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GROUP MEETING

October 1, 1940
9:40 a.m.

Present: Mr. Foley
Mr. Young
Mr. Thompson
Mr. Schwarz
Mr. Haas
Mr. Cochran
Mr. White
Mr. Graves
Mr. Bell
Mr. Riefler
Mr. Pehle
Mrs Klotz

H.M.Jr: We have got a new member, Mr. Pehle. Incidentally, I had a meeting scheduled at 10:00 on Money to Embassies, and Mr. Berle asked whether it could be switched to Foreign Funds, as he is bringing Feis and Grady, so Bell and White and Pehle will stay, and Cochran.

Bell: And Foley.

H.M.Jr: And Foley. Mr. Thompson, is that all right?
I don't see any announcement on our bonds.

Bell: I have it here.

H.M.Jr: I thought you were going to do it for this morning's paper.

Bell: No, I thought we would release it this morning after you got here.

H.M.Jr: Well, we will see whether Chick can give a little stump speech, won't we?

Bell: Sure.

H.M.Jr: Or do you want to do it?

Bell: I will let Chick do it.

H.M.Jr: I think I would let the boys see Bell.

Schwarz: We have one to make up for, one of 78%. That was that old one.

Bell: Oh, that is a bond issue. It is a lot different from a note.

H.M.Jr: If I was going to do it, I would do it right after this - let him do it right after 10:00 o'clock.

Bell: It ought to get out right away. I don't think we need to see him unless you particularly want to.

Thompson: I finally got the funds from the Public Works Administration for the magnolias which you wanted in the west gardens of the Treasury, and also for the boxwoods to fill in the spaces in the south court.

H.M.Jr: Wonderful.

Thompson: If we can just find the trees now.

H.M.Jr: Grand.

Thompson: Mr. Helvering will be absent all this week.

H.M.Jr: Okay.
Dan?

Bell: You were going to see Admiral Waesche some time.

H.M.Jr: 2:45. Do you want to sit in on that?

Bell: Not particularly, I just wanted to remind you.

H.M.Jr: Yes. I gave him 2:45.

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Bell: I have got a number of things. Shall I do it now or come in later?

H.M.Jr: I would rather do it after Berle leaves. How is that?

Bell: That is all right.

H.M.Jr: Right after Berle leaves?

Bell: All right.

H.M.Jr: Harold?

Graves: You asked me some days ago to see what might be done to expedite that Scalise case. Such evidence as we had in that case - and it was substantial evidence of income tax evasion - was sent over to the Department of Justice last week, and they are sending an attorney to New York today to deliver the case to the United States Attorney and they will at once seek an indictment against Scalise. In the meantime, our investigation will be continued and completed.

H.M.Jr: Will that go to Cahill?

Foley: Yes.

H.M.Jr: Can't he sort of have it put in his lap, personally?

Foley: He is down helping Forrestal now.

H.M.Jr: Did he come down to help Forrestal?

Foley: Not officially, but he is down here most all the time now. He is here today.

H.M.Jr: Well, I think if --

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Foley: If you want me to talk to him about it, I will be glad to.

H.M.Jr: I think so.

Graves: Here is this memorandum on it. That is all I have.

H.M.Jr: Will you sort of - you know, one of those timely things.

Foley: Right.

H.M.Jr: How much do you think he owes?

Graves: I have no idea.

H.M.Jr: Harry?

White: A --

H.M.Jr: What happened on that message to the Argentine?

White: It's a matter that has to be taken up with you this morning, and a decision has to be made on rather an important aspect. They are pushing very hard.

H.M.Jr: Well, isn't it Berle who is pushing?

White: No, not to my knowledge.

H.M.Jr: Well, why not --

Bell: Did you talk to Jones at all over the week-end on the phone about it?

H.M.Jr: No.

Bell: You see, we have a cable here that gives a statement which Pierson wants to make to the

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Finance Minister before he goes tomorrow. He thought there was an indication that Jones had talked to you over the week-end.

- White: That is what I was given to understand.
- H.M.Jr: Unless he was the man who called me up and wanted to buy some MacIntosh --
- Bell: We told Larry Duggan we thought it ought to go over today and if Jones --
- H.M.Jr: Why not bring it up when Berle is here? Isn't he handling it?
- White: I don't think he is, but I am not sure.
- Bell: I think it is Welles.
- White: He knows about it and has been in on it at one stage of the game.
- H.M.Jr: Those of you Foreign Funds fellows who are interested in that can stay behind, I mean after Berle leaves.
- Bell: Well, it is White and Cochran.
- H.M.Jr: Well, we will excuse Pehle and Foley. After Foley leaves, we will just tell them to get the hell out.
- Bell: I don't mind them staying, but it isn't a Foreign Funds matter, it is Export-Import Bank.

(Telephone conversation with Secretary Stimson follows:)

October 1, 1940
9:49 a.m.

Operator: important.

H.M.Jr: He can't?

Operator: He says it's important.

H.M.Jr: Go ahead. Hello.

Henry
Stimson: Hello, Henry. I'm sorry to bother you but
this is important.

H.M.Jr: You haven't bothered me yet.

S: I'm ready to seal and close up that flying
fortress matter and I'm also ready with
Judge Patterson to see you on another matter
for expediting planes which is very important.

H.M.Jr: Well, now here's the situation. Patterson
called me up Saturday and said he'd like to
see me on a matter of expediting

S: That's the same matter.

H.M.Jr: and I advised him to come over for lunch.
Have you a lunch date?

S: I don't think so, but I'm sorry it has to be
at lunch. I've got - well, I have a date - let
me see. 12:15 - no I haven't any lunch date.

H.M.Jr: Well, I mean, do you want to make it 1 or
1:15.

S: Make it 1 o'clock.

H.M.Jr: 1 o'clock and then both you and Patterson

S: Yes, if you'll give me another good lunch.
Well, I tell you, you can come up to my house,
I'll give you a lunch back. I think it's
pretty nearly my turn.

H.M.Jr: Could I do that some other time or some
evening? (Laughs).

S: (Laughs). You can do it any time.

H.M.Jr: Well, I mean, this takes a little bit less time.

S: Yes.

H.M.Jr: What?

S: Yes.

H.M.Jr: May I take a rain check on that?

S: All right.

H.M.Jr: Well, then I'll see you and Patterson both.

S: Yes.

H.M.Jr: Would it be agreeable if I have Philip Young present because he has the details.

S: Oh - yes. (Pause)

H.M.Jr: Is that all right?

S: But it's -- yes, certainly that's all right.

H.M.Jr: Then I'll look forward to seeing you and Patterson.

S: All right. 1 o'clock.

H.M.Jr: Thank you.

S: Thank you very much.

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H.M.Jr: He says he is ready to talk on the flying fortresses, and he says Patterson is ready to talk on engines, so seeing they are both in the same department, I didn't think it would do any harm to get them together. You (Young) are invited, too.

Young: What is that, lunch today?

H.M.Jr: Yes. I didn't want to go up to his house because it takes too long.

Harry, why don't you stay behind after that meeting, when we get through with Berle?

White: Well, I have several things. Shall I take them up then?

H.M.Jr: Well, the Argentine we will take up with the group later.

White: All right.

H.M.Jr: What else? Anything else?

White: I have several things. If you haven't time now, it will have to be done later.

H.M.Jr: All right.

White: You have time, haven't you?

H.M.Jr: I have not got time.

White: You have not?

H.M.Jr: Let me go around and we will see.

George?

Win, I would like you to sit in with us at 10:00 o'clock this morning.

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(Mr. Haas handed report to Secretary)

- H.M.Jr: Oh, marvelous. Isn't that wonderful?
Allison turned out 80 engines last week.
- Haas: There is a sheet there where I put the whole
month on.
- H.M.Jr: That is marvelous. I am going to call them
up and congratulate them.
- Haas: Mr. Secretary, there is another development
in connection with the reports that you get
from the airplane industry and the Air Corps
and so on. If I get a chance, I would like
to talk to you about it. There was a meeting
yesterday.
- H.M.Jr: All right. That was a nice story that Kintner
and Alsop wrote on the Allison engines. I
wonder where they got it. It is fairly accurate.
Did you (Foley) talk to them?
- Foley: No.
- H.M.Jr: I mentioned something to him the day he was
here. I said not to say more than - not to
use the figure 60 engines. I said, "Make it
over 50," because if he said 60, it would
be too accurate. I thought it was a good
story.
- Schwarz: It was well handled.
- H.M.Jr: Yes.
- Pehle?
- Pehle: Nothing.
- H.M.Jr: You stay at 10:00 o'clock. What is the score
today?

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Pehle: About 900.

H.M.Jr: Too many.

Philip?

Young: The State Department has suddenly taken an active interest in shipholding activities.

H.M.Jr: Shipholding?

Young: Yes. I just found out that they okayed ten dive bombers to go to Siam last month and they have changed their minds since, so they want to take the planes off the ship at Manila and bring them back here for the Air Corps.

H.M.Jr: What did you say to them, Philip?

Young: They wanted me to find out whether or not we could use the planes.

H.M.Jr: What?

Young: If the Air Corps could use the planes; so General Arnold told me he would love to have them in the Philippines for the Air Corps there.

I will give you a report on this foreign business a little later in the morning, before lunch. That does not include the British, by the way. It is just the other foreign business.

H.M.Jr: Who is holding this Panamanian ship down at Port Arthur, Texas? Who is going to tell me about that?

Foley: I will.

H.M.Jr: All right.

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Anything else, Phil?

Young:

No.

Riefler:

Nothing.

Schwarz:

I have nothing.

H.M.Jr:

Merle?

Cochran:

Nothing, sir.

H.M.Jr:

Ed?

Foley:

The representative of the company was in yesterday and said that they would like to know one way or the other. She is down in Galveston and she has got 50,000 drums of high-test gas. We don't know whether it is real airplane gas or not. We are looking at it now, but he says it is an expensive ship and he would like to know just as soon as possible. We told him that we would try and let him know today.

H.M.Jr:

Well, let's talk that over with - at 10:00 o'clock.

White:

We have got a few more things.

H.M.Jr:

That is all right. Let's bring that up, because you know what happened at Cabinet.

Foley:

No.

H.M.Jr:

The President first said to lower it from 87 down to 85. I understand this is 86 octane, isn't it?

White:

It is probably 86, because they are just trying to get in under the wire.

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- Foley: It is just under high-test gas. I don't know what the quantity is.
- H.M.Jr: And then the President, taking Knox' suggestion - Knox says, "Why don't you make the gas the same as standard gas in a car, which is 65?"
- White: I didn't know it was as low as that.
- H.M.Jr: I think so. Regular gas is 65. Everybody thought that was swell, with the exception of Mr. Hull.
- Foley: Well, I think this fellow representing his company told Huntington - I think that is where it came from - that the Japs didn't care. They could take just the cheapest grade of gasoline and treat it and use it for airplane purposes, that they had some kind of a chemical they used and it was good enough for their planes.
- H.M.Jr: Well, that I doubt, but we will take a look at it. Let's bring it up with Berle, because I am holding it at the direction of the President. I can't hold this thing indefinitely.
- Foley: No, and they have asked to be told one way or the other. They will abide by the decision.
- The other thing is on the tax bill, Mr. Secretary. The conference report has been agreed upon. It will be submitted to the House today and the Senate probably tomorrow. We will have to get ready our report to the President. Do you want to make a favorable recommendation?
- H.M.Jr: Factual.

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- Foley: Well, I spoke to John about it last night. I thought the factual thing, too, but John feels quite strongly that we ought to recommend approval of the bill.
- H.M.Jr: Then he ought to stay here.
- Foley: Well, he says he will come back.
- H.M.Jr: I would send it over factual. You can call him up and tell him if he wants to argue with me he can call me up on the phone.
- What was your first hunch?
- Foley: Well, I told the boys to prepare it factually and then I called him, and I haven't changed instructions, and that is what they are doing over in the Bureau, but John seemed to think that we weren't keeping faith with the people down on the Hill if we didn't recommend approval of the bill. He said that the President had told the people that he wanted a tax bill and it was up to them to write it any way they wanted to.
- H.M.Jr: That is all right. You can call up Sullivan and tell him I agree with you. If he wants to talk to me, he can, but otherwise it goes over factually. What do you think, Dan?
- Bell: Well, I think the President is entitled to a recommendation. Why can't you say that it isn't quite the tax bill you expected, but you recommend its approval.
- H.M.Jr: Well, you don't mind if I disagree with you?
- Bell: No, not at all.
- H.M.Jr: Factual.
- Anything else?

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Foley: Interior has prepared a bill authorizing the issuance of bonds up to 200 million dollars similar to the way the Boulder Dam is to be refinanced, for Bonneville. Now, we have a say as to the form of the bonds and how they are to be issued and all the rest of it, but we have no say as to the amount, within the 200 million dollars. Now, I certainly think that that amount should be determined by the Treasury, since the credit of the United States is pledged, and if it is all right with you, we will say that to the Budget in our report to Congress.

H.M.Jr: Do you agree, Dan?

Bell: Yes. I would like to take a look at it. What do you mean, similar to Boulder Dam?

Foley: Well, the legislation that we worked on in connection with Boulder Dam.

Bell: That wasn't introduced.

Foley: No, but we drafted it and this follows that.

Bell: That was after we worked on that --

Foley: General self-liquidating.

Bell: Do they still want to go through with that capitalizing all of those?

H.M.Jr: I do.

Bell: You do?

H.M.Jr: Yes, definitely.

Bell: They are very small.

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H.M.Jr: I thought it was good last year and I think it is good now. I haven't changed.

Foley: Well, the letter will be ready tomorrow, Dan. I will show it to you, but I wanted to clear that point.

H.M.Jr: I haven't changed.

Is that all?

Foley: That is all.

One of our Assistant General Counsels, Norman Tietjens, has tuberculosis and he has to go away for a year.

H.M.Jr: I would like to see him before he goes, unless he has gone.

Foley: Well, he is leaving to go to Seranac tomorrow. I don't know whether he will be in or not, Mr. Secretary, before he goes. If he does come in, I will bring him around.

H.M.Jr: Stop by. And you should talk to me about it, anyway. Will you?

Foley: Yes.

H.M.Jr: Who is Philip Buck?

Foley: Buck is attorney for the Alcohol Control Administration. He is resigning.

H.M.Jr: He wants to come in and say goodbye to me. I can't refuse, can I? It is all right.

Okay.

October 1, 1940
10:00 a.m.

RE EXCHANGE CONTROL

Present: Mr. Bell
Mr. Foley
Mr. Cochran
Mr. Pehle
Mr. Riefler
Mr. Berle
Mr. Grady
Mr. White

H.M.Jr: We are at your service.

Berle: Mr. Secretary, we have been canvassing the situation in the State Department as a result of recent developments. It is the consensus of the Department that the time has arrived when we ought seriously to consider whether or not a general blocking order on control of funds ought not to be put into effect covering a very extended additional area. For the purpose of discussion, we might suggest covering everything outside of this Hemisphere, for instance. We don't have a very definite decision on the matter except that it looks as though some considerable addition of control were indicated. We wish to propose the question for discussion.

I think the State Department is in a frame of mind to support a very large widening of the measures now in effect with such modifications as might be appropriate to do some of the things that we want to do here.

H.M.Jr: Well, could you do this for me, because I haven't been thinking about it for some time. Could you give me the pros and cons?

Berle: Yes.

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H.M.Jr: Give me the pros and cons.

Berle: Mr. Grady can probably supplement it in some places.

First, we are now in a position where we are quite frankly directing our economics where they will do the most good and withholding them where it might be more dangerous. The financing of that is an integral part of that direction. In fact, it is probably easier for us in the existing state of affairs to use that form of direction than the more direct control which they undoubtedly may have to put in later on. It is a thing we can do now.

In the second place, that gives us the information and by consequence the control over certain movements of funds in this Hemisphere and in this country, over which we do not exercise any control at the moment and which we have reason to feel would give us some concern.

In the third place, we are aware of certain grave leaks in the movement of trade and funds which I think you are perfectly aware of here.

On the contrary side, there are a number of considerations. In the first instance, it does involve a frank discrimination. That weighs with us less now than it would have a short time ago, because the discriminatory quality of the world is now quite obvious and there is no reason why we shouldn't simply accept the situation as we find it.

In the second place, it does mean a much larger administrative machinery than we have yet had. The job is a huge job.

In the third place, fundamentally the job can't be done unless we rig up the machinery which is the equivalent of a ministry of economic defense or whatever you choose to

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call it, of which, of course, this is only one area, because eventually that would have to tie into your export control, which you now have and conceivably ultimately your import controls and to some extent your war purchasing and so forth, so that we obviously are traveling along on the road toward the rigging up of a full economic defense machinery. Of course, we don't have that machinery yet rigged up and so far as I know no crystalized plan for working it out, so in a sense you are doing half a thing with the whole thing still ahead. However, that doesn't strike me as insuperable.

Finally, there will be difficulties which will be extreme in handling the Hemisphere, because we are quite anxious not to break up the unity of the 21 countries which has been integral in our thinking right along, and the imposition of license controls which might affect them might easily create irritations.

On the other hand, to leave them out necessarily means a certain leakage in the machinery, so those are some very tough and difficult questions lying right in there and finally, of course, you have to have machinery that will not impede the work we are now doing in connection with our funds overseas.

I personally don't regard any of those as insuperable, but they all raise some awfully tough questions. In any case, those difficulties are probably much better known to this department than they are to ours.

Grady:

Just to supplement that very briefly, Mr. Secretary, and put it a little differently than Adolph put it, the matter of blocking funds has developed in one country after another, and we are wondering if the time hasn't come to think in terms of exchange control rather than blocking of the funds of the particular countries. We have the

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situation of Switzerland and Sweden, whose funds are not blocked, I understand, and Portugal and Spain. I don't know if Spain is blocked or not.

Cochran: No.

Grady: You have those four countries, all of which, while the British blockade has stopped their trade and our cooperation on the Spanish situation can keep things from getting into Spain, still I suppose, and we have been led to believe, that Germans, through their dominance over Sweden and Switzerland in particular, may manipulate funds in such a way that they can build up credits. In other words, that would be the loophole on the pure matter of blocking funds. You can go ahead and block the funds for all those countries, but it might be more irritating to them, more objectionable, than a straight exchange control program.

On the objection side, of course the effect it had on our trade wouldn't be very much with Europe, but if we extended the matter to the rest of the world and had a complete exchange control setup, it would have a pretty far reaching effect on our commerce in a sense of adding to the complexities and difficulties regarding our international trade.

H.M.Jr: Well, I unhesitatingly am for a policy. It is a constant source of irritation to me, the half-hearted way in which we are attempting from day to day to apply economic sanctions. Let's call it by the right name. That is what we are talking about. I can give an example. The thing I want to talk about before you leave, at Cabinet on Friday I reported that this ship, the Panamanian, was loading with gasoline for Japan. Also, we said the ship would not return and would be sold for scrap in Japan, and that was a new way they were going to get the scrap iron. I reported at Cabinet that the gasoline, they think, is

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86% instead of 87 grade. One point below, yes. And what was their pleasure?

Well, Colonel Knox made the suggestion that one of the easiest ways would be to drop it to 65, which is standard gasoline, but Mr. Hull didn't seem to like that on account of the situation in the Dutch East Indies. Well, in the meantime, the President turns to me and says, "Hold the ship." Well, I'm holding it. I can't hold it indefinitely. I have got to get some kind of directions. The ship owners are down and say, "Tell us. We will unload or not."

Grady: Is it an American ship?

H.M.Jr: No, it is a Panama ship. It is one of the old Dollar Lines, but they think the company is really controlled by the Japanese. Are my facts correct?

Foley: That is right. She is in Galveston, Texas. She has a thousand drums of gasoline on board and the owners have asked us to tell them one way or the other whether she is to be allowed to sail or whether we are going to hold her, because it is an expensive cargo and they are going to unload her. She is not going to be permitted to sail.

H.M.Jr: There is a case in point. And then, of course, the other thing is, it is terribly hard for us to explain to people that we won't let them send money to these other countries but they can send money to Germany. This is, of course, a very important move, and inasmuch as you have brought it up, if State would write a memorandum on it or have something or other which Mr. Hull approved of and then if he would ask the President to get a half dozen of us in who are fooling around with this stuff and find out how the President felt and what he wanted to do. But there are about a half dozen people now who have something to say.

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We have a ship movement thing under Coast Guard and there is also Colonel Maxwell. We have the funds, Foreign Funds Control. You people do the relicensing. Of course, the Army and Navy have something to say.

Berle: We have been rather careful so far not to state our views as to what policy should be stated.

H.M.Jr: If I knew in what direction Mr. Hull wanted to go or if he wanted to call a meeting or I could go over to his office and see if we could have a meeting of the minds and then we could go to the President. I don't know of anything more important.

Bell: Is it your idea to set up immediately in effect this economic ministry, or is it your idea to put on the Exchange Controls first which would generally lead to it?

Berle: No, my reference to what you call an economic ministry was really the realization that we had spare parts all around and I can't imagine but what at some stage of the game they will have to come together in some fashion, but that I merely posed as the difficulty in taking the finance and segregating it from some of the rest of the things.

H.M.Jr: If the State Department - if Mr. Hull will call a meeting and I could have a little memorandum in advance which he has agreed to, which I could study, just give me a couple of hours' notice and I will be glad to come over.

Berle: I think Mr. Hull would be very glad to do it. I may say that I think his position is perfectly clear, because certainly we had a staff conference of perhaps three hours and my request for this meeting is the result of that. We wanted to find what the views of the Treasury were before we got too far in, because this is peculiarly the field in which the Treasury is interested.

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- Grady: He wants to stop the leaks, such as they are.
- H.M.Jr: It is just a question of how far does he want to go and if the President asks me, I would go the whole way. I wouldn't do it in any more bites.
- Berle: I think that is the answer, possibly with a reservation about the South American situation.
- H.M.Jr: Well, you have your leaks there.
- Bell: We recommended one time the whole way and then we recommended all of Europe one time, with relaxation to Great Britain. In this picture, if you go the whole way and treat our friends liberally, what are you going to do about Russia? Where do they fit in?
- Berle: Since that is one of the great open question marks, since neither they nor the Germans have quite solved it, perhaps you will forgive me if I don't answer that for the moment. At least we can guide our forces as our best advices are. As far as we were advised, the Russians were notified of the German-Japanese Pact in so short a time that there was no consultation. Whether a dicker is possible now which will bring them into the clear remains an open question. I take it until there is some resolution there, you can't perfectly guide your course.
- H.M.Jr: I have eliminated myself from talks with the Russians, but for us not to give them a small order for manganese now when they have offered it to us after a lapse of a year, at this time I just think it is the height of stupidity, but there it is and they offered 800,000 tons to the State Department a year ago and it was turned down. Now they have come through and said, "We will sell you some more."
- White: The administrative difficulties which would be much increased are, of course, quite subsidiary to the larger policies involved but I think what you say is quite correct, that

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if you left out the rest of the South American republics, there would be a good deal of leaks. It is none the less true that you can reduce those leaks and extend your area of control without including Latin America if you have control over the other funds, as we are doing, and that is particularly the case in view of the possibilities that exist of State Department cooperative action. Most of those countries have exchange control already. Argentine has Foreign Funds Control. The others have Exchange Control, so you can work in that direction even in the area which is left.

- Berle: I didn't mean to pre-judge the area. Merely as a mark to shoot at, I suggested that as one way to consider it. It might very well be that you could work out a complete Exchange Control with an extreme liberality of licenses for those countries or something of that kind.
- H.M.Jr: May I interrupt you? If, for instance, we did all of Europe or all the rest of the world except South America and found due to the leaks we had to put them on, it would be sort of singling them out and just as a horseback opinion, I would rather do the whole world, letting South American countries know in advance that we are going to give them special treatment.
- Grady: That certainly --
- H.M.Jr: Letting them know in advance that we would give them special treatment, because take this question - I don't know how familiar you gentlemen are with this Argentinian thing. They had $3\frac{1}{2}$ million dollars, roughly, due them from France in payment for goods, which I think had been sold, hadn't it?
- Cochran: Yes, sir. It was all due, yes, sir.
- H.M.Jr: Had it been delivered?
- Cochran: Yes, sir.

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- H.M.Jr: And we agreed that that money could be transferred to the Central Bank of the Argentine and after the Ambassador came down here very much excited about it - and the last I heard was that the French wouldn't agree to it. Is there any change in that?
- Cochran: Not yet.
- H.M.Jr: We agreed to it, but the French haven't released it.
- Then the other thing which I put on the President's - in front of him at Cabinet, he said he didn't have time enough - he took it - was this whole Argentinian thing, bringing up a million and a half dollar loan for a new purchase of meat to be used in the prison camps, which we don't like, but I put the thing on his desk. It is around $3\frac{7}{8}$, isn't it?
- Cochran: 3.7.
- H.M.Jr: That is close enough for me. It is 3.7 and a million and a half that is on his desk, but I am just citing these things and then the night we agreed with our great friend Felipe, he beat his breast and we had asked his information and he said we should take his word and we subsequently got the information. The next morning he put on Exchange Control and then, of course, subsequently he said it was all a misunderstanding, but I happened to sit through that one meeting and that is why I say I think if we did the whole thing and then say to each of these countries, "Look, this doesn't mean you," - of course, this is all just thinking very much out loud.
- Grady: Well, that is one phase of the thing, Mr. Secretary. We give them every encouragement to go ahead and such countries that haven't got Exchange Control in Latin America, we have operated fairly and nondiscriminately

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as far as they are concerned, but they might not, as far as we are concerned. We run into powers of that kind so easily abused. It becomes a question of trading then, and there is a good deal of confusion.

- Berle: I can put up a tolerable defense of the Argentinians, but that is a subsidiary question.
- H.M.Jr: I thought Herbert Feis was going to be here.
- Berle: I thought so too, but he was tied up fixing up some British deal with Jesse Jones and he thought he had to stay through it.
- H.M.Jr: I see. This is down his alley.
- Berle: I had asked him to be here, but I thought it would be a little bit later and he had this half hour with the men in his office.
- H.M.Jr: Well, let's leave it this way. If you gentlemen will give me or Mr. Hull will give me a piece of paper telling me what way he wants to move on this thing so I can study it, and then on a couple of hours' notice I will be delighted to come over with my staff and sit down in his office and discuss it.
- Berle: All right. I think --
- H.M.Jr: But I would like a memorandum from him in advance.
- Berle: I think in handling that, what State would probably want to do would be to put down the objectives they want to obtain. The technique, of course, lies over here. We wouldn't want to try to suggest very much on that, because you are the fund of information on the technical methods of that kind of thing. We could clearly state the objectives we hope to accomplish.
- H.M.Jr: Well, we might as well face the thing, and

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it is going to be the whole thing and if it is going to be real economic sanctions and everything that goes with it, I think that is a pretty big --

- Grady: It is a serious departure.
- H.M.Jr: It is a big thing.
- Grady: Especially to take in everything.
- White: We would have to be openly discriminatory because it would be an impossible administrative task unless you issued general licenses to those countries you wanted to exclude.
- Berle: I might say to that, surprising as it may seem, one result of the diplomatic announcement last week probably gives us leeway that we did not have before.
- H.M.Jr: On the scrap?
- Berle: Well, on the discriminatory treatment. We no longer have to deal with a situation in which we have an alliance which in form, at least, is directed against us.
- H.M.Jr: How does this hit you, Win?
- Riefler: I agree with you. I think it is probably overdue.
- H.M.Jr: How do you feel about - you are a friend of South America. How do you feel about it? Would you do it in two bites?
- Riefler: I think you are right. I think I would make it universal and work very carefully to see that it doesn't get in between us and the countries we are dealing with.
- H.M.Jr: Well, do you want to say anything, Dan?
- Riefler: I think your approach is absolutely correct. South America is always difficult to deal with, and if you find later you have got to

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do things to stop leaks, it will be pointed at them specifically and they will resent it and it will resound much more up and down the whole continent than if it is a general measure with exceptions. Exceptions can be dealt with more delicately and can be flexed to the situation at any time.

- H.M.Jr: We are handling the licenses for money now, I think, with a minimum of friction. I don't know whether you get complaints, but we get very few complaints. We try to keep it down to the minimum.
- White: The bulk of complaints have all been on the same point and which we can do nothing about, which is the remittance problem.
- Grady: There would be nothing inherently discriminatory in control of this kind. We have got, of course, our trade agreements guaranteeing fair treatment on exchange.
- White: But they would regard it as they have given evidence of so regarding it, as something that is quite undesirable if it is applied to them at all, if they have to request licenses at all, so that I think both for administrative reasons and possibly for political reasons you would have to give them practically a general license in which it wouldn't apply to them at all.
- Bell: How does it affect the other countries under your trade agreements?
- Grady: Well, European countries - I think it is a theoretical question as far as --
- Bell: How about Switzerland? They have been asking about this matter now for the last three months, and they are scared to death they are going to be brought under it.
- Grady: Switzerland and Sweden both have agreements with us which - our position with regard to that is simply that they would get their fair

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share of any allocation of exchange based on what their trade had been. Well, if you cut down the total, you cut them down proportionately. I should think it could be administered in such a way that there wouldn't be any violation of the agreement, because we have rather wide power under war conditions and that is one point under this whole thing. It would be interpreted as practically recognizing a war emergency and so interpreted by our opposition and so on if it happened before election.

White: Your thought would be that in the granting of licenses, the principle in the case of Switzerland and Sweden would be different, would be based upon nondiscriminatory treatment rather than the criterion which we would apply in the other countries?

Grady: The point is that the British pretty well control the thing through the blockade, as far as trade is concerned, so I don't think we ourselves would be blamable for any actual discrimination as long as we didn't hold up any of their exchange that we didn't have a right to.

H.M.Jr: Let me use this opportunity. Didn't you (White) have something else?

White: If you want to go into oil --

H.M.Jr: No, but let me get these gentlemen's advice. What is this message you wanted me to send to the Argentine?

White: Duggan just sent a message. I think he thought this meeting might deal with that.

H.M.Jr: How does it stand now?

Bell: This is on the Argentine. Mr. Pierson wanted to deliver a message to the Minister of Finance who is flying tomorrow morning to Rio de Janeiro, and they wanted the Treasury to give them - State Department wanted the Treasury to give them approval of this message. I can explain it. It is quite long. You really ought to read it.

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H.M.Jr: Let me read it out loud.

This is Pierson?

Bell: I think if we approve that message there wouldn't be much use of that delegation coming to Washington for negotiations. They would be practically completed.

H.M.Jr: Have you read that?

Grady: I have read it.

H.M.Jr: Have you?

Merle: No.

H.M.Jr: Let me read it out loud.

"Mr. Pierson has given careful consideration to the statements of the Minister of Finance with respect to the difficulties of Argentina's economic situation and has perused with interest the Central Bank's memorandum particularly its estimate of minimum imports over the next twelve months. It is noted that the Bank estimates that Argentina's unfavorable balance of payments with the United States will amount to about ninety seven million six hundred thousand dollars and points out as alternatives the following means of coping with the situation: (1) to find additional export outlets; (2) to reduce imports drastically; (3) to borrow dollars; or (4) to ship gold in amounts that would seriously deplete the Argentine reserve."

Five million dollars worth of gold came in today.

(Two) "As explained orally Mr. Pierson's purpose in coming to Argentina was to discuss the economic situation with a view to observing some form of assistance. He is particularly desirous that such suggestions shall be practical, constructive and not open to serious criticism on either economic or political grounds. He is inclined to believe therefore that a balanced combination of all four means would probably be for the best and is disposed to propose the following to his Government:"

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Who signs this anyway?

Bell: The Minister of Finance.

H.M.Jr: I see.

(Three) "It is realized that by far the most desirable and effective form of assistance for both countries would be the purchase of some Argentine product, and the Minister is informed in confidence for the present that Mr. Pierson is prepared to recommend that an agency of the United States Government buy outright for war stock purposes outside the usual commercial interchange ten million pounds of Argentine wool during November and December, such purchase to be made when the state of the market warrants. Since such wool would be stored as Government war stocks and would be purchased with public funds primarily to assist in the disposal of export surpluses in the present emergency, it would manifestly be in the interests of both Governments to carry out the transaction at the most favorable rate of exchange thus increasing the volume of produce absorbed and avoiding criticism that would otherwise result. For example if dollars destined for this purpose are converted at the higher official selling rate for dollars, namely about 4.23 pesos to the dollar, the proceeds in pesos which would be deposited in local banks until utilized in the purchase of wool at the market price, would buy over twenty-five percent more wool, with resultant benefits to a correspondingly greater number of Argentine producers than would be the case if the conversion were to be effected at the official buying rate of about 3.35 to the dollar; and the fact that the wool would be bought by the Government and held as a reserve stock would prevent the operation from upsetting world prices. A further important advantage would be that no part of the funds made available for this purpose would be absorbed as an exchange profit. Needless to say it would be difficult if not impossible to defend the Government's action if a considerable part of the pesos obtained or obtainable for such funds as might

be made available for political purchases were to be shown to represent an exchange profit to the Government benefited, since such a profit would be interpreted as tantamount to an export tax."

(Four) "Mr. Pierson realizes the seriousness of the situation caused by the temporary loss of markets and is accordingly prepared to recommend immediately further credits in the amount of \$30,000,000 to be made available in convenient installments over a period of twelve to eighteen months with interest at 4% per annum; and to be repaid within six years from the date of each advance, with amortization commencing within two years. As in the case of the \$20,000,000 loan already announced it is understood that the dollar exchange is to be made available exclusively to cover purchases in the United States within categories and amounts approved by the Export-Import Bank."

(Five) "It is readily understood that Argentina will probably be obliged to limit imports from time to time during the existing emergency but the Minister will appreciate that since both purchases and loans in this case would have a political character the United States Government would be subjected to serious public censure if such limitations were to be applied to American imports while like imports are admitted from competing countries without a corresponding limitation. An assurance would accordingly be appreciated that the Argentine Government will include the United States in the group of most-favored-nations and that whenever it is necessary to restrict imports, as will no doubt be (*)

(Six) "If the foregoing meets with the Minister's approval and the present emergency should be prolonged or the measures proposed are found insufficient for other reasons, sympathetic consideration will be given to rendering further cooperation."

* apparent omission.

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"Pierson agrees with the foregoing but he is prepared to recommend to Mr. Jones that there be approved new credits of up to \$50,000,000 limited to not exceed \$5,000,000 in any one month. The obligations of the Central Bank under guarantee of the Government and repayable over a period of six years."

What does Duggan say?

White: Duggan says they just received a telephone message from Pierson in which he repeats that Pinedo was to fly at four and he would very much like a statement to be able to make before he leaves. There is one point there.

The second point was, he wanted to know whether Mr. Jones had gotten in touch with you about that and I said he hadn't and he said he had spoken to Jones about it and Jones said he was not ready to make any statement to Pierson, though he might be later in the day.

M. Jr: Well, I am here.

White: Well, it appears to me that the only answer that is required for that statement is merely that he doesn't have to make any statement to him. The discussion as to how this financing is going to be handled up here is something that we ought to discuss in some detail among ourselves later.

M. Jr: Well, this is the first I have heard about it. I don't know under what instructions Mr. Pierson is sailing. I don't know what instructions he received before he left. Certainly I had no chance to see him before he left. I think it is a matter of - purely in the hands of Mr. Jones and the State Department.

Bell: I do think we are interested, Mr. Secretary. We have asked, the State Department has asked, a delegation to come from Argentina to discuss the stabilization matters. It involves the Stabilization Fund. It seems to me if the Export-Import Bank is going to grant a credit

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to Argentina and we are going to take some action on the Stabilization Fund, they must be coordinated; and I think if he makes that statement, I don't believe there is any necessity for the delegation to come from Argentina.

H.M.Jr: I agree with you, but I also sent a message to Mr. Hull, Saturday. Did you (White) deliver that message?

White: Yes. I haven't heard anything from it beyond the fact that it has been considered.

H.M.Jr: To whom did you tell it?

White: Larry Duggan. Mr. Berle was out of town.

Berle: I was there Sunday and Monday.

H.M.Jr: Do you know what the message was?

Berle: No.

H.M.Jr: Repeat it, please.

White: The message was a request that the agenda which was somewhat altered from the draft which you saw by the deletion of one of the items should be approved by Secretary Hull, and that the State Department should notify the Argentine Government if Secretary Hull did approve of the agenda, and secondly, that it was the Secretary's thought --

H.M.Jr: This Secretary.

White: Secretary Morgenthau's thought that it might be better to postpone the negotiations until November because Secretary Morgenthau was quite skeptical that anything would be consummated before then, and by virtue of the number of things involved, it might mean they would just be hanging around a few weeks longer than necessary.

Berle: As to Number 1, I can't conceive that there

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would be any difficulty about approving the agenda, because certainly the original agenda was discussed and went right back.

As to the other point, I would like to make one remark. So far as the Argentine is concerned, this isn't a long-range job. They are pretty well up against the gun barrels now. Henry is more closely acquainted with the statistics than I am, but I get the picture that that Argentine situation isn't a thing to keep on negotiating about very long without some kind of repercussions. They aren't as explosive as Chile or Bolivia, but that new ministry has got its own row to hoe and this is a new situation. They have been moving toward it and they have been telling us consistently that they were moving toward it for months now, so I can imagine Pierson down there feels he is under some pressure to do something now instead of holding out merely a hope that some time in the future some arrangement will be reached.

H.W.Jr:

Well, I am supposed to give these answers within two minutes, and here is a thing that Pierson is down there carrying on negotiations for. I agree entirely with Mr. Bell if these go through I think it is silly to have this man come up here and I think Mr. Hull and Mr. Jones had better get together and decide what they want to do. Let the two of them get together. Mr. Hull is Secretary of State and Mr. Jones has got the Export-Import Bank. If the two of them will get together and simply say, "This is what we want," it will make life easier and sweeter for me. So if you would mind telling - just go back to Saturday. Whatever the State Department decides, should the Minister of Finance or his representative come up here and should Mr. Pierson make that statement.

Berle:

Let's see if I get it. Your view is that if Mr. Pierson makes that statement there is no reason for his coming North.

White:

I would agree with Dan completely. He is

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committing himself to an arrangement which obviates the necessity of examining the whole situation. He is committed to a step before he even comes here.

Cochran: We don't want to get any competition between the Export-Import Bank and the Fund. If they think that is as far as the funds ought to go to Argentine now, that is as far as it should go.

H.M.Jr: Don't think I mind the competition. I like it and cheerfully withdraw in favor of Mr. Pierson.

Grady: Just for a little background, the Argentine Government have been trying to have us send people down for the whole time to check over the situation and tell them what we could do to help them and there are some reasons why we didn't want to send an official delegation, and finally it worked out that Pierson planned to go down anyhow and that he should make a survey to see what we can do to help them, so that is the basis of this statement. He has to tell them what he is going to do to help them.

H.M.Jr: Of course, this thing has its humorous side, and I never try to lose my sense of humor. When Mr. Hull and Berle were down in Havana, and White, they asked me for a statement on the Fund and they worked me up into a state of enthusiasm, and I gave you the kind of statement you needed, didn't I?

Berle: That is right.

H.M.Jr: And I haven't changed my mind a bit. Now, White is doing his damndest - I understand Welles is very much interested in the same thing - to get me to do something on this Fund, and White has done a beautiful job. He never leaves me alone, day or night, and he gets me up to about this point where I am nibbling, you see, and I still stand by my Havana statement

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and along comes this Pierson thing and it just says there is no excuse for me to do anything and I am so appreciative I am thinking of calling up Pierson on the telephone and saying, "Thank you."

Berle: Well, all I can say is that we have still got to hold the Hemisphere on the line.

H.M.Jr: And I still say I wish that - well, I am here, my telephones work, and I will be very glad to hear. But the decision evidently rests with both Mr. Hull and Mr. Jones.

Berle: Right. Well, what it really comes to is this, before we spar on the points: The real decision is whether the program, so far as the Argentine Government is concerned, is then remitted to Jesse and Pierson with whatever guidance they want or will accept from the State Department, rather than in the Treasury, that is what it will really work out as.

H.M.Jr: That is right.

Grady: If it meets with the approval of the National Defense. That fits in there, so there is no difficulty there.

H.M.Jr: And if Mr. Hull decides that, then I agree with Bell and White it is silly to bring these people up here.

Berle: The determinate problem is the need for action there. He can understand what they are driving at. They have just weathered a difficult political crisis. They came through it nicely and they have now for the first time a pro-American Government against what has been previously a pro-British ministry. That whole crowd naturally want to get away on something like this program. They have had this difficult situation.

H.M.Jr: Thank you for coming over.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Buenos Aires, Argentina.

DATE: September 29, 1 p.m.

NO. : 453

The Argentine Government, the Minister of Finance has indicated, would like to obtain credits exclusive of the \$20,000,000 loan already announced of up to \$100,000,000, the funds to be made available in installments and the loan to be repaid within a period exceeding five years. Mr. Pierce stated that he thought the amount rather high and the terms long but that he would take the subject up with this Government. He believes that in addition to the \$20,000,000, \$30,000,000 might be offered at 4 percent, to be made available over a period of twelve or eighteen months in installments, and repaid within not to exceed six years from the date of each advance.

It would be of advantage to link this with an announcement (which for the present could be confidential if necessary) of an intention to acquire a certain amount of wool as set forth in the Department's cable no. 224 of September 27, 5 p.m. Since Dr. Finado leaves for Rio de Janeiro early on the morning of Wednesday, October 2, Mr. Pierce will have his last opportunity to see

Dr.

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Dr. Pinedo on Tuesday, October 1, and he would be grateful if he could be given an idea on that date of what will be recommended and so far as possible what will be approved. In as much as it is believed desirable to take some safeguards in accordance with the considerations set forth in the Embassy's telegram no. 436 of September 25, 8 p.m. there are submitted for consideration by the Department several points to be presented to Dr. Pinedo on Tuesday, subject naturally to specific approval in each case by the Department. The paragraphs are numbered serially for convenient reference and follow:

(One) "Mr. Pierson has given careful consideration to the statements of the Minister of Finance with respect to the difficulties of Argentina's economic situation and has perused with interest the Central Bank's memorandum particularly its estimate of minimum imports over the next twelve months. It is noted that the Bank estimates that Argentina's unfavorable balance of payments with the United States will amount to about ninety seven million six hundred thousand dollars and points out as alternatives the following means of coping with the situation: (1) to find additional export outlets; (2) to reduce imports drastically; (3) to borrow dollars; or (4) to ship gold in amounts that would seriously deplete the Argentine reserve".

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(Two) "As explained orally Mr. Pierson's purpose in coming to Argentina was to discuss the economic situation with a view to observing some form of assistance. He is particularly desirous that such suggestions shall be practical, constructive and not open to serious criticisms on either economic or political grounds. He is inclined to believe therefore that a balanced combination of all four means would probably be for the best and is disposed to propose the following to his Government:"

(Three) "It is realized that by far the most desirable and effective form of assistance for both countries would be the purchase of some Argentine product, and the Minister is informed in confidence for the present that Mr. Pierson is prepared to recommend that an agency of the United States Government buy outright for war stock purposes outside the usual commercial interchange ten million pounds of Argentine wool during November and December, such purchases to be made when the state of the market warrants. Since such wool would be stored as Government war stocks and would be purchased with public funds primarily to assist in the disposal of export surpluses in the present emergency, it would manifestly be in the interests of both Governments to carry out the transaction at the most favorable rate of exchange thus increasing the volume of produce absorbed and avoiding criticisms that would otherwise result. For

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example if dollars destined for this purpose are converted at the higher official selling rate for dollars, namely about 4.25 pesos to the dollar, the proceeds in pesos which would be deposited in local banks until utilized in the purchase of wool at the market price, would buy over twenty-five percent more wool, with resultant benefits to a correspondingly greater number of Argentine producers than would be the case if the conversion were to be effected at the official buying rate of about 3.35 to the dollar; and the fact that the wool would be bought by the Government and held as a reserve stock would prevent the operation from upsetting world prices. A further important advantage would be that no part of the funds made available for this purpose would be absorbed as an exchange profit. Needless to say it would be difficult if not impossible to defend the Government's action if a considerable part of the pesos obtained or obtainable for such funds as might be made available for political purchases were to be shown to represent an exchange profit to the Government benefited, since such a profit would be interpreted as tantamount to an export tax."

(Four) "Mr. Pierson realizes the seriousness of the situation caused by the temporary loss of markets and is accordingly prepared to recommend immediately further credits in the amount of \$20,000,000 to be made available in convenient installments over a period of twelve to

eighteen months with interest at 4% per annum, and to be repaid within six years from the date of each advance, with amortization commencing within two years. As in the case of the \$20,000,000 loan already announced it is understood that the dollar exchange is to be made available exclusively to cover purchases in the United States within categories and amounts approved by the Export-Import Bank."

(Five) "It is readily understood that Argentina will probably be obliged to limit imports from time to time during the existing emergency but the Minister will appreciate that since both purchases and loans in this case would have a political character the United States Government would be subjected to serious public censure if such limitations were to be applied to American imports while like imports are admitted from competing countries without a corresponding limitation. An assurance would accordingly be appreciated that the Argentine Government will include the United States in the group of most-favored-nations and that whenever it is necessary to restrict imports, as will no doubt be (*)

(Six) "If the foregoing meets with the Minister's approval and the present emergency should be prolonged or the measures proposed are found insufficient for other reasons sympathetic consideration will be given to rendering further cooperation."

* apparent omission.

-4-

Piercen agrees with the foregoing but he is prepared to recommend to Mr. Jones that there be approved new credits of up to \$50,000,000 limited to not to exceed \$5,000,000, in any one month. The obligations of the Central Bank under guarantee of the Government and repayable over a period of six years.

COPY

21

UNITED STATES TREASURY DEPARTMENT

WASHINGTON: OCTOBER 1, 1940

**DOCUMENTS PERTAINING TO
FOREIGN FUNDS CONTROL**

**Executive Orders and Regulations Relating to Transactions In Foreign
Exchange, Transfers of Credit, Payments, and the Export or Withdrawal
of Coin, Bullion and Currency, and Transfers, Withdrawals and Exporta-
tions of, or Dealings In, Evidences of Indebtedness or
Ownership; and to Reports of Foreign Property
Interests in the United States;**

and

**General Rulings and General Licenses under such
Orders and Regulations.**

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For convenient use, Executive Order No. 8389, dated April 10, 1940, as amended, amending Executive Order No. 6560, dated January 15, 1934, regulating transactions in foreign exchange, transfers of credit and export of coin and currency, the Regulations of the Secretary of the Treasury issued pursuant thereto, and General Rulings and General Licenses issued by the Secretary of the Treasury under said Order and Regulations, as amended, which were unrevoked as of October 1, 1940 are here reproduced. In the interests of brevity, the formal headings of the General Rulings and General Licenses as issued by the Secretary of the Treasury and their designations as parts of the Code of Federal Regulations have been omitted. The catch line inserted immediately preceding each General Ruling and General License is not a part thereof as issued by the Secretary of the Treasury and should be disregarded in determining or interpreting the meaning of any provision thereof. Official copies of the documents reproduced herein, except Executive Order No. 6560, dated January 15, 1934 and the Regulations of the Secretary of the Treasury dated November 12, 1934, are printed in the Federal Register. Executive Order No. 6560 is printed as Part 127 and the Regulations of November 12, 1934 are printed as Part 128 of Title 31 of the Code of Federal Regulations. References should be made to the Federal Register for additional Orders, Regulations, General Rulings and General Licenses issued subsequent to October 1, 1940, and for revocations of or amendments to those printed herein.

Additional copies of this publication may be procured from the Treasury Department, Washington, D. C., or from any Federal Reserve Bank.

EXECUTIVE ORDER NO. 6560
REGULATING TRANSACTIONS IN FOREIGN EXCHANGE, TRANSFERS OF CREDIT,
AND THE EXPORT OF COIN AND CURRENCY

By virtue of the authority vested in me by Section 5(b) of the Act of October 6, 1917 (40 Stat. L. 411) as amended by Section 2 of the Act of March 9, 1933, entitled "An Act to Provide Relief in the Existing National Emergency in Banking and for other Purposes", I, FRANKLIN D. ROOSEVELT, PRESIDENT OF THE UNITED STATES OF AMERICA, do declare that a period of national emergency continues to exist, and by virtue of said authority and of all other authority vested in me, do hereby prescribe the following regulations for the investigation, regulation, and prohibition of transactions in foreign exchange, transfers of credit between or payments by banking institutions as herein defined, and export of currency or silver coin, by any person within the United States or any place subject to the jurisdiction thereof:

SECTION 1. Every transaction in foreign exchange, transfer of credit between any banking institution within the United States and any banking institution outside of the United States (including any principal, agent, home office, branch, or correspondent outside of the United States of a banking institution within the United States), and the export or withdrawal from the United States of any currency or silver coin which is legal tender in the United States, by any person within the United States, is hereby prohibited, except under license therefor issued pursuant to this Executive Order; provided, however, that, except as prohibited under regulations prescribed by the Secretary of the Treasury, foreign exchange transactions and transfers of credit may be carried out without a license for (a) normal commercial or business requirements, (b) reasonable traveling and other personal requirements, or (c) the fulfillment of legally enforceable obligations incurred prior to March 9, 1933.*

SECTION 2. *Proscriptions of the United States.* Except as prohibited in regulations prescribed by the Secretary of the Treasury, transfers of credit between banking institutions in the continental United States and banking institutions in other places subject to the jurisdiction of the United States (including principals, agents, home offices, branches, or correspondents in such other places, of banking institutions within the continental United States), may be carried out without a license.

SECTION 3. *Licenses.* The Secretary of the Treasury, acting directly or through any agencies that he may designate, and the Federal reserve banks acting in accordance with such rules and regulations as the Secretary of the Treasury may from time to time prescribe, are hereby designated as agencies for the granting of licenses as hereinafter provided. Licenses may be granted authorizing such transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) or silver coin in such specific cases or classes of cases as the Secretary of the Treasury may determine in regulations prescribed hereunder and rulings made pursuant thereto.

SECTION 4. *Reports.* The Federal reserve banks shall keep themselves currently informed as to foreign exchange transactions entered into or consummated, and transfers of credit made between banking institutions outside of the continental United States and banking institutions, in their districts, and report to the Secretary of the Treasury all transactions in foreign exchange and all such transfers of credit not permitted under Sections 1 or 2 hereof which are effected or attempted in their districts without a license.

SECTION 5. *Regulations.* The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations to carry out the purposes of this Order, and to provide in such regulations or by rulings made pursuant thereto, the conditions under which licenses may be granted by the Federal reserve banks and by such other agencies as the Secretary of the Treasury may designate; and the Secretary of the Treasury may require any person engaged in any transaction, transfer, export, or withdrawal referred to in this Executive Order to furnish under oath complete information relative thereto, including the production of any books of account, contracts, letters, or other papers, in connection therewith in the custody or control of such person either before or after such transaction, transfer, export, or withdrawal is completed.

SECTION 6. *Penalties.* Whoever willfully violates or knowingly participates in the violation of any provision of this Executive Order or of any license, order, rule, or regulation issued or prescribed hereunder, shall be subject to the penalties provided in Section 5 (b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933.

SECTION 7. *Definitions.* As used in this Executive Order the term "United States" means the United States and any place subject to the jurisdiction thereof; the term "continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "person" means an individual, partnership, association, or corporation; and the term "banking institution" includes any person engaged primarily or incidentally in the business of banking, or of granting or transferring credits, or of purchasing and selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent; and, for the purposes of this Order, such home office, branch, principal agent, or correspondent of any person so engaged shall be regarded as a separate "banking institution".

SECTION 8. Section 8 of the Executive Order of August 28, 1933, Relating to the Hoarding, Export and Exporting of Gold Coin, Bullion, or Currency and to Transactions in Foreign Exchange, is hereby revoked.

This Executive Order and any rules, regulations, or licenses prescribed or issued hereunder may be modified or revoked at any time.

THE WHITE HOUSE,
January 15, 1934.

FRANKLIN D. ROOSEVELT

* See Regulations of November 12, 1934 which are set forth on page 9.

