank Knox, Secretary of the Navy, Honorable Harold Ickes, Secretary of the Interior, and Messrs Frey and Holland of the Department of the Interior, and Dr. White.

As you stated, the purpose of the meeting was to ascertain generally the relationship of the Tide Water Associated Oil Company with the Mitsubishi Oil Company of Japan, and also the quantity of crude petroleum and its products sold by Tide Water Associated Oil Company to Mitsubishi Oil Company. I gladly gave the desired information that was available at that time. This information was supplied with the understanding that I was calling on my memory for transactions and events which occurred during a period of more than 17 years. In view of the fact that a record was being made of the conference, you will recall that I reserved the privilege of reviewing my statement and of submitting a summary for your consideration. Much of the information upon which my statement was based had to be checked in San Francisco and some was not available for checking. With your permission may I therefore repeat in narrative form, with any necessary corrections, substantially all of the information submitted at the meeting. I hope the facts submitted will excuse the length of this letter.

Mitsubishi-Sha, as I am informed, is an important holding company existing under the laws of the Empire of Japan and has one or more subsidiaries in every important branch of industrial activity in that Empire. Among the subsidiaries is Mitsubishi Shoji Kaisha, Ltd., or as it is known, the Mitsubishi Trading Company. Late in the year 1923 Mitsubishi Trading Company entered into an agreement with Associated Oil Company, a California corporation, pursuant to which it was granted the exclusive rights to purchase from Associated Oil Company crude oil and the products of crude oil for use or resale in the Empire of Japan, Korea, Formosa, that portion of the Island of Saghalien under Japanese control,

-2-

Manchuria, Siberia, and Asiatic Russia. In the year 1924 and also in the year 1925 some changes were made in the arrangement but finally on June 8, 1926 a formal contract was made. This written contract likewise was changed in some particulars from time to time. However, a copy of it and of the modifications thereto are on file with the Securities and Exchange Commission at Washington, D. C. as exhibits attached to the registration statement of Tide Water Associated Oil Company filed with that Commission in the early part of the year 1937. This agreement is still in force and effect. Over a period of more than sixteen years Associated Oil Company sold, pursuant to such contract, on an annual average, approximately a million barrels of crude oil, about 54,598 barrels of ordinary motor gasoline, about 45,989 barrels of kerosene, 15,549 barrels of lubricating oil, and 1,200,000 barrels of fuel oil.

On June 8, 1928 Associated Oil Company and Mitsubishi Shoji Kaisha, Ltd. entered into a memorandum whereby they jointly agreed to organize a corporation under the laws of the Empire of Japan for the purpose of constructing and operating an oil refinery in Japan and for the sale of the products of that refinery. On November 5, 1929 this memorandum was superseded by a formal agreement with the same general objectives, which was executed by Mitsubishi Goshi Kaisha, Mitsubishi Mining Company, Mitsubishi Shoji Kaisha, Ltd., as parties of the first part, and Associated Oil Company, a California corporation, party of the second part. This agreement contained, among other provisions, a covenant to the effect that the Articles of Incorporation and the By-Laws would contain such necessary provisions as would assure the Mitsubishi Interests and Associated Oil Company an equal number of Directors and require unanimous consent for any corporate action. This covenant was written into the By-Laws and Articles of Incorporation and has always been respected, however, it might not be effective in opposition to a command of the government of Japan. A copy of this agreement is also on file with the Securities and Exchange Commission at Washington, D. C. as one of the exhibits to the aforesaid registration statement. Pursuant to this agreement Mitsubishi Oil Company was organized and a refinery with a daily rated capacity of 3,000 barrels of light crude oil was constructed at Kawasaki, near Tokyo, Japan. This refinery was completed late in December 1931 and placed in operation about a month later. I am informed that Mitsubishi Goshi Kaisha is now known as Mitsubishi-Sha, and that the other two parties of the first part, are among its subsidiaries. The agreement of November 5, 1929, as indicated above, did not absorb or cancel the agreement of June 8, 1926.

About March 1, 1933, to enable Mitsubishi Oil Company to comply with the so-called control laws enacted by the Japanese Government it was compelled to increase its capital from 100,000 shares with a par value of ¥5,000,000 to a capital of 140,000 shares with a par value of ¥7,000,000. The Mitsubishi Interests subscribed for one-half of the increased capital and Associated

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Oil Company subscribed for the other half. Associated paid for the 20,000 shares it acquired ¥1,000,000 equal at the then rate of exchange to \$209,637.50. The proceeds realized from increasing the capital of the company were used in building the necessary storage facility and in purchasing the amount of crude oil that the company was required to carry in storage. The oil company's business increased rapidly and early in the year 1937 the Mitsubishi Interests desired to enlarge the capacity of the refinery so that it would be able to process about 5,000 barrels of light crude oil daily. Associated hesitated to invest additional money in the enterprise in view of its unrealized loss of approximately ¥1,670,000 or approximately \$467,000 at the then rate of exchange, due to the depreciated value of the Japanese yen. To compensate Associated partly for its apparent loss due to the depreciation of the yen the Mitsubishi Interests contributed to Associated out of their treasury a total of ¥800,000 equal at the then current rate of exchange to about \$231,400 in United States currency, and also caused Mitsubishi Oil Company to declare a dividend on its capital which yielded Associated an additional ¥870,000. Associated finally assented to the proposal and Mitsubishi Oil Company's capital was increased from 140,000 shares to 200,000 shares, or from ¥7,000,000 to ¥10,000,000, and Associated subscribed ¥1,500,000 for 30,000 shares of the increased capital stock. Of course this subscription was paid in yen out of the fund of ¥1,670,000 created as above stated, and no money for this investment was sent from this country.

Associated Oil Company was merged with and into Tide Water Associated Oil Company on November 30, 1936 and as a result of the merger Tide Water Associated Oil Company succeeded to all the rights of Associated Oil Company under and pursuant to the contract of June 8, 1926, as amended, and also to Associated Oil Company's interest and rights in and to the shares of the capital stock of Mitsubishi Oil Company.

Later on the Mitsubishi Interests, owners of one-half of the capital stock of Mitsubishi Oil Company, desired to increase further the light crude oil capacity of the refinery by the addition of a combination crude distillation and cracking unit with a daily rated capacity of 3,000 to 4,000 barrels of light crude oil. Rather than again increase the company's capital Tide Water Associated Oil Company insisted that the increased capital be provided in Japan and the Mitsubishi Interests then arranged a bank credit for Mitsubishi Oil Company against which that company borrowed several times, the maximum loan being at one time in excess of ¥10,920,000 upon which interest was paid at the rate of 4-1/2% per annum. When the loan was made it was anticipated that it would be refunded by the issuance and sale in Japan of long-term debentures or other securities, but the Japanese-Chinese war prevented the accomplishment of this plan. Therefore, about several months ago it was decided to liquidate the bank loan by increasing the company's capital from ¥10,000,000 to ¥20,000,000 and the issuance and sale

OIL AND GAS JOURNAL
INTERNATIONAL NUMBER
DECEMBER 28, 1939

JAPAN						
Aikoku Oil Co., Kawasaki, Kanagawa	Kawasaki	2,000	S-C	1,000	None	Op.
Asahi Sekiyu Kabushiki Kaisha (Asahi Petroleum Co., Ltd.), No. 6 Itchome, Marunouchi, Kojimachi-Ku, Tokyo	Tokyo	500	S	None	None	Op.
Asahi Sekiyu Kabushiki Kaisha (Asahi Petroleum Co., Ltd.), No. 6 Itchome, Marunouchi, Kojimachi-Ku, Tokyo	Hikoshima, Jamaguchi	500	S	None	None	Op.
Hayama Oil Co., Sekiya, Niigata	Kawasaki	2,000	S-C	1,000	None	Op.
Imperial Japanese Navy	Kudamatsu	3,000	S-C	1,500	None	Op.
Chosen Sekiyu Kaisha, Genzan, Korea	Genzan	5,000	Comp.	1,250	Cross	Op.
Mitsubishi Oil Co., Ltd., Yaesu Building, Marunouchi, Tokyo	Kawasaki	5,000	S-C	4,000	Cross	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Amagasaki	4,000	S-C	1,500	None	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Kashiwazaki, Niigata	2,800	S	None	None	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Niigata	2,800	S-C	1,000	Cross	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Akita	4,000	S	None	None	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Tsurumi, Kanagawa	8,000	Comp.	1,000	Dubba	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Kudamatsu, Ya'aguchi	4,000	Comp.	1,000	Cross	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Karukawa, Hokkaido	300	S	None	None	Op.
Nippon Oil Co., Ltd., Yuraku-Kan, Marunouchi, Tokyo	Byoritsu, Taiwan	200	S	None	None	Op.
Ogura Oil Co., Ltd., Kobunacho, Nihonbashi-ku, Tokyo	Ysurumi, Kanagawa	7,000	S-C	1,000	Cross	Op.
Ogura Oil Co., Ltd., Kobunacho, Nihonbashi-ku, Tokyo	Tokyo-Oshima	3,500	S-C	2,000	Jenkins-Cross	Op.
Total Japan		32,600		18,250		

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at par of 200,000 additional shares of capital stock. Tide Water Associated Oil Company decided that at the present time it would not increase its investment in the venture and proposed, which proposal was accepted, that the Mitsubishi Interests subscribe and pay par for the additional 200,000 shares, reserving, however, to Tide Water Associated Oil Company the right and privilege of purchasing from Mitsubishi Interests at par without interest, at any time prior to January 1, 1948, 100,000, or one-half, of the additional shares, with the understanding that during the interim Mitsubishi Oil Company would continue to operate as in the past and that the Mitsubishi Interests and Tide Water Associated would continue to have equal representation on the Board of Directors so that no corporate act could be taken over the objection of any Director. Although the proposal was tentatively accepted and a formal agreement prepared the agreement has not, as yet, been executed.

Tide Water Associated Oil Company's investment in Mitsubishi Oil Company as of June 30, 1940, based on the then rate of exchange, including the ¥1,500,000 provided as above, was \$1,409,818, and that sum is in excess of the book value of the investment. The total earnings of Mitsubishi Oil Company since its organization and up to and including March 31, 1940, are ¥6,662,818.93. Since Mitsubishi Oil Company started operations in the early part of 1932 up to and including August 2, 1940, this Company has received in American currency as dividends on the shares of the capital stock of Mitsubishi Oil Company owned by it, the sum of \$521,363.67. The last dividend was declared on July 26, 1940 of which Tide Water Associated Oil Company's share was ¥150,000. Three permits were issued by the Japanese authorities for the transfer of this dividend to this Company in America, in three equal installments, one-third in August, one-third in September and one-third in October. The August transfer was completed and the amount of the dividend in United States currency was paid in this country on the second day of August. The September installment has also been paid.

The present refinery of Mitsubishi Oil Company includes combination units for commercial distillation and cracking of about 8,000 barrels per day of light crude. In addition, it has a lubricating oil unit capable of processing daily 1,000 barrels of heavy crude. At the conference I stated that I had been told that all refineries operating in Japan could process in excess of 60,000 barrels of light crude oil per day. Annexed hereto is a photostat of a schedule taken from the Oil and Gas Journal, International Number, dated December 28, 1939, which indicates my guess was low by approximately 8,850 barrels. It appears from the photostat copy of the schedule that the refineries then operating in Japan could process more than 68,850 barrels of light crude oil daily while Mitsubishi Oil Company's refinery is limited to a capacity of 8,000 barrels. There are at least two refineries in Japan that are larger than the Mitsubishi Oil Company's refinery.

Honorable Henry Morgenthau, Jr.

September 11, 1940

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One has a daily capacity of 28,286 barrels and another 13,500 barrels. Tide Water Associated Oil Company and its predecessor, Associated Oil Company, have sold to Mitsubishi Oil Company from the date it started operations to and including June 30, 1940, approximately nine million barrels of crude oil of which 8,778,178 barrels were of Kettleman and Belridge crude. I am informed that none of the Kettleman or Belridge crude was used for the manufacture of aviation gasoline, and I am also told that neither of these crudes is suitable for the manufacture of aviation gasoline in commercial quantities. In addition to the above nine million barrels of crude oil, the Company also sold during the last few years 492,174 barrels of blended crude oil and 934,031 barrels of Midway crude oil. It has also sold to Mitsubishi Oil Company approximately 146,213 barrels of ordinary motor gasoline. Neither this Company nor its predecessor, Associated Oil Company, ever sold any aviation gasoline to the Mitsubishi Oil Company.

Mitsubishi Oil Company, under a license granted by the Universal Oil Products Company, recently completed an iso-octane plant. The plant, I am informed, has not been able to produce at more than one-half of its rated capacity. It was built by local Japanese construction engineers and was not designed by this Company's engineers, nor did any of this Company's representatives superintend its construction. The original refinery, completed in 1931, was constructed under the supervision of engineers of Associated Oil Company. However, at this time Tide Water Associated Oil Company has no engineers in Japan nor are any of its representatives supervising the refinery operation. It has a sales representative in Tokyo, Japan.

Since our meeting I have learned that the Mitsubishi Interests desire to expend \$800,000 for constructing a hydrogenation plant in connection with the iso-octane unit for the purpose of increasing the production of the iso-octane plant. According to our information the plant will be designed in Japan and will be built by Japanese engineers. It will be entirely financed in Japan.

On the adjournment of the meeting of August 8th you requested me to arrange for Mr. Hyde, in charge of the Research Department of the Western Division of this Company, to meet with Dr. White. I attended a meeting between these gentlemen and I believe that Mr. Hyde furnished Dr. White with all the information he then desired.

You will recall that I stated I had never been in Japan and could not even approximate the quantity of crude oil or gasoline in storage in that country. However, on the assumption that the quantity in storage at the Mitsubishi Oil Company bears the same relationship to the total storage in the Empire as Mitsubishi Oil

Honorable Henry Morgenthau, Jr.

September 11, 1940

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Company sales bear to the total sales of the Empire, my associates estimate that there would be approximately twenty million barrels of all kinds of petroleum and its products in storage, as Mitsubishi Oil Company, as this Company's representatives estimated, had in storage about the date of the meeting approximately 700,000 barrels of all kinds of crude oil and products.

Tide Water Associated Oil Company shipped to Mitsubishi Oil Company heavy Coalinga oil but that oil could not be, and we understand was not, used for the manufacture of aviation lubricants of the desired specifications.

While this Company's relationship with the Mitsubishi Interests has been pleasant and these interests, in all dealings, have been extremely fair and equitable, may I say in closing as I said at the conference, Tide Water Associated Oil Company always has had the policy that the public good and public safety are paramount to all personal, business or other relationships and that it and its officers desire at all times to cooperate with the United States Government in all actions in the public interest, and if there is any further information which you may desire on the subject of the conference, I shall be glad to have you advise me.

Respectfully,

William F. Humphrey

September 18, 1940

File

Mr. Cochran

At 11:00 this morning I reminded Mr. Fable that no action had yet been taken by the Foreign Funds Control on the application set forth in its cablegram No. 108 of September 6 by the Bank of France for the transfer of a certain amount of gold from the Bank of France to the Swiss National Bank. I asked that this transaction be expedited, since it merely completed a transaction which had been previously approved by our Group.

At the same time I asked that early consideration be given to a telegraphic application from the Bank for International Settlements made on September 12 for a license to sell a certain amount of gold held in the United States.



EMC:lap-9/18/40

September 18, 1940
4:30 p.m.

Paul
Appleby: Hello, Mr. Secretary.

H.M.Jr: Hello.

A: Paul Appleby.

H.M.Jr: How-do-you-do.

A: I'm calling on a rather peculiar mission.
Ed Flynn gave me an assignment that's outside
my usual field. He is wanting to designate
as campaign manager in the State of Washington
.....

H.M.Jr: State of what?

A: In the State of Washington, Saul Haas. Now,
I suspect that behind that are suggestions
that went to the President from Judge Rosenman
who had been out there, John Boettiger and
probably Justice Douglas and he asked me,
because he was talking to me about this and
other matters on the phone this morning, if
I would request in his behalf that you call
Saul in here to talk over business and give
him an opportunity to talk to the President
about the campaign in Washington.

H.M.Jr: Well, now, Appleby, do you mind if I switch
you over to Gaston?

A: No, not a bit.

H.M.Jr: Because he's been talking to Senator Bone
about Saul Haas and he knows all about it and
I don't, and there's some mix-up on this whole
business of Saul Haas and Senator Bone. Hello?

A: Yes.

H.M.Jr: So if you don't mind, let me switch you over to
Gaston, and Gaston is up on this and I'm not.

A: All right.

H.M.Jr: Just a moment

TRIPLICATE

No. 1265

Buenos Aires, September 17, 1940.

POSSIBLE NEW PAYMENTS AGREEMENT WITH
GREAT BRITAIN INVOLVING REPATRIATION OF
PUBLIC STERLING BONDS

The Honorable

The Secretary of State,
Washington.

Sir:

22306

With reference to the Embassy's despatch no. 1256 of September 13, 1940 regarding the possible conclusion of a new payments agreement between Argentina and Great Britain, involving the repatriation of Argentine sterling bonds, I have the honor to report that the Ministers of Agriculture and Finance informed the Argentine press last night that the proposed £40,000,000 deal is still "under study".

Dr. Ocantos Acosta, the head of the Interministerial Committee which is charged with the negotiations, would

throw

- 2 -

throw no further light on the situation. However, Noticias Gráficas stated that it was in a position to affirm that the British proposal had been accepted and that Argentina's answer would be given during the course of the current week.

The paper went on to say that owing to the reserve of the authorities it is not yet known officially what are the real content and conditions of the British proposal. However, it claims that the British proposal contemplates the purchase of meat, livestock by-products and various cereals of which the British market is a habitual consumer. The paper adds that the British Government has proposed that payment be made in three ways: (a) in goods, (b) in discounting the debt service which Argentina periodically pays in London, and (c) in Argentine bonds. The paper continued as follows:

"The operation, according to a high official who was actively involved in the preparation of the Argentine answer outlining conditions, has its difficulties. Discounting the debt services, (the only figure known), it was necessary to establish the amount of goods to be acquired as part payment, and the sum in bonds that would be accepted by our Government. British goods, although they find a ready market here and the need is felt for some of them which are out of stock, present the disadvantage of price increases through the war and shipping risks. It was necessary to establish the actual stock. This is proceeding now.

On the amount of British merchandise in the country will depend the balance to be met by internal debt bonds, which will land entirely in the hand of British exporters, presenting the problem of their redemption. These amounts, our semi-official informant added, will be determined at any moment, and the answer in London will be given by our Embassy there at the latest this week."

Reverting to the excerpt from the La Prensa editorial, which was quoted in the penultimate paragraph of the Embassy's despatch under reference, it is noted that the suggestion

that

- 3 -

that the United States extend financial assistance in this matter is reminiscent of the Wilcox plan

It is known that Mr. Wilcox discussed his ideas in great detail with Dr. Federico Pinedo, the present Minister of Finance; and it is therefore not inconceivable that the Argentine Government will approach Mr. Pierson with regard to the proposed Anglo-Argentine deal during the course of his conversations in Buenos Aires. 7

Respectfully yours,

S. Pinkney Tuck
Chargé d'Affaires a.i.

CMR:jk
851
Qn.

A true copy of
the signed original.
JR.

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

1940 OCT 8 AM 2 13

THEYENBYA DEPARTMENT
RECEIVED

NOT FOR PUBLICATION

THE SECRETARY OF THE NAVY
WASHINGTON

CONFIDENTIAL

17 September 1940.

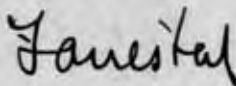
(SC)L11- 4/JJ46.

My dear Mr. Secretary:

Reference is made to your letter dated September 11, 1940 enclosing a proposed memorandum to the President and a proposed Proclamation extending the classes of iron and steel scrap to be subject to export license.

The Department has no objection to the extension of license control to the other grades and classifications of iron and steel scrap. However, as it is understood that the Administrator of Export Control is now preparing new regulations that will include these categories of iron and steel scrap to the Proclamation of July 26, 1940, it is recommended that this matter be referred to the Administrator.

Sincerely yours,



James Forrester,
Acting Secretary of the Navy.

The Honorable,
The Secretary of the Treasury.

September 17, 1940

Professor Chamberlain

Mr. Cochrane

At 10:00 yesterday forenoon the Swiss Minister telephoned me. He stated that he had instructions from his Government to visit the State Department again for the purpose of making new representations in regard to the failure of the Treasury Department to approve the transfer of certain funds from the Bank of France to the Bank of Switzerland account with the Federal Reserve Bank at New York, covering services on French Government loans floated in Switzerland. I asked the Minister to refrain from making any representations yesterday, explaining to him that I thought an early decision in the premises would be reached. I promised to telephone him later in the afternoon.

At the Group session yesterday afternoon the two applications in question were approved and a telegraphic authorization to the Federal Reserve Bank at New York was initiated. After returning from the meeting, I endeavored to reach the Swiss Minister by telephone, but was not successful.

At 9:45 this morning I informed the Swiss Minister by telephone that telegraphic authorization had been sent to the Federal Reserve Bank at New York last night approving the transfer of \$144,545 from the account of the Bank of France to the account of the Swiss National Bank, to provide cover for the coupons due August 1 on the French 4 1/2% loan of 1939, and also the sum of \$407,744.68 to be similarly transferred to provide cover for the coupons maturing on September 1 of 4-1/2%, 1937 French loan. The Minister was very appreciative of the action which we had taken.

In talking with the Swiss Minister I told him specifically that these two transfers had been approved exceptionally, and that they should not be considered to constitute a precedent. That is, if the question of meeting coupons on such loans five or six months from now arises, the question will have to be gone into anew, and our decision may do not bind us to take this same action subsequently. The Minister stated that he understood this perfectly.



EH

GRAY

Berlin

Dated September 17, 1940

Rec'd 4:40 p.m.

Secretary of State,
Washington.

4036, September 17, 5 p.m.

(SECTION ONE)

My telegram No. 4028, September 17, 10 a.m.

The publication of the laws and decrees concerning the incorporation of the Protectorate of Bohemia and Moravia into the customs territory of the Reich is expected in the course of the next few days.

An authoritative statement published yesterday in the Prague press points out that through the abolition of customs barriers between the Protectorate and the Reich, the industry of Bohemia and Moravia will obtain free access to the German market but in order to safeguard it against the danger of competition from the Reich, agreements have been concluded between certain industries of the Protectorate and the Reich for the protection of the respective territories against mutual competition. The statement stresses that the war of economic regime which has subjected many essential commodities to stringent control has facilitated the

the

EH -2- 4036, September 17, 5 p.m. (SECTION ONE) from Berlin.

the abolition of the customs frontier.

In relation to foreign countries, the Protectorate will become part of the Reich's customs territory and German tariff laws regulations and agreements will apply to the Protectorate as well the neighbor states. Agreements have been concluded with some foreign countries which safeguard the special interests of the Protectorate after its inclusion in the Reich's customs territory.

(END OF SECTION ONE)

KIRK

LMS

EH

GRAY

Berlin

Dated September 17, 1940

Rec'd 5:20 p.m.

Secretary of State,
Washington.

4036, September 17, 5 p.m. (SECTION TWO)

It is reported that in some cases where the impossibilities of the Reich's customs tariff are considerably higher than the rates of the Protectorate, lower duties will be levied for imports to the Protectorate for a transition period in order to facilitate the adjustment of the Protectorate's industry to the new condition.

After the abolition of the customs frontier, payments between the Reich and the Protectorate will be free in principle, according to the statement published in the PRAGHOLLAM PRESSE. It is also reported that the Czech crown will remain local currency at the present rate of reichsmark but that the quotations of foreign currencies in terms of crowns will be adjusted to this ratio. It is stated that exporters in the Protectorate will receive compensation for exchange losses resulting from this change but only on condition that they collect their foreign balances within the shortest possible time.

At

EH -2- 4036, September 17, 5 p.m. (SECTION TWO) from Berlin.

At present the dollar is quoted in Prague at 29.25 Czech while on the basis of the existing rate between the dollar and the reichmark (2.50 marks to the dollar) the Czech exporter would only obtain 25 crowns per dollar and would, therefore, suffer a loss of about 14% on the rate of exchange. After the realization of the tariff union and the readjustment of the foreign exchange rates in Prague, the exporter will apparently obtain compensation for this exchange loss.

Turnover and consumption taxes in the Protectorate are to be fixed at rates identical with those prevailing in the Reich.

The police border on the other hand is to be retained and special permits will still be necessary for travel in and out of the Protectorate.

(END OF MESSAGE)

KIRK

LMS

G-2/2657-220

RESTRICTED

M.I.D., W.D.
September 17, 1940.
12:00 M.

No. 196

SITUATION REPORT

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

- 1. No ground operations.
- 2. Air Force Operations.

Bad weather with extensive cloud cover prevailed. There was slight German activity over England in the forenoon, but this was greatly intensified during the afternoon and night. Operations were limited to single planes and to small formations. The London area was steadily bombed, with considerable damage inflicted in the West End and in the suburbs. The Germans continued to attack London docks and port facilities. Attacks were also made in the Midlands. Liverpool was attacked during the night. Losses to both sides in aircraft apparently were small.

Attacks on the London area are continuing today.

The British communique did not mention their own offensive operations.

II. Mediterranean and African Theaters of War.

- 1. The Italian advance into Egypt has reached the vicinity of Buqbuq, some thirty miles inside the frontier. The British are reported to have organized a delaying position in this vicinity.
- 2. The Italian Air Force is bombing the British rear areas in northern Egypt and the R.A.F. is harassing the Italian advance on Buqbuq.

RESTRICTED

DEPARTMENT OF STATE
Washington

In reply refer to
EA 840.51 Frozen Credits/573

September 17, 1940

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses a copy and translation of a note from the Brazilian Embassy in the United States requesting the release of funds on deposit in the National City Bank of New York for payment of the expenses of the Embassy of Brazil at Brussels.

Enclosure:

From the Brazilian Embassy,
with translation,
September 12, 1940.

COPY

imc

EMBAIXADA DOS ESTADOS UNIDOS DO BRASIL

Washington, em 12 de Setembro de 1940.

nº 185/7(82).(46)

Senhor Secretario de Estado,

Tenho a honra de levar ao conhecimento de Vossa Excelencia de que a Secretaria de Estado das Relacoes Exteriores acaba de me informar ter sido bloqueada pelo Governo americano, no "National City Bank of New York", a quantia de dolars \$2.668,32, destinada as despesas de pessoal e material da Embaixada do Brasil em Bruxelas.

2. Rogo a Vossa Excelencia o obsequio, que de antemao agradeço, de providenciar junto as autoridades competentes para desbloquear a referida quantia e autorisar o "National City Bank of New York" a transferi-la para o Reichsbank, em Berlin.

Aproveito a oportunidade para renovar a Vossa Excelencia os protestos da minha mais alta consideracao.

(a) Carlos Martins Pereira e Sousa

A Sua Excelencia o Senhor Cordell Hull,
Secretario de Estado dos Estados Unidos da America.

U.S.

(TRANSLATION)

EMBASSY OF THE UNITED STATES OF BRAZIL

Washington, September 12, 1940.

No. 185/7(82).(46)

Mr. Secretary of State:

I have the honor to advise Your Excellency that the Secretary of State for Foreign Affairs has just informed me that the sum of \$2,668.32, intended for the personal and material expenses of the Embassy of Brazil at Brussels, has been blocked by the American Government in the National City Bank of New York.

I request of Your Excellency the kindness, for which I thank you in advance, of taking steps with the competent authorities to unblock the sum mentioned and to authorize the National City Bank of New York to transfer it to the Reichsbank, in Berlin.

I take the occasion to renew (etc.)

CARLOS MARTINS FERREIRA E SOUSA

His Excellency Cordell Hull,
Secretary of State of the
United States of America.

E. K. S.

Tr:AVA:HSF:SS

RDS

GRAY

(PARIS)
VICHY

Dated September 17, 1940

Rec'd 7 p.m.

Secretary of State,
Washington.

481, September 17, 5 p.m.

FOR THE TREASURY FROM MATTHEWS.

My telegram No. 233, August 2, 5 p.m.

The German Office of Bank Supervision has begun to exercise a stricter control over all so-called foreign banks in Paris with the exception of the four American banks. In the Ottoman Bank, for instance, an official of the German Office of Bank Supervision has been placed and has given instructions that no transaction of any sort involving over 200,000 francs shall be negotiated without his approval. The so-called foreign banks (many of which have of course substantial French interests in them) have been requested to furnish full general reports concerning the nature of their business, their principal clientele, et cetera, to be supplemented by weekly reports of transactions.

The Banking syndicate has transmitted a circular letter stating that correspondence from banks in unoccupied
France

-2- #481, September 17, 5 p.m., from (Paris) Vichy.

France to their respective offices at Paris may be transmitted under certain conditions and with no guarantee of prompt delivery. Such letters must be "of an unquestionable importance and must concern exclusively economic questions"; they must be brief and "submitted to examination of the banking syndicate and of the Ministry of Finance as well as of the French and German censors." (The banks hope, however, that they may continue to transmit some mail by bank officials still permitted--with increasing difficulties--to make occasional trips between occupied and unoccupied France).

MATTHEWS

EMB

TELEGRAM SENT

EM

GRAY

September 17, 1940

6 p.m.

AMEMBASSY

VICHY

485

FROM THE TREASURY FOR MATTHEWS.

Reference your 549, September 12, 6 p.m.