EXECUTIVE ORDER NO. 8389

[Executive Order No. 8389, dated April 10, 1940, amended Executive Order No. 6560, dated January 15, 1934, by adding therein four sections, numbered 9 to 12 inclusive. Since Executive Order No. 8389 was amended by Executive Order No. 8402, dated May 10, 1940, printed immediately below, the original text of Executive Order No. 8389 is corrected. Subsequent amendments to Executive Order No. 8389 are set forth on pages 7 and 8.]

EXECUTIVE ORDER NO. 8405

AMENDMENT OF EXECUTIVE ORDER NO. 8389 OF APRIL 10, 1940, AMENDING
EXECUTIVE ORDER NO. 6560, DATED JANUARY 15, 1934.

Executive Order No. 8389 of April 10, 1940, is amended to read as follows:

"AMENDMENT OF EXECUTIVE ORDER NO. 6560, DATED JANUARY 15, 1934, REGULATING TRANSACTIONS IN FOREIGN EXCHANGE, TRANSFERS OF CREDIT, AND THE EXPORT OF COIN AND CURRENCY.

"By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT OF THE UNITED STATES OF AMERICA, do hereby amend Executive Order No. 6560, dated January 15, 1934, regulating transactions in foreign exchange, transfers of credit, and the export of coin and currency by adding the following sections after section 8 thereof:

"SECTION 9. Notwithstanding any of the provisions of sections 1 to 8, inclusive, of this Order, all of the following are prohibited, except as specifically authorized in regulations or licenses issued by the Secretary of the Treasury pursuant to this Order, if involving property in which Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had any interest of any nature whatsoever, direct or indirect, or if involving property in which the Netherlands, Belgium or Luxembourg or any national thereof has at any time on or since May 10, 1940, had any interest of any nature whatsoever, direct or indirect:

"A. All transfers of credit between any banking institutions within the United States; and all transfers of credit between any banking institution within the United States and any banking institution outside the United States (including any principal, agent, home office, branch, or correspondent outside of the United States, of a banking institution within the United States);

"B. All payments by or to any banking institution within the United States;

"C. All transactions in foreign exchange by any person within the United States;

"D. The export or withdrawal from the United States, or the earmarking of gold or silver coin or bullion or currency by any person within the United States;

"E. All transfers, withdrawals or exportations of, or dealings in, any evidences of indebtedness or evidences of ownership of property by any person within the United States; and

"F. Any transaction for the purpose or which has the effect of evading or avoiding the foregoing prohibitions.

"SECTION 10. *Additional Reports.*

"A. Reports under oath shall be filed on such forms, at such time or times and from time to time, and by such persons, as provided in regulations prescribed by the Secretary of the Treasury, with respect to all property of any nature whatsoever of which Norway, Denmark, or in the Netherlands, Belgium or Luxembourg or any national thereof is or was the owner, or in which Norway, Denmark, the Netherlands, Belgium or Luxembourg or any national thereof has or had any interest of any nature whatsoever, direct or indirect, and with respect to any acquisition, transfer, disposition, or any other dealing in such property.

"B. The Secretary of the Treasury may require the furnishing under oath of additional and supplemental information, including the production of any books of account, contracts, letters or other papers with respect to the matters concerning which reports are required to be filed under this section.

"SECTION 11. *Additional Definitions.* In addition to the definitions contained in section 7, the following definitions are prescribed:

"A. The terms "Norway" and "Denmark", respectively, mean the State and the Government of Norway and Denmark on April 8, 1940, the terms "the Netherlands", "Belgium", and

"Luxembourg", mean the State and the Government of the Netherlands, Belgium and Luxembourg on May 10, 1940, and any political subdivisions, agencies and instrumentalities of any of the foregoing, including territories, dependencies and possessions, and all persons acting or purporting to act directly or indirectly for the benefit or on behalf of any of the foregoing. The terms "Norway", "Denmark", "the Netherlands", "Belgium" and "Luxembourg" respectively, shall also include any and all other governments (including political subdivisions, agencies, and instrumentalities thereof and persons acting or purporting to act directly or indirectly for the benefit or on behalf thereof) to the extent and only to the extent that such governments exercise or claim to exercise de jure or de facto sovereignty over the area which, on April 8, 1940, constituted Norway and Denmark and which on May 10, 1940, constituted the Netherlands, Belgium and Luxembourg.

"B. The term "national" of Norway or Denmark shall include any person who has been or whom there is reasonable cause to believe has been domiciled in, or a subject, citizen or resident of Norway or Denmark at any time on or since April 8, 1940, but shall not include any individual domiciled and residing in the United States on April 8, 1940, and shall also include any partnership, association, or other organization, including any corporation organized under the laws of, or which on April 8, 1940, had its principal place of business in Norway or Denmark or which on or after such date has been controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities of which has been owned or controlled by, directly or indirectly, one or more persons, who have been, or whom there is reasonable cause to believe have been, domiciled in, or the subjects, citizens or residents of Norway or Denmark at any time on or since April 8, 1940, and all persons acting or purporting to act directly or indirectly for the benefit or on behalf of the foregoing.

"C. The term "national" of the Netherlands, Belgium or Luxembourg shall include any person who has been or whom there is reasonable cause to believe has been domiciled in, or a subject, citizen or resident of the Netherlands, Belgium or Luxembourg at any time on or since May 10, 1940, but shall not include any individual domiciled and residing in the United States on May 10, 1940, and shall also include any partnership, association, or other organization, including any corporation organized under the laws of, or which on May 10, 1940, had its principal place of business in the Netherlands, Belgium or Luxembourg, or which on or after such date has been controlled by, or a substantial part of the stock, shares, bonds, debentures, or other securities of which has been owned or controlled by, directly or indirectly, one or more persons, who have been, or whom there is reasonable cause to believe have been, domiciled in, or the subjects, citizens or residents of the Netherlands, Belgium or Luxembourg, at any time on or since May 10, 1940, and all persons acting or purporting to act directly or indirectly for the benefit or on behalf of the foregoing.

"D. The term "banking institution" as used in section 9 includes any person engaged primarily or incidentally in the business of banking, of granting or transferring credits, or of purchasing or selling foreign exchange or procuring purchasers and sellers thereof, as principal or agent, or any person holding credits for others as a direct or incidental part of his business, or brokers; and, each principal, agent, home office, branch or correspondent of any person so engaged shall be regarded as a separate "banking institution".

"Section 12. *Additional Regulations.* The Regulations of November 12, 1934, are hereby modified insofar as they are inconsistent with the provisions of sections 9 to 11, inclusive, of this Order, and except as so modified are hereby continued in full force and effect. The Secretary of the Treasury is authorized and empowered to prescribe from time to time regulations to carry out the purposes of sections 9 to 11, inclusive, of this Order as amended, and to provide in such regulations or by rulings made pursuant thereto, the conditions under which licenses may be granted by such agencies as the Secretary of the Treasury may designate."

FRANKLIN D. ROOSEVELT

The WHITE HOUSE,

May 10, 1940, 7:55 A.M., E. S. T.

EXECUTIVE ORDER NO. 8445

AMENDMENT OF EXECUTIVE ORDER NO. 8389
OF APRIL 10, 1940, AS AMENDED.

By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389 of April 10, 1940, as amended, so as to extend all the provisions thereof to, and with respect to, property in which France or any national thereof has at any time on or since June 17, 1940, had any interest of any nature whatsoever, direct or indirect; except that, in defining "France" and "national" of France the date "June 17, 1940" shall be substituted for the dates appearing in the definitions of countries and nationals thereof.

FRANKLIN D. ROOSEVELT

The WHITE HOUSE,
June 17, 1940

EXECUTIVE ORDER NO. 8484

AMENDMENT OF EXECUTIVE ORDER NO. 8389
OF APRIL 10, 1940, AS AMENDED.

By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389 of April 10, 1940, as amended, so as to extend all the provisions thereof to, and with respect to, property in which Latvia, Estonia or Lithuania or any national thereof has at any time on or since July 10, 1940, had any interest of any nature whatsoever, direct or indirect; except that, in defining "Latvia", "Estonia", "Lithuania" and "national" thereof the date "July 10, 1940" shall be substituted for the dates appearing in the definitions of countries and nationals thereof.

FRANKLIN D. ROOSEVELT

The WHITE HOUSE,
July 15, 1940

EXECUTIVE ORDER NO. 8493
AMENDMENT OF EXECUTIVE ORDER NO. 8389
OF APRIL 10, 1940, AS AMENDED.

By virtue of the authority vested in me by section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and by virtue of all other authority vested in me, I, FRANKLIN D. ROOSEVELT, PRESIDENT of the UNITED STATES OF AMERICA, do hereby amend Executive Order No. 8389 of April 10, 1940, as amended, amending Executive Order No. 6560 of January 15, 1934, by adding the following sections after section 12 thereof:

"Section 13 A. The following are prohibited except as specifically authorized by the Secretary of the Treasury by means of rulings, regulations, instructions, licenses, or otherwise:

"(1) The acquisition, disposition or transfer of, or other dealing in, or with respect to, any security or evidence thereof on which there is stamped or imprinted, or to which there is affixed or otherwise attached, a tax stamp or other stamp of a foreign country designated in this Order, or a notarial or similar seal which by its contents indicates that it was stamped, imprinted, affixed or attached within such foreign country, or where the attendant circumstances disclose or indicate that such a stamp or seal may, at any time, have been stamped, imprinted, affixed or attached thereto.

"(2) The acquisition by, or transfer to, any person within the United States of any interest in any security or evidence thereof if the attendant circumstances disclose or indicate that the security or evidence thereof is not physically situated within the United States.

"B. The Secretary of the Treasury may investigate, regulate, or prohibit under such rulings, regulations, or instructions as he may prescribe, by means of licenses or otherwise, the sending, mailing, importing or otherwise bringing, directly or indirectly, into the United States, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States. The provisions of General Ruling No. 5 of June 6, 1940, and all instructions issued pursuant thereto, are hereby continued in full force and effect, subject to amendment, modification or revocation pursuant to the provisions of this Order.

"C. In the case of any transaction covered by this section, an application for license may be filed in the manner indicated in the Regulations of April 10, 1940, as amended, issued pursuant to this Order.

"D. The Regulations of November 12, 1934, are hereby modified in so far as they are inconsistent with the provisions of this section.

"Section 14. The Secretary of the Treasury may require any person to furnish under oath, complete information relative to any transaction referred to in this Order, or with respect to any property in which any foreign country designated in this Order, or any national thereof, has any interest, including the production of any books of account, contracts, letters, or other papers, in connection therewith, in the custody or control of such person, either before or after such transaction is completed."

FRANKLIN D. ROOSEVELT

The White House,
July 25, 1940.

TREASURY DEPARTMENT,
Office of the Secretary,
November 12, 1934.

REGULATIONS

Relating to Transactions in Foreign Exchange, Transfers of Credit,
and the Export of Coin and Currency

Article 1. These regulations are prescribed and issued under authority of Section 5 (b) of the Act of October 6, 1917 (40 Stat. L., 411), as amended by Section 2 of the Act of March 9, 1933, and the Executive Order of January 15, 1934, Regulating Transactions in Foreign Exchange, Transfers of Credit, and the Export of Coin and Currency.

Article 2. Licenses may be granted, and a general license is hereby granted, to all individuals, partnerships, associations, and corporations, authorizing any and all transactions in foreign exchange, transfers of credit, and exports of currency (other than gold certificates) and silver coin. The general license herein granted authorizes transactions to be carried out which are permitted by the Executive Order of January 15, 1934 under license therefor issued pursuant to such Executive Order; but does not authorize any transaction to be carried out which, at the time, is prohibited by any other order or by any law, ruling, or regulation.

Article 3. In order that Federal reserve banks may keep themselves currently informed as to foreign exchange transactions and transfers of credit, as required in Section 4 of the Executive Order of January 15, 1934, every person engaging in any transaction, transfer, export, or withdrawal referred to in Section 1 of such Executive Order shall furnish to the Federal Reserve bank of the district in which such person has his principal place of business in the United States complete information relative thereto upon report forms prescribed by the Secretary of the Treasury, except that reports are not required to be furnished by (1) persons not carrying during any part of the reporting period, accounts abroad or accounts in the United States for non-residents thereof, or (2) persons whose aggregate transactions, transfers, exports, or withdrawals for their own account and the account of others do not exceed \$5,000 during any seven-day period. Such information shall be furnished on a weekly basis except as the respective Federal Reserve banks permit the information in certain cases or classes of cases to be furnished on the basis of longer intervals.

These regulations and the general license herein granted may be modified or revoked at any time.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

APPROVED: November 12, 1934.

FRANKLIN D. ROOSEVELT.

[The Regulations of the Secretary of the Treasury issued April 10, 1940 under Executive Order No. 6560, dated January 15, 1934, as amended, were amended by the Secretary of the Treasury on May 10, 1940. The amendments dated May 10, 1940 are set forth immediately below and, therefore, the original text of the Regulations issued April 10, 1940, is omitted. Subsequent amendments to the Regulations are set forth on page 12.]

CODE OF FEDERAL REGULATIONS
Title 31—Money and Finance: Treasury
Chapter 1—Monetary Office, Department of the Treasury
Part 130

TREASURY DEPARTMENT
Office of the Secretary
May 10, 1940.

AMENDMENT TO REGULATIONS

The regulations of April 10, 1940, are amended to read as follows:

"REGULATIONS

"Relating to Transactions in Foreign Exchange, Transfers of Credit, Payments, and the Export or Withdrawal of Coin, Bullion and Currency, and Transfers, Withdrawals and Exportations of, or Dealings in, Evidences of Indebtedness or Ownership; and to Reports of Foreign Property Interests in the United States. (*)

"Section 130.1. *Authority for regulations.* These regulations are prescribed and issued under authority of Section 5(b) of the Act of October 6, 1917 (40 Stat. 411), as amended, and Executive Order No. 6560, dated January 15, 1934, as amended. (**)

"Section 130.2. *Definitions.*

"(a) The term 'Order' shall refer to Executive Order No. 6560, of January 15, 1934, as amended.

"(b) The term 'regulations' shall refer to these regulations.

"(c) The terms 'property' and 'property interest' or 'property interests' shall include, but not by way of limitation, money, checks, drafts, bullion, bank deposits, savings accounts, any debts, indebtedness or obligations, financial securities commonly dealt in by bankers, brokers, and investment houses, notes, debentures, stocks, bonds, coupon holders' acceptances, mortgages, pledges, liens or other right in the nature of security, warehouse receipts, bills of lading, trust receipts, bills of sale, any other evidences of title, ownership or indebtedness, goods, wares, merchandise, chattels, stocks on hand, ships, goods on ships, real estate mortgages, vendors' sales agreements, land contracts, real estate and any interest therein, leaseholds, ground rents, options, negotiable instruments, trade acceptances, railway book accounts, accounts payable, judgments, patents, trade-marks, copyrights, insurance policies, safe deposit boxes and their contents, annuities, et cetera.

"(d) Safe deposit boxes shall be deemed to be in the 'custody' not only of all persons having access thereto but also of the lessors of such boxes whether or not such lessors have access to such boxes. The foregoing shall not in any way be regarded as a limitation upon the meaning of the term 'custody'.

"(e) For the meaning of other terms reference should be made to the definitions contained in the Order. (**)

"Section 130.3. *Licenses to engage in foreign exchange transactions, etc.* Applications for licenses to engage in foreign exchange transactions, transfers of credit, payments, the export or withdrawal from the United States or the earmarking of gold or silver coin or bullion or currency, or the transfer, withdrawal or exportation of, or dealing in, any evidences of indebtedness or evidences of ownership of property, involving property in which Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had any interest of any nature whatsoever, direct or indirect, or in which the Netherlands, Belgium or Luxembourg or any national thereof has at any time on or since May 10, 1940, had any interest of any nature whatsoever, direct or indirect, shall be filed in duplicate with the Federal Reserve bank of the district or the Governor or High Commissioner of the territory or possession of the United States in which the applicant resides or has his principal place of business or principal office or agency, or with the Federal Reserve Bank of New York if the applicant has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or a territory or possession of the United States. Application forms may be obtained from any Federal Reserve bank, mint or assay office, or the Secretary of the Treasury, Washington, D. C. Applications shall be executed under oath before an officer authorized to administer oaths, or if executed outside of the United States, before a diplomatic or consular officer of the United States. The applicant shall furnish such further information as shall be requested of him by the Secretary of the Treasury or the Federal Reserve bank or other agency at which the application is filed. Licenses will be issued by the Secretary of the Treasury, acting directly or through any agencies that he may designate, and by the Federal Reserve banks acting in accordance with such rules, regulations, and instructions as the Secretary of the Treasury may from time to time prescribe, in and out of class or cases as the Secretary of the Treasury may determine in rules, regulations, and instructions prescribed by him. The Federal Reserve bank or other agency at which an application is filed will advise the applicant of the granting or denial of the license. Licenses for the export or withdrawal of currency or gold or silver coin or bullion or evidences of indebtedness or evidences of ownership of property, after having been cancelled by the collector of customs or the postmaster through whom the exportation or withdrawal was made, may be renewed if such collector of customs or postmaster to the licensee. Appropriate forms for applications and licenses will be prescribed by the Secretary of the Treasury. Licenses may be required to file reports upon the consummation of the transactions. The decision of the Secretary of the Treasury with respect to the approval or disapproval of an application shall be final. (**)

(*) Sections 130.1 to 130.6—Sec. 5(b), 40 Stat. 415 and 966; sec. 2, 48 Stat. 1; Public Resolution No. 67, 76th Congress, 12 (2 S. C. 96); Ex. Order 6560, Jan. 15, 1934; Ex. Order 6589, April 10, 1940; Ex. Order 6405, May 10, 1940.

"Section 130.4. *Reports of Property Interests of Norway, Denmark, the Netherlands, Belgium, Luxembourg and Nationals Thereof.*

"(a) On or before May 15, 1940, reports shall be filed on Form TFR-100, duly executed under oath, containing the information called for in such Form, with respect to all property situated in the United States on April 8, 1940, in which Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had any interest of any nature whatsoever, direct or indirect. Within thirty days of the publication of these regulations in interest of any nature whatsoever, shall be filed on Form TFR-100, duly executed under oath, containing the information the Federal Register, reports shall be filed on Form TFR-100, duly executed under oath, containing the information called for in such Form, with respect to all property situated in the United States on May 10, 1940, in which the Netherlands, Belgium or Luxembourg or any national thereof has at any time on or since May 10, 1940, had any interest of any nature whatsoever, direct or indirect. Such reports shall be filed by:

"(1) Every person in the United States directly or indirectly holding or having title to, or custody, control, or possession of such property including, without any limitation whatsoever of the foregoing, every partnership, association, or corporation organized under the laws of the United States or any State or territory of the United States or having its principal place of business in the United States; in the shares of whose stock or in whose debentures, notes, bonds, coupons, or other obligations or securities Norway or Denmark or any national thereof has at any time on or since April 8, 1940, had any interest of any nature whatsoever, direct or indirect, or in which the Netherlands, Belgium, or Luxembourg or any national thereof has at any time on or since May 10, 1940, had any interest of any nature whatsoever, direct or indirect; and

"(2) Every agent or representative in the United States for Norway, Denmark, the Netherlands, Belgium or Luxembourg or any national thereof having any information with respect to any such property.

"Provided, That no report on Form TFR-100 need be filed where the total value of all property interests to be reported is less than \$250.

"(b) Reports shall be executed and filed in triplicate with the Federal Reserve bank of the district or the Governor or High Commissioner of the territory or possession of the United States in which the party filing the report resides or has his principal place of business or principal office or agency, or if such party has no legal residence or principal place of business or principal office or agency in a Federal Reserve district or a territory or possession of the United States, then with the Federal Reserve Bank of New York. A report shall be deemed to have been filed when it is received by the proper Federal Reserve bank or other agency or when it is properly addressed, sealed and mailed and bears a postmark dated prior to midnight of the date upon which the report is due. The Federal Reserve bank and other agencies shall promptly forward two copies of every report filed with it to the Secretary of the Treasury.

"(c) (1) All spaces in the report must be properly filled in. Reports found not to be in proper form, or lacking in essential details, shall not be deemed to have been filed in compliance with the Order.

"(2) Where space in the report form does not permit full answers to questions, the information required may be set forth in supplementary papers incorporated by reference in the report and submitted therewith. Supplementary documents and papers must be referred to in the principal statement in chronological or other appropriate order and be described in such manner that they can be identified.

"(d) A separate report under oath must be filed by each person required to file a report except that persons holding property jointly may file a joint report.

"(e) The Secretary of the Treasury may, in his discretion, grant such extensions of time as he deems advisable for the making of any or all of the reports required by these regulations.

"(f) Report Form TFR-100 may be obtained from any Federal Reserve bank, mint or assay office and the Secretary of the Treasury, Washington, D. C. (**)

"Section 130.5. *Penalties.* Section 5(b) of the Act of October 6, 1917, as amended by Section 2 of the Act of March 9, 1933, provides in part:

"* * * Whoever willfully violates any of the provisions of this subdivision or of any license, order, rule or regulation issued thereunder, shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a fine, imprisonment, or both. As used in this subdivision the term 'person' means an individual, partnership, association, or corporation. (**)

"Section 130.6. *Modification or Revocation.* These regulations and any Forms or instructions issued hereunder may be modified or revoked at any time. (**)

HARRY MONTAGNAO, Jr.
Secretary of the Treasury.

APPROVED: May 10, 1940, 7:55 A. M. E.S.T.

FRANKLIN D. ROOSEVELT

AMENDMENT TO REGULATIONS*

The Regulations of April 10, 1940, as amended (Sections 130.1 to 130.6), are further amended so as to extend all the provisions thereof to, and with respect to, property in which France or any national thereof has at any time on or since June 17, 1940, had any interest of any nature whatsoever, direct or indirect; except that reports on Form TFR-100 with respect to all property situated in the United States on June 17, 1940, in which France or any national thereof has at any time on or since June 17, 1940, had any interest of any nature whatsoever, direct or indirect, shall be filed by July 17, 1940.

H. MORGENTHAU, Jr.
Secretary of the Treasury.

APPROVED: June 17, 1940.

FRANKLIN D. ROOSEVELT

* Sections 130.1 to 130.6—Sec. 5(b), 40 Stat. 415 and 965; Sec. 2, 48 Stat. 1; Public Resolution No. 69, 76th Congress; 12 U. S. C. 95a; Ex. Order 6500, Jan. 15, 1934; Ex. Order 8389, April 10, 1940; Ex. Order 8445, May 10, 1940; Ex. Order 8446, June 17, 1940.

AMENDMENT TO REGULATIONS*

The Regulations of April 10, 1940, as amended (Sections 130.1 to 130.6), are further amended so as to extend all the provisions thereof to, and with respect to, property in which Latvia, Estonia or Lithuania or any national thereof has at any time on or since July 10, 1940, had any interest of any nature whatsoever, direct or indirect, except that reports on Form TFR-100 with respect to all property situated in the United States on July 10, 1940, in which Latvia, Estonia or Lithuania or any national thereof has at any time on or since July 10, 1940, had any interest of any nature whatsoever, direct or indirect, shall be filed by August 10, 1940.

H. MORGENTHAU, Jr.
Secretary of the Treasury.

APPROVED: July 15, 1940.

FRANKLIN D. ROOSEVELT

* Sections 130.1 to 130.6—Sec. 5(b), 40 Stat. 415 and 966; Sec. 2, 48 Stat. 1; Public Resolution No. 69, 76th Congress; 12 U. S. C. 95a; Ex. Order 6500, Jan. 15, 1934; Ex. Order 8389, April 10, 1940; Ex. Order 8445, May 10, 1940; Ex. Order 8446, June 17, 1940; Ex. Order 8484, July 15, 1940.

GENERAL RULINGS

ISSUED UNDER EXECUTIVE ORDER NO. 8389, APRIL 10, 1940, AS AMENDED, AND REGULATIONS ISSUED PURSUANT THERETO, RELATING TO TRANSACTIONS IN FOREIGN EXCHANGE, ETC.

TERM "DENMARK" NOT APPLICABLE TO ICELAND

General Ruling No. 1

The Secretary of State has advised me as follows:

"Denmark and Iceland are two separate political entities. Acting under the authority of a provision of the Icelandic Constitution the Icelandic Parliament has within the past few days passed a resolution stating that since the King of Iceland is not now in a position to carry out his Constitutional duties with respect to Iceland, the Icelandic Government has assumed for the time being the exercise of the Royal prerogatives and the entire control of Icelandic foreign relations.

"In view of the foregoing it would not appear that Iceland falls within the definition of the term 'Denmark' in Section 11 of the above-mentioned Executive Order."

In view of the foregoing, the Treasury Department construes the term "Denmark" as used in the above-mentioned Executive Order and Regulations as not applying to Iceland.

[Issued April 15, 1940.]

TRANSFER OF STOCK CERTIFICATES AND CUSTODY OF SECURITIES

General Ruling No. 2

Inquiry has been made as to whether the following are prohibited by the Executive Order and the Regulations issued thereunder except under license:

- The transfer by a banking institution within the United States of stock certificates from or into the names of "nationals" of Norway or Denmark; and
- The delivery out of custody accounts or the receipt in custody accounts, by a banking institution within the United States, of securities held or to be held in custody for "nationals" of Norway or Denmark.

The Treasury Department construes the Executive Order and Regulations as prohibiting such transactions, except under license.

[Issued April 15, 1940.]

TRANSACTIONS REGARDING SECURITIES REGISTERED OR INSCRIBED IN NAME OF A DESIGNATED FOREIGN COUNTRY OR NATIONAL THEREOF

General Ruling No. 3 as Amended

The attention of banks, brokers, transfer agents, registrars and all other persons and banking institutions in the United States is invited to the fact that the Treasury Department construes Executive Order No. 8389, April 10, 1940, as amended, and the Regulations issued pursuant thereto as prohibiting the acquisition, transfer, disposition, resuscitation, importation, exportation, or withdrawal of, or the endorsement or guarantee of signatures on, or otherwise dealing in, or with respect to, any security (or evidence thereof) registered or inscribed in the name of any country designated in Executive Order No. 8389, April 10, 1940, as amended, or any national thereof, except pursuant to a specific license, irrespective of the fact that at any time (either prior to, on, or subsequent to April 10, 1940) the registered or inscribed owner thereof may have, or appear to have, assigned, transferred or otherwise disposed of any such security. Applications for licenses should be made in the manner provided in the Regulations issued under Executive Order No. 8389, April 10, 1940, as amended.

[Issued June 3, 1940; amended June 17, 1940.]

DEFINITIONS OF TERMS USED IN RULINGS, LICENSES, ETC.

General Ruling No. 4

Except as otherwise specifically indicated, all definitions appearing in Executive Order No. 8399, of April 10, 1940, as amended, and the Regulations issued thereunder, shall apply to the terms employed in all rulings, licenses, instructions, etc., issued pursuant to such Executive Order and Regulations.

[Issued June 3, 1940.]

CONTROL OF IMPORTED SECURITIES

General Ruling No. 5

The sending, mailing, importing or otherwise bringing into the United States, on and after June 7, 1940, from any foreign country, of any securities or evidences thereof or the receiving or holding in the United States of any securities or evidences thereof so brought into the United States is prohibited, except on condition that such securities and evidences thereof be immediately delivered for examination to a Federal Reserve bank as fiscal agent of the United States. Such Federal Reserve bank, as fiscal agent of the United States, shall hold such securities and all evidences thereof until the Treasury Department is satisfied as to whether or not any of the countries named in Executive Order No. 8389, as amended, or any national thereof has at any time on or since the dates specified in such Order, as amended, had any interest of any nature whatsoever, direct or indirect, in such securities or evidences thereof. Proof as to whether or not any of such countries or any national thereof has had any such interest may be submitted to the Federal Reserve bank holding such securities or evidences thereof.

Customs officers and postal employees are instructed to deliver any such securities or evidences thereof to a Federal Reserve bank. Any articles arriving from any foreign country on or after June 7, 1940, which in the opinion of customs officers or postal employees contain such securities or evidences thereof, shall be subjected to customs inspection in accordance with the Customs Regulations of 1937. If any article opened by an addressee or his agent in the presence or under the supervision of a customs officer or postal employee is found to contain such securities or evidences thereof, such securities or evidences thereof shall be surrendered forthwith to such customs officer or postal employee for delivery to a Federal Reserve bank, as above provided.

[Issued June 6, 1940. On June 7, 1940, the Secretary of the Treasury announced that, until further notice, securities coming into the United States from Great Britain, France, Canada, Newfoundland or Bermuda need not be forwarded to a Federal Reserve bank for examination under General Ruling No. 5. Supplementing his said statement of June 7, 1940, the Secretary of the Treasury announced on June 17, 1940, that, until further notice, securities coming into the United States on or after June 17 from France must be forwarded to a Federal Reserve bank for examination under General Ruling No. 5.]

DELIVERY OF IMPORTED SECURITIES BY FEDERAL RESERVE BANKS
TO CERTAIN BANKING INSTITUTIONS

General Ruling No. 6 Supplementing General Ruling No. 5

(1) The provisions of General Ruling No. 5 of June 6, 1940, and all instructions issued pursuant thereto, are hereby continued in full force and effect, *Provided*, That any Federal Reserve Bank to whom securities or evidences thereof (hereinafter referred to as securities) have been forwarded under such General Ruling may, as fiscal agent of the United States, deliver the securities, at any time, under appropriate arrangements with the addressee of the securities, to a bank or trust company incorporated under the laws of the United States or of any state, territory or district of the United States, or to a private bank subject to supervision and examination under the banking laws of any state, or to any other banking institution authorized for that purpose by the Treasury Department.

(2) Prior to such delivery by a Federal Reserve Bank of any such security a complete description of the security shall be made or received, and retained by such Federal Reserve Bank, and in any case in which a security bears a stamp, seal or other mark not lending itself to precise description, a photostat of such mark shall be made at the expense of the addressee and retained by such Federal Reserve Bank. This requirement may be dispensed with in any case in which appropriate arrangements are entered into for furnishing such Federal Reserve Bank with this description within a reasonable time after such delivery.

(3) Upon the delivery of any such security by a Federal Reserve Bank to any such institution, such institution shall execute such form of receipt as may be prescribed by the Secretary of the Treasury.

(4) Any institution to which any such security shall be delivered by a Federal Reserve Bank shall place such security in an account in such institution, from which payments, transfers, or withdrawals may be made only in accordance with a license issued pursuant to Executive Order No. 8389, as amended. In the event that any such security so held by such institution is sold or otherwise dealt with under a license the proceeds therefrom shall be held by such institution under the same conditions as those under which the security was held, and such proceeds shall be placed in an account in such institution in the same name in which the security sold or otherwise dealt with was held, from which payments, transfers or withdrawals may be made only in accordance with a license issued pursuant to Executive Order No. 8389, as amended.

(5) Federal Reserve Banks shall release any security referred to in paragraph (1) hereof, or shall authorize the release of the contents of any account referred to in paragraph (4) hereof, if and when the Treasury Department is fully satisfied that no foreign country designated in Executive Order No. 8389, as amended, or any national thereof, has, at any time, on or since the dates specified in such Order, as amended, had any interest of any nature whatsoever, direct or indirect, in such security or in such account.

[Issued August 8, 1940.]

SECURITIES COMING FROM THE PHILIPPINE ISLANDS AND THE
PANAMA CANAL ZONE

General Ruling No. 7

The provisions of General Ruling No. 5, as supplemented by General Ruling No. 6, have been extended to securities or evidences thereof coming from the Philippine Islands and the Panama Canal Zone into any other part of the United States.

[Issued September 18, 1940.]

CERTAIN PAYMENTS TO DESIGNATED FOREIGN COUNTRIES AND
NATIONALS THEREOF

General Ruling No. 8

Inquiry has been made as to whether the following is prohibited, except under license, by Executive Order No. 8389, as amended, and the Regulations issued pursuant thereto:

A request or authorization made by or on behalf of a bank or other person within the United States to a bank or other person in a foreign country other than one of the countries designated in Executive Order No. 8389, as amended, as a result of which request or authorization such latter bank or person makes a payment or transfer of credit either directly or indirectly to one of the foreign countries designated in the Executive Order, as amended, or a national thereof.

The Treasury Department construes the Executive Order, as amended, and Regulations as prohibiting such a transaction except under license.

[Issued September 18, 1940.]

GENERAL LICENSES

ISSUED UNDER EXECUTIVE ORDER NO. 8389, APRIL 10, 1940, AS AMENDED, AND
REGULATIONS ISSUED PURSUANT THERETO, RELATING TO TRANSACTIONS
IN FOREIGN EXCHANGE, ETC.

PAYMENTS TO AFFECTED ACCOUNTS

General License No. 1 as Amended

A general license is hereby granted authorizing payments and transfers of credit to accounts in banking institutions within the United States in which Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, or a national thereof has a property interest within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder; provided that the payments or transfers of credit are not made from accounts in which Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania or a national thereof has a property interest within the meaning of such Order and Regulations.

[Issued April 30, 1940; amended May 10, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 23, July 15, 1940. The scope of General License No. 1 was extended by General License No. 29.]

DEBITING AFFECTED ACCOUNTS FOR CERTAIN CHARGES
DUE BANKING INSTITUTIONS

General License No. 2 as Amended

A General License is hereby granted authorizing banking institutions within the United States to debit accounts with such banking institutions in which Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania or a national thereof has a property interest within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder, in payment or reimbursement for interest due to such banking institutions, cable, telegraph, telephone charges, or postage costs, custody fees and service charges, including but not by way of limitation minimum balance charges, account carrying charges and reference books, notary and protest fees, photostats, credit reports, transcripts of statements, registered mail insurance, stationery and supplies, checkbooks and other similar items, provided that all banking institutions making any such debits shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of such debits.

[Issued May 10, 1940; amended by General License No. 16, June 17, 1940; amended June 19, 1940; amended by General License No. 23, July 15, 1940. The scope of General License No. 2 was extended by General License No. 29.]

PAYMENTS OF CHECKS AND DRAFTS DRAWN OR ISSUED PRIOR TO APRIL 8, 1940
FROM ACCOUNTS OF NORWAY AND DENMARK AND THEIR NATIONALS, AND OF
CHECKS AND DRAFTS DRAWN OR ISSUED PRIOR TO MAY 16, 1940 FROM ACCOUNTS
OF NETHERLANDS, BELGIUM AND LUXEMBOURG AND THEIR NATIONALS

General License No. 3 Revoked

[Issued May 10, 1940; amended May 17, 1940; revoked June 15, 1940.]

SALE OF SECURITIES ON A NATIONAL SECURITIES EXCHANGE

General License No. 4 as Amended

A general license is hereby granted authorizing the bona fide sale of securities on a national securities exchange by banking institutions within the United States for the account, and pursuant to the authorization, of nationals of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, and the making and receipt of payments, transfers of credit and transfers of such securities which are necessary incidents of any such sale, provided that:

(a) the proceeds of the sale are credited to an account in the name of the national for whose account the sale was made and in the banking institution within the United States which held the securities for such national; and

(b) this general license shall not be deemed to authorize the sale of any security registered or inscribed in the name of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, or any national thereof, irrespective of the fact that at any time (whether prior to, on, or subsequent to April 10, 1940) the registered or inscribed owner thereof may have, or appears to have, assigned, transferred or otherwise disposed of the security.

Each banking institution making any sales herein authorized is required to file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions, including a description of the securities sold, the dates of sales, the persons for whose account the sales were made, and the prices obtained.

This amendment of General License No. 4 shall not be deemed to prevent the completion on or prior to June 6, 1940 of purchases and sales, which were made prior to June 4, 1940 pursuant to General License No. 4, of securities other than securities registered or inscribed in the name of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, or any national thereof.

[Issued May 10, 1940; amended June 3, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 21, July 15, 1940; amended August 6, 1940. The scope of General License No. 4 was extended by General License No. 29.]

PAYMENTS TO THE UNITED STATES

General License No. 5 as Amended

A general license is hereby granted authorizing the payment to the United States and agencies and instrumentalities thereof of taxes, fees, charges, and other items payable to the United States and agencies and instrumentalities thereof from accounts in which Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania or a national thereof has a property interest within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder.

[Issued May 10, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 21, July 15, 1940. The scope of General License No. 5 was extended by General License No. 29.]

PAYMENTS FROM ACCOUNTS OF GOVERNMENT OF THE NETHERLANDS

General License No. 6 Revoked

[Issued May 13, 1940; revoked May 16, 1940.]

PAYMENTS FROM ACCOUNTS OF GOVERNMENT OF BELGIUM
AND BANQUE NATIONALE DE BELGIQUE

General License No. 7 Revoked

[Issued May 13, 1940; revoked June 26, 1940.]

PAYMENTS FROM ACCOUNTS OF CERTAIN NETHERLANDS BANKS

General License No. 8 Revoked

[Issued May 13, 1940; revoked May 16, 1940.]

COMMODITIES FUTURES CONTRACTS

General License No. 9 as Amended

A general license is hereby granted authorizing the bona fide purchase and sale of commodities futures contracts and of evidences of ownership of actual commodities by banking institutions within the United States, for the account of nationals of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder, pursuant to the instructions of such nationals, and necessary transfers of credit and payments between accounts in banking institutions within the United States as required in connection with such purchases or sales or because of fluctuation in the market value of the commodities covered by such contracts or evidences of ownership, provided that:

(a) in the case of the purchase of commodities futures contracts or evidences of ownership of actual commodities, the contracts or evidences of ownership purchased are held in an account in a banking institution within the United States in the name of the national of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania, whose account was debited in connection with such purchase.

(b) in the case of the sale of commodities futures contracts or evidences of ownership of actual commodities, the proceeds of the sale are credited to an account in a banking institution within the United States in the name of the national of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania for whose account the sale was made.

Each banking institution making such a purchase or sale is required to file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions including a description of the commodities futures contracts or evidences of ownership of actual commodities purchased or sold, of the person for whose account the purchase or sale was made, and the price at which the purchase or sale was made.

[Issued May 14, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 21, July 15, 1940.]

PAYMENTS FROM ACCOUNTS OF CERTAIN BELGIAN BANKS

General License No. 10 Revoked

[Issued May 14, 1940; amended May 20, 1940; revoked June 25, 1940.]

PAYMENTS FOR LIVING, TRAVELING AND SIMILAR PERSONAL EXPENSES
IN THE UNITED STATES

General License No. 11 as Amended

A general license is hereby granted authorizing payments and transfers of credit in the United States from accounts in banking institutions within the United States in which a national of Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania has a property interest within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder, to or upon the order of the person in whose name the account is held, provided that (a) the banking institution making any such payments or transfers of credit satisfies itself that such payments and transfers of credit are needed for living, traveling and similar personal expenses in the United States; (b) such payments and transfers of credit by such banking institution do not exceed \$500 in any one month to or for the account of any one depositor, and (c) each banking institution making any such payments or transfers of credit shall file promptly with the appropriate Federal Reserve bank monthly reports showing the details of such payments and transfers of credit.

[Issued May 13, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 23, July 15, 1940. The scope of General License No. 11 was extended by General License No. 29.]

ACCESS TO SAFE DEPOSIT BOXES

General License No. 12 as Amended

A general license is hereby granted authorizing access to safe deposit boxes leased by Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania or a national thereof within the meaning of the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder, or containing property in which any of the foregoing has an interest of any nature whatsoever, direct or indirect, and the deposit therein or removal therefrom of any property, but in each case only on the following terms and conditions:

- (1) Such access shall be permitted only in the presence of an authorized representative of the lessor of such box;
- (2) In the event that any money or evidences of indebtedness or evidences of ownership of property are to be removed from such box, such access shall be permitted only in the presence of an authorized representative of a banking institution within the United States, which may be the lessor of such box, which receives into its custody immediately upon removal from such box the money or evidences of indebtedness or evidences of ownership of property removed from such box and which holds the same subject to the Executive Order of April 10, 1940, as amended, and the Regulations issued thereunder, for the account of the lessee of such box and subject to the property interests therein as of April 8, 1940, of Norway or Denmark or any national thereof, or subject to the property interests therein as of May 10, 1940, of the Netherlands, Belgium or Luxembourg or any national thereof, or subject to the property interests therein as of June 17, 1940, of France or any national thereof, or subject to the property interests therein as of July 10, 1940, of Latvia, Estonia or Lithuania or any national thereof;

- (3) In the event that any money or evidences of indebtedness or evidences of ownership of property are removed from such box the banking institution which receives into its custody any money or evidences of indebtedness or evidences of ownership of property removed from such box shall file promptly with the appropriate Federal Reserve bank a report showing the details of the transactions; and

- (4) The lessee of such box or other person granted access to such box shall furnish to the lessor of such box a certificate in triplicate, one copy of which shall be executed under oath, that he has filed or will promptly file a report on Form TFR-100 with respect to such box and the contents thereof; and the lessor of such box shall deliver the sworn copy of such certificate, and one conformed copy thereof, to the appropriate Federal Reserve bank

[Issued May 20, 1940; amended by General License No. 16, June 17, 1940; amended by General License No. 23, July 15, 1940.]

PAYMENTS FROM ACCOUNTS OF CERTAIN NETHERLANDS BANKS

General License No. 13 as Amended

A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any of the following: the head offices in Java of the Javasche Bank, Nederlandsche Handel Maatschappij, Nederlandsche Indische Handelsbank and Nederlandsche Indische Eascompto Maatschappij, the branch offices in Kobe, Shanghai, Amoy, Hongkong, Manila, Singapore, Bombay and Calcutta of the Nederlandsche Indische Handelsbank and the branch offices in Kobe, Djeddab, Shanghai, Hongkong, Singapore, Penang, Rangoon, Calcutta and Bombay of the Nederlandsche Handel Maatschappij.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve Bank weekly reports showing the details of the transactions during such period.

[Issued May 31, 1940; amended August 3, 1940.]

PAYMENTS FROM ACCOUNTS OF CERTAIN BANKS
IN NETHERLANDS WEST INDIES

General License No. 14

A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any of the following: Curacaoische Bank, Willemstad, Curacao; Maduro & Curiel's Bank, Willemstad, Curacao; Edwards Henriquez & Co., Willemstad, Curacao; and Aruba Bank, Oranjestad, Aruba.

Banking institutions within the United States making such payments, transfers, or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

[Issued June 4, 1940.]

LETTERS OF CREDIT RESPECTING TRADE BETWEEN NETHERLANDS
EAST INDIES AND THE UNITED STATES

General License No. 15

A general license is hereby granted authorizing banking institutions within the United States:

- (1) To issue, confirm or advise import letters of credit in favor of exporters in the Netherlands East Indies to finance imports therefrom into the United States, and to accept and pay drafts drawn by such exporters under such letters of credit; and

- (2) To issue, confirm or advise export letters of credit in favor of exporters within the United States to finance exports therefrom to the Netherlands East Indies; to accept and pay drafts drawn by such exporters under such letters of credit; and to reimburse such banking institutions for payments under such letters of credit.

The issuance and transfer of documents of title in connection with such import or export letters of credit in accordance with the instructions of the persons entitled to issue such instructions are also hereby authorized.

Banking institutions issuing, confirming or advising letters of credit or accepting or paying drafts drawn, and all persons (including banking institutions) issuing or transferring documents of title pursuant to this general license, shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

For the purpose of this general license the Netherlands East Indies shall be deemed to include the following: Java and Madura, Sumatra, Riouw-Lingga archipelago, Banca, Billiton, Celebes, Borneo (West, South and East Divisions), Timor archipelago, Bali and Lombok, Lesser Sunda Islands and Dutch New Guinea.

[Issued June 4, 1940.]

EXTENSION TO FRANCE OF CERTAIN GENERAL LICENSES

General License No. 16

General Licenses Nos. 1, 2, 4, 5, 9, 11 and 12, as amended, issued under Executive Order No. 8389 of April 10, 1940, as amended, are hereby further amended so that as of the date hereof there shall be substituted for the words "Norway, Denmark, the Netherlands, Belgium or Luxembourg", wherever they appear in such General Licenses, the words "Norway, Denmark, the Netherlands, Belgium, Luxembourg or France".

General License No. 12, issued under Executive Order No. 8389 of April 10, 1940, as amended, is hereby further amended by substituting a comma for the semi-colon at the end of subdivision 2 thereof and adding thereafter the following:

"or subject to the property interests therein as of June 17, 1940, of France or any national thereof;"

[Issued June 17, 1940. The text of each General License referred to in General License No. 16, as set forth in this publication, has been revised to give effect to the amendments set forth in General License No. 16.]

PAYMENTS OF CHECKS AND DRAFTS DRAWN OR ISSUED PRIOR TO JUNE 17, 1940
FROM ACCOUNTS OF FRANCE AND ITS NATIONALS

General License No. 17 Revoked

[Issued June 17, 1940; amended July 20, 1940; revoked August 8, 1940.]

PAYMENTS FROM ACCOUNTS OF FRENCH AMERICAN BANKING CORPORATION

General License No. 18

A General License is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of the French American Banking Corporation, New York City.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

[Issued June 18, 1940.]

PAYMENTS FROM ACCOUNTS OF CERTAIN NETHERLANDS BANKS

General License No. 19 as Amended

A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any of the following: Banco Holandes Unido, Buenos Aires, Argentina, Caracas and Maracaibo, Venezuela; Banco Holandes Unido, Rio de Janeiro, Santos and Sao Paulo, Brazil; the branches of the Hollandsche Bank-Unie in Willemstad, Curacao and Oranjestad, Aruba; Holland Bank Union, Haifa, Palestine and Istanbul, Turkey.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

[Issued June 18, 1940; amended June 27, 1940; amended July 6, 1940.]

PAYMENTS FROM ACCOUNTS OF UNITED STATES CITIZENS DOMICILED OR RESIDING IN
NETHERLANDS EAST INDIES OR WEST INDIES

General License No. 20

A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of any individual who is a citizen of the United States and who is domiciled in, or resident of, the Netherlands East Indies or the Netherlands West Indies; provided that no foreign country named in Executive Order No. 8389, as amended, or any national thereof (other than such citizen of the United States) has, or has had at any time (whether prior to, on, or subsequent to April 10, 1940), any interest of any nature whatsoever, direct or indirect, in such account.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

For the purpose of this general license the Netherlands East Indies and the Netherlands West Indies shall be deemed to include the following, respectively:

Netherlands East Indies—Java and Madura, Sumatra, Riuw-Lingga archipelago, Banks, Billiton, Celebes, Borneo (West, South and East Divisions), Timor archipelago, Bali and Lombok, Lesser Sunda Islands and Dutch New Guinea.
Netherlands West Indies—Dutch Guiana, Dutch St. Martin, Curacao, Bonaire, Aruba, St. Eustatius and Saba.

[Issued June 19, 1940.]

PAYMENTS FROM ACCOUNTS OF NETHERLANDS TRADING SOCIETY EAST, LTD.
AND NETHERLANDS TRADING SOCIETY EAST, INC.

General License No. 21 as Amended

A General License is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of the Netherlands Trading Society East, Ltd., London and the Netherlands Trading Society East, Inc., Delaware.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

[Issued June 21, 1940; amended July 20, 1940.]

PAYMENTS FROM ACCOUNTS OF BANQUE BELGE POUR L'ETRANGER,
OVERSEAS, LTD.

General License No. 22

A general license is hereby granted authorizing banking institutions within the United States to make all payments, transfers and withdrawals from accounts in the name of the Banque Belge pour l'Etranger, Overseas, Ltd., including its New York agency.

Banking institutions within the United States making such payments, transfers or withdrawals shall file promptly with the appropriate Federal Reserve bank weekly reports showing the details of the transactions during such period.

[Issued June 27, 1940.]

EXTENSION TO LATVIA, ESTONIA AND LITHUANIA
OF CERTAIN GENERAL LICENSES

General License No. 23

General Licenses Nos. 1, 2, 4, 5, 9, 11 and 12, as amended, issued under Executive Order No. 8389 of April 10, 1940, as amended, are hereby further amended so that as of the date hereof there shall be substituted for the words "Norway, Denmark, the Netherlands, Belgium, Luxembourg or France", wherever they appear in such General Licenses, the words "Norway, Denmark, the Netherlands, Belgium, Luxembourg, France, Latvia, Estonia or Lithuania".

General License No. 12, as amended, issued under Executive Order No. 8389 of April 10, 1940, as amended, is hereby further amended by substituting a comma for the semi-colon at the end of subdivision 2 thereof and adding thereto the following:

"or subject to the property interests therein as of July 10, 1940, of Latvia, Estonia or Lithuania or any national thereof."

[Issued July 15, 1940. The text of each General License referred to in General License No. 23, as set forth in this publication, has been revised to give effect to the amendments set forth in General License No. 23.]

PAYMENTS OF CHECKS AND DRAFTS DRAWN OR ISSUED PRIOR TO
JULY 10, 1940 FROM ACCOUNTS OF LATVIA, ESTONIA AND LITHUANIA
AND THEIR NATIONALS

General License No. 24 Revoked

[Issued July 15, 1940; revoked August 28, 1940.]

EFFECT OF ATTACHMENT OF FORM TFEI-2 TO SECURITIES

General License No. 25

A general license is hereby granted under section 13A (1) of Executive Order No. 8389, of April 10, 1940, as amended, authorizing the acquisition, disposition or transfer of, or other dealing in, in with respect to, any security or evidence thereof, to which Treasury Department Form TFEI-2 has been previously attached or affixed by, or under the direction of, the Treasury Department; provided, that this general license shall not be deemed to authorize any transaction prohibited by reason of any provision (or ruling or regulation thereunder) of such Order other than section 13A (1).

[Issued July 25, 1940.]

TRANSACTIONS IN CERTAIN AMERICAN DEPOSITORY RECEIPTS AND
AMERICAN SHARES

General License No. 26

A general license is hereby granted under section 13A (2) of Executive Order No. 8389, of April 10, 1940, as amended, authorizing the acquisition by, or transfer to, any person within the United States of any interest in any American Depository Receipt or American Share physically situated within the United States representing any security or evidence thereof not physically situated within the United States which Receipt or Share was admitted to dealings on a national securities exchange on and prior to July 25, 1940; provided, however, that this general license shall not be deemed to authorize the issuance of American Depository Receipts or American Shares against the deposit after July 25, 1940 of any security or evidence thereof not physically situated within the United States; and, provided that this general license shall not be deemed to authorize any transaction prohibited by reason of any provision (or ruling or regulation thereunder) of such Order other than section 13A (2).

[Issued August 2, 1940.]

REDEMPTION OR COLLECTION OF SECURITIES

General License No. 27

A general license is hereby granted authorizing banking institutions within the United States to present securities (including coupons) to the proper paying agents within the United States for redemption or collection for the account and pursuant to the authorization of nationals of any of the foreign countries designated in Executive Order No. 8389, as amended, and to perform such other acts, and to effect such other transactions, as may be necessarily incident to any such redemption or collection, provided that:

(a) the proceeds of the redemption or collection are credited to an account in the name of the national for whose account the redemption or collection was made and in the banking institution within the United States which held the securities for such national; and

(b) this general license shall not be deemed to authorize the presentation for redemption of any security registered or inscribed in the name of any of the foreign countries designated in Executive Order No. 8389, as amended, or any national thereof, irrespective of the fact that at any time (whether prior to, on, or subsequent to April 10, 1940) the registered or inscribed owner thereof may have, or appears to have, assigned, transferred or otherwise disposed of the security.

Each banking institution making any presentations for redemption or collection herein authorized is required to file promptly with the appropriate Federal Reserve Bank weekly reports showing the details of the transactions, including a description of the securities presented for redemption or collection, the dates of presentations, the persons for whose account the presentations were made, and the amounts collected.

[Issued August 8, 1940. The scope of General License No. 27 was extended by General License No. 29.]