Please communicate the following to Barrett from Lores:

QUOTE. General program outlined in accord with our
ideas END QUOTE.

HULL
(HF)

EA:HR:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 5:15 yesterday afternoon, Mr. Pinsent, Financial Counselor of the British Embassy, telephoned me that his Embassy had received a complaint from a representative in this country of a Scottish tweed company. The company in question had telegraphed its representative to turn in to the Bank of America all of his English bank notes. The representative had gone to the Wiltshire Chateau Branch of the Bank of America in Los Angeles to turn in his sterling bank notes, but the bank would not accept this currency, disclaiming any knowledge of the circumstances requiring residents of the United States to submit their sterling currency for return to Great Britain within a specified time. The representative had then written the British Embassy, which had given him full information in the premises, but it was then too late for the matter to be straightened out prior to the termination of the few days of grace for turning in British currency.

Mr. Pinsent states that this representative is now complaining about the branch of the Bank of America failing to accept British currency. Pinsent is uncertain as to what to do and inquired of me as to whether the Bank of America was at fault in not giving its branches full information on the subject. In answer to my inquiry, Pinsent stated that he had not yet taken this matter up with his own exchange authorities.

In talking with Mr. Knoke by telephone this morning I mentioned this matter. He confirmed my understanding that the Federal Reserve Bank of New York had communicated the Bank of England instructions to the eleven other Federal Reserve Banks which presumably would pass this information on to the other banks. Knoke insisted, however, that no American bank was obliged to accept British currency, even if it was familiar with the British regulations. As a matter of fact, American postal regulations under the Neutrality Act make it practically impossible for American banks to forward British currency turned in under the British regulations to London for redemption. As a consequence, foreign banks in the United States have been handling this business, and even the Canadian branches were reluctant to participate therein, so that one or two of the British banks, particularly Barclay's, did most of the business. Mr. Knoke felt, therefore, that there was no blame on the part of the American bank, and this was purely a matter for the British to settle. He predicted that there would be a number of cases of this type.

I gave the foregoing information to Mr. Pinsent this morning.



PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Berlin, Germany

DATE: September 17, 1940, 4 p.m.

NO.: 2502

You are requested to prepare a report on arrangements of an economic and financial nature which have developed between the institutions of those countries which German forces now occupy - with the exception of France, Luxembourg and Czechoslovakia - and the regimes which the occupying forces have established.

This report should include the following:

- (1) Developments in monetary and banking fields.
- (2) Price control, and production of commodities and the distribution of commodities.
- (3) An account of such relationships of a trade and payments nature as have been developed with other countries and with Germany, including tripartite arrangements or arrangements for multilateral payments or clearing arrangements.
- (4) Any other developments considered pertinent by the Embassy.

The Department suggests that you make up your report by countries rather than by subjects, and that you base it on such material as is already available to you, together with any information which offices in occupied countries can furnish.

The Department suggests further that you telegraph a
summary

- 2 -

summary of your report, and that you mail the complete report.

HULL
(AAB)

EA:GL:EHS:VCL

COPY

aja

September 17, 1940

Assistant Secretary Gaston

Mr. Cochran

STRICTLY CONFIDENTIAL

After talking with Mr. Gaston at 9:30 this morning I telephoned Mr. Stone in the office of the Secretary of State, with reference to the cablegram addressed to Miss Belle Baruch by Customs Attache Butler in France.

I told Mr. Stone that on Saturday morning Mr. Baruch had telephoned the Treasury directly, asking for the Commissioner of Customs. In Commissioner Johnson's absence, Assistant Commissioner Dew had talked with Mr. Baruch. The latter indicated his interest in the Butler case. Mr. Dew explained the situation, pointing out the embarrassment which Mr. Butler had caused the Treasury Department. Mr. Baruch had been under the impression that the Treasury Department was discharging Mr. Butler. When informed this was not the case, Baruch inquired whether the matter could not be straightened out by Butler discharging his Chinese servant. Dew replied that this was the request that the Treasury had made and with which he understood Butler was complying. Baruch seemed satisfied with this explanation, but said he would be in Washington within the next ten days and would like to talk the matter over with Messrs. Johnson and Dew. I told Mr. Stone further that the Customs people would like to keep the correspondence which Mr. Stone had referred to us until such time as Mr. Baruch visits the Treasury Department. Mr. Stone agreed to this, stating that Mr. Hull had already spoken with Mr. Baruch by telephone and had told the latter that the matter had been referred to the Treasury.

JMM

EMC:1sp-9/17/40

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11:45 yesterday forenoon Mr. Leon Fraser, President of the First National Bank of New York, telephoned me to the effect that there were rumors current in New York, and that the New York Sun of yesterday evening would carry the story, to the effect that a New York banking syndicate was to issue a loan of two billion dollars to Canada. The Canadian Government would give its guarantee to the banks and would pledge as collateral securities which it has taken over, in the full amount of the loan plus a ten percent margin of safety. Fraser had been asked whether the First National would participate in this transaction if the Attorney General of the United States said that it was permissible.

I told Mr. Fraser that the Treasury knew absolutely nothing of any such contemplated loan. I reminded him of reports of a somewhat similar nature, with respect to prospective loans by Great Britain and France, which had circulated in the past. I thanked Mr. Fraser, however, for his thoughtfulness in telephoning me the above information.

When with the Secretary at a conference yesterday afternoon at 3:15, I gave him the above information. He, in turn, asked me to communicate it to Mr. Schwarz, which I did at 3:30 p.m. At 5:30 yesterday evening Mr. Schwarz telephoned to tell me that the information had been quite useful, since the local representative of the New York Sun had just telephoned him, presumably on instructions from New York, with respect to this story.



TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION

DATE September 17, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

CONFIDENTIAL

The six reporting banks executed the following transactions in registered sterling:

Sold to commercial concerns	£202,000
Purchased from commercial concerns	-0-

Of the sterling sold, £152,000 was disposed of by the Guaranty Trust Company to Louis Dreyfus & Company, New York. It was reported that some time ago this firm's Buenos Aires office sold the above amount of sterling for the account of Louis Dreyfus & Company, Paris. Due to lack of communication with their Paris office, the New York office is stepping in to cover this transaction on behalf of Paris.

The Federal Reserve Bank sold £11,000 in registered sterling to two non-reporting banks.

In the open market, sterling was first quoted at 4.03-3/4. Although the rate advanced to 4.04 in mid-morning, it subsequently returned to 4.03-3/4, where it closed. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£14,000
Purchased from commercial concerns	£ 3,000

The Cuban peso discount narrowed to 8% today, the best rate that has been quoted for some time. The current strength in that currency has been attributed to short covering and speculative buying in anticipation of the granting of an Export-Import Bank credit to the Cuban Government. It is also believed that a Cuban law enacted yesterday, authorizing a bond issue of 8,664,400 pesos to pay so-called "gold obligations", has had a strengthening influence on the rate. According to press reports, two American firms are among the principal beneficiaries of the bond issue.

The other currencies closed as follows:

Swiss franc	.2279
Canadian dollar	17% discount
Swedish krona	.2385
Lira	.0505
Reichsmark	.3997
Mexican peso	.1996 bid, .2016 offered

CONFIDENTIAL

- 2 -

There were no gold transactions consummated by us today.

The Federal Reserve Bank of New York reported that the Bank of Canada shipped \$2,998,000 from Canada to the Federal for its own account, for sale to the U. S. Assay Office at New York.

The Bombay gold price was equivalent to \$33.82, off 15¢. Silver was equivalent to 44.42¢, off 3/8¢.

In London, the price fixed for spot silver was 1/8d higher at 23-1/2d. The forward quotation advanced 1/16d to 23-3/8d. The dollar equivalents were 42.67¢ and 42.44¢ respectively.

Handy 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 two purchases of silver totaling 100,000 ounces under the Silver Purchase Act, both of which consisted of new production from foreign countries, for forward delivery.



CONFIDENTIAL

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Paraphrase of Code Cablegram Received at the
War Department 12:04 p.m., Sept. 17, 1940

London, Filed 17:11, September 17, 1940

Unfavorable weather caused the Royal Air Force to cancel the bombing operations scheduled for the night of September 16-17.

One large scale German raid consisting of about 350 bombers passed over the Coast during daylight hours of the 16th but did not reach London. The enemy reconnoitered the whole coast line throughout the day.

The bombing during the night of the 16th-17th was more intense than during recent nights. Attacks based on France made before midnight hit London, Liverpool, the Midlands and Wales. Those after midnight concentrated on London and the southeast coast. Many of these bombers were from the Low Countries. "All clear" was announced at 2:40 a.m., but another attack from France lasted from 3:30 to 5:40 a.m.

Minor damages only and few casualties resulted from the daylight raids. The night attacks started several large fires and damaged many buildings, both in the city and in the West End. Some communications were interrupted but no vital targets were hit. Attacks were made on nine factories or airfields, but the only results were that one factory was temporarily shut down because of an unexploded delay bomb and one airfield was put out of commission temporarily.

German plane losses were two destroyed and one damaged. The British lost one plane but the pilot escaped. Civilian casualties were 130 killed and 400 injured.

CONFIDENTIAL

CONFIDENTIAL

Three merchant vessels totalling 11,900 tons were lost.

The morale of the civilian population remains high.

The westward movement of German shipping continues. Large numbers of barges remain in the ports of the Low Countries.

LEE

Copies to: General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

CONFIDENTIAL

THE UNDER SECRETARY OF THE NAVY
WASHINGTON

September 18, 1940

My dear Mr. Secretary:

I have the honor to transmit a memorandum prepared for me by Admiral Towers with reference to the schedule of production of the Navy PB5 patrol planes which was discussed at Cabinet on the 13th.

With kind personal regards, I am

Sincerely yours,



The Honorable
The Secretary of Treasury
Washington, D.C.

Refer to initials
and No.

NAVY DEPARTMENT
BUREAU OF AERONAUTICS
WASHINGTON

14 September 1940

MEMORANDUM

To : Acting Secretary Forrestal.

SUBJECT: Proposed adjustment of deliveries of British and U.S. Navy PB5 patrol planes.

In accordance with your instructions a study has been made of schedules of deliveries of subject type of aircraft, and a schedule which would equalize deliveries of first fifty-five on each order has been worked out and is recommended for your approval. Latest revised schedules and proposed new schedules are set forth below. These have been checked today by our inspector and a representative of the manufacturer and are believed to be reasonably accurate.

	<u>U. S. NAVY</u>		<u>BRITISH</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Sept. 1940	1	1		
Oct.				
Nov.	6	3	1	4
Dec.	7	6	4	5
Jan. 1941	10	9	9	10
Feb.	12	12	10	12
Mar.	12	12	12	12
April	12	12	13	12

I consider it most important both to British and ourselves that we keep the first plane to work out the minor troubles by flight tests in vicinity of factory in order that necessary changes in subsequent planes become known and are made promptly.

J. H. Towers

Since the above was written I have learned that the U.S.-Canadian Joint Defense Board is recommending that six PB5 planes be made available to the Canadians by early Spring. They have some 100 on order but their deliveries probably will not begin until late Autumn 1941. Board recommendations could be met by taking 1 U.S. and 1 British plane per month in January, February and March.

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*Hand demands
about this -
file.
P.Y.*

September 18, 1940.

To: The Secretary

From: Mr. Young

Subject: Allocation of Aircraft Engines

A few days ago The Advisory Commission requested the British to release 120 Curtiss-Wright #1820 engines for use by the U. S. Air Corps.

Yesterday morning George Mead called me to arrange a meeting between the Defense Commission, the Advisory Commission, the Air Corps, the Navy Bureau of Aeronautics and the British for the purpose of talking about this requested release, and allocating engine deliveries between the Army, Navy and British up to April 1942. This meeting was held at the Advisory Commission yesterday afternoon at 3 o'clock. Prior to that meeting, Mr. Fairey called upon me to ask my advice.

You will recall that in July at a meeting in Mr. Knudsen's office, a policy was established whereby, regardless of ownership of either frames or engines, any waiting air-frame should get any surplus engine, thus no engines would be taken either by the U.S. or the British and stored as surplus. Where there was more than one waiting frame for one engine an allocation would be made at the time between the interested parties.

In my discussion with Mr. Fairey, the latter pointed out that while the British have no surplus of Wright 1820's it did have an immediate surplus of Pratt and Whitney 1830's, which is a comparable type.

Of this surplus of about 400 engines, 50 percent or 200 were needed in England for British air-frames, leaving a balance in this country of 200, from which it might be possible to release 120 to the Air Corps. This release, however, could not be made without Beaver Brook's permission.

- 2 -

Mr. Fairey pointed out further that if possible he would like to ship all the surplus engines to England due to the need for an immediate reserve for an additional number of spare engines because of the current War conditions. Mr. Fairey asked me what he should do.

After thoroughly discussing the situation, I suggested the British not only refuse to even consider the release of any engines, but also ask The Advisory Commission and the Air Corps to release an additional number of theirs as soon as possible in order to build a spare engine reserve in England.

This request would be based upon the fact that War conditions have changed materially since July, when the original policy was established, and upon the fact that it was understood in July that policy was always subject to re-consideration by all parties involved.

At the meeting yesterday afternoon were -

George Mead
Captain Kraus
A. J. Lombard
Ted Wright, for the Advisory Commission
General Brett
Major Lyon
Major Powell, for the Air Corps
Captain Webster
Captain Anderson, for the Navy

and

Mr. Fairey
Colonel Cave
Mr. Ballantyne and
Mr. Gray, for the British Purchasing Commission

Mr. Mead attempted to secure from Mr. Fairey a schedule for the allocation of engines over the whole period up to April 1942, but Mr. Fairey responded that because of the uncertainty of British frame and engine production he could only indicate for the next six months as to what British engine requirements would be.

Mr. Fairey adopted my suggestion of asking for additional engines to build up a surplus in England, with the understanding that such a surplus would be almost immediately absorbed by

- 3 -

by British frame production and by the need for reserve engines under existing War conditions.

I would like to say that Mr. Fairey did a beautiful job of presentation and showed all the proper degrees of emotion and enthusiasm at the proper times. The net result of this meeting, which was extremely friendly and cooperative on the part of every one, was that Mead thought the U.S. should not only allow the British to ship all of their surplus engines as soon as possible, but also release an additional 600 Pratt and Whitney 1830's and 600 Wright 2600's in order to let Fairey build up his reserve in England. For this release on the part of the U.S. the British should release some of their Wasp Jr. training engines to the Air Corps.

I understand that this release on the part of the British is quite feasible due to the numbers they have on order. Of course, in this connection, it would be interesting if the British release these training engines and they were then used on a joint basis to train both American and Canadian pilots.

George Mead called me on the telephone this morning to discuss this situation inasmuch as I had left the meeting yesterday before it was over. Mead said that Fairey wanted to get a total of 2200 more combat engines than were allowed to the British over the next six months. Mead considered this possible if some of the training engines could be released by the British. If this excess number desired by the British were projected, however, in the same proportion over the whole period of April 1942, it would create a total maximum shortage for everybody of approximately 22 thousand engines.