TRANSACTIONS BY CERTAIN UNITED STATES CITIZENS WHO ARE
"NATIONALS" OF DESIGNATED FOREIGN COUNTRIES

General License No. 28

A general license is hereby granted authorizing any individual who is a citizen of the United States and residing therein and who is a "national" of any of the foreign countries designated in Executive Order No. 8389, as amended, within the meaning of such Executive Order, as amended, to engage in any transaction which would not be prohibited under the provisions of such Executive Order, as amended, if such resident citizen were not a "national" of any of the foreign countries designated in such Executive Order, as amended. All banking institutions within the United States are hereby authorized to engage in any transaction involving property in which such resident citizen has an interest, to the same extent, and under the same circumstances, as if such resident citizen were not a "national" of one of the foreign countries designated in such Executive Order, as amended.

This general license shall not be deemed to affect securities or evidences thereof delivered, or required to be delivered, to a Federal Reserve Bank under the provisions of General Ruling No. 5, as supplemented, or to authorize payments, transfers or withdrawals from accounts referred to in Paragraph (4) of General Ruling No. 6.

[Issued August 8, 1940.]

APPLICATION OF CERTAIN GENERAL LICENSES TO ACCOUNTS
REFERRED TO IN PARAGRAPH (4) OF GENERAL RULING NO. 6

General License No. 29

The provisions of the following General Licenses, as amended, are hereby made applicable, as of the date hereof, to all accounts of the type referred to in paragraph (4) of General Ruling No. 6, issued under Executive Order No. 8389, as amended, to the extent that heretofore such General Licenses have not been applicable by reason of their specifying accounts of certain designated countries, or nationals thereof:

General License No. 1
General License No. 2
General License No. 4
General License No. 5
General License No. 11
General License No. 27

[Issued August 9, 1940.]

PAYMENTS FROM, AND TRANSACTIONS IN THE ADMINISTRATION
OF, CERTAIN TRUSTS AND ESTATES

General License No. 30

A general license is hereby granted authorizing any bank or trust company incorporated under the laws of the United States or of any state, territory or district of the United States, or any private bank subject to supervision and examination under the banking laws of any state of the United States, acting as trustee of any trust administered in the United States or as legal representative of any estate administered in the United States, in which trust or estate one or more persons who are nationals of one of the foreign countries designated in Executive Order No. 8389, as amended, have an interest, beneficial or otherwise, or are co-trustees or co-representatives, to engage in the following transactions:

(a) payments of distributive shares of principal or income to all persons legally entitled thereto who are not nationals of any of the foreign countries designated in such Executive Order, as amended; and

(b) other transactions arising in the administration of such trust or estate which might be engaged in if no national of any of the foreign countries designated in such Executive Order, as amended, were a beneficiary, co-trustee or co-representative of such trust or estate;

provided, however, that this general license shall not be deemed to authorize such trustee or legal representative to engage in any transaction at the request, or upon the instructions, of any beneficiary, co-trustee or co-representative of such trust or estate or other person who is a national of any of the foreign countries designated in such Executive Order, as amended.

[Issued August 14, 1940.]

COLLECTION OF COUPONS FROM CERTAIN SECURITIES BEARING
STAMPS OF DESIGNATED FOREIGN COUNTRIES

General License No. 31

A general license is hereby granted authorizing banking institutions within the United States to detach coupons from securities of the type referred to in section 13A (1) of Executive Order No. 8389, as amended, when such securities have been in the custody or possession of such banking institutions continuously since July 25, 1940; to present such coupons for collection; and to perform such other acts and to effect such other transactions as may be necessarily incident to such collection, notwithstanding the fact that Treasury Department Form TPFL-2 may not have been previously attached to the securities from which such coupons are detached.

This general license shall not be deemed to authorize any transaction prohibited by reason of any provision (or ruling or regulation thereunder) of such Order other than section 13A(1).

[Issued August 20, 1940.]

REMITTANCES BY CERTAIN UNITED STATES RESIDENTS TO THEIR
RELATIVES OR DEPENDENTS

General License No. 32

A general license is hereby granted authorizing remittances by individuals resident in the United States to their relatives or dependents within any of the foreign countries designated in Executive Order No. 8389, as amended, through any bank, and any such bank is authorized to effect such remittances, providing the following terms and conditions are complied with:

(1) such remittances are made only by individuals who have continuously resided in the United States for one year or more immediately preceding the date hereof and who had been making similar remittances to the same payee for at least six months prior to April 8, 1940;

(2) such remittances do not exceed \$50 per month to any payee except that additional sums not exceeding \$10 per month may be paid for each additional member of the payee's family, provided that in no case shall a sum in excess of \$100 per month be paid to any one family residing in any such foreign country;

(3) such remittances are made only for the necessary living expenses of the payee and the payee's family;

(4) such remittances are not made from funds in which a national of any of the foreign countries designated in Executive Order No. 8389, as amended, has any interest whatsoever, direct or indirect.

Any bank effecting any such remittance shall satisfy itself that the foregoing terms and conditions are complied with.

Banks are authorized to establish and maintain free dollar accounts if necessary, and only to the extent necessary, to obtain the foreign exchange required to effect such remittances. Foreign exchange acquired pursuant to this general license may not be used for any other purpose.

Banks through which any such remittances originate shall file promptly separate reports in triplicate on Form TFR-32 with the appropriate Federal Reserve Bank. In addition, the bank ultimately transmitting abroad (by cable or otherwise) the payment instructions for any such remittances shall file weekly reports with the appropriate Federal Reserve Bank setting forth in detail (1) the amounts of foreign exchange acquired in cover of such remittances and the price paid therefor, (2) the sources from which such foreign exchange was acquired, (3) the amount of free dollar credits, if any, established or maintained as a result of the acquisition of any such foreign exchange, and (4) the names and addresses of the institutions for whose account any such free dollar credits have been established or maintained.

As used in this general license the term "bank" shall mean any bank or trust company incorporated under the laws of the United States or of any state, territory or district of the United States, or any private bank subject to supervision and examination under the banking laws of any state, and also any other banking institution specifically authorized by the Treasury Department to be treated as a "bank" for the purpose of this general license.

[Issued August 30, 1940.]

CERTAIN REMITTANCES TO UNITED STATES CITIZENS IN FOREIGN COUNTRIES

General License No. 33

A general license is hereby granted authorizing remittances by persons within the United States to citizens of the United States within any of the foreign countries designated in Executive Order No. 8389, as amended, or to citizens of the United States who have departed from any such designated foreign countries and are within any other foreign country, through any bank, and any such bank is authorized to effect such remittances, providing the following terms and conditions are complied with:

- (1) such remittances do not exceed \$250 per month to any payee and are made only for the necessary living expenses of the payee and the payee's family except that one additional sum not exceeding \$250 may be remitted if such sum will be used for the purpose of enabling the payee and the payee's family to return to the United States;
- (2) such remittances are not made from funds in which a national of any of the foreign countries designated in Executive Order No. 8389, as amended, has any interest whatsoever, direct or indirect.

Any bank effecting any such remittance shall satisfy itself that the foregoing terms and conditions are complied with.

Banks are authorized to obtain foreign exchange, to the extent necessary, on the same terms and conditions as those prescribed in General License No. 32 in order to effect the remittances herein authorized.

Banks through which any such remittances originate shall file promptly separate reports in triplicate on Form TFR-32 with the appropriate Federal Reserve Bank indicating therein that the payee is a citizen of the United States. In addition, the bank ultimately transmitting abroad (by cable or otherwise) the payment instructions for any such remittances shall file weekly reports with the appropriate Federal Reserve Bank setting forth in detail the same information required in such reports under General License No. 32. This weekly report may be combined with the weekly report required under General License No. 32.

As used in this general license the term "bank" shall mean any bank or trust company incorporated under the laws of the United States or of any state, territory or district of the United States, or any private bank subject to supervision and examination under the banking laws of any state, and also any other banking institution specifically authorized by the Treasury Department to be treated as a "bank" for the purpose of this general license or of General License No. 32.

[Issued September 10, 1940.]

RE BRITISH PURCHASING PROGRAM

October 1, 1940
11:00 a.m.

Present: Mr. Purvis
Mr. Fairey
Mr. Gray
Mr. Mansell
Mr. Young
Mrs Klotz

Fairey: I thought you would like to meet Commodore Mansell. He is just over from England. He is in the Royal Air Force.

H.M.Jr: R.A.F.?

Fairey: Yes.

H.M.Jr: Have you been in the air?

Mansell: No, I haven't. I have been on the administrative side.

H.M.Jr: I see.

Mr. Fairey, can you prepare me for what I am going to get at lunch today? Did Mr. Purvis tell you?

Fairey: Yes. He didn't tell me enough, though, Mr. Morgenthau. Can you give me the particulars, and I will very soon prepare you?

H.M.Jr: Well, evidently they are trying to put over a deal via me on engines. That is all that I know. I thought if you could tell me what talks, if any, you have had with the Army, whether they have been trying to get some engines from you, I could be prepared.

Fairey: Yes, they are. They are trying to get some Wright 1820 motors from us and I have sent them ten a month as a gesture. They asked for ten in particular and I think they asked for 120 in all.

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H.M.Jr: Wright 1820? That is the number, isn't it?

Fairey: That is a type number.

H.M.Jr: How much horse is that?

Fairey: The horsepower of that engine is about - I will have to ring you. It is about 1300 horsepower.

H.M.Jr: Could you (Gray) call up your office outside? And you (Fairey) have given ten to the Army?

Fairey: I have sent ten to the Army from our stocks.

H.M.Jr: Stuff that you had on hand?

Fairey: Yes, but we wanted them badly. I had to ground five of my own machines for them.

H.M.Jr: What five?

Fairey: Hudsons.

H.M.Jr: Oh, really?

Fairey: Yes.

H.M.Jr: That is, no fooling, as they say?

Fairey: No, we are sending Hudsons without engines.

H.M.Jr: You see, you haven't got a memorandum prepared on this.

Fairey: I didn't know what it was about, you see, Mr. Morgenthau. I will have a memorandum over to you in half an hour.

H.M.Jr: We will have to do it now because I asked him --

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Fairey: Yes, I know, but Mr. Purvis couldn't give me any information, you see. I was in New York last night. I hurried here this morning. Directly I have what you want, I will give you a memorandum on the whole thing.

H.M.Jr: Five Lockheed Hudsons to England without engines. Now, does that take care of Boeing? Do you know whether they are taken care of on the bombers?

You see, Mr. Purvis said you (Fairey) had a memorandum which you didn't give me last week.

Fairey: That is on the whole question. I sent that over.

H.M.Jr: I haven't got it. That is the one he said he wasn't going to give me.

Fairey: I have a copy here but I sent it over this morning.

H.M.Jr: To whom?

Fairey: Mr. Gray sent it over. There is one from Mr. Purvis on the whole question of engines.

H.M.Jr: Is there one in your office, Philip?

Young: Pardon me?

Klotz: Shall I go see?

H.M.Jr: Have you got anything for me? This is Aide-Memoire for me?

Fairey: Sent it over about half an hour ago.

Young: I don't think it is in my office. I haven't seen such a memorandum.

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H.M.Jr: I have got to discuss this with you, sentence by sentence. That is what I asked for. Let me discuss this thing.

Fairey: Certainly.

Gray: (Returning to conference after calling office)
Twelve hundred, sir.

H.M.Jr: Thank you. Now, let me just read this.

"It is vital for the success of the war effort that deliveries of airplane engines against British orders should be maintained and indeed that every means should be taken to accelerate those deliveries.

"At the time of the French collapse, fresh British airframe orders were placed in the United States so as to utilize a proportion of the engines available as a result of the French assignment agreements. At that time, upon instructions from London, the remainder were allocated for airframes to be built or building in the United Kingdom. These airframes will be delivered during 1941."

Let me stop there. How many engines of the French order were assigned for airplanes in this country and how many for England?

Fairey: That is a big question, Mr. Morgenthau. I will see what I can do.

H.M.Jr: That is the question they are going to ask me. Do you want to make notes?

Fairey: Yes.

H.M.Jr: You say here, "fresh British airframe orders were placed." Well, how many, and to take care of how many engines?

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Fairey: I can give you the figures that are required for four types of engines for the next six months.

H.M.Jr: No, it doesn't interest me.

Fairey: What figure do you want, Mr. Morgenthau? I will give it to you.

(Mr. Purvis entered the conference)

H.M.Jr: Hello.

Purvis: My regrets. London made it very insistent.

H.M.Jr: That is all right. Now look, I got the memo.

Purvis: Yes.

H.M.Jr: Catch your breath. I was just asking some questions here. In this paragraph, "At the time of the French collapse --" Incidentally, not only Mr. Patterson is coming, but Mr. Stimson called up to say, "I am ready on the bombers." I said, "Well, do you know about Patterson?" He said, "Yes," and I said, "Why not let's all eat together?" So we are eating together at lunch. He is ready on the bombers.

Purvis: Good.

H.M.Jr: So it is all the more important that I be prepared.

Purvis: Quite.

H.M.Jr: We had just gotten to the place where I was asking embarrassing questions.

Purvis: That is the spirit.

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"At the time of the French collapse, fresh British airframe orders were placed in the United States --" I say, "How many?"

Purvis: 1350, wasn't it?

Fairey: I didn't give the answer, because I wasn't certain. Mr. Morgenthau wants the total. I have the figures here that cover six months, but I haven't the figures to cover the total.

H.M.Jr: Well, you make the statement, "fresh British airframe orders were placed," and I asked how many.

Purvis: My recollection was 1344.

Fairey: It is about that, but I haven't the information more than six months ahead.

Purvis: No, but we placed actual orders, I think that is the point.

Fairey: You see, Mr. Morgenthau, you can't make a simple answer because there are a great many types of engines, different types of aircraft.

H.M.Jr: My dear Mr. Fairey, don't make the statement if you can't give me the answer. You say, "fresh British airframe orders were placed in the United States," and I say, "How many?"

Fairey: I can find out for you quickly, but I haven't the information on me now.

H.M.Jr: Well, you see, I am fighting time trying to do a job, and I think there must be a round figure here, something like --

Purvis: I believe it is 1344. Mr. Gray, if you left the meeting now, could you check that so as to get the information?

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- Gray: Yes, sir.
- H.M.Jr: Just a minute, Mr. Gray. I am going to ask the next one. And, "a proportion of the engines available as a result of the French assignment agreements --" I am asking how many engines.
- Purvis: Yes. How many engines went with the number of planes that were ordered at that time.
- H.M.Jr: If there were 1300 - I would like to start with this, because this is what they are going to try to do. I want to start with, one, how many engines did you take over, the total figure. That is number one. Two, you make the statement that you ordered so many airframes to take care of "X" number of engines.
- Purvis: Yes, that is right.
- H.M.Jr: I want the number of airframes and the number of engines, and that leaves --
- Purvis: We shall have no difficulty, I think, about the United States end. We will not be able to give you accurately the extra airframe orders that were placed in the U.K.
- H.M.Jr: I am not going to ask that.
- Purvis: It is the United States you are particularly interested in.
- H.M.Jr: Let's just say for round figures there were 2,000 engines made available. 1300 of them were used for so many frames and the balance of 700 went to the English.
- Purvis: That is right.
- H.M.Jr: Now, that isn't asking an impossible thing, and then of that, how many of - using 2,000

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or 5,000 or whatever it is - how many have left the country and how many of them have already gone into airframes, leaving a net of so many still available that they are going to argue about.

Purvis: Yes.

H.M.Jr: I mean, I think that is what they are going to do.

Purvis: Yes. Mr. Gray, is that clear to you?

Gray: Yes, sir.

Purvis: How many French engines we took over; this is the French engines, as distinct from the orders on hand for the British; number of airframes placed in the United States; number of engines therefor; how many have left the country since, both as regards planes and as regards engines; and therefore a net figure of the French engines still in question and approximately the delivery date over which it is spread.

H.M.Jr: That is right.

Purvis: Divided perhaps, if possible, up to the 30th of June, which is a cut-off figure for us, and beyond.

H.M.Jr: That is right.

Purvis: Not necessarily too particular --

Fairey: We have taken this to the end of March.

Purvis: Then to the end of March, to the end of June, and beyond.

H.M.Jr: In all of my discussions, for your benefit,

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with the Army, I am using July 1st. I am using everything June 30.

Purvis: There is no harm in throwing in March 31st as an extra figure, but you must have a June 30.

H.M.Jr: It is not useful to me. On the PBY-5, you are to get every other one until June 30. Everything I am talking about is until June 30.

Purvis: Now, Mr. Gray, I think you can do a first-class job for the Secretary.

Fairey: You will get the particulars of the first question. It will have to come from New York. This is a very large statement, but you can get the total. You will get this on the French orders placed - well, if he can't give you that, refer it to Sir Henry Self. Then the other two will follow, but you will have to divide it into types. If you will get busy on that, when I come over I will --

H.M.Jr: Philip, you never have had this, have you?

Young: These figures?

H.M.Jr: Yes.

Young: No, we never have had these figures.

H.M.Jr: Isn't this what they have been asking for - Knudsen?

Young: Well, there have been several interpretations and sets of figures showing that there never was any surplus, but there is a surplus, and that may be half and half.

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- H.M.Jr: Am I right or am I wrong, that this is what the whole argument is about?
- Young: Basically, I think it goes back to that, yes.
- H.M.Jr: It certainly doesn't do any harm for me to have that in my key pocket.
- Purvis: No. You want to be prepared for whatever is coming, and those figures look as if they would be useful in any discussion that they raise.
- H.M.Jr: I think so.
- Young: I think what happened was simply this, that the Army - of course, the British placed orders to take care of the French engines, as soon as they got them. The Army, when they went to work outlining their program, decided that the British couldn't use all the French engines, so they placed orders for frames, counting on the fact they might be able to get the French engines, so you have got two sets of orders for the same engines.
- H.M.Jr: If I could get the figures for what is a very clear statement in this paragraph --
- Purvis: That is -- I think your (Fairey's) hesitation there, if I understand it correctly, is that you are afraid of giving a figure which would spread over to - you are thinking in terms of the discussion you have had with the Army people here up until March 31st and you don't want to get outside the area of that area. Am I right?
- Fairey: Yes, because the allocation of engines is subject to shift-about between one type and the other.

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Purvis: Whereas, what the Secretary --

Fairey: I will give Mr. Morgenthau an over-all figure.

Purvis: What he is asking is the simple figure, how many airframe orders did you place under that paragraph on such a date, and I am almost sure that is the 1344 that we discussed with Knudsen and Morris Wilson.

Fairey: It is a great deal more than that in total.

H.M.Jr: Well, let me get along, anyway. Now, I made a note here that they gave them ten of these 1820 Wright engines for the Boeing which necessitated sending five Lockheed Hudsons.

Fairey: Will necessitate; they are not shipped yet.

H.M.Jr: "At about the same time, a breakdown in the production of Taurus and Hercules engines manufactured in the U.K. (as a result of unexpected technical difficulties) created a still further dependence upon the French engine orders from the United States.

"In the face of the above situation, it appears that the engine allocation as now planned for the period of seven months to March 31, 1941 will result in approximately 950 engines being diverted to the needs of the United States Army and Navy despite the fact that that diversion will produce a deficiency of about 425 engines in relation to available British airframes."

You are giving up 950 of the French engines?

Fairey: Yes, but that figure was worked out last week. I just wanted to modify that a bit. Since then, the Army have modified their demands a little. They have asked for less of two types.

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They have asked for less of one type, and more of another type, so those figures are only approximate.

Purvis: But they are approximately right?

Fairey: No, it is about now - it is about 300 too much.

Purvis: You mean that we are only asked to give up 650, as distinguished from that?

Fairey: Yes. I mean that when those figures were gotten out last week for your memorandum, they were exactly right. Since then, we have had another talk with the Army and they have reduced their demands for the Pratt & Whitney 1820 by 181 engines, and there appears to be a much larger supply of the Pratt & Whitney 1340's.

H.M.Jr: Just a minute, you are talking about something I have never heard about before. You have lived and slept with it and I haven't. Where does the thing stand? What is the Army asking of you? That is what they are going to mention at lunch. The Army is asking what, as of today? What are they asking? You wanted from now until the 31st of March?

Fairey: That is all the figures I have.

H.M.Jr: Up until --

Young: The Air Corps is working on that date.

H.M.Jr: Up until March 31st. Now, what are they asking?

Fairey: Up to the minute - because there is this unknown quantity of what the production will

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be of the Pratt & Whitney of the 1340, at the minimum, they are asking for 445.

H.M.Jr: What are they asking for?

Fairey: Pratt & Whitney 1830's.

H.M.Jr: 181?

Fairey: Pratt & Whitney 1830's.

H.M.Jr: How many?

Fairey: 181.

H.M.Jr: Yes.

Fairey: Pratt & Whitney 1340 is the unknown quantity. They haven't stated properly their demands yet. They did ask for 141.

H.M.Jr: Question mark. What is next?

Fairey: Wright R-2600.

H.M.Jr: What number.

Fairey: R-2600-A, 236.

H.M.Jr: And --

Fairey: The Wright 1820, again a question mark, but at the moment the figure stands at 68. We have had a further request for 120.

H.M.Jr: I will put 68. Anything else?

Fairey: Well, that is all the engines so far dealt with by the allocation committee.

H.M.Jr: Now, the 1830's, 181, do you know what use they are going to make of those?

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Fairey: No, I know what use we are, but not what they are.

H.M.Jr: What do you use them for?

Fairey: We use them for the Hudson, the LB-30, the Grumman, and in England, we use them for the Beaufort, which is a type of bomber.

H.M.Jr: And the 1340's?

Fairey: 1340's are used for the Harvard Trainer.

H.M.Jr: And the Wright 2600?

Fairey: For the British Sterling Bomber.

H.M.Jr: That goes overseas?

Fairey: That is the most vital --

H.M.Jr: And the R-1820's?

Fairey: Parallel to the 1830 for the Grumman and the - the Grumman fighter, and the Hudson.

H.M.Jr: Well now, in this, you see, there are none of these for the Boeing engines.

Fairey: Yes, these 1820's.

H.M.Jr: Oh, 1820's. Are you (Young) familiar, because you are going to be there at lunch. Are you familiar with all these initials and things? I mean, the figures like R-18 --

Young: Yes, I can bring most of them.

Fairey: Would you like to chat with me before and let me leave you a copy of this statement? I can coach you in this in ten minutes.

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Young: All right.

H.M.Jr: Have you seen this before?

Young: No.

Fairey: No. I got this out for myself.

H.M.Jr: Do you know about this allocation committee?

Young: Just in a general way.

H.M.Jr: You had better soak it up between now and 1:00.

Let me put it this way. Supposing they ask for these 500 engines, how do you feel about releasing them?

Fairey: Well, Mr. Morgenthau, we are being pressed every day from England to send them over and for the reasons given in your Aide-Memoire there, our own engine production on the two parallel types, the Taurus and the Hercules have broken down and we are desperately in need of these engines.

For another reason, although we can't absorb them all in the next six months in airframes built here or in airframes built in England, the following six months is a pit in the deficiency. We want to hold those engines left over for the next six months.

H.M.Jr: Deficiency where?

Fairey: In every class of engine for the next six months.

H.M.Jr: Six months beginning when?

Fairey: March 31st.

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- Purvis: Both for the United States and the U.K.
- Fairey: Yes, an over-all deficiency in engines after this six months. The present surplus is due to ours and the French orders only.
- H.M.Jr: Well, I'm not going to agree to anything at lunch today.
- Purvis: No, it is an exploratory talk.
- H.M.Jr: I can't, but there may be something like where they need ten engines for the Boeing, I mean some special situation, a thing which seems to be bothering General Marshall, and as I understand, if I remember rightly, General Marshall said, "Well now, if I can have those certain number of engines --" I thought it was 50 or 60. He agreed to give us the first six of the Consolidated four-engine bombers that came off the line.
- Fairey: Yes. Well, I would be glad to. In the committee when we are dealing with the details, you know, of this engine and that, I would be glad to trade engines, to hand them out where they are helpful and so on, once I know where I stand, you see, what engines we have got, because at the moment the Knudsen committee rather takes the view that all these engines are in a pool.
- Purvis: I think this is a point for the luncheon, perhaps, that Fairey is confronted when he gets into the committee by what he - in every advice he has from London, he has to treat as a false assumption. There seems to be a starting point at which they don't argue. They simply say, "This is a pool of engines," whereas in fact what it is, we happen to own, by various actions, certain engines in this country. It wasn't bought for a pool. They were bought for the fighting

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needs. Now, they may in practice become to some extent a pool, but if they start from that point, they don't feel they have to ask for anything, they simply assume that it all belongs to everybody, that it is a common pool, whereas the assumption in London is that they all are going to them for their fighting needs and it is a very radically different assumption. I think from what Fairey tells me of these discussions, that he is faced always by an assumption on Knudsen's part that this is not something that we have bought particularly, it is a pool that happens to be there and it is a question of how you allocate it.

- H.M.Jr: Let me just refresh my memory. Let me just talk with Phil Young a minute. As I understand, this is what is in Knudsen's mind, that they agreed that the English would have 14,000 engines. Is that what it was?
- Young: In this program? 14,375 by April of 1942.
- Purvis: Airplanes.
- H.M.Jr: Airplanes, and how many engines?
- Young: Engines to go with them, plus spares.
- H.M.Jr: And that on a month to month basis, unallocated engines each month would be allocated. Isn't that what is in his mind?
- Young: Yes. My original understanding, which Knudsen agreed with at that time and since has changed his grounds on is this --
- H.M.Jr: He has changed his grounds?
- Young: Yes. He doesn't admit it, but he has. I hate

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to argue with him about it. In that July 17 conference, it was agreed that the Army and Navy would get 19,000 planes and the British would get 14,000. That is where this original 19-14 ratio developed, up until April 1942, and spare engines. Engines over and above that program - or rather, as that program went along - engines would be allocated to waiting airframes. There would be no engines put in boxes and shut up in the warehouse in storage, even if it is a British engine and they had no waiting frame. It would go into an Army frame if it was waiting for that engine. Where Knudsen and I disagree --

- H.M.Jr: Is that what you understand?
- Purvis: That is exactly what I understand.
- Young: Where Knudsen and I disagree is that included - and I have a written statement which was filed in his office that day - that engines would be shipped to England for placing in British airframes, so that the question of allocation only came up when you had a waiting British frame here or a waiting Army frame and a waiting frame in England.
- H.M.Jr: Now, I have got to be honest. The last statement, I have no recollection of.
- Young: I will show you a note on it.
- H.M.Jr: I would like to see it. I have no recollection of it. I think it is important.
- Young: He says no, that the allocation was solely between frames on this side of the water.
- H.M.Jr: I don't remember, so if you have such a thing - use my phone.

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Young: I will get it.

W. J. Jr.: I will wait a minute. We will just mark time while you ask for it. Have somebody bring that letter in, because I don't remember.

W. J. Jr.: There is a further point, if I may raise it, Mr. Morgenthau. That is, assuming there were not enough engines for any one side and both sides had waiting frames, we'd assumed from the meeting of July that engines to our contracts would first go into our frames. Mr. Knudsen takes the point of view that the total engines would be divided between the two parties in the ratio of 19 to 14, 19 engines to U. S. Army and Navy and 14 to U. K., despite the origin of the engines, whether they were our contracts or not. That, of course, seriously cripples us.

W. J. Jr.: Say that again for Young's benefit.

W. J. Jr.: I say, disregarding the other aspects of it, take a case where there were not sufficient engines to meet the empty airframes in this country, both sides have sufficient airframes but not sufficient engines. Our view was that if the engines were to our contracts, then our airframes, built in the United States, had priority. No export - I am not thinking of export.

Mr. Knudsen takes the view that the available engines are distributed between the two parties in the ratio of 19 to 14.

Furvis: I think the intent of Secretary Stimson at the meeting was, he rather accepted, I thought, the idea that frames, wherever we had frames ready here to get into the air, that our

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engines would be available to get them into the air, because they were needed for fighting needs.

H.M.Jr:

Well, I go back much further than that. I go back to the basic policy which the President of the United States laid down, namely, that anything that we had here was to be superimposed over and above the orders which you had here, and that is the thing that I am going on, and at no time has he indicated anything to change my sailing orders. Those are my orders and nothing has happened.

Now, it looks to me, and I am talking very frankly in the room, as if Mr. Stimson and Mr. Patterson evidently want to try to sit down and make a deal with me today, feeling that it is their responsibility. Now, naturally, I haven't yet sold you down the river and I don't think I will today, but personally, I wouldn't give up an engine. I mean, yes, in an extreme case where ten might make General Marshall feel happy or - he has told me this story so often now about the Boeing planes having to be flown down to San Diego some place and then the engine shipped back and then they fly down another frame and then the frames lie there idle - some tale like that which is too fantastic, but I mean --

Furvis:

Well, Fairey has been going along, ploughing through his committee, trying not to come to you, trying not to come to me, and finally last week he and I got together in the office one night and we decided the time had come when we had to come to you.

H.M.Jr:

I didn't seek this meeting. Judge Patterson called me at home Saturday and asked for it, and then Mr. Stimson called me and asked

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for a meeting today. I want to get one thing over which these gentlemen can give me now. In passing, I think it is terribly important that we get Knudsen straightened out, because to him word of mouth is so important.

Purvis: That is right.

H.M.Jr: It is terribly important to him, and he has dropped a remark a couple of times, "Have my English friends changed?"

Purvis: Not intentionally.

H.M.Jr: Granted, but when the time comes, I think if we come to some understanding with them today, I think it might be good for you to sit down quietly with him alone, so that there is no possible misunderstanding of good faith.

But just for a minute, I want to get something into my head. Can you (Fairey) tell me - these four engines, Consolidated bombers, that you have got on order, I mean are they up to date in armament, et cetera? Are they the last word?

Fairey: The --

H.M.Jr: The four-engine Consolidated bombers which you have on order.

Fairey: I believe, Mr. Morgenthau, and I must confirm this, that ours are, those on order for us. I believe they are different than those on order for the U. S. Army. I believe we put in armor.

H.M.Jr: Are these good, that is what I am trying to get at?

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Fairey: Yes.

H.M.Jr: Are you sure?

Mansell: Well, I am going over to see them tonight. I haven't seen the ship yet, so I can't speak with authority.

Fairey: Now, my impression --

H.M.Jr: Will you be there in the morning?

Mansell: I will be there tomorrow.

H.M.Jr: I am talking about the four-engine Consolidated.

Mansell: Yes, B-24.

H.M.Jr: But you are going to Consolidated tonight?

Mansell: I am going over to Consolidated tonight, yes, sir.

Purvis: I have understood from our people in general that that is a desirable plane, from our view.

H.M.Jr: You see, what I have in mind, I think - Phil, get this - I think there is a possibility of making a real deal whereby I might be able - it is just a possibility - of taking over the entire four-engine production of Consolidated for the English by giving them enough engines for their Boeings. Now, before I enter into that --

Purvis: You want to make quite sure you have things right.

H.M.Jr: That is right. Do you see?

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Purvis: Could we not get from New York, Baker's statement of that situation?

Fairey: I can give them our deliveries.

Purvis: But I mean our estimate of the value of the machines.

Fairey: Well, there is no question of the estimates. It is the only big bomber we have got on order.

Purvis: So we must think it is good.

H.M.Jr: It is the LB-30.

Purvis: That is not your American --

H.M.Jr: This is yours. You have got 180 on order.

Purvis: That is it.

H.M.Jr: But you had better take a look at both the English and the U. S. one, because you are certainly going to get some of those U. S. ones, you see, definitely, and also with the Sperry bomb sight. I mean, how far along are they, are they along too far to stick those things in it?

Mansell: Well, the American planes will have them in.

H.M.Jr: Yes, but not the Sperry.

Mansell: Not the Sperry?

H.M.Jr: No, they will not; pardon me, I am quite sure they will not. They will have the other one.

So I mean, as I understand, you have got to start putting those things into the frame pretty early.

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- Purvis: That is right, they are built right into the automatic pilot.
- H.M.Jr: How many of these are equipped with automatic pilots and how far along are they - could they still take the Sperry bomb sight?
- Mansell: They will all have automatic pilots.
- H.M.Jr: Will they?
- Mansell: Yes, that is standard equipment.
- H.M.Jr: I see. But you had better - if you could go to Consolidated first - I should think you could call up and find out what your specifications are.
- Purvis: We can get that from Baker, can't we?
- Fairey: I can get that from New York.
- H.M.Jr: Could you get it, and give this to Young before 1:00 o'clock? You don't want the Boeing. You certainly don't want the 17-C.
- Purvis: There have been three cables dispatched to London in the last week trying to draw that from them in relation to the Consolidated bomber, and you haven't yet got your reply.
- Fairey: I sent another cable on Saturday.
- Purvis: You see, Beaverbrook has been cabling, asking for these - to be perfectly frank, Beaverbrook has been asking for flying fortresses. On what that situation is based, I don't think we are quite sure, because our technical fellows have very definite suspicions in the B-17 class.

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- Fairey: He wants them, I suspect, for long-range bombing operations, but we have considered the differences between the new ones coming out in April and the present ones.
- H.M.Jr: I don't think you want the 17-C's. I think there is a good chance of getting these Consolidated ships and getting the first ones, and I think that is the place to do a little swapping, and if you people --
- Mansell: That is my view, too. I don't think we want the 17-C.
- H.M.Jr: And that is why, if the Army is so keen on them, let them keep the 17-C's. They have still got 60 out of 68 to go, as I remember, and let them take those, but if - and I am hopeful we can make a deal to get acceleration on the Consolidated for the British.
- Furvis: Apart from the six?
- H.M.Jr: Oh, definitely. At least one and one, and maybe even more.
- Furvis: Which might make a very strong difference.
- H.M.Jr: Oh, yes.
- Furvis: I think if we could get a technical estimation so far as even Baker is concerned - it may not be London's answer, but a technical --
- Fairey: London has been pressing us to send to them. Quantity now is more important than quality and that is the reverse of what they usually say. We have cabled back that there is a vast difference between the ships and have asked them to consider it on those grounds.

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- Purvis: Entirely apart from that again, there is a further thing and that is that you will get your Consolidated just as quickly. You are not losing speed in getting airplanes. It is simply that they are Consolidated planes instead of flying fortresses and the question is whether Consolidated is better from our viewpoint, especially as the Army likes the flying fortress.
- H.M.Jr: Those two sheets, will you (Young) bring them down to lunch?
- Young: Yes.
- Fairey: I could make my mind up. My trouble is to get London to make theirs up.
- H.M.Jr: Maybe it will be simple because - well, they can't get the Boeings, see. They might just as well forget about it. And then if you find it isn't such a good plane, the refusal tastes sweeter, so you might as well be able to find out for England so as to say, "Well, you were lucky you didn't get it."
- Purvis: That is right.
- Fairey: I agree with that.
- H.M.Jr: To say, "You are well out of this."
- Purvis: We are faced with a condition --
- H.M.Jr: It is a Model "A" Ford. It is just out of date. You don't want it.
- Purvis: When we are through with airplanes, I have some other things that I think might be raised with you by Mr. Stimson.

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H.M.Jr: Just one minute. Philip Young asked me to read this.

"Air Commodore Mansell has just arrived in Washington."

Fairey: This is him.

H.M.Jr: Just a little humor, so we don't get too tense.

"He is fully acquainted with the British pilot training system."

That is not what you wanted me to read, is it?

Young: No, you don't need to read that. It is like the flying fortresses.

Purvis: It has no engine in the tail.

Fairey: Is there any information you want on the pilot training program? There is the man to answer your questions.

H.M.Jr: I can't get to him today, because I am soaking this thing up and if he is going out tonight, I think it is very important - maybe he could come back.

C. D. Howe didn't have his press conference, did he?

Purvis: He had his press conference, but it didn't seem to register.

Young: Somebody told me last night it was in the paper, but I haven't seen it.

H.M.Jr: I tell you who has an article today, Hanson Baldwin of the New York Times, on the Canadian situation.

Purvis: He gave it that morning, there was no question about that, but when I asked him how it had gone in the hurried moment I saw him, I thought he hadn't the feeling that the reception was so good.

H.M.Jr: Do I have to bring up the bomb sight at lunch?

Young: No, I don't think so.

H.M.Jr: Is that going along nicely?

Purvis: Yes, I think so.

H.M.Jr: If I don't - send this to the house, and I won't attempt to read it now, please.

Now --

Young: The only other point is the --

H.M.Jr: You fed me something on the Republic, and I told you to give it to me in my hand.

Young: I have got it right here.

H.M.Jr: Here is my hand.

"Last Friday morning, Colonel Flickinger of Republic Aircraft dropped in to see Oscar Cox and me at my request. Colonel Flickinger stated that 172 planes had been ordered originally by the Swedish Government, of which 120 were EP-1's (single pursuits) and 52 were 2-PA's (two-seater training and reconnaissance planes). Of these, 60 EP-1's and 20 2-PA's have been shipped, leaving a balance of 110. Of this balance, 30 of each type have been completed leaving about 50 to be produced at an approximate rate of one plane per day.

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"The planes which have been completed are already boxed for export shipment and are stored at the Republic plant at Long Island City. These planes are all bought and paid for and the Swedish Government has title. Colonel Flickinger stated that Republic could not break its contract with the Swedish Government for two reasons: first, because the Swedes already had title to the planes and Republic had no claim on them, and, second, because the finished planes include accessory equipment, radio, camera, etc., which had been furnished by the Swedes and was not part of Republic contract.

"Thus, the Republic situation is distinct from the Vultee situation where planes had not been completed and did not include any extra equipment. As Republic stated point-blank that it would not cancel its contract, and as the Swedish Government is taking the stand that it wants delivery of the planes, if it cannot sell them to the Air Corps, there would seem to be three possible courses of action: first, let the Air Corps take over the planes from the Swedish Government and then trade back part of them to Republic for sale to Canada (it is assumed that the Air Corps would be interested in single pursuits only); or second, let the Air Corps take over the planes and release a different batch of planes for ultimate sale to Canada; or, third, to take over the Republic planes in exchange for flying fortresses."

In other words, they are stuck on Republic?

Young:

We can't make the Vultee deal in the case of Republic.

H.M.Jr:

Do you think this might be a little sweetening?

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Young: Well, we have still got our hands on them.

Purvis: It seems a shame to have those Republics lying around after all the work that has been done in this particular branch.

H.M.Jr: If you gave these up, what would you like the most in place of them?

Fairey: Curtiss Hawks.

H.M.Jr: The 76?

Fairey: No, the 81-A.

H.M.Jr: What is that?

Fairey: The P-40.

H.M.Jr: Oh, now have a heart.

Fairey: You asked me.

H.M.Jr: Wait a minute, have a heart. Do you know that Allison completed 80 engines last week?

Fairey: I am told they are getting up to 8 and 9 a day now.

H.M.Jr: 80 engines, 221 delivered. The British received 146 and the Army 56, so I think you are doing fairly well.

Fairey: We are doing very well with the Allison? You heard the results of your dealing with the Allison? We are to get 170 machines by October. Thank you very much.

H.M.Jr: If I can do as well on Consolidated, and the thing - the reason I like the idea,

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you have got the flying boats and the Consolidated. Now sit down with the fellow and say, "Here are the orders, what can you do to increase your production 30 or 40%?"

Fairey: I would like to go over and see them myself, directly the situation is clear.

H.M.Jr: I would like to go also.

Purvis: Could we make it unanimous?

H.M.Jr: Are you busy?

Klotz: Not at all.

H.M.Jr: All right.

Fairey: May I ask one more question on engines?

H.M.Jr: Go right ahead.

Fairey: If you could clear the situation for me, I think we can get right away to it because we have now got a joint standing committee, you know, the Army and Navy and British Purchasing Commission, where we are supposed to sit in a huddle around the table and deal on these engines. I can't do my dealing until I know who owns the engines or who they belong to. Mr. Knudsen takes the view that they are a pool. My hands are tied. If you will give a ruling on the matter, I can help out the Army quite a bit where we have got a few spare engines, and so on, and we can do some deals and we can get both programs along.

Purvis: And you don't dare accept what London has told you you can't accept, that they don't

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belong to you, and yet you would do some trading if you got recognition of the fact that they are your engines.

Fairey: That is right, because I can watch both programs. I can watch our own program here and in England and I can help the Army out when they are in a jam and they could help us a bit and we could do some useful trading in small numbers, but I can't do any while I haven't got any engines, if they are all in the pool.

H.M.Jr: Who represents the Army?

Fairey: General Brett, on the committee.

H.M.Jr: And the Navy?

Fairey: Admiral Towers.

H.M.Jr: Well, they are friends of mine.

Fairey: Yes.

H.M.Jr: Who sits in for Knudsen, Mead?

Fairey: Mead, yes.

Purvis: Underlying this situation, there is also another one.

H.M.Jr: I understand. I will let you know after lunch what happens.

Young: I found this original note of Knudsen's. Want me to read it?

H.M.Jr: If you please.

Young: Although it isn't signed, it could only emanate from one source.

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"It is understood and agreed --" This is dated July 23 and was written out on a yellow sheet of paper in pencil by Knudsen.

H.M.Jr: By whom?

Young: Knudsen.

"It is understood and agreed that all planes, American and British, get priority on engines and that optional and unallocated engines are distributed in accordance with the above understanding.

"It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon as possible and will be considered on the same basis."

H.M.Jr: Say that last sentence again.

Young: "It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon as possible and will be considered on the same basis."

H.M.Jr: Then I think he is right, Phil.

Young: Knudsen?

H.M.Jr: Yes.

Young: In what way?

H.M.Jr: Just what that says. Read that again.

Young: "It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon

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as possible and will be considered on the same basis."

H.M.Jr: I think he is right, don't you?

Purvis: I am not quite sure that I understand the shade of difference between - that is being --

Fairey: Well, the same basis would mean that they would --

Young: Put them in American frames. All three frames would rank on an equal basis.

Purvis: And how is his interpretation now?

Young: He says just American planes.

Purvis: Oh.

Fairey: No, his interpretation goes much further than that, I suggest. It goes that they are all in the pool, that we divide them up, 19 for us and 14 for them.

Purvis: And ours come first?

Fairey: No, 19 to 14.

H.M.Jr: As I get that, it is that the engines for the unallocated frames in England would be allocated in this country on the same basis that you are now allocating pooled engines. In other words, the engines which would go to England for unallocated frames, but go into an American pool.

Young: Yes, that is right, but he recognizes in the sentence that there is such a thing as a waiting British airframe, which has a call on an engine.

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- H.M.Jr: I don't get it.
- Purvis: Awaiting British U. K. frames.
- H.M.Jr: Read that again.
- Purvis: I get that, too.
- Young: "It is understood and agreed that all planes, American and British, get priority on engines and that optional and unallocated engines are distributed in accordance with the above understanding.
- "It is understood also that specifications for spare engines for Great Britain manufactured planes will be submitted as soon as possible and will be considered on the same basis."
- Purvis: That means, then, that U. S. and U. K. frames in the United States and U. K. frames in the U. K. will all receive similar treatment, so far as these unallocated engines are concerned.
- Young: That is the way I read it.
- Fairey: Does that clarify it, that at the time those agreements were made, there were no specifications of British frames available? I have since obtained them. So at the time he probably - on the one hand, he was confronted with schedules required for a plane and on the other hand the British schedules. I have since procured those from England.
- Young: He put in that last sentence because I asked him to, at the time.
- H.M.Jr: I think without a doubt that I could see he

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could misunderstand it either way, I mean misunderstand it, depending upon what was in his mind at the time he wrote it. I think there is great - but you have that.

I am going to listen to you gentlemen at lunch. They both have a proposition. I have been trying to bring myself up to date with stuff I am not familiar with, which I have done.

You have got another hour to work on Philip Young and then after - some time this afternoon I will get in touch with you.

Purvis: Very good.

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FOR YOUR INFORMATION

September 30, 1940

To: The Secretary
From: Mr. Young

Re: Republic Planes on Order for Sweden.

Last Friday morning, Colonel Flickinger of Republic Aircraft dropped in to see Oscar Cox and me at my request. Colonel Flickinger stated that 172 planes had been ordered originally by the Swedish Government, of which 120 were EP-1's (single pursuits) and 52 were 2-PA's (two-seater training and reconnaissance planes). Of these, 60 EP-1's and 20 2-PA's have been shipped, leaving a balance of 110. Of this balance, 30 of each type have been completed leaving about 50 to be produced at an approximate rate of one plane per day.

The planes which have been completed are already boxed for export shipment and are stored at the Republic plant at Long Island City. These planes are all bought and paid for and the Swedish Government has title. Colonel Flickinger stated that Republic could not break its contract with the Swedish Government for two reasons: first, because the Swedes already had title to the planes and Republic had no claim on them, and, second, because the finished planes include accessory equipment, radio, camera, etc., which had been furnished by the Swedes and was not part of Republic contract.

Thus, the Republic situation is distinct from the Vultee situation where planes had not been completed and did not include any extra equipment. As Republic stated point-blank that it would not cancel its contract, and as the Swedish Government is taking the stand that it wants delivery of the planes, if it cannot sell them to the Air Corps, there would seem to be three possible courses of action: first, let the Air Corps take over the planes from the Swedish Government and then trade back part of them to Republic for sale to Canada (it is assumed that the Air Corps would be interested in single pursuits only); or, second, let the Air Corps take over the planes and release a different batch of planes for ultimate sale to Canada; or, third, to take over the Republic planes in exchange for flying fortresses.

PY:bj

AIDE-MEMOIRE FOR MR. MORGENTHAU

It is vital for the success of the war effort that deliveries of aeroplane engines against British orders should be maintained and indeed that every means should be taken to accelerate those deliveries.

At the time of the French collapse, fresh British airframe orders were placed in the United States so as to utilize a proportion of the engines available as a result of the French assignment agreements. At that time, upon instructions from London, the remainder were allocated for airframes to be built or building in the United Kingdom. These airframes will be delivered during 1941.

At about the same time, a breakdown in the production of Taurus and Hercules engines manufactured in the U.K. (as a result of unexpected technical difficulties) created a still further dependence upon the French engine orders from the United States.

In the face of the above situation, it appears that the engine allocation as now planned for the period of seven months to March 31, 1941 will result in approximately 950 engines being diverted to the needs of the United States Army and Navy despite the fact that that diversion will produce a deficiency of about 425 engines in relation to available British airframes. At the same time, appreciable allocations of available engines are being made for other foreign and for commercial purposes. It is true the above figures embrace a temporary surplus of one type of aeroplane engine during the period in question in relation to available British airframes (either of U. S. or of U.K. manufacture). Unfortunately, however, in the subsequent period there is a deficiency of engines in relation to all airframes. It is of the utmost importance, therefore, to the fighting effort in the Spring of next year that these British engines be reserved for the British airframes which become available in the later months.

In the light of the above situation, we urge that all British orders, including the French assignments, for aeroplane engines, be left undisturbed. Indeed, we are anxious to see that efforts be concentrated on an acceleration of production to provide for additional allocations to U.K. fighting needs in the Spring and Summer of 1941.

A.B.P.

• Whilst these figures are approximate and may change with actual production performances, any such changes do not affect the basis of our case.

New York
September 28, 1940

TREASURY DEPARTMENT
Washington

FOR IMMEDIATE RELEASE
Tuesday, October 1, 1940.

Press Service
No. 22-23

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve Banks indicate that \$724,847,900 of Treasury Notes of Series C-1940, maturing December 15, 1940, have been exchanged for 2 percent Treasury Bonds of 1953-55.

Subscriptions and allotments were divided among the several Federal Reserve Districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received and Allotted</u>
Boston	\$ 15,348,000
New York	452,610,900
Philadelphia	19,477,600
Cleveland	15,494,300
Richmond	45,117,800
Atlanta	14,004,500
Chicago	100,937,900
St. Louis	12,914,300
Minneapolis	11,310,500
Kansas City	12,263,900
Dallas	6,475,600
San Francisco	18,061,200
Treasury	831,400
Total	<u>\$724,847,900</u>

-oOo-

Imports of Manganese Ore from the U.S.S.R.,
1937 - 1940 (8 months)

	<u>Quantity (ore)</u> <u>(In long tons)</u>	<u>Quantity (Mn content)</u> <u>(Long tons)</u>	<u>Value</u>
1937	383,949	209,144	\$3,960,000
1938	166,043	90,354	2,662,000
1939	<u>151,472</u>	<u>72,147</u>	<u>2,204,000</u>
1940 (6 months)	206,606	100,000 <u>1/</u>	2,697,990
July	26,859	11,588	\$ 364,908
August	<u>93,067</u>	<u>45,199</u>	<u>667,856</u>
1940 - 8 months	326,532	156,787	\$3,730,754

Treasury Department, Division of Monetary Research. October 1, 1940.

1/ Estimated.

TREASURY DEPARTMENT

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INTER-OFFICE COMMUNICATION

DATE October 1, 1940.

TO Secretary Morgenthau
FROM Mr. White
Subject: Summary of Nicholson's Reports Received on
September 26, 1940

A. Japan

1. There is a report that the Japanese are planning to disguise the increase in their navy by transferring some of the older ships to the puppet Chinese government.

2. There has been an increase in discontent among the working classes in Japan. Even the official figures show a rise in strikes in spite of severe repression. Agitation is growing among all classes. This is based on a report in a Japanese newspaper. The Japanese press is much perturbed by the interest shown by Moscow in the subject.

3. According to a report of August 9, the Japanese are withdrawing some of their best troops from China to stiffen the newly trained troops in Japan and for organization into an expeditionary force for Indo-China and the Dutch East Indies. As a result, the Japanese will have to abandon some of their planned actions in China.

B. China

1. The puppet government of Wang Ching Wei is experiencing considerable difficulties. Although negotiations have been going on for about a year, no definite agreement has as yet been concluded with the Japanese. The Japanese have become unenthusiastic about Wang Ching Wei's regime.

2. There is much intrigue around the puppet government. Admiral Waji, a leading Japanese Special Service official, has been opposing Wang Ching Wei in cooperation with several leaders of the "New Kuomintang". This group has drafted peace terms to be presented to Chungking which are reported to have the endorsement of a majority of the senior Japanese government officials. Briefly, the terms provide for the abolition of

Division of Monetary
Research

- 2 -

Wang Ching Wei's government, the withdrawal of Japanese troops from all areas except North China, the entrance of China into the axis bloc, economic cooperation of China and Japan with progress to be achieved "by means of advancing southerly".

3. Wang Ching Wei has not been able to carry out many of his projects. An attempt to secure a commercial agreement and recognition from Spain was blocked by the Japanese. He has not been allowed to organize a strong military force of his own. The North China, South China and Hankow regimes have been kept out of his direct control.

4. The Japanese and Wang are busy recruiting underworld elements. The Japanese have organized the pirates of the South China coast to prey on all except axis shipping. The looting of the British liner "Shenghua" was carried out by these gangs. Wang Ching Wei's puppet forces around Shanghai finance themselves to some extent by organizing kidnappings. This serves also the purpose of raising trouble in the foreign concession.

5. The Japs and the puppet government are actively engaged in trying to buy over the staff and leaders of the municipal police in Shanghai.

TO:

87

Re second paragraph:

Carbon black is used in
the manufacture of
tires.



OFFICE OF
THE ATTACHÉ
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 12, 1940

To the Secretary

JAPANESE TACTICS TO INCREASE THEIR NAVAL FORCE

As recently reported, Mr. Wang Ching-wei is preparing to abandon the Ministry of Navy of his Puppet Nanking Government. Admiral Shimada (島田), Commander-in-Chief of the Third Japanese Fleet, stationed in the China Sea, strongly rejected Mr. Wang's plan to abandon the Navy on the ground that the real purpose of Japan is to maintain a Puppet Navy to enlarge the Naval force of the Island Empire. Being restricted by the International Naval Treaty, Japan finds herself unable to totally ignore the Treaty and expand on a large scale. So they have been planning to assist the Nanking Puppet regime to build a strong Chinese Naval force in China for their own use. By doing this, Japan thinks she will considerably strengthen her sea power, and Great Britain and the U.S.A. will not be in a position to interfere with the project.

Japan is now prepared to sell part of her old style warships to the Nanking Government, and the money thus derived will be totally devoted to building new men-of-war for Japan. Thus, in appearance, the Naval tonnage of Japan will not be increased, but, in reality, the situation will be just the reverse.

H. K. Nichols

August 15, 1940

SecretaryANTI-WANG GROUP MAKES PEACE OFFER

Information concerning the anti-Wang Ching-wei campaign sponsored by Mr. Iwano (伊和野), important Japanese Naval Special Agent, and Mr. Ho Shi-tsang (何士堂), and Mr. Ho Shi-tu (何士途), leaders of the New Kuomintang, it was learned that these anti-Wang elements have recently offered fundamental peace terms to be presented directly to Chungking for the purpose of seeking real peace and upsetting Mr. Wang's position. The nature of these peace terms are described as follows:

- (1) That Wang Ching-wei's Government be abolished from the mainland of China and Japan shall cease fighting.
- (2) That China and Japan shall not be held responsible for the damage caused by the two countries during the hostilities.
- (3) That a Sino-Japanese economic cooperative body be formed to develop the trade and resources of each by means of advancing southwardly.
- (4) That China enter the Axis bloc. But China shall be allowed to pay her American debt to avoid U.S.A. interference in connection therewith.
- (5) That, with the exception of North China, Japanese troops withdrawn from Chinese soil shall be withdrawn.
- (6) That Japan help China to take over her foreign-leased territories and abolish extra-territorial rights of foreigners, and drive out all British, American, and French spies in the interior of China (including Missionary schools and hospitals).
- (7) That development of China's Communist party shall be

-2-

prevented. (In order to avoid pressure from U.S.S.R., stringent measures shall not be adopted to cope with the Communist party, but development shall be prevented).

It is learned that the above-mentioned terms have already been endorsed by a majority of senior Japanese Government officials

(元老派).

The leaders of the New Kuomintang are endeavoring to solicit the Chinese elders of the Chungking Government to participate and support this peace campaign.

M. R. Lindsley



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 16, 1940

To the Secretary

BRITISH STEAMSHIP ROBBED BY JAPANESE SPONSORED PIRATES

It is reported the Japanese Navy has lately been buying over so-called Chinese bandits from the coastal provinces of Chekiang and Fukien on a large scale for the purpose of harassing the peace and order of the water region along these two provinces. The Liaison Departments of the Asia Development Board in Shanghai and Amoy were designated to undertake this business. It is understood the Japanese have already succeeded in recruiting and organizing a Chinese bandit troop of more than 5,000 men in the southern part of Fukien Province.

These bandits were divided into a combination of three armies called the "Peace and National Salvation Army", which is different from the Peace and National Salvation Army of Wang Ching-wei, as it is not under the command of the Nanking Puppet Government. The Japanese declare there is no relation between this army and the Nanking Government.

It is reliably reported that this bandit army has been carrying out extensive operations along the Fukien coast. The pirates who robbed and ransacked the British steamship "Shenghua" (神華) at Sankiangkow (三汊口), off Hinghua (興化), a few days ago belong to the First Combination Army of this Japanese sponsored bandit army. The Commander-in-Chief of this army is Chang Yih-chow (張奕周), who is a native of Hinghua and is quite familiar with the geographical outlay of that harbor region.

M. K. Wickham

OFFICE OF
THE ATTACHE
SHANBAI

CONFIDENTIAL MEMORANDUM

August 19, 1940

To the SecretaryGENERAL ABE'S VIEW ON THE PRESENT NANKING-JAPAN TREATY

Information secured from puppet inside sources is to the effect that negotiations between Wang Ching-wei and the Japanese representatives at Nanking regarding the problem of "Readjustment of Sino-Japanese Relationship" are still under way. The principles discussed during the past five months were limited to so-called "Sino-Japanese Military Cooperation", "Sino-Japanese Economic Cooperation", and the "Reformation of China's Politics." Up to the present, no definite decisions have been reached between the two parties concerned.

Regarding the situation, Wang Ching-wei recently told his subordinates, "We really don't know what our future fate will be in case these fundamental problems can not be satisfactorily solved." Meanwhile, the attitude of Gen. Abe, Japanese Ambassador to the Nanking regime and Chief of the Japanese Representatives to the Treaty Talks, toward the negotiations is as stubborn as usual. He remarked to some friends that, "There never have been negotiations like these in the history of the world." He emphasized, "The war is still in progress, and we are now talking peace in the rear with those who are not responsible for the war. In the eyes of the world this will seem like a ridiculous and silly procedure." "Somewhat", he added, "the details of these negotiations may be kept in reserve to be used as a reference if and when we negotiate with the Chungking Government in the future."

W. R. Anderson



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 19, 1940

To the Secretary

WHAT THE JAPS ARE SAYING

Gen. Chan Yu Lin, also known as Chang Sian Pu, or Yan Tu Lin, arrived in Shanghai from Nanking for a few days stay. He is one of the important North China leaders who has always been in opposition to Gen. ChangKai-shek and the Kuomintang. Yu Chan Chang, Commander of Chinese troops of the Nanking Puppet Government, accompanied him.

Gen. Chang Yu Lin gave an unofficial dinner at which three Russian neutral persons were present. These Russians are old acquaintances of Chan Yu Lin. Many opinions were offered during the dinner as to the situation in the Far East and China. The following is a resume of the conversations which took place at the dinner:

1. Gen. Chan Yu Lin often sees Wang Ching-wei and is well informed about all political news in Nanking. He stated that the peace negotiations between Wang Ching-wei and Gen. Abe will be completed soon. There were some disagreements between the Japanese and Chinese but compromises were found at last. Japanese backed down on some of their demands and moderated their appetites. New Chinese Government courageously stands for its independence in the organization of the New Order. Nanking's inner politics will be independent but the outside politics will have to be coordinated with Japan and the block of Asiatic countries. The collaboration will be in spirit as well as in economics and politics. All advantages of trained instructors and advisers will be furnished the Japanese.

2. The new Government intends to give wide scope to foreign capital in the work of reconstruction in China. The Japanese insist that

-2-

the monopoly system must be adopted, with Japanese, Chinese and foreign financiers participating. Because of the animosity which the United States and England feel toward the New Order, serious attention will be paid to collaboration with the Axis bloc countries for the exchange of goods. Organization of large concerns is already planned, based on Chinese, Japanese and German capital and on the exchange of raw material. Gold will play no part in the organization of the New Order in Asia.

3. Gen. Chan Yu Lin is a likely candidate for the post of Military Leader of New China and will no doubt be appointed to the post of Minister of War. Wang Ching-wei will be the political leader; Chan Yu Lin, Military; and Gen. Yu Chan Chang is already commander of the new Chinese Army consisting of 100,000 men, who are scattered throughout different provinces. Part of this Army is now fighting, together with Japanese, under leadership of Japanese military instructors. Many agents are sent to regions which are now under Chungking's control. These agents are sent to Gen. Chan Yu Lin's friends and former pupils who are now in command of different parts of the Chungking Army, and have been instructed to contact these commanders, entreating them to abandon the struggle on the side of Chungking and join Nanking. In many cases promises have already been given as many Chinese commanders are not content with Chiang Kai-shek's cooperation with Chinese red armies, which are trying to get Kuomintang under their influence. No agreement is possible between the red armies and Nanking, says Nanking.

4. In military undertakings Nanking will be in cooperation with Japan and Manchukuo, and also with anti-Communist legion which is going to be formed under the leadership of Ataman Semenov and will consist of Russians. It is supposed that after Chungking's capitulation the strife will be continued with the red Chinese armies until they are wholly destroyed. An incident with U.S.S.R. is believed to be possible.

-3-

5. When the European war is ended and a New Order established there, the question as how to change the Communist regime in Russia will be raised. If this can not be carried out by peaceful means, it will be done by combined efforts of the countries of the Axis bloc. Russia will become a totalitarian country together with all other countries in Europe and Asia.

6. One of the first aims of the New Order in Asia will be the abolition of foreign concessions and settlements, as they are humiliating to China. If this can not be done with the good will, cooperation of the countries maintaining these concessions, then force will be resorted to. The Nine Power Treaty signed in 1921 is regarded as having lost its force and effect.

7. The New Order will include all the people of Asia and work in this direction is going on in every country of Asia, including the South Sea Islands and India. In line with this policy we shall eliminate the control and guardianship of England, France, and the United States.

8. Eastern morals and eastern religions will be the base for new education of the countries, and the materialistic culture of the West will be entirely excluded.

9. Nanking is well informed as to incidents in Shanghai. After the agreement will be reached between Gen. Abe and Wang Ching-wei, the Nanking Government will take measures and will establish order in all foreign colonies in Shanghai, Russian included. The latter will have their own governing organization and will cooperate with the Mayor of Greater Shanghai, where the special foreign department will be installed.

The staff of the Japanese High Command will not consent to the transfer of the sectors of the International Settlement of Shanghai, formerly guarded by English troops, to the American Marines, judging by the communications received from Tokyo. The question of guarding these sectors by Municipal Police will be raised. Japanese Gendarmes consider they have the right to control all districts in Shanghai in order to put an end to terror and



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 19, 1940

To the Secretary

**NANKING REGIME TO ESTABLISH SHANGHAI GARRISON
HEADQUARTERS**

To strengthen their grip on Shanghai, the authorities of the Puppet Nanking regime are now planning to set up a "Shanghai Garrison Headquarters" in this city. In addition to commanding Wang Ching-wei's troops here, the Headquarters will undertake to recruit and reorganize bandit bands in the environs of Shanghai.

The head of the "Shanghai Garrison Headquarters" has not yet been decided, but it is generally believed that Mr. Lu Ying (雷英), now Director of the Police Bureau of the Shanghai Special Municipality, will be appointed to the post.

M. R. Anderson

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U.S. DEPARTMENT OF THE TREASURY
AUG 21 1940

UNITED STATES TREASURY DEPARTMENT



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 19, 1940

To the Secretary

WHAT THE JAPS ARE SAYING IN TOKYO

Excited discussion is being held regarding a long article recently appearing in the Moscow newspaper "Pravda", dealing with the condition of working classes in Japan, pointing out that as the exploitation of workmen is intensified, the strike movement grows more and more. That during the first days of the war, Japanese Police, in order to ensure "peace in the rear", made wholesale arrests of labor agitators, and, during the three years of war, have disbanded about 200 professional labor unions.

The "Pravda" states "that though conditions are naturally very difficult in time of war, strikes in Japan are taking place all the time, developing each time and becoming more and more organized. According to Japanese official reports, the number of strikes occurring in the year, 1938, was 1050, involving 56,000 persons; and in the first 10 months of 1939, 955 strikes were registered, involving 80,000 participants. In 1940 the movement was intensified. The Japanese Press does not hide its anxiety, alleging 'it is increasingly difficult to stop the growth of discontent among the working classes'. Says the Japanese newspaper 'Asahi' - 'such serious and dangerous situation is unprecedented in the life of our country. The agitation among all classes of our population is also unprecedented. If this dangerous situation continues to grow, we shall have to imprison a large part of our population. Japan will not be able to avoid trouble.'"

W. P. Lindsley



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 9, 1940

To the Secretary

WHAT THE JAPS ARE SAYING IN TOKYO

To push their "south advance" policy, the Tokyo military authorities are now beginning to secretly recall their crack troops from the China fronts to Japan for reorganization into a strong force for the contemplated invasion of the Netherland East Indies and French Indo-China. According to the plan, part of the Japanese troops not stationed in strategic places in China will be recalled to Japan for this purpose.

Communications received reveal the fact that the source of trained soldier supply in Japan has considerably dried up, and the number of crack troops is decreasing day by day. Hence the measure for recalling part of the soldiers from China fronts to strengthen newly-trained troops.

After the United States placed an embargo on the sale and shipment of oil and iron to Japan, the Japanese authorities decided it was necessary for them to seize the Netherland East Indies and French Indo-China. They believe that it is necessary to employ a strong army force to help the navy in their forthcoming drive; otherwise, the work can not be successfully done.

The withdrawal of certain troops now in China will be effected in the near future. It is reliably learned that part of the Japanese troops belonging to the Tsuchihashi Detachment (土橋部隊), now stationed in Hangchow, is even now preparing to withdraw to Japan. Therefore the Japanese drive on East Chekiang, where they have had considerable losses, will be abandoned for the present.

M. R. Wickham

UNITED STATES TREASURY DEPARTMENT

OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 22, 1940

To the SecretaryPUPPET TROOPS ENGAGED IN KIDNAPPING

The Nanking puppet troops now stationed in Nantao (Chinese City of Shanghai) and West Shanghai (so-called Bad Lands), under the command of Ting Shih-shan (丁 錫 山), are composed of bandits who were active in Pootung (across the Whangpoo River) in the past. Since they were recruited and reorganized by the Japanese Special Service Organization into the so-called "Peace and National Salvation Army", they have become deeply hated and feared by the Chinese people for their depredations.

Investigation conducted reveals the fact that the leaders of this gang have established several secret organizations on Yu Yuen Road (Bad Lands) for the sole purpose of recruiting the great and small rascals of this city to act as their agents.

It is learned that many of the kidnapping cases of recent occurrence in the International Settlement and French Concession were planned and executed by these puppet gangs. They usually confine the abducted persons in their Yu Yuen Road headquarters and later secretly transport them to Pootung, where they either demand exorbitant sums of money for their release or just viciously murder them. As a precautionary measure against truth leaking out, which would, of course, spoil the prestige of the puppet army of Wang Chingwei, the kidnapers usually kill the abducted men even after their families have paid the demanded sum of money for their release.

M. P. Nicholson

UNITED STATES TREASURY DEPARTMENT



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 22, 1940

To the Secretary

ADDITIONAL FACTS CONCERNING PIRACY OF THE
S.S. "SHENGHWA"

Recently details concerning the piracy of the British steamship "Shenghwa (神華) off Hinghwa Harbor (興化港) of Fukien Province were reported. Further inquiries reveal the fact that Japanese were involved in this case.

As previously reported, the Japanese Naval authorities have been organizing bandits and pirates along the Fukien coast, and the number of men recruited has been increasing day by day. Rations and pay for these men are to be supplied by the Japanese, the cost of which is estimated at 300,000 Chinese Dollars per month. As the Japanese Navy does not have such an important sum of money at its disposal, these bandit troops are permitted to rob and loot all foreign vessels, except those flying the German and Italian flags. The pirates are allowed to retain 75% of the loot obtained from their raids in lieu of rations and pay, and at the same time will so terrorize foreign shipping that navigation along the China coast will become hazardous and unprofitable.

A Chinese passenger, who was kidnapped on the S.S. "Shenghwa" and subsequently released and returned to Shanghai, stated that the Japanese were the chief perpetrators in this piracy. He stated that he observed Japanese, disguised as Chinese bandits, engaged in directing the Chinese

leaders of these bandit troops while he was detained in the bandit's stronghold. These Japanese have been active in the coastal regions of Fukien and Kwangtung for a long time, and therefore speak the local dialects fluently.

M. W. Anderson

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UNITED STATES TREASURY DEPARTMENT



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 24, 1940

To the Secretary

WHAT THE JAPS ARE SAYING

In a communication from Tokyo it is stated that the work of organizing the "One Party Government" is progressing slowly but successfully. Prince Konoye will make a public announcement at the end of August, 1940. After the "Dictatorship" Government is fully completed it will be turned over to one of the Princes of the Imperial Household in order to forestall internal opposition and strife. A committee of 30 persons has been organized to perfect the details of the "One Party Government". This committee is divided into sections: Political, economical, parliamentary, cultural, youth, propaganda, etc., and is composed of the following personnel:

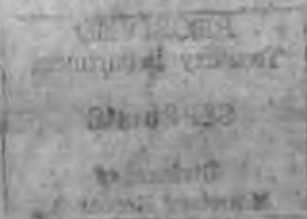
Representative of Government -	Prince Konoye
Minister of Inner Affairs -	Yasui
Minister of Justice -	Kasakaya
President of Planning Board -	Hoshino
Sec. Gen. of the Cabinet:-	Tomita
Director of the Law Dept. -	Murasse
Rep. of Diplomatic Bureau -	Fusanosuki Kuhara Yakuhei Nakadзима Onedzo Maeda Kioshi Akita Kiutaro Nagai Kioshi Adzabu
Rep. of Economics -	Toyotaru Yuki Djindjiro Fudzjinara

-2-

Rep. Scientific Bureau - Dzaen Hotzumi
 Hiroshi Nassu
 Rep. Industrial Bureau - Iotaru Sengoku
 Takuo Gode
 Rep. Cultural Bureau - Nagakage Okabe
 Ennosuke Furuno
 Rep. Outside Bureau - Nobumasa Suezugu
 Tuhissa Fudzuo
 Tossio Shiratore
 Ruoosuke Goto
 Count Ioriassu Arima

Five representatives of the Army and Navy will also be attached to the Committee.

H. R. ...



UNITED STATES TREASURY DEPARTMENT



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 24, 1940

To the Secretary

SIGNIFICANCE OF THE ASSASSINATION OF CHEN KUO-LIANG

Mr. Chen Kuo-liang (陳國梁), technical expert of the Ministry of Communications of the puppet Nanking Government, who was assassinated at his residence, House 4, Lane 419, Yu Yuen Road, on the morning of August 18th, was considered lacking both in knowledge and technique. Although he was a returned student of Germany, since his return to China from Germany he has not succeeded in any undertaking commensurate with his education and training. For several years he was a minor politician connected with gangsters engaged in blackmail as a means of livelihood. As a result he lost his standing in Chinese circles and was despised even by his evil associates. Finally he went to Hongkong where he lived a "hang-dog" existence for a considerable length of time.

As soon as Wang Ching-wei started his Peace Campaign, Chen Kuo-liang lost no time in joining the traitor. Because of his eloquence, he won the trust of Wang and was subsequently given a post in the Nanking regime as "technical expert" in the Ministry of Communications. However, he did not actually work in the Ministry, but was assigned by Wang to undertake the recruiting of gangsters for Nanking.

Some three or four months ago Chen convinced Wang Ching-wei that he was able to penetrate into Kwangsi and buy over the important military leaders of that province to join the Peace Campaign. Wang gave him some \$30,000 and sent him to South China to carry out his activities there.

-2-

It was true that Chen was at one time a sort of protege of both Gen. Lee Chung-jen and Gen. Pai Chung-hsi. But owing to his corrupt practices and unreliability, he had long ago forfeited the friendship of these Kwangsi leaders. Consequently, after spending several months of luxurious living in Hongkong and Kwangtung, Chen returned to Shanghai broke and without any tangible results for the large expenditure of money. Wang Ching-wei became furious at his duplicity and secretly instructed Lee Shi-chun (李士君), Director of the Political Police Bureau, and gangster in chief of the "Badlands", at 76 Jessfield Road, to murder Chen.

The assassination was successfully accomplished and in order to embarrass and attack the Shanghai Municipal authorities, they shifted the responsibility of this crime to the local Chungking Special Service officers. As a means of camouflaging the crime, the local Central China Daily News, Wang's mouthpiece, devoted much space in this newspaper to the assassination of Chen and Lee Shi-chun advertised a reward of \$30,000 for the apprehension and delivery of the assassin to the Political Police Bureau.

It is evident that Wang Ching-wei is determined to assassinate dishonest followers in the foreign areas of this city with a view to shifting the responsibility to the authorities of the International Settlement and French Concession as a further excuse to seize the two foreign areas in the future.

M. R. Nicholson



OFFICE OF
THE ATTACHÉ
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 26, 1940

To the Secretary

WANG CHING-WEI'S STEPS AGAINST THE NEW KUOMINTANG

Admiral Waji (和久英二), important Japanese Special Service official, and the leaders of the "New Kuomintang Party," Dr. Ho Shi-tseng (何士桢) and Mr. Chen Chung-fu (陳中孚), have been cooperatively opposing the anti-Wang Ching-wei regime and Peace Movement. This opposition has been developing day by day arousing great resentment and reaction on the part of Wang Ching-wei. It is understood that Wang's group has recently decided to take the following steps against the "New Kuomintang Party" (New Peoples Party).

1. To disclose to the Japanese Government authorities and various circles that Ho Shi-tseng and Chen Chung-fu have been secretly connected with the Chungking Government and have been plotting to commit acts unfavorable to Japan.
2. To secretly instruct Wang's Special Service Organizations to murder the important members of the "New Kuomintang Party" and shift the responsibility of the crime to Chungking agents.
3. A telegram will be dispatched by Wang directly to Premier Prince Konoye asking him to help in preventing the Japanese and Ho and Chen from carrying on their anti-Wang activities.
4. To order the Director of the Political Police Bureau in Shanghai, Mr. Lee Shi-chun (李士君), gangster chief, to consult the Japanese Gendarmerie about the question of preventing the activities of this anti-Wang group, and supervise the movement of its important members.
5. When necessary the Central Executive Committee of the Kuomintang of Nanking will officially issue a proclamation denying the existence of the New Kuomintang in the Nanking Government.

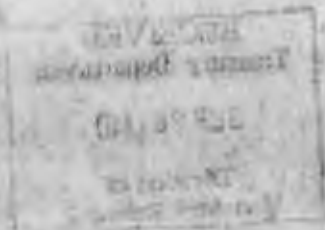
-2-

6. Efforts must be made to win over the lower rank officials of the New Kuomintang. They should be installed in positions with the Nanking Government and paid high salaries so as to differentiate that group.

7. To closely watch the movement of the important leaders of the Reformed Government group of the Nanking Government, such as Chen Chun (陳君羊), Liang Hung-chi (梁鴻志), etc., who are alleged to be secretly connected with the New Kuomintang.

Observers believe that Wang's group will suffer a severe blow in their conflict with the New Kuomintang. Moreover, it is predicted that the Nanking regime will possibly collapse within one or two months time.

M. R. Nichols





OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 28, 1940

To the Secretary

JAPANESE AND WANG CHING-WEI CONTEMPLATE SEIZURE OF
LOCAL FOREIGN AREAS

It is reported from puppet inside sources that the Japanese and Wang Ching-wei are now positively devising ways and means to harass the peace and order of the International Settlement and French Concession in Shanghai. In addition to secretly buying over the staff members of various ranks of the two municipal police organizations, they are now endeavoring to buy over the important leaders of the two municipal police departments at a high price. The police leaders thus bought over will be expected to organize the petty officials, constables and detectives, under their respective command, into small groups to facilitate control of their activities.

The Japanese and Wang Ching-wei are planning to utilize these police leaders to carry out the following functions after the above scheme is accomplished.

1. To instigate the policemen to collectively surrender their arms when required.
2. When conducting assassinations and kidnappings on the streets or in the victims' houses, the assassins and kidnappers of Wang's group may freely commandeer the pistols of the policemen stationed in the nearby regions.
3. If the demands of the Puppet regime, which will be presented through Fu Siao-en, Mayor of occupied areas of Shanghai, are not accepted by the foreign municipal authorities, the Chinese staffs and patrolmen

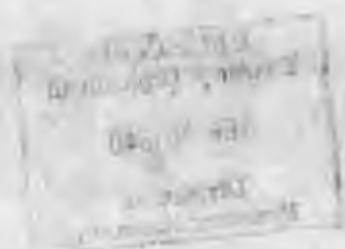
-2-

of the municipal police will be incited to stage a large-scale strike, thus causing the utmost confusion in the two foreign areas, and thus provide the Puppets with an excuse to seize both the International Settlement and French Concession.

It is learned that the plot of the Japanese and Wang, as above mentioned, has been developing satisfactorily and rapidly.

Reliable information from another quarter reveals the alarming fact that the Nanking Government has already dispatched 500 plain clothes men, under the command of Jen Yuan-tao (任援道), Commander-in-Chief of the Puppet Pacification Army of Kiangsu, Chekiang and Anhwei, to be secretly stationed along the boundary regions of the local foreign areas, from West Shanghai to Nantao. It is reported that these plain clothes men will be utilized by Wang Ching-wei's force to invade the foreign areas.

M. K. Nicholson



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 29, 1940

To the SecretaryROUTING OF CARGO FOR GERMANY

Cargo from the United States and other parts is now being routed to Germany via Dairen to Manchouli instead of to Vladivostok, via Kobe, as formerly. Reason given is "that there is no rolling stock available at Vladivostok." The real reason for change of routing is claimed to be on account of deliberate interference by Japs in Kobe; there being hundreds of thousands of tons of cargo, booked through to Vladivostok, now tied up in Kobe. It is even claimed that the Japs are diverting some of this cargo to their own use.

Recently the steamer "Collingsworth" arrived at Shanghai from the United States with approximately 200 tons copper ingots for transshipment to Dairen. The Dairen market normal yearly requirement for copper is 50 tons. The steamer "Aquarius" recently arrived in Shanghai from the United States Gulf ports with 270 cases "Carbon Black", also for transshipment to Dairen. There is no market in Dairen for imported "Carbon Black", which is used in the manufacture of gas masks.

On August 26th Moscow cabled their agents in Manila to expedite offers for vessels of 8 to 9,000 tons to load copra at Cebu. Today, August 29, 1940, Moscow cabled agents in Shanghai to use their utmost endeavors to obtain offers for vessels for prompt loading of 7,000 tons of sugar at Puerte Chicama (Peru) for Vladivostok. "Sugar" in this case probably means copper. Evidently there is a shortage of "tonnage" throughout the world when it becomes necessary for Moscow to seek offers in Shanghai for South American cargo.

M. K. Nicholson
Regraded Unclassified



OFFICE OF
THE ATTACHE
SHANGHAI

CONFIDENTIAL MEMORANDUM

August 29, 1940

To the Secretary

THE SORROW OF WANG CHING-WEI

According to puppet inside circles, Wang Ching-wei is now extremely pessimistic over his present career because of the following reasons:

1. No result has yet been reached in the so-called "Sino-Japanese negotiations", which have been taking place in Nanking during the past five months. Wang Ching-wei told his friends that the terms presented by the Japanese representatives, during the discussions, were so severe that he dare not accept them. He said the attitude of Gen. Abe, Japanese Ambassador to the Nanking regime, is as strong as ever. It is interesting to note that after Prince Konoye became Premier of the Japanese Cabinet, Wang's group was exceedingly optimistic, in the belief that the negotiations of the Sino-Japanese pact would be greatly simplified. But, to the disappointment of Wang, the new Japanese Premier appears to be not as sympathetic toward Wang's group as heretofore. Moreover, Konoye expressed regrets that he had promoted the establishment of the Nanking Government in the past because he is now convinced that Wang's group has so far done nothing for Japan and is more of a handicap than a help in their efforts for real peace between the two countries. Therefore, Premier Konoye has been purposely prolonging the Sino-Japanese negotiations in Nanking.

2. The various parties of the Nanking Government have been competing with each other in trying to secure more power in the Puppet set-up. In fact, the officials of various yuens and ministries of the Nanking Government have been devoting more of their time and efforts to competing for power and influence than in the performance of their

official work. Before he assumed the leadership of the Nanking regime, Wang thought he could score gigantic results as head of the Puppet Government. But he finds the atmosphere entirely different. He discovers that there is no chance for him to "do his stuff."

3. Wang's group originally desired to organize a strong military force as a means of maintaining their position after the Sino-Japanese conflict is concluded and peace restored. But, up to the present, due to the opposition of the Japanese, Wang's dream in this regard has not come true.

4. In addition to depending on Japan, the fundamental international policy of Wang's regime has been pro-German, Italian and Spanish, and anti-British, American and Russian, which is, more or less, also the foreign policy of Japan. But, owing to the fact that Japan has not been able to conclude the China incident, she has not yet made clear her foreign policy, thus causing Wang's Government to hesitate in adopting its stand. Wang was anxious to negotiate a commercial treaty with the Spanish Economic Inspection Mission which arrived in Nanking on August 2nd. He was prepared to offer Spain every opportunity to trade in China to induce Germany, Italy and Spain to enter into diplomatic relations with the Nanking Government. But this project was rejected by the Japanese and Wang's scheme was, therefore, frustrated.

The above are the chief reasons which cause Wang's pessimism. Furthermore, there are still many factors causing him considerable sorrow; such as the anti-Wang Ching-wei movement recently launched by some of the Japanese military leaders, the deficit of his Government's exchequer, and the hopelessness of attaining direct control over the North China, South China, and Hankow regimes. Lately, Wang's group has been informed that Japan and Chungking are now secretly initiating peace negotiations in Hongkong. Though this information could not be confirmed, yet it has caused great anxiety in the ranks of Wang's regime.

M. R. Vederman

October 1, 1940
2:40 p.m.

H.M.Jr: Arthur.

Arthur Purvis: Yes, Henry.

H.M.Jr: The meeting was much simpler than what I thought it would be.

P: Good.

H.M.Jr: The part that concerns you was and this is - the first part I'd like you to keep a secret or there'll be a hell of a bust about it - they want to stop all commercial building of transport planes, which would be good.

P: Yes.

H.M.Jr: That's No. 1. No. 2, on the Consolidated 4-engine bombers - have you got a pencil?

P: Yes.

H.M.Jr: Hello.

P: Yes. Well, just one second, I've just got to get a bit of paper.

H.M.Jr: Right. (Pause)

P: Hello.

H.M.Jr: During October and November they are proposing to give you 6 B-24's.

P: Good.

H.M.Jr: Then from November to April an additional 20 so as near as I can make out that gives you better than one-and-one. I've got the figures here.

P: Anyway it's substantial.

H.M.Jr: Hello.

P: Anyway it's very substantial.

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H.S.Jr: Now what they want in exchange are 120 Wright Cyclone engines.

P: 120 Wright - do you know the number?

H.S.Jr: They didn't give it.

P: Well, Cyclone is probably enough.

H.S.Jr: Well, General Brett will be here at 3:30, and this is a memorandum from General Marshall and has all their approval and then they're doing a handsome thing for you on the bomb-sights. They're going to make available 40 Sperry bomb-sights which are on hand and the other 97 which are on order.

P: Another 97 on order.

H.S.Jr: Yeah and they'll take the more recent ones, so I think it's a pretty good deal.

P: That sounds pretty good, I agree.

H.S.Jr: What?

P: That sounds pretty good, I agree.

H.S.Jr: I think it sounds damn good.

P: I quite agree.

H.S.Jr: Well, you take a look at it. Brett will be here and I'd like to give him a yes or no when we meet. You can ask him more details, but as near as I can make it out my figures show that on the 4-engine bombers the Army was to get 53 between now and June 30th. Hello?

P: Yes.

H.S.Jr: And they're giving you 26 of those.

P: Yes, that's pretty good.

H.S.Jr: And they're giving you six right away.

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P: Yes, quite. I think that's splendid.

H.M.Jr: Hello.

P: Splendid.

H.M.Jr: So you get your own beside, I mean, if I understand it correctly and I think if it's the way it seems on the surface, my recommendation is I'd take it.

P: Yes. Yes, it looks right. It looks absolutely right. I'd like to have a word with Fairey but I think it looks excellent.

H.M.Jr: And they ask nothing else, none of the other engines.

P: Good work!

H.M.Jr: So that's all they've asked for.

P: Well, I don't think we can object to that at all.

H.M.Jr: No, and you get 137 Sperry bomb-sights.

P: Yes. I mean, after all, it seems to carry on its face on its own recommendation. It sounds excellent to me.

H.M.Jr: Take a look at it and be ready at 3:30.

P: Thank you very much.

H.M.Jr: Thank you.

October 1, 1940
2:55 p.m.

H.N.Jr: Hello.

Operator: Secretary Knox.

H.M.Jr: Hello.

Frank
Knox: Hello, Henry.

H.N.Jr: How are you?

K: Fine.

H.M.Jr: Frank, in regard to this Coast Guard Cutter going to Lisbon, one of your officers got in touch with Admiral Waesche Saturday and there seemed to be a change as to who was to give our orders, and he got the impression that the Navy had sort of withdrawn from the picture and I wondered whether that was right or

K: The Navy had withdrawn?

H.M.Jr: Yeah.

K: Oh, no. Now, let me get ahold of Stark and see. I gave him the instructions as soon as I got back from the Cabinet meeting.

H.M.Jr: Well, Admiral Ingersol was the man who talked with Waesche.

K: And what did Ingersol say?

H.M.Jr: Well, I got the impression that we were to go over on our own and that the Navy sort of washed its hands of it.

K: Well, let me get hold of Ingersol and call you back, Henry.

H.M.Jr: Could I just make this suggestion?

K: Yes.

October 1, 1940
3:16 p.m.

H.M.Jr: Hello.

~~Operator~~: Congressman Doughton.

H.M.Jr: Hello.

Robert
Doughton: All right.

H.M.Jr: Bob?

D: Yes, sir.

H.M.Jr: Well, I just want to tell you I think you did a swell job.

D: Did pretty well for a man who had sold out to Clay Williams, didn't I?

H.M.Jr: (Laughs). Well, I hope you don't hold that against the Treasury.

D: I don't hold that against you nor the Treasury either. That was a dirty job of somebody - I don't know who, but I want you to know that, Mr. Secretary, it'd take a great deal to disturb relations of the kind - friendly, affectionate relations that have always existed, and they're in existence at this time, between you and me.

H.M.Jr: Well, that's the way I feel and it'll take more than a story like that to come between us.

D: Yeah, I'd have to know something myself and it'd have to be the truth, which I never expect to know. If you have any complaint to make of me, I should expect you to send for me and

H.M.Jr: Well, I don't think that day will ever come.

D: I don't think so either. Well, I think we got by fine. It was the hardest job though. That was the most difficult task that I have ever encountered, I want to say that. It had so many difficulties at every turn of the way.

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H.M.Jr: Well, I don't know what we'd have done without you.

D: Well, I thank you. I did keep the boys at work and try to keep down discord - tried to adjourn and blow up two or three times and throw it out the window, you know, and everything else.

H.M.Jr: Yeah. Well, it took a wise old head like yours.

D: Well, I thank you - not so wise, but I tried to do - I've done my best, given the best I had and I want to assure you it has in this case, as in all others, been a real pleasure to work and cooperate with you and your staff. Sullivan's fine. I don't always agree with him perfectly, but he's a man of character and he's a man of fine ability and he's just all right. And Tarleau was just as good as he could be. Your boys are all all right down there.

H.M.Jr: Well, thank you. I hope to see you soon.

D: All right, thank you very much. Thank you for calling.

H.M.Jr: Good-bye.

D: Good-bye.

October 1, 1940
3:25 p.m.

H.M.Jr: Hello.

Operator: Congressman Cooper.

H.M.Jr: Hello, Jere?

Jere
Cooper: Hello, Henry. How are you?

H.M.Jr: I'm fine. I just didn't want to let the day pass without telling you how much I appreciated what you've done for months.

C: Well, thank you, Henry. That's very kind.

H.M.Jr: I swear if it hadn't been for you, we'd of been all washed up and through.

C: Well, thank you. That's very kind. I worked mighty hard on it, Henry.

H.M.Jr: I've followed it from hour-to-hour and the boys say that you've been a tower of strength and that if it hadn't been for you why we'd of just been washed up and finished.

C: Well, thank you. That's very kind and I appreciate your kindness in calling me. I worked mighty hard.

H.M.Jr: I mean that from the bottom of my heart.

C: Well, I know that and I do appreciate it, Henry.

H.M.Jr: The boys say you were perfectly magnificent.

C: Well, by the way, I want to tell you now that I've worked with lots of representatives from your Department, but I've never found a man yet that was more valuable to me than John Sullivan.

H.M.Jr: Well, I'm glad to hear it.

C: He's done a wonderful job, and Tarleau and Blough and all those boys worked with him and you're fortunate and the country is fortunate in having them there.

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H.M.Jr: Well, Sullivan felt pretty low there about a week ago.

C: Yes, I know it. We've had a hard fight, just a hard, hard fight, but he's done a wonderful job.

H.M.Jr: Well, we were kind of all of us, that is, you and the Treasury - at least, we were sort of out on the end of a limb and we didn't know from hour to hour where we were.

C: That's true.

H.M.Jr: But I guess that considering everything we got a pretty good bill.

C: I tell you I'm mighty well pleased. It's far better than I thought we'd ever be able to get and the only way in the world we did get it, we just absolutely held the line and just kept fighting every inch of the way.

H.M.Jr: Well, you were in charge of the front line trenches.

C: Well, thank you. That's very kind.

H.M.Jr: Hope to see you soon, Jere.

C: Hope to see you, Henry. Appreciate your calling. Thank you so much.

H.M.Jr: Good-bye.

C: Good-bye.

October 1, 1940

Stimson gave me the attached memo today. I told him that I thought it was all right but that I wanted to study it, and I would have the English over here at 3:30 if he could send General Brett.

For the second or third time, Stimson did something which I wasn't very crazy about. When I suggested that we get together as often as difficulties come up between the English and the Army and Navy, he seemed to resent it. He said that he had had Sir Walter Layton at his house, who was intimate enough with him to be one of the two outsiders at his seventieth birthday in England, and that Layton said he couldn't go into the whole situation with him because the President told him to take it up with me. This seemed to rub him a little bit the wrong way.

When I made my offer of meeting with them as often as necessary, he seemed to back away, so I said, "Now look. I have lots to do but the President has asked me to do this thing, and if you feel I can't be helpful I would be delighted to drop out of it." He said, "No, quite the contrary. You have been very helpful not only along these lines but also on other questions." But this is the second or third time he has acted like that.

Stimson then said it wasn't me who bothered him so much but he felt the President went off half-cocked, and that he didn't give General Marshall and some of the other Generals a chance to be heard. So I piped up and said, "Well, you know General Marshall remarked Friday when I saw him that he hadn't seen me in some time." I said that I used to see General Marshall quite frequently but I added, "Since you have been Secretary of War I don't feel that I want to go around you."

He finally said that he really didn't mind a lot but he would like to be present at the conferences. So I said, "Fine." I said I wished he had been present this morning when General Strong gave his report on the situation in

- 2 -

the world as he saw it. Patterson also said that he wished that I would continue. So finally I said, "If I can't make things easier for you, I don't serve any purpose, and I want to again remind you that I have plenty of other things to do."

CONFIDENTIAL

HEAVY BOMBERS [& BOMB SIGHTS]

Get Brent**BOMBERS**During October & November,We defer:Delivery of 6 B-24's to the British.We get:

120 Wright Cyclone engines with which we can power approximately 20 B-17's, which would otherwise be in storage due to engine shortage.

8-200 = 1200 H.P.

From November to April,

We defer:Delivery of 20 additional B-24's as follows:

Month	No. deferred	Approximate delivery ratio US to British		All types Heavy Bombers
		B-24's		
		U.S.	U.K.	
Nov	2	1 to 1		2 to 1
Dec	3	1 to 1		4 to 1
Jan	3	4 to 3		4 to 1
Feb	4	1 to 1		3½ to 1
Mar	4	1 to 1		2½ to 1
Apr	4	1 to 1		1½ to 1

BOMB SIGHTSWe make available:40 (old design Sperry) from stock - obsolete - to be traded for more modern type.

97 (old design Sperry) on order - to be deferred for more modern type.

We get:

Improved sights after November 1941. If additional facilities are provided these deliveries can begin in April 1941.

Note:- After April 1941 a new adjustment on delivery of heavy bombers & bomb sights can be made, depending upon the existing situation at that time.

CONFIDENTIAL

October 1, 1940
3:30 p.m.

RE BRITISH PURCHASING PROGRAM

Present: Mr. Purvis
Mr. Feirey
Mr. Gray
Mr. Mansell
General Brett
Major Lyon
Mrs. Klotz

H.M.Jr: I had lunch today with the Secretary and Assistant Secretary of War, and he gave me this memorandum, which I think I understand. This is what I started with, General, and I may be wrong. The so-called B-24, four-engine bomber, my figures which were as of September 14, showed that the Army would receive 53 up to and including June 30 and that the English would receive up to and including that period, 41. Their first one would come out on the first of February.

Brett: Yes, we have those figures. We have the figures right here.

H.M.Jr: Now, just taking those figures, can I superimpose this onto my table? How would you do that?

Brett: Well, except that your figures don't correspond with ours.

H.M.Jr: Oh.

Brett: That is where the trouble is. In other words, our figures under our deliveries, you see, don't quite correspond with the figures that you show in your charts.

H.M.Jr: Well, could you do it for me this way? Let

- 2 -

me start with the Army under this proposal. You are down for three in September. Have you got that there?

Brett: Except there weren't three in September.

H.M.Jr: All right. In October, how many under this program would the Army get?

Brett: Under the proposal how many would actually be delivered for the Army?

H.M.Jr: Well, let's talk of actual deliveries.

Brett: We expect to get three B-24's in October.

H.M.Jr: And how many for the English?

Brett: And --

Lyon: Excuse me just a minute. This is our present combat plane. This is a cumulative figure.

H.M.Jr: Phil, supposing you sit over next to General Brett.

Purvis: You and I will change places.

H.M.Jr: Phil, look over their shoulders, if he doesn't mind.

I am waiting for you boys to get together.

Lyon: The reason for this, Mr. Morgenthau, our schedules have been changed very recently as a result of certain accelerated schedules or accelerated provisions, that have been put in the present contract.

H.M.Jr: Well, just in October, how many does the Army propose?

Brett: The total production, sir, is three. In October the English get all three.

H.M.Jr: Now, wait a minute. On this line the English would get three?

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Brett: Three in October.

H.M.Jr: And the Army would get --

Brett: We would get none.

H.M.Jr: Okay.

Brett: And in November.--

H.M.Jr: Excuse me. That three in September you didn't get?

Brett: We didn't get those, no. In November the total production is seven. Of the seven, we get two.

H.M.Jr: Two.

Brett: And the English get five.

H.M.Jr: Five.

Brett: In December the total production is six, of which we get three and the English get three. Now, by December, that gives the English a total of 11 airplanes, cumulative.

H.M.Jr: That is right.

Brett: And we get a total of five.

H.M.Jr: That is right.

Brett: In January the total production is seven, of which we get two and the English five. No, wait a minute, of which we get four in January and the English get three. In February the total production is eight of the B-24, of which we get four and the English get four.

Now, in addition to that, they get one LB-30. That is their equivalent to the B-24.

During the month of February they would get a total of five of these large airplanes.

- 4 -

- H.M.Jr: Now, I have got to change this. They would get five and you would get four?
- Brett: Yes, sir.
- H.M.Jr: Is that right?
- Brett: We would get four of the B-24 and they would get four of the B-24 and one of the LB-30.
- In March, the total production of the B-24 is eight, of which we get four and the English get four. In addition thereto, there is the total of the LB-30, which will go to the English.
- H.M.Jr: So they would get seven?
- Brett: Yes, sir, they would get four of the B-24 and three of the LB-30.
- H.M.Jr: So they would get seven?
- Brett: Yes. Now, in April the total production of the B-24 is 8, of which we get four and the English get four. Then there are seven LB-30's manufactured that month, all of which go to the English.
- H.M.Jr: That would be eleven.
- Brett: That gives them at the end of April a total of 26 B-24's plus their own eleven LB-30's, giving them a total of 37 of the large airplanes.
- H.M.Jr: Well, putting it another way, through that period you are actually giving up how many?
- Brett: We are actually giving up --
- Purvis: Twenty-six.
- Brett: We are actually giving up 26 B-24's and we are only getting 21 B-24's.
- H.M.Jr: Up to that point - you are getting 21?

- 5 -

Brett: Yes, sir. That is to the end of April.

H.M.Jr: And they are getting --

Brett: Twenty-six. In addition to that, they are getting eleven of their own airplanes.

H.M.Jr: Twenty-six and eleven?

Brett: Yes, sir.

H.M.Jr: They are getting 26 that they wouldn't have gotten if this proposal didn't go through?

Brett: That is right.

H.M.Jr: And then after April they go to their own production, which would be 14 and 16, is that right?

Brett: Yes, sir.

Lyon: Well, Mr. Morgenthau, those figures are correct as scheduled.

H.M.Jr: In May they would get 14 and you would get 10.

Lyon: Yes, sir.

H.M.Jr: And in June you would get 10 and they would get 16.

Lyon: That is correct.

Furvis: In both cases, ours being LB-30's.

Lyon: Yes, sir.

H.M.Jr: But in this proposed deal, they get 26 more planes between now and the first of May than if the deal doesn't go through. Right?

Brett: That is right, according to our figures.

Furvis: That is right.

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H.M.Jr: And in exchange for which you are asked to release 120 Wrights. I don't know which one it is.

Brett: It is the Wright G-200.

Fairey: 1820.

Brett: 1820, G-200.

H.M.Jr: Which equals how much horse?

Lyon: It is a thousand horsepower class, 1,150.

Gray: We called it 1,200 this morning.

H.M.Jr: Well, there is your proposal, gentlemen.

Purvis: Now, Mr. Fairey --

H.M.Jr: I mean, that makes it perfectly --

Fairey: Done.

Young: Make it 120 instead of 110. They just gave them ten.

Brett: The ten are part of the 120.

H.M.Jr: That shows they are gentlemen.

Brett: We asked for a rush on that because we had these B-17's lying idle.

Purvis: We tried to respond to the rush.

Fairey: How does this react to the rest of our situation?

H.M.Jr: Just one second. Now, do I understand that Mr. Knudsen knows about this?

Brett: My understanding is, sir, that he does. This has been worked right through Mr. Stimson's office and Mr. Patterson's office. There may be a little further dicker on some 1830's.

H.M.Jr: What is that?

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- Brett: That is another type of engine.
- H.M.Jr: But this is the official data on this?
- Brett: Yes, sir.
- H.M.Jr: In other words, for 110 engines, you people give up 26 of the so-called B-24 between now and May 1st?
- Brett: The deal is on 120 engines, of which they have very kindly shipped us ten.
- H.M.Jr: Before we go on another deal, your answer is yes?
- Fairey: Yes. It is more than yes, it is yes, thank you.
- Purvis: I have been waiting for that.
- H.M.Jr: It looks to me as if with this thing going through now you have got everything that you have asked for for the moment.
- Brett: As Mr. Fairey knows, we are still dickering. He is trying to help us out on some 1830's that we are talking about with an idea of slight conversion or shifting of engines between airplanes so that we could get - make up a shortage that hits us right after the first of the year.
- H.M.Jr: Do you want to talk about that now or not?
- Fairey: If I know what engines I have to dicker with.
- H.M.Jr: Well, Mr. Fairey, all I can tell you is that I had lunch with Mr. Stimson and Mr. Patterson and as far as they know, there isn't anything else that the Air Corps wants right now.
- Brett: Well, we are worried about these - as I say, I still keep on pressing that point too. We are very worried about a shortage of 1830's which we anticipate will come into the picture shortly after the first of the year.

- 3 -

- H.M.Jr: That evidently hasn't reached Mr. Stimson.
- Purvis: Is there any number in your mind on that, General?
- Brett: About 269.
- H.M.Jr: What do you want to give them in exchange for that?
- Brett: Well, that is a part of this general dioker, sir.
- H.M.Jr: It is not on this paper.
- Brett: Well, we are kind of holding this as --
- H.M.Jr: No, I am going to call up Patterson now and Stimson and tell them this is closed.
- Brett: Well, we were hoping through our extreme liberality in this connection that we were going to get a little help on these 1830's later on. I don't know what Mr. Stimson has arranged on this.
- H.M.Jr: This was his proposal for these engines, and I am going to call him up now, but what I did tell Mr. Stimson was this, and Mr. Patterson: I said, "Now, look, in time the Army has a difficult proposal. I am authorized to say that if they will sit down with the English representative, they will do everything they can to meet them more than half way." That was the result of our talk this morning. If you need a special thing to get you over, they are ready to talk. Is that right?
- Purvis: That is the answer.
- H.M.Jr: Isn't that right?
- Purvis: That is the answer.
- H.M.Jr: Am I overstatating it?
- Purvis: No, certainly not. We recognize that this is

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a peculiarly good adaptation of the idea.

H.M.Jr: Now, Brett, they will sit down and talk with you.

Brett: We never had any difficulties.

H.M.Jr: Let me call up Mr. Stimson. He is very much interested in this.

And naturally, everything they offer on the bomb sight, you will take?

Purvis: Yes. I hardly dare to even mention it.

H.M.Jr: Well, I think they are being very generous on the bomb sights.

Purvis: So do I.

H.M.Jr: You are going to pick that right up, aren't you?

Purvis: Yes.

H.M.Jr: What they are offering is what they call the old design Sperry from stock, obsolete, to be traded in for more modern types and the 97 old design Sperry on order, to be deferred for the more modern types.

Purvis: May we know what deliveries the 97 have, roughly?

Brett: I have no idea. I think they begin in rather heavy quantities right after the first of the year. That is my remembrance.

H.M.Jr: If I may make a little request, just so big, I would like very much to see these bomb sights go into these four-engine bombers. I mean, for every four-engine bomber you get, I would like to reserve one of these Sperry bomb sights, because that is what my whole conception originally was.

Purvis: That is right. I remember you said that right at the beginning.

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H.M.Jr: I very much want to see this Sperry bomb sight go into the four-engine bomber. Do you think you could accede to that?

Purvis: Mr. Mansell, is that --

Mansell: Yes, that would be excellent.

Purvis: That sounds the sensible thing.

Mansell: That is the right answer. That is the type of bomber we wanted them for.

H.M.Jr: It is?

Mansell: Yes.

Brett: That scheduled delivery on those bomb sights --
(Telephone conversation with Secretary Stimson follows:)

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- H.M.Jr: He said at lunch, "I have got on my war paint. I don't want to talk anything about when do I get my engines." Somebody certainly sold him a bill of goods about flying these boats down there, taking the engines down, sending them back to Seattle, and it pretty near had Stimson crying.
- Brett: He should cry, because that is what they have been doing, Mr. Secretary.
- H.M.Jr: Maybe he did it once.
- Brett: No, sir, we have three planes sitting down there without a sign of an engine in them.
- H.M.Jr: And you flew them down --
- Brett: We flew them all the way from Seattle to Sacramento. We then pulled the engines, put them in a transport, took them back to Seattle, and flew the other airplanes down the same way, and we have done that three times.
- H.M.Jr: Why do you take them down there?
- Brett: Because we have no storage space at Seattle. Oh, this is true.
- H.M.Jr: It is a good story, anyway.
- Brett: The delivery on those O-1 bomb sights, we anticipate the entire 97 will have been delivered by the end of January.
- Purvis: Thank you very much. That is 1941, is it?
- H.M.Jr: No, January, 1941.
- Purvis: Thank you very much. It was so good I thought it might be 1942.

(Telephone conversation with Mr. Knudsen follows:)

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- H.M.Jr: He says if you are happy, he is happy.
- Purvis: Good work.
- H.M.Jr: So everybody is satisfied and seriously, while you have got these fellows here in the room, have you got anything else?
- Brett: Well, Mr. Fairey knows very well we have a very bad situation on the 1340's, the trainers.
- Fairey: Well, I gather that has got to be bettered.
- Brett: Yes, sir. I think it is working up a little bit. That is why I mention it. It is a very pressing situation, but I think we are working on that now.
- Fairey: I was waiting to see the final figures, but I gather it is a lot better.
- H.M.Jr: Coming back to the bomb sight, is that agreeable to you (Mansell) to put this bomb sight in the four-engine bomber?
- Mansell: That is what we wish to do. We were reserving them, if we could get them, for these bombers.
- H.M.Jr: It gives you plenty of bomb sights, but you will reserve them for that?
- Mansell: For this purpose.
- H.M.Jr: The other thing, might I take the liberty of suggesting that the Army and Navy and English mission try to do a job on Consolidated similar to what you did on Curtiss-Wright in Buffalo, now that you know what you are going to get, that you try to get them to step up production?
- Brett: Mr. Secretary, we have a very active committee right now that is working on that.
- H.M.Jr: On production?
- Brett: On standardization.