There is to be a meeting of the Airplane Standardisation and Delivery Committee on Friday to discuss this phase of the problem. In the meantime, George Mead said that "instead of arguing about it, I am going to go ahead and study the preliminary steps necessary to see how our engine production can be increased during this period".

P.Y.

*HM p. know about
this - file*

PL

September 18, 1940.

To: The Secretary

From: Mr. Young

Subject: Tank Engine Financing.

Yesterday afternoon I spent about an hour with Mr. Schram of the RFC going over the tank engine finance situation. Mr. Schram had not seen either the letter from Judge Patterson or that from Mr. Knudsen certifying that a tank engine production capacity equal to 20 engines per day was necessary in the interest of national defense.

Mr. Schram himself is quite ready to go ahead and have the RFC finance such a plant expansion leaving the British entirely out of the picture. There are evidently three things, however, which are holding it up at the moment.

1. Mr. Schram is not sure as to whether Mr. Jones is in accord with such a financing plan, although Mr. Jones has admitted to Mr. Schram that it is far superior to the Packard deal.
2. Mr. Schram feels that if this financing plan were put in operation and then the excess capacity used by the British, such a move should have the approval of Mr. Jones, Mr. Knudsen, Mr. Stimson and yourself. Further, if these four agreed that it was a practical plan of operation it should only be done with the knowledge and concurrence of the President.
3. Despite the fact that this plant expansion is being financed in the interest of national defense, Mr. Schram would feel easier if he had an opinion from the Attorney General to the effect that the use of the excess capacity by the British would not be a violation of the Johnson Act.

- 2 -

I pointed out to Mr. Schram that he had every tangible evidence as to the feeling of Messrs. Knudsen and Stimson in the two letters which he had received certifying that this additional engine capacity was necessary and Mr. Schram agreed there should be little difficulty in putting such a plan across.

I feel quite certain that if the four persons mentioned above agreed that the British could use such excess capacity, and that if the President did not disprove it, an excellent financing pattern would be established which would be of great benefit to the British.

py.

September 18, 1940
3:45 p.m.

H.M.Jr: Hello.

Operator: Mr. Patterson.

H.M.Jr: Hello.

Robert
Patterson: Yes.

H.M.Jr: Bob Patterson.

P: Right.

H.M.Jr: How are you?

P: Fine, Henry.

H.M.Jr: Look, I have here in my office with me now
Mr. Morgan, president of Sperry Corp.

P: Yes.

H.M.Jr: And you remember Donovan came to Sir Ridgeley
on this bombsight. Here's the story. He has
an order from the Army for 100 bombsights
known as O-1. Then he goes on to a more
improved bombsight later on.

P: Yes.

H.M.Jr: The suggestion that I'd like to make is that
we might try and do something like you worked
out in connection with Curtiss on the P-40's.
He says if he could get a real order from both
the Army and the English he could give you real
production and cut the price - I don't want to
hold him to it - but he's guessing maybe 30 or
40% or more, and get up to 100 a month.

P: Yeah.

H.M.Jr: He says that the other bomb-sight which he's
going to make for you has certain refinements
but it always keeps changing, you see?

- 2 -

P: I know.

H.M.Jr: And I was thinking of the possibilities of a joint order. Then he can really go to work and give you some and what the hell you're going to do with only 100 bomb-sights I don't know. They don't know why you're not asking for many more.

P: I don't either.

H.M.Jr: So I think here's a chance for you to do a job the way we did up in Buffalo and giving him a good order and letting him stay on this so-called old one until the bugs are out of the other one.

P: I agree.

H.M.Jr: Now, he's leaving my office to go over

P: Will you send him over here?

H.M.Jr: Well, he's going at 4:30 to the Council of Defense with that - 4:30. I don't know how late you work.

P: I'll be here until 6 or 7.

H.M.Jr: Well, could he - at 5:30?

P: Oh, fine.

H.M.Jr: I'll ask him. (Talks aside) He'll be there at 5:30 and he has with him his vice president in charge of production.

P: Right. I'll be very glad to see them about it.

H.M.Jr: And he'll tell you - you know Donovan is the fellow that got me started on this.

P: Yeah.

H.M.Jr: He'll tell you - all these changes all the time he can't get any production and can't give you a decent price.

- 3 -

P: I know. Same old game.

H.M.Jr: And also the point which is important is that he's delivered 400 anti-aircraft to the Directive which he says are much more complicated, and the Army released that.

P: Yeah.

H.M.Jr: And inasmuch as he's got something better coming along, I don't see why the Army couldn't release this to the English.

P: Yeah.

H.M.Jr: So if you would see him at 5:30 I think it would be for general good.

P: Very glad to.

H.M.Jr: Thank you so much.

P: Thank you. I want to see you. Could I see you tomorrow?

H.M.Jr: Sure.

P: On something I think is of fair importance.

H.M.Jr: Sure. When?

P: Any time you say. 10 o'clock?

H.M.Jr: Well, I'm going to see the President at 9:30 and I've got press at 10:30.

P: 11 o'clock.

H.M.Jr: 11 o'clock would be perfect.

P: I'll come over.

H.M.Jr: 11 o'clock would be perfect.

P: Thank you.

H.M.Jr: Thank you.

Hsic.

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BRITISH EMBASSY,
WASHINGTON, D.C.

18th September 1940.

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. Austin

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

Telegram from London dated 17th September 1940

Royal Air Force.

During the night of September 15th/16th extensive damage was done by our aircraft to docks, shipping and barges at Boulogne, Dunkirk, Calais, Ostend, Antwerp and Havre. Many direct hits also obtained on marshalling yards in North West Germany and at Brussels. Hamburg ship-building yards, Berlin west power station, gun emplacements at Cap Gris Nez, naval docks at Wilhelmshaven and shipping at Terschelling were all successfully attacked. Direct hit on enemy cruiser claimed at Terschelling. Yesterday Blenheim aircraft carried out offensive reconnaissances over French, Belgian and Dutch coasts and dropped bombs at Calais, Dunkirk, Ostend, Zeebrugge and at Heemstede aerodrome. Coastal command aircraft sank merchant vessel in enemy convoy west of Borkum.

Last night all operations cancelled owing to unfavourable weather conditions rendering bombing of specific targets impossible.

2. German Air Force.

Enemy air activity on the night of

/September

September 15th/16th resulted in further damage to railways in London. All Southern Railways London termini are temporarily closed. All electrical supplies are being maintained. Fires caused at St. Thomas's, Guy's and Lambeth Hospitals. Two factories in London damaged; negligible damage caused to Woolwich Arsenal. One pier-head hulk set on fire in West India Dock. All fires reported under control 0600 hours September 16th. Approximate casualties in London area were 130 killed and 400 injured. Bombs also dropped at Avonmouth, Cardiff, Liverpool and in the Midlands, and in South East England, causing a few casualties but no important damage.

Two raids comprising 180 aircraft crossed the Kentish coast early yesterday, but were turned back before reaching London. During most of the remainder of the day enemy activity was confined to single aircraft operating mainly in Thames and Thames Estuary areas. No interceptions reported. Unexploded bombs dropped on Southern Railway in South London caused suspension of traffic. A few bombs dropped in South East England. Casualties believed slight.

Last night London received the brunt of the attack, though the Midlands and South Wales were also bombed. Large number of fires started in London area, but all now reported under control.

3. SUMMARY of Air Casualties.

Enemy: Destroyed one bomber by balloon barrage, one airplane. Total 2.

Damaged one bomber by fighters.

British: 1 Spitfire - pilot safe.

4. Shipping.

Casualties by aircraft. Two British ships (8,300 and 6,600 tons) and one Danish ship (1,200 tons) sunk in home waters.

Convoy of 35 ships arrived in home ports. Cargoes 9 of oil and 6 of steel.

5. Middle East.

By the evening of September 16th two enemy columns reported in occupation of Sidi Barrani covered by force of armoured fighting vehicles South and East of the village. Yesterday enemy sustained heavy casualties from harassing action by our tanks and artillery fire. Now suspected probable that three Italian divisions have crossed the frontier. Air reconnaissance still discloses no important movement towards Bardia from the West.

On September 16th British fighters intercepted 10 Italian bombers over Sidi Barrani. Enemy jettisoned bombs and 6 aircraft shot down (confirmed). Another 2 being probable casualties. We lost one Gladiator. Attacks by Blenheims on the night of September 15th/16th

ceased numerous petrol fires amongst Italian mechanical transport moving towards Sidi Barrani.

No indication at present of any major enemy offensive against Sudan.

6. Projected action against the United Kingdom.

Coastal movement to the westward, particularly of enemy merchant vessels up to 5,000 tons, still continues. Large assemblies however of various types of craft and barges still remain at Flushing, Antwerp, Zeebrugge and Ostend. General conclusion is that there is no change in the situation regarding imminence of the invasion.

NORTH AMERICAN AVIATION, INC.

Model and Purchaser	: Unfilled:		: Estimated deliveries										: Total	: Deliveries on		
	: Orders :		: 1940												: estimated	: present orders
	: Sept. 14, 1940	: Sept. 15-30	: Oct.	: Nov.	: Dec.	: Jan.	: Feb.	: Mar.	: Apr.	: May	: June	: Sept. 15, 1940				
AT-6 type advanced trainer																
U. S. Army	716	1	10	64	68	78	88	98	98	98	98		701	15		
U. S. Navy*	30	2		6	6	7	8	1					30			
British**	1,384	15	87	89	91	93	95	95	95	75	35		770	614		
Total AT-6 type	2,130	18	97	159	165	178	191	194	193	173	133		1,501	629		
BT-14 type basic trainer																
U. S. Army	9	9											9			
British	4	4											4			
Total BT-14 type	13	13											13			
B-25 two-engine bomber																
U. S. Army	184		1	3	7	13	19	21	24	24	24		136	48		
NA-73 pursuit																
British	384					1	5	21	43	55	55		180	204		
Experimental models																
U. S. Army	2					1		1					2			
Total Army, Navy and British	2,713	31	98	162	172	193	215	237	260	252	212		1,832	881		

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

September 18, 1940.

- * Navy orders of this type are reported as SNJ-2.
- ** Some British orders of this type are reported as NA-66.

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GRUMMAN AIRCRAFT ENGINEERING CORP.

Model and Purchaser	Unfilled: Orders : Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940- June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
		1940					1941						
		Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
F4F type single seat fighter													
U. S. Navy	384			28	36	37	38	41	33	36	36	285	99
British*	170	15	29	16	10	12	12	12	12	14	14	146	24
Total F4F type fighter	554	15	29	44	46	49	50	53	45	50	50	431	123
JRF-1 utility amphibian													
U. S. Navy	12		2	2	3	2	3					12	
Experimental models													
U. S. Army (XP-50)	1			1								1	
U. S. Navy (XTBF-1)	2										2	2	
J. S. Navy (XF5F-1)	1	1										1	
Total Army, Navy and British	570	16	31	47	49	51	53	53	45	50	52	447	123

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

September 18, 1940.

* British orders of this type are reported as G-36-A and G-36-B.

CURTISS-WRIGHT, BUFFALO

Model and Purchaser	Unfilled:	Estimated deliveries										Total estimated deliveries	Deliveries on present orders estimated to be made after
	Orders	1940					1941						
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940	July 1, 1941
P-40 Pursuit													
U. S. Army	69	51	18									69	
British (H-81A)	530	30	83	126	107	106	48	30				530	
Total P-40 pursuit	599	81	101	126	107	106	48	30				599	
P-40D Pursuit													
U. S. Army	350					1	22	21	28	37	37	146	204
British (H-87)	380							3	18	35	51	107	273
Total P-40D pursuit	730					1	22	24	46	72	88	253	477
P-360 Pursuit													
British	12		4	4	4							12	
P-40 Dive bomber													
U. S. Navy (via U. S. Army*)	60					6	20	24	5	5		60	
O-52 Scout observation													
U. S. Army	210			1	2	11	17	47	54	51	27	210	
Other models													
U. S. Army - experimental	3							1	1			2	1
U. S. Navy - experimental	1		1									1	
U. S. Navy - scout	360												360
Total Army, Navy and British	1,975	81	106	131	113	124	107	126	106	128	115	1,137	838

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

September 18, 1940.

In accordance with exchange agreement between U. S. Army and U. S. Navy.

BELL AIRCRAFT CORP.

Model and Purchaser	Unfilled:	Estimated deliveries											Total	Deliveries on
	Orders	1940					1941							
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940 - June 30, 1941	estimated deliveries	estimated to be made after July 1, 1941
Airacobra pursuit														
U. S. Army	92	6	6	6	6	8							32	60
British*	450			5	20	30	45	50	50	50	50		300	150
Total Airacobra	542	6	6	11	26	38	45	50	50	50	50		332	210
Airacuda fighter														
U. S. Army	4	4											4	
XFL-1 Fighter														
U. S. Navy	1	1											1	
(Total Army, Navy and British	547	11	6	11	26	38	45	50	50	50	50		337	210

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

September 18, 1940.

* British models of this type reported as P-400.

LOCKHEED AIRCRAFT CORP.

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940: -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
		1940					1941						
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
P-38 type two-engine pursuit													
U. S. Army	79	1	2	5	8	20	21	22				79	
British*	800					5	21	30	75	117	116	364	436
Total P-38 pursuit	879	1	2	5	8	25	42	52	75	117	116	443	436
414 two-engine reconnaissance bomber													
British	589	60	77	82	73	78	51	50	46	42	30	589	
37 two-engine medium bomber													
British	360						1		2	13	36	52	308
Other models													
U. S. Army (XP-49)	1												1
U. S. Navy (18)	2		1		1							2	
British (commercial)	45	11	8	14	5	4	1					43	2
Total Army, Navy and British	1,876	72	88	101	87	107	95	102	123	172	182	1,129	747

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

September 18, 1940.

* British orders of this type reported as model 322.

BREWSTER AERONAUTICAL CORP.

Model and Purchaser	Unfilled:		Estimated deliveries										Total estimated deliveries	Deliveries on present orders estimated to be made after
	Orders	Sept. 14, 1940	1940					1941						
		Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940	July 1, 1941	
F2A type fighter														
U. S. Navy	153	30	15				1	14	30	40	23	153		
British*	204	11	25	43	48	32	33	12				204		
Total F2A type	357	41	40	43	48	32	34	26	30	40	23	357		
EB2A-1 one-engine scout bomber														
U. S. Navy	493						1	2				3	490	
340 one-engine dive bomber														
British	540					1	7	38	64	89	70	269	271	
Experimental models														
U. S. Navy	3	2		1								3		
Total Army, Navy and British	1,393	43	40	44	48	33	42	66	94	129	93	632	761	

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

September 18, 1940.

* British orders of this type are reported as model 339-E.