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- H.M.Jr: Well, look what happened in Buffalo and look what you are getting there. You are getting magnificent results. I don't know any other place you are getting anything like it.
- Brett: It was, of course, the Buffalo idea that made us suggest that it be carried through on all types of equipment.
- H.M.Jr: Granted, but the point is Major Fleet comes in here and sees Phil Young and he has four things that he wants. Now, as far as I know, he didn't get any one of the four. I don't know Major Fleet. I have never met him, but is there a chance of giving him some help so that he can put on more people?
- Brett: I don't know, sir. The Navy handles Fleet.
- H.M.Jr: Is it the Navy?
- Brett: He is a Navy concern, sir.
- Purvis: That is the Consolidated?
- Brett: That is a Navy facility and Navy contract.
- H.M.Jr: Except that you have got - then is it all right as far as the Army is concerned if I try to get the Navy and the English to go to try to step up production with Consolidated?
- Brett: Yes, sir. We pay for accelerating our deliveries from the standpoint of overtime, but it is a Navy facility contract. The Navy is responsible for the increased facilities.
- H.M.Jr: Well, I -- when you get out there, have you got any introduction to whoever the Navy officer is in charge of Fleet?
- Mansell: No, I haven't.
- H.M.Jr: Well, Philip, fix it up so that when he gets there - are you going tonight?
- Mansell: I am going out tonight, yes.

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H.M.Jr: To Los Angeles?

Mansell: Yes.

H.M.Jr: Well, when you get there call up Forrestal and tell him - will he be authorized to talk, on the question of stepping up production?

Purvis: Mr. Fairey, you can answer that better than I can.

Fairey: Oh yes.

H.M.Jr: Or would you rather wait until you go yourself?

Fairey: I think, Commodore Mansell could do some valuable preliminary work and if necessary I will go myself. But as he is going this evening, I will authorize him to talk on it.

H.M.Jr: Can I arrange a meeting which I would like to sit in on between you and Knox where we take Consolidated and see if we can't push this thing?

Fairey: With the greatest pleasure.

H.M.Jr: I talked about it.

Fairey: Thank you very much.

H.M.Jr: I talked about it but I have gotten nowhere.

Purvis: I think a program like that would be simply splendid in all these companies.

Fairey: It certainly worked with Buffalo.

H.M.Jr: Well, I think it is a very good meeting. I am delighted, aren't you?

Purvis: Very definitely so.

H.M.Jr: Do you want to ask General Brett anything else?

Purvis: No, I merely want to thank him.

H.M.Jr: What is your command going to be?

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- Brett: I get one of these districts, Mr. Secretary.
- H.M.Jr: Which one?
- Brett: I am looking for a gentleman's job. I think it is the Southwest. It takes in everything south of San Francisco, including San Francisco, and comes East as far as the Mississippi.
- H.M.Jr: Sounds very nice.
- Brett: Thank you.
- Purvis: Are you leaving?
- Brett: Oh yes, I have just been promoted, Mr. Purvis.
- Fairey: Congratulations. Does it mean we are going to lose you?
- Brett: I am afraid so.
- Fairey: From that point of view, I am very sorry, but from other aspects, I am very glad for you.
- Brett: There was one other question I wanted to bring up, Mr. Secretary. That is the question - I don't want to put any fly in the ointment of this B-24 situation, but we are racking our brains trying to find some way so that General Marshall can meet the requirements of the law on a certificate which he has got to sign as to the necessity for those airplanes from the standpoint of national defense. Now, if anybody over here could have any idea - he has to sign a certificate to the effect that these airplanes are not required for the national defense.
- H.M.Jr: Well, it is kind of late --
- Brett: It is a law that was just passed on September 12.
- H.M.Jr: I understood that this memorandum, according to Mr. Stimson, was from General Marshall and he was delivering General Marshall's memorandum to me.

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Brett: Yes, sir. That shows what we can do and what we are perfectly willing to do.

H.M.Jr: Well, I don't know anything about any certificate.

Brett: And I just wonder, because we are working very hard on that legal phase in connection with that.

H.M.Jr: I will lend you Mr. Cox to help you.

Brett: There must be some way.

Lyon: We would appreciate it.

H.M.Jr: Do you know Cox?

Brett: Very well.

H.M.Jr: Do you like him?

Brett: Yes.

H.M.Jr: We will lend him to you. But this deal is closed now, isn't it?

Brett: Yes, sir, as far as we're concerned.

H.M.Jr: Because this is what Mr. Stimson said. "General Marshall promised you a memorandum on Tuesday." Mr. Stimson says, "I am delivering it to you because General Marshall can't be here."

Brett: Well, we have got to find the ways and means.

Purvis: It is procedure, and it doesn't affect the deal.

Brett: No, it is just purely procedure.

H.M.Jr: Well, I called up Mr. Stimson and this was his proposal. Now, they have accepted it in toto. Can they tell their home office the deal is closed?

Brett: As far as I can tell, sir. Mr. Stimson gave you the memorandum.

H.M.Jr: That is right, from General Marshall.

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Brett: Now we have got to find a way to do it and we are having an awful time, and I imagine we need a little legal help.

H.M.Jr: Well, we will give you a little help.

Purvis: I am going to cable.

Klotz: Quick.

Purvis: I am going to cable.

H.M.Jr: Do you want Cox to come over to your office?

Brett: I think he had better be over to see Major Lyon.

H.M.Jr: Will you get them together?

Lyon: Yes, sir.

HEAVY BOMBERS & BOMB SIGHTS

BOMBERS

During October & November,

We defer:

Delivery of 6 B-24's to the British.

We get:

120 Wright (G-200 - 1200 H.P.) Cyclone engines with which we can power approximately 20 B-17's, which would otherwise be in storage due to engine shortage.

From November to April,

We defer:

Delivery of 20 additional B-24's as follows:

Month	No. deferred	Approximate delivery ratio US to British		All types Heavy Bombers
		B-24's U. S.	B	
Nov.	2	1 to 1		2 to 1
Dec.	3	1 to 1		4 to 1
Jan.	3	4 to 3		4 to 1
Feb.	4	1 to 1		3 $\frac{1}{2}$ to 1
Mar.	4	1 to 1		2 $\frac{1}{2}$ to 1
Apr.	4	1 to 1		1 $\frac{1}{2}$ to 1

BOMB SIGHTS

We make available:

40 (old design Sperry) from stock - obsolete - to be traded for more modern type.

97 (old design Sperry) on order - to be deferred for more modern type.

We get:

Improved sights after November 1941. If additional facilities are provided these deliveries can begin in April 1941.

Note:- After April 1941 a new adjustment on delivery of heavy bombers & bomb sights can be made, depending upon the existing situation at that time.

October 1, 1940
3:51 p.m.

H.M.Jr: Hello.

Operator: Secretary Stimson.

H.M.Jr: Hello.

Henry Stimson: Yes.

H.M.Jr: Henry talking.

S: Yes.

H.M.Jr: I have the gentlemen here and they're simply delighted with the proposal and accept it and will be glad to make the 120 engines available.

S: Fine.

H.M.Jr: Hello?

S: Fine.

H.M.Jr: General Brett on his own says that the 10 that they made available Friday are part of the 120.

S: That the what?

H.M.Jr: You know they made 10

S: The 10 odd that you told me about.

H.M.Jr: Yeah, that would be part of the 120.

S: That's all right.

H.M.Jr: And of course they're simply delighted over bomb-sight and they wanted me to thank you very much and I think Mr. Purvis will want to call on you and thank you himself.

S: The President?

H.M.Jr: No, Arthur Purvis.

- 2 -

S: Oh, yes.

H.M.Jr: He'll want to call on you himself and thank you.

S: All right.

H.M.Jr: They're simply delighted.

S: We'll smoke the pipe of peace.

H.M.Jr: Well, we smoke it continuously don't we?

S: Sure.

H.M.Jr: You can take off the war paint now.

S: I can wash my face.

H.M.Jr: O. K. Good-bye.

S: Good-bye.

October 1, 1940
3:53 p.m.

H.M.Jr: Hello.
Operator: I had Mr. Knudsen but he hung up. I'll get him right back.
H.M.Jr: Oh, he hung up?
Operator: Yes, he did.
H.M.Jr: I'm sorry.

3:54 p.m.

H.M.Jr: Hello.
Operator: Mr. Knudsen.
H.M.Jr: Hello.
Wm. S. Knudsen: Yeah.
H.M.Jr: Bill, Henry talking.
K: Yes.
H.M.Jr: Mr. Stimson and Patterson were here for lunch and brought over a proposal that the English give up 120 Wright Cyclone G-200 engines and in exchange get a prior delivery on 26 of these B-24's.
K: Yeah.
H.M.Jr: Patterson said he cleared it all with you, but on account of my working so closely with you I wanted to do you the courtesy of calling you myself.

- 2 -

K: Well, that's very fine.

H.M.Jr: Is that all right?

K: Yes, it's

H.M.Jr: Well, the English are delighted and they naturally are going to take the B-2 and give up the

K: If they are happy about it so am I.

H.M.Jr: They're very happy about it.

K: All right, sir.

H.M.Jr: And it's a deal.

K: Thank you very much.

H.M.Jr: But you're satisfied.

K: Yes, sir.

H.M.Jr: Thank you, Bill.

K: All right.

October 1, 1940
4:13 p.m.

Frank
Knox:

Henry.

H.M.Jr:

Yes, Frank.

K:

That's all fixed. I had a talk with Ingersol and an order will go to Waesche right off giving him all the instructions and everything.

H.M.Jr:

And it will be under

K:

Under the Navy, yeah.

H.M.Jr:

Well, was I right that there was some misunderstanding.

K:

No, you and I understood it exactly right but evidently I didn't give my instructions correctly.

H.M.Jr:

Oh.

K:

Because whenever I find a man doesn't do what I told him to, I think it's my fault, see?

H.M.Jr:

Well, I guess you're generous.

K:

(Laughs). All right.

H.M.Jr:

Frank.

K:

Yes.

H.M.Jr:

Well, I'll tell that to Waesche then.

K:

All right.

H.M.Jr:

Now while I've got you can I just have a minute?

K:

You bet.

H.M.Jr:

We have just finished, confidentially, a deal with the Army whereby they're giving 26 of these 4-engine Consolidated bombers to the English between - that is, 26 that they wouldn't get between now and the 1st of April - 1st of May.

- 2 -

K: Yeah.

H.M.Jr: in exchange for which the English are giving up 120 engines. The English are very happy and the Army is very happy.

K: Good.

H.M.Jr: But those engines go into their Boeings, the ones that Stimson said he had no engines for.

K: Yeah.

H.M.Jr: But now this gives the English a big slice of Consolidated both through PDY-5's and these 4-engine bombers, and I'm very anxious to see whether through the Navy and the English they couldn't step up production there.

K: Well, I was out there and talked to this fellow, Fleet, and he's a ball of fire. He could do it if anybody could.

H.M.Jr: Well, here's the thing. Now, the English have certain people here. How can I get you and them together so we can talk over what they can do because Fleet has been telling us the things that he needs and I don't think he's gotten them.

K: Well, now, wait a minute, Henry. I'm going to meet you at your office at 8:30 tomorrow morning.

H.M.Jr: Are you?

K: Well, that's what I'm told. I'm reminded I have an appointment at 8:30 Wednesday morning with Secretary Morgenthau in his office to discuss the question of priority.

H.M.Jr: Well, that's news to me.

K: (Laughs). Well, I'll have to check on that. The memorandum just came to me a few minutes ago. I was going to suggest that if that was true, if you find that I'm right, why don't we have a meeting of this bunch at 9?

- 3 -

H.M.Jr: Well, we have no meeting for tomorrow. I have nothing on my calendar. I don't know where you got that from.

K: Well, Forrestal gave it to me.

H.M.Jr: Well, that was - we were going to - oh. Well, let me check a minute with Patterson. I don't think he wants a meeting tomorrow but if he does - can I call you back?

K: Sure. And listen, you make a date tomorrow for this bunch of British and I'll adjust myself to it.

H.M.Jr: Well, would 9 o'clock be O. K.?

K: It'd be O.K. yeah.

H.M.Jr: Irrespective of the other meeting.

K: Yeah. We'll get through with the other one by 9 if we have it.

H.M.Jr: Well, I'll have the British here at 9, and will you come?

K: I'll be there.

H.M.Jr: And with the idea of doing something to expedite Consolidated.

K: All right. Do you want me to bring Towers with me?

H.M.Jr: Who?

K: Towers, my aviation man.

H.M.Jr: I think it'd be swell.

K: All right. I'll get Towers and bring him along.

H.M.Jr: Thank you.

K: All right, Henry. Good-bye.

October 1, 1940
4:18 p.m.

H.M.Jr: Hello.

Operator: Patterson.

H.M.Jr: Hello.

Robert
Patterson: Hello.

H.M.Jr: Henry Morgenthau.

P: Yes, Henry.

H.M.Jr: Everybody is calling up about this meeting
for tomorrow at 8:30. Do you want a meeting
at my office tomorrow?

P: No.

H.M.Jr: No. All right.

P: I'll respond to any that's called, but of
my own initiative I have nothing to bring up.

H.M.Jr: Well, then why not let's wait until we have
something.

P: Right.

H.M.Jr: O. K.

P: Yes, sir.

H.M.Jr: I told Harry Stimson that the English accepted
the proposal and were enthusiastic about it.

P: Fine.

H.M.Jr: Very much obliged and they're giving 120
engines, 10 of which they gave last Friday,
which are going to Brett.

P: Yeah. I think that's very constructive.

H.M.Jr: They're simply delighted and now anything
else like that where I can be helpful, let
me know.

- 2 -

P: You bet.
H.M.Jr: But the English are delighted.
P: Fine.
H.M.Jr: Thank you.
P: Good-bye.

October 1, 1940
4:19 p.m.

H.M.Jr: Hello.

Operator: Mr. Knudsen.

H.M.Jr: Hello.

Wm. S. Knudsen: This is Bill again.

H.M.Jr: Hello, Bill.

K: We are going to build some more engines, you see.

H.M.Jr: You're going to do what?

K: We're going to build some more engines.

H.M.Jr: Good.

K: We're going to build 10,000 - 5 of them will go to Studebaker and the other 5 will go to Buick.

H.M.Jr: What make?

K: What's that?

H.M.Jr: What kind of engines.

K: Oh, the Pratt-Whitney engines.

H.M.Jr: The 2,000 horse.

K: Well, the Studebaker engine is the 2600, you know that.

H.M.Jr: I see.

K: And the other one is the 1830. Now that's what we are short. The British will get about half of these engines, see.

H.M.Jr: Half of this deal?

K: Yeah.

H.M.Jr: This is all news to me.

- 2 -

K: Yeah, we're short. They've been dickering back and forth, they were going to tell us how many they wanted and we just got sick and tired of waiting so we're going to start two plants for 5,000 engines each. Then they'll get half of them.

H.M.Jr: You'll let them have half of them.

K: Yeah. Now what are we going to do about the plant?

H.M.Jr: How do you mean?

K: Are they going to put out some dough for the plant?

H.M.Jr: I don't know. This is all news to me.

K: Is this going to be another Packard deal?

H.M.Jr: (Laughs). I don't know, Bill, you are moving so fast I can't keep up with you.

K: Well, of course, you know we have been fiddling around with this engine thing and we get deeper in a hole all the time - we begin to swap 10 or 15 at a crack, see, and now we are going to get enough, see. We know we can take care of these engines.

H.M.Jr: Can I do this? Purvis is in town, now what time could you see him tomorrow and you can ask him direct.

K: Yeah. I can't see him tomorrow because I'm going to leave at 7 o'clock. I'm going up to Curtiss Wright and to Pratt-Whitney, see.

H.M.Jr: Do you want to see him tonight?

K: Yes, I'll see him tonight if I can.

H.M.Jr: What time?

K: Any time you say.

H.M.Jr: Well, you fix the time and I'll have him there.

- 3 -

K: Well, supposing he come over here at 6 o'clock.

H.M.Jr: At your office.

K: Yeah.

H.M.Jr: 6 o'clock.

K: I can have a talk with him, see.

H.M.Jr: I'll have him there.

K: All right.

H.M.Jr: Thank you.

K: Thank you.

October 1, 1940
4:53 p.m.

H.M.Jr: Hello.

Operator: Mr. Purvis.

H.M.Jr: Who?

Operator: Purvis.

H.M.Jr: Oh, yes. Hello.

Arthur
Purvis: Hello.

H.M.Jr: Arthur, Knudsen called me up and frankly I don't know what the hell he's talking about. He told me that he's just placed an order for 10,000 more engines - airplane engines - that he's sick and tired sitting around waiting to hear from you people and then he said, is this going to be another Packard deal and how much money are you going to put up. So I said, Bill, I don't know what you are talking about.

P: Neither do I. I never heard of it. And on the Packard deal, after all, every bit of waiting that was done was what we did.

H.M.Jr: Well, he meant on the plant - the money, you see.

P: Yeah.

H.M.Jr: So I said, how about tomorrow, can you see Purvis. He said no, he was going away. I said well how about tonight. He said well I can see him at 6.

P: Yes.

H.M.Jr: Can you go

P: I'd be very happy to see him. I haven't the remotest idea what he is talking about but I can no doubt find out. I hadn't heard - is it airplane engines, do you know?

- 2 -

- H.M.Jr: 10,000 more airplane engines and he wants to give you half.
- P: Well, I mean, I can - it's a queer day when I hear of a quantity of airplane engines that we're so much anxious to get that I've never heard of before, but I mean whenever there's 5,000 engines going, I shall be there. At 6?
- H.M.Jr: Well, I don't know. Between us, I don't know what's happened but he seems to be in a - recently getting more and more in a bad humor. I don't know what it's all about.
- P: It's curious, that, isn't it?
- H.M.Jr: And I made - I don't know what it is but anyway I think - I just sent for Philip Young and I'm going to ask him to arrange with you to go over with you.
- P: I wish he would. I think I might take Fairey over too because this must be something that has been started somewhere, but I don't understand not hearing about it.
- H.M.Jr: Well, I said, Knudsen, I just can't keep up with you.
- P: No.
- H.M.Jr: I can't keep up with you and I don't
- P: It's entirely new to me. (Laughs). Well, I'll go and find out and I'd be delighted if Young could come. It'd make it much easier.
- H.M.Jr: I think so. Now, the other thing, I spoke to Knox. He'd like very much to meet with you and Falrey and myself tomorrow morning at my office at 9.....
- P: Yes.
- H.M.Jr: and Admiral Towers.
- P: Oh, excellent.

- 3 -

- H.M.Jr: And the talk will be what we can do to increase production of Consolidated.
- P: Yes. By the way, when we're doing that - I haven't yet been able to find - and I don't think Young has - what exactly is involved in the way you dragged it out this afternoon on Consolidated. I haven't yet been able to learn what is exactly involved in the PDY-5's you got the other day by months, and I'm terribly anxious to send that over to London. Whether tomorrow morning is a good time to settle that item-by-item as you did today I don't know, but Young might be able, if they're coming over, to develop the possibility there.
- H.M.Jr: I'll tell Young to get in touch with Admiral Towers.....
- P: Thank you so much.
- H.M.Jr: and when he comes over to let you have it on a piece of paper.
- P: That will be simply splendid. London is terribly anxious about the flying boats, as you know.
- H.M.Jr: Well, what it means on a monthly basis.
- P: Yes, that's it, because they really want the details. They're going to lay their war strategy on that. That's another very important contribution.
- H.M.Jr: Now, I don't - yeah. What kind of a bomb-sight goes with it - well, that isn't a bombing plane.
- P: No, that's a reconnaissance - all over the waters, you know.
- H.M.Jr: Right.
- P: This other thing is simply excellent, of course.
- H.M.Jr: Well, you and Philip Young go and see Knudsen at 6 tonight and Fairey - if you don't mind my making these appointments for you.

- 4 -

P: Oh, not a bit. 9 a.m. tomorrow at your office.

H.M.Jr: And at 9 o'clock also with Fairey at my office and Colonel Knox and Admiral Towers will be here.

P: Excellent. I shall be there.

H.M.Jr: Thank you.

P: Thank you.

PARAPHRASE

From Buenos Aires, no. 457, October 1, 4 p.m.

Prebisch and Grumbach now plan to return to Buenos Aires from Rio de Janeiro on Monday, October 7, owing to desire to study the agenda, before departing for Washington by airplane direct will remain in Buenos Aires for about eight days.

TUCK

TO THE SECRETARY
TECHNICAL ASSISTANT
OFFICE OF THE
DIRECTOR
BND OCT 2 10 3 10
RECEIVED

RA:AWD

COPY

eh

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Stockholm, Sweden

DATE: October 1, 1940, 5 p.m.

NO.: 931

One hundred sixty-eight million crowns of the Kreuger loan to Germany in the amount of one hundred twenty-five million dollars in 1930 was taken up yesterday, mainly from the Skandinaviska Bank in Stockholm, at the same rate at which it was (omission) 1933 - at forty. A large block was also disposed of by the L. M. Ericsson Telephone Company. As a result there has been a sharp rise in the local stock market, particularly shares of the Skandinaviska Bank. There has been no effect on other bank shares.

I have been informed that details have been telegraphed by the Swedish Foreign Office to its Legation in Washington for transmission to the United States Treasury Department, to Mr. Cochran.

Please instruct this Legation if you desire further details from us.

STERLING.

EA:LWW

Prepared by: Mr. Turner
Mr. Murphy
Mr. Haas

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TREASURY DEPARTMENT

INTER-OFFICE COMMUNICATION CONFIDENTIAL

DATE October 1, 1940

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Developments in the High-grade Security Markets During September.

SUMMARY

- (1) Prices of all classes of Treasury securities rose on balance during the month of September (Chart I). The average yield of long-term Treasury bonds decreased by 7 basis points net during the month (Chart II). Weekly reporting member bank holdings of Treasury direct and guaranteed obligations declined by \$190 millions in the four statement weeks ended September 25 (Chart III).
- (2) At the close on Wednesday, September 25, the first day of trading, the premium on the new 2 percent Treasury bonds of 1953-55 was 1-30/32. This was 14/32 more than the "rights value" of the December notes at the end of August, before it was known into what type of security they would be refunded (Chart IV). The new bonds are selling at a price to yield considerably less than might be expected from a comparison of other issues in the same maturity range (Chart V).
- (3) Both high-grade corporate and municipal bonds reached new record highs in September (Charts II and VI). The volume of new bond offerings in the New York market during September was about \$142 millions, an increase of \$50 millions over the August total. Most of the month's new issues were well received.
- (4) Further declines in dividend rates on mutual savings deposits occurred during the year ended July 1, 1940. Only 20 percent of the \$10.6 billions of mutual savings deposits were bringing a return of more than 2 percent on July 1, 1940, as compared with nearly 40 percent two years earlier.
- (5) British Government internal securities declined in the second week of September, but are now back almost to the level at which they stood at the end of August (Chart VII). Japanese and Italian dollar bonds declined sharply last week.

Secretary Morgenthau - 2

I. United States Government Securities

Prices of United States Government securities rose on balance during the month of September. Treasury bonds with 15 years or more to earliest call date gained more than a point, almost regaining their high for the year reached on April 6, just before the Scandinavian invasion. Price changes are shown, by maturity classes, in Chart I and in the following table:

	Average price change month of September
	(Decimals are thirty-seconds)

Notes:

1 to 3 years	+ .01
3 to 5 years	+ .07

Bonds:

5 to 15 years to call	+ .21
15 years and over to call	+1.01

The average yield of long-term Treasury bonds decreased from 2.22 percent at the end of August to a low of 2.14 percent last Wednesday, but increased again to 2.15 percent at yesterday's close (Chart II).

The holdings of Treasury direct and guaranteed obligations by weekly reporting member banks in leading cities declined by \$190 millions in the four statement weeks ended September 25 (Chart III). Holdings of bills decreased by \$93 millions, of notes by \$57 millions, of bonds by \$34 millions, and of guaranteed securities by \$6 millions. More than half of the total decline occurred in the last week of this period. Weekly reporting banks in New York City accounted for the greater part of the decrease in holdings of bills and notes, while banks outside of New York City accounted for the entire decline in holdings of Treasury bonds.

II. Adjustment of the Market to the
New 2 Percent Treasury Bond

The "rights value" of the December notes rose 10/32 last Tuesday, September 24, after the preliminary announcement that a refunding offer of a long-term bond was about to be made, and gained an additional 5/32 on Wednesday after the details of the offering had been made known and the subscription books opened.

At the close on Wednesday, the premium on the new 2 percent Treasury bonds of 1953-55 was 1-30/32. This was 14/32 more than the "rights value" of the December notes at the end of August before it was known into what type of security they would be refunded (Chart IV). This is the highest premium on such a refunding offer in the period covered by the chart. The excess of the premium on the new issue over the "rights value" of the maturing notes at the end of the preceding month has not been equalled since the financing of December 1937.

Chart V shows, as of yesterday's close, the yields of Treasury bonds with 2-year, 3-year, and 5-year call periods, which bear coupon rates of less than 3 percent. It will be seen that the new bonds are selling at a price to yield considerably less than might be expected from a comparison of other issues in the same maturity range.

III. Other Domestic High-grade Securities

High-grade corporate bonds rose in price during September, reaching new record highs in the last days of the month. Our average yield of such bonds, moving inversely to prices, decreased 12 basis points from the end of August to 2.68 percent on Saturday, September 28, but closed yesterday at 2.70 percent (Chart II).

Municipal bonds also have reached new highs during September. The Dow-Jones average yield of twenty 20-year bonds decreased 10 basis points during the month (Chart VI).

New bond offerings to the public in the New York market during the month of September amounted to about \$142 millions. This represents an increase of \$50 millions over the amount reported for August and is only slightly below the average for the first nine months of 1940 (\$153 millions). Of this sum of \$142 millions, about \$98 millions consisted of corporate securities -- including about \$44 millions of railroad equipment trust issues.

Secretary Morgenthau - 4

The principal corporate offerings during the month were two groups of debentures of the Dow Chemical Company, totaling \$15 millions, and \$30 millions of first mortgage bonds of the Southern California Gas Company. The Dow Chemical issues consisted of \$7.5 millions of ten-year debentures priced to yield 2.08 percent and \$7.5 millions of one- to ten-year serial debentures, priced to yield from 0.35 percent to 2.05 percent according to maturity. The Southern California Gas Company bonds were 30-year 3-1/4's, priced at 103-1/2 to yield 3.07 percent to maturity. This latter issue, offered on the same day as the new 2 percent Treasury bonds, went to a premium of about 2 points over the offering price.

Several of the month's corporate offerings were released from SEC registry in less than 20 days under the recent amendment to the law which permits the Commission to shorten the waiting period.

Four large municipal offerings accounted for about two-thirds of the month's municipal total. Included in this group were \$5.8 millions -- the final block of an authorized \$40.8 millions -- of Pennsylvania Turnpike 3-3/4 percent bonds maturing in 1968, which were priced to yield about 3.52 percent to maturity; and \$5.9 millions of California Toll Bridge Authority, 3 percent 1- to 15-year serial bonds priced to yield from 0.20 percent to 1.45 percent. The City of Detroit sold \$9.7 millions of 1- to 21-year serial bonds bearing various coupons at prices to yield from 0.40 percent to about 2.98 percent, at a net interest cost to the city of 2.91 percent. The New York City Housing Authority awarded \$8.0 millions of 1- to 20-year serial bonds bearing various coupons, which were offered at prices to yield from 0.25 percent to 2.85 percent. The net interest cost to the Authority was 2.71 percent. A bid involving an interest cost of 3.01 percent had been rejected earlier in the month.

IV. Decline of Mutual Savings Bank Dividend Rates

Further declines in dividend rates on mutual savings deposits were revealed in the data on the 540 mutual savings banks in the United States, made public recently. In the two years ended July 1, 1940, the volume of deposits receiving dividends of 2-1/2 percent or more has been reduced by almost 50 percent. Only 20 percent of the \$10.6 billions of mutual savings deposits on July 1, 1940, were bringing a return of more than 2 percent. This is revealed in the following table:

Percent of Total Mutual Savings Deposits
Drawing Various Dividends

Dividend Rates :	July 1, 1938 :	July 1, 1939 :	July 1, 1940 :
3.5%	.3	.3	.3
3.0%	6.7	3.9	1.8
2.5%	30.2	27.1	17.6
2.0%	61.8	67.4	69.7
1.5%	.9	1.1	7.7
1.0%	.1	.2	2.9

That this trend is continuing is evidenced by the press report, today, that four more banks in New York City with aggregate deposits of \$333 millions on January 1, 1940, have reduced their rates from 2 percent to 1-1/2 percent, effective for third-quarter dividends.

Rate statistics do not reveal additional dividend reductions made without lowering rates. At least eleven New York banks in the mutual savings group are requiring money to be on deposit longer than previously required before being eligible for dividends. Several of these banks have also shifted from quarterly to semiannual compounding.

Such dividend reductions should make the 2.9 percent* return on United States savings bonds increasingly attractive to those who are normally depositors in mutual savings banks -- especially since a shift from savings deposits to savings bonds involves no sacrifice of liquidity or convenience. Although the total number of accounts and the volume of mutual savings deposits increased slightly in the past year,

* This return is, of course, available only on bonds held for the whole 10-year period. The return on bonds held 2-1/2 years or over exceeds 2 percent, however.

Secretary Morgenthau - 6

a suggestion of the possible effect of continued dividend reductions may be found in the experience of New Jersey. Since July 1, 1939, when a legal maximum rate of 1 percent was established in that State, deposits in the twenty-two New Jersey banks have decreased by \$14 millions, or about 4 percent. This compares with an increase of about 2 percent in the deposits of all mutual savings banks during the same period.

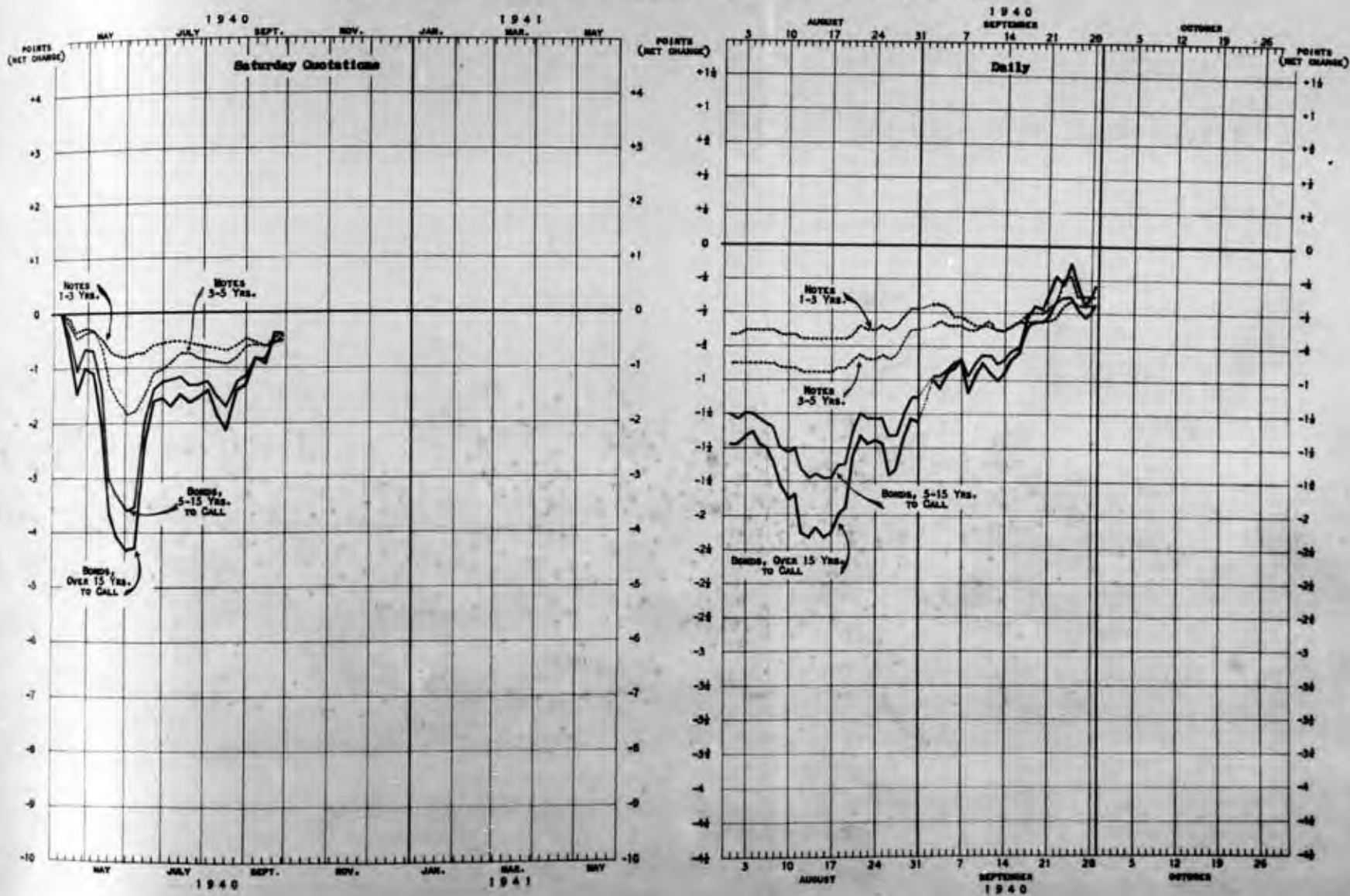
V. Foreign Government Securities

British Government internal securities declined during the second week of September, but are now back almost to the level at which they stood at the end of August. British 2-1/2 percent consols closed yesterday at 74, equivalent to a yield of 3.39 percent, as compared with 74-1/4 at the end of August (Chart VII).

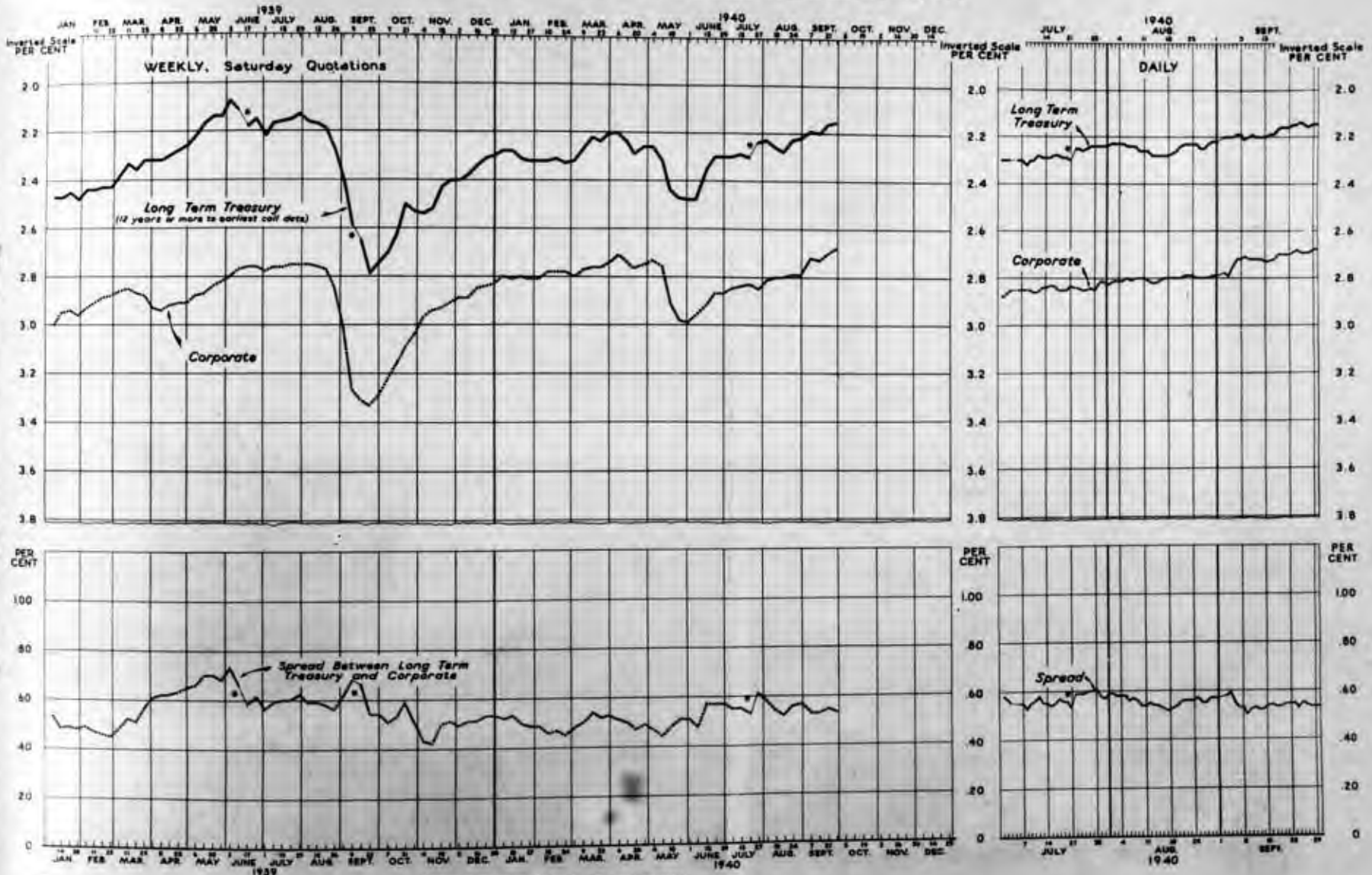
Japanese and Italian dollar bonds broke sharply upon the announcement of the new world-wide axis. Japanese 5-1/2's of 1965 fell from their high for the month of 61-1/2 reached on September 19 to 51-1/2 on September 30, while Italian 7's of 1951 declined from 49-1/2 to 45-1/4 during the same period. Australian bonds also participated in the break, but have since recovered nearly half of their loss.

Attachments

CHANGES IN THE PRICES OF U.S. SECURITIES
 Points Plotted Represent the Difference from April 6, 1940 Price of Each Maturity Class

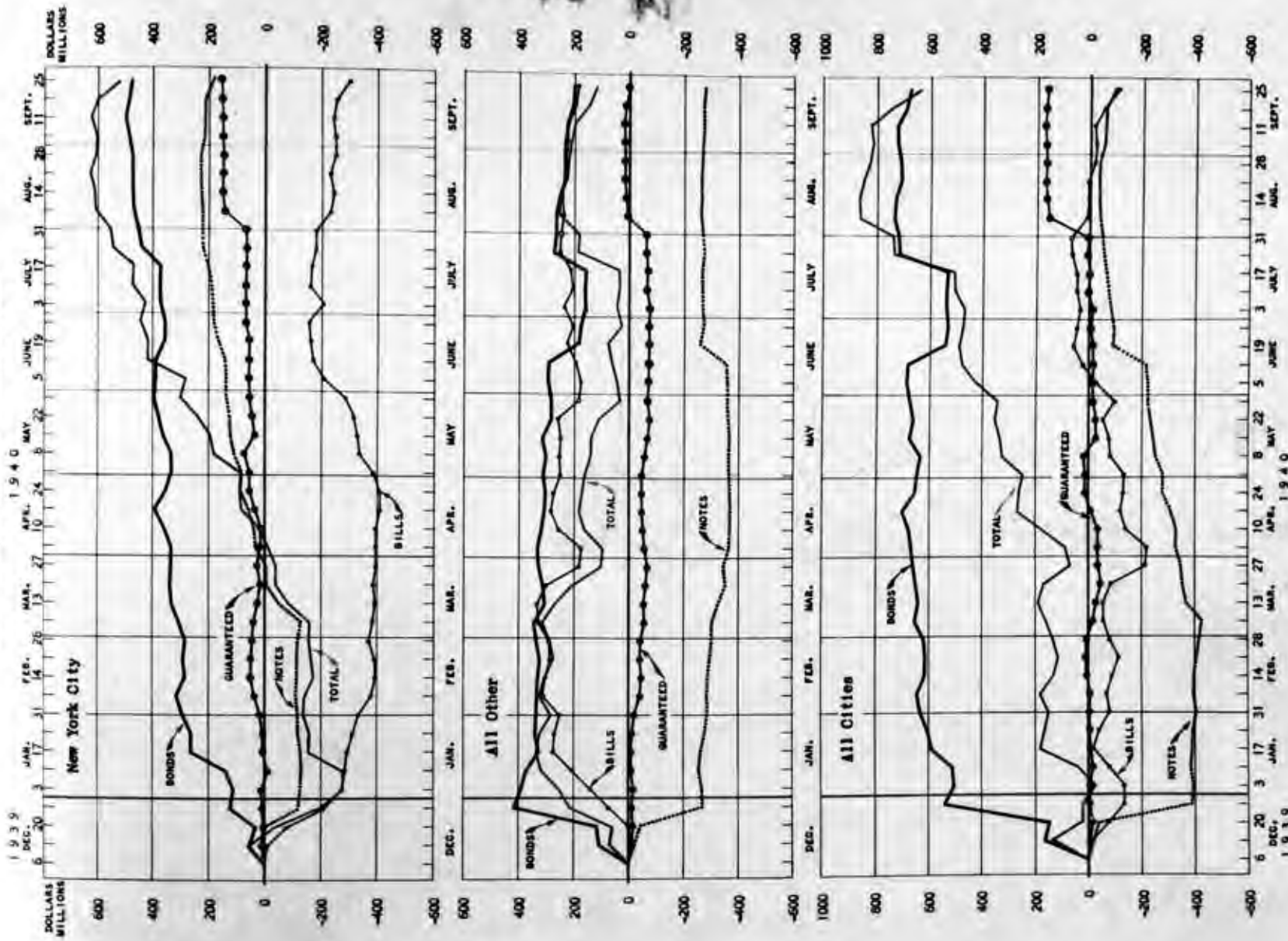


COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS



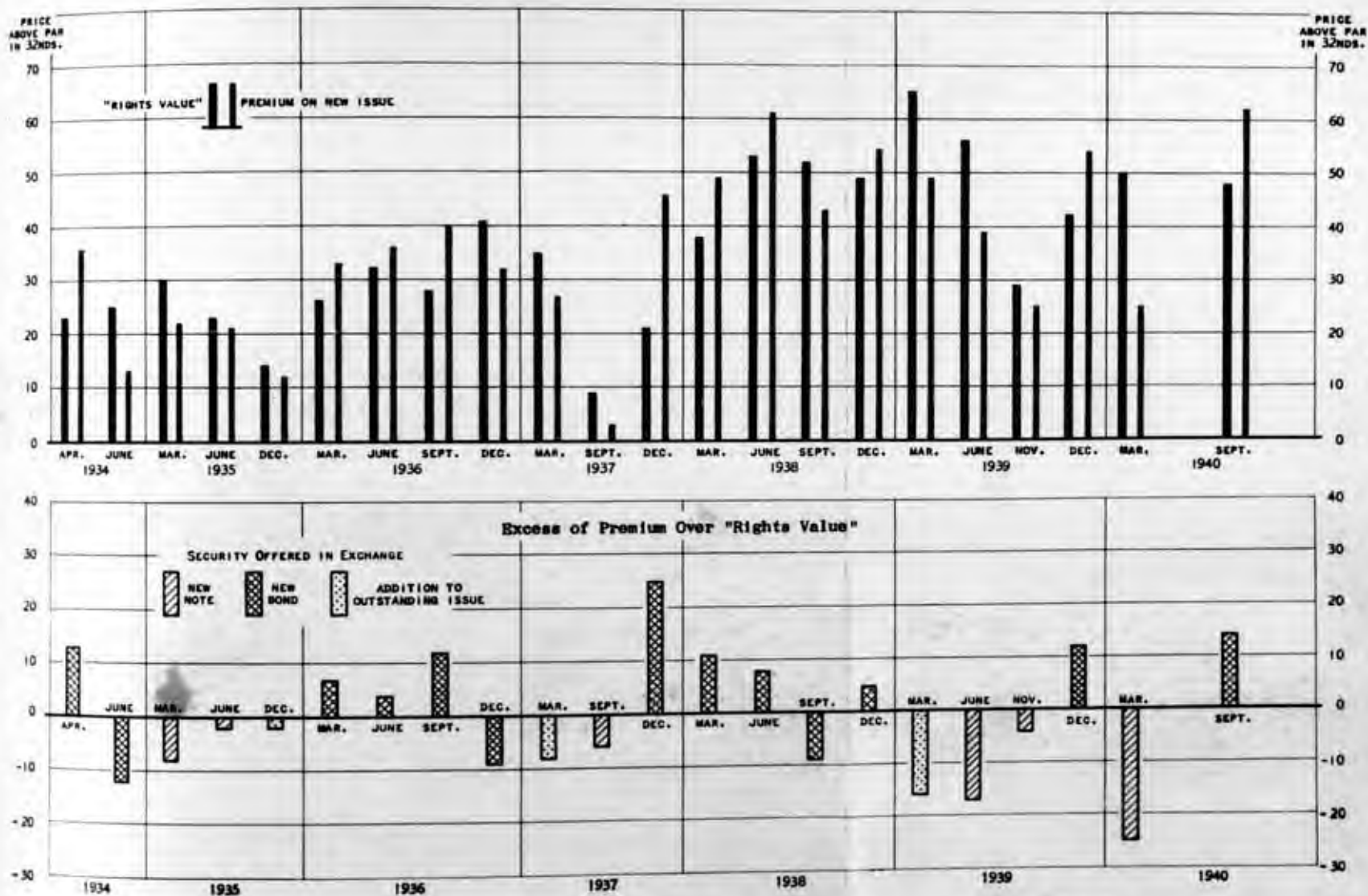
*Change in composition of Long Term Treasury average.

U.S. GOVERNMENT SECURITY HOLDINGS, WEEKLY REPORTING MEMBER BANKS
 Cumulative Net Change from December 6, 1939



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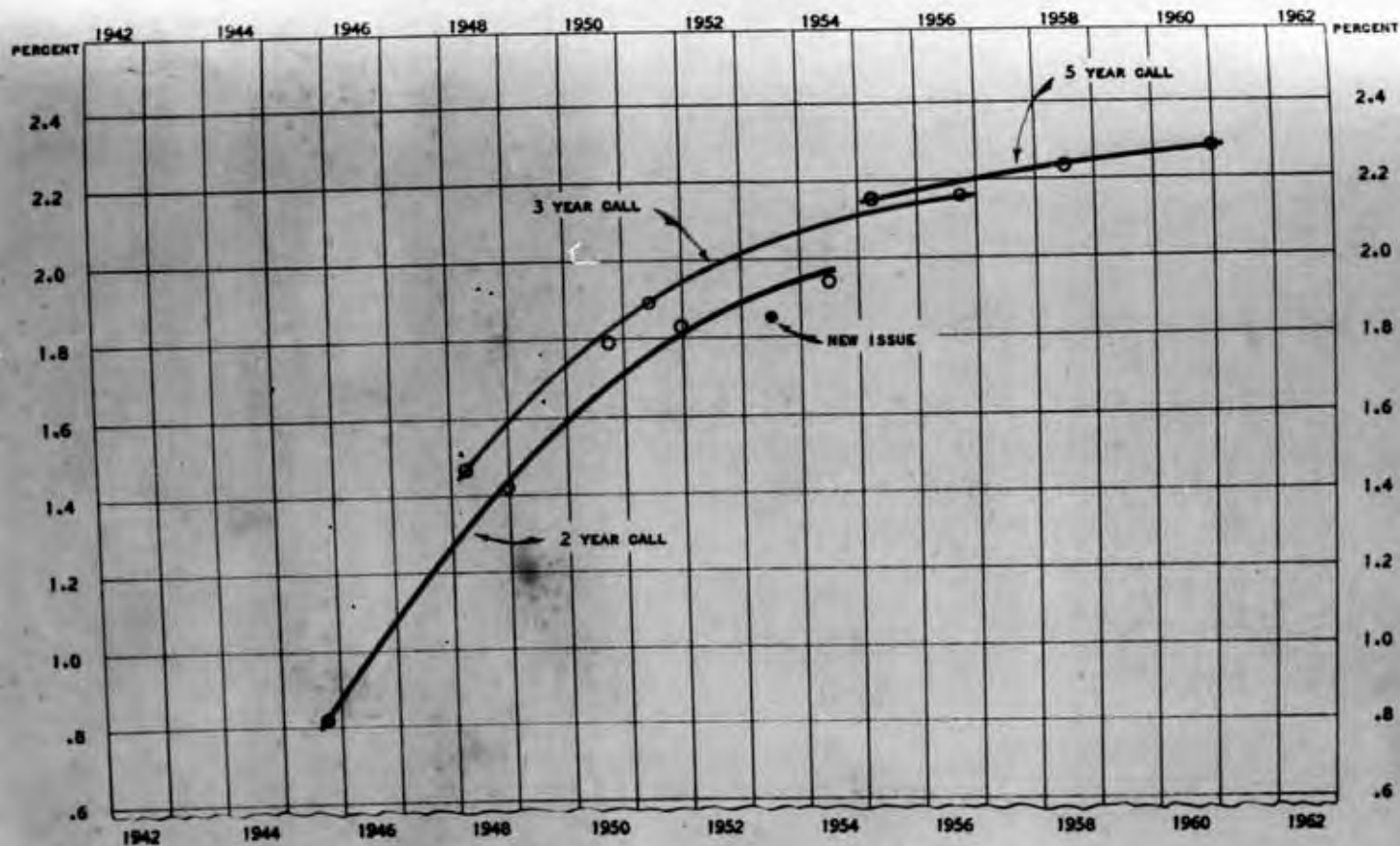
"RIGHTS VALUES" COMPARED WITH PREMIUMS ON NEW ISSUES*
Exchange Offerings on Treasury Note Refundings, 1934 to Date



* RIGHTS VALUES ARE AS OF THE END OF THE PRECEDING MONTH; PREMIUMS ARE AS OF THE CLOSE OF THE FIRST DAY OF TRADING; WHEN MORE THAN ONE NEW ISSUE WAS OFFERED THE HIGHEST PREMIUM IS SHOWN.

YIELDS OF TREASURY BONDS WITH 2 YEAR, 3 YEAR AND 5 YEAR CALL PERIODS*

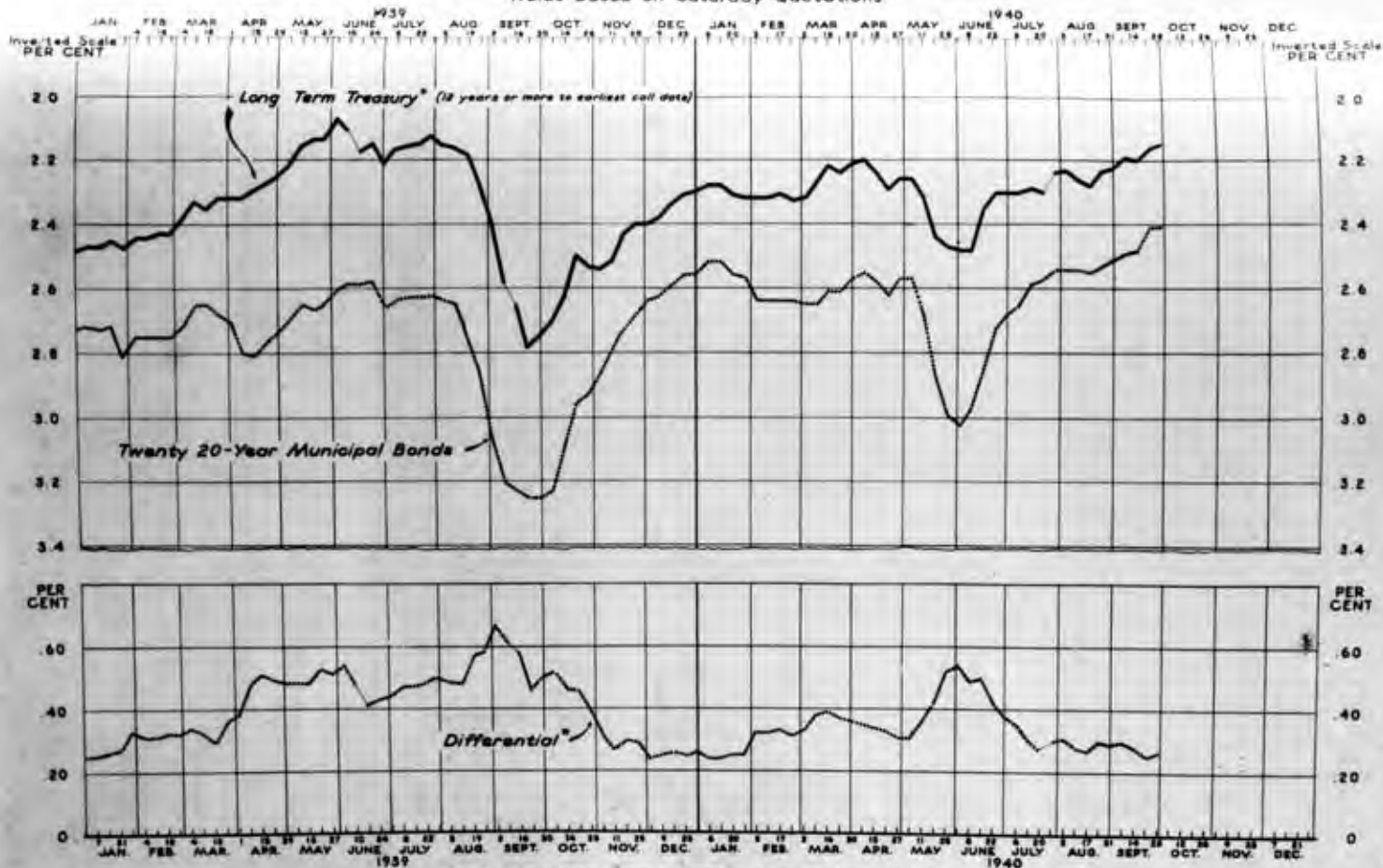
Based on Closing Bids, September 30, 1940



* EXCLUDING ISSUES WITH 3% OR HIGHER COUPONS

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND DOW-JONES AVERAGE OF MUNICIPAL BONDS

Yields Based on Saturday Quotations



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

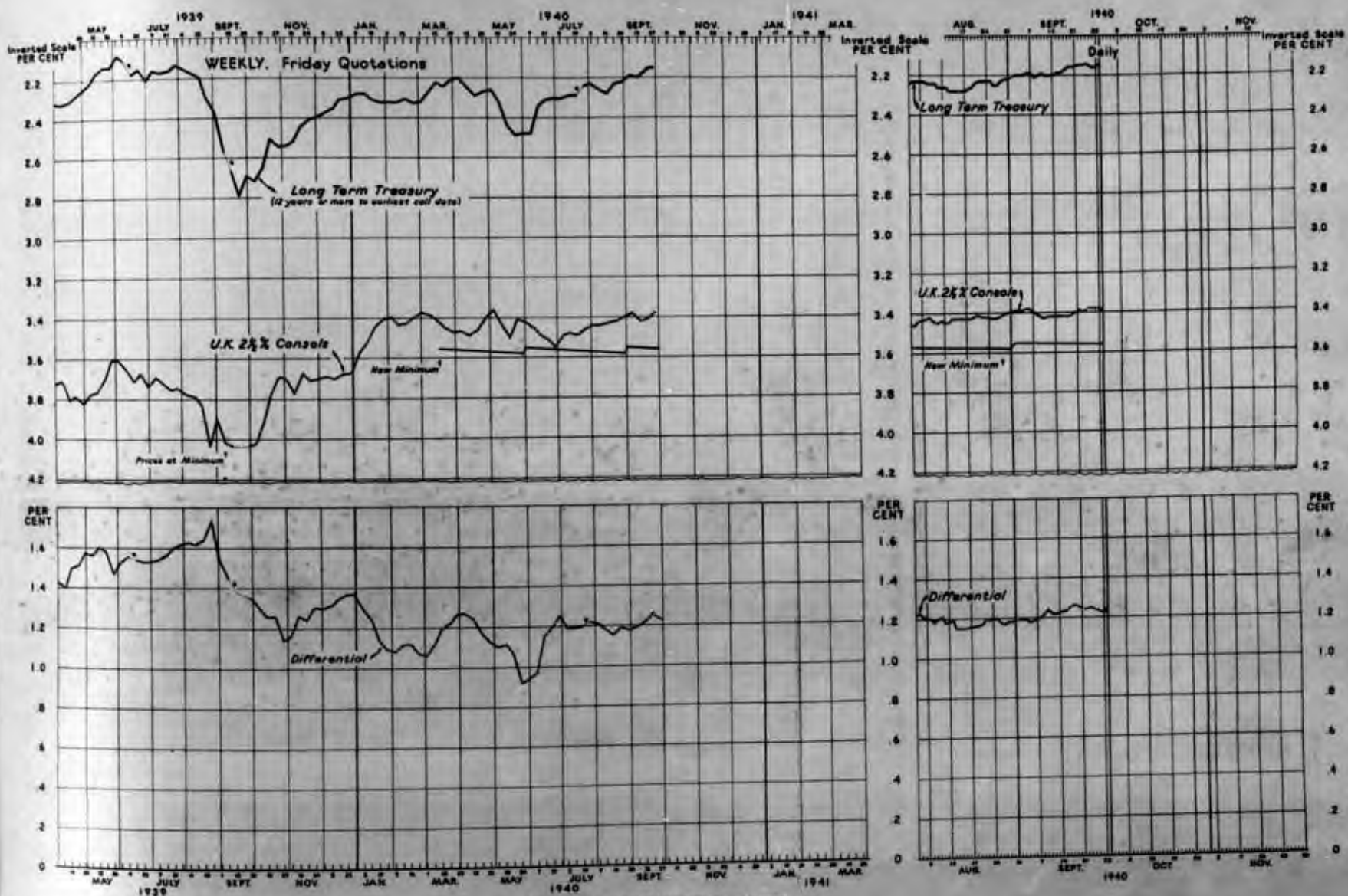
*Break in line indicates change in composition of Long Term Treasury average.

F-134-A

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~~173~~

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS



¹ Changes in composition of Long Term Treasury average.
² Fixed in terms of price, but varies in terms of yields.

AS

PLAIN

Panama via N. R.

Dated October 1, 1940

Rec'd 7:15 p.m.

Secretary of State,
Washington.

169, October 1, 4 p.m.

President Arnulfo Arias took office this morning at an imposing ceremony held in the Panama Stadium.

In his rather brief inaugural message he referred to and reiterated his previous statement to the effect that a true friendship with the United States, lessees of the Canal Zone, is not only desirable but necessary for Panama just as the friendship and cooperation of Panama are desirable and necessary for the United States.

In discussing the foreign debt he said "Panama has shown its good faith and its desire of complying with its obligations by putting forth plans and initiating negotiations for the settlement of the foreign debt but owing to the lack of cooperation of the bondholders it has not up to the present attained its objective. Our Government will spare no effort to seek a solution for this difficult and serious problem provided that the solution does not entail obligations which may prove prejudicial to the interests and needs of the country."

In advocating a new constitution in harmony with present conditions he said that the constitutional reforms south would be inspired in "our lofty republican and democratic principles".

WVC
pf

DAWSON
copy

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

Mr. McKeon of the Federal Reserve Bank of New York gave us the following information regarding the transfers listed below from German and Italian accounts maintained with the Chase National Bank.

German

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 26	\$ 85,000	Reichsbank, Berlin (by order Mitsui Co. Berlin)	Mitsubishi Shoji Kaisha Limited, 120 Broadway, New York, N. Y.

Italian

<u>Date</u>	<u>Amount Debited</u>	<u>Account Debited</u>	<u>Paid To</u>
September 30	\$950,000	Banca Commerciale Italiana, New York.	Federal Reserve Bank of New York for account of the Bank of Sweden
September 30	86,000	Banca Commerciale Italiana, New York.	Swiss Bank Corporation, New York.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 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 23	16,595	717,852	77,000	46,385
24	11,750	364,331	65,000	38,767
25	4,150	203,787	50,000	34,248
26	1,800	46,628	5,000	3,897
27	20	2,362	Nil	Nil
28	710	30,995	Nil	Nil
	<u>35,025</u>	<u>1,365,955</u>	<u>197,000</u>	<u>123,297</u>
Sales from February 22 to September 21	<u>1,521,478</u>	<u>52,510,605</u>	<u>4,502,000</u>	<u>3,624,421</u>
TOTAL FEBRUARY 22 TO SEPTEMBER 28	1,556,503	53,876,560	4,699,000	3,747,718

Mr. Pinsent reported sales of non-vested securities for the week ended September 21 totaled \$550,000.

October 1, 1940

Mr. Fehle

Mr. Cochran

After our Group Control Meeting yesterday evening, and in accordance with its decision, I telephoned Mr. Hamilton, Chief of the Far Eastern Division, and described to him the application made by the Chase National Bank for financing \$325,000 worth of rubber to be shipped from Saigon to Vladivostok, to the charge of the State Bank of Russia. Mr. Hamilton was much interested in this problem, but preferred that I take it up with Dr. Feis, to whom he transferred me. Dr. Feis thought it was too important a matter for him to decide yesterday evening. He preferred to await the outcome of the conference which was to be held this morning between State and Treasury representatives. Following that meeting this morning I have sent over to Dr. Feis a copy of the pertinent paragraphs of the application, for his consideration. I have made the point that if, in view of political circumstances, it is advisable to grant the license, the Treasury could if desirable stipulate that the proceeds of the sale must be placed in a blocked account.



WMC:dm:10.1.40

G-2/2657-220

RESTRICTED

No. 208

SITUATION REPORTM.I.D., W.D.
October 1, 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.

There was relatively heavy air fighting over southern England during daylight, September 30th. The British described these operations as the repulse of five large formations, and admitted damage at Bexhill and Hastings.

German night operations focussed again on London and Liverpool.

The R.A.F. on the night of the 30th-1st attacked the "Invasion Ports" and many places in western Germany. Berlin had a five-hour alert. Five inland freight yards were attacked.

According to news reports daylight raids are continuing over England today.

II. Mediterranean and African Theaters of War.

No ground operations reported. The air forces of both sides raided communications along the Mediterranean littoral.

RESTRICTED

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

CONFIDENTIAL

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

Sold to commercial concerns	£90,000
Purchased from commercial concerns	£ 5,000

The Federal Reserve Bank sold £2,430 in registered sterling to two non-reporting banks.

From an opening of 4.04-1/2, open market sterling eased to 4.03-1/2 at the close. Transactions of the reporting banks were as follows:

Sold to commercial concerns	£30,000
Purchased from commercial concerns	£19,000

The Swiss franc continued strong, and today's advance carried the rate to a new high of .2301, where it closed. It was reported from Zurich that the Swiss National Bank again raised its selling rate for Swiss francs, from .2293-1/2 to .2299.

Although the Canadian dollar discount narrowed to 13-3/8% this morning, it subsequently reacted to close at 14-1/8%, unchanged from yesterday.

The other currencies closed as follows:

Swedish krona	.2383
Reichsmark	.4000
Mexican peso	.2049
Argentine peso (free)	.2325
Brazilian milreis (free)	.0505
Cuban peso	8-9/16% discount
Lira	.0505

There were no gold transactions consummated by us today.

- 2 - CONFIDENTIAL

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

\$16,500,000 from Argentina, representing four shipments by the Central Bank of the Argentine Republic for its own account, disposition unknown.
 4,325,000 from Canada, shipped by the Bank of Canada for account of the Canadian Government, for sale to the U. S. Assay Office at New York.
 \$20,825,000 Total

The report of September 25, 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 \$10,386,000, a decrease of \$1,802,000 in the short position. The net changes in the positions are as follows:

Country	Short Position September 18	Short Position September 25	Decrease in Short Position
England*	\$ 1,275,000	\$ 542,000	\$ 733,000
Europe	5,647,000	4,171,000	1,476,000
Canada	229,000 (Long)	10,000	239,000 (Increase)
Latin America	488,000	403,000	85,000
Japan	3,958,000	4,202,000	244,000 (Increase)
Other Asia	1,037,000	1,114,000	77,000 (Increase)
All Others	12,000	56,000 (Long)	68,000 (Increase in Long Position)
Total	\$12,188,000	\$10,386,000	\$1,802,000

*Combined position in registered and open market sterling.

The Bombay gold price declined the equivalent of 4¢ to \$33.97, and silver was unchanged at the equivalent of 44.61¢.

The London spot and forward silver prices were again fixed at 23-7/16d and 23-3/8d respectively. The dollar equivalents were 42.56¢ and 42.44¢.

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 ten purchases of silver totaling 1,437,000 ounces under the Silver Purchase Act. Of this amount, 1,212,000 ounces consisted of new production from foreign countries, for forward delivery, and 100,000 ounces represented a sale from inventory. The remaining 125,000 ounces was purchased from the Central Bank of China, and represents part of a shipment recently made by that bank to this country.

B.M.P.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Mr. Cochran *The Secretary*
 FROM Mr. Hawkey

1. There follows a summary of the gold transactions effected by us with the central banks and governments of foreign countries and with the B. I. S. during the month of September:

	<u>Purchased From</u>	<u>Sold to</u>
Afghanistan		\$ 1,750,000
Colombia	\$ 2,313,000	
England	248,266,000	
Java		5,000,000
Mexico	5,350,000	
Sweden	5,082,000	
Switzerland (B. I. S.)	564,000	
Uruguay	2,015,000	
Total	\$263,590,000	\$6,750,000

In order to replenish our cash balances with the Federal, we sold \$217,589,000 of our gold holdings to the U. S. Assay Office during the month under review.

2. England's gold holdings at the end of September may be estimated at \$777.8 million. Since July 1, when the British placed their own holdings at \$1,444.0 million, England has been losing gold at the rate of \$222.1 million a month. If this continues, she will own only \$555.7 million at the end of October.

a) British Estimate as of July 1, 1940 - - - - - \$1,444.0 million

	<u>Sales to U.S.</u>	<u>So. African Production</u>	<u>Net Loss</u>	
July	\$262.0	\$40.0	\$222.0	} - 666.2 million
Aug.	262.9	40.0	222.9	
Sept.	261.3	40.0	221.3	

b) End-of-September Holdings - - - - - \$ 777.8 million

3. France's gold holdings at the end of September may be placed at \$1,915.6 million. The British estimated French holdings to be \$1,920 million as of mid-July. Since then, the only known changes consisted of a withdrawal of \$2 million from French gold at the Federal (this was transferred to the Bank of Poland's gold account on July 25), and a transfer of \$2.4 million on September 20 from a French gold account at the Federal to the Swiss National Bank's account.

October 1, 1940
2:30 p.m.

Jesse
Jones: Hello.

H.M.Jr: Hello.

J: Hello, Henry.

H.M.Jr: Hello. How are you?

J: All right. How are you?

H.M.Jr: Oh, I'm alive. Had a 98% conversion on our notes

J: 98%.

H.M.Jr: Yeah, which is almost as good as Ivory soap.

J: That's pretty good, isn't it?

H.M.Jr: I think so.

J: When was your closing time?

H.M.Jr: Well, we closed Friday night.

J: I see.

H.M.Jr: And the figures are slow in coming in.

J: 98%. That's remarkable. Was there any new money in it?

H.M.Jr: No, no, but this leaves us in very nice shape and we can go now until November or December without having to go to the market unless we want to, which is very nice.

J: Well, now any time you want us to do a little for us why you name the time.

H.M.Jr: O. K., Jesse.

J: Now, I want to talk with you a little bit about Brazil and about Argentina.

H.M.Jr: Go ahead.

- 2 -

- J: Pierson is down there and they are wanting a substantial amount of credit and Mr. Hull said you were - he thought - either Welles or Hull or somebody thought that you had been talking with them something about your Stabilization Fund - helping them in some way.
- R.N.Jr: No. Let me tell you what happened. I swear - I mean, this thing with the State Department - I don't know. Along last week Welles or Berle - I don't know who, I think it was Welles - put the heat on me to invite the Minister of Finance from the Argentine to come up here or his representative. Well, I didn't particularly want it but they were very, very insistent so we sent them over a memorandum Saturday to Berle saying the things that they wanted - what we would talk to them - we sent it over. But I said two things. In the first place if he's to be invited up here he must be invited by Mr. Hull, not by me, and No. 2, that I thought it was a mistake to have him come up here before election because they wouldn't talk about things like Argentine beef and the kind of things that they wanted to do business on.
- J: Yeah.
- H.M.Jr: So I thought it was a waste of time, but whatever Mr. Hull decided was all right by me but it was up to him to do the inviting. Well, that was that. Now this morning Berle was over here and brought over a 4-page memorandum that Pierson wanted O.K.'d on what Pierson was supposed to say to the Minister of Finance of the Argentine, see?
- J: Yeah.
- H.M.Jr: So I said, well, I don't know anything about it and if Mr. Hull and Mr. Jones can get together, and whatever they decide - what they want to do with the Minister of Finance of the Argentine is O. K. by me. Now that's just the way it stands.
- J: Uh-huh.

- 3 -

- H.M.Jr: I have no interest in it other than what the State Department would like to do.
- J: I see. You don't contemplate using any of your Stabilization Fund.
- H.M.Jr: Well, I've never talked with the fellows. Welles - I believe it's Welles, either Welles or Berle - has been hell-bent for us to make such a loan. See?
- J: Un-huh.
- H.M.Jr: And we never have gotten down and talked to anybody about it and so I just feel - I mean, I don't think it's me, Jesse, but there are so many people over in the State Department that are dealing with the Argentine and every other country, I can't keep track of it.
- J: Yeah.
- H.M.Jr: I don't know how it is with you.
- J: Well, do you think it would be - well, I'm just trying to get heads and tails out - in fact I haven't seen the memorandum that Berle took over to you.
- H.M.Jr: Well, it's - I don't know whether Berle - there were three people here. Berle, Assistant Secretary Grady and Harry White, and between them they produced a 4-page memorandum from Warren Pierson. Now just who produced it I don't know.
- J: Well, I'm rather surprised that I hadn't seen a copy of it.
- H.M.Jr: Well, I'm not surprised.
- J: You're not, huh. (Laughs).
- H.M.Jr: No, I'm not - (Laughs) - they're not treating you any better or worse than they treat me.
- J: That's right.
- H.M.Jr: But you'd never seen it?

- 4 -

J: No, I've never seen it. No.

H.M.Jr: Well, they wanted me to say yes and I said I wouldn't think of saying yes until Jesse Jones discussed it with me.

J: O. K. Well, now I tell you what I'll do then, Henry. I'd like to have - I want to see what that 4-page thing is and then maybe have a visit with you a little while.

H.M.Jr: I'm at your service.

J: I'll call you.

H.M.Jr: But listen, old man, let's get Cordell in on it so that he doesn't say afterwards he never heard of it.

J: O. K. Would you as soon have Welles?

H.M.Jr: No, I'd like

J: You'd rather have Cordell.

H.M.Jr: I want Cordell because I don't want to hear afterwards that he didn't know anything about it.

J: I see. All right, we'll work that way then.

H.M.Jr: Now may I ask you something?

J: Yes, sir.

H.M.Jr: Anything doing with T. V. Soong?

J: He hasn't gotten back from New York. He was in New York Saturday and Monday and they said he'd be back Monday and then they said he'd be back Tuesday and so I've left word for him to call me.

H.M.Jr: Well, if you happen to think of it after you've talked to him I would appreciate it if

J: Well, I was going to call you. As a matter of fact I think I was going to call you before I talked to him and see if you had any suggestions.

- 5 -

H.M.Jr: Well, the only suggestion I have is, if there ever was a time to make a little gesture towards Russia, now is the time.

J: Yeah. All right, I'll call you immediately I see him.

H.M.Jr: Thank you.

J: O. K. Henry.

H.M.Jr: Yeah.

J: We could very well, if we wanted to do it, take over - give you 125 million and take over that stock.

H.M.Jr: (Laughs). What a man! And I'll lose the interest on it.

J: You'd lose the interest.

H.M.Jr: Yeah, you'll have to buy me a lunch before I do that.

J: O. K.

H.M.Jr: All right, good-bye.

Paraphrase of Code Radiogram
Received at the War Department
at 12:42 P.M., October 1, 1940

London, October 1, 1940.

1. During Monday, September 30, the Fighter Command of the Royal Air Force dispatched 168 patrols that were involved in 1,173 sorties. The Coastal Command operated 109 planes on normal missions. During the night that followed the Bomber Command sent out 104 planes against their usual targets.

2. The German Air Force made four attacks during daylight hours of the 30th, two in the morning and two in the afternoon, operating about 650 planes. All attacks were dispersed and beaten off. About 275 aircraft flew over England during the night, of which about 175 reached London.

3. In London there was the usual damage that did not seriously affect military objectives or production. Two main water supply lines were broken in Epsom. In Wobridge 138 high explosive bombs damaged about 450 houses, killed 13 and injured 106. There was no damage to airdromes.

4. German plane losses were 46 confirmed, 32 probable, and 29 damaged. The Royal Air Force lost 20 planes and eight pilots.

5. A convoy of 11 ships arrived today from Freetown, Sierra Leone. A 1,100-ton ship that was bombed, machine-gunned and set on fire in the North Atlantic is again underway.

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6. There is no additional information of an invasion.
7. Production is being held up at the Standard Motor Works, Coventry, by a strike headed by two Communist shop stewards.

IEE.

Distribution:

- ✓ Military 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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G-2/2657-236

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G-3
JM/ARH

October 1, 1940

MEMORANDUM FOR THE CHIEF OF STAFF:

Subject: Situation in the Caribbean Area, No. 5.

1. MEXICO.

The increased political tension which developed about September 1st has somewhat abated. President Cardenas has endorsed the Mexican Congress pronouncement that General Camacho is the elected President of Mexico. This resulted in an Almazan rump Congress proclaiming Cardenas deposed and General Lopez as temporary President, to serve until 1 December, 1940, when General Almazan would take office.

General Almazan, now sojourning in the United States, has denounced President Cardenas' attitude but is reported to have cautioned his supporters both in and out of Mexico to proceed in strictly legal advocacy of his claims.

Minor sporadic armed clashes have occurred in northern Mexico since September 1st but none has developed strength.

It appears that Almazan's cause is losing strength. President-elect Camacho's recent announcement that he is a Catholic has encouraged conservative elements to believe that his administration will be divested of existing Communist influences and that a regime more favorable to property rights throughout the country may be expected.

2. PANAMA.

The new President of Panama, Dr. Arnulfo Arias, assumed office today, October 1st. Friction between Panama and the United States may be expected to develop in the near future. Dr. Arias was formerly Panamanian Minister to Italy. He is suspected of strong Nazi or Fascist leanings and is reputedly somewhat anti-American. President-elect Arias claims that the present "unusual international situation between the United States and Panama, wherein the Panamanians play a subordinate role in their

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own country, is the result of having had Presidents of Panama who were too weak to stand up for their country's rights". From various sources, it has been reported that Dr. Arias will stand up for what he thinks are his country's rights. He has stated "that during his first year in office he will make or break the Republic of Panama". As Arnulfo Arias is head-strong, stubborn and not blessed with too many brains, a bad situation in Panama may result.

3. Cuba.

The inauguration of President-elect Batista was scheduled for October 10, 1940. However, due to certain legal technicalities, the inauguration may be postponed. In the meantime, Cuba is quiescent, and it is expected that it will remain so in the immediate future.

4. Colombia.

The political situation in Colombia has become considerably clearer in the past two months. The President Eduardo Santos, leader of the Right Liberal Party, is losing ground steadily due to his weak and vacillating politics. The Left Liberal Party is headed by Ex-President Alfonso Lopez and this party has gained so considerably that it seems logical it will elect the next president, in case a legal election is held in 1941.

The Conservative Party is the group that is being most closely watched. This Party is strongly anti-United States. Laureano Gomez is the leader of this party and he is known as a strong personal leader who with Nazi help may attempt a coup d'etat to attain his ends. The Nazis have quietly and steadily increased their position and are taking full advantage of the three-cornered political fight.

5. French Guiana and Martinique.

The political sentiment in these colonies is divided. The Governor and French officials are loyal to the Petain Government while the natives are mostly in favor of De Gaulle and desire the protection of the United States. The economic situation and outlook are bad.

6. General.

a. A report from Japan stated that one of the arguments used by Germany to induce Japan to join the Axis military alliance was that, at a given moment, Germany could cause so much trouble in Latin America that the United States would be forced to detach part of its Pacific fleet to handle the situation.

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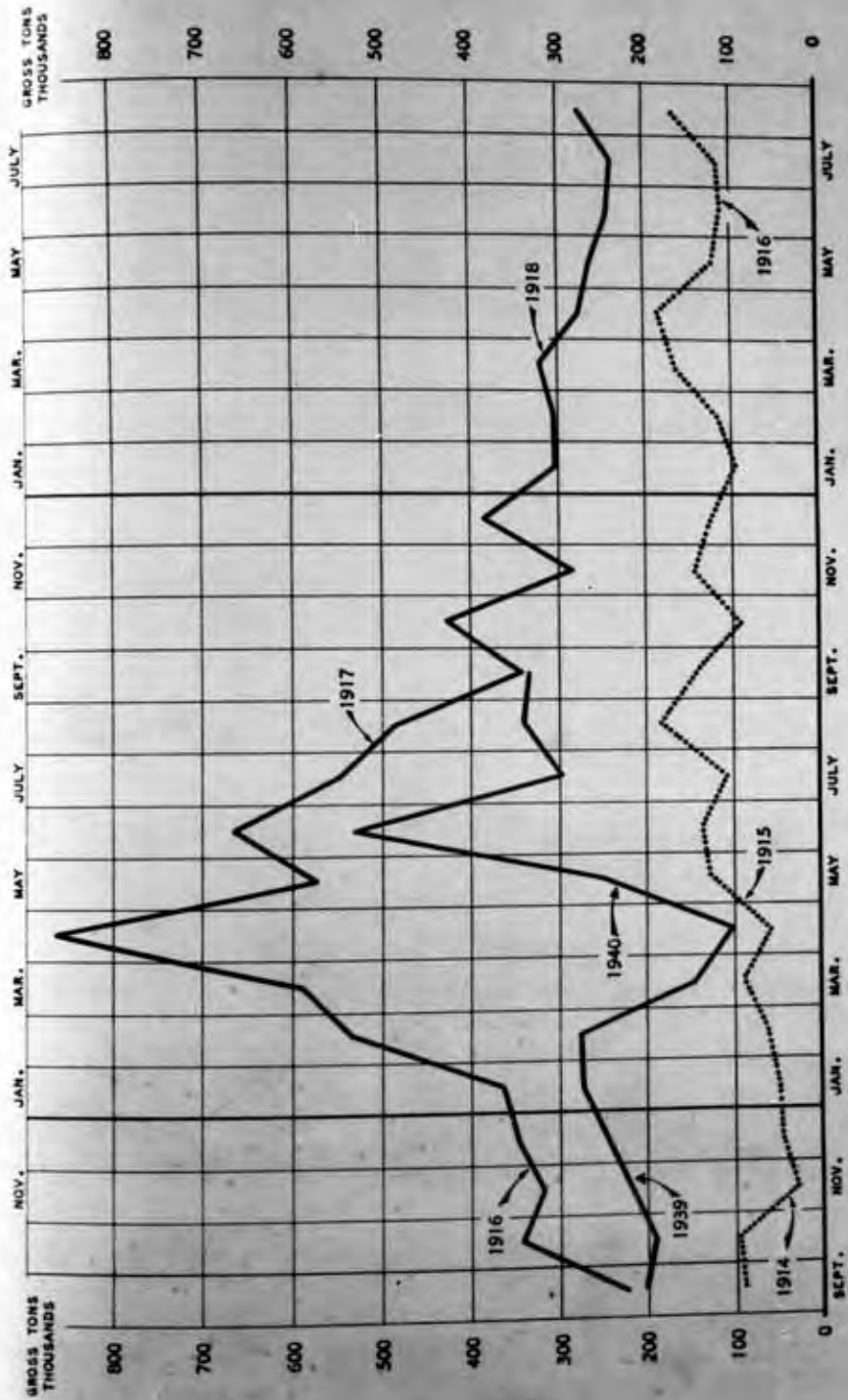
b. The above argument is undoubtedly exaggerated, especially with respect to the Caribbean countries. However, very strong Nazi organizations are known to exist in practically all Latin American countries. These organizations actually do have a great influence even in the Caribbean countries. (Notes: In other countries, such as Uruguay and southern Brazil, the Nazi organizations present a real threat.)

SHERMAN MILES,
Brigadier General, U. S. Army,
Acting Assistant Chief of Staff, G-2.

fk

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ALLIED AND NEUTRAL SHIPPING LOST DURING WORLD WAR AND PRESENT WAR



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

October 1, 1940
4:00 p.m.

RE SHIP MOVEMENTS CONTROL

Present: Mr. Foley
Mr. Cairns
Mr. White

H.M.Jr: What I want to say to you gentlemen is this: In connection with this Panamanian thing, I am counting on you people to see that I am personally not liable on this thing. I want you to look after my own interests in this matter. I have just read this thing here and this looks all right. The Assistant Collector at Galveston -- have you seen this? Have you got a copy of this?

Foley: I haven't.

Cairns: I haven't either.

H.M.Jr: I think if you boys will read it, that will save time. That is good news. While you are doing that, I will put in a call for Knox.

On that thing, we could still stall another day, couldn't we?

Cairns: Oh yes. A counsel for the line is sitting outside my office now.

(Mr. White entered the conference.)

H.M.Jr: Well now, do I have to do anything tonight?

Cairns: No.

White: Not in the light of this.

- 2 -

H.M.Jr: That is a good memo.

White: Of course, I don't think that we ought to stop that kind of gasoline, because that is the kind of gasoline that the State Department has been letting by all the time, and if they are letting it go by, why should you stop the shipments.

H.M.Jr: I will tell you why. Because the President of the United States ordered me.

White: Well, some is going and some isn't.

H.M.Jr: All right, find some other place where similar gas is going and I will get them to stop it.

White: Japan. Here this last week --

Cairns: This is Japan.

White: This just went last week.

H.M.Jr: Find out other places where it is sailing.

Foley: That may have been the same shipment, Harry, because they have issued a license on this and we have revoked it.

H.M.Jr: The way to bring this thing to a head and get it off me is to get out a memorandum for ship movements, what licenses have been issued on gasoline, which is similar to this for Japan, and I will get hold of the President and say, "Now look, I am holding this ship and here are some more shipments. How many of these things do you want me to hold?" Okay? That is the way to bring it to a head. And if we do enough of it, Cordell Hull will get excited about it and make up his mind one way or the other in writing.

Cairns: There was an additional element in this case, I think, that perhaps caused you to focus on it, that the vessel was to be sold for scrap.

White: That was the complaint the English made to us, you know.

- 3 -

H.M.Jr: This same vessel?

White: No.

H.M.Jr: The way to bring this to a head and get it off me, find out what other shipments are in process for gasoline for Japan. I will send the list over to the President and say, "Look here, Boss, here is one out of ten. What the hell do you want me to do with the other nine?"

Foley: If he wants them held indefinitely, he has got to change that order to give you a legal basis. You can stall for a little while.

H.M.Jr: But if instead of one I can have ten cases, it will get so hot that the State Department will say to the President to let them go or they will change their order.

Now, I think that is the way to put the heat on the State Department to make them fish or cut bait. Am I right or am I wrong?

Foley: That is right.

H.M.Jr: I am right.

September 30, 1940.

MEMORANDUM

To: Secretary Morgenthau
From: Lieutenant Commander Richmond

ack

Supplementing the memorandum of Mr. Gaston of September 27, 1940, re Panamanian Steamship PANAMANIAN, the Assistant Collector at Galveston reports that while the official report of the test of the gasoline carried by the PANAMANIAN is not yet available, he is sure that the octane content of the cargo will average about 86.4. The analysis is being made by Saybolt Company, independent petroleum chemists and samplers at Galveston. Their report will be forwarded immediately upon receipt. Mr. Zinn, the Assistant Collector, is taking additional samples of the cargo, which he is forwarding to Washington. Further investigation in New York and in Galveston indicates that the last paragraph of the previous memorandum is in error in that the Companie Transatlantique Centro Americano, S.A., is still the owner of the vessel and the General Atlantic Steamship Corporation are the agents therefor. Lloyd's register lists the Companie Transatlantique Centro Americano, S. A., as an Arnold Bernstein Shipping Company interest.

The Assistant Collector at Galveston reports that the PANAMANIAN has had trouble with the local seamen's union which picketed the vessel. In the resulting crew trouble it is further reported that fourteen members of the crew quit. The vessel is now anchored in the stream but the Assistant Collector did not believe that it would be ready to depart for some time.

TREASURY DEPARTMENT
Office of the Secretary 198
Technical Assistant to the Secretary

Date 10/3/40

TO: The Secretary

Room _____

Of interest
for tomorrow's
meeting with
the French.
WMP

From: MR. COCHRAN

DEPARTMENT OF STATE

Washington

October 1, 1940

In reply refer to
Eu

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy and translation of a note of September 25, 1940 from the Ambassador of the French Republic regarding a project which the French Government is now studying, in accord with the International Committee of the Red Cross, with the possibility of obtaining food supplies from South America for former French prisoners of war, and in connection with which the Ambassador requests a release of a credit of one million, five hundred thousand dollars.

Enclosures:

From the Embassy of the
French Republic, September 25,
1940, with its translation.

P.T.C.

(Copy)

ek

EMBASSY
OF THE FRENCH REPUBLIC
IN THE UNITED STATES

Washington, September 25, 1940

Mr. Secretary of State:

The French Government is now studying, in accord with the International committee of the Red Cross and with the Red Cross committees of the principal countries of South America, a project the urgent character of which cannot escape Your Excellency since it is intended to provide immediate relief to French prisoners of war.

Indeed, it is a matter of buying in South America canned food, the transportation of which, as well as that of the gifts made by the South American Red Cross Societies, will be effected, should the occasion arise, on board a French steamer now at La Plata.

It would be necessary, in order to get this project under way, for the American Government to authorize the freeing of the sum of one million five hundred thousand dollars taken from French funds now blocked in the United States. The sum in question will be exclusively affected to the purchase in South America of the goods sent to the French prisoners of war and used solely for the benefit of the latter. The extra food supply thus obtained for them will, in fact, be forwarded to the camps by the French Red Cross with the help of the International Committee of the Red Cross.

I have the honor to call Your Excellency's special attention to this initiative, while expressing, on behalf of my Government, the very sincere hope of seeing the Government of the United States lend its assistance to an undertaking of humanitarian relief, the urgent necessity of which is unfortunately evident, by authorizing the unblocking of a credit of one million five hundred thousand dollars.

Please accept (etc.)

HENRI-HAYE

His Excellency
The Honorable Cordell Hull,
Secretary of State of the United States,
Washington, D. C.

Fr:Ca:HSF

C O P Y

DEPARTMENT OF STATE

Washington

In reply refer to
Eu

October 1, 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 of September 25, 1940 from the Ambassador of the French Republic requesting the release of funds for the French Government to provide for various activities of the French Government.

Enclosure:

From the Embassy of the
French Republic, September 25,
1940, with its translation.

C O P Y

dm

(TRANSLATION)

EMBASSY OF THE FRENCH REPUBLIC
IN THE UNITED STATES

Washington, September 25, 1940.

Mr. Secretary of State:

In the course of the conversation which I had the honor to have with Your Excellency on September 11 last, I drew your attention to a question which is, at this time, a source of worry for me. Of French assets now blocked in the United States, is the American Government disposed to release the amounts necessary to the French Government to provide for:

1. The operation of the Embassy and of Consulates of France in the United States;
2. The operation of our diplomatic and consular services in Central America, South America and certain European countries;
3. The service on the 1939-4 per cent and the 1937-4 1/2 per cent loans;
4. The settlement of purchases made during the war in Portugal, Argentina, Chile and Uruguay?

I indicated, at the time of my interview with Your Excellency, that my Government was afraid that there would be established in the United States, under cover of a general measure for financial protection, a control procedure which would not fail, in the long run, to impair the very prerogatives of its national sovereignty.

You were good enough to assure me that you would place before the Secretary of the Treasury the reasons which I had just explained to you with a view to reaching a just and lasting solution of the problems just stated.

Since then I have been informed by the Financial Attache of the agreement concluded with the Treasury with respect to the disposal of the funds intended, on the one hand, for the operation of this Embassy and of the Consulates in the United States and, on the other hand, for the service of the 1939-4 per cent and the 1937-4 1/2 per cent loans.

This solution is, unfortunately, only technical and temporary in character. I nevertheless express to you my sincere gratitude for your intervention.

I beg to point out to Your Excellency the urgent character, however, of a search for a settlement which would permit the unblocking of funds intended for the operation of our diplomatic and consular services in South America and in various European countries. Since the month of August, in fact, the Treasury has not authorized the release of any credit for this purpose and, for nearly two months, the Financial Attache has not been in a position to supply funds to the Chanceries of our Embassies, Legations and Consulates.

- 2 -

Such a situation, which is capable of seriously injuring our national independence and dignity, has become critical for most of our posts abroad and it is to be feared that, at the end of this month, our representatives may cease to find the credit facilities which they have so far been able to enjoy with the local banks.

I should be grateful to Your Excellency if you would be good enough to give serious consideration to the facts set forth above and to draw the attention of the Secretary of the Treasury to the imperious necessity for the representation of France abroad of an unblocking of the funds necessary for the operation of diplomatic and consular services.

Please accept, Mr. Secretary of State, (etc.)

HENRY HAYE

Tr:AVA:HSF

His Excellency

The Honorable Cordell Hull,
Secretary of State of the United States,
Washington, D. C.

October 1, 1940

If we can get these long distance bombers now to the English to knock hell out of Italy, I think Italy would quit within three months.

10-26-40

Summary of British Government Orders, Deliveries, and Additional Requirements, as of October 1, 1940

The attached two tables summarize British Government orders placed in the United States, deliveries thereon, and additional requirements, as of October 1, 1940. Table I presents data in terms of physical units, and covers selected important products. Table II presents data in terms of dollar values and covers all products, classified by commodity groups.

The tables cover British Government orders placed through the British Purchasing Commission and certain additional orders for which the Commission handles payments. The tables do not cover orders of the Dominions.

Contracts assumed from the French Government are excluded from the dollar figures (Table II) because complete details are not available. As of October 12, such French contracts had been reported to the extent of \$319 millions and an additional amount of roughly \$200 millions was still to be reported.

The figures showing additional requirements, which were taken from the tables submitted by Mr. Purvis on October 17, carry through to April 1942 for airplanes and airplane engines (and include the proposed 1,500 per month airplane program) and to late 1941 or early 1942 for other products. The quantities shown for ammunition and machine guns may be increased, depending upon military developments.

Summary of British Government Orders, Deliveries,
and Additional Requirements, by Selected Products

As of October 1, 1940

(In physical units)

Commodity group and product	Unit of measurement	Total orders placed	Total deliveries	Unfilled orders	Additional orders not yet placed	Total of unfilled orders and additional orders not yet placed
Airplanes						
Medium and heavy bombers.....	Units (including spares)	2,166	197	1,969	2,950	4,919
Reconnaissance and dive bombers..	"	2,604	403	2,201	3,300	5,501
Fighters.....	"	4,462	403	4,059	3,100	7,159
Flying boats.....	"	109	-	109	250	359
Trainers.....	"	2,024	796	1,228	1,400	2,628
Total airplanes.....	"	11,365	1,799	9,566	11,000	20,566
Airplane engines (Both installed and exported)						
Radial - large.....	Units (including spares)	14,418	2,846	11,572	17,500	29,072
Radial - small.....	"	2,977	1,476	1,501	2,000	3,501
Allison.....	"	3,576	147	3,429	7,500	10,929
Rolls Royce (Packard).....	"	6,000	-	6,000	-	6,000
Total airplane engines.....	"	26,971	4,469	22,502	27,000	49,502
Explosives and propellants						
Rifle powder.....	Thousands of pounds	35,000	10,000	25,000	-	25,000
Cannon powder.....	"	56,500	2,000	54,500	-	54,500
TNT.....	"	72,000	22,800	49,200	-	49,200
Tetryl.....	"	200	-	200	1,200	1,400
Ammunition						
Shells and solid shot.....	Thousands	5,530	39	5,491	20,000	25,491
Aerial bombs.....	"	380	3	377	-	377
20 mm. ammunition.....	Millions of rounds	20	-	20	25	45
.50 ammunition.....	"	27	2	25	130	155
.303 ammunition.....	"	474	19	455	860	1,315
.30 ammunition 1/.....	"	450	150	300	-	300
Pistol calibre ammunition.....	"	279	60	219	160	379
Ordnance equipment						
Field guns.....	Number (excluding spares)	895	895	-	1,800	1,800
Medium guns.....	"	-	-	-	300	300
Anti-aircraft guns.....	"	-	-	-	10,300	10,300
Tank and anti-tank guns.....	"	500	-	500	12,000	12,500
Anti-aircraft spare barrels.....	Number	3,620	20	3,600	6,700	10,300
Aircraft cannon.....	Number (excluding spares)	-	-	-	5,000	5,000
Machine guns .50.....	"	31,200	400	30,800	12,000	42,800
Machine guns .30.....	"	96,000	85,900	10,100	36,000	46,100
Submachine guns.....	Thousands (excluding spares)	61	12	49	50	99
Revolvers.....	"	173	49	124	25	149
Rifles.....	"	890	890	-	1,200	1,200
Tanks and tank equipment						
Tanks.....	Number (excluding spares)	500	-	500	2,500	3,000
Engines for tanks.....	"	3,500	-	3,500	-	3,500
Iron and steel						
Commercial carbon steel.....	Thousands of gross tons	3,743	2,243	1,500	6,000	7,500
Alloy and special purpose steel..	"	201	51	150	750	900
Pig iron.....	"	670	420	250	980	1,170
Steel and iron scrap.....	"	1,192	842	350	800	1,150
Ships						
New merchant ships.....	Number (excluding spares)	-	-	-	60	60
Small boats.....	"	62	11	51	60	111
Marine engines.....	"	570	320	250	1,000	1,250

Office of the Secretary of the Treasury, Division of Research and Statistics.
Source: British Purchasing Commission.

1/ Excludes 50,000 rounds from United States priorities.

Prepared October 26, 1940

Regraded Unclassified

Table II

Summary of British Government Orders, Deliveries,
and Additional Requirements, by Commodity Groups

As of October 1, 1940

(In millions of dollars)

Commodity group	Total orders placed	Total deliveries	Unfilled orders	Additional orders not yet placed	Total of unfilled orders and additional orders not yet placed
1. Airplanes.....	546.8	14.7	532.1	Detail combined in group 4 below	
2. Airplane engines.....	278.0	7.7	270.3		
3. Airplane accessories.....	29.3	1.5	27.8		
4. Total aircraft products.....	854.1	23.9	830.2	1,200.0	2,030.2
5. Machine tools.....	34.8	10.2	24.6	4.0	28.6
6. Chemical warfare materials.....	-	-	-	-	-
7. Explosives and propellants.....	20.1	3.0	17.1	5.0	22.1
8. Ammunition.....	89.5	2.2	87.3	415.0	502.3
9. Ordnance equipment.....	66.0	5.6	60.4	420.0	480.4
10. Tanks and tank equipment.....	57.7	.4	57.3	200.0	257.3
11. Motor vehicles.....	13.1	2.6	10.5	-	10.5
12. Iron and steel.....	265.0	150.0	115.0	335.0	450.0
13. Non-ferrous metals.....	46.4	19.8	26.6	-	26.6
14. Textiles and clothing.....	1.5	.9	.6	-	.6
15. Foodstuffs and tobacco.....	4.2	4.0	.2	-	.2
16. Petroleum products.....	*	*	-	-	-
17. Animals.....	-	-	-	-	-
18. Ships.....	12.4	4.7	7.7	100.0	107.7
19. Communications equipment.....	4.0	.4	3.6	-	3.6
20. Timber.....	-	-	-	-	-
21. All other.....	11.8	1.7	10.1	-	10.1
22. Total non-aircraft products.....	626.5	205.5	421.0	1,479.0	1,900.0
23. Total commodities.....	1,480.6	229.4	1,251.2	2,679.0	3,930.2
24. Capital.....	119.9			560.0	
25. Grand total.....	1,600.5			3,239.0	

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

Prepared October 26, 1940.

Source: British Purchasing Commission.

* Less than \$50,000.

FEDERAL RESERVE BANK
of NEW YORK

October 1, 1940.

CONFIDENTIAL

Dear Mr. Secretary:

Attention: Mr. H. Merle Cochran

Pursuant to a telephone conversation between Mr. Cochran and Mr. Rosell of this bank, we are enclosing a special compilation analyzing, by months since the outbreak of the war, dollar disbursements out of the British and French accounts at this bank and the means by which these expenditures have been financed.

Recently we received an inquiry from a member of the staff of the Advisory Commission to the Council of National Defense asking whether it would be possible to obtain information on British policy in connection with the use of British gold, with particular reference to the extent to which sales of gold have been used to finance British purchases of war material. In answer to this inquiry, we orally advised the Commission that we would, of course, be quite willing to give it whatever data we have which might help it to analyze British policy, but that we could not release figures directly to it, which we hold in confidence. We then communicated with Mr. Cochran and suggested that we place any pertinent material at the disposal of the Treasury Department. Mr. Cochran agreed and suggested that we tell the Advisory Commission to the Council of National Defense that we had passed their inquiry on to the Treasury for its consideration.

Whether or not it is decided to make this data available to the National Defense Council, the enclosed tabulation may be of use to the Treasury. By way of explanation, the total debits for both British and French account represent all payments out of the accounts maintained at this bank, excluding, of course, all debits arising from the transfer of funds from one British account to another or from one French account to another. British "Government Expenditures," which have accounted for \$800,000,000 of the total of \$2,050,000,000 since the start of the war, represent all payments made out of Account "A" and other payments which can be identified as expenditures on behalf of various British Ministries or agencies. These expenditures are associated directly with official British purchases of aircraft and other war supplies and, of course, include advance payments made to American concerns. The remainder of the payments out of the British accounts at this bank is composed largely of transfers to banks in this country (usually for the account of British banks) to cover other types of transactions where the British authorities are called upon to supply dollar exchange. During the early months of the war considerable payments were made to cover maturing forward contracts entered into during the

- 2 -

summer of 1939. More recently these expenditures represent largely payments for American exports and other current account items for which the British authorities will make dollars available.

"Government Expenditures" for France are composed of outlays which can be identified as having been made either by the French Air Commission or the French Purchasing Commission. In this connection, it should be remembered that since the capitulation of France last June certain dollar payments have been made by the British Purchasing Commission to the Canadian authorities, who are holding these funds for French account as reimbursement for payments made on contracts placed by the French but subsequently assumed by the British. Payments made on these contracts, therefore, are included in both the British and French outlays.

Although some of the data, particularly the credits arising from security sales, is only estimated, the figures contained in the attached tabulation should offer some basis for determining both the character and extent of British and French dollar expenditures since the outbreak of the war.

Yours faithfully,

(Signed) Allan Sproul

Allan Sproul,
First Vice President

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

Enclosure

da

ANALYSIS OF BRITISH AND FRENCH ACCOUNTS
(In Millions of Dollars)

Week Ended Sept. 25

Strictly
Confidential

PERIOD	REMARK OF ENGLAND							REMARK OF FRANCE								
	C R E D I T S				D E B I T S			Net Incr. (+) or Decr. (-) in Balance	C R E D I T S			D E B I T S			Net Incr. (+) or Decr. (-) in Balance	
	Total	Proceeds of Sales of Securities ^a Registered ^a (Est.) (a) Sterling (b)			Other (incl. adjust-ments)	Total	Gov't Expend-itures (c)		Other	Total	Proceeds of Gold Sales	Other	Total	Gov't Expend-itures (d)		Other
1939																
Aug. 31 - Sept. 27	207.8	185.4	33.6	-	-11.2(e)	94.3	3.6	90.7	+ 113.5	11.3	-	11.3	19.4	6.0	13.4	- 8.1
Sept. 28 - Nov. 1	142.0	3.2	52.6	-	86.2(f)	106.7	5.8	100.9	+ 35.3	76.2	35.0	41.2	88.6	61.8	105.4	- 12.4
Nov. 2 - 29	105.8	57.8	25.0	-	23.0	191.7	8.9	182.8	- 85.9	82.9	55.1	27.8	78.6			+ 4.3
Dec. 30 - Jan. 3	75.2	50.6	14.2	-	10.4	97.7	8.7	89.0	- 22.5	109.2	93.9	15.3	86.8	28.1	58.7	+ 22.4
1940																
Jan. 4 - 31	41.4	20.6	17.8	-	5.0(g)	54.8	16.8	38.0	- 11.4	55.9	50.1	5.8	61.5	31.5	30.0	- 5.6
Feb. 1 - 28	108.3	56.7	17.9	-	33.7	124.2	15.4	108.8	- 15.9	71.5	54.8	16.7	72.7	32.8	39.9	- 1.2
Feb. 29 - Apr. 3	94.0	60.9	21.5	-	11.6(h)	115.5	14.5	101.0	- 21.5	105.0	75.4	29.6	99.6	35.9	63.7	+ 5.4
Apr. 4 - May 1	86.4	46.8	13.4	-	26.2(i)	113.4	26.1	87.3	- 27.0	78.7	60.7	18.0	84.8	29.4	55.4	- 6.1
May 2 - 29	126.2	93.2	7.1	-	25.9	100.9	23.6	77.3	+ 25.3	145.4	126.2	19.2	101.4	57.0	44.4	+ 44.0
May 30 - July 3	319.3	301.3	5.1	-	12.9	283.2	145.3	137.9	+ 36.1	345.1(j)	335.6	9.5(j)	156.7(j)	127.3(j)	29.4	+ 188.4
July 5 - 31	225.0	212.2	2.0	2.8	8.0	249.7	156.7	93.0	- 24.7	3.2	3.0	0.2	7.3	6.3	1.0	- 4.1
Aug. 1 - 28	294.8	267.4	1.0	2.4	24.0(k)	261.1	180.2	80.9	+ 33.7	10.9	10.4	0.5	8.9	0.5	8.4	+ 2.0
Aug. 29 - Oct. 2																
Oct. 3 - 30																
Oct. 31 - Nov. 27																
Nov. 28 - Dec. 31																
WEEK ENDING:																
Sept. 4	59.8	55.9	-	0.3	3.6	55.8	33.5	22.3	+ 4.0	0.2	-	0.2	1.7	0.1	1.6	- 1.5
11	6.7	0.1	2.0	0.2	4.4	54.6	42.0	12.6	- 47.9	0.2	-	0.2	0.6	0.1	0.5	- 0.4
18	123.6	112.6	2.0	0.3	8.7	46.2	32.2	14.0	+ 77.4	-	-	-	1.9	0.2	1.7	- 1.9
25	60.2	50.8	2.0	0.1	7.3(l)	98.0	86.1(m)	11.9	- 37.8	0.3	-	0.3	0.4	0.2	0.2	- 0.1

Average weekly expenditures since outbreak of war:

England (through June 19) \$27.6 million
 France (through June 19) 19.6 million
 England (through Sept. 25) \$36.6 million

Transfers from British Purchasing Commission to
 Bank of Canada for French Accounts:

Week ended September 25 - \$ 0.2 million
 Cumulation from July 26 - 55.0 million

(See footnotes on reverse side.)

- (a) Through June 19, these figures represent total sales of American securities in Second District reported for account of the United Kingdom. (Proceeds of these sales, however, may not have been credited to the Bank of England's account in all cases.) Beginning with the week ended June 26, the figures represent transfers from the Bank of Montreal, New York Agency, which is custodian for requisitioned American securities held in this country. The transfers apparently reflect proceeds of official security sales, including those handled through private deals. From June 17 to July 19, transactions in securities payable in specified foreign currencies, including dollars, by United Kingdom residents were prohibited.
- (b) Includes proceeds of sales of "registered" sterling in this market only.
- (c) Includes payments for account of British Purchasing Commission, British Air Ministry, British Supply Board, Ministry of Supply Timber Control and Ministry of Shipping.
- (d) Includes payments for account of French Air Commission and French Purchasing Commission.
- (e) Includes adjustment for (a) above.
- (f) About \$85 million transferred from accounts of British authorized banks with New York banks.
- (g) About \$11 million transferred from accounts of British authorized banks with New York banks.
- (h) About \$8 million transferred from accounts of British authorized banks with New York banks.
- (i) About \$10 million transferred from accounts of British authorized banks with New York banks.
- (j) Adjusted to eliminate the effect of \$20 million paid out on June 26 and returned the following day.
- (k) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (l) About \$2 million transferred from accounts of British authorized banks with New York banks.
- (m) Of which about \$39 million paid to Packard Motor Car Co.