VOUGHT-SIKORSKY AIRCRAFT

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940 -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941		
		1940 Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June				
OS2U type one-engine observation U. S. Navy	232	24	21	26	29	41	46	45						232	
One-engine scout bomber U. S. Navy (SB2U-3)	68	1	5	19	20	23								68	
British (V-156-F)	50					3	7	11	12	15	2			50	
Total scout bomber	118	1	5	19	20	26	7	11	12	15	2			118	
Total Navy and British	350	25	26	45	49	67	53	56	12	15	2			350	

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

September 18, 1940.

CESSNA AIRCRAFT COMPANY

Model and Purchaser	Unfilled:	Estimated deliveries										Total estimated deliveries	Deliveries on present orders estimated to be made after
	Orders	1940					1941						
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940:	July 1, 1941
Trainers													
U. S. Army (AT-8)	33		1	2	3	4	4	4	4	5	6	33	
British (T-50)	180				6	12	18	24	30	30	30	150	30
Total Army and British	213		1	2	9	16	22	28	34	35	36	183	30

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

September 18, 1940.

VULTEE AIRCRAFT, INC.

Model and Purchaser	Unfilled:	Estimated deliveries											Total estimated deliveries	Deliveries on present orders estimated to be made after
	Orders	1940					1941							
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940-	July 1, 1941	
Trainers														
U. S. Army (BT-13)	773	35	65	80	93	105	120	135	140			773		
72 Dive Bomber														
British	200						1		3	10	18	32	168	
Total Army and British	973	35	65	80	93	105	121	135	143	10	18	805	168	

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

September 18, 1940.

STINSON AIRCRAFT

Model and Purchaser	Unfilled:	Estimated deliveries											Total estimated deliveries Sept. 15, 1940- June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
	Orders Sept. 14, 1940	1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
O-49 Observation U. S. Army	148		4	5	10	15	15	16	17	18	19	119	29	

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

September 18, 1940.

SPARTAN AIRCRAFT COMPANY

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940 -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
		Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
Trainers U. S. Navy (NP-1)	201			1	3	5	10	16	19	20		74	127

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

September 18, 1940.

STEARMAN AIRCRAFT

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940 -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
		1940					1941						
		Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June		
Trainers													
U. S. Army	527	32	60	45	40	70	70	80	80	36	14	527	
Philippine Army	12						12					12	
Total	539	32	60	45	40	70	82	80	80	36	14	539	

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

September 18, 1940.

RYAN AERONAUTICAL CORP.

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940 -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941	
		1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May			June
Trainers														
U. S. Army (PT-20A)	110		17	7	27	27	32						110	
U. S. Navy (NR-1)	120			15	18	18	18	18	18	15			120	
Total Army and Navy	230		17	22	45	45	50	18	18	15			230	

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

September 18, 1940.

REPUBLIC AVIATION CORP.

Model and Purchaser	Unfilled:	Estimated deliveries											Total estimated deliveries Sept. 15, 1940 -June 30, 1941	Deliveries on present orders estimated to be made after July 1, 1941
	Orders	1940					1941							
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June			
P-44 Pursuit U. S. Army	81	1	2		3	6	12	12	15	15	15	81		
XP-43 Pursuit U. S. Army	14	1	2	6	5							14		
P-35 Pursuit U. S. Army	8							4	4			8		
XP-47 Pursuit U. S. Army	1					1						1		
Total Army	104	2	4	6	8	7	12	16	19	15	15	104		

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

September 18, 1940.

BEECH AIRCRAFT CORP.

Model and Purchaser	Unfilled: Orders Sept. 14, 1940	Estimated deliveries										Total estimated deliveries Sept. 15, 1940: -June 30, 1941:	Deliveries on present orders estimated to be made after July 1, 1941	
		Sept. 15-30 1940	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June			
Trainers														
U. S. Army (AT-7)	72			3	8	9	11	10	11	10	10		72	
Transports														
Philippine Army (188)	1			1									1	
U. S. Navy (JRB-1)	5	3	2										5	
Total Army and Navy	78	3	3	3	8	9	11	10	11	10	10		78	

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

September 18, 1940.

BELLANCA AIRCRAFT CORP.

Model and Purchaser	Unfilled:	Estimated deliveries											Total	Deliveries on
	Orders	1940					1941						estimated	present orders
	Sept. 14, 1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Sept. 15, 1940 - June 30, 1941	deliveries	estimated to be made after July 1, 1941
YO-50 Observation U. S. Army	3	1	1	1								3		

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

September 18, 1940.

CURTISS-WRIGHT, ST. LOUIS

Model and Purchaser	Unfilled:	Estimated deliveries										Total estimated delivered	Deliveries on present orders estimated to be made after	
	Orders Sept. 14, 1940	1940	Sept. 15-30	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May			June
Trainers														
U. S. Army (AT-9)	150		1			3	5	8	12	16	20	65	85	
Other models														
U. S. Army (C-46)	46												46	
U. S. Army (P-249)	1												1	
Total Army	197		1			3	5	8	12	16	20	65	132	

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

September 18, 1940.

FAIRCHILD ENGINE AND AIRPLANE CORP.

Model and Purchaser	:Unfilled:	Estimated deliveries										Total : estimated : deliveries	: Deliveries on : present orders : estimated to : be made after
	: Orders :	1940					1941						
	: Sept. 14, 1940 :	: Sept. 15-30 :	: Oct. :	: Nov. :	: Dec. :	: Jan. :	: Feb. :	: Mar. :	: Apr. :	: May :	: June :		
Trainers U. S. Army (PT-19)	281	29	43	43	43	43	40	40				281	

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

September 18, 1940.

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TRIPPLICATE

No. 1279

Buenos Aires, September 18, 1940.

BRITISH INTERESTS REPORTED TO BE BLOCKING
ARGENTINE PURCHASE OF AMERICAN FREIGHT CARS

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Embassy's despatch no. 1274 of September 18, 1940, regarding the British trade drive in Latin America, I have the honor to report that Ing. Nogué, head of the Argentine State Railways, is reliably quoted as having attributed the current blocking of Argentina's purchase of 500 American freight cars (\$1,200,000) to the British Embassy in Buenos Aires.

The Department will recall that the Argentine State Railways has been in the market for freight cars since the beginning

- 2 -

beginning of 1938⁽¹⁾, that the order for which bids were opened on December 12, 1938⁽²⁾ was finally awarded in an extensive barter deal to Germany⁽³⁾, but that the business was not consummated owing to the outbreak of the war.

On September 4 Ing. Nogués is reported to have told Mr. Louis E. Young of the Pullman Standard Export Corporation and Ing. Jorge J. Handley of the American Car and Foundry Company that in view of the war, and the concomitant inefficiency of calling for public bids, he felt free to limit his study to consideration of American offers on 500 American freight cars but would require five years credit. Messrs. Young and Handley telephoned their head offices in New York suggesting that the latter communicate with Mr. Pierson to ascertain whether the terms contemplated under the \$20,000,000 Export Import Bank credit to the Argentine Central Bank could be modified so as to satisfy the State Railways' desire for five years, instead of three, in which to pay for the cars. Mr. Pierson allegedly replied that the railway order had already been included under the twenty million dollar credit, that the five year period had already been provided for and that the Central Bank has all the details.

On September 5 Ing. Nogués called Messrs. Young and Handley again and told them that he had found that he does not require credit, that he has about 2,000,000 pesos in
cash

Note (1): See enclosure No. 5 to the Consulate General's despatch no. 87 of September 15, 1938.
Note (2): See despatch no. 277 of February 14, 1939.
Note (3): See despatch no. 329 of March 10, 1939.

- o -

cash, which would revert to the Treasury if he did not use them, and that therefore he would like to know whether the American companies could guarantee delivery of 250 freight cars f.a.s. New York before the end of the current calendar year. He said his cash on hand would cover 250 freight cars and he expected sufficient funds in his 1941 appropriation to take care of the balance. Messrs. Young and Handley learned from their head offices that delivery could be made as desired and this information was confirmed to Ing. Nogués.

The several pertinent "informes" were then drawn up by the State Railways on September 7 and it was expected that the decree authorizing the purchase would be issued by September 14. (The upset date set for the American offers totaling \$1,200,000 was September 20).

However, Ing. Nogués was worried about the availability of exchange and asked Messrs. Young and Handley to endeavor to interest the Embassy in obtaining assurance from Dr. Pinedo⁽⁴⁾ and/or the Central Bank that when the State Railways pays for the freight cars, sufficient dollar exchange would be made available. It should, he said, be agreeable to Dr. Pinedo to authorize the use of a part of the twenty million dollar Export Import Bank credit for this purpose, since the amount (\$1,200,000) would be repaid in full by March, 1941.

The question of the availability of dollar exchange

was

Note (4): Ing. Nogués allegedly quarreled with Dr. Pinedo some time ago and therefore does not want to ask him for anything.

was presented to Dr. Plinedo on September 9. Dr. Plinedo said he would not reject the proposal of using \$1,500,000 of the twenty million dollar credit to cover the exchange requirements in this deal, provided two or three conditions were met. He would have to be satisfied that the dollars involved would only be tied up until March 1941, or that Argentina's credit requirements would not be limited to \$80,000,000, or that the country as a whole needed the freight cars more than a number of other goods such as machinery and materials for Argentina's industrial development.

This information was conveyed confidentially to Messrs. Young and Handley who in turn passed it on to Ing. Nogué. The latter allegedly brought it to the attention of President Ortíz, a close friend of long standing, with the result that the question was allegedly discussed in a cabinet meeting on September 14, 1940.

On September 16 Messrs. Young and Handley informed the Embassy that Dr. Salvador Ortíz, the Minister of Public Works, had refused to approve the State Railways' request that an appropriate decree authorizing the purchase be drawn up for the Cabinet's consideration. Dr. Ortíz's alleged reason was that the State Railways had not called for public bids.

However, Ing. Nogué learned that the real reason was that certain influential persons had pointed out that Great Britain must be given every opportunity to satisfy Argentine requirements and it was not clear that British firms could not furnish the 500 freight cars. Ing. Nogué then called in Dr. Fernandez, one of President Ortíz's

private

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private secretaries, to act as a witness while he asked Mr. Lowades, head of the railroad division of Evans Thorton, representing the Metropolitan Wagon and Carriage Co., whether his organization desires to compete for the freight car order, and Mr. Lowades later informed Messrs. Young and Handley that he had answered in the negative.

There remained to be similarly asked Mr. Nixon, head of Alfred Herbert representing the Birmingham Car and Carriage Co., and Mr. George Mayne, Manager of Percy Grant representing the Roberts Car Builders; and it is expected that these gentlemen will have replied by September 20.

ToOday the Embassy learned from Ing. Handley that his brother-in-law, Ing. Belfiore, Chief Engineer of the State Railways, had been told by Ing. Nogués that the influential persons who had blocked Dr. Oría's approval of the State Railways' request for authorization to buy the 500 American freight cars were "the British Embassy in Buenos Aires."

It would seem that if the United States is to be called upon to facilitate the disposition of Argentina's exportable surpluses, and the British are to be aided in purchasing needed foodstuffs and raw materials in this market, it should be clearly understood that British interests in Argentina shall no longer exercise their influence here to the disadvantage of American trade.

It is recalled in this connection that during our trade agreement negotiations with Argentina the Department considered taking up with the British Government this same question of British influence (Department's telegrams

no.

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no. 223 of November 18, 4 p.m. and no. 236 of December 2,
5 p.m.).

Respectfully yours,

S. Pinkney Tuck
Chargé d'Affaires a.i.

CMR:jk
877
@n.

A true copy of
the signed origi-
nal.

No. 1274

Buenos Aires, September 18, 1940.

BRITISH TRADE DRIVE IN LATIN AMERICA

The Honorable

The Secretary of State,
Washington.

Sir:

With reference to the Embassy's despatch no. 1265 of September 17, 1940 regarding a prospective Anglo-Argentine agreement providing for British purchases of some £30,000,000 to £40,000,000 sterling of Argentine products, I have the honor to report that according to the press an official British mission is being sent to Latin America "as a vital part of Britain's war time trade drive".

It

- 2 -

It is stated in a United Press despatch from London, dated September 17, 1940, that this mission will be composed of about twelve persons headed by a distinguished statesman and accompanied by approximately twenty experts and secretaries. It is expected shortly to embark on a two to three months' Latin American tour, "establishing close contact with the different governments and investigating all means of enlarging trade and adapting it to war conditions."

The U.P. despatch adds that the mission will be the most significant of three moves in the British trade campaign in South America. The first was the official announcement that Messrs. R. A. Lister and Henry Faller of the United Kingdom Commercial Corporation would soon sail to Argentina to establish a trade promotion organization there, which, to supplement normal deliveries of British goods to South American markets, "would facilitate the holding in South America of adequate stocks of United Kingdom goods to cover requirements."

The third feature, it is said, will be an extensive British trade exhibition to be shown throughout Latin America.

The U.P. despatch emphasizes that these strong bids for Latin American trade have not been designed to challenge United States commercial interests in these parts and that, in fact, the British authorities desire to develop Britain's Latin American trade in cooperation with Washington. The despatch presumes that this British policy harmonizes with the spirit of the Habana Conference, one of the purposes of which was to solve problems arising from South America's

loss

- 3 -

loss of continental European markets. Thus it is argued that "any British purchases of Latin American export surpluses would support the policy which Washington is pursuing south of the Rio Grande."

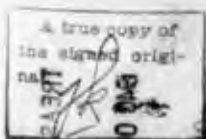
It is recalled that the increase of the capital of the Export Import Bank is primarily intended for the purchase of Latin American exportable surpluses and the U.P. assumes that a similar purpose would be in the minds of the British official mission.

This seemingly fits in with the report submitted in the Embassy's telegram no. 417 of September 17, 4 p.m., indicating that the Argentine Government is considering the feasibility and the advisability of asking our Government to assist it financially in the matter of an Argentine credit to Great Britain which would enable the British to purchase between £30,000,000 and £40,000,000 sterling of Argentine foodstuffs and raw materials.

Respectfully yours,

S. Pinkney Tuck
Chargé d'Affaires a.i.

CMR:jk
851
Qn.



U.S. DEPARTMENT
RECEIVED

SEP 21 11 34

TO THE SECRETARY
LEONARD W. BENTLEY
VICE OF THE

September 18, 1940

MEMORANDUM OF POSSIBLE TREASURY FINANCING BEFORE DECEMBER 31, 1940,
AND THE PROBABLE ORDER OF EXECUTION

1. Refund $1\frac{1}{2}\%$ Treasury notes maturing December 15, 1940, in the amount of \$737M.

List of bond issues into which these notes might be refunded is attached.

2. Cash offering of U. S. Housing Authority notes, probably a 5-year maturity in the amount of \$100M to \$200M.
3. Cash offering of Reconstruction Finance Corporation notes, probably a 3-year maturity in the amount of \$300M to \$400M.
4. Cash offering of Treasury notes, \$750M to \$1,000,000,000.