TREASURY DEPARTMENT

212

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Mr. White
 FROM Mr. Ullmann

Subject: Export Control of Aviation Gasoline

The attached communication, received from Sir Andrew Agnew, merely confirms our opinion that Japan is obtaining in the United States materials out of which she can readily make aviation fuel.

*dated 9-26
 and
 filed
 (with
 date)*

In this connection, the State Department informed me, earlier in September, that it is refusing export licenses only on finished aviation gasoline -- not on materials out of which aviation gasoline can be made.

This information has been noted in three previous memoranda, copies of which are attached:

1. My memorandum to you, dated September 3, 1940, quoting the State Department.
2. My memorandum to you, dated September 10, 1940, noting the shipment of 69 octane base (86 octane leaded) gasoline, which might be used at 86 octane, or might be improved with additional treatment.
3. My memorandum to you, dated September 10, 1940, quoting a custom agent's statements that he has no check, other than an exporter's statement, that products are what they are declared to be.

He recommended that exports be supported by certificates of analysis from independent petroleum chemists.

These shipments have been reported by the Treasury's Office of Merchant Ship Control. In the week ending September 21, 1940, it is reported that there were shipped to Japan the following products out of which high octane aviation gasoline can be made:

Blended or High Octane Crude	175,118 barrels
High grade gasoline	159,229 barrels

September 3, 1940

Mr. White

Mr. Ullmann

Subject: Exports of Number 1 scrap and of controlled petroleum products

1. Exports of No. 1 scrap and of regulated petroleum products (aviation gasoline, high octane crudes, etc.) have been continuing since the President's proclamation of July 26.

2. According to reports of the Office of Merchant Ship Control (Treasury, exports of these products to Japan have been increasing steadily in recent weeks:

	<u>Exports to Japan</u>		
	<u>No. 1 Scrap</u>	<u>Aviation gasoline</u>	<u>High octane crudes</u>
Week ending Aug. 10	450 tons	-	-
" " Aug. 17	2,341 "	-	-
" " Aug. 24	4,448 "	21,155 bbl.	-
" " Aug. 31	12,168 "	18,857 "	106,529 bbl.
Total - 4 weeks	19,407 "	22,012 "	106,529

Source: Office of Merchant Ship Control

3. According to the State Department, licenses are being granted for the export of Number 1 scrap and for high octane crudes. This licensing is based on an administrative decision of Colonel Maxwell (Administrator of Export Control).

However, exports of finished aviation gasoline are not supposed to be permitted under the administrative regulations. The State Department claims to have issued no permits for the export of aviation gasoline to Japan.

4. Last week's shipment to Japan of 18,857 barrels of aviation gasoline was licensed under Export Permit No. EA-1022, dated August 16, 1940 (shipped on a Norwegian freighter, S. S. Minerva, sailing from Houston, Texas about August 30).

According to the State Department, this permit was granted on the shipper's guarantee that the gasoline did not exceed 87 octane, but that a permit was necessary since it could be refined into 87 octane gasoline. This single permit licenses the shipment of almost 50,000 barrels of this gasoline to Japan, of which the 18 thousand is only a part.

5. Additional similar shipments of aviation gasoline have been made recently: 81,000 barrels to the U.S.S.R. (August 26th), and 77,400 barrels to the United Kingdom in the week ending August 24th. (The Soviet shipment was made on the S.S. Vacuum, under export license No. E.A. 359.)

The State Department explains the permits for these shipments on the same basis as the shipments to Japan; i.e. the shipper's guarantee that the material did not exceed 87 octane.

6. The New York Times dispatch from Austin, Texas, (September 1) states that permits have been granted on the export of 1 million barrels of aviation gasoline to Japan, of which 18,300 barrels (770,000 gallons) have been loaded. (The loaded portion referred to in the dispatch may be last week's shipments to Japan.) It is possible that the dispatch referred to export permits for high octane crude oils, suitable for refining into aviation gasoline. For, since exports of these crudes are being permitted, the State Department has approved export licenses to the extent of "several million" gallons, possibly totalling a million barrels.

The Customs Collector at Houston knows of no such consolidated shipments, but will check with Corpus Christi to determine whether or not shipments are being loaded there.

7. Attached tables indicate shipments of scrap iron and petroleum products to Japan, England, and the U.S.S.R. for the last weeks of August as reported by the Office of Merchant Ship Control. According to these figures, exports of petroleum products and of scrap are higher in August than in recent months. Scrap exports are almost double the June shipments.

Attachments

WLB:ash
9/3/40

September 10, 1940

Mr. White

Mr. Ullmann

Subject: Aviation Gasoline for Japan

In further reference to last week's New York Times article describing shipments of aviation gasoline to Japan, there is now available an analysis of the actual shipment exported on the S.S. Minerva.

The gasoline in question was 69 octane base, which when leaded with 3 cc (per gallon) of tetraethyl lead would be 86 octane.

It was not technically, therefore, aviation gasoline. However, by the addition of small quantities of blending agents or of tetraethyl lead, it could probably be raised to 87 octane quality. Furthermore, it is likely that the Japanese might be able to use 86 octane if they have been getting along with 87 octane.

WU:lrs
9/10/40

September 10, 1940

Mr. H. D. White

Mr. Wilman

Subject: Export Control of Aviation Gasoline

In a letter dated September 5, 1940, H.S. Creighton (Supervising Customs Agent at Houston, Texas) comments on the following:

1. An exporter can ship regular run gasoline without a license, and there is no provision against the exporter's shipping aviation gasoline by declaring it to be regular run gasoline.

Mr. Creighton suggests that all gasoline exports be supported by certificates of analysis from independent petroleum chemists, in order to insure against the substitution of aviation gasoline for ordinary gasoline.

Since the Treasury (Customs) is responsible for enforcement of export control—insofar as actual shipments are concerned—it might be advisable to adopt Mr. Creighton's recommendation.

2. He writes:

"The Merchant Ship Control, State Department, is issuing licenses to export to the United Kingdom thousands of barrels of iso-pentane, which, when combined with regular run gasoline, makes one suitable for use in airplanes. Also, thousands of barrels of alkylate, H.A. octanes, and H.A. octylanes are also being licensed for export to the United Kingdom."

WILMAN

Aide-Memoire for Mr. MorgenthauScrap

The following cable has just been received from London:

"There is some anxiety here as to whether the interval of the next fortnight before refusal of the licenses for export of iron and steel scrap to Japan may be used to import heavy quantities either direct or through other countries such as Central and South America. This apart from impairing the effect of intended embargo might also prejudice supply elsewhere including to us. Please explore with Mr. Morgenthau possibility of effective steps to secure that there are no abnormal shipments in the next fortnight."

An illustration of exactly what London has in mind came to our notice an hour before their cable came in (I mentioned this to you at the end of this morning's meeting). Mexico has available for sale 150,000 tons of scrap iron. Mr. Elliot of our Iron and Steel Section has an option on this quantity until tomorrow at \$17 per ton. The U. K. cannot take advantage of the option owing to lack of the right shipping schedules. They have been trying to get Canada to take up the option; in general Canada wants scrap, but she also finds it difficult to handle the particular parcel. It was suggested to the Bethlehem Steel Company they might be willing to take the parcel off the market, but they are not enthusiastic since the price is \$2 per ton higher than they expect to have to pay when the embargo is in effect.

I do not know whether anything can be done in getting this particular parcel from Mexico taken off the market, but the matter does seem both important and urgent: this apart from the general question raised in London's cable.

A B P
Washington
October 1 1940

ABP

Aide-Memoire for Mr. MorgenthauScrap

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A B P
Washington
October 1 1940

2:00 p.m. - 29 in - 6 out

Port	Name of Vessel	Amount of Gasoline
Fort Arthur	SS FLORENCE LUCHENBACH NO. 1	60,000 barrels (The Gulf Oil Corp. reports this is under 87 octane and under 3% of such otherwise.)
Galveston	SS PANAMANIAN	52,248 barrels
		On outstanding licenses same class gasoline: Galveston - 57,376 drums, Houston - 12,500 drums, Corpus Christi - 83,570 drums.
Los Angeles	Japanese Tanker TAYUMA MARU	31,548 barrels

Galveston

3:45 p.m. - 3 not heard from 27.4. San Francisco & Cleveland

Add 105,000 drums on outstanding licenses, not laden.

American SS DOCTOR LYKES due October 5 49,000 drums

4:00 p.m.

<u>Port</u>	<u>Name of Vessel</u>	<u>Amount of Gasoline</u>
New Orleans	SS LAFAYETTE	Intending to load two shipments of 8,707 and 23,810 barrels respectively
	SAGAMI MARU	Sailed today with 31,050 barrels.

(Handed by Mr. Stopford of the British Embassy to Mr. Cochran in the Treasury at 1 p.m., October 1, 1940.)

Transfer of Dollars from Switzerland to U.S.
on Italian Account

Amount	Date	Swiss Paying Bank	New York Paying Agent	Receiving Bank in New York	Received for a/c of
1,950,000	16th Sept.	Credit Suisse, Zurich	Banco Commerciale Italiano	B.C.I.	
(B.C.I. were to credit \$2,300,000 to Istcambi, after receiving \$250,000 from B.C.I., Milan and \$553,000 from Banco di Napoli, Rome.)					
72,518	16th Sept.	Credit Suisse	Credit Suisse	Credito Italiano	Rome office
473,565	16th Sept.	Swiss Bank Corp. Basle	S.B.C.	Credito Italiano	" "
705,846	16th Sept.	Swiss National Bank		" "	" "
(Credito Italiano were to credit Istcambi with \$2,190,000 after receiving \$397,000 from the Banco di Napoli, Rome.)					
371,742	16th Sept.	Swiss Bank Corp. Basle		Banco di Napoli Trust	" "
494,154	16th Sept.	Swiss National Bank		" " "	" "
1,200,000	18th Sept.	Credit Suisse		Credito Italiano	" "
2,150,000	18th Sept.	Swiss National Bank	S.B.C.	" "	" "
2,150,000	23rd Sept.	Swiss National Bank	(?) Credit Suisse	" "	" "
1,016,000	23rd Sept.	Banca della Svizzera, Italiana	(?) Credit Suisse	Banco Commerciale Italiano	" "
1,784,000	23rd Sept.	Swiss National Bank	Swiss Bank Corp.	Credito Italiano	" "
950,000	23rd Sept.	" " "	" " "	Banco di Napoli Trust Co.	" "

\$13,317,825

Lap

COPY

221

Regraded Unclassified

Transfers to South America

1. On 9th September Credito Italiano, Rome, instructed their New York office to pay Bankers Trust Company \$709,852 in favour of Banco de Brasil, Rio.
2. On 12th September Banco Commerciale Italiano, Rome, advised Banco de Brasil, Rio, that they were crediting them by wire with \$688,168 at Bankers Trust, New York, to be placed at the disposal of Istcambi.
3. On 13th September Credito Italiano, Rome, advised the Banca d'Italia y Rio de la Plata, B.A., that they would receive from Chase Bank, New York, \$463,733. to be held at the disposal of Istcambi, Rome.
4. On September 18th Banco di Napoli, Rome, advised Banco di Napoli Trust Company, New York, that they would receive \$743,000 from the Swiss Bank Corporation, at Basle, and instructed them to pay \$611,832. to Irving Trust Company, New York, for account of Banco de Brasil, Rio, debiting Banco di Napoli (Head Office) Naples.

COPY

lap

HSM

PLAIN

London

Dated October 1, 1940

Rec'd 12:28 p. m.

Secretary of State,
Washington.

3281, First.

FOR TREASURY FROM BUTTERWORTH.

The more important recent changes in the British exchange control regulations are as follows:

1. Prohibition on dealings in "restricted" securities imposed as reported in my 1713, June 18, to cover the movement to Canada after the French debacle has now been lifted, since "the sorting and checking of securities shipped to Canada is nearing completion". A Stock Exchange notice published today on procedure in effecting delivery of securities in the Montreal depository is being forwarded by despatch. Incidentally it discloses that in the rush securities owned by non-residents were erroneously included and that the British Treasury now agrees to return them at its own risk.

2. Banks are notified by F. E. 94 to do no business in United States dollars with Brazil "unless confirmation has first been obtained from the Bank of Brazil by the

Brazilian

hsm -2- No. 3281, October 1, from London

Brazilian importer to the effect that United States dollars in reimbursement will be forthcoming".

3. Under S.R. & O. 1732 of September 27, (a) the importation of bearer securities is prohibited except with Treasury consent. "Special arrangements have been made for securities imported from the sterling area, Canada, Newfoundland and Hong Kong". (b) The Treasury is empowered to direct any creditor to whom a debt in one of the designated currencies is owing to expedite collection thereof. The Treasury is also enabled to take an assignment of the debt. (c) The time limit for institution of summary prosecutions for exchange control violations is extended to one year from offense and three months from date when evidence becomes available.

KENNEDY

TFV

THE SECRETARY OF THE NAVY
WASHINGTON

October 1, 1940

Dear Mr. Secretary:

Thank you for your note of September 27 and
for the confidential table attached. I was very glad
to have the information which it contains.

Yours sincerely,

Frank Knox

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

RECEIVED DEPARTMENT

OCT 5 1940

RECEIVED DEPARTMENT
OFFICE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

Mr. Livesey telephoned me at 5:30 this evening. He stated that the British Embassy had informed the Department of State that the British Government was negotiating with Soviet Russia on various matters. The British had asked whether the United States would have any objection to Great Britain relinquishing its blocking of Baltic States funds as a concession on the part of Great Britain to Russia in these negotiations. Livesey told me that the State Department would not oppose such unblocking, but desired the views of the Treasury Department in the premises.

I told Livesey that Mr. Stopford of the British Embassy had mentioned such negotiations to me some time ago and had related that the question had been raised by his Embassy in a conversation with Mr. Atherton. My understanding of Stopford's story was that the State Department's attitude had not been sympathetic. I expressed the purely personal opinion that our position in holding the funds of Latvia, Estonia and Lithuania under block in this country would be easier if the British continued to freeze such funds in London. When I mentioned this conversation to Livesey and asked definitely whether the opinion which he was passing on to me was the official State Department view, he told me that Mr. Dunn had asked Dr. Feis to ask him to communicate this message to the Treasury Department.

In answer to my further question, Mr. Livesey did not know what the other factors entering into the Anglo-Soviet negotiations were.

Since the Department of State originally favored our blocking of the Baltic States funds, and since that Department is now thinking in terms of a much wider blocking, is it desirable that we should risk seeing our Baltic case perhaps weakened through British action? Incidentally, the B.I.S. has refused to yield gold deposited with it by the Baltic Central Banks to the State Bank of Russia upon requests similar to those submitted to us when Russia was absorbing Latvia, Estonia and Lithuania. In my opinion the Baltic case is the best instance of duress, and perhaps the only positive case of duress, with which our Control has had to deal.

J.M.P.

October 1, 1954

Subject: [Illegible]

- 1. [Illegible]
- 2. [Illegible]
- 3. [Illegible]
- 4. [Illegible]

[Illegible]

[Illegible]

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Swiss Minister called me by telephone at 10:45 yesterday morning, upon his return from a few days spent in New York. He looked into the question of Swiss funds on this market. He stated that some money had recently gone back to Switzerland. Part of this resulted from small Swiss firms, which had brought most of their funds to New York at the height of the war scare in Switzerland, now requiring some of this money to meet their current operating expenses at home. Furthermore, the rumor continues to recur that the United States will extend its control to include Switzerland; a definite forecast to this effect had been cabled to Switzerland last week from New York, and action over the week end was anticipated. With our relations with Japan having worsened, the belief obtains that it will become more difficult for other foreign countries to withdraw their funds from the United States.

Toward noon yesterday Mr. Robert Youngs, of Dominick and Dominick, telephoned me. He wanted to inform me that a cablegram had been received yesterday morning from Switzerland which had caused quite a bit of excitement. This was the repetition to New York of the message which Swiss bankers had received last week end, to the effect that our funds control was to be extended to Switzerland. Mr. Youngs reported that selling orders from Swiss holders of securities and dollars on the American market had increased.

Vice President McKeon of the Federal Reserve Bank at New York telephoned me at 5:30 yesterday evening that there had been considerable unrest evident on the market yesterday, because of the above-described rumors with respect to our probable control of Swiss assets. Mr. Lichtenstein of the Swiss Bank Corporation told McKeon that the report was that Washington would consider blocking certain Swiss assets. Lichtenstein had orders from Switzerland to sell dollars, but only succeeded in disposing of \$200,000 or \$300,000. During yesterday McKeon reported that the Swiss National Bank had transferred \$18,000,000 of its funds with private banks in New York to its account with the Federal. From the Chase Bank the Swiss National Bank transferred \$2,000,000; from the Guaranty, \$3,000,000; from Bankers Trust, \$2,000,000; from Swiss Bank Corporation, \$4,000,000; from Morgans, \$1,000,000; from National City, \$3,000,000; from Credit Suisse, \$3,000,000.

The report for sale of domestic stocks executed on September 30 for account of foreigners revealed sales from Switzerland amounting to \$616,000, against purchases of \$71,000, leaving net sales amounting to \$545,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau
FROM Mr. Cochran

STRICTLY CONFIDENTIAL

At 11 o'clock this morning Mr. Clark of the State Department telephoned me that the Near Eastern Division of the Department of State had drafted a cablegram to the American Consul at Dakar, Senegal, stating that information, the source whereof was not indicated, had been received to the effect that the French warship Richelieu in Dakar had \$240,000,000 worth of Bank of France gold thereon. The Consul was requested in this draft message to submit any information thereon which he might be able to obtain. I suggested that the draft leave out any reference to the Bank of France. I reminded Clark that we suspected that certain Belgian and Polish as well as French Central Bank gold had been taken to French West Africa. I recommended, therefore, that the Consul be asked to identify the ownership of the gold if possible, and to make only very discreet inquiries. Mr. Clark promised to give me any information that may be received from Dakar.



TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 1, 1940

TO Secretary Morgenthau

FROM Mr. Cochran

STRICTLY CONFIDENTIAL

The Bank of France representative in New York has today received the necessary authority from Vichy and has instructed the Federal Reserve Bank of New York to make the transfer of \$3,751,000 from the Bank of France account to the account of the Central Bank of Argentina, which matter was the subject of the Secretary's recent conversation with the Argentine Ambassador.



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Sent you by Leon Henderson

PRICE STABILIZATION DIVISION

DEFENSE FINANCE SECTION

THE CAPITAL ISSUES
COMMITTEE OF 1918

OCTOBER, 1940

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The Capital Issues Committee, 1918^{1/}1. Origin and Organization.

Formal control of capital issues was not introduced in the United States until the ninth month of the World War. Although no search has been made of Treasury or Federal Reserve Board files, there is no apparent evidence of even informal capital issues control until after the publication of the Annual Report of the Secretary of the Treasury for 1917, issued on December 3, 1917. In this report, Secretary McAdoo pointed out the importance of restricting capital issues for non-essential purposes. It is known that, following this statement, numerous persons intending to issue securities voluntarily solicited the advice of the Treasury or the

^{1/} Sources; This memorandum is based chiefly on a study of the Policies and Procedures Files of the Capital Issues Committee, and a small sample of the 3670 cases passed on by the Committee. The records of the Committee are now in the custody of the Federal Trade Commission.

In addition, the following sources were used:

- 65th Congress, 3d Session, House Document 1485: Report of Capital Issues Committee
- 65th Congress, 3d Session, House Document 1836: Report of Capital Issues Committee
- Willoughby, W. "The Capital Issues Committee and War Finance Corporation", John Hopkins University; Studies in Historical and Political Science, Series LII, No. 2.
- Capital Issues Committee "Rules and Regulations" (Circular No. 1)
- U. S. Senate, Committee on Finance, 65th Congress, 2nd Session, Hearings on S. 3714
- U. S. House of Representatives, Committee on Ways and Means, 65th Congress, 2nd Session, Hearings on H. R. 9499.

Federal Reserve Board as to the compatibility of such issues with the financing plans of the Treasury and the national campaign for economy. Within a few weeks Secretary McAdoo asked the Federal Reserve Board to assume the entire function of answering these requests for advice, and on January 11, 1918 made his action public in a statement urging general cooperation with the Board.

a. The Federal Reserve Capital Issues Committee (Febr. 1 to May 17, 1918)

The Federal Reserve Board designated three of its members, P. M. Warburg, C. S. Hamlin, and F. A. Delano, to constitute a Capital Issues Committee. This Committee was assisted in its work by an advisory Committee of three bankers and by a sub-committee in each Reserve District. The Board's Committee was without legal status and had no legal power to compel an issuer either to submit his issue for approval or to abide by the Committee's decision.

b. The Act of April 5, 1918

The Capital Issues Committee was given legal status by the War Finance Corporation Act of April 5, 1918. As introduced the Act provided that the function of passing upon capital issues should be exercised by the War Finance Corporation, which would be closely controlled by the Secretary of the Treasury. However, opposition was raised to this provision in Congress, partly because of the feeling that the power of the Secretary of the Treasury should not be further augmented. The Act as passed created an independent Capital Issues Committee.

The original bill had also provided that no person should offer for sale any issue of securities in excess of \$100,000 except in accordance with rules and regulations prescribed by the War Finance Corporation,

"nor, when required by such rules and regulations, except as permitted by licenses granted by the Corporation". Any person failing to abide by this requirement was liable to fine or imprisonment. This legal power to require adherence to the orders issued did not appear in the Act as passed. Secretary McAdoo and Mr. Warburg argued before the House and Senate Committees that despite the large measure of compliance obtained on a voluntary basis legal power would surely be necessary in some cases. The contrary verdict of Congress seems to have been based on the following evidence and arguments:

- 1) The published statement of the Investment Bankers Association that "under an informal plan, the Board could more readily meet changing conditions",^{1/}
- 2) The argument that it was unwise to grant so vast a power to a government agency. It was maintained by the same persons that complete compliance could be secured on a voluntary basis and that authority to compel compliance would be an excessive grant of power.^{2/}
- 3) The apparently successful experience of the voluntary system in England and under the Federal Reserve Board Committee in this country.

Sections of the Act of April 5, 1918 relating to the Capital Issues Committee are presented in Appendix A.

^{1/} Investment Bankers Association of America Bulletin, Vol. VI, No. 4, p. 64.

^{2/} See remarks of Senator Smoot, Senate Finance Committee Hearings on S. 3714, 65th Congress, 2nd Session, p. 76 et seq.

c. The Capital Issues Committee (May 17 to December 31, 1918)

As constituted by the Act of April 5, the Capital Issues Committee consisted of seven members, appointed by the President, three of whom, pursuant to the law, were members of the Federal Reserve Board.^{1/} In each Federal Reserve District there was a sub-committee, appointed by the Capital Issues Committee, presided over by the Federal Reserve Agent.^{2/} The sub-committees' function was advisory, except in cases involving issues of less than \$100,000, where its decision was final. The central Committee on November 15, 1918 had 38 employees, of whom four were designated "examiner and analyst".^{1/}

2. Policies and Procedures

a. Scope

The Federal Reserve Board Committee originally confined its jurisdiction to issues by a single issuer in excess of \$250,000 in the case of municipal issues and \$500,000 in the case of corporate issues. These limits were gradually reduced to \$100,000 for all issues and this minimum was set in the Act of April 5. The district committees were, however, advised to use what influence they might have to discourage non-essential issues below the minimum.

In principle the province of the Committee included bank loans in excess of the minimum amount, but no action was taken in this field except to request bankers to restrict loans for non-essential purposes. The question of adopting a more formal procedure to handle bank loans

^{1/} For personnel of the Capital Issues Committee see Appendix E.

^{2/} For composition of District sub-committees see Appendix C.

was under continuous discussion, and the Committee had taken some steps towards devising a system when the Armistice terminated its activities. Securities of railroads under the control of the President were excluded from the Committee's jurisdiction.

b. Refunding issues

The Committee said in its first statement of policy^{1/} that it would approve issues to refund maturing obligations entered into before February 5, 1918, except where it found that the obligations should be met out of the applicant's cash resources. The Act of April 5, 1918 gave the Committee no authority to disapprove the refunding of any obligation incurred before the date of the Act. The Committee requested that every proposed refunding issue be submitted so that it could determine whether or not the issue was actually for the purpose claimed.

That the Committee may have felt under compulsion to approve the refunding of obligations incurred even after April 5, 1918 is indicated by the instructions to the Subcommittees. The Subcommittees were asked to discourage the assumption of obligations for non-essential purposes which might later put the Committee into the position of having to approve an issue to prevent default. The Committee also recognized that by the funding of bank debt the borrower might subsequently be enabled to increase his bank debt without the Committee's approval. In at least one case the Committee approved the funding of bank debt on the condition that no additional bank debt be incurred during the War.^{2/}

^{1/} Letter to District Committees, Febr. 7, 1918. See Appendix D.

^{2/} Case 274.

The Committee followed the policy of approving security issues for exchange, stock dividends and other purposes which absorbed neither cash nor resources.

c. New investment issues — general principles

(1) The Importance of the proposed issue

The basic principle upon which the Committee operated with respect to new issues was that approval would be given only to issues which contributed to the prosecution of the war or were essential to the public health or welfare. For its determination of whether or not an issue met this standard the Committee relied upon:

- a) The claims of the applicant, supported by such evidence as contracts with War Agencies.
- b) The opinions of interested Government agencies, such as the War Industries Board, the Fuel Administration and the Food Administration, as to the desirability of the issue.
- c) The knowledge and investigations of the District Committees.

As was natural, greatest reliance was placed upon the opinions of the other Government agencies but this procedure had important defects.

- a) Apparently the agency interested in increasing the supply of the applicant's product was usually asked for its opinion, but not the agency interested in conserving the resources which would be used in expanding the applicant's capacity. Thus, the Food Administration was asked whether more meat packing capacity was needed, but the appropriate agencies were not asked whether labor and materials could be spared to build a packing house. The opinions received may, therefore, have

been more favorable to the applicant than if a more complete investigation had been made.

- b) The opinions of the Government agencies generally cast no light on the relative desirability of expanding capacity as compared with the alternatives of restricting non-essential uses of the product. The problems of the purchasing agencies were, of course, simplified when private firms expanded their capacity.
- c) The purchasing agencies were loathe to commit themselves on the competence of the applicant and the adequacy of his plans. Opinions given were in terms of the general situation of the industry.
- d) The Committee was in no position to determine the relative importance of different projects each considered desirable by different agencies.
- e) The Committee was unable to determine on the basis of a succession of opinions in individual cases whether it was approving more expansion than was justified.

All of these observations may be resolved into the fact that the Committee was unable to consider each project in terms of the alternative uses to which the resources which would be absorbed by the new expansion might be put. The Committee and the other Government agencies were not sufficiently coordinated to develop and apply a consistent and complete schedule of the relative importance of alternative uses of resource.

An example of the failure to consider alternatives is the case of an application to raise funds for the expansion of a razor factory to meet Army orders. The applicant's existing output was divided approximately evenly between the Army and civilian purchasers. The applicant maintained that his civilian sales enabled him to supply the government at a lower price. The Committee approved the application without apparently considering the possibility of diverting his civilian production to the Army. In this case the Army presented a contrary opinion which was received too late to influence the Committee's decision.

(2) The timing of the proposed issue

In addition to the restriction of what it considered non-essential issues, the Committee undertook the function of controlling the timing of issues to minimize competition with Liberty Loan campaigns. The Committee publicly announced that it would consider no applications, except the most urgent, (such as the refunding of imminent maturities) during the Third and Fourth Liberty Loan campaigns.

(3) The manner of distributing the proposed issue

Legally the jurisdiction of the Capital Issues Committee covered both privately issued and publicly issued securities. There can be no doubt, however, that the Committee was more favorably disposed towards private issues than towards public issues. In numerous cases issues were approved on the ground or with the condition that they would not be offered to the public during the war but would be taken up by a small group of subscribers.^{1/} In at least one case approval granted on the representation that no public offering would be made was rescinded when an attempt

^{1/} E.g. Case 449, 546,

at public sale was discovered.^{1/}

No explanation of this policy of the Committee has been found, but indirect evidence suggests a probable interpretation. The Committee seemed to conceive of its function as the conservation of the securities-purchasing capacity of the country, and a public issue might be a greater drain upon that capacity than a private issue. Actually, so long as Federal Reserve policy encouraged borrowing on Liberty bonds, the securities-purchasing capacity of the nation presented no problem. What was important was to restrict private investment in general and the use of certain resources in particular. From this standpoint, there was no difference between public and private issues.

The Committee's concern with conserving bond-purchasing capacity rather than with conserving resources is shown by one case in which an issue was approved on the condition that it be sold at 96 or higher. The explanation given was that at a lower price the security would be unduly attractive as compared to Liberty Bonds. This decision was made in October, 1918 and the correspondence indicates that no such stipulation had been used before that time.

(4) The "Soundness" of the proposed issue

The Committee was at great pains to inform the public that its approval of an issue carried no implications as to its value or legality. Advertisement of approved issues was required to contain the statement: "Passed by the Capital Issues Committee as not incompatible with the national interest, but without approval of legality, validity, worth, or security." But it would be too dogmatic to say that the Committee never

^{1/} Case 426.

such questions. Certainly the Committee received evidence that such issues were worthless and certainly such issues were disapproved. This concern with worthless issues may have been due to the desire to conserve bond-purchasing capacity. It is also evident that the Committee considered such issues to be wasteful, although it was of the essence of the matter that only a very small amount of resources would be used.

It is unlikely that the strong interest of the Committee in the protection of prudent investors, so clearly manifest in its reports to Congress, would have been entirely absent from their decisions.

Several cases may be cited in which the Committee's decision was based on its opinion of the value of the proposed issue. In 1885, the Committee disapproved an issue to develop an iron mine, although a favorable opinion of the Geological Survey, on the grounds that the operation would probably not be profitable, that the issuer was inexperienced, and that the stock was to be offered at "inflated" value.^{2/} In another case the Committee rejected an application for the exploitation of tungsten deposits as highly speculative, although the Government was interested in the production of tungsten.^{3/} An application for a loan to refinance and furnish an apartment hotel was rejected because the amount of the issue exceeded the value of the property as appraised by the architect consulted by the Committee.^{4/}

^{2/} 49th Congress, 3d Session House Documents 1285 and 1286.

^{3/} 49th Congress. See Appendix E.

^{4/} Tungsten Products Co. See Appendix E.

APP 729.

The desire to protect investors probably motivated the Committee in imposing a restriction on distribution costs as a condition of approval in several cases.^{1/}

d. New Investment Issues — Special problems

The following special problems are set forth here more as an indication of the nature of the problems encountered than because of the significance of the decisions reached:

1) Roads

The original draft of the first policy statement of the Committee^{2/} stated that the Committee and the Department of Agriculture were in agreement that no roads should be built except in cases of military or economic necessity. At the request of the Secretary of Agriculture this statement was modified to extend only to roads to be financed out of bond issues.

The Committee soon found itself in the awkward position of disapproving bond issues for roads while obviously less important roads were being constructed out of taxes, and with Federal grants-in-aid. This problem was met by the establishment on June 8, 1918 of the U. S. Highway Council, composed of representatives of the Departments of Agriculture and War, the War Industries Board and the Fuel Administration. The Council requested states and municipalities not to construct any roads without its approval, regardless of the source of the

^{1/} Cases 595, 616.

^{2/} Dated February 5, 1918. See Appendix D.

funds. Decisions of the Council were supported by the action of the Capital Issues Committee, the Fuel Administration and other Government agencies.

2) Foreign issues

The Allied governments agreed to seek the approval of the Committee before permitting any of their nationals to make a public offering in this country. With regard to individual subscriptions to foreign securities not publicly offered here, the situation was somewhat different. The Federal Reserve Bank of New York informed the Committee of every request for exchange to be used in the purchase of foreign securities, and the Committee's approval was asked. Why the Committee should have concerned itself with this problem is not clear in view of the control exercised over foreign trade and exchange by other agencies.

3) "Involuntary" issues

A number of cases arose in which street railway companies were required by the terms of their franchise to make certain extensions or improvements. The companies were in general unwilling to undertake such work during the war, perhaps because of the prevailing high prices. The Committee followed the policy of disapproving applications made under these circumstances.

e. Enforcement

The Committee, as has been pointed out, had no legal authority either to require submission of issues for approval or compliance with its

decisions. The first reliance of the Committee was upon the voluntary cooperation of the issuers, but the power of the Committee was not limited to the area where compliance was voluntary. The following additional means of enforcement were available:

- 1) The Investment Bankers Association agreed that none of its members would underwrite or distribute any unapproved issues.
- 2) The New York Stock Exchange, and other exchanges, agreed not to list any unapproved issues.
- 3) The public was urged not to purchase any unapproved issues.
- 4) The cooperation of State officials - public utility commissioners, bank commissioners, and administrators of State blue-sky laws - was sought to prevent unapproved issues.
- 5) The Committee attempted to secure the cooperation of Government agencies which controlled the allocation of resources - War Industries Board, etc. - to deny resources to recalcitrant issuers.

This was potentially the strongest weapon which the Committee possessed, but how far the Committee was able to use it is uncertain. The Railway Administration refused to allow the Committee to announce that issuers who did not have the Committee's approval would be denied railroad facilities, on the grounds that such an announcement would be inconsistent with its position as a common carrier. It was also argued that the use of such a threat would undermine the basis of voluntary

cooperation upon which the Committee was so dependent.

In September 1918 the Committee established an enforcement division in Washington, aided by "Economic Vigilance Committees" in each Federal Reserve District which reported on unauthorized issues. These Vigilance Committees consisted, in general, of one person in each town of 5,000 people with a larger number in larger towns. The enforcement division handled 525 cases of non-compliance during the four months of its existence. In 412 of these cases the issuer voluntarily complied when reminded of his failure to do so. The remaining 113 cases were classified as "recalcitrant", and the division attempted to invoke some kind of pressure against them. How successful these attempts were has not been recorded.

3. Accomplishments of the Committee

From February 1 to December 31, 1918 the Capital Issues Committee considered 3670 issues amounting to \$4,255,771,000. Of this total \$982,824,000 or about 23% was disapproved. A more revealing picture is obtained if refunding, exchange, bonus, stock dividend, etc., issues are subtracted from the issues considered and approved. This is possible only for the period of the independent Committee, May 17, 1918 to December 31, 1918. During this period 55% of the issues other than for refunding, etc., were disapproved. The percentage of applications for "new" issues disapproved, by class of applicant, was:^{1/}

^{1/} For details, see Table II.

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<u>Class of Applicant</u>	<u>Percentage of "new" issues disapproved</u>
Development (real estate, prospecting, etc.)	78%
Commercial and Financial	62%
Manufacturing	60%
Municipals	35%
Public Utilities	13%
Charitable and Miscellaneous	5%

Further details concerning the Committee's work are shown in Tables I, II, and III.

The volume of work handled in a period of eleven months testifies to the speed and efficiency with which the Committee performed its function as it conceived of it. With a staff of less than fifty persons, including stenographers and clerks, the Committee undertook a task which was without precedent in American history. While the District Committees served as intermediaries between the applicant and the central Committee, the work of gathering information and making decisions was almost entirely done in Washington. Although it was largely dependent upon the voluntary compliance of the business community, there is no evidence that the Committee compromised with its principles to secure that compliance. Neither does the record suggest that the decisions of the Committee were at all influenced by the numerous letters received from Congressmen endorsing particular applications. That the Committee covered the capital issues market fairly completely is suggested by the fact that it considered a volume of issues which exceeded by \$2,000 million the estimated volume of issues in this country in any of the years 1913 to 1917.

Further details concerning the Committee's work are shown in Tables I, II, and III.

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TABLE I

Work of Capital Issues Committee, Febr. 1 to May 17, 1918 ^{1/}

(\$000 omitted in money columns)

	Muni- oipal	Public Utility	Industrial	Total
Number of issues considered	192	62	107	361
Amount considered	86878	172070	219510	478459
Total approved	67087	166070	179610	412767
"refunding" approved	21392	125860	111412	258664
"new" approved	45695	40210	68198	154103
Total disapproved	19791	6000	39900	65691

^{1/} Federal Reserve Bulletin, June 1918, p. 494.

TABLE II

Work of Capital Issues Committee May 17 - Dec. 31, 1918 1/

(\$000 omitted in money columns)

No. of applications	Classification of applicants						Total
	States & Subdivisions	Public Utilities	Manufacturing	Development	Commercial & Financial	Charitable & Misc.	
Amount applied for	244,885	810,348	1,370,697	610,594	738,156	2,633	3,777,313
<u>Approved</u>							
Const. & equip.	122,173	173,104	115,765	71,669	25,659	2,100	510,470
Working capital	5,610	7,295	105,487	15,432	80,143	-	213,967
Refunding	37,150	279,045	258,368	54,120	116,024	305	745,012
Exchange, etc.	10,746	323,267	553,630	155,645	347,335	108	1,390,731
Total approved	175,679	782,711	1,083,250	296,866	569,161	2,513	2,860,180
<u>Disapproved</u>							
	69,206	27,637	337,447	313,728	168,995	120	917,133

Percentage distribution of amount applied for

Applied for	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<u>Approved</u>							
Const. & equip.	49.89	21.36	8.45	11.74	3.48	79.76	13.5
Working capital	2.29	.90	7.70	2.53	10.86	-	5.7
Refunding	15.17	34.44	18.85	8.86	15.72	11.58	19.7
Exchange, etc.	4.39	39.89	40.39	25.49	47.05	4.10	36.8
Total approved	71.74	96.59	75.38	48.62	77.11	95.44	75.7
<u>Disapproved</u>							
	28.26	3.41	24.62	51.38	22.89	4.56	24.3

1/ Reports of Capital Issues Committee, 65th Cong. 2nd Session, House Document 1485, p.5, and House Document 1836, p. 4.

TABLE III
Applications for approval of Capital Issues
by Federal Reserve Districts ^{1/}

	Number	Amounts (millions)
Boston	274	\$ 195.1
New York	972	2,069.6
Philadelphia	182	139.8
Cleveland	427	206.0
Richmond	162	139.3
Atlanta	a)	a)
Chicago	641	588.1
St. Louis	283	92.4
Minneapolis	373	a)
Kansas City	a)	a)
Dallas	250	50.0
San Francisco	543	410.1
	<u>4,107</u>	<u>3,890.4</u>

a) Not given

^{1/} From Federal Reserve Board Annual Report, 1918. Includes some issues under \$100,000 not acted upon by Capital Issues Committee.

Appendix A

Act of April 5, 1918

Title II.—Capital Issues Committee

Sec. 200. That there is hereby created a committee to be known as the "Capital Issues Committee," hereinafter called the Committee, and to be composed of seven members to be appointed by the President of the United States, by and with the advice and consent of the Senate. At least three of the members shall be members of the Federal Reserve Board.

No member, officer, attorney, agent, or employee of the Committee shall in any manner, directly or indirectly, participate in the determination of any question affecting his personal interests, or the interest of any corporation, partnership, or association in which he is directly or indirectly interested. Before entering upon his duties, each member and officer shall take an oath faithfully to discharge the duties of his office. Nothing contained in this or any other Act shall be construed to prevent the appointment as a member of the Committee, of any officer or employee under the United States or of a director of a Federal reserve bank.

The terms during which the several members of the Committee shall respectively hold office shall be determined by the President of the United States, and the compensation of the several members of the Committee who are not members of the Federal Reserve Board shall be \$7,500 per annum, payable monthly, but if any such member receives any other compensation from any office or employment under the United States the amount so received shall be deducted from such salary, and if such other compensation is \$7,500 or more, such member shall receive no salary as a member of the Committee. Any member shall be subject to removal by the President of the United States. The President shall designate one of the members as chairman, but any subsequent vacancy in the chairmanship shall be filled by the Committee. Four members of the Committee shall constitute a quorum for the transaction of business.

Sec. 201. That the Committee may employ and fix the compensation of such officers, attorneys, agents, and other employees as may be deemed necessary to conduct its business, who shall be appointed without regard to the provisions of the Act entitled "An Act to regulate and improve the civil service of the United States," approved January sixteenth, eighteen hundred and eighty-three (volume twenty-two, United States Statutes at Large, page four hundred and three), and amendments thereto or any rules or regulations made in pursuance thereof. No such officer, attorney, agent, or employee shall receive more compensation than persons performing services of like or similar character under the Federal Reserve Board.

Sec. 202. That all the expenses of the Committee, including all necessary expenses for transportation incurred by the members or by its officers, attorneys, agents, or employees under its orders in making an investigation

or upon official business in any other places than at their respective headquarters, shall be allowed and paid on the presentation of itemized vouchers therefor approved by the chairman.

The Committee may rent suitable offices for its use, and purchase such furniture, equipment, and supplies as may be necessary, but shall not expend more than \$10,000 annually for offices in the District of Columbia.

The principal office of the Committee shall be in the District of Columbia, but it may meet and exercise all its powers at any other place. The Committee may, by one or more of its members, or by such agents as it may designate, prosecute any inquiry necessary to its duties in any part of the United States.

Sec. 203. That the Committee may, under rules and regulations to be prescribed by it from time to time, investigate, pass upon, and determine whether it is compatible with the national interest that there should be sold or offered for sale or for subscription any issue, or any part of any issue, of securities hereafter issued by any person, firm, corporation, or association, the total or aggregate par or face value of which issue and any other securities issued by the same person, firm, corporation, or association since the passage of this Act is in excess of \$100,000. Shares of stock of any corporation or association without nominal or par value shall for the purpose of this section be deemed to be of the par value of \$100 each. Any securities which upon the date of the passage of this Act are in the possession or control of the corporation, association, or obligor issuing the same shall be deemed to have been issued after the passage of this Act within the meaning hereof.

Nothing in this title shall be construed to authorize such Committee to pass upon (1) any borrowing by any person, firm, corporation, or association in the ordinary course of business as distinguished from borrowing for capital purposes, (2) the renewing or refunding of indebtedness existing at the time of the passage of this Act, (3) the resale of any securities the sale or offering of which the Committee has determined to be compatible with the national interest, (4) any securities issued by any railroad corporation the property of which may be in the possession and control of the President of the United States, or (5) any bonds issued by the War Finance Corporation.

Nothing done or omitted by the Committee hereunder shall be construed as carrying the approval of the Committee or of the United States of the legality, validity, worth or security of any securities.

Sec. 204. That there is hereby appropriated out of any money in the Treasury not otherwise appropriated, for the remainder of the fiscal year ending June thirtieth, nineteen hundred and eighteen, and the fiscal year ending June thirtieth, nineteen hundred and nineteen, the sum of \$200,000 for the purpose of defraying the expenses of the establishment and maintenance of the Committee, including the payment of the salaries and rents herein authorized.

Sec. 205. That the Committee shall make a report to Congress on the first day of each regular session, including a detailed statement of receipts and expenditures, and also including the names of all officers and employees and the salary paid to each.

Sec. 206. That this title shall continue in effect until, but not after, the expiration of six months after the termination of the war, the date of such termination to be determined by a proclamation of the President of the United States, but the President may at any time by proclamation declare that this title is no longer necessary, and thereupon it shall cease to be in effect.

Title III.—Miscellaneous

Sec. 303. That the term "securities," as used in this Act, includes stocks, shares of stock, bonds, debentures, notes, certificates of indebtedness, and other obligations.

Appendix B

Personnel of Capital Issues Committee
 Washington Office
 Nov. 15, 1918

Members of Committee

C. S. Hamlin,	F. R. Board (Chairman)
F. H. Goff	Cleveland Trust Co.
H. C. Flower	Fidelity Trust Co., Kansas City, Missouri
J. B. Brown	National Bank of Commerce, Louisville
J. S. Drum	San Francisco
J. S. Williams	Comptroller of Currency
F. A. Delano	F. R. Board

Counsel

Bradley Palmer, Chief counsel
 Sherman Woodward, Assistant counsel
 Executive Secretary, - S. L. Selden
 Assistant Executive secretary -
 H. W. Beebe
 Thornton Cooke
 Secretary - Dudley Cates
 also

4 examiners and analysts
 1 statistician and supply agent
 14 stenographers
 10 file and docket clerks
 4 messengers and mail clerks

Appendix C

Members of District Committees
of Capital Issues Committee

District No. 1—Boston.

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District No. 2—New York City.

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District No. 12—San Francisco (Cont'd)

James J. Fagan, Herbert Fleishbacker, L. H. Farnsworth, John Henderson, Jos. G. Hooper, F. F. Johnson, I. W. Helliman, jr., Henry W. Keller, Frank B. Anderson, A. L. Mills, John D. McKee, Ralph S. Stacy, Clifford J. Shephard, D. W. Twohy, I. B. Newton.

CAPITAL ISSUES COMMITTEE
OF THE

X-706

FEDERAL RESERVE BOARD
WASHINGTON

February 7, 1918.

To the
Chairman of the Sub-Committee on Capital Issues
of Federal Reserve District No.

Dear Sir:

The Sub-Committees of the Capital Issues Committee at Washington will, no doubt, wish to be informed as to the principles and policies to be adopted in dealing with applications and requests for information addressed to them.

It is not possible to give at this time more than general outlines. A more definite policy will be developed, and the Sub-Committees kept informed as to the same, as soon as it becomes possible to secure from the various Government Departments a more definite expression as to their own policies and requirements. A better understanding of the situation and the policies to be adopted will be developed as soon as concrete cases shall have been submitted to the respective Departments and will have formed the basis for comprehensive discussion with them.

I. POLICY: The Central Committee and the Sub-Committees are guided in their deliberations by the thought that only by subordinating local and personal interests to the public welfare and by enforcing the most rigid economy in matters of personal expenditure can the United States hope to bear its part of the financial burden of the war and to release sufficient labor and materials for war purposes without depletion of our own resources. From this point of view the

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Committee has adopted it as its policy that during the period of the war favorable action should be taken only where State, county, municipal, corporate, or individual financing involve projects which will contribute to the successful prosecution of the war or which are essential to the public health and welfare. The Sub-Committees will assist the Central Committee not only by investigating the cases submitted to them, but they may, in addition, render most important service by watching closely and keeping the Board advised as to questions arising in their own districts, both with respect to such securities as should come into the market without the previous approval of the Capital Issues Committee, and with respect to appropriations and commitments that are being made and which it is most important to stop at the source.

It is hoped that in the very near future the Central Committee may be able to make a direct appeal to those in charge of State and municipal administrations. For the time being, however, it is essential that the Sub-Committees use their local influence in preaching the gospel of economy in their communities and to invite cooperation wherever they can. As far as can be seen the Committees may count on the wholehearted and patriotic response on the part of all concerned. All evidence points in that direction.

The Central Committee reserves the right, of course, to deal with each individual case on its own merits, but an expression as to policy is given as illustrative of the main purposes the Committee has in mind.

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- (1) The Central Committee will consider favorably applications submitted to it involving the refunding of maturing obligations.
- (2) The Central Committee will consider favorably applications submitted to it involving the funding of capital expenditures incurred prior to February 1, 1918; Provided, however, that the Central Committee may deviate from this policy if available cash assets reasonably may be used for the payment of such debts in whole or in part or excessive cash distributions to shareholders are contemplated, or in cases where the requirements of the corporation may be met in some manner without undue risk or hardship.

It must, of course, not be understood that funding of banking indebtedness incurred after February 1, 1918, will not be permitted. Close investigation may establish cases where such funding may be proper. What is to be avoided, however, is that those intending to apply for permission to issue securities first running into debt, conceivably for purposes not compatible with the public interests, and then asking for permission to fund the banking indebtedness already incurred.

(3) As a general basis for its conclusions the Central Committee is inclined to adopt the policy that the sale of only such new securities ought to be considered favorably as will finance projects likely to bring results within the calendar year 1918. Exceptions will have to be granted in cases where Government Departments advise that as matter of military or economic protection work ought to be undertaken extending

over the year 1918, or where so much money has already been invested that the amount necessary to complete the work may be considered as irrelevant as compared with the money already hazarded in the undertaking.

(4) With respect to the question of road building and new development of arable lands, so far as they are to be financed by new bond issues, the Committee adopted as its policy that, in passing upon issues for road construction or for irrigation or drainage projects, covering lands not heretofore under cultivation, favorable consideration should be given only to those of great economic or military importance and from which definite results can be secured in time to be of assistance in meeting the present emergency. In dealing with these cases, the Committee acts in close touch with the Department of Agriculture, and has received assurance of the hearty cooperation of that Department, from which advice is sought concerning the facts and merits of each individual case.

Each of the Sub-Committees on Capital Issues will do well to keep the Board fully advised as to projects for road building in their districts and to use their influence with local communities wherever they find that appropriations are being made or sought for roads which are not of essential value either from an economic or military point of view. As to whether or not the roads have any such value, the Central Committee will seek advice in both cases at headquarters and will be guided by such advice.

(5) With respect to building operations, Secretary McAdoo made the following statement:

"Because of the interest of the Treasury Department in the conservation of capital and credit during the period of the war, I have received several inquiries as to whether building operations of one kind and another should be discouraged. With regard to plans for public buildings under the control of this Department, I have stopped letting contracts except in cases where they were absolutely necessary.

"Home building is an excellent thing in normal times, but at present, unless there is a real shortage of houses for war-workers, I strongly advise that materials, valuable labor and credit be not utilized for this purpose. Whether homes should be built should be determined strictly by the urgency of the need."

From this statement, it is desirable that building operations ought to be suspended at this time as far as possible without direct detriment to health or war work. The statement of the Secretary may be used to advantage in dealing with plans on the part of municipalities and State governments to continue or to provide for new construction at this time.

II. METHOD OF PROCEDURE: With respect to their own procedure the Federal Reserve Board's Committee and the Advisory Committee, acting as a Central Committee sitting in Washington, have adopted as a definite policy that no member will vote or advise in a matter in which he may be interested, directly or indirectly, and it is understood as a matter of course, that the Local Committees will act in a like manner.

The Federal Reserve Agent is expected to serve as chairman and the Governor as vice-chairman of the Standing Committee of five, and the Committee will always be in a position to call upon one or more members of the Auxiliary Committee to "sit in" on special cases or to assist the Committee in securing export information.

It is hoped that all members of Local Committees will cooperate in spreading the gospel and in making effective the work of the committee in their districts.

It is suggested that the Sub Committees use the style "Sub-Committee on Capital Issues, Federal Reserve District No."

As to all necessary expenses of members of committees, for example, traveling expenses, the Federal Reserve Board thinks it proper that such expenses should be refunded by the Federal Reserve Banks and that all out-of-pocket expenses of the committees should be carried in a special item and it will be decided later on whether they should be carried as an expense by each bank or refunded by the Federal Reserve Board.

It may be necessary for the Central Committee, particularly in cases where prompt action is desired and where there is no need for a local investigation, to act without consultation with the local committee. In certain cases where the situation is clear provided that the statement of facts can be accepted as correct, the Washington Committee, in order to save time, may decide to execute the letter of approval or disapproval, as the case may be, and send such letter to the local committee for transmission to the applicant provided that the facts upon which the Central Committee based its conclusions are substantiated by the local committee. In all cases, however, it is the plan of the central committee to keep the local committees advised as to applications and as to the decisions reached so that they shall be fully advised as to the situation in their districts.

The Central Committee at Washington will appreciate it if in any case (even where action has already been taken by said committee)

the local committees will give it the benefit of any comment that might appear to them helpful. The central committee is most anxious to reach a fair and just conclusion in all cases, and it must count on the cooperation of the entire organization to bring about the best understanding of the problem.

Please express, on behalf of the central committee, to all members of the standing committee, as well as of the auxiliary committee, the Federal Reserve Board's sincere appreciation of the willingness of the members to help in this work.

Very truly yours,

(Signed) PAUL M. WARBURG.

Chairman,
Capital Issues Committee.