In view of small balance of borrowing authority under general debt limitation of \$45,000,000,000, these notes must be "defense series" with maturities of not to exceed 5 years.

5. Refund $1\frac{1}{2}\%$ Treasury notes maturing March 15, 1941, in amount of \$677M, and possibly at the same time refund 3-3/8% Treasury bonds of 1941-43 in the amount of \$545M, which may be called for payment on March 15, 1941.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau

FROM W. H. Hadley

Late Market CloseTREASURY BONDS

<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Approx. Mkt. Price</u>	<u>Estimated Premium</u>
12-14 yrs. (9/15/52-54)	2 %	1.86 1.88	101.15 101.9	1 pt. 15/32 1 pt. 9/32
12-15 yrs. (9/15/52-55)	2 %	1.87 1.89	101.12 101.6	1 pt. 12/32 1 pt. 6/32
x 12 1/2-14 1/2 yrs. (3/15/53-55)	2 %	1.88 1.89	101.11 101.7	1 pt. 11/32 1 pt. 7/32
14-17 yrs. (9/15/54-57)	2-1/8%	1.99 2.01	101.20 101.12	1 pt. 20/32 1 pt. 12/32
14 3/4-16 3/4 yrs. (6/15/55-57)	2-1/8%	2.02 2.04	101.10 101.2	1 pt. 10/32 1 pt. 2/32
17-20 yrs. (9/15/57-60)	2-1/4%	2.14 2.16	101.18 101.9	1 pt. 18/32 1 pt. 9/32
17 1/2-19 1/2 yrs. (3/15/58-60)	2-1/4%	2.14 2.16	101.20 101.10	1 pt. 20/32 1 pt. 10/32
x 18-20 yrs. (9/15/58-60)	2-1/4%	2.16 2.18	101.11 101.1	1 pt. 11/32 1 pt. 1/32

TREASURY NOTES

5 years	7/8%	0.72	100.23	23/32nds
		0.74	100.21	21/32nds

Note:

x The 2-1/4s of 1954-56 are now quoted 103.18 bid. A reoffering at 102-1/4 would give a premium of 1 pt. 10/32.

COPY

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(Handed by Mr. Pinsent of the British Embassy to Mr. Cochran in the Treasury at 12:45 p.m., September 18, 1940.)

Note to the Secretary of the Treasury.

SECRET

With reference to the memorandum handed to Mr. Morgenthau by Sir Frederick Phillips on July 19th (Monthly Changes in Foreign Exchange Position), the drain on Great Britain's gold and United States dollar resources in August 1940 amounted to \$228 million.

BRITISH EMBASSY.

18th September 1940.

dm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 15, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent, Financial Counselor of the British Embassy, called on me at 3:00 yesterday afternoon, he asked that I inform Commissioner of Customs Johnson of the interest of the Secretary of the Treasury and of the President in cooperation between the United States and Great Britain with respect to Latin American trade. Pinsent reminded me that this subject had been broached to Sir Frederick Phillips by the President and Secretary Morgenthau, and that the initiative which Great Britain is now taking in sending a trade commission to Latin America and in carrying on conversations with State Department officials has resulted primarily from the above-described initiative. Pinsent stated that Mr. Summerscale, Secretary of the British Embassy, has been talking with Commissioner Johnson on the subject of Latin American trade, and it was thought that such conversations would be facilitated if the Secretary's interest in this problem were made known to Commissioner Johnson.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Ray Atherton called me from the Department of State at 9:45 this morning to learn whether the Treasury was aware of any new developments in the situation with respect to the utilization of official French funds in the United States. I told Mr. Atherton that the Secretary had confidentially informed me, following the Cabinet Meeting of last Friday, that the question as to whether funds should be released from frozen dollar accounts in the United States to facilitate payments for diplomatic and consular expenses in America and Europe had been referred to the Secretary of State. It was understood that the Treasury was to take no action on this problem pending some advice from the State Department. I told Atherton that we had gone ahead with the license to permit France to take care of her diplomatic and consular officers in the United States and its possessions and with licenses for the more routine accounts which the French officials are operating. We have not, however, taken any action on the problem above cited, and have had no word from Alphanand or from the French Embassy since the day of the Cabinet Meeting.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The office of the General Counsel referred to my office yesterday an inquiry from Mr. Hugh Cumming of the State Department with respect to the holdings with the Federal Reserve Bank in New York of the Royal Netherlands Government and the Netherlands Bank. This information was desired in connection with the study of the financing of the purchase of \$16,000,000 worth of armaments in the United States for shipment to the Netherlands East Indies, which subject was discussed in my memorandum of August 24, 1940.

I telephoned Mr. Cumming and gave him in strictest confidence, and only to be used orally in his conversation with Assistant Secretary Berle, the figures he desired as of the close of business on September 16.



September 18, 1940
4:35 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Hello.

Arthur
Purvis: Hello. Good afternoon.

H.M.Jr: How are you?

P: Very well, thank you. And you?

H.M.Jr: Fine. Arthur, your man talked to Phil Young about Sir Walter Layton - getting him out of Lisbon.

P: Oh, yes. I wondered whether - I hate to trouble you about that, but we are really quite anxious to get him if we can.

H.M.Jr: Well, here's the point. It really is something to do it and I just wondered how much it means to you.

P: Well, what I feel is this, it's this Tripp alignment and the feeling of irritation which is growing up in the U. S. Army people at our inability to get ourselves forward. Now, it's not that Layton can make the decisions but it's, as I said to you earlier, it's my belief that we shall be able to utilize him as a tool to force the issue in London.

H.M.Jr: Well, I wish they had mentioned it earlier because to do it tonight or tomorrow morning is damn hard.

P: It is, is it?

H.M.Jr: Yeah. I'm going to try it but if they'd only told us earlier.

P: Yes. Well, what happened was that up until yesterday they told us that he would get on board, and then today a cable has come in

- 2 -

saying that it looks as if the same thing that happened last Friday may happen tomorrow. Now our people telephoned Tripp and unfortunately couldn't reach Tripp in New York today when this cable came in and his secretary said that that would have to be an instruction, but we haven't been able to reach Tripp. That's my trouble.

H.M.Jr: Well, we'd do it through Washington here.

P: Would you? Now I don't want to - it's just that

H.M.Jr: Well, the only reason I'm calling you is - I mean, I don't often say this - I mean, some of these - one relatively unimportant person - I mean, I've got to use my influence and I can only do it so often.

P: I know exactly what you mean and yes, I agree. Well, I honestly believe it has a real value to us.

H.M.Jr: O. K. Then we'll go after it.

P: I'm awfully sorry.

H.M.Jr: Because I just wanted to make sure that it was important.

P: Yes, I think it really is because I think the atmosphere here is getting really difficult because of my inability to make them move on a very important thing.

H.M.Jr: Well, we'll see what we can do.

P: Thank you so much.

H.M.Jr: Right. I'll see you at quarter of eight.

P: Thank you very much. I'm looking forward to it.

SEP 18 1940

My dear Mr. Berle:

This is in reply to your letter of September 10, 1940, suggesting that the Brazilian Government feels it will need assistance to meet a difficult exchange situation and requesting that the Treasury Department undertake a broad study of possible cooperative monetary arrangements between the United States and Brazil.

The Treasury Department has already indicated its willingness to cooperate with and to assist Brazil in certain monetary undertakings and will immediately initiate studies of the type suggested in your communication.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Adolph A. Berle, Jr.,
Assistant Secretary,
Department of State.

cc to Mr. Thompson

By Messenger 415

HMS:dln
9/18/40.

FILE COPY



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA 832.5151/1579

September 10, 1940

My dear Mr. Secretary:

The American Ambassador at Rio de Janeiro has reported that the Brazilian exchange situation is becoming acute, quoting the Director of Exchange of Brazil as stating that the Bank of Brazil can continue the present exchange regime for a few more weeks, but stressing the need for exchange cooperation and assistance later.

Brazilian-American monetary and exchange relationships have been the subject of study and cooperation for a number of years: in 1937 you entered into an agreement with the Brazilian Minister of Finance providing for certain monetary facilities and cooperation, while in 1939, as you will of course recall, the arrangements entered into with the Brazilian Minister of Foreign Affairs provided for a short-term Export-Import Bank credit to facilitate the liquidation of exchange arrears due to
American

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

-2-

American exporters and the establishment of a liberal exchange regime. In addition, you indicated your readiness to participate, if requested, in cooperative efforts to reorganize the Brazilian monetary system and establish a central bank.

As you know, a number of considerations have delayed such a request for a loan of gold in connection with the establishment of a central bank. The Brazilian Government, however, has informally indicated on a number of occasions, both to American diplomatic officials at Rio de Janeiro and to members of the Delegation of the United States at the recent Habana Meeting, that it will need further assistance in order to maintain those satisfactory exchange relationships with the United States which are necessary for the continuance of mutually beneficial commercial and financial intercourse between the two nations. The suggestion has been made that the Export-Import Bank extend additional facilities to replace the short-term advance which is rapidly being repaid.

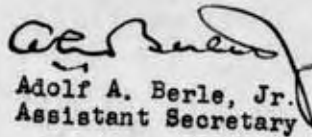
It is the Department's belief that a more fundamental long-term monetary and exchange cooperation with Brazil would be desirable. I request, therefore, that, if you share this view, the Treasury Department undertake a

broad

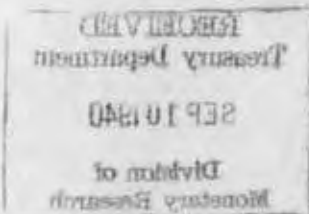
-3-

broad study of Brazilian-American monetary and exchange relationships and possible cooperative arrangements. The resources of this Department to assist in such a study are of course at the command of the Treasury.

Sincerely yours,



Adolf A. Berle, Jr.
Assistant Secretary



HSM

PLAIN

London

Dated September 18, 1940

Rec'd 12:13 p. m.

Secretary of State,
Washington.

3117, September 18.

FOR TREASURY FROM BUTTERWORTH.

The City is struggling to adjust itself to air-raid conditions and it is performing its functions but slowly and under considerable difficulties.

Aside from the bomb damage to the City itself it is difficult and in some cases impossible for its personnel to get there because of transportation breakdowns due to destruction and time bombs. At least half the day is spent in air raid shelters, most of which are not equipped to permit much effective work to be done. Telephone and postal communications are correspondingly slowed up. The stock exchange is to close at two to permit personnel to get home to have dinner and prepare for the nightly raid.

Security prices and the bill rate have eased though not appreciably but the turnover is nominal in amount.

The decentralization readjustments made at the outbreak of war, particularly the evacuation to the country
of

hsm -2- No. 3117, September 18, from London

of many appropriate units and sub-divisions of banks and businesses are standing the City in good stead and no doubt many further adjustments in this wise will have to occur. For those who remain to work in the City equivalent adjustments will have to be made in methods and hours of labor. In this topsy-turvy situation it is symptomatic that many of us are now sleeping in our basement kitchens and cooking in our upstairs dining rooms.

In these circumstances I have not occupied the British Treasury by discussions of general situations but in the past week I have seen Phillips, Waley and Bewley about particular local cases. However, if from your point of vantage there is anything you wish me to pursue I should appreciate the suggestion.

KENNEDY

KLP

September 18, 1940
3:00 p.m.

GROUP MEETING

Present: Mr. Sullivan
Mr. Foley
Mr. Cochran
Mr. Graves
Mr. Bell
Mr. Gaston
Mr. Thompson
Mr. Schwarz
Mr. Young
Mrs. Klotz

H.M.Jr: Herbert?

Gaston: I tried to communicate with "Pa" Watson on the subject of two political matters. One is the Collectorship in Ohio and the other is the Collector of Customs in Vermont, and I couldn't get him on the phone and I wrote him a note, and all the satisfaction I got was a note back from him saying that he thought you had better talk to the President about it.

H.M.Jr: I am seeing the President at 9:30 tomorrow.

Gaston: I will give you a memo on it.

H.M.Jr: Well, give it to me.

Gaston: Yes.

H.M.Jr: I don't know whether you all saw the excerpts on politics in today's Gallup Poll.

Gaston: Oh yes.

H.M.Jr: Everybody see it?

- 2 -

Bell: Yes.

H.M.Jr: New York, Pennsylvania, and New Jersey.

Gaston: Ernest Lindley told me --

Foley: Illinois.

H.M.Jr: Not on this.

Gaston: Ernest Lindley told me that he had seen the complete Gallup Poll for the 48 states which is coming out Friday, and as a result of that he modified his own review of the situation upward in favor of Roosevelt. The new Gallup Poll coming out Friday is much more Roosevelt than anything that has come out before.

H.M.Jr: Well, with New York, Pennsylvania, and New Jersey --

Gaston: Yes, that is a good tip-off as to what the contents of the Poll will be on Friday.

H.M.Jr: If by any chance we could have Illinois --

Gaston: The gains have been general all through the country, I should judge, in the new Polls coming up.

H.M.Jr: According to Walter Winchell - I read his column in the paper - Fortune dropped it all out.

Gaston: They gave it to the Press.

H.M.Jr: It isn't in the magazine.

Gaston: Fulton Lewis was taking a poll of newspapermen in the Press Club today as to who they thought would be elected. He had 19 Roosevelt and 4 Willkie at the time.

H.M.Jr: Nineteen what?

- 3 -

Gaston: Nineteen Roosevelt and 4 Willkie at the time.

H.M.Jr: How often did you vote?

Gaston: Unfortunately, I didn't get a chance to vote, but he showed me what he had. I guess he is going to use it tonight on his program.

H.M.Jr: What else?

Gaston: That is all except the new slogan is, "We want Willkie to make more speeches."

H.M.Jr: Anything else?

Gaston: That is all.

Klotz: Excellent.

H.M.Jr: Foley?

Foley: I have nothing. Dan had a call from the Federal Reserve Board, and they want Bernie to go down to the Senate Banking and Currency Committee tomorrow on that legislation which permits banks to pay out when a foreign government requisitions Central Bank assets on deposit with the Federal. Bernie is familiar with it, and if it is all right with you --

H.M.Jr: Are you familiar with it?

Foley: No, I haven't been working on it.

H.M.Jr: Can you get familiar with it?

Foley: Yes, I can.

H.M.Jr: You had better go up.

Foley: All right.

H.M.Jr: What else?

Foley: That is all.

- 4 -

H.M.Jr: Mr. Sullivan?

Sullivan: They have been fighting today about the Brown Amendment. Brown thinks he is going to carry it. I think it is going to be very close. I wouldn't be very surprised if he got licked. They recessed a little while ago until 3:15, and I am going up to Brown's just as soon as the fellows come up from the trip. I doubt if they are going to get a vote on the bill tonight. It looks as if they are going to take the Connally Bill into conference.

H.M.Jr: What is that?

Sullivan: That is the new rates for taxes that will go into effect if war is declared. The Defense Commission has been calling over and asking us to expedite the closing agreement on Curtiss-Wright.

(Mr. Young entered the conference.)

H.M.Jr: Are you the forgotten man?

Young: No, sir.

H.M.Jr: Just busy?

Young: I am sorry. Swedish machine guns. Just a change from the Swedish plans.

Sullivan: And they are very anxious to get that in a terrific hurry. They have been changing the terms of the contracts --

H.M.Jr: Which contract? I didn't hear.

Sullivan: Curtiss-Wright.

H.M.Jr: Oh yes. I got a memorandum from Foley.

Sullivan: They have changed it and changed it and changed it, and I understand now from Mr. Foley that one reason they are so

- 5 -

anxious about this is that they asked this Congress to give them 300 million dollars to reimburse different people and they want something to show they are really doing something.

H.M.Jr: Is it going to be Plan 2?

Sullivan: Yes.

H.M.Jr: Where do we come in the picture?

Sullivan: Merely on the closing agreements.

Foley: Whether it is income or whether it is a capital contribution.

Sullivan: The difficulty is this, that we execute a closing agreement and it is going to be very difficult to explain that we are merely passing on the tax features and everybody is going to interpret it as a Treasury approval of the general plan itself, and it is going to be almost impossible to explain now or five years from now that we didn't think this was a good plan.

H.M.Jr: Well, knowing Schwarz it innocent, I can look at him. I also read Pearson and Allen. Of course, I know you (Schwarz) didn't give it out. I am trying to focus on you. Do you know where they got it from?

Schwarz: No. I did a little checking around this morning and I may have something.

H.M.Jr: The story is pretty accurate. They used the word "baloney", but other than that --

Schwarz: They had a pretty close idea of it.

H.M.Jr: I thought so. The point of my story being, why worry if they get this Curtiss-Wright contract as long as Pearson and Allen get a direct version from the Treasury Staff?

Sullivan: We think it is serious. We think it is being done in just about the worst possible way.

- 6 -

H.M.Jr: I am at a disadvantage. The light is behind both of you fellows.

Sullivan: Maybe it is just us, not behind us.

H.M.Jr: One of you come and tell papa afterward.

Sullivan: You (Foley) tell papa. I am going back on the Hill. You didn't see Pearson and Allen today, did you?

H.M.Jr: Not today, no.

Sullivan: They went on about this situation and said that I felt compelled to make a statement and Harrison agreed to let me and was sorry afterward because I gave the elder statesmen a dressing down such as has seldom been heard on Capitol Hill.

Schwarz: Which is all right, too.

H.M.Jr: This one was very favorable to me about my meeting with the National Defense.

Klotz: Oh yes.

Sullivan: They also said that Clay Williams had come up here and camped on old Muley's doorstep all summer so old Muley wasn't like he used to be.

H.M.Jr: Where did they get that from?

Sullivan: I don't know.

Bell: That was pretty accurate, too.

Gaston: We don't need much more evidence, do we?

H.M.Jr: Any other good news?

Sullivan: No.

H.M.Jr: All right, run along, little boy.

Sullivan: I have got a little while.

- 7 -

H.M.Jr: Oh, you have?

Sullivan: Oh yes, I want to get the dirt.

H.M.Jr: He is usually in such a hurry. All right.

Cochran: Ray Atherton telephoned this noon to see if the French had made any further protest to us on that fund business which you spoke of at Cabinet last week. It went back to the State Department. I told him we had had nothing. They are still working on it.

H.M.Jr: Good. Anything else?

Cochran: No, sir.

H.M.Jr: Chick?

Schwarz: We have taken care of the Merry-Go-Round, and that is all I have.

H.M.Jr: I haven't seen today's. Would you send a copy up to the house tonight for me? If there is something good on Sullivan, I would like to see it.

Schwarz: It has a lot about Sullivan. I sent you the Kintner-Alsop piece about Sullivan in there.

H.M.Jr: That was very good about Sullivan. You (Sullivan) can't expect - I thought the Kintner-Alsop one was excellent.

Sullivan: So did I.

Foley: That was the best I have seen about anybody.

H.M.Jr: Yes. That was very nice.

Foley: They decided we were going to be here for four more years. They just found out.

Sullivan: And then the day Alsop came out with Foley, he said, "I am getting soft."

H.M.Jr: Who did?

- 8 -

Sullivan: Kintner.

H.M.Jr: It was a very nice article.

You (Young) were going to give me that confidential memorandum on Captain Balfour which was loaned to you. You never did.

Young: I have it.

H.M.Jr: And I would like to have it, because I have a personal letter from him now. It is from Balfour. It just came by Clipper.

Young: I will get it.

H.M.Jr: And your memorandum to me on Mr. - Major Fleet, I let Jim Forrestal read it. He was so interested he asked whether he could keep it and I told him yes, providing he did not circulate it and he said he wouldn't. He said it was quite interesting and he felt it was up to the Navy to do something about it.

Young: Yes, I think that is quite true if what Fleet says is so.

H.M.Jr: He said --

Young: That is Fleet's story, after all.

H.M.Jr: He says he understands the different airplane companies have been divided up between Army and Navy. He thinks Consolidated was given to the Navy and if it is, he thinks it is up to him to do it, not Defense Council, but himself, and would you give Mrs. Klotz an extra copy?

Young: Yes.

Sullivan: You know, he is the fellow we had all the trouble with.

H.M.Jr: I know, but the memorandum he gave, the things that he asked for, were perfectly reasonable.

- 9 -

He wants houses, he wants a place to have the people trained, and he wants decent drinking water and a sewage disposal plant. I mean, all those are things which are perfectly reasonable before he can get any more help.

Gaston: It must be Navy, because Consolidated is making all those long-range patrol boats for Navy. That is their principal job.

H.M.Jr: Phil?

Young: I have got several items here. A memo on a conference I had with Mr. Schrom yesterday on the tank engines.

H.M.Jr: I tell you what I will do. Why don't you stay behind after Mr. Morgan leaves and give it to me and I can read it before tonight.

Young: Right. I also have some more airplane tables similar to the four which you took.

H.M.Jr: Good. I want those definitely. I am seeing the President on it tomorrow morning. I would like to have those --

Young: I have them right here.

H.M.Jr: Harry? I had several opportunities to talk with Mr. Jesse Jones and we were sitting there over dinner. Jesse in front of me had a dish of apple pie and a dish of ice cream, and Ickes, who was riding Jones all the while, said, "Which is for the Loan Administrator and does the Secretary of Commerce get the pie or the ice cream?" So quick as a flash Jones dumped the ice cream on the pie and says, "Now, are you satisfied? I get both of them."

But Ickes was riding him all of the time.

But I had a chance to tell him when we got on South America that of all the loans he could make, that I felt the first loan should be to China, and he agreed with me.

White: Fine.

H.M.Jr: I thought you were waiting for it. Then I repeated it in front of Mr. Sumner Welles and Sumner Welles wouldn't say a word, but I did have the chance and he is going to see T. V. Soong and somehow or other, I don't know how, he has seen that I have said to T. V. Soong there was a question about his credentials. I don't know where he got it from and he is planning to make him a loan against tungsten. Now, I told him if there was any question about his credentials, to ask the State Department and Welles said there was no question about his credentials.

White: He was supposed to have had a letter which he said he gave to the President.

H.M.Jr: I am just passing along the report to you. Jones said he knows nothing about Chile. I think it is silly to start all these things with me and then Jones gets sore and they come to me after a lot of people have messed around with them. He didn't even know there was a Mission here.

White: Well, it is very curious how it is partly somebody's fault, I suppose, and partly their own. Costa Rica is here, and they claim they have approached them and yet they say the Export Import Bank has asked them no questions, has very little information about it and so on, so it may be that you may get an opportunity some time in the near future to take up the question of the --

H.M.Jr: Welles spoke to me about Costa Rica. He mentioned Costa Rica today. The highway, isn't it?

White: The highway is one thing and the million dollar loan is an additional matter.

H.M.Jr: Well then, we have got something here about giving them that as a basis for their currency.

- 11 -

White: That is right.

H.M.Jr: He asked me about it and I wouldn't answer, and I told him - he said he was going to give me a formal memorandum. He wants to ask Treasury's advice.

White: Welles said he was going to?

H.M.Jr: No, Jones.

White: You may have noticed in this morning's Wall Street Journal there was a front page story about the rise in the price of scrap iron and steel and the rise of the price of steel.

H.M.Jr: I didn't see that.

White: It bears on the matter --

H.M.Jr: I saw the Roanoke Enterprise and the Birmingham News.

White: It hasn't reached there yet.

Here is an answer to a letter from Secretary - Undersecretary Welles that we make a study of the Cuban situation.

H.M.Jr: Do you say anything?

White: Only that we are always glad to cooperate.

H.M.Jr: Usual.

White: Same thing to Berle about Brazil.

H.M.Jr: Right.

White: We are initiating steps.

H.M.Jr: Wonderful.

White: Here is the answer to the Argentines, if you want to take it up. They are still pressing us. I understand that our Ambassador to Argentina is here and would like to see you.

- 12 -

They asked me to make the appointment and I told them to get in touch with you directly through the State Department, which they may.

H.M.Jr: That is right.

White: We had two meetings, one on copper and one on nitrate, with the Council of Defense experts and with Nelson's committee et cetera this morning. We have another one tomorrow. I don't know where we will get, but we are going to go ahead; and after we get through, I think we will take advantage of your offer and maybe you can get in touch with Stettinius and have him come to lunch or something.

H.M.Jr: Stettinius is sick. He has had some kind of an accident, hasn't he?

Klotz: Sprained back.

H.M.Jr: I heard Will Clayton was in town, so I asked who he was helping and I hear on the train they say he has joined "Rockefeller Center."

White: That is right. He was there at this meeting. He is an advisor to Rockefeller.

H.M.Jr: He joined Rockefeller Center.

White: He is on the same group with Mr. Ravinsky, who is also advisor. Some more dollar-a-year men.

H.M.Jr: Don't ever put down Will Clayton except for one of the shrewdest fellows you ever met.

White: Oh, he is very able. So is Ravinsky. They are shrewd.

H.M.Jr: You bet your life.

White: That is why they are working for a dollar a year. That is all.

H.M.Jr: All right.

Bell: Senator Guffey wrote to the Comptroller about

- 13 -

receivership appointments in Pennsylvania and then sent you a copy of that letter and you asked Cy. to see you about it. Now, the Comptroller has prepared a reply to Guffey for his signature.

H.M.Jr: Let it go.

Bell: Before you see it?

H.M.Jr: Why should I? It is the Comptroller's baby.

Bell: Well, you said to Cy. --

H.M.Jr: I know, but I think your way is much better. I accept your suggestion.

Bell: Okay. The market is just going out the window.

H.M.Jr: Which way?

Bell: Up. I take it they are --

H.M.Jr: Could you give me between nine and nine fifteen an up-to-the-minute memo, how far out can we go on a 2%?

Bell: I have it now.

H.M.Jr: Could I have it in the morning?

Bell: Yes. You will be here at the office?

H.M.Jr: Yes, I will come in first.

Bell: All right. I have it now. We can go to 53-55.

H.M.Jr: Wonderful. You people might be interested in Wallace's comment on the West, which was a surprise to me. He had been talking out through Minnesota and Nebraska and Iowa. This is just in the room. He is not at all sure of Iowa and not sure of Minnesota. The thing which I don't know, which is news to me, 40% of the farmers in Nebraska are Germans and, much to his surprise, are very pro-Hitler. He says that as soon as you get West of Chicago,

- 14 -

this whole business about England - it just hasn't reached them. He says the older generations and the county chairmen would say to him, "Now, lay off Hitler." So I made the suggestion to the President that he try Bill Bullitt out in Omaha. Nebraska was evidently - he thought it was a swell suggestion and if it went well, he had better talk other places, but I didn't get the feeling from the way Wallace was talking that he was very confident. I am surprised.

Foley: Claude Pepper said he talked in Danville, Illinois, on Saturday at a County Fair, and he said there was a very large turn-out and the crowd was very enthusiastic and Wallace had been through there and Wallace made a good impression.

H.M.Jr: He didn't talk about Illinois. He was talking about Iowa and Nebraska and Minnesota.

Thank you all.

SEP 18 1940

My dear Mr. Under Secretary:

This is in reply to your letter of September 14, 1940, your reference RA, indicating that the State Department is interested in resuming with Cuba discussions over certain financial proposals, and requesting that in connection therewith the Treasury Department make broad studies of Cuba's monetary, banking, and fiscal situations in relation to her whole economic structure.

As usual, the Treasury Department is ready to cooperate, and in accordance with the suggestion contained in your letter will immediately undertake studies of Cuba's financial and general economic situation.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable Sumner Welles,

Under Secretary of State.

cc to Mr. Thompson

HRS:lrs
HRS 9/18/40

FILE COPY

By Messenger 415



DEPARTMENT OF STATE
WASHINGTON

In reply refer to
RA

September 14, 1940

My dear Mr. Secretary:

During the last two or three years, as you are aware, the Department has on numerous occasions discussed many phases of Cuban economic affairs with the Treasury and other appropriate agencies of this Government. Such discussions have included, among other things, reform and reorganization of the Cuban tax and fiscal systems; reorganization of the Cuban monetary and banking system, including the question of the exchange relationship between the Cuban peso and the dollar; the development of any new productive facilities in Cuba; and the carrying out of much needed public works, including the reconstruction of the Habana water works.

The carrying out of any of these projects has in the past been postponed due to the delay of the Government of Cuba in settling on a satisfactory basis a number
of

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.

-2-

of problems outstanding between the two nations. During the last few days, however, the Cuban Congress has adopted legislation settling one of the most troublesome issues, that of the obligations to American contractors who constructed public works in Cuba in the twenties. The Department now believes that, when this legislation becomes law, this Government should be prepared to consider and discuss with the Cuban Government a number of the projects mentioned above which are of special interest to Cuba.

The Department therefore requests that, in anticipation of discussions in the near future of many phases of Cuban-American economic relations and the Cuban economy, the Treasury undertake a broad study of the Cuban monetary, banking and fiscal situations in relation to the whole Cuban economic structure. The Department is of course prepared to render every possible assistance in such a study. The Department is also requesting in anticipation of the forthcoming discussions, that the Export-Import Bank review its files with regard to the Habana water works and other projects.

Sincerely yours,



Under Secretary

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Beirut.

DATE: September 18, 1940, 6 p.m.

NO. : 91.

This is in reference to my telegrams numbered 46, 74, 76 and 83, concerning frozen French credits.

I have been informed by the Banque de Syrie that its license permitting partial release of its funds deposited with the French-American Banking Corporation will expire on September 20, and that a similar license concerning their funds in the Chase National Bank will expire on September 27. The Banque de Syrie has communicated with these American banks by telegraph, requesting that these licenses be renewed. Because of the essential requirements of this mandated territory, the importance of this was stressed by the High Commissioner in a conversation which I had with him today.