Appendix E

Case 666

Letter of St. Louis District Committee to Capital Issues Committee:

"Our Committee feels ... that there is not sufficient cash in the Corporation to give it a reasonable prospect of success and that in order to sell stock to the general public as proposed, it will be necessary to stress the fact that the sale of the stock has been approved by the Capital Issues Committee. It is true that the Capital Issues Committee does not vouch for the validity of the issue, its value or integrity, but at the same time under the urgent necessity to sell, the approval of the Capital Issues Committee might be presented in such a way as possibly to mislead."

In a letter to the applicant, after disapproval of the issue, the Capital Issues Committee stated:

"The National stress makes it inopportune to put out inflated issues."

Tungsten Products Co. Case

Letter of Chairman Hamlin of Capital Issues Committee to Senator Thomas. (Underlining supplied)

Capital Issues Committee,
National Metropolitan Bank Building
Washington, September 20, 1918.

Hon. Charles S. Thomas,
United States Senate, Washington

Dear Senator Thomas: My attention has been called to your remarks during the discussion of the mineral-products bill in the Senate, as reported on page 10185 of the Congressional Record, in which you refer to the Capital Issues Committee, stating that —

"Speaking broadly and generally the Capital Issues Committee will not sanction the issuance of securities to companies designed to promote and develop minerals of the several sorts mentioned in the bill. * * * My colleague and I had occasion to go with a couple of our constituents from Boulder County to the Capital Issues Committee within the past two weeks. The gentlemen are engaged in the production of tungsten, one of the materials mentioned in that bill. * * * The proposition was turned down upon the ground that the industry contemplated in the enterprise was of a speculative character."

Appendix E (Cont'd)

From my recollection of the matter referred to—the application of the Tungsten Products Mining Co.—I was confident that the case had not been decided on the grounds indicated by your statement, for the reason that it is no part of the policy of the Capital Issues Committee to disapprove an issue of securities solely because an enterprise is speculative in character. However, I have since consulted the file in this case and refreshed my memory by discussing the matter with Mr. J. S. Drum, a member of the committee, and I should like to correct what I believe to be your misunderstanding of the matter.

Practically every application that comes before this committee respecting the issuance of securities by a development company presents two distinct aspects—the economic and the financial. The former is concerned with the need of increased output of a given product and the latter with the methods of obtaining and using the necessary capital. In other words, the economic necessity of increased production is not the only factor to be considered in determining whether any issue of securities is compatible with the national interest; the financial structure and methods must be sound in order to avoid waste and loss.

The application of the Tungsten Products Mining Co. related to the sale to the general public of not less than \$750,000 of the capital stock of this company to obtain money with which to buy and develop additional tungsten-ore bodies and to provide working capital. It was not shown that the incorporators, although reliable, substantial, and highly trained men, were investing any substantial amount of their own capital in the enterprise in which they were asking the public to put its money. The committee can not approve the sale of stock to the general public under these conditions, regardless of the purposes for which the proceeds will be used.

It appeared also that the newly organized mining company was expected to finance the Tungsten Products Co., which is owned by the incorporators of the mining company. In the opinion of the committee, there seems to be no urgent reason at the present time, from the point of view of the national interest, for the incorporation of the mining company to take over the ore properties and refining plant of the products company or to finance the latter, especially in view of advices we received from the Bureau of Mines, Department of the Interior, to the effect that there is a surplus of tungsten refining capacity in the country.

I am sorry, indeed, that you had to leave the conference with Mr. Drum, which you attended in company with Senator SHAFROTH and representatives of this company, because Mr. Drum tells me that he had not finished his discussion of the factors involved and that this probably accounts for your understanding that the application was disapproved because it was speculative in character. Many necessary enterprises are inherently speculative in character but are passed favorably by this committee nevertheless when there is need for increased output of the product in question and when the financial structure is such as to give proper assurances to the committee that economic waste will not result.

Very truly yours,

C. S. HAMLIN.

November 20, 1940.

Dear Mr. Henderson:

On behalf of the Secretary I want to thank you for the memorandum entitled, "The Capital Issues Committee of 1938". Mr. Morgenthau is away from the city, but I shall be glad to hold it for his study on his return.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Leon Henderson,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

GEP/dbs

November 20, 1940.

Dear Mr. Henderson:

On behalf of the Secretary I want to thank you for the memorandum entitled, "The Capital Issues Committee of 1918". Mr. Norgenthan is away from the city, but I shall be glad to hold it for his study on his return.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Leon Henderson,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

GHF/dbs

November 20, 1940.

Dear Mr. Handerson:

On behalf of the Secretary I want to thank you for the memorandum entitled, "The Capital Issues Committee of 1938". Mr. Norgentzen is away from the city, but I shall be glad to hold it for his study on his return.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Honorable Leon Handerson,
The Advisory Commission to the
Council of National Defense,
Federal Reserve Building,
Washington, D. C.

GHF/dbs

October 1, 1940

Assistant Secretary Patterson gave me the attached memo, and I told him that I would be glad to go along with him on it. He said that he showed it to Knudsen this morning, and that Knudsen thought that three months' notice should be given before production is stopped on planes for the commercial air lines. He said he found Knudsen a little bit commercial minded. I suggested that he ought to talk to Bob Hinckley on this before he went too far.

September 28th, 1940.

IMMEDIATE INCREASE IN AIRPLANE PRODUCTION.

We now have about 1600 combat planes in the Army, and about the same number of training planes -- 3200 altogether. Many of the combat planes are not of the latest type. It is unnecessary to elaborate on the inadequacy of this force, in view of the dangers facing us from Europe and from the Far East. The shortage is also a serious impediment in training pilots. Our deliveries are now running behind schedule, both as to planes and as to engines. Large-scale expansion of our manufacturing plants will not make itself felt for many months. The immediate and pressing needs of the Army and the Navy, as well as the immediate and pressing needs of Great Britain for planes to be manufactured here, make it imperative that every possible step be taken to make the utmost use of our present productive capacity. The situation is too urgent to admit of compromises or half-way measures.

The following steps should be taken without delays

(1). All plants should be put on three shift basis. Some are already on three shifts, but it is my understand-

ing that others are not. Additional legitimate costs to be compensated for by change orders when necessary.

(2). The utmost in standardization for our planes and for British planes should be required. A board is already at work on standardization. This is a continuous process and considerable progress has already been made. Increased efforts should be applied.

(3). All construction of commercial planes of the larger type should be deferred, and the machinery and men now engaged in such work should be put into production of combat planes. The work being done on large airliners in a number of plants is a serious impediment to the building of airplanes for national defense. No construction of commercial planes of the larger type should go forward without specific approval of the War Department and the Navy Department.

(4). The production of small commercial types of airplanes should be subordinated to military planes when the manufacturing plants can be utilized for parts and sub-assemblies for military planes.

(5). The production of planes for foreign countries other than Great Britain should be stopped. The number is small. Nevertheless, these planes are a drain on our productive capacity and will not be of decisive importance if scattered about.

October 1, 1940

MEMORANDUM

To: The Secretary

From: Mr. Young

Re: Financing the Tank Engine Program

On September 21, 1940 the British Purchasing Commission signed a contract with Continental Motors Corporation for 3,500 tank engines, culminating a series of negotiations which began on August 26. No capital contribution for machinery and equipment will be required from the British, although their order will utilize new facilities which will cost about \$5,000,000.

This contract establishes a pattern for financing which can be followed in all cases where it is in the interest of national defense to create productive facilities in excess of those required for current Army and Navy orders if the following steps be taken: Certification as to the productive capacity for a particular item considered essential to national defense is given to the Reconstruction Finance Corporation by the Defense Commission and by the War or Navy Department. On the basis of this certification the Defense Plant Corporation (DPC) arranges to purchase the equipment necessary to provide the productive capacity certified as essential, and agrees to lease it to a private manufacturer or manufacturers. To the extent that current orders for the Army and Navy do not utilize this entire capacity, a balance remains which can be taken up by British orders.

The orders for tank engines provide a specific example of this pattern in operation. They were worked out as follows:

1. On September 9 the Army signed a contract with Continental Motors for 1,000 tank engines, delivery to begin in October 1941 at the rate of 200 per month. This contract contains an option for an additional 1,000 engines to be delivered at the same rate, beginning in March 1942.
2. To provide capacity for the production of these engines, the Assistant Secretary of War certified to the Reconstruction Finance Corporation on September 13, 1940 that:

"The creation of manufacturing capacity capable of producing 20 Medium Tank

engines per day by the Continental Motors Corporation of Detroit, Michigan is essential to the national defense of the United States."

A similar certification was issued to the Reconstruction Finance Corporation by Mr. William S. Knudsen of the National Defense Commission on September 11, 1940, who said:

".....in my opinion the establishment of a Continental Motors Company plant in the city of Detroit, Michigan for the manufacture of engines for military tanks at the rate of 20 per day is necessary in the interest of national defense."

3. On the basis of these certifications a contract was signed between the Defense Plant Corporation (DPC) and Continental Motors Corporation on September 21, 1940. It provides that the Defense Plant Corporation buy machine tools to a total value of \$8,000,000 and lease them to the Continental Motors Corporation for the production of tank engines. This leasing agreement terminates on September 30, 1943, but Continental is given the privilege of extending it to September 30, 1947. The rental charge is to be sufficient to amortize the cost of the equipment over 5,500 engines, after which there will be no further rental charge for the use of the machinery.
4. A contract was then signed on September 21 between the British Purchasing Commission and Continental Motors Corporation providing for the purchase of 3,500 engines with delivery to begin within 8 months, or within 90 days after the last machine tools are installed, whichever be sooner. It is estimated by Continental that they will be in production by February or March 1941, thus giving the British the total production of the plant until October 1941, when the Army deliveries begin. By that time it is estimated that the British will have received about 1,900 engines, after which they will get about 250 engines per month, and the Army 200.

Under this agreement the British put up no collateral to guarantee amortization of the production facilities, since they are simply using

excess United States capacity, which may be called upon at any time to fill United States needs in case of an emergency. The British are providing the necessary working capital for their order by making advance payments on engines in accordance with the following schedule:

\$3,000,000	when the contract is signed
560,000	on or before 30 days from the date of the contract
560,000	" " " 60 " " " " " " " "
560,000	" " " 90 " " " " " " " "
1,120,000	" " " 120 " " " " " " " "
1,120,000	" " " 150 " " " " " " " "
560,000	" " " 180 " " " " " " " "
560,000	" " " 210 " " " " " " " "
560,000	" " " 240 " " " " " " " "
560,000	" " " 270 " " " " " " " "

\$9,160,000 in total

Credit for the advance payments will be received as engines are delivered.

This agreement gives the British an option to purchase additional engines in blocks of 1,500 for delivery at the rate of 400 per month through June 30, 1947. They will, however, pay rent (amortization of machine tool investment) only on the first 3,500 engines.

P.Y.

Report of the
PRESIDENT'S LIAISON COMMITTEE
on
Foreign Purchasing Other Than British
July 1 - October 1, 1940

On December 6, 1939, the President created what is known as the Liaison Committee to represent the American Government in its contacts with the interested foreign Governments in all matters relating to the purchase of war materials in the United States.

The President's Liaison Committee was to serve as the exclusive liaison with reference to procurement matters between this Government and the interested foreign Governments. It was to hold frequent sessions at which it would receive an accredited representative of the embassy of any interested foreign Government for the purpose of giving consideration to the requirements of such Government for supplies, equipment and materials in relation to: (a) availability of the desired articles; (b) priorities, and (c) prices.

The original membership of this committee consisted of the Director of Procurement, Treasury Department; the Quartermaster General of the Army; and the Paymaster General of the Navy. In June, 1940, the membership was amended to provide for the executive

assistant to the Assistant Secretary of War in place of the Quartermaster General of the Army, and in July it was again amended so that an assistant to the Secretary of the Treasury would take the place of the Director of Procurement. In addition, the Administrator of Export Control was included as a member without vote.

During June and the first part of July, active steps were taken by the Committee to make it a functioning organization, its primary purpose being to coordinate the activities of the British Purchasing Commission with the United States defense program. Routine reports and procedures were instituted, close contact was established and maintained with the British Purchasing Commission, and internal procedures were initiated with the State Department, the War Department, the Navy Department, and the Advisory Commission.

The Liaison Committee provides the focusing point for all contacts between the United States Government and foreign Governments, with respect to the purchase of war materials. The work of the Committee has become increasingly significant as the defense program has developed and as other foreign Governments have become active purchasers of aircraft and war supplies in the United States.

In times past certain war supplies have been made available to foreign purchasers from Army and Navy surplus stocks. This situation has now changed, partly because surplus stocks have been depleted and

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partly because items which had been declared surplus have been removed from this category in view of our own domestic requirements.

Prior to June, 1940, the placement of orders for foreign account was a relatively simple matter. Because of the demands, however, of the United States defense program on the production capacity of this country, it became imperative that all foreign purchasing of war supplies be coordinated with our own Army and Navy programs. This coordination has called for the adjustment of foreign orders already placed with United States manufacturers. It has necessitated export control over essential war supplies including machine tools as well as finished goods and critical raw materials. It has required the allocation of production capacity for war materials between domestic demands and foreign needs. Standardization of aircraft, tanks, guns and ammunition has been vital to the securing of coordinated expansion. Methods of financing for large foreign purchasers as well as for United States defense programs have had to be evolved where expansion of production capacity was necessary. In all of these fields the Liaison Committee has taken an active part and cooperated with the Advisory Commission, the War Department, the Navy Department, the Administrator of Export Control and the State Department.

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In order that control might be exercised over the placement of foreign orders, a system of Preliminary Negotiation Reports was established. This system provided that a foreign purchaser receive clearance through the Liaison Committee before any formal contracts could be signed for the production of war materials by United States manufacturers. This system, originally instituted for the British purchasing program, has since been extended to include the Netherlands, Brazil, China and Eire. Preliminary Negotiation Reports are filed on standard forms which give details concerning the items to be purchased, as well as the suppliers or manufacturers to be used. These reports, when received by the Liaison Committee, are transmitted to the Advisory Commission, to the War Department and the Navy Department for consideration. Recommendations of each Department are made to the Liaison Committee which, in turn, gives the foreign Government a coordinated reply with respect to its request.

In many instances where a foreign purchaser may not be acquainted with a source of supply for a specific item, or where the suppliers listed may be completely booked with United States Government orders, an effort is made by the Committee to suggest alternate sources which might be available and which would not conflict with Army and Navy programs.

In addition to Preliminary Negotiation Reports, the Liaison Committee has, in certain instances, insisted that foreign Governments contemplating extensive purchases file complete programs for specific fields. The best example of this is the British aircraft program, which was worked out through negotiations extending from July 17th to September 27th. A similar aircraft program was also established for the Netherlands, and other programs are being considered for machine guns, heavy ordnance, machine tools, tanks, and optical instruments.

Due to the confusion arising in the minds of domestic manufacturers as to the priorities which Army and Navy contracts may assume, the Liaison Committee has adopted the practice where necessary of notifying American manufacturers when foreign orders have been cleared by the interested Government agencies. Manufacturers have fully cooperated with the Committee by notifying foreign purchasers that clearance for orders must be obtained before contracts could be signed.

In the matter of export control, the Liaison Committee has worked closely with the Administrator and with the State Department. Numerous conferences have been arranged with foreign purchasers for the purpose of expediting licensing arrangements and clearing up misunderstandings over export regulations. The Committee, in

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cooperation with the State Department, has been surveying and analyzing export licenses issued for aircraft and other war supplies. Many of these have been outstanding for some months and must be reexamined in the light of the United States defense programs.

In all instances the Liaison Committee has endeavored to be of service to foreign Governments desiring to purchase war materials in the United States and at the same time to be of service to the interested United States Government agencies by correlating foreign purchasing requests and submitting them for recommendation in a standardized and uniform fashion.

Argentina

The Committee received its first direct communication from representatives of this government in February, 1940, when a request was received for the names of companies that manufacture optical instruments for general ordnance use. This request was answered directly by the Navy Department.

There were no other requests of any significance and apparently no direct contact with representatives of the Argentine Government until August 20, 1940, when the Committee received a request for clearance on 50 units of material for Curtiss Hawk 75-A airplanes to be shipped knocked down. Clearance on this request was forwarded on September 4, 1940.

No other significant requests have been cleared, but as of September 30, 1940, the following requests were pending:

1. A request for clearance on 3,000 bombs, which was filed on September 21.
2. A request for clearance on 15 North American trainer airplanes, which was filed on September 26.
3. A request for clearance on the purchase of a manufacturing license for North American trainer airplanes, which was cleared on September 26.

If the requests for clearance show any marked increase, it is contemplated that a system of Preliminary Negotiation Reports similar to that used by the British Purchasing Commission will be established.

The Committee deals with the Naval Attache at the Embassy in Washington on naval purchases, and with an aeronautical mission in New York City on aircraft and related items. These operate independently.

Brazil

The Committee received its first direct communication from representatives of this Government early in August. Previous to that time, the Brazilian Government apparently had direct contact with the War Department, but its requests did not flow through the Committee.

Since the requests have been flowing through the Committee, the following items have been released:

1. 16 5"/38 guns complete with mounts on August 29.
2. 616 bombs of various sizes on September 21.

At the present time requests for clearance are pending on the following items:

1. 680,000 machine gun cartridges of .30 and .50 caliber.
2. 30,000 .50 belt links.
3. A small amount of fire control equipment.
4. \$30,000 worth of spare parts for Wright airplane engines.

To expedite handling of requests for clearance, a system of Preliminary Negotiation Reports similar to that used by the British Purchasing Commission has been instituted and the first report was filed on September 26.

In addition to clearances on specific items to be purchased, the Committee has assisted the representatives of this Government to get information on sources of supply for fire control equipment, demolition bombs, belt links, mines and cartridges; and on firms capable of cleaning gun sights.

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The Committee deals with a military commission, which has its headquarters in Washington, D. C., and an aeronautical commission, which has its headquarters in New York City. These missions operate independently.

Chile

The Committee received its first direct communication from representatives of this Government in March, 1940, when a conference was held with them to discuss the procurement of various war materials in this country. At that conference a list of information desired was submitted and this information was supplied soon thereafter.

Since that time there have been about half a dozen clearances on specific items, all of a rather minor nature. During the three months ended September 30, 1940, the following clearances were released;

1. Information on 90 mm. A.A. guns on July 13.
2. Information on animal ambulances on July 15.
3. Information on anti-aircraft equipment available in surplus stocks on September 16.
4. Information on 4 Pack Howitzers on August 2.

As of September 30, 1940, no requests were pending which required action by the Liaison Committee.

If the requests for clearance show any marked increase, it is contemplated that a system of preliminary negotiation reports similar to that used by the British Purchasing Commission will be established.

The Committee deals with the Chilean Ambassador and also with the Naval Attache of the Chilean Embassy in clearing these requests.

China

On two occasions the Liaison Committee has been contacted by the Chinese Ambassador as well as by the Financial Advisor to the Republic of China. The subject of these discussions was the desire of China to purchase certain aircraft which had been ordered in the United States by the Swedish Government and for which export licenses had been revoked or rejected.

The Chinese Ambassador was informed that that was a matter to be taken up with the representatives of the Swedish Government. It was requested, however, that the Liaison Committee be informed as to any negotiations that transpired.

In addition to the foregoing, it is understood that China contemplates a purchasing program in the United States, and in order to expedite the handling of these requests the representatives of China have been asked to file Preliminary Negotiation Reports in accordance with the customary procedure.

At the present time China has unfilled orders for 6 Beech training planes, 1 North American trainer and 6 Vultee attack bombers, all to be delivered by December 1, 1940.

Dominican Republic

The Committee received its only direct communication from representatives of this Government in the form of a letter received from the Minister June, 1940, requesting clearance on, and assistance in, the purchase of 3,000 Springfield rifles. The Committee advised the Minister on June 17, 1940, that he probably could not get any kind of rifles from manufacturers at this time, but that he could get 3,000 Enfields from surplus stock if his application were filed promptly. There is nothing in the files of the Committee to indicate whether this suggestion was followed.

Eire

On June 7, 1940 the Minister of the Irish Free State filed a request with the President's Liaison Committee for the release of war materiel from United States Government stocks. This request listed 25 airplanes, rifles, scout cars, field guns, anti-tank guns, radio sets and ammunition. After this matter had been considered by the interested Government departments, the Irish Minister was notified on June 21st that this request could not be complied with.

On July 19th a further request was received by the President's Liaison Committee in which the Irish Government stated that it would like to purchase three destroyers from Navy surplus stocks. This request was taken up with the Navy Department and the Irish Minister was informed on August 9th that there were no destroyers available for sale at the present time.

In addition to the foregoing, a request was made for the release of 20,000 Lee Enfield rifles, with ammunition, to be secured from United States Army stocks. As all surplus Lee Enfield rifles had been sold, however, none were available for sale to Ireland. It was suggested that the Irish Minister might be able to purchase some rifles from the British. A transaction for 20,000 rifles was subsequently concluded between those two parties.

At the present time, Eire has an unfilled order with the Douglas Aircraft Company for one DC-3 transport to be delivered before the end of September, 1940. As the Liaison Committee has been informed that the Government of Eire is contemplating further purchase of war materials in the United States, the Eire representatives have been requested to use the Preliminary Negotiation Report system.

Finland

The Committee received its first direct communication from representatives of this Government in February, 1940. There was a considerable number of requests for clearance during the Russian invasion. Since that time, there have been very few requests, and those which have come in have been of a very minor character.

During the three months ended September 30, 1940, four requests were received, of which three were approved in whole or in part and one was disapproved. Only one of these was for a particular product (ignition wire), the others being for drawings, specifications, or instruction manuals.

At the present time there is one request from the Government of Finland pending with the Committee. This was filed on September 21, 1940, and covers five sets of specifications for U. S. Army parachutes and for silk for U. S. Army parachutes.

The Committee deals with the Military Attache and the Assistant Military Attache at the Legation in Washington.

Greece

On July 24, 1940 the Chancellor of the Royal Greek Legation called upon the Liaison Committee to secure information about aircraft and aircraft engines for training purposes. The Greek Government wished to place an order for fifty trainers and demanded quick delivery.

The Chancellor's request was transmitted to the Advisory Commission, the War Department, and the Navy Department. On August 13, the Greek Chancellor was advised that it might be possible to place an order for fifty training engines without interference with U. S. Government programs, and advice was given as to what companies would offer the best possibilities.

On August 27th the Secretary of State transmitted to the Secretary of the Treasury a copy of Dispatch #4275 of July 2, 1940, from the American Legation at Athens, Greece. This dispatch contained a copy of a letter from the State Aircraft Factory of Greece requesting American specifications for aircraft.

On August 30th the Secretary of State was requested to secure more detailed information concerning the specifications wished by the State Aircraft Factory, inasmuch as it was impossible to release any appropriate information on the basis of the original dispatch. It was suggested that the Greek Legation communicate directly with the Liaison Committee for further information.

On September 17, 1940 a letter was received by the Liaison Committee from Hamstrad, Incorporated, governmental contractors,

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making a request for the War Ministry of Greece. This request was for the purchase and quick delivery of fifty or more airplane engines, together with suitable pursuit planes. Hamstrad, Incorporated, was advised that this type of request should be made directly by the official representatives of the Greek Government in Washington.

Indo-China

On June 28, 1940 the Liaison Committee was notified by the State Department that a purchasing mission was being sent to the United States by the Governor General of French Indo-China. The State Department was assured by letter, July 11, that the President's Liaison Committee would be delighted to cooperate with this mission upon its arrival in this country. Subsequently the Department of State informed the Indo-China Mission that it should contact the Liaison Committee for the purchase of war materials in the United States. No communications ever passed between the Indo-China Mission and the Liaison Committee, and no conferences were ever held with that mission.

On September 16th the Assistant Secretary of State transmitted to the Liaison Committee a list of materiel and ammunition necessary to the defense of Indo-China, which had been submitted by the Indo-China Purchasing Mission. This list contained a request for about 140 airplanes of varying types, as well as guns of various sizes, together with ammunition, and several boats.

This request was transmitted informally to the War and Navy Departments, both of which stated that none of the items requested were available from surplus stocks, that it was doubtful if any priorities could be granted from United States Government deliveries, and that it would take many months before any of the items could be obtained from United States manufacturers. This information was duly transmitted to the Assistant Secretary of State.

Iran

The Liaison Committee was notified on April 2 that an Aviation Mission representing the Government of Iran was in the United States. It was not until July 18, however, that the accredited representatives of the Legation of Iran called upon the Liaison Committee with a request for certain information on pursuit planes and bombers. In addition, it was desired to get certain data as to performance and cost, as well as to the possibility of securing foreign manufacturing licenses for American planes.

These matters were taken up with the War Department and The Advisory Commission to the Council of National Defense. Subsequently on August 3, the Air Attache of the Legation of Iran was given the information requested.

On August 19 a further conference was held as the representatives of Iran had had certain difficulties in securing specifications and information from domestic manufacturers with respect to certain aircraft.

These aircraft manufacturers were advised by the Liaison Committee to transmit to the Iranian representatives those specifications which had been officially released by the Government for export and every effort was made to secure the additional information which the Iranian representatives wished at that time.

On September 3 approval was secured from The Advisory Commission, the War Department and the Navy Department for the Iranian representatives to negotiate for the purchase of Boeing and Consolidated four-engine

bombers, for the purchase of 30 Curtiss P-40-D Pursuit planes, and for the issuance of a manufacturing license by the Curtiss-Wright Corporation to the Government of Iran for the manufacture of Hawk 75A airplanes, less engines. As a condition of this approval, it was requested that a final clearance of the proposed sales be secured prior to the actual signing of any contracts.

Because of the fact that delivery on the aircraft mentioned above could not be secured without long delay, the representatives of Iran called upon the Liaison Committee and asked its help in securing a quicker delivery of either of the planes referred to, or of comparable types.

This request was taken up with the War Department, the Navy Department and The Advisory Commission, as well as with certain of the aircraft and aircraft engine manufacturers. At the present time this matter is still under consideration.

In this connection, it should be noted that Iran has, as of September 14, 1940, unfilled orders in the United States for 10 Curtiss Hawk 75A pursuit planes and 25 Rearwin trainers, all of which will be delivered by February 1941.

In addition to the aircraft program, the Minister of Iran requested the Liaison Committee on August 29 for clearance on an order for spare parts for the maintenance of certain Colt machine guns which had been purchased previously. After complete information had been secured from the Minister, this matter was taken up with the interested Government departments and clearance secured for this order.

Mexico

The Committee has had no direct communications from representatives of this Government. It is understood, however, that a representative of this Government attempted to negotiate with the Colt Patent Fire Arms Company for the purchase of a large quantity of heavy machine guns for infantry use.

Netherlands

The President's Liaison Committee has cooperated closely with the various purchasing missions of the Netherlands since April 1940. Although a purchasing mission had been operating in this country for seven months prior to that time it had been interested solely in the purchase of commercial items as distinguished from the purchase of war materials.

After the capitulation of Holland, many of the orders which had been placed for that country in the United States were assumed by purchasing missions for other parts of the Netherlands Empire. Although by far the largest part of war supplies are on order for the Netherlands East Indies Government, orders have also been placed for the Royal Netherlands Navy, for Surinam, and for Curacao.

The Netherlands purchasing program has been handled by three different purchasing missions in addition to the Royal Netherlands Legation. These three missions are the Royal Netherlands Navy Purchasing Commission, the Royal Netherlands Indies Ordnance Commission and the Royal Netherlands Arsenal. Negotiations for the purchase of miscellaneous items have also been conducted through export firms and agents in the United States.

The Liaison Committee, because of the difficulties arising from the decentralization of Netherlands purchasing has emphasized the need for a centralized Netherlands purchasing agency as Netherlands orders, taken as a unit, constitute the second largest foreign purchasing program.

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In order to secure an adequate picture of the Netherlands program and to expedite the placement of Netherlands orders, the Liaison Committee has taken three steps to secure the necessary coordination.

First, because of the pressing need on the part of the Netherlands for aircraft, information was secured as to aircraft orders already placed in the United States as well as potential orders which the Netherlands desired to place. This aircraft program was treated as a unit and has already been coordinated with the production schedules established by the Advisory Commission to the Council of National Defense for the allocation of U. S. aircraft production up to April, 1942.

The second step to coordinate the Netherlands Purchasing program was the establishment of a Preliminary Negotiation Report system. Preliminary Negotiation Reports have been used for the clearance of British orders for some time and the procedure was easily adapted to meet the needs of the Netherlands. In brief, this system requires the Netherlands missions to get clearance through the Liaison Committee, before orders are placed and contracts signed for war materials in the United States. The Committee does not take action until it has received the recommendations of the Advisory Commission, the War Department, the Navy Department, and, in certain instances, the State Department. This procedure prevents use for foreign orders of United States production capacity which may be needed for national defense purposes.

The third step to secure coordination was to ask the various Netherlands purchasing missions to compile complete data on all orders already placed and outstanding. The fulfillment of this request is now in process and

should be completed shortly. At the present time the best indication of orders outstanding may be secured from the State Department records of export licenses issued.

In addition to and distinct from the foregoing are those instances where the Netherlands has purchased war materials from United States Army or Navy surplus stocks.

As indicated above, complete information on orders already placed and outstanding for the account of the Netherlands has not yet been secured. Detailed information is given below on the Netherlands aircraft program, on the orders for other materiel as reflected by the Netherlands Preliminary Negotiation Reports since August 29, 1940, and on the Netherlands purchases from U. S. Army and Navy surplus stocks.

A. AIRCRAFT PROGRAM

On May 15, 1940, the Liaison Committee was first apprised of the intention of the Netherlands to purchase aircraft. Subsequently a series of unrelated requests were filed for the purchase of 370 airplanes, consisting of pursuits, trainers, two-engine bombers, dive bombers and military transports. These were considered by the War Department and the Navy Department but it soon became apparent that, if the Netherlands were to receive planes without considerable delay, engines would have to be diverted from United States Government orders.

Because of the confusion over these individual requests the Liaison Committee insisted that the Netherlands representatives file a complete aircraft program showing orders already placed, orders under negotiation and orders to be negotiated. Further, it had been brought to the attention of the Committee that the Netherlands representatives were placing aircraft contracts with domestic manufacturers without receiving clearance from the Advisory Commission or the War and Navy Departments. Finally an aircraft program was compiled with the cooperation of the Netherlands representatives and the interested U. S. Government agencies showing the aircraft and related items on order and to be ordered.

As of August 20, 1940, the Netherlands had on order 72 Brewster pursuit ships, 108 Brewster dive bombers, 24 Curtiss interceptors, 64 Ryan trainers, and 2 Vought-Sikorsky amphibians. Of the 320 aircraft engines of various types required for these planes, 31 had originally been ordered by the Dutch Navy, 12 ordered by the Royal Dutch Airlines, and 30 ordered by the Dutch Army, leaving a balance of 247 engines to be procured from whatever United States engine production capacity was available. These orders for

both planes and engines were approved and cleared by the War Department, the Navy Department and the Advisory Commission to the Council of National Defense on September 4, 1940.

In addition to these orders, the Netherlands representatives wished to place additional orders for 72 Brewster pursuit ships, 54 Brewster dive bombers, 48 Consolidated PBV flying boats, 36 Curtiss Falcon pursuits, 24 Curtiss P-36 pursuits, 20 Lockheed transports, 6 Lockheed trainers and 24 Ryan trainers. These were duly considered by the Advisory Commission, the War Department, the Navy Department and the Aeronautical Board. On September 4th, clearance and approval from the interested Government agencies was secured for the 36 Curtiss Falcon pursuits, the 20 Lockheed transports, the 24 Ryan trainers and for 36 of the 48 Consolidated PBV flying boats. Thus of the total of 288 aircraft which the Netherlands wished to buy, clearance and approval was given on a total of 116. Approval and clearance could not be given on the balance of 172 because engine production capacity was not available.

In those instances where clearance was given, the Netherlands already owned or had on order, 85 engines which had been acquired from the British, 24 engines originally ordered by the Dutch Navy and 18 engines which have been bought second-hand from United States airlines. The Netherlands representatives were warned at the time the clearance was given on these orders that the quantities of collateral materials to be purchased, including guns, bombs, propellers, spare parts, etc., should be reduced to correspond with the number of planes given clearance.

In this connection, it should be noted that the Netherlands has already ordered approximately 1500 machine guns to be used with the planes itemized above as well as 14,000 aircraft bombs of various sizes and types.

Since this aircraft program was filed and considered, the Netherlands representatives have requested clearance on additional orders for 20 Ryan trainers and 54 Lockheed bombers. These requests are now receiving consideration by the interested Government agencies.

B. PRELIMINARY NEGOTIATION REPORTS

In August, 1940 the various Netherlands purchasing missions were asked to file Preliminary Negotiation Reports for all items which were to be ordered. The first of such reports was filed on August 29. This system, which is the same as that used by the British, greatly expedites the handling of clearances for orders to be placed as the channels of procedure are already established. By using Preliminary Negotiation Reports the Netherlands secure a reasonable insurance against cancellation and deferment of orders which might be placed without such clearance, as well as some indication that there is no objection on the part of the United States administration to the export of the item to be ordered at the time the order is placed. Further, in many cases where a request for clearance is received for a specific source of supply, it has been found that the manufacturer was already completely booked with United States orders. In such cases arrangements have been worked out for suggesting through the Liaison Committee other sources of supply which might be made available and which would not conflict with the United States defense program.

Twenty-four Preliminary Negotiation Reports were received between August 29 and September 21, 1940. Two of these were cancelled at the request of the Netherlands representatives. At the close of business on September 21, 14 of the remaining 22 had been approved in an average elapsed time of 15.2 days, and 8 were still pending. Fifty percent of the 14 which had been approved were held in abeyance for several days in order to allow for the coordination of the Dutch program with the British and United States programs. There is attached herewith a de-

tailed analysis of the status as of September 21, 1940, of reports filed since that date.

Since September 21st a large number of additional Preliminary Negotiation Reports have been transmitted to the Liaison Committee and are now under consideration. It is contemplated that, in addition to the Reports which have been filed for ammunition, bombs, guns, mines, motor vehicles, searchlights, tanks and textiles, there will be still larger orders for all ordnance items.

C. PURCHASES FROM SURPLUS STOCKS

On June 14, 1940 the Royal Netherlands arsenal filed a list of ordnance items which it wished to secure from United States Government surplus stocks, if possible, consisting of various sizes and types of anti-aircraft guns, rifles, batteries of field guns, anti-tank guns, coast defense guns, all kinds of ammunition and T.N.T. If the Netherlands could not secure these items from surplus stocks, it was their desire to have them manufactured in United States Government arsenals. Subsequently it was pointed out in reply that there was no authority to make available the production facilities of United States Government arsenals to manufacture the armament desired and, further, that none of the items requested were available from surplus stocks.

From that time to August 29th, when the Preliminary Negotiation Report system was established, a great number of uncoordinated requests for guns, ammunition, bombs, and fuzes of all types and sizes were received by the Liaison Committee. In every case it was pointed out that these items were not available from United States Government stocks and, where it was possible, commercial sources of supply were suggested. The establishment of the Preliminary Negotiation Report system has for the first time brought these miscellaneous requests into concrete form so that the extent of the Netherlands program as a whole may be determined.

On August 16th the President's Liaison Committee was notified by the Navy that it was considering the disposal of 80 4 inch and 7 inch guns to be released from its surplus stocks, as well as a number of projectiles without powder for these guns. The Liaison Committee was given to understand by the Royal Netherlands Navy Purchasing Commission that the latter would like to purchase 20 7 inch guns and 60 4 inch guns with as many shells as possible. It is probable that these guns may be made available to the Royal Netherlands Navy Purchasing Commission by domestic manufacturers.

On August 29th the Royal Netherlands Indies Ordnance Commission also inquired as to the availability from surplus stocks of 50,000 Enfield rifles, 196,000,000 .30 calibre cartridges, 39,000,000 .30 calibre armour-piercing cartridges and 45,000,000 .30 calibre tracer cartridges for use by the Royal Netherlands East Indies Army. This request was taken up with the interested Government agencies and the Royal Netherlands Indies Ordnance Commission was advised on September 18th that none of the items requested could be made available.

Norway

At the present time, the Norwegian Government has on order 36 Curtiss-Wright Hawk 75A Pursuit planes; 16 to be delivered in December, and 20 in January 1941. In addition, it has on order 41 Douglas A17A Attack planes which will be delivered between September 1940 and February 1, 1941; 6 Fairchild preliminary trainers to be delivered over the next two months, and 24 Northrop bombers to be delivered between October 1940 and March 1941.

Norway has already received delivery on 4 Fairchild trainers for use at the Toronto airport which it has leased from the Canadian Government.

All of these orders were placed early in the spring, prior to the national defense program, with the exception of the order for Fairchild trainers, which the Liaison Committee was instrumental in getting placed in such a manner that it would not conflict with U. S. Government programs.

In addition to the aircraft program, the Norwegian Government requested on June 28, 1940 certain guns and ammunition to equip 16 whale-catchers for patrol work. The list of items desired covered various size guns, rifles, submachine guns and pistols, but none of these items were available from Army or Navy surplus stocks.

As a result of several conferences with the Royal Norwegian Legation and representatives of the Norwegian Shipping and Trade Mission about the middle of August 1940, a revised list of ordnance items was compiled and transmitted to The Advisory Commission, the War Department and the Navy Department.

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Subsequently the Navy Department advised the Liaison Committee that it was considering the disposal of 21 4 inch guns from its surplus stocks. As the Norwegian Government wished to buy a quantity of these guns for the purpose of outfitting whale-catchers and whaling ships, the Liaison Committee suggested that it contact those firms which the Navy Department planned to use for the disposal of these surplus items.

In addition to the foregoing, the Liaison Committee has been helpful to the Norwegian Government in securing certain plans and specifications dealing with gun foundations, etc.

As a result of the conferences held between the Liaison Committee and representatives of the Norwegian Government, a compilation of all contracts placed in the United States was secured. This statement lists contracts executed prior to April 9, 1940, contracts executed after April 9, 1940, contracts under negotiation, and includes, in addition, a list of the material desired for which no negotiations have yet been initiated. Included in this compilation are: searchlights, clothing, radio equipment, a small number of anti-aircraft guns and ammunition, aircraft bombs, rifles, parachutes, signaling devices, machine guns, cameras, revolvers and gas masks. The quantities involved of each item are not great, and fairly prompt delivery has been secured in most instances where contracts have been placed.

Sweden

As of September 14, 1940, Sweden had on order in the United States 70 Republic pursuit planes to be delivered between September and December, 1940, and 156 Vultee pursuit planes to be delivered between September, 1940 and July, 1941, together with appropriate engines. In addition, orders were outstanding for 211 Pratt and Whitney aircraft engines and 33 Wright aircraft engines, as well as certain aircraft spare parts. Due to the fact that practically all outstanding export licenses to Sweden for aircraft, aircraft engines and other war supplies were revoked and subsequent applications rejected, approximately 60 Republic pursuit planes are now completed and stored in the United States. The Liaison Committee has been given to understand that the British Purchasing Commission has made a contract with Vultee Aircraft, Inc., for the purchase of the Vultee pursuits which were on order for Sweden. It is also understood that the Swedish Government would like to secure actual possession of all planes and war supplies on order in the United States even though export licenses cannot be secured immediately.

In addition to the aircraft engines and accessories, there is also on order for the Swedish Government in the United States 4300 Smith and Wesson 9mm. automatic light rifles and 22 million rounds of 9mm. parabellum cartridges, of which 2 million rounds had been shipped to Sweden before the export licenses were revoked. An export license is still outstanding and valid for 7,250,000 of these cartridges. This would leave an approximate

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balance of 12 million rounds on order in the United States for the account of Sweden, for which there is no export license. With respect to the 4300 light rifles, Smith and Wesson has informed the Liaison Committee that it intends to cancel its contract with the Swedish Government, returning all moneys paid thereon and to divert the delivery of these guns to the British Purchasing Commission, which had a contract for the same model.

In addition to the foregoing, the Swedish Trade Delegation has in storage in New York 2,050,000 rounds .45 caliber cartridges which had been procured from the Remington Arms Corporation. These cartridges had been delivered to the Trade Delegation at the time the export license was revoked.

Further, the Swedish Government has on order 1,000 unloaded depth charges as well as 1,010 detonator fuzes to be used with the depth charges. Application for an export license for the depth charges has been refused.

On August 29th the President's Liaison Committee received from the Department of State a request of the Swedish Government for permission to conclude a contract with the United Aircraft Corporation for the manufacturing rights of the Twin-Wasp aircraft engine. This request was transmitted to the Advisory Commission, the War Department and the Navy Department, and is still under consideration.

Thailand

The Committee received its first direct communication from representatives of this government in the middle of August when the Minister came in to discuss the procedure in securing clearances.

Since that time three requests have been filed, two of which are still pending, and one of which was denied.

The request which was denied covered twelve Lockheed Model 212 airplanes, twelve Beachcraft Model AT18 airplanes, and twelve Barkley-Grow Model TSP airplanes. This request was filed with the Committee on August 20, and disapproval was sent to the Minister on September 9. At September 14, 1940, Thailand had the following unfilled airplane orders which had been placed previously:

<u>Manufacturer and model</u>	<u>Unfilled Orders at September 14, 1940</u>	<u>Delivery Schedule</u>
Fairchild F-24 Cabin	5	September 15 - 30
North American NA-44 Dive Bomber	1	September 15 - 30
North American NA-50A Fighter	7	October

The orders for the North American planes were placed prior to the advent of the Advisory Commission to the Council of National Defense and so did not come under the present clearance procedure. The order for Fairchild airplanes, however, appears to have been placed since the present procedure was in effect, yet no request for clearance was made to the Liaison Committee.

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Requests which are still pending and the dates on which they were filed are as follows:

1. 150 machine guns, filed on August 23.
2. 20 to 50 tanks and 20 to 50 armored cars, filed on September 5.

If the requests for clearance show any marked increase, it is contemplated that a system of preliminary negotiation reports similar to that used by the British Purchasing Commission will be established.

All the contacts with this government on purchases have been through the Minister.

Turkey

On July 3, 1940 permission was requested by the Turkish Ambassador for the purchase of 30 dive bombers. Evidently negotiations had been carried on with Douglas Aircraft Company, which had advised the Turkish representatives to communicate with the Liaison Committee. This request was transmitted to the Advisory Commission, the Navy Department and the War Department, but no action could be taken until the Turkish Ambassador furnished more specific information about the type of plane which his Government wished to purchase.

During this same period the Liaison Committee was in contact with Mr. G. M. Bellanca, President of the Bellanca Aircraft Corporation, concerning a request which that company had received from the Turkish Government for information concerning Bellanca fighters. The Bellanca Aircraft Corporation was instructed to ask the Turkish Ambassador to file a formal request with the Liaison Committee.

On September 16th a request was received from Namstrad, Incorporated, evidently an agent for the Sumer Bank of Ankara (a Turkish national bank acting for the Turkish Government), for rifles, automatic pistols, heavy guns, aircraft detectors, range finders and miscellaneous equipment. This request has been referred to the Turkish Embassy pending formal consideration.

Venezuela

The Committee received its first direct communication from representatives of this government in July when a small list of items was submitted with a request for assistance in locating suppliers. A list of possible suppliers was prepared by the Army and Navy Munitions Board and forwarded to the Military Attache of the Venezuelan Legation on July 30.

Since that time only one definite request has been received. It covered two Lockheed Electra Model 10-A airplanes for the Venezuelan Postal Airline. This was received on August 8 and clearance was forwarded on August 26.

During August a representative of the Venezuelan Navy came in with a substantial list of items which he wished to buy for their ship yards. Assistance was given in securing names of potential suppliers of this material, and the representative of the Venezuelan Navy proposes to forward to the Committee for clearance any of these items which are arms, ammunition, or materiel of war.

If the requests for clearance show any marked increase, it is contemplated that a system of preliminary negotiation reports similar to that used by the British Purchasing Commission will be established.

The Committee's contacts have been almost entirely with representatives from the Embassy.

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Netherlands East Indies
Analysis by Product of Status of Preliminary Negotiation Reports
as of September 21, 1940

Number	Item	Value	Capital Assistance	Suppliers	Date Received	Date Notified	Elapsed Time	Elapsed Time (Days)	Pending (Days)
1. Ammunition:									
N-2	80,000 Rounds for 37 mm. guns	560,000	- 0 -	Amer. Armament Corp.	8/29	9/20	22	Approved	
N-3	5,000 75 mm. shells complete	?	- 0 -	Hunter Mfg. Co.	8/29	9/12	14	"	
N-4	5,400 15 mm. shells	147,500	- 0 -	W. V. Bliss Co.	8/29	9/20	22	"	
N-7	5,400 15 mm. cartridge cases	205,200	- 0 -	Morris Stamping & Mfg. Co.	8/29	9/20	22	"	
N-24	5,400 15 mm. (6") shells (Loading, fusing and assembling)	456,300	- 0 -	Amer. Armament Corp.	9/16				5
N-5	38,000 Explosive rounds for 20 mm. Hispano-Suiza guns	210,000	- 0 -	Burgess Co., Inc.	8/29	9/20	22	Approved	
N-6	10,000 Inserts rounds for 20 mm. Hispano-Suiza guns	60,000	- 0 -	Burgess Co., Inc.	8/29	9/12	14	"	
N-25	500 Depth Charges - unloaded	87,000	- 0 -	York Safe & Lock Co.	9/16				5
2. Bombs									
N-9	1,080 600 lb. demolition bombs	292,680	- 0 -	Amer. Armament Corp.	9/4	9/20	16	Approved	
N-10	540 100 lb. " "	33,523	- 0 -	" " "	9/4	9/20	16	"	
3. Guns									
N-1	40 37 mm. guns	288,800	- 0 -	Amer. Armament Corp.	8/29	9/20	22	Approved	
4. Misses									
N-8	1,000 Antenna misses	951,000	- 0 -	Amer. Armament Corp.	9/4	9/13	9	Approved	
5. Motor Vehicles									
N-14	285 Tractors for A. A. guns	1,466,800	- 0 -	Harmon-Herrington Co., Inc.	9/10				11
N-15	45 " " artillery	314,650	- 0 -	" " " "	9/10				11
N-16	50 Command cars	88,000	- 0 -	" " " "	9/10				11
N-17	135 45" solo motorcycles	40,850	- 0 -	Harley-Davidson Motor Co.	9/10				11
N-18	240 74" motorcycles with side cars	112,750	- 0 -	" " " "	9/13	9/21	8	Approved	
N-20	300 Model 540 motorcycles	100,000	- 0 -	Indian Motorcycles Co.	9/13				Cancelled 9/17
N-21	250 Model 340 motorcycles	128,750	- 0 -	" " " "	9/13				Cancelled 9/17
N-22	50 Model 540 motorcycles	11,500	- 0 -	" " " "	9/13	9/21	8	Approved	
6. Searchlights									
N-19	12 Searchlight units	193,800	- 0 -	General Arc Lighting Co., Inc.	9/13	9/20	7	Approved	
7. Tanks									
N-12	200 2-man combat tanks	4,685,000	- 0 -	Harmon-Herrington Co., Inc.	9/10				11
N-13	120 3-man combat tanks	3,669,000	- 0 -	" " " "	9/10				11
8. Textiles									
N-11	10,940 yds. Flightex Airplane Fabric - Grade "A"	7,702	- 0 -	Aviation Equipment & Export, Inc.	9/5	9/16	11	Approved	

317.

BRITISH EMBASSY,
WASHINGTON, D. C.

Personal and Secret

October 1st, 1940.

Dear Mr. Secretary,

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

Believe me,

Dear Mr. Secretary,

Very sincerely yours,

L. S. Brown

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

Telegram from London dated
September 29th 1940.

1. Military.

Libya.

The enemy column referred to in the summary of September 28th reached Giarabub in the early morning of September 28th; on September 27th our garrison opposite Madalena withdrew to a line about 25 miles to the south east.

2. Royal Air Force.

Our bombing attacks on enemy shipping were very effective on the night of the 27th - 28th. Considerable damage was caused at Lorient where weather was clear; dockyard, wharves and buildings were hit and large fires started. At Le Havre large fires and explosions were started in the docks and damage caused to warehouses. Ostend, Boulogne and Calais were also bombed on a lighter scale. An enemy seaplane base was attacked from a very low altitude and 2 large fires were started. Fires were also caused at 2 railway targets. Weather prevented mine laying operations.

During September 28th all our medium

bombers/

- 2 -

bombers despatched on offensive reconnaissance returned safely but the majority could not complete their tasks owing to unfavourable weather. The docks at Ostend and oil cisterns at Dunkirk were attacked without observed result.

During the night of September 28th - 29th 122 aircraft were sent to the following objectives: power stations and gas works at Berlin, nickel works near Frankfurt, a power station near Kassel, oil stores at Frankfurt, aircraft factory at Amsterdam, the Ems Canal Aqueduct, railway targets in north west Germany, shipping and docks in the Channel ports (30 heavy and medium bombers), and gun emplacements opposite Dover. In addition 5 aircraft were detailed to lay mines. 3 heavy bombers and one medium are missing.

3. German Air Forces.

Night of September 27th - 28th.

Further report states that a magazine at a branch of Vickers Armstrong containing commercial detonators was exploded. It is expected to resume normal production on September 30th.

September 28th.

At 9.50 a.m. about 100 enemy aircraft crossed the Kent coast. 50 of them flew towards London and 6 penetrated to the inner area. Another 40 went west towards the Thames estuary and the remaining 90 stayed over the Kent coast. At 1.30

a/

- 3 -

a similar raid of 150 aircraft again crossed the Kent coast. These scattered rapidly and none penetrated to the London area. In the afternoon about 90 aircraft approached the Portsmouth area but being sighted by four of our squadrons they did not cross the coast at any point and jettisoned their bombs into the sea. Later on bombing by single aircraft was reported from seaside towns on the south east coast. During these raids bombing was reported in south-eastern London area and at Hastings. There is no report of serious damage.

Summary of aircraft casualties.

Enemy.

	<u>Destroyed.</u>	<u>Probably.</u>	<u>Damaged.</u>
By our fighters:			
Fighters:	6	3	-
Unidentified	-	1	-
Bomber	-	-	1
Totals	<u>6</u>	<u>4</u>	<u>1</u>

British 16 aircraft (seven pilots safe.)

Three bombers missing.

During the night of September 28th - 29th enemy activity was on a somewhat increased scale

and/

- 4 -

and was again directed principally against London and the coast. No interruption of traffic is reported, though there were several incidents chiefly affecting the Southern Railway. Damage was caused to 2 factories and at 2 others an interference with work on account of unexploded bombs has been notified. Many fires were started but none were extensive and all are under control. A hospital at Barnes was damaged and Selfridge's was hit by high explosive. Outside the London area little damage was reported, none of it industrial or military.

4. Shipping casualties.

By submarine: 1 British ship (5,700 tons) outward bound in ballast was sunk September 28th in north western approaches.

A convoy of 16 ships from Canada including one tanker and 6 cargoes of iron and steel has arrived safely.

5. Middle East.

September 27th our medium bombers attacked a concentration of mechanical transport and also the fort at Giarabub. Fires and explosions were caused among the mechanical transport. One enemy fighter and one of our aircraft were shot down.

Sudan.

September 26th - 27th the enemy attacked from the air our forward positions in the Gallabat area and also Bura in Kenya without causing

damage/

- 5 -

damage or casualties.

Ethiopia.

September 28th 6 medium bombers from Aden dive bombed an Italian aerodrome and obtained direct hits on a hangar and a barracks compound. An enemy bomber and fighter on the ground are believed to have been damaged.

CONFIDENTIAL

Paraphrase of Code Radiogram Received at the
War Department 6:23 a.m., October 1, 1940

Recess, Filed October 1, 1940

It has been reported by the Military Attache of the Turkish Embassy that there is an excessive concentration of German troops plus 6,000 planes on the frontier of the U.S.S.R. He predicted that Germany will make excessive demands of an economic nature on the U.S.S.R. or will attack the latter country during the next three months.

TEATON

Copies to: Military Aide to the President
Secretary of War
State Department
Secretary of Treasury
Asst. Secretary of War
Chief of Staff
ONI
WPD

CONFIDENTIAL