PALMER

HPD

EA:VCL

MN

TELEGRAM SENT

GRAY

September 18, 1940

3 p.m.

AMERICAN EMBASSY

MOSCOW.

556.

No. 320 from Riga, August 23, noon.

Licenses issued freeing the five accounts.

HULL

(HF)

840.51 Frozen Credits/489

EA:GL:VCL

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE

NOV 22 10 44 AM '40

RECEIVED
TECHNICAL ASSISTANT

EH

PLAIN

Casablanca

Dated September 18, 1940

Rec'd 6:20 P.M.

Secretary of State,
Washington.

127, Eighteenth.

American Fondouk Fez entirely without funds must
close unless petition Mrs. Mary Lyon whose address
First National Bank, New York speedily acted upon.

GOOLD

NK

TO THE SECRETARY
OF THE DEPARTMENT OF STATE
WASHINGTON, D. C.

940 SEP 31 AM 11 30

INTERNATIONAL DEPARTMENT
RECEIVED

C
O
P
YDEPARTMENT OF STATE
Washington

September 18, 1940.

In reply refer to
EA

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and transmits a copy of a Pro Memoria, dated September 17, 1940 from the Bulgarian Minister at Washington, requesting the licensing of a transfer of funds to effect payment for imports of oil into Bulgaria from Rumania.

Enclosure:

Pro Memoria from
Bulgarian Minister,
September 17, 1940.

ROYAL BULGARIAN LEGATION
Washington, D. C.

PRO MEMORIA

According to the existing trade agreements between Bulgaria and Rumania part of the payment for oil imported into Bulgaria from Rumania was required to be effected in dollars in New York.

The transfer of the necessary amounts in dollars was done through the Gallia Petroleum Maatschappij N. V. Amsterdam, Spuistraat 198-212, whose holdings in dollars were with the Nederlandsche Bank voor Zuidafrica account in the Irving Trust Company, New York.

On the 10 of May of this year the Bulgarian National Bank had with the above firm, Gallia Petroleum Maatschappij N. V. a credit for the above mentioned purpose of \$119,693.00 which had to be used in payment for supplies of oil shipped to:

1. To the Bulgarian Cooperative and Agricultural Bank	\$88,500.00
2. War Ministry, Sofia	15,136.00
3. To the Cooperative (Napred).....	3,054.00
4. To Penko Ivan Boyadjieff Bros. & Co.	3,503.00
5. To the Alliance of the Bulgarian Cooperatives	4,200.00
6. same	<u>5,300.00</u>
Total	\$119,693.00

The above amount although appearing as a Dutch holding in the United States is actually a Bulgarian credit to be effected for the payment of Rumanian oil, ordered and supplied before the 10 of May, 1940.

The Bulgarian Government would much appreciate if the necessary steps are taken for the granting of a license freeing the above amount and transferring the same to the account of the Bulgarian National Bank with the Irving Trust Co.

September 17, 1940.
No. 851.

Paraphrase of Telegram no. 420 of September 18, 1940
9 P.M., from the Embassy at Buenos Aires.

According to a reliable exchange broker, all of his recent applications for prior permits to import American merchandise on the approved list were today returned to him marked to be resubmitted for further consideration after 15 (in some cases 30) days.

It will be recalled that the suspension of imports from the United States beginning January 1939 was matter which can admit a similar notation.

The proximity of the arrival of the President of the Export-Import Bank of Washington and the publicity regarding the increase of the capital of the Bank may have had a pertinent bearing on this matter.

RA:Donovan:CBT

eh

September 18, 1940.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston
SUBJECT: Politics - Pennsylvania.

Gardner Jackson called me Tuesday morning to say that the contest for Majority Leader was nip and tuck between John McCormack and Pat Boland. He hoped if we had any opportunity we would use our influence for Pat. He said the selection of Boland would help the President materially in Pennsylvania, while the selection of McCormack would not do any good anywhere.

FROM: MR. GASTON'S OFFICE

299

TO: The Secretary

Paul Appleby said Ed Flynn had asked him to ask us to get Saul Haas to come to Washington so that he could have a conference with the President and Homer Bone and then assume command of the campaign in the State of Washington. Flynn, according to Appleby, said the President wanted this. Appleby was apologetic about the call, saying he couldn't understand why Flynn didn't call us, but supposed it was because he knew Haas and Bone quite well.

Apparently both Bone and Haas are a little reluctant; but shouldn't we get our orders direct from the President?

Saul would, of course, have to resign to run the campaign.

Sept. 18.



Gave to Gaston
to take care of

CONFIDENTIAL

300

Paraphrase of Code Radiogram
Received at the War Department
at 2:00 P.M., September 18, 1940

Bucharest, Filed 14:10, September 18, 1940.

As a result of the Rumanian request for German assistance in reorganization of her armed forces, General Tippelskirch in uniform has arrived in Bucharest. The latest reports indicate that the Rumanian Army is to be reduced to a streamlined force of 100,000 men armed, equipped and instructed by Germans. Airfields are being inspected by German experts and arrangements are being made for their use by the German Air Force in an emergency.

Russian intentions are not trusted by German officials here.

RATX

Distribution:

Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

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Paraphrase of Code Radiogram
Received at the War Department
at 12:26 P.M., September 18, 1940.

London, filed 17:00, September 18, 1940.

During the night of September 16-17 208 British bombers operated against enemy railroad yards and shipping concentrations. During daylight hours of the 17th three British planes were dispatched on reconnaissance missions.

During daylight hours of the 17th about 358 German aircraft operated over East Kent, Kenley, Biggin Hill and the London area.

During the night of September 17-18 there was a continuous stream of raiding planes, mostly flying singly, operating over all parts of London from 8 P.M., until daylight. The bombardment of the city was widespread, with some 70 districts affected. It was reported that some magnetic mines were dropped in the suburbs. The use of incendiary bombs was more extensive than heretofore. Other attacks were made over South Wales, Liverpool and Scotland.

The daylight attacks on the 17th damaged the York Hill Quay in Glasgow, the cruiser Sussex (9,830 tons) was set on fire, and civilian establishments were damaged in Greenwich, Caterham, Speke, Woolwich, Liverpool and Portsmouth. The attacks last night resulted in numerous major fires in widely dispersed places in the London area. The worst were in the West Indies Docks, the Siemens

CONFIDENTIAL

factory at Woolwich, and a large shop on Oxford Street. High explosive bombs caused severe casualties at the Marble Arch. Many streets were blocked and there are a large number of delayed action bombs all over the city.

German aircraft losses were ten confirmed, four probable and two damaged. The British lost five fighter aircraft but only one pilot.

The casualties to the civilian population were heavy but have not yet been determined.

The morale of the people is satisfactory.

There is no change in the evidences of an invasion.

Three ships, totalling 21,500 tons, were lost.

LMB

Distribution:

General Watson
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
War Plans Division
Office of Naval Intelligence

G-2/2657-220

RESTRICTED

No. 197

SITUATION REPORTM.I.D., W.D.
September 18, 1940.
12:00 M.

This military situation report is issued by the Military Intelligence Division, General Staff. In view of the occasional inclusion of political information and of opinion it is classified as Restricted.

I. Western Theater of War.

1. No ground operations.
2. Air Force Operations.

German operations over the London area began in bad weather late in the afternoon of the 17th and continued throughout the night. They claimed to have attacked docks, waterworks, gasworks and railroad stations. It is clear that widespread damage was inflicted throughout the area. The Germans also reported attacks on Liverpool (probably heavier than on the day before), on Glasgow (probably from Norway) and on airfields in the London area.

British night bombing took place along the Channel coast, and some planes operated over Germany. A German convoy was attacked in the Channel in daylight.

Plane losses were low on both sides.

II. Mediterranean Theater of War.

1. The Italian ground advance has moved rapidly and is now in the Sidi Barrani area, 55 miles inside the Egyptian frontier. There are rumors of Italian ground activity farther to the South.
2. The Italian Air Force continued its attacks on British troops. The R.A.F. is concentrating on Italian communications and in particular has bombed Bardia and Beughazi.

RESTRICTED

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

Today's transactions in registered sterling by the six reporting banks were as follows:

Sold to commercial concerns	£50,000
Purchased from commercial concerns	£ 1,000

The Federal Reserve Bank of New York purchased £35,500 from two non-reporting banks.

In the open market, sterling remained at 4.03-3/4 throughout the day. Transactions of the reporting banks in open market sterling were as follows:

Sold to commercial concerns	£13,000
Purchased from commercial concerns	£26,000

Although the Cuban peso weakened to 9-1/16% discount this morning, it subsequently recovered part of the ground lost and closed at 8-5/8%.

The other currencies closed as follows:

Swiss franc	.2278-1/2
Canadian dollar	16-5/8% discount
Swedish krona	.2385
Lira	.0505
Reichsmark	.3992
Mexican peso	.1996 bid, .2016 offered

We purchased \$52,569,000 in gold from the earmarked account of His Britannic Majesty's Government.

The State Department forwarded to us a cable stating that the National City Bank, London, shipped \$476,000 in gold from England to its head office at New York, for sale to the U.S. Assay Office.

The Bombay gold price was equivalent to \$33.90, up 8¢. The silver equivalent was 44.56¢, a gain of 1/8¢.

In London, spot silver moved off 1/16d to 23-7/16d. Forward silver, on the other hand, advanced 1/16d to 23-7/16d. The dollar equivalent of 23-7/16d is 42.56¢.

- 2 -

Handy 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 one purchase of silver amounting to 25,000 ounces under the Silver Purchase Act. This represented new production from foreign countries, for forward delivery.

The report of September 11, received from the Federal Reserve Bank of New York giving foreign exchange positions of banks and bankers in its district, revealed that the total position of all countries was short the equivalent of \$10,612,000, a decrease of \$438,000 in the short position. The net changes in the positions are as follows:

Country	Short Position September 4	Short Position September 11	Decrease in Short Position
England*	\$ 1,480,000	\$ 1,082,000	\$ 398,000
Europe	4,563,000	4,642,000	79,000 (Increase)
Canada	145,000 (Long)	278,000 (Long)	133,000 (Increase in Long Position)
Latin America	381,000	457,000	76,000 (Increase)
Japan	3,750,000	3,777,000	27,000 (Increase)
Other Asia	1,020,000	1,025,000	5,000 (Increase)
All others	1,000	93,000 (Long)	94,000 (Increase in Short Position)
	<u>\$11,050,000</u>	<u>\$10,612,000</u>	<u>\$ 438,000</u>

*Combined position in registered and open market sterling.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Official sales of British-owned dollar securities under the vesting order effective February 19:

	<u>No. of Shares Sold</u>	<u>\$ proceeds of Shares Sold</u>	<u>Nominal Value of Bonds Sold</u>	<u>\$ Proceeds of Bonds Sold</u>
September 9	5,370	132,826	Nil	Nil
10	15,823	351,421	3,000	2,728
11	1,742	88,148	116,000	75,885
12	10	929	22,000	13,095
13	2,655	150,519	14,000	7,660
14	475	19,955	22,000	12,049
	<u>26,075</u>	<u>743,798</u>	<u>177,000</u>	<u>111,417</u>
Sales from February 22 to September 7	<u>1,459,905</u>	<u>51,053,790</u>	<u>4,195,000</u>	<u>3,436,244</u>
TOTAL FEBRUARY 22 TO SEPTEMBER 14	1,485,980	51,797,588	4,372,000	3,547,661

Mr. Pinsent reported sales of non-vested securities for the week ended September 7 totaled \$745,000.

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Knoke talked with me by telephone yesterday afternoon in regard to his letter of September 6 reporting the exceptions which have recently been made by the Custom Division of the Post Office to permit importation of gold by air. I told Mr. Knoke that this correspondence was being brought to the attention of our General Counsel and of the other officials in the Treasury who are interested in this subject.

Mr. Knoke mentioned incidentally that gold coins which were some time ago selling at a high premium in Switzerland are now at a heavy discount in that country. At present such discount is said to be between fifteen and twenty percent. Mr. Knoke was a little surprised that the Post Office was making the exceptions under reference, and observed that we are receiving enough gold through regular channels.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 18, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

When Mr. Pinsent, Financial Counselor of the British Embassy, called on me this morning he asked the status of the Treasury's study of the memorandum submitted by the Bank of Montreal agency in New York in regard to the Treasury's possible handling of the present double taxing of official British security sales in this country. Mr. Pinsent had received a request from London on this subject. After talking with Mr. Cairns, I telephoned Mr. Pinsent this afternoon that the Bureau of Internal Revenue had completed its study of the question and that the papers were reported to be ready for discussion between the Chief of that Bureau and Mr. Cairns. I promised to let Mr. Pinsent know whenever some decision might be reached by the Treasury on the points involved.



September 18, 1940

Professor Chamberlain

Mr. Cochran

At 3:45 this afternoon Mr. Bernard Carter telephoned me from J. P. Morgan and Company offices in New York. He asked what action the Treasury was taking on the application for a license for \$10,000 to meet the expenses of the Anne Morgan group in France. This amount was to come from the American Friends of France, who have raised \$150,000 in the United States. Mr. Carter is anxious to have some word in the premises by tomorrow noon, since the New York committee is meeting tomorrow afternoon to discuss plans for the future. Mr. Carter is Treasurer of the fund. He explained to me that the \$10,000 in question is urgently needed by Miss Morgan to meet day to day, and even hand to mouth, expenses.

I brought this question up at the Foreign Funds Control Group Meeting this afternoon. After thorough discussion thereof Professor Chamberlain stated that he would consult the Secretary tomorrow morning on the policy involved.




HMC:lap-9/18/40

September 18, 1940

Files

Mr. Cochran

Mr. King of the Foreign Funds Control telephoned me at 5 o'clock this afternoon that he had endeavored in vain to identify the transaction concerning which the Swiss Minister stated a license had been applied for by the Chase National Bank. The Minister had said that this involved a contract between the Chase and the Swiss Bank Corporation, covering a Swiss franc, Dutch florin exchange operation. The number which the Swiss Minister had given me was 12,612. After talking with Mr. King I called the Swiss Minister. He told me that the number was actually 12,616. I do not know where the error was, but I have given this correct number to Mr. King.



EMC:lsp-9/18/40

September 15, 1940

Professor Chamberlain

Mr. Cochran

I distributed yesterday to the members of the Central Group a memorandum dated September 16 from the Department of State, covering cablegram No. 567 of September 14 from Charge d'Affaires Matthews at Vichy. Mr. Luthringer of the State Department has today informed me that the name of the individual was given erroneously in the telegram under reference as Francesco Vici. Mr. Luthringer is now informed that the name of the man in question is Francescovi.

A handwritten signature in dark ink, appearing to be 'JMP' followed by a long, sweeping flourish that extends to the right.

EMC:lsp-9/15/40